

Report on Item 7 of the AGM Agenda

Report by the Management Board of Telekom Austria AG with Regard to the Authorization of the Management Board to Use or Sell Treasury Shares of the Company other than via the Stock Exchange or via Public Offer

1. Authorization

At the upcoming annual general meeting, the management board of Telekom Austria AG will propose a resolution, which shall – following a share buy-back – authorize the management board to

- a) issue treasury shares to employees of the Telekom Austria Group*, be it with or without consideration and/or to use treasury shares to serve stock options granted to employees, managers and members of the management board/management of the Telekom Austria Group*;
- b) use treasury shares to serve convertible bonds;
- c) use treasury shares – also abroad – as consideration for the acquisition of enterprises, businesses or parts thereof, or shares of one or more companies;
- d) decrease the share capital of the company according to Para 65 Sec 1 No. 8 last sentence in connection with Para 192 of the Stock Corporation Act by up to Euro 100,326,000 by withdrawing up to 46 million treasury registered or bearer shares with no par value without further resolution by the annual general meeting. The supervisory board is authorized to resolve upon the amendments of the articles of association required upon the withdrawal of shares;
- e) sell treasury shares in accordance with Para 65 Sec 1b of the Stock Corporation Act (i) any time via the stock exchange or by public offer; (ii) for a period of 5 years from the day of this resolution in any way permitted by law, also other than via the stock exchange, whereby the management board is entitled to exclude the general purchase opportunity.

Since the subscription rights can be excluded with regard to the use of treasury shares for serving convertible bonds, and since the use of treasury shares as consideration when acquiring enterprises, businesses or parts thereof and the exclusion of any general purchase opportunity if sold otherwise, as well as the use of shares for employee participation programs are comparable to excluding shareholders from their subscription rights, Para 65 Sec 1b in connection with Para 153 Sec 4 Stock Corporation Act requires the management board to submit a written report to the annual general meeting. Thus the management board reports as follows:

*) The Telekom Austria Group is comprised of the Telekom Austria AG and its affiliated companies.

2. Purpose of the Authorization to Use and/or Sell Treasury Shares, thereby Excluding the General Purchase Opportunity/Company Interests

The management board was authorized to issue convertible bonds by the annual general meeting 2004. This authorization and the conditional capital to serve convertible bonds should now both be renewed. Besides the conditional capital, treasury shares can also be used to serve convertible bonds. Issuing convertible bonds enables the company to actively shape the capital structure by optimizing capital costs at comparably favorable terms.

Focused expansion, especially in the wireless market, is part of the company's strategy. The management board shall – inter alia – have the possibility to acquire enterprises, businesses or parts thereof or shares in companies to prepare a market entry or to strengthen an existing market position. The acquisition of existing businesses is advantageous to the company, since it allows quick market entry, expansion of an existing customer base and access to employees familiar with the local market.

When acquiring enterprises, businesses or parts thereof, or shares in companies it may be advantageous to the company to use treasury shares as consideration, e.g. to compensate shareholders of a target company or if a seller insists on payment in shares rather than in cash. Also, purchase prices will frequently be lower when paid in treasury shares as opposed to cash. The cash requirement for such acquisitions will be reduced and the transaction will be accelerated, since existing shares can be used and no new shares have to be issued.

In addition, the management board shall be granted the flexibility to sell treasury shares.

The proposed authorization to sell treasury shares in any other way – also under exclusion of the general purchase opportunity – allows the management board to seize any existing selling opportunity quickly, flexibly and cost effectively. As the company acts in a fast changing environment requiring that it quickly and flexibly seize any market opportunities and cover any rising capital demand at short notice, the right to sell treasury shares under exclusion of the general purchase opportunity of the shareholders is of particular importance to the company. Excluding the time-consuming and costly administration of subscription rights of shareholders, the company is - by selling treasury shares - in a position to quickly cover any need for additional financial means which market opportunities arising at short notice might create. Accordingly, an optimal realization of treasury shares requires the authorization to sell treasury shares in any manner permitted by law – also other than over the stock exchange and under exclusion of the general purchase opportunity. For these reasons such a sale option – if required - will be advantageous to the company and to its shareholders.

3. Information on the Employee Participation Program I

In the annual general meeting on May 23, 2006 the management board was authorized to use treasury shares for allocation to employees with or without consideration.

According to this authorization the details of the Employee Participation Program were determined in a works council agreement (“Betriebsvereinbarung”) according to Para 97 Section 1 No. 16 of the Labor Relations Act (ArbVG) in December 2006, December 2007 and December 2008. Now the basis for a prolongation of the program shall be established. The Employee Participation Program is designed in such a way that it can be repeated in the following years – subject to approval by the supervisory board. There is, however, no right to further share allocation in the following years.

The purpose of the Employee Participation Program is to increase the focus of the employees on corporate value and to bring employee interest more into line with those of the shareholders. An additional goal of this allocation of shares, which is voluntary and

without consideration, is to strengthen the employees' identification with the company as well as to support their share-oriented thinking. Moreover, the company shall become more attractive to employees.

Basically all employees of the company and its affiliated Austrian companies are included in the Employee Participation Program except those employees already participating in the Stock Option Program. It is provided for that a maximum of 2.65 million treasury shares can be allocated to employees of the company and its affiliated companies that are entitled to shares within the period 2006 through 2010 as a voluntary benefit without consideration. Employees that are thus entitled shall only receive shares up to the maximum amount subject to a tax benefit according to Para 3 Sec 1 No. 15 b Income Tax Act, currently amounting to Euro 1,460 per year; altogether not more than 1 million shares maximum per year.

For personal income tax reasons shares are held for a period of 5 years. The shares are stored on a collective deposit. Shares can be transferred or sold at any time.

Under the first tranche 2006/2007, which was approved by the supervisory board on December 12, 2006, a total of 500,503 shares were allocated; altogether about 11,400 employees in Austria received shares from the first tranche, corresponding to 45 shares per full-time employee thus entitled. Under the second tranche 2007/2008, which was approved by the supervisory board on December 19, 2007, a total of 86,742 shares were allocated; altogether about 11,100 employees in Austria received shares from the second tranche, corresponding to 8 shares per full-time employee thus entitled. The third tranche, which was approved by the supervisory board on December 16, 2008, comprised 186,480 shares and allocated the shares to approximately 11,000 employees in Austria. This corresponded to an average of 18 shares per full-time employee thus entitled. Hence, a total of 773,725 shares have been allocated under the Employee Participation Program to date.

The management board is now considering allocation of an additional tranche of further treasury shares to the employees up to 2010 – subject to approval by the supervisory board and subject to the fulfillment of certain performance indicators – on the basis of the above principles.

4. Consideration of Interests

Considering the proposed authorization of the management board with respect to the use and/or the sale of treasury shares – even under exclusion of the general purchase opportunity – the interests of the company outweigh any disadvantage to the shareholders resulting from the exclusion of the general purchase opportunity whenever treasury shares are used and/or sold. For the types of use under lit a to c, this results from the provisions on conditional capital, which per se contain an exclusion of subscription rights. Hence, the exclusion of the general purchase opportunity is objectively justified.

Moreover, the requested authorization of the management board on the use and/or sale of treasury shares complies with the legal intention that stock corporations should make treasury shares available to the market rather than hold them.

Use and/or sale of treasury shares as well as fixing any terms and conditions for their use and/or sale require the consent of the supervisory board of the company.

Following a resolution on any restriction to use and/or sell treasury shares – and no later than two weeks prior to the relevant decision by the supervisory board - the management board shall publish a report according to applicable law.

Vienna, April 2009

The management board