

# Report by the Supervisory Board

## Dear shareholders,

The A1 Telekom Austria Group successfully continued its growth trends in the financial year 2018. This was achieved through the systematic, earnings-oriented implementation of its corporate strategy, a clear focus on convergence and high-value customer segments, innovative products and services, and strict cost management. Additionally, the Group is particularly emphasizing on the uplift of growth and efficiency potential in the course of digital transformation.

Despite ongoing strong competition, the A1 Telekom Austria Group increased its revenues by 1.9% and its EBITDA by 3.6% on an operating basis (excluding one-offs and FX effects as well as restructuring charges) in 2018. This was achieved thanks to a clear focus on high-value customers in mobile communications and consistently strong fixed-line business with increasing significance of TV content in some markets and growth in the solutions and connectivity business. We recorded customer growth in the mobile segment as well as in broadband and TV products and made rapid progress with our infrastructure expansion. EUR 771 mn was invested on a group-wide basis, with the broadband expansion being one of the focal points.

The harmonization of the brands within the A1 Telekom Austria Group that was resolved in 2017 continued in 2018 and is already complete in Bulgaria, Croatia, and Slovenia.

In the financial year 2018, the Supervisory Board held seven Supervisory Board meetings and numerous committee meetings to discuss in detail the strategic orientation, investment and financing decisions, the composition of the Management Board as well as the business performance of the A1 Telekom Austria Group and its subsidiaries. Following an extensive discussion on strategic opportunities and challenges as well as potential courses of action to optimize business performance, the budget for 2019 was approved in December 2018.

There was a change in the Supervisory Board at the Annual General Meeting on May 30, 2018: Wolfgang Ruttensdorfer,

Reinhard Kraxner, and Stefan Pinter stepped down with effect from May 30, 2018. Bettina Glatz-Kremsner, Daniela Lecuona Torras and myself were elected as members of the Supervisory Board by the Annual General Meeting on May 30, 2018. The Supervisory Board mandates of Carlos García Moreno Elizondo, Oscar Von Hauske Solís, and Carlos M. Jarque were renewed. In October 2018, Renate Richter was appointed to the Supervisory Board by the Works Council to replace Silvia Bauer. I would like to take this opportunity to express gratitude on behalf of the Supervisory Board to Wolfgang Ruttensdorfer, Reinhard Kraxner, Stefan Pinter, and Silvia Bauer for their high commitment and good cooperation.

Ernst & Young Wirtschaftsprüfungs-GmbH was also reappointed as the auditor at the Annual General Meeting on May 30, 2018. 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 annual 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 for the financial year 2016. Due to the reconstitution of the Supervisory Board, it was agreed by the Supervisory Board that the next self-assessment will take place in the financial year 2019.

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 Wirtschaftsprüfungs-GmbH at the beginning of 2017, found no facts

that conflicted with the declaration made by the Management Board and the Supervisory Board in the financial year 2016 concerning observance of and compliance with the “comply or explain” rules or the recommendations of the ACGC.

In 2018, 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. The findings of the Audit Committee meetings were reported to the Supervisory Board on an ongoing basis. As part of its reporting, Ernst & Young Wirtschaftsprüfungs-GmbH credibly demonstrated its impartiality to the Audit Committee in accordance with Section 270 (1 a) of the Austrian Business Enterprise Code (UGB).

At its meeting in July 2018, the Staff and Nomination Committee addressed the appointment of Thomas Arnoldner to the Management Board and the extension of the Management Board contracts of Alejandro Plater and Siegfried Mayrhofer.

The Remuneration Committee of the Supervisory Board addressed the remuneration of the Management Board and the contracts of the Management Board members at one meeting and in three resolutions adopted by written procedure.

The Annual Financial Statements of Telekom Austria AG and the Consolidated Financial Statements for the year ending December 31, 2018, 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 2018, 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 agreed on 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 EUR 0.21 per eligible share for the financial year 2018, with the remaining amount being carried forward to new account.

On behalf of the Supervisory Board, I would like to thank the management and all employees, whose dedication and commitment allowed the A1 Telekom Austria Group to continue on its successful path in the financial year 2018. I also wish to express my particular gratitude to the customers and shareholders of the A1 Telekom Austria Group for the confidence they have placed in us. The Supervisory Board will continue to address in detail and actively press ahead with the long-term strategic orientation and development of the A1 Telekom Austria Group going forward.

Edith Hlawati  
Chair of the Supervisory Board  
Vienna, March 2019