

Report by the Supervisory Board

Ladies and Gentlemen,

In 2015, the Telekom Austria Group focused on seizing opportunities resulting from its new ownership and management structure. Together with the Management Board, the Supervisory Board adjusted the Group's strategy in consideration of the dynamically changing market conditions and newly defined growth targets. At the same time, the Group optimised its operational processes and cost structure and realised additional efficiency gains in its growing infrastructure investments.

In the year under review, we succeeded in stabilising revenues in Austria by focusing on the premium customer segment and the successful continuation of the convergence strategy despite new competitors on the market. We even achieved Group EBITDA comparable growth of 6.7% by pursuing an increase in efficiency and cost savings. However, we will continue to keep an eye on the increased competitive situation on the Austrian market in the years to come as well. On our Central and Eastern European markets, we focused on improving the operational development, pursuing our convergence strategy and tackled relevant challenges in a targeted manner. In Bulgaria, we closed the acquisition of the cable operator Blizoo and as a result considerably strengthened our position in the fixed-line market. In the Republic of Macedonia we have advanced to the number one position in the mobile market after successfully consolidating the market. As a result of the acquisition of Amis, Slovenia has already become the fifth market on which we are present as a convergence operator. With efforts to increase efficiency we bundled Croatia and the Republic of Macedonia as well as the Republic of Serbia and Slovenia into management clusters. Thanks to ongoing investments – in 2015, we invested around half a billion euros in Austria alone – we are underpinning our infrastructure leadership and thus our key differentiation factor among competitors. Thereby we ensure providing our customers with the best network quality and services.

In the 2015 financial year, the Supervisory Board dealt in detail with the issues of strategic direction, investment and financing decisions as well as the business development of the Telekom Austria Group and its subsidiaries in six meetings of the Supervisory Board and numerous committee meetings. After an extensive discussion on strategic opportunities and challenges as well as the potential courses of action for optimising the business performance, the budget for 2016 was approved in November 2015.

In addition, personnel changes in the executive bodies of the company were prepared and implemented. The contract of Chief Technology Officer Günther Ottendorfer was terminated as of 5 March 2015 and Alejandro Plater was appointed Chief Operating Officer as of 6 March 2015. The contract of Chief Financial Officer Siegfried Mayrhofer was extended in April 2015. In addition, the contract with Hannes Ametsreiter was dissolved with effect from 31 July 2015. He was succeeded by Alejandro Plater as CEO with effect from 1 August 2015 – in addition to his role as COO. All Management Board contracts have a term of three years with an extension option for two additional years.

At the Annual General Meeting on 27 May 2015, there was a change in the Supervisory Board: Rudolf Kemler and Günter Leonhartsberger resigned with effect from 27 May 2015. Karin Exner-Wöhrer and I – Wolfgang Ruttensdorfer – were

elected as members of the Supervisory Board at the Annual General Meeting on 27 May 2015. I would like to take this opportunity to thank the members of the Supervisory Board who have stepped down for their extraordinary commitment and good cooperation. At the Annual General Meeting, Ernst & Young Wirtschaftsprüfungs-GmbH was appointed as auditor. 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 Wirtschaftsprüfungs-GmbH.

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 three meetings.

In 2015, 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 four meetings. As part of its reporting, Ernst & Young 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 2015 were issued with unqualified audit opinions by Ernst & Young 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 2015, 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 follows the Management Board's proposal for the distribution of the net result, namely the distribution of a dividend of 5 Eurocents per eligible share for the 2015 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 making an extraordinary contribution that enabled the Telekom Austria Group to successfully operate in a challenging market environment in 2015. 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.

Wolfgang Ruttendorfer
Chairman of the Supervisory Board
Vienna, April 2016