



Telekom Austria Aktiengesellschaft

(incorporated with limited liability in Austria)

and

Telekom Finanzmanagement GmbH

(incorporated with limited liability in Austria)

€5,000,000,000

Euro Medium Term Note Programme

unconditionally and irrevocably guaranteed by

Telekom Austria Aktiengesellschaft

Under this €5,000,000,000 Euro Medium Term Note Programme (the "**Programme**"), Telekom Austria Aktiengesellschaft ("**Telekom Austria**") and Telekom Finanzmanagement GmbH ("**TFG**"), together with any of Telekom Austria's other subsidiaries subsequently appointed as an issuer (each a "**New Issuer**" and, together with Telekom Austria in its capacity as an issuer and TFG, the "**Issuers**" and each an "**Issuer**") may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the relevant Issuer and the relevant Dealer (as defined below).

The payments of all amounts due in respect of Notes issued by TFG or any New Issuer will be unconditionally and irrevocably guaranteed by Telekom Austria (in its capacity as such, the "**Guarantor**"). Upon the appointment of any New Issuer, a supplement to this Prospectus (or a new base prospectus issued in replacement for this Prospectus) will be prepared, describing the New Issuer.

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €5,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "**Summary of the Programme**" and any additional Dealer appointed under the Programme from time to time by the relevant Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the "**relevant Dealer**" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks, see "**Risk Factors**" below.

Application has been made to the *Commission de Surveillance du Secteur Financier* (the "**CSSF**") in its capacity as competent authority under the Luxembourg Act dated 10th July, 2005 on prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) for this document to be approved as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Luxembourg Stock Exchange. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "**Terms and Conditions of the Notes**") of Notes will be set out in final terms (the "**Final Terms**") which will be filed with the CSSF.

The Programme provides that Notes may be listed and/or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the relevant Issuer, the Guarantor (where the relevant Issuer is other than Telekom Austria) and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The relevant Issuer and the Guarantor (where the relevant Issuer is other than Telekom Austria) may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplementary prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Arranger

ABN AMRO

Dealers

ABN AMRO

Citigroup

HVB Corporates & Markets

Lehman Brothers

BNP PARIBAS

HSBC

JPMorgan

Merrill Lynch International

The date of this Prospectus is 20th December, 2005.

This Prospectus comprises two base prospectuses; a base prospectus for the issuance of Euro Medium Term Notes under the Programme by Telekom Austria and a base prospectus for the issuance of Euro Medium Term Notes under the Programme by TFG. Each base prospectus constitutes a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “Prospectus Directive”).

Each of Telekom Austria and TFG (the “*Responsible Persons*”) accept responsibility for the information contained in this document and, to the best of the knowledge of each of Telekom Austria and TFG (which have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*” below) and, in relation to any Tranche of Notes, the relevant Final Terms. This Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Prospectus.

Copies of the Final Terms will be available from the registered office of the relevant Issuer and the specified office of each of the Paying Agents (as defined on page 36).

The Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by any Issuer or the Guarantor in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by each of Telekom Austria or TFG in connection with the Programme.

No person is or has been authorised by either Telekom Austria or TFG to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any Issuer, the Guarantor or any of the Dealers.

Neither this Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by either Telekom Austria or TFG or any of the Dealers that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of any Issuer and/or the Guarantor and/or the Group. “*Group*” means Telekom Austria and its Subsidiaries (as defined in the Agency Agreement). Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of Telekom Austria, TFG or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning Telekom Austria and/or TFG is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of Telekom Austria and/or TFG during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Prospectus when deciding whether or not to purchase any Notes.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the “*Securities Act*”) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons (see “*Subscription and Sale*”).

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuers, the Guarantor and the Dealers do not represent that this Prospectus may be

lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuers, the Guarantor or the Dealers which would permit a public offering of any Notes outside Luxembourg or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom, Italy and Austria) and Japan, see “*Subscription and Sale*”.

All references in this document to “*U.S. dollars*”, “*U.S.\$*” and “*\$*” refer to United States dollars. In addition, all references to “*Sterling*” and “*£*” refer to pounds sterling and references to “*euro*” and “*€*” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

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In connection with the issue and distribution of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes (provided that, in the case of any Tranche of Notes to be admitted to trading on a regulated market in the European Economic Area, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes.

SUMMARY OF THE PROGRAMME

This summary must be read as an introduction to this Prospectus and any decision to invest in any Notes should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area no civil liability will attach to the Responsible Persons in any such Member State in respect of this summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.

Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” shall have the same meanings in this summary.

Issuers:

Telekom Austria Aktiengesellschaft
Telekom Finanzmanagement GmbH

Telekom Austria Aktiengesellschaft is the largest telecommunications company in Austria. It is a stock corporation organised under the laws of the Republic of Austria. Telekom Austria Aktiengesellschaft has been listed on both the Vienna and New York Stock Exchanges since November 2000. It is the parent company of the consolidated Telekom Austria Group providing a wide range of advanced fixed line, mobile, data and other communications services, such as internet.

The organisational structure of Telekom Austria Aktiengesellschaft classifies the company's activities into two segments of business: the wireline segment and the wireless segment. The Telekom Austria Group has more than 3 million customers in the wireline segment and almost 5 million in the wireless segment at home and abroad (excluding MobilTel). Fixed line, data communications and internet activities are integrated into the wireline segment since the beginning of 2003. Besides fixed line telephony in Austria, the wireline segment comprises data and IT solutions, internet access and media, value-added and wholesale services. The wireless segment of the Telekom Austria Group encompasses the mobile communications activities of mobilkom austria, the Austrian market leader, as well as the business operations of VIPnet in Croatia, Si.mobil in Slovenia and mobilkom liechtenstein. In July 2005, Telekom Austria acquired MobilTel, the leading Bulgarian wireless operator.

The object of Telekom Finanzmanagement GmbH is to advise Telekom Austria in the investment and raising of funds, in the pooling of cash flows and the preparation of the Group's accounts' clearing. Telekom Finanzmanagement GmbH is dependent on the performance of the members of the Telekom Austria Group to which it makes loans.

