

Corporate Governance Report 2011

Corporate Governance Report

Responsible Company Management and Control

In the reporting year, accusations of corruption and wrongdoing in the past were raised against the Telekom Austria Group. The Management Board and Supervisory Board of the Telekom Austria Group have a vital interest in a full and thorough investigation of these matters. Telekom Austria is therefore actively supporting the investigating authorities. In early September 2011, the Control Committee of the Supervisory Board was set up to investigate and prevent fraudulent activities at Telekom Austria. The Group Compliance position was significantly upgraded and reports directly to the entire Management Board. Moreover, Group Compliance also has to report to the Audit Committee and the entire Supervisory Board.

To strengthen the Telekom Austria Group's culture of integrity and further develop the compliance management system, the Telekom Austria Group is currently tightening up its compliance standards, structures and processes in the interests of transparent company management.

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 its risk situation. 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 their duties, scope of action and working methods.

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 who are responsible for Human Resources, Technology, 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 current version of the Code can be viewed at www.corporate-governance.at or on the website at www.telekomaustria.com.

In 2003, the Telekom Austria Group committed itself to voluntary compliance with the Code. The Group complies with all the legal requirements laid down in the so-called "L Rules." As potential deviations from the Code's "C Rules" must be explained, the Telekom Austria Group has made the following statement regarding Rules 28 and 28a:

Programs for the beneficial transfer of shares, including the stipulated long-term exercise hurdles, are decided upon by the Supervisory Board to ensure that they are in line with the business plan. At the Annual General Meeting on May 27, 2010 a Long Term Incentive Program was introduced, which replaced the previous stock option program ESOP as of the 2010 financial year.

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 the reporting are externally evaluated every three years. 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.

The Telekom Austria Group participates in the Austrian Working Group for Corporate Governance and is involved in the further development of the standard.

Members of the Management Board

In 2011, the Management Board of Telekom Austria AG consisted of Hannes Ametsreiter, the Chairman, and Hans Tschuden, the Vice Chairman and Chief Financial Officer.

Hannes Ametsreiter

Member of the Management Board since January 1, 2009, Chairman of the Management Board since April 1, 2009, appointed until December 31, 2013

Hannes Ametsreiter was born in Salzburg in 1967. After studying in Austria and the USA, he started his professional life as a brand manager at the international branded goods company Procter & Gamble. His career in the telecommunication industry began in 1996 at mobilkom austria. After various stations in Austria, he became Chief Marketing Officer in 2001. In 2008, Booz & Company awarded him the international marketing prize CMO of the Year.

Since April 2009, Hannes Ametsreiter has held the position of Chairman of the Management Board of the Telekom Austria Group and A1 Telekom Austria. He is also the only Austrian to serve on the Board of the international GSM Association and is ranked 58th on the GTB Power 100, a list of the most powerful executives in the telecom industry published by the international trade journal Global Telecoms Business.

Areas of Responsibility

Hannes Ametsreiter

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

Hans Tschuden

Chief Financial Officer since April 1, 2007, Vice Chairman of the Management Board since January 1, 2009, appointed until March 31, 2015

Hans Tschuden was born in 1958 and is a graduate of the Vienna University of Economics 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. In 1995, he moved to Keramo Wienerberger in Belgium to take up a position as Managing Director and, in 1998, to Steinzeug Abwassersysteme GmbH in Cologne. In 1999, Hans Tschuden became a member of the Wienerberger Management Committee and, in May 2001, he was appointed

Chief Financial Officer of Wienerberger AG. Since April 1, 2007 Hans Tschuden has been Chief Financial Officer of Telekom Austria AG. On January 1, 2009 he was appointed Vice Chairman of the Management Board of Telekom Austria AG.

Outside the Group, Hans Tschuden is a member of the Supervisory Boards of APK Pensionskasse AG and HFA Zwei Mittelstandsfinanzierungs-AG.

