

REPORT BY THE SUPERVISORY BOARD

LADIES AND GENTLEMEN,

In the 2016 financial year, the Telekom Austria Group continued to successfully implement the Group's strategy and took key steps in order to drive and support digitalisation. Despite numerous challenges, such as ongoing fierce competition and greater regulatory pressure due to the stepwise abolition of retail roaming in the EU, the Group managed to increase its revenues by 2.1% on a reported basis. Additionally, the company also managed to further strengthen its profitability through increased efficiency in terms of costs and investments and achieved significant improvements in expanding its infrastructure, on which it focused again in particular in 2016.

Despite a highly competitive market environment and the negative roaming impact, the company managed to achieve EBITDA growth in Austria thanks to successful market segmentation and a targeted increase in efficiency. In the CEE countries, the Group successfully handled the partly challenging regulatory and macroeconomic environment by consistently implementing its convergence strategy and continuously optimising operating efficiency. Through the acquisition of Atlant Telecom and its subsidiary TeleSet, Belarus is now the sixth convergent market of the Telekom Austria Group. In Croatia, the acquisition of Metronet also significantly strengthened the fixed-line position, especially in the business segment. In order to reinforce its leading position with regard to the quality of its infrastructure, the Telekom Austria Group also increased investments to expand its fixed-line and mobile networks in 2016. Together with high cost efficiency, excellent network quality is ensured for customers in this way.

In the 2016 financial year, the Supervisory Board dealt in detail with the strategic orientation, investment and financing decisions as well as the business performance of the Telekom Austria Group and its subsidiaries at five Supervisory Board meetings and numerous committee meetings. After an extensive discussion on strategic

opportunities and challenges as well as potential courses of action to optimise business performance, the budget for 2017 was approved in November 2016.

The Annual General Meeting on 25 May 2016 saw a change in the Supervisory Board: Elisabetta Castiglioni resigned from the Supervisory Board with effect from 25 May 2016. Peter Hagen was elected as a member of the Supervisory Board at the Annual General Meeting on 25 May 2016, while the Supervisory Board mandates of Alejandro Cantú Jiménez, Stefan Pinter and Reinhard Kraxner were extended. I would like to take this opportunity to thank Ms Castiglioni, who has stepped down from the Supervisory Board, for her extraordinary commitment and good cooperation. In addition, Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. was reappointed as the auditor at the Annual General Meeting. The Supervisory Board and the Audit Committee discussed the selection of the auditor in detail and correspondingly recommended to the Annual General Meeting to appoint Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.

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. In accordance with Rule 36 of the ACGC, the Supervisory Board also dealt with the efficiency of its activities, organisation and working methods in 2016. In accordance with Rule 62 of the ACGC, the 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. Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. is to perform the next evaluation in the first half of 2017.

In 2016, the Audit Committee of the Supervisory Board dealt with financial reporting as part of the preparation of the Annual Financial Statements and quarterly reports at four meetings and also performed its supervisory duties to monitor the effectiveness of the internal control system, the risk management system and internal auditing. As part of its reporting, Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. credibly demonstrated its impartiality to the Audit Committee in accordance with Section 270 (1a) of the Austrian Business Enterprise Code (UGB). The findings of the Audit Committee meetings were reported to the Supervisory Board on an ongoing basis.

The Annual Financial Statements of Telekom Austria AG and the Consolidated Financial Statements for the year

ending 31 December 2016 were issued with unqualified audit opinions by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. 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 2016, 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 IFRS as prescribed by Section 245a UGB, the Management Report, the Group Management Report and the Corporate Governance Report.

The Supervisory Board approves the Management Board's proposal for the distribution of profit, namely the distribution of a dividend of 20 euro cents per eligible share for the 2016 financial year, with the remaining amount being carried forward to new account.

I would like to conclude by thanking the Telekom Austria Group's management and all its employees for their dedicated work in the 2016 financial year. I would also like to assure the shareholders of Telekom Austria AG that the Supervisory Board will continue to actively support and press ahead with the strategic development of the Telekom Austria Group.

Vienna, February 2017



Wolfgang Ruttenstorfer
Chairman of the Supervisory Board
Telekom Austria Group