New Issuer:

Any subsidiary of Telekom Austria Aktiengesellschaft appointed as an issuer of Notes under the Programme Agreement pursuant to a letter of accession in the form provided in the Programme Agreement, a deed of accession and such other documents as are required under the Programme Agreement.

Guarantor:	Telekom Austria Aktiengesellschaft (in the case of issues of Notes other than by Telekom Austria Aktiengesellschaft)
Risk Factors:	<p>There are certain factors that may affect Telekom Austria's and/or TFG's ability to fulfil its obligations under Notes issued under the Programme. These are set out under "Risk Factors" below.</p> <p>The following description is a summary of the main risk factors:</p> <p>Market and Competitive Risks: Given the extensive saturation of the markets in Austria there is no indication that the extremely fierce competition which prevails in the two business segments will ease. In Croatia the market entry of an additional competitor is expected. The development of future revenues therefore depends to a greater extent on the acceptance of new products and services, which cannot yet be regarded as certain.</p> <p>Regulatory and Legal Risks: The need to obtain approval from the regulator for certain wireline-related customer tariffs and charges prior to commercial launch as well as Telekom Austria's obligation to grant access to its infrastructure and services limit the company's operational flexibility. Legal risks arise above all from unforeseen interventions by regulators and lawsuits with competitors as well as with private groups and individuals who fear that mobile handsets and radio masts pose a health hazard.</p> <p>Technical and Financial Risks: Possible insolvency of key customers and suppliers entails the risk of bad debt and non-delivery. Force majeure, human error and faulty materials can cause damage to the company's technical infrastructure. Technological progress increases the risks which arise from the ever-increasing speed with which the infrastructure becomes obsolescent. As slightly more than half the workforce has civil servant status, Telekom Austria is limited in its ability to respond to these risks by adjusting the structure of its personnel costs. Telekom Austria plans to expand into the countries of southeast Europe. The future value of these investments will, however, depend, among other factors, on the political, economic and legal development of these countries.</p> <p>In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme, see "<i>Risk Factors</i>".</p>
Description:	Euro Medium Term Note Programme
Arranger:	ABN AMRO Bank N.V.
Dealers:	<p>ABN AMRO Bank N.V. Bayerische Hypo- und Vereinsbank AG BNP PARIBAS Citigroup Global Markets Limited HSBC Bank plc J.P. Morgan Securities Ltd. Lehman Brothers International (Europe) Merrill Lynch International</p> <p>and any other Dealers appointed in accordance with the Programme Agreement.</p>
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see " <i>Subscription and</i>

Sale”) including the following restrictions applicable at the date of this Prospectus.

Notes having a maturity of less than one year

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a minimum redemption value of at least £100,000 or its equivalent, see “*Subscription and Sale*”.

Issuing and Principal Paying Agent:	The Bank of New York.
Programme Size:	Up to €5,000,000,000 (or its equivalent in other currencies calculated as described under “ <i>General Description of the Programme</i> ”) outstanding at any time. The Issuers and the Guarantor may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the relevant Issuer, the Guarantor (where the relevant Issuer is not Telekom Austria) and the relevant Dealer.
Redenomination:	The applicable Final Terms may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 4.
Maturities:	Such maturities as may be agreed between the relevant Issuer, the Guarantor (where the relevant Issuer is not Telekom Austria) and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer form as described in “ <i>Form of the Notes</i> ”.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the relevant Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the relevant Issuer and the relevant Dealer.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined: <ul style="list-style-type: none">(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or

(iii) on such other basis as may be agreed between the relevant Issuer and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the relevant Issuer and the relevant Dealer for each Series of Floating Rate Notes.

Index Linked Notes:

Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the relevant Issuer and the relevant Dealer may agree.

Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:

Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the relevant Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the relevant Issuer and the relevant Dealer.

Dual Currency Notes:

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.

Zero Coupon Notes:

Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Redemption:

The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the relevant Issuer and/or the Noteholders upon giving notice to the Noteholders or the relevant Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the relevant Issuer, the Guarantor (where the relevant Issuer is not Telekom Austria) and the relevant Dealer.

The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.

Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions – Notes with a maturity of less than one year*" above.

Denomination of Notes:

Notes will be issued in such denominations as may be agreed between the relevant Issuer, the Guarantor (where the relevant Issuer is not Telekom Austria) and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions – Notes with a maturity of less than one year*" above, and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €1,000 (or, if the Notes are denominated in a currency other than euro, the

equivalent amount in such currency at the time of issue of such Notes).

Taxation:	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction, subject as provided in Condition 8. In the event that any such deduction is made, the Issuer or, as the case may be, the Guarantor (where the relevant Issuer is other than Telekom Austria) will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:	The terms of the Notes will contain a negative pledge provision as further described in Condition 3.
Cross Default:	The terms of the Notes will contain a cross default provision as further described in Condition 10.
Status of the Senior Notes:	The Senior Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the relevant Issuer and will rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by mandatory provisions of law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer, from time to time outstanding.
Status of the Subordinated Notes:	The status of the Subordinated Notes will be as described in the applicable Final Terms.
Subordination:	Payments in respect of the Subordinated Notes will be subordinated as described in the applicable Final Terms.
Guarantee:	Each Tranche of Notes issued by TFG or a New Issuer will be unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor under such guarantee in respect of Senior Notes will be direct, unconditional and (subject to the provisions of Condition 3) unsecured obligations of the Guarantor and will rank <i>pari passu</i> and (save for certain obligations required to be preferred by mandatory provisions of law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor from time to time outstanding.
Listing:	<p>Application has been made to the CSSF for this document to be approved as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Luxembourg Stock Exchange. The Notes may also be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the relevant Issuer, the Guarantor (where the relevant Issuer is not Telekom Austria) and the relevant Dealer in relation to each Series.</p> <p>Notes which are neither listed nor admitted to trading on any market may also be issued.</p> <p>The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.</p>

Governing Law:

The Notes will be governed by, and construed in accordance with, English law. The Subordinated Notes will be governed by, and construed in accordance with, English Law save in relation to the subordination provisions thereof which will be governed by and construed in accordance with Austrian law. The Guarantee will be governed by, and construed in accordance with, Austrian law.