Areas of Responsibility

Hans Tschuden

- ✓ Investor Relations
- ✓ Controlling (Group)
- ✓ Treasury (Group)
- ✓ Accounting (Group)
- ✓ Purchasing (Group)
- ✓ Legal / General Counsel
- ✓ Group Compliance*

* Reports to the entire Management Board but is organizationally located under the CFO

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 AG 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 four committees, which 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, 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 and monitors the independence of the auditor and the auditor of the consolidated accounts, in particular with regard to the performance of additional services. As of December 31, 2011 the members of the Audit Committee were Markus Beyrer,

MEMBERS OF THE SUPERVISORY BOARD

Name (Year of Birth)	Profession	Other Supervisory Board Positions and Comparable Functions
Markus Beyrer, Chairman (1965)	CEO of the Österreichische Industrieholding Aktiengesellschaft	OMV AG (Chairman), Österreichische Post AG (Chairman), APK Pensionskasse AG (Chairman), Österreichische Nationalbank (member of the General Council)
Edith Hlawati, Vice Chairwoman (1957)	Partner in the law firm Cerha Hempel Spiegelfeld Hlawati	Österreichische Post AG
Henrietta Egerth-Stadlhuber (1971)	Managing Director of the Austrian Research Promotion Agency	
Peter Michaelis* (1946)		
Franz Geiger (1950)	CEO of Donau Chemie AG	
Peter J. Oswald (1962)	Member of the Boards of Mondi plc (UK) and Mondi Ltd (South Africa), CEO of Mondi AG and Mondi Services AG	Chairman of the Supervisory Board of Mondi Swiecie SA
Wolfgang Rutenstorfer (1950)		Vienna Insurance Group AG, Wiener Versicherung Gruppe, Flughafen Wien AG, CA Immobilien Anlagen AG
Wilfried Stadler (1951)	Business consultant, bank consultant, honorary professor at the Vienna University of Economics and Business	ATP Planungs- u. Beteiligungs AG, East Centro Capital Management AG, Österreichische Staatsdruckerei Holding AG, Bankhaus Denzel AG, Wolfgang Denzel AG, Wolfgang Denzel Auto AG, Wolfgang Denzel Holding AG
Harald Stöber (1952)	Business consultant	Simia AG (Chairman), Vodafone D2 GmbH, Vodafone Holding GmbH
Rainer Wieltsch* (1944)	Managing Director of Aabar Automotives GmbH, Aabar Europe Holdings GmbH, Aabar Infrastructure GmbH, Aabar Infrastructure Holding GmbH, IPIC Ferrostaal Holdings GmbH, IPIC Gamma Holdings GmbH and NOVA Chemicals Holding GmbH	Ferrostaal AG

Members of the Supervisory Board Delegated by the Works Council

Wilhelm Eidenberger** (1962)		
Walter Hotz (1959)	Chairman of the Central Works Council of A1 Telekom Austria AG	Österreichische Industrieholding AG, A1 Telekom Austria AG, Telekom Austria Personalmanagement GmbH, Tele-Post Privatstiftung, APK Pensionskasse AG
Werner Luksch (1967)	Deputy Chairman of the Central Works Council of A1 Telekom Austria AG	Österreichische Industrieholding AG
Alexander Sollak (1978)	Chairman of the Trade Union Committee of Telekom Austria AG	
Gottfried Zehetleitner (1962)	Member of the Central Works Council of A1 Telekom Austria AG	

* retired on May 19, 2011 ** retired on May 5, 2011

*** The term of office ends at the Annual General Meeting that grants discharge for the financial year 2012 (probably May 2013).

