

Report by the Supervisory Board

Ladies and Gentlemen,

In the 2012 financial year the Telekom Austria Group was again faced with major challenges, analogous to the entire telecommunications industry. Intense competition across all markets, radical regulatory provisions and the strained macroeconomic situation impacted the course of business. Despite this strong headwind the Group enjoyed significant success from an operational perspective. The strategy of promoting convergent communication solutions was successfully implemented in the markets of Austria, Bulgaria and Croatia, while substantial mobile customer growth was recorded in Belarus, Slovenia, the Republic of Serbia and the Republic of Macedonia. In addition, effective measures were realised to improve operational excellence and company-wide cost savings, and to thus curb the influence of negative external factors.

However, activities in the 2012 financial year also focused on the resolution of past misconduct. The Group compliance management system was reinforced and complemented with effective instruments. Major developments included an update of the Code of Conduct and the introduction of a platform for whistleblowing which allows information on potential misconduct to be reported anonymously. The Control Committee of the Supervisory Board, which was set up in 2011 with the aim of investigating and preventing fraudulent activities at Telekom Austria Group, came together three times in 2012 to analyse in depth past allegations of corruption and misconduct. It concluded its activities in September 2012, having completed its investigation.

Furthermore, América Móvil's acquisition of a stake in Telekom Austria AG in 2012 led to a significant change in the shareholder structure.

In 2012 the Supervisory Board also held extensive discussions on the strategic orientation, the most important fields of innovation and the business development of the Telekom Austria Group and its subsidiaries at nine meetings and one strategy workshop.

Together with the Management Board, the Supervisory Board prepared resolutions to be put forward to the Annual General Meeting on 23 May 2012. The shareholders attending this Annual General Meeting were also given a report on the forensic investigations initiated in 2011 in order to clarify past cases of misconduct and suggest improvements to the existing compliance system. In addition, Ronny Pecik was elected to the Supervisory Board; he was subsequently elected by the Supervisory Board to serve as Deputy Chairman.

The staff association nominated Silvia Bauer to the Supervisory Board with effect from 26 July 2012.

The Extraordinary General Meeting held in October 2012 elected Oscar Von Hauske Solís to the Supervisory Board with effect from 23 October 2012. I was also elected to the Supervisory Board at this meeting and succeeded Markus Beyrer as Chairman of the Supervisory Board with effect from 1 November 2012. I would like to take this opportunity to thank Markus Beyrer for his outstanding commitment to the Telekom Austria Group.

At its meetings in September and October 2012 the Supervisory Board discussed the market situation in Austria in detail. The strategy workshop was used to discuss the conditions, strategic opportunities and challenges facing the company, as well as the options for action with regard to optimising its financial structure. The main objectives of the corporate strategy include stabilising the earnings situation in saturated markets and leveraging growth potential in Telekom Austria Group's growth markets. Convergence is a central pillar of the overall strategy. A further aim is to secure the Group's earnings strength through further improvements in efficiency.

The budget for 2013, the business plan for the period 2014 to 2016 and a discussion of the financial strategy and dividend policy were the main topics of discussion at the Supervisory Board meeting in December 2012.

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The Supervisory Board of Telekom Austria AG is strongly committed to compliance with the Austrian Corporate Governance Code (ÖCGK) and to responsible corporate management and control aimed at generating sustainable enterprise value. The Supervisory Board has laid down extensive criteria for determining the independence of its members. All of the shareholder representatives have declared their independence in accordance with Rule 53 of the ÖCGK, while nine of the ten members of the Supervisory Board have declared their independence in accordance with Rule 54 of the ÖCGK. The Supervisory Board also analysed the effectiveness of its activities, organisation and working methods in accordance with Rule 36 of the ÖCGK.

In accordance with Rule 62 of the ÖCGK, Telekom Austria Group's compliance with the provisions of the ÖCGK and the accuracy of its reporting are evaluated externally every three years. The most recent evaluation, which was carried out by KPMG in early 2011, identified no facts that conflicted with the declaration made by the Management Board and the Supervisory Board in the 2010 financial year concerning observance and compliance with the "Comply or Explain" rules or the recommendations of the ÖCGK.

In 2012 the Audit Committee of the Supervisory Board dealt with financial reporting as part of the preparation of the annual financial statements and the quarterly reports as well as performing 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 single-entity and consolidated financial statements for 2012, the Audit Committee also received regular reports on the findings of the audit procedure for both reports. Auditors and audit committee were also able to interact without Management Board members being present. As part of its reporting, KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft credibly demonstrated its impartiality to the Audit Committee in accordance with section 270 (1a) of the Austrian Commercial Code. The outcome of the meet-

ings of the Audit Committee was communicated to the Supervisory Board on a regular basis.

The annual financial statements of Telekom Austria AG and the consolidated financial statements for the year ended 31 December 2012 were issued with unqualified audit opinions by KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. 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 2012, which have therefore been adopted in accordance with section 96 (4) of the Austrian Stock Corporation Act. 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 the IFRSs as prescribed by section 245a of the Austrian Commercial Code, the Management Report, the Group Management Report and the Corporate Governance Report.

The Supervisory Board approved the Management Board's proposal that net profit be appropriated to distribute a dividend of 5 Eurocent per eligible share for the 2012 financial year, with the remaining amount being carried forward to new account.

I would like to conclude by thanking the members of the Management Board and all our employees for the commitment they have shown in a challenging 2012 financial year. I would also like to assure Telekom Austria AG's shareholders that the Supervisory Board will continue to actively support and press ahead with the strategic development of the Telekom Austria Group in future.

Rudolf Kemler

Chairman of the Supervisory Board

Vienna, February 2013