Selling Restrictions:

There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom, Italy and Austria) and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see “*Subscription and Sale*”.

RISK FACTORS

Each of Telekom Austria and TFG believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and neither Telekom Austria nor TFG is in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

Each of Telekom Austria and TFG believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the relevant Issuer or the Guarantor (if the Issuer is other than Telekom Austria) to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and which may not be considered significant risks by Telekom Austria and TFG based on information currently available to them or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Factors that may affect TFG's ability to fulfil its obligations under Notes issued under the Programme

TFG's principal purpose is to provide funding, through the international capital and money markets, to Telekom Austria. Therefore, TFG's ability to fulfil its obligations under the Notes is entirely dependent on the performance of Telekom Austria, as a result of which the Risk Factor analysis set forth below is mostly meaningful for and focused on Telekom Austria.

Factors that may affect Telekom Austria's ability to fulfil its obligations under Notes issued under the Programme and/or the Guarantee

Telekom Austria expects continuing competition in the fixed line and mobile communications markets which may have a negative impact on its revenues and profitability.

Several of Telekom Austria's existing and potential competitors in each of its business segments are affiliated with international telecommunications operators, some of which are incumbents in their own countries of origin, that have substantial financial resources. In addition, on the basis of the interconnection rates fixed by the regulatory authority and the availability of access to subscriber lines, numerous competitors are able to compete with Telekom Austria in Telekom Austria's Wireline business with minimal or modest investments in network infrastructure and with prices that undercut its tariffs.

As a result of liberalisation, Telekom Austria has lost market share in the fixed line and mobile communications services markets and Telekom Austria has reduced its tariffs in response to increasing downward pressure on tariffs. Intensifying competition from existing and new operators may result in additional losses of market share and further tariff reductions. Particularly as a consequence of the recent merger of two of Telekom Austria's main competitors in the fixed line market, Telekom Austria expects that competition will increase. The combined competitor has publicly announced its intention to aggressively pursue the market.

Other factors that may increase competition include new forms of telecommunications that circumvent conventional tariff structures as well as licensing schemes and alternative technologies such as providing wireless access. See "*Description of Telekom Austria – Business Overview*" below.

According to the new European Regulatory Framework, the Austrian Telecommunications Act requires mobile operators to make mobile number portability available to customers. A regulatory decision was filed in August 2004 forcing operators to implement mobile number portability by 16th October, 2004. Due to this decision, competition may intensify in the future, especially in the market for business customers. For further information, see "*Description of Telekom Austria – Business Overview – Regulation and legal framework – Ordinances under the Telecommunications Act of 2003*".

In Austria, Telekom Austria also competes with operators that offer wireless communications services without maintaining their own networks (known as mobile virtual network operators, MVNO) and which therefore incur substantially lower costs than Telekom Austria does. Two of Telekom Austria's competitors in the fixed line business offer their services as a mobile virtual network operator, with its own access numbers, respectively as a service provider reselling mobile communications services of another competitor under its own brand name. All UMTS (Universal Mobile Telecommunications System – third generation mobile communications network) license holders have launched UMTS

services, but competition for 3G (third generation mobile networks which are designed for high data transmission rates) services is expected to increase in 2005 as a sufficient amount of UMTS handsets will be available for a broader customer base. Although Telekom Austria is confident that revenues generated from the UMTS technology will justify the investment in license and network of UMTS, it cannot guarantee that this business will be profitable in the near future.

Telekom Austria expects increased competition in its Croatian market due to the recent auction of UMTS licenses in 2004. The entry of a third operator may result in increased pressure on tariffs and the obligation to offer national roaming or to sell available capacity.

Because of the increased competition, the main challenge faced by Telekom Austria is maintaining its leadership in the Austrian telecommunications market. If it does not manage to maintain this leadership, its revenues, profitability and growth may be adversely affected.

Approximately 88 per cent. of Telekom Austria's revenues (as of 31st December, 2004) come from the Austrian market. Both the Austrian mobile communications and fixed line markets are saturated, highly competitive and characterised by fierce competition. If this development continues Telekom Austria's profitability may decline.

Telekom Austria's primary business is the provision of communications services in Austria. Telekom Austria expects a decline in revenues in the fixed line market, and lower growth in revenues for mobile communications in Austria. The number of fixed lines may further diminish as more customers migrate to mobile communications, substitute technologies such as "Voice over IP" utilising broadband internet access, and alternative fixed network operators.

In the mobile communications business, Telekom Austria faces increasing competition. Austria has one of the highest penetration rates of mobile communications in Europe, reaching approximately 98.0 per cent. as at 31st December, 2004. As the market has been approaching saturation in terms of customer growth, Telekom Austria is focusing on retention of the existing customer base leading to increased customer retention costs. Formerly, competition was based on handset subsidies. Lately Telekom Austria's competitors have started to compete increasingly through lower tariffs resulting in offering mobile voice services for one euro cent per minute or free calls within their respective networks. As customer retention costs increase and the tariff reductions by Telekom Austria's competitors are very aggressive, a continuation of the low tariffs would have a material adverse effect on Telekom Austria's profitability.

Telekom Austria generates only about 12 per cent. of its revenues (as of 31st December, 2004) in markets outside Austria and therefore its success is highly dependent on the Austrian market. However, the increasing saturation of the Austrian fixed line and mobile communications markets may adversely affect Telekom Austria's results of operations which might not be compensated by the profitability of Telekom Austria's investments in telecommunications companies outside Austria.

Telekom Austria may neither realise the expected level of demand for Telekom Austria's products and services nor the expected level or timing of revenues generated by those products and services as a result of lack of market acceptance or technological change.

Through the rapid technological progress and the trend towards technological convergence (where different technologies are combined into a new service), there is a danger that new established products or services will not only complement, but also substitute each other. Voice over IP and Wireless Local Area Networks (WLAN) are new technologies that have the potential to replace existing technologies and services and reduce Telekom Austria's market share and revenues.