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
May 19, 2011	2013***	Independent Pursuant to Rule 53, but not Rule 54
June 28, 2001	2013***	yes
May 20, 2008	2013***	yes
June 28, 2001	May 19, 2011	Independent pursuant to Rule 53, but not Rule 54
May 19, 2011	2013***	yes
May 20, 2008	2013***	yes
May 27, 2010	2013***	yes
July 15, 2005	2013***	yes
June 4, 2003	2013***	yes
June 12, 2002	May 19, 2011	yes
April 30, 2001	May 5, 2011	
Reappointed on May 6, 2011		
August 3, 2007 to October 20, 2010, Reappointed on January 11, 2011		
November 3, 2010		
October 27, 2010		

who replaced Peter Michaelis as the Chairman on May 19, 2011, Wilfried Stadler, who acts as the financial expert, Peter Oswald, Wolfgang Ruttenstorfer, Walter Hotz (since May 6, 2011) and Alexander Sollak as the employee representative.

The **Chairing and Remuneration Committee** is made up of Markus Beyrer, who replaced Peter Michaelis as the Chairman on May 19, 2011, and Edith Hlawati. 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 the 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 Markus Beyrer, who succeeded Peter Michaelis as Chairman on May 19, 2011, Edith Hlawati and Werner Luksch.

The **Control Committee** is tasked with investigating and preventing fraudulent activities at the Telekom Austria Group until the investigations carried out by the external control team set up by the Supervisory Board have been completed. The members of this Committee are Markus Beyrer, Franz Geiger and Walter Hotz.

Supervisory Board Activities in the Year under Review

In 2011, the Supervisory Board held extensive discussions on the strategic orientation of the Telekom Austria Group, its business development and the investigation of compliance-related misconduct in the past at nine meetings of the Supervisory Board, one strategy workshops, six meetings of the Audit Committee and three meetings of the Control Committee. The focus areas of the Supervisory Board's work are set out in the Supervisory Board's Report to the Annual General Meeting.

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

Independence of the 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. 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' behavior. The business relationship with the law firm Cerha Hempel Spiegelfeld Hlawati (CHSH), 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 in 2011 amounted to EUR 0.753 million (2010: EUR 0.627 million). The law firm CHSH has provided written confirmation that Edith Hlawati will not receive any portion of the income derived from the partnership's work for the Telekom Austria Group while she is a member of the Supervisory Board.

The Annual General Meeting held on May 19, 2011 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 2010 financial year, which remained unchanged from the previous year. Remuneration for the Supervisory Board for 2010 was paid out following the discharge by the Annual General Meeting in May 2011. Until further notice, the attendance allowance

for meetings of the Supervisory Board is set at EUR 300 per member and meeting. In 2011, remuneration amounting to EUR 0.181 million, including expenses (2010: EUR 0.179 million) was paid to members of the Supervisory Board.

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, which are approved by the Supervisory Board, and the implementation of the strategic projects discussed by the Supervisory Board and authorized by the Remuneration Committee. The performance-based remuneration payments for the achievement of the 2010 performance targets are included in 2011. In 2010, the stock option program ESOP was replaced by a Long Term Incentive Program and continued in the year under review.

Total expenses for the basic salaries of members of the Management Board in 2011 amounted to EUR 0.936 million (2010: EUR 0.899 million), with additional performance-based remuneration of EUR 1.095 million (2010: EUR 0.704 million). No benefits were derived from the Multi-Year Stock Option or Long Term Incentive Program in 2011.

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

Name	Remuneration awarded for the 2010 financial year and paid in 2011 in EUR	Meeting attendance allowance in 2011 in EUR
Markus Beyrer	–	3,000
Edith Hlawati	22,500	2,700
Henrietta Egerth-Stadlhuber	15,000	2,100
Franz Geiger	–	1,800
Stephan Koren*	6,000	–
Peter Michaelis**	30,000	2,100
Peter J. Oswald	15,000	2,400
Wolfgang Ruttenstorfer	9,000	3,600
Wilfried Stadler	15,000	4,200
Harald Stöber	15,000	2,100
Rainer Wieltsch**	15,000	1,800
Walter Hotz	–	3,300
Wilhelm Eidenberger***	–	600
Werner Luksch	–	1,800
Alexander Sollak	–	4,200
Gottfried Zehetleitner	–	2,700

