

Corporate Governance Report 2010

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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 policy of open communication. The Group-wide 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 focus 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 to report 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.

In the course of the restructuring of the Telekom Austria Group in 2010, the strategic holding company was expanded to become a management holding company. Since then, the Management Board of Telekom Austria AG has been supported by four Group Chief Officers for Human Resources, Technical, Marketing and Finances.

Austrian Corporate Governance Code

Telekom Austria AG shares have been listed on the Vienna Stock Exchange since November 2000, where the Austrian Corporate Governance Code enjoys general acceptance. The Code as currently amended can be viewed at corporate-governance.at or on the website at telekomaustria.com.

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 the so-called "L Rules". As potential deviations from the "C Rules" of the Code must be explained, the Telekom Austria Group made the following statements with regard to Rules 28 and 28a of the Code 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 previous stock option program ESOP were presented to the Annual General Meetings on June 4, 2003 and May 23, 2006 respectively. At the Annual General Meeting on May 27, 2010 a Long Term Incentive Program was introduced, which as of the financial year 2010 will replace the previous stock option program ESOP.

In accordance with Rule 62 of the Austrian Corporate Governance Code, the 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 2011, discovered no facts that conflicted with the declaration made by the Management Board and the Supervisory Board regarding observance and compliance with the "C" and "R" Rules of the Austrian Corporate Governance Code for the 2010 business year.

Members of the Management Board

In 2010, the Management Board of Telekom Austria AG comprised Hannes Ametsreiter, the Chairman of the Management Board, and Hans Tschuden, the Vice Chairman of the Management Board and Chief Financial Officer.

Hannes Ametsreiter

CEO since January 1, 2009, Chairman of the Management Board of Telekom Austria AG since April 1, 2009, appointed until December 31, 2013

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 USA. He began his professional career as a brand manager with Procter & Gamble, before joining product management at mobilkom austria in 1996. In 2001, he was appointed Chief Marketing Officer of mobilkom austria and in 2002 also became responsible for the company's customer service. From 2005 to 2006 he held 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 the Telekom Austria Group 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 Chairman of the Management Board of Telekom Austria AG. He is also the CEO of A1 Telekom Austria AG, which was created following the merger of mobilkom austria AG and Telekom Austria TA AG, and registered in the Commercial Register on July 8, 2010. Outside the Group, Hannes Ametsreiter is the Vice Chairman of the Management Board of WASP Privatstiftung.

Areas of Responsibility Hannes Ametsreiter

- ◉ Marketing (Group)
- ◉ Technology (Group)
- ◉ Human Resources (Group)
- ◉ International Business Development / Group Strategy
- ◉ Mergers & Acquisitions
- ◉ Regulation & European Affairs
- ◉ General Secretariat
- ◉ Corporate Communication (Group)
- ◉ Internal Audit (Group)

Hans Tschuden

Vice Chairman of the Management Board since January 1, 2009 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 Mittelstandsförderungs-AG. Hans Tschuden holds no other comparable positions outside the Group.

Areas of Responsibility Hans Tschuden

- ◉ Investor Relations
- ◉ Controlling (Group)
- ◉ Treasury (Group)
- ◉ Accounting (Group)
- ◉ Purchasing (Group)
- ◉ Legal / General Counsel

Members and Committees of the Supervisory Board

The Supervisory Board of the Telekom Austria Group comprises eight members who are elected by the Annual General Meeting, three members who are delegated by the Central Works Council of A1 Telekom Austria and one member who is delegated by the Trade Unions of Telekom Austria AG. Employee participation 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 selected tasks and issues on behalf of the Supervisory Board.

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 Wieltisch, Wilhelm Eidenberger and Alexander Sollak.

Peter Michaelis (Chairman) 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** 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. This Committee comprises Peter Michaelis, the Chairman, Edith Hlawati and Werner Luksch.

Supervisory Board Activities in the Year under Review

During 2010, the Supervisory Board held extensive discussions on the strategic orientation of the Telekom Austria Group, its business development and corporate structures at seven meetings of the Supervisory Board, one strategy workshop and five meetings of the Audit Committee. Of particular importance was the resolution concerning the merger of mobilkom austria AG and Telekom Austria TA AG to form A1 Telekom Austria AG as well as the new Group structure. Other focal areas of work are explained in the Report by the Supervisory Board.

In the year under review, the seven members of the Supervisory Board, who are still active, 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 the Supervisory Board meetings. All members of the Supervisory Board attended the strategy workshop.

Independence of Supervisory Board Members

The guidelines laid down 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 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, the Vice Chair of the Supervisory Board, 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. Consultancy fees paid to Cerha Hempel Spiegelfeld Hlawati amounted to TEUR 627 compared to TEUR 495 in the previous year.