Moreover there is a risk that Telekom Austria will not succeed in making customers sufficiently aware of existing and future value added services and creating customer acceptance of these services. This risk exists in particular with respect to Telekom Austria's anticipated future growth drivers in the mobile communications area (for example mobile data services provided via UMTS or other technologies) and in the fixed line communications area (for example Asymmetric Digital Subscriber Line (ADSL)). Furthermore additional competition may exist from IT companies which position themselves as full IT and telecommunications providers on the Austrian market and compete strongly for the large corporate accounts.

A lack of market acceptance of services based on 3G technology like UMTS or EDGE (Enhanced Data Rates for Global Evolution mobile communications systems with high transmission rates conceived for video- or internet-telephony use) could have a negative impact on revenues and results of operations including the possibility that Telekom Austria will not be able to secure its investments in 3G technology.

Telekom Austria is limited in its ability to adjust its operating expenses according to the changing market environment.

In recent years Telekom Austria has taken measures in order to cut its costs and enhance its competitiveness. One of these measures was to reduce the existing workforce. As of 31st December, 2004, 51 per cent. of all employees of Telekom Austria were civil servants who cannot be dismissed without cause. In the past Telekom Austria has implemented early retirement packages for voluntary retirement of its employees. Changes in Austrian law will no longer allow Telekom Austria to implement early retirement packages in the future. In view of the increasingly competitive environment in which Telekom Austria operates, such restrictions may have an adverse impact on Telekom Austria's results of operations. The restrictions of the Austrian Career Public Service Regulations Act on further reducing Telekom Austria's current workforce could have a negative impact on Telekom Austria's profitability.

Telekom Austria's customer tariffs for fixed line services are widely subject to prior approval by the regulatory authority and Telekom Austria may be forced to decrease its fixed or mobile interconnection rates. These restrictions may limit Telekom Austria's flexibility in pricing, particularly in bidding for contracts from the public sector, and may adversely affect Telekom Austria's profitability.

Changes to Telekom Austria's tariff structure are generally subject to prior approval by the regulatory authority, whereas Telekom Austria's competitors are generally free to alter their prices without any prior approval. As a consequence, Telekom Austria's competitors may be more nimble at setting a pricing structure that exploits changes in the market, thereby increasing their market share. Telekom Austria's interconnection rates in its fixed and mobile networks may be lowered by the regulatory authority in 2005, which may adversely affect Telekom Austria's profitability. Telekom Austria's competitors may also be more successful in bidding for contracts from the public sector which could have an adverse effect on Telekom Austria's results of operations.

The extent to which Telekom Austria must share its infrastructure and services with its competitors remains to be settled by the implementation of the Telecommunications Act of 2003 through the Austrian regulatory authority and the courts. A regulatory framework unfavourable to Telekom Austria in any of the markets in which it operates could cause Telekom Austria's revenues and growth to decline.

The adoption of new, or modifications to existing laws, regulations, licenses or policies by the regulatory authorities overseeing the Austrian telecommunications market or interpretations thereof by the courts, may have a material adverse impact on Telekom Austria's business, financial condition and results of operations. Some important regulatory issues remain to be settled. These include among others the following:

- Telekom Austria does not know the extent to which it will be obliged to share its infrastructure and services, including technical facilities and administrative services, with other operators or the price it may charge for such sharing. Thus, the principle of neutrality in terms of technology (any kind of transmission technology) could lead to an extended regulation of infrastructure and services which have so far not been subject to regulation such as mobile communications and internet services. The Telecommunications Act 2003 increases the competencies of the regulatory authority (see "Description of Telekom Austria – Business Overview – Regulation and legal framework – the regulatory authority"). In several decisions since 2001, the regulatory authority decided that Telekom Austria must also allow partial unbundling of its local loop to other fixed network operators and to internet service providers. Telekom Austria has appealed these decisions. If Telekom Austria is not successful, the decisions could significantly affect its profitability and, with respect to access to internet service providers, the integrity of its network.
- Telekom Austria is required to provide other telephone network operators access to its local network infrastructure at fees determined by the regulatory authority. These fees are currently subject to several appeals pending before the Austrian High Courts. The outcome of these proceedings is uncertain. Should the courts reduce Telekom Austria's fees, particularly if they are reduced retroactively, or if the charges Telekom Austria has to pay to other networks are raised, Telekom Austria's competitive strength may be damaged and Telekom Austria's revenues may decline. In addition, if the regulatory authority decides to significantly decrease the price for providing these services, it could affect Telekom Austria's competitiveness and decrease Telekom Austria's revenues.

Telekom Austria will be obliged to adopt new accounting standards in 2007 which may have a material impact on Telekom Austria's financial statements and may render a comparison between financial periods more difficult.

In June 2002, the European Union adopted new regulations requiring all listed EU companies to apply International Financial Reporting Standards (“**IFRS**”, previously known as International Accounting Standards or “**IAS**”) in their financial statements from 1st January, 2005. Member States may defer mandatory application of IFRS until 2007 for companies that either have listed debt securities only or already use other internationally accepted standards for purpose of a listing outside the EU.

Telekom Austria currently reports under U.S. generally accepted accounting principles (“**U.S. GAAP**”) but will be obligated to adopt IFRS as its new accounting standards in 2007 which may have a material impact on its financial statements and comparability to the financial statements previously published in accordance with U.S. GAAP.

New accounting pronouncements

EU regulations regarding IFRS:

In compliance with the European Parliament and Council Regulation on the application of International Financial Reporting Standards adopted in July 2002, all listed European Union companies are required to prepare their consolidated financial statements in accordance with IFRS for fiscal years commencing on or after 1st January, 2005. However, Member States may defer mandatory application of IFRS until 2007, for companies that either have listed debt securities only or already use other internationally accepted Standards for the purpose of a listing outside the European Union. The latter particularly applies to companies, such as Telekom Austria, listed on the New York Stock Exchange (“**NYSE**”) and that currently prepare their consolidated financial statements in accordance with U.S. GAAP. In Austria the option to defer IFRS-adoption was implemented in December 2004, via the Rechnungslegungsänderungsgesetz 2004. Accordingly, Telekom Austria will not be required to prepare consolidated financial statements in accordance with IFRS until the fiscal year commencing on 1st January, 2007.