* retired on May 27, 2010 ** retired on May 19, 2011 *** retired on May 5, 2011

REMUNERATION OF THE INDIVIDUAL MEMBERS OF THE MANAGEMENT BOARD

Management Board's remuneration in TEUR	Basic salary (incl. remuneration in kind)		Performance-based remuneration		Multi-year stock-based remuneration		Total remuneration	
	2010	2011	2010	2011*	2010	2011	2010	2011
Hannes Ametsreiter	458	465	357	560	-	-	815	1,025
Hans Tschuden	441	471	346	535	-	-	787	1,006
Total	899	936	704	1,095	0	0	1,603	2,031

* The performance-based remuneration payments for the achievement of the 2010 performance targets are included in 2011.

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 more shares than the Österreichische Industrieholding.

Long Term Incentive Program

The Long Term Incentive Program (LTI) of the Telekom Austria Group introduced in 2010 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 and ESOP 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.

On December 31, 2011, the members of the Management Board Hannes Ametsreiter and Hans Tschuden held 25,674 and 40,000 Telekom Austria shares respectively, 25,674 of which constitute the minimum investment required to ensure eligibility for the LTI program. In compliance with legal regulations, transactions effected with Telekom Austria shares by executives, members of the Supervisory Board and persons close to them are reported to the Austrian Financial Market Authority (see www.fma.gv.at under the menu item "Directors' Dealings").

Promotion of Female Executives

Two out of eight, or 25%, of shareholder representatives on the Supervisory Board of Telekom Austria AG are women. This is considerably higher than the average quota within the ATX. If the employee representatives are included, the proportion of women is 17%. Since 2001, the important function of Vice Chair of the Supervisory Board has been held by a woman, Edith Hlawati. A further eight Supervisory Board positions within the Telekom Austria Group are held by women as are five Management Board and managing director positions. One of the four Chief Group Officers is a woman. The proportion of women in management positions at the Telekom Austria Group in 2011 amounted to approximately 32%. The new Telekom Austria Group Business School promotes a common understanding of the company's values, which explicitly include aspects such as general diversity and thus also gender equality.

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 Audit Committee revealed no legal obstacle to the appointment of KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. On May 19, 2011 the Annual General Meeting elected KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft as auditors of the annual financial statements and consolidated financial statements for the 2011 financial year.

The expenses of the Telekom Austria Group for the audit of the 2011 annual financial statements and the consolidated financial statements amounted to EUR 1.7 million after EUR 1.9 million in the previous year. Expenses for additional consultancy services provided by the KPMG network amounted to EUR 1.2 million in 2011 compared to EUR 0.2 million in 2010. Expenses for tax consultancy and other services totaled EUR 0.4 million (2010: 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 suitability and 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 ensuring the effectiveness and profitability of business activities, the integrity and reliability of financial reporting as well as compliance with the relevant laws and regulations. To prevent the misuse or passing on of confidential information that might affect the share price, a group-wide capital market compliance guideline has been implemented and classified units 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 industrial secrets. This policy is supplemented by country-specific guidelines at the local level. All Group subsidiaries have appointed their own information security and data protection managers. Regular internal and external audits as well as staff training ensure the effective implementation of this corporate policy. A1 is the only network operator in Austria to be certified according to the ISO 27001 standard. The processes laid down in this standard ensure the highest level of data security within the company.

To strengthen the culture of integrity and prevent corruption, the compliance standards, structures and processes at the Telekom Austria Group are currently being significantly tightened up. Details of the Telekom Austria Group's compliance management system and the newly established Group Compliance unit can be found in the Compliance section of the Annual Report 2011 on page 22. ✓

Vienna, February 22, 2012

The Management Board



Hannes Ametsreiter



Hans Tschuden