

# Report by the Supervisory Board

Ladies and Gentlemen,

In 2006, Telekom Austria continued its growth and internationalization strategy focused on a sustainable increase in shareholder value and, at the same time, successfully defended its market and innovation leadership in Austria. The very favorable development of financial results in previous years reached a new record level in the reporting year.

In addition to the continuing focus on expansion, 2006 also saw changes at the top management level in line with the new holding structure. Boris Nemsic was appointed Chairman of the Management Board of Telekom Austria effective May 24, 2006, and Rudolf Fischer Vice Chairman of the Management Board. Both management mandates were extended until April 30, 2011. Based on the new holding structure, which provides for a transparent and future-oriented Group structure with two operational units under the umbrella of a lean management holding company, the Supervisory Board drew up a qualification profile for the Chief Financial Officer. The Personnel and Nomination Committee was asked to make the necessary preparations for filling this position.

At a meeting of the Supervisory Board on October 23, 2006, Hans Tschuden was appointed to succeed Stefano Colombo, effective April 1, 2007, for a period of five years. Mr. Tschuden is a respected financial expert with in-depth knowledge of south-eastern Europe.

There were also a number of changes to the Supervisory Board in 2006: Peter Mitterbauer, Harald Sommerer and Otto G. Zich retired from the Supervisory Board. The election of Wolfgang C. Berndt and Hans Jörg Schelling at the 2006 Annual General Meeting further strengthened the expertise of the Supervisory Board in the areas of Corporate Governance and Marketing. Following his election to Parliament, Hans Jörg Schelling resigned from the Supervisory Board in February 2007.

The continuation of the value-oriented expansion strategy and the personnel decisions outlined above required frequent meetings of the Supervisory Board and its committees. The business development and strategic focus of the Telekom Austria Group was discussed extensively at nine meetings of the Supervisory Board, five meetings of the Audit Committee established in compliance with US law, one meeting of the Audit Committee established under Austrian law, three meetings of the Personnel Committee and a strategy workshop. Particular attention was devoted to expansion projects in the wireless segment in Serbia, Bosnia Herzegovina, Slovakia, Macedonia and Kosovo, and the acquisition of eTel in the wireline segment. Other discussions focused on strategically positioning and asserting the two segments in Austria, risk management and internal control systems.

The role of a financial expert for the Audit Committee which was performed by Harald Sommerer until his resignation, and is now filled by Rainer Wieltisch. Wolfgang C. Berndt was voted on to the Audit Committee for the first time, providing a valuable addition to this body with his many years of experience on the supervisory boards of several

international companies. In the year under review, the Audit Committee focused on the internal control system for financial reporting which has now been implemented throughout the Group. Other Audit Committee activities included monitoring the integrity of the financial statements, the quality, independence and performance of the auditors, and the functioning of internal audit controls. In 2006, the Audit Committee also carried out a self-evaluation for the first time. The Chairman of the Audit Committee provided the other members of the Supervisory Board with regular and detailed reports on the Committee's work.

The Supervisory Board of Telekom Austria is strongly committed to compliance with the Austrian Corporate Governance Code and responsible company management and control aimed at sustained value creation. According to the criteria laid down by the Supervisory Board of Telekom Austria, six of the eight shareholder representatives are deemed to be independent. Telekom Austria possesses effective corporate governance mechanisms which comply with the strict US standards, and is therefore well prepared for the introduction of similar regulations in the European Union.

The annual financial statements of Telekom Austria AG and the consolidated financial statements were audited by KPMG Austria Wirtschaftsprüfungs- und Steuerberatungs GmbH and received unqualified opinions. The management report and the group management report are consistent with the annual financial statements and consolidated financial statements. After prior consultation with the Audit Committee established under Austrian law, and extensive discussions and review, the Supervisory Board approved the 2006 annual financial statements in accordance with § 125 Para. 2 of the Austrian Stock Corporation Act. Furthermore, after prior consultation with

the Audit Committee (US law) and the Audit Committee (Austrian law) and after detailed discussion and review, the Supervisory Board approved the consolidated financial statements prepared in accordance with § 245 of the Austrian Enterprise Code pursuant to IFRS, the reconciliation report pursuant to the Austrian Enterprise Code, the reconciliation report pursuant to U.S. GAAP, the management report and the group management report.

The Supervisory Board gave its assent to the Management Board's proposal to pay a dividend of EUR 0.75 per eligible share and carry forward the remaining amount.

I would like to take this opportunity to offer my sincere thanks to the management and employees for their loyalty and commitment. In particular, I would like to thank the former Chief Executive Officer, Heinz Sundt, who retired in May 2006, and the retiring Chief Financial Officer, Stefano Colombo, who have both performed such excellent work for the company.

I would also like to thank all Telekom Austria customers and shareholders for their confidence and support and, at the same time, ask for their continued loyalty in the future.

**Peter Michaelis**

Chairman of the Supervisory Board  
Vienna, March 2007