In 2003, Telekom Austria established a project team consisting of various members of the Telekom Austria organisation under the responsibility of the Chief Executive Officer, which is responsible for the conversion of the financial statements from U.S. GAAP to IFRS. By the summer of 2004, the project team had conducted an analysis of the key differences between IFRS and U.S.GAAP and performed an impact analysis of the effect of the new reporting requirements on previously reported figures, accounting and other systems and procedures and our day-to-day business.

After completing the first impact analysis, Telekom Austria identified the core set of accounting standards to be applied by it under IFRS, including decisions with regard to the first time application of IFRS. In this analysis, Telekom Austria reviewed all relevant IFRS and transition provisions (as laid down in IFRS 1, First-time adoption) and considered:

1. Consistency with generally applied accounting practices in the telecommunications industry;
2. Impact on current business and procedures;
3. Degree of difficulty of systems conversion;
4. Impact on previously reported and future results; and
5. Degree of convergence with U.S. GAAP.

Telekom Austria is currently in the process of performing the actual IFRS conversion and implementation. The conversion and implementation consist of the issuance of an IFRS accounting manual, adjusting existing reporting and accounting systems or implementing new systems, adapting procedures and business policies where applicable, converting Telekom Austria’s financial statements, preparing an IFRS compliant budgeting process and training and educating all relevant Telekom Austria employees.

Telekom Austria believes, based on the analyses performed so far, that the following IFRS standards (and exposure drafts) may result in material differences between U.S.GAAP and IFRS financial statements:

Convergence of IFRS and US GAAP:

Telekom Austria expects the adoption of IFRS to have an impact on the comparability and consistency of its financial reporting. Based on current U.S. GAAP and IFRS standards, Telekom Austria considers differences with a significant impact on its Consolidated Financial Statements to be primarily related to:

Pension Accounting – fresh start – General divergences between U.S. GAAP and IFRS are, for example, pertaining to the measurement date of plan assets and obligations or the recognition of an additional minimum liability and are accompanied by differences due to the application of IFRS 1, “First-time adoption of International Financial Reporting standard”. The Standard provides, among other exemptions from calculating the net cumulative unrecognised actuarial gains and losses under IFRS, which would generally be required at the date of transition by applying IAS 19 retrospectively for each year since inception of the respective pension plan. According to this exemption, cumulative unrecognised actuarial gains and losses that had previously not been recognised through application of the corridor approach under U.S. GAAP could be recognised by adjusting retained earnings. Therefore, the corridor might be set to zero in the IFRS opening balance sheet, thus resulting in a difference between U.S. GAAP and IFRS. The corridor approach is an accounting concept that permits companies to amortise unrecognised net actuarial gains or losses over the remaining service period of the employees when it exceeds 10 per cent. of the larger of the beginning balance of the projected benefit obligation or the market related value of the plan assets.

Deferred Tax - Differences in accounting for income taxes – On 28th June, 2002 Telekom Austria acquired the remaining 25.001 per cent. of mobilkom austria AG & Co KG from Telecom Italia Mobile SpA. The allocation of the purchase price to the net assets acquired resulted in the recognition of goodwill attributable to the limited partnership mobilkom austria AG & Co KG. mobilkom austria KG also had recognised taxable goodwill resulting from its organisation in 1996. This taxable goodwill was not recognised for U.S. GAAP purposes, because the organisation of mobilkom austria AG & Co KG was deemed a transaction under common control. U.S. GAAP requires recording a deferred tax liability for the difference of taxable goodwill of mobilkom austria KG resulting from its organisation in 1996 and the goodwill arising from the acquisition of the remaining 25.001 per cent. in June 2002. The deferred tax liability will increase over time with the amortisation of the taxable goodwill and will be recognised as a tax expense. Based on IFRS 1, Telekom Austria will elect not to apply IAS 22 “Business Combinations” retrospectively to past business combinations. Before the transition date IFRS did not require any assets or liabilities to be recognised on the balance sheet because they did not meet the asset or liability definition under IFRS but we adjusted retained earnings instead. Therefore, the deferred tax liability arising from the goodwill of the acquisition of the remaining 25.001 per cent. in June 2002 was derecognised, increasing retained earnings under IFRS.

Cross border lease transactions – recognition of assets and liabilities – In 2001, 1999 and 1998, Telekom Austria entered into various cross border lease transactions, whereby certain equipment items, mainly switches, transceiver stations, base station controllers and location registers were sold or leased to a U.S.-based trust and leased back over certain terms. Concurrent with the inception, Telekom Austria entered into Payment Undertaking Agreements (“**PUA**”) with several counter-parties whereby the counterparties agreed to make lease payments on behalf of Telekom Austria in exchange for a deposit of the lease payments received under the head lease. The counterparties in the PUAs received upfront payments for a portion of the debt assumed in 2001, 1999 and 1998, respectively. In addition to the PUAs, Telekom Austria provided a loan to the U.S.-based trust in connection with the 2001 transaction. Interest accrued on the PUAs and the loan match interest on the debt portion.

In accordance with U.S. GAAP the cash deposits, the securities purchased in connection with the PUAs and the upfront payments received for the head lease and the lease obligations are recorded separately on the balance sheets as Telekom Austria has not been released from its obligation under the lease and a legal right to offset does not exist. Accordingly, interest income and expenses in an equal amount have been recognised in 2004, 2003 and 2002, respectively.

In accordance with IFRS, SIC 27 “Evaluating the substance of Transactions Involving the Legal Form of a Lease” and the Framework for the 1998 and 1999 cross border lease transactions no assets or liabilities will be recorded for the separate investment account and the lease payment obligations. The cash deposits and the securities purchased in connection with the PUAs and the upfront payments received for the head lease and the lease obligations will not be recorded in the balance sheet but disclosed as contingent liabilities only.

However, for the 2001 transactions the major part of the investment accounts and the lease payment obligations will have to be recorded as assets and liabilities because Telekom Austria is able to control the investment account and withhold payments. The cash deposits in connection with the PUAs and the upfront payments received for the head lease and the lease obligations will be recorded separately on the balance sheets. Accordingly, interest income and expenses in an equal amount will have to be recognised for 2003.

