

Report by the Supervisory Board

Ladies and Gentlemen,

In the 2011 business year, the Telekom Austria Group continued to drive forward its strategy of promoting convergent customer solutions with the launch of the single A1 brand in Austria and the acquisition of cable network operators in Bulgaria and Croatia. The company responded to difficult market conditions with comprehensive measures to increase operational excellence. The 2011 business year was overshadowed by the need to deal with misconduct in the past, hyperinflation and the massive currency translation effects in Belarus.

In 2011, the Supervisory Board held extensive discussions on the strategic orientation and the business development of the Telekom Austria Group and its subsidiaries at nine meetings and a strategy workshop. Both growth and market consolidation opportunities were approved or evaluated.

Together with the Management Board, the Supervisory Board drew up resolutions to be put before the Annual General Meeting on May 19, 2011. Following the resignations of Peter Michaelis and Rainer Wieltsch, the Nomination Committee of the Supervisory Board prepared a nomination proposal for these two vacant seats. Franz Geiger as a new member of the Supervisory Board will contribute his extensive expertise in the telecommunication industry and the Eastern European markets. I myself succeeded Peter Michaelis in his capacity as Chairman of the Supervisory Board. Of the members

of the Supervisory Board delegated by the Works Council Werner Luksch replaced Markus Hinker, who resigned as of December 31, 2010. Walter Hotz was nominated to succeed Wilhelm Eidenberger, who resigned as of May 6, 2011. I would like to thank all former members of the Supervisory Board for their contribution to the development of the Telekom Austria Group.

At its meeting in August 2011, the Supervisory Board discussed new innovation fields and measures to increase profitability. Measures taken by the Group subsidiary velcom in response to the massive currency devaluation in Belarus were also analyzed.

In early September 2011, a Control Committee was set up on my initiative to investigate and prevent fraudulent activities at Telekom Austria. Furthermore, measures to claw back bonus payments from the IPO Stock Option Program 2000 were initiated. At the recommendation of the Supervisory Board, the Group Compliance position was upgraded and assigned to an international expert, for whom reporting obligations to the Audit Committee and the entire Supervisory Board were defined.

The strategy workshop dealt in detail with the framework conditions, strategic challenges and the resulting options for action aimed at safeguarding the Telekom Austria Group's value-oriented growth going forward.

The 2012 budget, the business plan for the period 2012 to 2015 and the dividend policy were the main topics of discussion at the meeting of the Supervisory Board in December 2011. Moreover, the members of the Supervisory Board were able to gain a personal impression of the strategic orientation of the subsidiary Vipnet in Croatia.

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. The Supervisory Board also analyzed the effectiveness of its activities, its organization and its working methods pursuant to Rule 36 of the Austrian Corporate Governance Code.

In accordance with Rule 62 of the Austrian Corporate Governance Code, Telekom Austria Group'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 the Supervisory Board in the 2010 business year regarding observance and compliance with the Comply or Explain Rules or the recommendations of the Austrian Corporate Governance Code.

In 2011, the Audit Committee of the Supervisory Board dealt 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 at six meetings. 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 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 annual financial statements of Telekom Austria AG and the consolidated financial statements as of December 31, 2011 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 2011 financial statements in accordance with Article 96 para. 4 of the Austrian Stock Corporation Act. Furthermore, after prior consultation with the Audit Committee, and extensive discussion and review, it also approved the consolidated financial statements, the Management Report, the Group Management Report and the Corporate Governance Report pursuant to Article 245a of the Austrian Commercial Code and IFRS.

The Supervisory Board approved the Management Board's proposal for the appropriation of profits to distribute a dividend of EUR 0.38 per eligible share for the 2011 business year and to 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 a challenging 2011. I would also like to assure Telekom Austria AG shareholders that the Supervisory Board will continue to drive forward and actively support the further strategic development of the Telekom Austria Group as well as the full and complete investigation of all fraudulent actions in the past and the implementation of appropriate preventative measures in the area of compliance.

Markus Beyrer
Chairman of the Supervisory Board

Vienna, February 2012