The Annual General Meeting held on May 27, 2010 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 2009 financial year, which remained unchanged compared to the previous year. Remuneration for members of the Supervisory Board for 2009 was paid out following the discharge by the Annual General Meeting in May 2010. Until further notice, the attendance allowance for meetings of the Supervisory Board is set at EUR 300 per member and meeting. In 2010, remuneration amounting to TEUR 179, including expenses (2009: TEUR 173) was paid to members of the Supervisory Board.

Remuneration of the Members of the Supervisory Board

Name	Remuneration awarded for the 2009 financial year and paid in 2010 in EUR	Meeting attendance allowance in 2010 in EUR
Peter Michaelis	30,000	4,200
Edith Hlawati	22,500	2,400
Henrietta Egerth-Stadlhuber	15,000	2,100
Stephan Koren*	15,000	600
Peter J. Oswald	15,000	4,200
Wolfgang Rutenstorfer	-	900
Wilfried Stadler	15,000	3,800
Harald Stöber	15,000	2,400
Rainer Wieltsch	15,000	4,200
Wilhelm Eidenberger	-	3,600
Werner Luksch	-	1,800
Alexander Sollak	-	600
Gottfried Zehetleitner	-	600
Silvia Bauer**	-	1,500
Markus Hinker***	-	2,700
Michael Kolek****	-	600

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 Chairwoman (1957)	Partner in the law firm Cerha Hempel Spiegel- feld Hlawati	Österreichische Post AG	June 28, 2001	2012	yes
Henrietta Egerth- Stadlhuber (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 Postsparkasse Aktiengesellschaft	BAWAG PSK Versiche- rungs-AG, Österrei- sche Kontrollbank AG, Omnimedia Werbege- sellschaft mbH, Wiener Stadtwerke Holding AG, BWA Beteiligungs- u. Verwaltungs-AG, Bau- sparkasse Wüstenrot AG, Austria Wirtschaftsservice GmbH; Österreichische Industrieholding Aktien- gesellschaft	September 17, 1999	May 27, 2010	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 Super- visory Board of Mondi Swiecie SA	May 20, 2008	2012	yes
Wolfgang Ruttenstorfer (1950)	Chairman of the Executive Board of OMV AG	CA Immobilien Anlagen AG, Vienna Insurance Group AG Wiener Versicherung Gruppe, Hoffmann-La Roche Ltd, OMV Petrom S.A., OMV Exploration & Production GmbH, OMV Gas & Power GmbH, OMV Refining & Marketing GmbH, OMV Solutions GmbH	May 27, 2010	2012	yes
Wilfried Stadler (1951)	Business consultant, bank consultant, honorary professor at the Vienna University of Economics and Business	ATP Planungs- u. Betei- ligungs AG, East Centro Capital Management AG, Österreichische Staatsdruckerei Holding AG, Trodat Holding GmbH, Wienstrom GmbH	July 15, 2005	2012	yes
Harald Stöber (1952)	Business consultant	Deutsche Messe AG Hannover, Vodafone D2 GmbH, Vodafone Holding GmbH	June 4, 2003	2012	yes
Rainer Wieltsch (1944)	Managing Director of Aabar Automotives GmbH, Aabar Europe Holding GmbH, Aabar Infrastructure GmbH, Aabar Infrastructure Holding GmbH, IPIC Ferrostaal Holdings GmbH, IPIC Gamma Hol- dings GmbH and NOVA Chemicals Holding GmbH	Ferrostaal AG	June 12, 2002	2012	yes

Members of the Supervisory Board Delegated by the Works Council

Name (Year of Birth)	Profession	Other Supervisory Board Positions and Comparable Functions	First Appointed	End of Current Term of Office or Date of Retirement
Wilhelm Eidenberger (1962)	Chairman of the Works Council Linz of A1 Telekom Austria AG		April 30, 2001	
Werner Luksch (1967)	Deputy Chairman of the Central Works Council of A1 Telekom Austria AG	Österreichische Industrieholding AG	August 3, 2007 to October 20, 2010, Reappointed on January 11, 2011	
Alexander Sollak (1978)	Chairman of the Trade Union Committee of Telekom Austria AG		November 3, 2010	
Gottfried Zehetleitner (1962)	Member of the Central Works Council of A1 Telekom Austria AG		October 27, 2010	
Silvia Bauer** (1968)	Member of the Central Works Council of A1 Telekom Austria AG	Telekom Austria Personalmanagement GmbH	January 30, 2009	November 3, 2010
Markus Hinker*** (1959)			July 15, 2005 until January 27, 2009, Reap- pointed as of February 18, 2010	December 31, 2010
Michael Kolek**** (1960)		APK Pensionskassen AG	March 20, 2002	February 10, 2010