Asset Backed Securitisation Program - In January 2002, Telekom Austria entered into a revolving period securitisation program and sold trade receivables to a Trust unrelated to Telekom Austria. Telekom Austria retains servicing responsibilities relating to the sold receivables. Solely for the purpose of credit enhancement from the perspective of the Trust, Telekom Austria retains interests in the sold receivables (retained interests).

Under U.S. GAAP, Telekom Austria determined that the transaction met the three sales criteria, that (a) the transferred assets have been isolated from the transferor, beyond the reach of the transferor and its creditor, even in the event of bankruptcy or receivership, (b) the transferee obtains the right, free of any conditions that constrain, to pledge or exchange the assets and (c) the transferor does not maintain effective control in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities". Additionally, the limited liability corporation whose shares are owned by a charitable trust under the terms of a trust fulfilled all conditions required to be a qualifying special purpose entity (QSPE) under SFAS No. 140.

In accordance with SFAS No. 140, Telekom Austria has not recorded a servicing asset as management has determined that it is not practicable to fair value the servicing asset, as the benefits of servicing assets are adequate to compensate Telekom Austria for its servicing responsibility and no servicing assets or servicing liability was recorded.

Under IFRS, Telekom Austria will not derecognise the sold receivables as the assets transferred are not readily obtainable in the market and Telekom Austria has retained substantially all of the risk of ownership through a total return swap. Therefore, Telekom Austria will record the asset backed securitisation transaction as a secured borrowing.

Other – Telekom Austria expects that the adoption of IFRS will result in additional differences in measuring and classification of assets and liabilities that will affect comparability, but these differences are not expected to have a material impact on the performance of Telekom Austria, whereby this assessment is based on IFRS-standards currently available. However, the IASB (International Accounting Standards Board) may release certain pronouncements until our reporting date that might have an impact on our results and would have to be applied consistently to our results from the opening balance.

The risk relating to the insolvency of major customers or international suppliers may have an impact on Telekom Austria's revenues or profitability.

In the past some of Telekom Austria's large wholesale customers faced severe liquidity constraints. Insolvencies of these customers might expose Telekom Austria to risks in connection with settlement of Telekom Austria's accounts receivables. Insolvencies of major international suppliers of bandwidth might have an adverse effect on the availability of the connectivity Telekom Austria needs in order to provide services to Telekom Austria's customers.

The risk relating to system failures due to natural or human failure and the technological dependency on third parties may have an impact on Telekom Austria's reputation and the rate of customer satisfaction.

Telekom Austria's technical infrastructure (including Telekom Austria's network infrastructure for fixed line network services and mobile telecommunications services) may be damaged or disrupted by fire, lightning, flooding, earthquake and other catastrophes, technological failures, human errors and other similar events. Moreover, Telekom Austria's technological backbone depends on third party software and hardware. Although Telekom Austria has taken measures to safeguard against such problems, Telekom Austria cannot be sure they will be effective under all circumstances. Damage or disruption to Telekom Austria's infrastructure, technology or software may result in reduced user traffic and reduced revenues as well as increased costs, and might deteriorate Telekom Austria's reputation and customer satisfaction.

Technological change could increase competition, render existing technologies obsolete or require Telekom Austria to make substantial additional investments.

Telekom Austria's services are technology-intensive, and the development of new technologies could render its services non-competitive and require it to write-down the book values of investments it has made in existing licenses and technologies. Telekom Austria is already making substantial investments, and may have to make substantial additional investments, in new technologies in order to remain competitive. New technologies that Telekom Austria choose to develop or acquire, however, may not prove to be successful. In addition, Telekom Austria may not receive the regulatory or intellectual

property licenses needed to provide services based on new technologies in Austria or abroad. As a result, Telekom Austria might lose customers, fail to attract new customers or incur substantial costs to maintain its customer base.

Telekom Austria is in the process of evaluating the details and financial implications of a migration to next generation networks (“NGN”) with particular consideration of existing investments. The costs relating to the expansion of NGN and its implications on Telekom Austria’s business are expected to be substantial. The time frame for its development will depend on various factors including customer needs and competition. At this stage, however, it is too early to quantify the capital expenditure requirements or to give a time horizon for its implementation. As a result this might lead to substantial investments in the future and might impair the value of existing investments which could have a negative impact on Telekom Austria’s profitability.

The value of Telekom Austria’s international investments in telecommunications companies outside Austria, particularly in Central and Southeastern Europe, may be adversely affected by political, economic and legal developments in these countries.

Telekom Austria has made significant equity investments in telecommunications operators in the Czech Republic, Slovenia, Croatia and Bulgaria (see also “*Description of Telekom Austria – Business overview – Wireless – Bulgaria*”) and other markets with significant growth potential. These countries have political, economic, and legal systems that are in different stages of the process of transformation. Political or economic disruption or changes in laws and their application may harm the companies in which Telekom Austria has invested. This may impair the value of these investments.

Actual or perceived health risks or other problems relating to mobile handsets or transmission masts could lead to litigation or decreased mobile communications usage.

Concern has been expressed that the electromagnetic signals from mobile handsets and transmission masts, which serve as antennas for transmitting radio signals, may pose health risks and interfere with the operation of electronic equipment. Actual or perceived risks of transmitters and receivers, and related publicity, litigation or legislative actions could reduce the growth rate of Telekom Austria’s mobile communications business, customer base, or average usage per customer. Environmental objections may also impair Telekom Austria’s ability to augment its infrastructure, including primarily its mobile network, and reduce the willingness of contract partners to renew site contracts for mobile sites in the upcoming years.

Risks relating to disputes and litigation with regulators, competitors and other private parties.

