

Report by the Supervisory Board

Ladies and Gentlemen,

The Telekom Austria Group faced up to the difficult challenges created by the global economic crisis and increased competition in the 2009 financial year under the new management of Hannes Ametsreiter with a clearly focused strategy to achieve a sustainable increase in shareholder value and a strong cost awareness.

Discussions at the seven meetings of the Supervisory Board and the strategy workshop in the 2009 financial year focused on the strategic orientation of the Telekom Austria Group and the positioning of the Fixed Net and Mobile Communication segments in a competitive and economically difficult operating environment. Against the backdrop of the current situation on the financial markets, the Supervisory Board dealt in depth at the very beginning of the year with the Telekom Austria Group's financing policy, which is not only extremely solid but was also further diversified in the year under review through the issue of a EUR 750 million corporate bond. The resignation of Boris Nemsic from the Management Board of the Telekom Austria Group in March 2009 made it necessary to find a successor. Hannes Ametsreiter, who joined the Management Board of the Telekom Austria Group at the start of the year, was appointed Chairman of the Management Board as of April 1, 2009.

The marketing and technology offensive to safeguard the competitiveness of the Fixed Net segment formed the strategic focus of the two meetings of the Supervisory Board held in spring 2009. The infrastructure project "Next Generation Network" and the glass fiber pilot projects were discussed in as much detail as the measures to improve operating efficiency and the IT strategy. At its meeting in August 2009 in Belarus, the Supervisory Board had the opportunity to experience at first hand the strategic orientation of the Belarusian subsidiary, Velcom, and discuss with the local management the measures that have been taken to deal with the overall economic situation and in particular the devaluation of the currency.

The agreement reached in autumn 2009 enabling Telekom Austria's civil servants to take up employment with the state will have a far-reaching impact in terms of personnel strategy and allow the Telekom Austria Group greater flexibility in future.

The strategy workshop dealt in detail with the framework conditions, future challenges and resulting options for action aimed at safeguarding the Telekom Austria Group's value-oriented future growth. The evaluation of a deeper integration of the Fixed Net and Mobile Communication operations in Austria as well as the approval of the budget for 2010 were the main topics of discussion at the meeting of the Supervisory Board in December 2009. The Supervisory Board also dealt with the design, and in particular the sustainable and multi-year performance criteria, for the future Performance Share Program for the management. At this meeting the Supervisory Board also analyzed the effectiveness of its activities pursuant to Rule 36 of the Austrian Corporate Governance Code on the basis of the results of the self-evaluation questionnaire.

Silvia Bauer took up her seat on the Supervisory Board on behalf of the Works' Council on January 30, 2009, succeeding Markus Hinker. With three female members on the Supervisory Board, the equivalent of 25%, the Telekom Austria Group is leading the way within the ATX Prime Market. Following the retirement of Michael Kolek on February 10, 2010 Markus Hinker was reelected to the Supervisory Board of the Telekom Austria Group by the Central Works Council.

At five meetings in 2009 the Audit Committee of the Supervisory Board carried out its additional duties to monitor the effectiveness of the internal control system, risk management and the internal audit system. Furthermore, it also dealt intensively with financial reporting during

the preparation of the annual financial statements and quarterly reports. Other key areas of the Audit Committee's work included the impairment tests carried out at Velcom in Belarus and at Vip mobile in the Republic of Serbia. During the audit of the annual financial statements and the consolidated financial statements for 2009 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 of the Supervisory Board, in particular regarding 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 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 laid down criteria for determining the independence of its members. Seven of the eight shareholder representatives are deemed to be independent pursuant to Rule 53 of the Austrian Corporate Governance Code.

The annual financial statements of Telekom Austria AG and the consolidated financial statements as of December 31, 2009 received unqualified opinions from KPMG Austria Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. 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, and extensive discussion and review, the Supervisory Board approved the 2009 annual financial statements in accordance with Article 96 para. 4 of the Austrian Stock Corporation Act. Furthermore, after prior consultation with the Audit Committee and after detailed discussion and review, it also approved the consolidated financial statements pursuant to Article 245a of the Austrian Commercial Code and IFRS, the Management Report, the Group Management Report and the Corporate Governance Report.

The Supervisory Board approved the Management Board's proposal to distribute a dividend of EUR 0.75 per eligible share and 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 their commitment in 2009 and to ask them for their constructive support to overcome the challenges that lie ahead. In particular, I would like to thank Boris Nemsic under whose leadership the company has developed into a modern, internationally successful player on the telecommunications market and a leading Austrian listed company. I would also like to thank our growing number of customers in Austria and abroad for the confidence they have placed in the Telekom Austria Group. Finally, I would like to appeal to the shareholders of Telekom Austria AG to show the same loyalty to the company as they have done in the past.



Peter Michaelis
Chairman of the Supervisory Board
Vienna, February 2010