

REPORT BY THE SUPERVISORY BOARD

LADIES AND GENTLEMEN!

The Telekom Austria Group broke new ground and made substantial progress in the 2014 financial year. In terms of ownership, too, a number of important strategic steps were realised in order to ensure continued support for the future development of the Telekom Austria Group. Following the conclusion of the shareholders' agreement between ÖIAG and América Móvil in April 2014, the Telekom Austria Group has a new controlling majority shareholder in the form of América Móvil, which held 59.7% of the shares when the takeover offer was completed on 20 October 2014. Thanks to this stable ownership structure with a long-term focus, the company is well-equipped for the future. The EUR 1 bn capital increase that was implemented in November made an important contribution to the Group's ongoing strategic development, strengthening the capital structure and securing important investments for the future of the company such as the expansion of the fibre network in Austria.

At an operational level, our focus on high-value customer segments, the successful convergence strategy and targeted cost optimisation programmes allowed us to achieve a slight increase in EBITDA comparable in Austria following several years of negative development. In other words, we are moving in the right direction. The Group has also actively addressed the various challenges in its CEE markets. The Republic of Macedonia became the fourth country in which the Group successfully implemented its convergence strategy. The key selling point and requirement for success is the Group's high-quality, high-performance infrastructure, which is kept state of the art through continuous investment. Numerous awards for best network quality reflect the performance of our networks.

Harald Stöber, who had been a member of our Supervisory Board for a number of years, passed

away in early May 2014. He had been a member of the Supervisory Board of Telekom Austria AG since 2003, shaping the Group's development over many years with his extensive expertise as a proven and internationally recognised telecommunications expert.

In the 2014 financial year the Supervisory Board dealt in detail with the issues of strategic orientation, investment and financing decisions as well as the business development of the Telekom Austria Group and its subsidiaries in ten meetings of the Supervisory Board and numerous committee meetings, including a strategy workshop.

In addition, personnel changes in the executive bodies of the company were prepared and implemented. The contract with Chief Financial Officer Hans Tschuden was dissolved with effect from 31 May 2014. He was succeeded by Siegfried Mayrhofer with effect from 1 June 2014.

At the Extraordinary General Meeting on 14 August 2014, the shareholder representatives of the Supervisory Board were newly elected as a result of the implementation of the shareholders' agreement between ÖIAG and América Móvil. All of the elected Supervisory Board members stepped down from their positions with effect from the end of the Extraordinary General Meeting on 14 August. The Extraordinary General Meeting on 14 August 2014 therefore newly elected the members of the Supervisory Board. I would like to take this opportunity to thank the members of the Supervisory Board who have stepped down for their extraordinary commitment and many years of constructive cooperation.

The current general national and international conditions, strategic opportunities and challenges as well as the potential courses of action for optimising business performance were discussed in detail at the strategy workshop of the Supervisory Board, which was held in connection with a

Supervisory Board meeting. In addition to stabilising business performance in its more mature markets, the central objective of corporate strategy is to leverage all potential in the Group's growth markets. In Austria, Bulgaria, Croatia and, since 2014, the Republic of Macedonia, the strategy of advancing convergent communications solutions must be continued successfully. Efficiency enhancements to improve earnings power are also essential for all business units. The main focus of the Supervisory Board meeting in December 2014 was the budget for 2015.

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. All ten shareholder representatives have declared their independence within the meaning of Rule 53 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 Audit Wirtschaftsprüfungs GmbH in early 2014, found no facts that conflicted with the declaration made by the Management Board and the Supervisory Board in the 2014 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 two meetings.

The Frequency Committee, which was created to assist in the Austrian frequency auction in summer 2013, dealt at length with the frequency auction in Slovenia in the first quarter of 2014. After the conclusion of this auction, the Frequency Committee discontinued its work.

In 2014 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 perform-

ing its duties to monitor the effectiveness of the internal control system, risk management and the internal audit system at three meetings. As part of its reporting, Deloitte Audit Wirtschaftsprüfungs GmbH 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 2014 were issued with unqualified audit opinions by Deloitte Audit Wirtschaftsprüfungs 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 2014, 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 Business Enterprise 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 the net result, namely the distribution of a dividend of 5 Eurocents per eligible share for the 2014 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 impressive commitment they have shown in the challenging 2014 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, January 2015