

Report by the Supervisory Board

Dear shareholders,

The 2017 financial year was again shaped by systematic implementation of the Group strategy and by strategic course-setting in this age of digitalisation.

Establishing a clear focus on an outstanding customer experience combined with innovative products and services and adhering to a strict cost management policy allowed the Group to get back on track to growth – despite the persistently challenging competitive environment and regulatory intervention. In the year under review, the A1 Telekom Austria Group increased its total revenues and EBITDA by 4.1 % and 3.2 % respectively and demonstrated an improvement in its operating business not only on the domestic market of Austria, but also in the CEE markets. M&A transactions in Croatia and Belarus made an additional positive contribution. In September 2017, the A1 Telekom Austria Group took a further step in strengthening its brand profile and announced its decision to introduce the A1 brand gradually in all countries according to local conditions and thereby harmonise its brands throughout the Group. A1 Digital is also expected to open up new potential in the area of digital services.

Telekom Austria shares closed the year at EUR 7.72, up 37.8% on the previous year and clearly outperforming the sector (-3.6%).

In the 2017 financial year, the Supervisory Board held six Supervisory Board meetings and numerous committee meetings to discuss in detail the strategic orientation, investment and financing decisions as well as the business performance of the A1 Telekom Austria Group and its subsidiaries. After an extensive discussion on strategic opportunities and challenges as well as potential courses of action to optimise business performance, the budget for 2018 was approved in December 2017.

At the Annual General Meeting on 9 June 2017, the Supervisory Board mandates of Stefan Pinter and Reinhard Kraxner were each extended by one year. In the Extraordinary General

Meeting on 20 September 2017, Peter F. Kollmann was elected as a member of the Supervisory Board, following Ronny Pecik's resignation from the Supervisory Board as of 9 June 2017. I would like to take this opportunity to thank Ronny Pecik as a resigned member of the Supervisory Board for his high commitment and good cooperation.

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. was also reappointed as the auditor at the Annual General Meeting on 9 June 2017. The Supervisory Board and the Audit Committee discussed the selection of the auditor in detail and made a corresponding recommendation to the Annual General Meeting to appoint Ernst & Young Wirtschaftsprüfungs-GmbH.

The Supervisory Board of Telekom Austria AG is committed to compliance with the Austrian Corporate Governance Code (ACGC) and to responsible corporate management and control aimed at generating sustainable enterprise value. All ten shareholder representatives have declared their independence within the meaning of Rule 53 of the ACGC. Due to the open discussion culture within the Supervisory Board, the self-evaluation of the Supervisory Board as stipulated in Rule 36 of the ACGC is performed every two years. The most recent self-evaluation was performed in the 2016 financial year.

In accordance with Rule 62 of the ACGC, the A1 Telekom Austria Group's compliance with the provisions of the ACGC and the accuracy of its public reporting in association with this are assessed externally every three years. The most recent evaluation, which was performed by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. at the beginning of 2017, found no facts that conflicted with the declaration made by the Management Board and the Supervisory Board in the 2016 financial year concerning observance of and compliance with the 'comply or explain' rules or the recommendations of the ACGC.

In 2017, the Audit Committee of the Supervisory Board held five meetings to address financial reporting within the scope of preparing its Annual and Quarterly Financial Statements, and also performed its supervisory duties to monitor the

effectiveness of the internal control system, the risk management system and internal auditing. As part of its reporting, Ernst & Young Wirtschaftsprüfungs-GmbH credibly demonstrated its impartiality to the Audit Committee in accordance with Section 270 (1a) of the Austrian Business Enterprise Code (UGB). The findings of the Audit Committee meetings were reported to the Supervisory Board on an ongoing basis.

At its meeting in February 2017, the Staff and Nomination Committee dealt with the extension option of two additional years in the Management Board contracts, which were executed in 2017: the contracts of Alejandro Plater and Siegfried Mayrhofer are thus due to end on 5 March 2020 and 31 May 2020 respectively.

The Annual Financial Statements of Telekom Austria AG and the Consolidated Financial Statements for the year ending 31 December 2017 were issued with unqualified audit opinions by Ernst & Young Wirtschaftsprüfungs-GmbH. The Management Report and the Group Management Report are consistent with the Annual Financial Statements and the Consolidated Financial Statements respectively. After prior consultation with the Audit Committee and following an extensive discussion and review, the Supervisory Board approved the Annual Financial Statements for 2017, which have therefore been adopted in accordance with Section 96 (4) of the Austrian Stock Corporation Act (AktG). After prior consultation with the Audit Committee and following an extensive discussion and review, it also approved the Consolidated Financial Statements prepared in accordance with IFRS as prescribed by Section 245a UGB, the Management Report, the Group Management Report and the Corporate Governance Report. Telekom Austria Aktiengesellschaft publishes a separate consolidated non-financial report in accordance with Section 267a UGB.

The Supervisory Board approves the Management Board's proposal for the distribution of profit, namely the distribution of a dividend of 20 Euro cents per eligible share for the 2017 financial year, with the remaining amount being carried forward to new account.

I would like to conclude by thanking the management and all employees. Their exceptional dedication enabled the A1 Telekom Austria Group to successfully hold its own in what was a challenging market environment in 2017. I would also like to clearly state to the shareholders of Telekom Austria AG that the Supervisory Board will continue to actively support and press ahead with the strategic development of the A1 Telekom Austria Group going forward.

Wolfgang Rutenstorfer
Chairman of the Supervisory Board
Vienna, February 2018