* retired on May 27, 2010 ** retired on November 3, 2010 *** from February 18, 2010 to December 31, 2010 **** retired on February 10, 2010

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 with the members of the Management Board. This performance-based component is contingent upon the achievement of defined targets and is limited to 150% of the basic salary. The targets for the variable salary component are based equally on key financial figures such as Economic Value Added (EVA) or free cash flow and on strategic objectives. The amount of the variable salary 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. The previous stock option program ESOP was replaced by a Long Term Incentive Program in the year under review. Total expenses for the basic salaries of members of the Management Board in 2010 amounted to TEUR 899 (2009: TEUR 1,002), with additional performance-based remuneration totaling TEUR 704 (2009: TEUR 1,318). No benefits were derived from the multi-year stock option program in 2010.

Members of the Management Board receive a contribution to a voluntary payment 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 more shares than the Österreichische Industrieholding.

Remuneration of the Individual Members of the Management Board 2010

Management Board's remuneration in TEUR	Basic salary (including remuneration in kind)		Performance-based remuneration		Multi-year stock-based remuneration		Total remuneration	
	2010	2009	2010	2009	2010	2009	2010	2009
Hannes Ametsreiter	458	436	357	436	–	–	815	872
Hans Tschuden	441	441	346	441	–	–	787	882
Boris Nemsic	–	124	–	442	–	–	–	566
Total	899	1,002	704	1,318	0	0	1,603	2,320

Long Term Incentive Program

The Long Term Incentive Program (LTI) of the Telekom Austria Group introduced in the 2010 business year replaced the “ESOP” stock option program established in 2004. This new incentive scheme aimed at Management Board members, executives and selected employees runs in three-year cycles and started for the first time on January 1, 2010. Unlike the previous model, LTI is not based on options but on the allocation of shares contingent upon the achievement of specific targets. At the end of the 3-year period, the targets or key figures defined by the Supervisory Board must have been met. Participants in the program must hold an investment in the company through the purchase of Telekom Austria shares until the end of the incentive scheme period. The minimum amount of this investment is based upon the number of shares allocated to each of the participants. Payments are made in cash. The amount of the payment depends on the achievement of the key figures defined by the Supervisory Board within a three-year period, ranging from no less than 0% and no more than 175% of the participant's investment. A detailed description of the Long Term Incentive Program can be found in the Notes to the Annual Financial Statements.

The Long Term Incentive Program of the Telekom Austria Group complies with the requirements of the Corporate Governance Code (C Rule 28). The relevant target figures focus on the long-term development of the company; moreover, the investment required by the participants is also an important motivating factor. The stock option program ESOP established in 2004 and in which some 300 employees are participating, will be allowed to expire without renewal; the final tranche was issued in 2009. Participants in ESOP were required to make an investment by purchasing Telekom Austria shares. The options may only be exercised if earnings per share reach the target value defined by the Supervisory Board. A detailed description of the stock option program can be found in the Notes to the Annual Financial Statements.

To meet the eligibility requirements for the ESOP and LTI programs, the members of the Management Board Hannes Ametsreiter and Hans Tschuden held 25,674 and 25,700 Telekom Austria shares respectively as of 31, Dezember 2010.

Promotion of Female Executives

Two out of eight, or 25%, of shareholder representatives on the Supervisory Board of Telekom Austria AG are women, a figure that is considerably higher than the average quota within the ATX. 17% of all members of the Supervisory Board of Telekom Austria AG are women. Since 2001, the important function of Vice Chair of the Supervisory Board has been held by a woman, Edith Hlawati. A further fifteen Supervisory Board positions within the Telekom Austria Group are held by women as are seven Management Board and managing director positions. Two of the four Group Officers at Telekom Austria AG are women. The proportion of women in managerial positions at the Telekom Austria Group in 2010 amounted to 32%. The Telekom Austria Group Business School established in 2010 promotes a common understanding of the company's values, which include aspects such as general diversity and thus also gender diversity.

“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.

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 § 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 27, 2010 the Annual General Meeting elected KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft as auditors of the annual financial statements and consolidated financial statements for the 2010 financial year. The expenses of the Telekom Austria Group for the audit of the 2010 annual financial statements amounted to EUR 1.9 million after EUR 1.6 million in the previous year. Consultancy fees for additional services provided by KPMG in 2010 amounted to EUR 0.2 million compared to EUR 0.1 million in 2009. Expenses for tax consultancy and other services totaled EUR 0.5 million (2009: EUR 0.5 million).

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. A comprehensive compliance package was implemented in 2010 as part of a far-reaching anti-corruption training program, which includes guidelines concerning consulting, lobbying and sponsoring contracts as well as the exchange of gifts and invitations.

The Code of Conduct has been published at 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 10, 2011



Hannes Ametsreiter



Hans Tschuden