

Report by the Supervisory Board

Ladies and Gentlemen,

With the integration of the fixed line and mobile communication activities on the domestic market in 2010 and the group-wide reorientation of Corporate Governance, the Telekom Austria Group is well-prepared to meet future customer demand for convergent solutions and higher bandwidths. In the year under review, the Telekom Austria Group continued to respond to the challenges presented by its highly competitive, increasingly saturated markets and the persistently difficult macroeconomic environment with a marketing and technology offensive combined with measures to enhance operational excellence.

In the 2010 financial year, the Supervisory Board held extensive discussions on the strategic orientation and business development of the Telekom Austria Group and the individual operating companies at seven meetings of the Supervisory Board and at one strategy workshop. The Supervisory Board also oversaw the integration of fixed line and mobile communication activities in Austria and the implementation of effective corporate governance structures in the new Group structure. Other activities involved assessing valueaccretive growth opportunities to strengthen the Telekom Austria Group's position as an integrated, convergent provider of smart information and communication solutions, as well as evaluating market consolidation possibilities. In spring 2010, the Supervisory Board also dealt with the systemic basis and effectiveness of the compliance management system in greater detail.

Together with the Management Board, the Supervisory Board drew up resolutions to be put before the Annual General Meeting on May 27, 2010. The legal requirements of the amendment to the Stock Corporation Act necessitated an extensive revision of the Articles of Association. Furthermore, following the resignation of Stephan Koren, who has been on the company's Supervisory Board for many years, the Nomination Committee and the Supervisory Board prepared a nomination proposal for this vacant seat. With Wolfgang Ruttenstorfer, who has recently joined the company's Supervisory Board, Telekom Austria AG has been able to attract an executive with many years of experience as the head of one of the largest companies listed on the ATX and who has extensive market expertise in Eastern Europe.

Due to the restructuring of the Group and Works Council elections, several members of the Supervisory Board delegated by the Works Council were replaced. Following the resignation of Michael Kolek in February 2010, Markus Hinker was delegated to the Supervisory Board until the end of the year. Werner Luksch served as a member of the Supervisory Board until October 20, 2010 and reassumed his mandate on January 11, 2011. Gottfried Zehetleitner joined the Supervisory Board on October 27, 2010. Silvia Bauer, who resigned from the Supervisory Board in early November 2010, was replaced by Alexander Sollak.

I would therefore like to offer my warmest thanks to all former members of the Supervisory Board, and in particular to Stephan Koren, for the constructive contribution they have made to the successful development of the Telekom Austria Group.

At its meeting in August 2010 in Bulgaria, the Supervisory Board had the opportunity to gain a first-hand impression of the strategic orientation of the Bulgarian subsidiary Mobiltel, and to discuss with the local management the acquisitions that have been made with the aim of repositioning the company on the basis of an expanded, convergent portfolio.

The strategy workshop dealt in detail with the framework conditions, future challenges and the resulting options for action aimed at safeguarding the Telekom Austria Group's value-oriented growth going forward. The 2011 budget and the business plan for the period 2011 to 2014 were the main topics of discussion at the meeting of the Supervisory Board in December 2010. At this meeting the Supervisory Board also analyzed the effectiveness of its activities pursuant to Rule 36 of the Austrian Corporate Governance Code on the basis of the results of the self-evaluation questionnaire.

The Supervisory Board of Telekom Austria AG is strongly committed to compliance with the Austrian Corporate Governance Code and to a responsible company management and control aimed at generating sustainable corporate value. The Supervisory Board has, therefore, laid down criteria for determining the independence of its members. All shareholder representatives on the Board declared their independence pursuant to Rule 53 of the Austrian Corporate Governance Code, while seven out of eight members of the Supervisory Board declared their independence pursuant to Rule 54 of the Code.

In accordance with Rule 62 of the Austrian Corporate Governance Code, Telekom Austria AG's compliance with the provisions of the Code and the correctness of its public 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 Supervisory Board regarding observance and compliance with the Comply or Explain Rules or the recommendations of the Austrian Corporate Governance Code for the 2010 business year.

