

Report by the Supervisory Board

Ladies and Gentlemen!

In the 2013 financial year the Telekom Austria Group again faced many challenges of a varying nature, just like the telecommunications industry in Europe as a whole. From an operational perspective, a range of measures to stem the negative external factors influencing the company's results had to be implemented with undiminished determination. In parallel, key strategic initiatives were launched which will lend major support to the future development of the Telekom Austria Group. Following the acquisition of YESSS! in January of this year to bolster the market position in Austria, the Telekom Austria Group took part in the Austrian spectrum auction in the autumn of 2013, which ranked among the most expensive auctions in Europe. The Group spent a total of around EUR 1,030 million to ensure key transmission frequencies – the foundation of the Austrian mobile telephony business – for the next 20 years. The Telekom Austria Group also made major investments to safeguard its competitiveness in its international markets. All these investments, which were prepared in collaboration with the Supervisory Board, serve to assure and develop the future earnings power of the Telekom Austria Group.

In the 2013 financial year the Supervisory Board dealt with the issues of strategic orientation, investment and financing decisions and the business development of the Telekom Austria Group and its subsidiaries in seven meetings of the Supervisory Board and one strategy workshop. In addition, personnel changes in the executive bodies of the company were prepared and implemented. In order to expand the Management Board, Mr. Günther Ottendorfer was appointed as Chief Technical Officer effective 1 September 2013, reflecting the particular importance of this

complex area of responsibility. The 2013 Annual General Meeting saw the Supervisory Board enter a vital next stage with new elections for all of its members. New members were elected in Elisabetta Castiglioni, Alfred Brogyányi as a financial expert and Michael Enzinger as the second Vice Chairman. I would like to take this opportunity to thank the members of the Supervisory Board who have since left us, Edith Hlawati, Franz Geiger and Wilfried Stadler, for their extraordinary commitment and the many years of constructive cooperation.

The current general national and international conditions, strategic opportunities and challenges and the potential courses of action for optimising business performance were discussed in detail at the strategy workshop of the Supervisory Board. In addition to stabilising business performance in its mature markets, the central objective of corporate strategy is to leverage all potential in the Group's growth markets. In Austria, Bulgaria and Croatia the strategy of advancing convergent communications solutions must be successfully continued. Efficiency enhancements to improve earnings power are also essential for all business units. The budget for 2014, the business plan for the years 2014 to 2017 and the discussion of the financial strategy and dividend policy were the main topics of discussion at the Supervisory Board meeting in December 2013.

The Supervisory Board of Telekom Austria AG is strongly committed to compliance with the Austrian Corporate Governance Code (ACGC) and to responsible corporate management and control aimed at generating sustainable enterprise value. The Supervisory Board has agreed extensive criteria for ensuring the independence of its members. All ten shareholder representatives have declared their independence within the meaning of Rule 53

of the ACGC, while eight have also declared their independence as defined by Rule 54 of the ACGC. The Supervisory Board also analysed the effectiveness of its activities, organisation and working methods in accordance with Rule 36 of the ACGC.

As provided for by 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. The most recent evaluation, which was performed by Deloitte in early 2014, found no facts that conflicted with the declaration made by the Management Board and the Supervisory Board in the financial year concerning observance of and compliance with the 'comply or explain' rules or the recommendations of the ACGC.

The Personnel and Nomination Committee prepared the above personnel changes in the Supervisory Board and the Management Board in six meetings.

In the summer of 2013 the Supervisory Board set up a Frequency Committee in light of the forthcoming frequency auction in Austria. Its members discussed issues relating to this in depth at four meetings.

In 2013 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 in addition to performing its duties to monitor the effectiveness of the internal control system, risk management and the internal audit system at five meetings. During the audit of the annual and consolidated financial statements for 2013, the Audit Committee also received regular reports on the findings of the audit procedure for both sets of statements. Auditors and the Audit Committee were also able to interact without Management Board members being present. There was a change in auditor in the 2013 financial year. After more than a decade with KPMG, the 2013 Annual General Meeting elected Deloitte Audit Wirtschaftsprüfung GmbH to audit the annual and consolidated financial statements.

As part of its reporting, Deloitte Audit Wirtschaftsprüfung GmbH credibly demonstrated its impartiality to the Audit Committee in

accordance with section 270(1a) of the Austrian Commercial Code. 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 2013 were issued with unqualified audit opinions by Deloitte Audit Wirtschaftsprüfung GmbH. 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 2013, 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 for the appropriation of net profit, namely the distribution of a dividend of 5 Eurocents per eligible share for the 2013 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 great commitment they have shown in the challenging 2013 financial year. I would also like to assure the shareholders of Telekom Austria AG that going forward the Supervisory Board will continue to actively support and press ahead with the strategic development of the Telekom Austria Group.

Rudolf Kemler
Chairman of the Supervisory Board
Vienna, February 2014