At five meetings in 2010 the Audit Committee of the Supervisory Board dealt intensively with financial reporting during the preparation of the annual financial statements and the quarterly reports as well as carrying out its duties to monitor the effectiveness of the internal control system, risk management and the internal audit system. During the audit of the annual financial statements and the consolidated financial statements for 2010, the Audit Committee also received regular reports on the results of the auditing procedure for both reports. KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft credibly demonstrated its impartiality to the Audit Committee, in particular with regard to reporting pursuant to Article 270 para. 1a of the Austrian Commercial Code. The outcome of the Audit Committee meetings was communicated to the Supervisory Board on a regular basis.

The Nomination Committee of the Supervisory Board prepared the selection of a candidate to fill the seat on the Supervisory Board that had become vacant.

The Chairing Committee of the Supervisory Board confers regularly with the CEO regarding strategy, business development and risk management, and also prepares the meetings of the Supervisory Board.

The annual financial statements of Telekom Austria AG and the consolidated financial statements as of December 31, 2010 received unqualified opinions from KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. The Management Report and the Group Management Report are consistent with the annual financial statements and the consolidated financial statements. After prior consultation with the Audit Committee, and extensive discussion and review, the Supervisory Board approved the 2010 financial statements in accordance with Article 96 para. 4 of the Austrian Stock Corporation Act. Furthermore, after prior consultation with the Audit Committee, and detailed discussion and review, it also approved the consolidated financial statements pursuant to Article 245a of the Austrian Commercial Code and IFRS, the Management Report, the Group Management Report and the Corporate Governance Report.

The Supervisory Board approved the Management Board's proposal to distribute a dividend of EUR 0.75 per eligible share and carry forward the remaining amount.

I would like to take this opportunity to thank the members of the Management Board and all our employees for the commitment they have shown in 2010 and ask both our growing number of customers in Austria and abroad as well as the shareholders of Telekom Austria AG to remain loyal to us in the years to come.

Peter Michaelis

Chairman of the Supervisory Board

Vienna, February 2011

Members and Committees of the Supervisory Board

Members of the Supervisory Board

Name (First Appointed)	Other Supervisory Board Positions and Comparable Functions	Independent Pursuant to Rule 53 of the Austrian Corporate Governance Code	Annual General Meeting at which Mandate Ends
Peter Michaelis (June 28, 2001) Chairman	OMV AG Österreichische Post AG APK-Pensionskasse AG	Independent pursuant to Rule 53 but not Rule 54 of the Austrian Corporate Governance Code	2013
Edith Hlawati (June 28, 2001) Vice Chairwoman	Österreichische Post AG	yes	2013
Henrietta Egerth-Stadlhuber (May 20, 2008)		yes	2013
Peter J. Oswald (May 20, 2008)	Mondi Swiecie SA	yes	2013
Wolfgang Ruttensdorfer (May 27, 2010)	CA Immobilien Anlagen AG OMV Exploration & Production GmbH OMV Gas & Power GmbH OMV Refining & Marketing GmbH OMV Solutions GmbH		2013
Wilfried Stadler (July 15, 2005)	VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe Konos Mittelstandsförderungs Aktiengesellschaft	yes	2013
	ATP Planungs- und Beteiligungs AG Bundestheater-Holding GmbH East Centro Capital Management AG Österreichische Staatsdruckerei Holding AG Quadriga Capital Management GmbH TRODAT Holding GmbH WIENSTROM GmbH		
Harald Stöber (June 4, 2003)	Deutsche Messe AG Hannover Arcor & Co KG Vodafone D2 GmbH Vodafone Holding GmbH	-	2013
Rainer Wieltsch (June 12, 2002)			2013

Members of the Supervisory Board Delegated by the Works' Council

Wilhelm Eidenberger (April 30, 2001)

Markus Hinker (July 15, 2005) Within the Group: Österreichische Industrieholding
AG, Telekom Austria Personalmanagement GmbH,
Telekom Austria TA AG

Alexander Sollak (November 3, 2010)

Gottfried Zehetleitner (October 27, 2010)