Telekom Austria is subject to numerous risks relating to legal and regulatory proceedings in which Telekom Austria is currently a party or that could develop in the future. Telekom Austria cannot guarantee that the ultimate outcome of such legal proceedings will not have a material adverse effect on its results of operations or financial condition. For information concerning some of the litigation in which Telekom Austria are involved, see “*Description of Telekom Austria – Business Overview – Litigation*”. For information concerning Telekom Austria’s regulatory environment, see “*Description of Telekom Austria – Business Overview – Regulation and legal framework*”.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where

the currency for principal or interest payments is different from the potential investor's currency;

- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the relevant Issuer

An optional redemption feature of Notes is likely to limit their market value. During any period when the relevant Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The relevant Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

Telekom Austria and/or TFG may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, Telekom Austria and/or TFG may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly-paid Notes

Telekom Austria and/or TFG may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the relevant Issuer has the right to effect such conversion, this will affect the secondary market and the market value of the Notes since the relevant Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the relevant Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the relevant Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

The obligations under Subordinated Notes are subordinated

The relevant Issuer's (and, if the Notes are guaranteed by the Guarantor, the Guarantor's) obligations under Subordinated Notes will be subordinated, as described in the applicable Final Terms. Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Subordinated Notes will lose all or some of his investment should the relevant Issuer or, if applicable, the Guarantor become insolvent.

Trading in the clearing systems

In relation to any issue of Notes which have a minimum denomination and are tradeable in the clearing systems in amounts above such minimum denomination which are smaller than it, should definitive Notes be required to be issued, a holder who does not have an integral multiple of the minimum denomination in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of definitive Notes unless and until such time as his holding becomes an integral multiple of the minimum denomination.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification, waivers and substitution

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Issuer (where the Issuer is other than Telekom Austria) may, without the consent of Noteholders, be replaced and substituted by the Guarantor or any company falling within the parameters of Condition 15(b)(i) as principal debtor in respect of any Notes, in the circumstances described in Condition 15 of the conditions of the Notes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1st July, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

If, following implementation of this Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the relevant Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of this Directive, Telekom Austria and TFG will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Change of law

The conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The relevant Issuer will pay principal and interest on the Notes and the Guarantor (where the Issuer is other than Telekom Austria) will make any payments under the Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the

risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Prospectus and have been filed with the CSSF shall be incorporated in, and form part of, this Prospectus:

- (a) the auditors' report and audited consolidated and non-consolidated annual financial statements of Telekom Austria for the financial years ended 31st December, 2004 and 31st December, 2003 and the unaudited interim consolidated financial statements of Telekom Austria for the nine months ended 30th September, 2005;
- (b) the auditors' report, audited non-consolidated annual financial statements of TFG for the financial years ended 31st December, 2004 and 31st December, 2003 and the unaudited interim non-consolidated financial statements of TFG for the nine months ended 30th September, 2005;
- (c) the cash flow statements of TFG and the auditors' letter in respect thereof for the financial years ended 31st December, 2004 and 31st December, 2003;
- (d) information filed by Telekom Austria and/or TFG in accordance with Article 10 of the Prospectus Directive – Annual Information Update; and
- (e) the constitutional documents of Telekom Austria and TFG.

The documents listed at (a) to (c) above contain financial information for Telekom Austria and TFG, as described in the table below. Any information not listed in the cross-reference table but included in the documents incorporated by reference is given for information purposes only.

	Telekom Austria	TFG
Balance Sheet	<i>2003</i> Telekom Austria Annual Report, page 64	<i>2003</i> TFG Annual Report, Appendix I
	<i>2004</i> Telekom Austria Annual Report, page 64	<i>2004</i> TFG Annual Report, Appendix I
Income Statement	<i>2003</i> Telekom Austria Annual Report, page 65	<i>2003</i> TFG Annual Report, Appendix II
	<i>2004</i> Telekom Austria Annual Report, page 65	<i>2004</i> TFG Annual Report, Appendix II
Cash Flow Statement	<i>2003</i> Telekom Austria Annual Report, pages 66 to 67	<i>2003 and 2004</i> TFG Cash Flow Statements, page 1 See also the auditor's letter in respect of the TFG Cash Flow Statements
	<i>2004</i> Telekom Austria Annual Report, pages 66 to 67	
Accounting Policies and Explanatory Notes	<i>2003</i> Telekom Austria Annual Report, pages 69 to 106	<i>2003</i> TFG Annual Report, Appendix III
	<i>2004</i> Telekom Austria Annual Report, pages 69 to 111	<i>2004</i> TFG Annual Report, Appendix III
Audit Reports	<i>2003</i> Telekom Austria Annual Report, page 107	<i>2003</i> TFG Annual Report, page 13
	<i>2004</i> Telekom Austria Annual Report, page 112	<i>2004</i> TFG Annual Report, page 10
Interim Financial Information	Results for the First Nine Months 2005, pages 16 to 18	Results for the First Nine Months 2005, pages 1 to 17

Following the publication of this Prospectus a supplement may be prepared by the Issuer and approved by the CSSF in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this

Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus can be obtained from the registered office of Telekom Austria and TFG and from the specified offices of the Paying Agent for the time being in Luxembourg.

The Issuers and the Guarantor will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus, prepare a supplement to this Prospectus or publish a new Prospectus for use in connection with any subsequent issue of Notes.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuers may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the terms and conditions of the Programme and the Notes appears above, see “*Summary of the Programme*”. The applicable terms of any Notes will be agreed between the relevant Issuer, the Guarantor (where the Issuer is other than Telekom Austria) and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Final Terms attached to, or endorsed on, such Notes, as more fully described under “*Form of the Notes*”. Application has been made to the CSSF in its capacity as competent authority under the Luxembourg Act relating to prospectuses for securities to approve this document as a base prospectus for the issuance of Notes under the Programme by Telekom Austria and a base prospectus for the issuance of Notes under the Programme by TFG, and application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange’s regulated market.

FORM OF THE NOTES

Each Tranche of Notes will be in bearer form and will be initially issued in the form of a temporary global note (a “**Temporary Global Note**”) or, if so specified in the applicable Final Terms, a permanent Global Note (a “**Permanent Global Note**”) which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depository (the “**Common Depositary**”) for, Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”). Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

On and after the date (the “**Exchange Date**”) which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Global Note of the same Series or (ii) for definitive Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Global Note without any requirement for certification.

The applicable Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon either (i) not less than 60 days’ written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) to the Agent as described therein or (ii) only upon the occurrence of an Exchange Event. For these purposes, “**Exchange Event**” means that (i) an Event of Default (as defined in Condition 10) has occurred and is continuing, (ii) the relevant Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the relevant Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Global Note in definitive form. The relevant Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the relevant Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

The following legend will appear on all Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Agency Agreement (as defined under “*Terms and Conditions of the Notes*”), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 10. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the relevant Issuer on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant (the “*Deed of Covenant*”) dated 20th December, 2005 and executed by the relevant Issuer.

APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[Date]

[Telekom Austria Aktiengesellschaft/Telekom Finanzmanagement GmbH]

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

[Guaranteed by

Telekom Austria Aktiengesellschaft]

under the €5,000,000,000

Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 20th December, 2005 which constitutes a base prospectus for the purposes of Directive 2003/71/EC (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus is available for viewing at and copies may be obtained from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Prospectus dated [*original date*]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC (the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated [*current date*] which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the [Prospectus/Offering Circular] dated [*original date*] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms, the Prospectus dated [*current date*] and the [Prospectus/Offering Circular] dated [*original date*]. Copies of such Prospectus[es][and Offering Circular] are available for viewing at and copies may be obtained from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]

[When adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

1. (i) Issuer: [Telekom Austria Aktiengesellschaft/Telekom Finanzmanagement GmbH/other]
- (ii) Guarantor: [Telekom Austria Aktiengesellschaft/Not Applicable]
2. (i) Series Number: []
- (ii) Tranche Number: []
(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount:
 - (i) Series: []
 - (ii) Tranche: []
5. Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
6. Specified Denominations: []
[]
(N.B. If an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive, the €1,000 minimum denomination is not required.)
7. (i) Issue Date: []
- (ii) Interest Commencement Date: []
8. Maturity Date: [Fixed rate — specify date/
Floating rate — Interest Payment Date falling in or nearest to [specify month and year]]
9. Interest Basis: [[] per cent. Fixed Rate]
[[LIBOR/EURIBOR] +/- [] per cent. Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[Dual Currency Interest]
[specify other]
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
[Index Linked Redemption]
[Dual Currency Redemption]
[Partly Paid]
[Instalment]
[specify other]
(N.B. If the Final Redemption Amount is other than 100% of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)
11. Change of Interest Basis or Redemption/
Payment Basis: [Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]

12. Put/Call Options: [Investor Put]
[Issuer Call]
[(further particulars specified below)]
13. [(i)] Status of the Notes: [Senior/Subordinated]
[If Subordinated, specify terms of subordination and agreed modifications to the Conditions, including events of default and rights of Noteholders (a supplement to the Prospectus under Article 16 of the Prospectus Directive is likely to be required)].
- [(ii)] Status of the Guarantee: [Senior/Subordinated]]
- [(ii)/(iii)] [Date supervisory/management board approval for issuance of Notes obtained: [] [and [] respectively]] (N.B. only relevant where supervisory/management board authorisation is required for the particular tranche of Notes)
14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate(s) of Interest: [] per cent. per annum [payable [annually/semiannually/quarterly] in arrear]
(If payable other than annually, consider amending Condition 5)
- (ii) Interest Payment Date(s): [[] in each year up to and including the Maturity Date]/[specify other]
(NB: This will need to be amended in the case of long or short coupons)
- (iii) Fixed Coupon Amount(s): [] per [] in nominal amount
- (iv) Broken Amount(s): [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount]
- (v) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or specify other]
- (vi) Determination Date(s): [] in each year
[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon
NB: This will need to be amended in the case of regular interest payment dates which are not of equal duration
NB: Only relevant where Day Count Fraction is Actual/Actual (ICMA)]
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
16. Floating Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Specified Period(s)/Specified Interest Payment Dates: []
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day]

- Convention/Preceding Business Day Convention/
[specify other]]
- (iii) Additional Business Centre(s): []
- (iv) Manner in which the Rate of Interest determined: [Screen Rate Determination/ISDA Determination/ and Interest Amount is to be [specify other]]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): []
- (vi) Screen Rate Determination:
- Reference Rate: []
(Either LIBOR, EURIBOR or other, although additional information is required if other — including fallback provisions in the Agency Agreement)
 - Interest Determination Date(s): []
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
 - Relevant Screen Page: []
(In the case of EURIBOR, if not Telerate Page 248 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (vii) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
- (viii) Margin(s): [+/-] [] per cent. per annum
- (ix) Minimum Rate of Interest: [] per cent. per annum
- (x) Maximum Rate of Interest: [] per cent. per annum
- (xi) Day Count Fraction: [Actual/365
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360
30E/360
Other]
(See Condition 5 for alternatives)
- (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: []

17. Zero Coupon Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Accrual Yield: [] per cent. per annum
 - (ii) Reference Price: []
 - (iii) Any other formula/basis of determining amount payable: []
 - (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 7(e) (iii) and 7(j) apply/specify other]
(Consider applicable day count fraction if not U.S. dollar denominated)
18. Index Linked Interest Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Index/Formula: [give or annex details]
 - (ii) Calculation Agent responsible for calculating the interest due: []
 - (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]
 - (iv) Specified Period(s)/Specified Interest Payment Dates: []
 - (v) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
 - (vi) Additional Business Centre(s): []
 - (vii) Minimum Rate of Interest: [] per cent. per annum
 - (viii) Maximum Rate of Interest: [] per cent. per annum
 - (ix) Day Count Fraction: []
19. Dual Currency Interest Note Provisions [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
 - (ii) Calculation Agent, if any, responsible for calculating the interest payable: []
 - (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]
 - (iv) Person at whose option Specified Currency(ies) is/are payable: []

PROVISIONS RELATING TO REDEMPTION

20. Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount(s) of [] per Note of [] Specified Denomination
each Note and method, if any, of
calculation of such amount(s):
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: []
- (b) Maximum Redemption Amount: []
- (iv) Notice period (if other than as set []
out in the Conditions):
(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent.)
21. Investor Put: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): [] per Note of [] Specified Denomination
- (ii) Optional Redemption Amount(s) []
of each Note and method, if any,
of calculation of such amount(s):
- (iii) Notice period: []
(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent.)
22. Final Redemption Amount of each Note: [[] per Note of [] Specified Denomination /specify
other/see Appendix]
(N.B. In relation to any issue of Notes which are expressed at paragraph 6 above to have a minimum denomination and tradeable amounts above such minimum denomination which are smaller than it the following wording should be added: "For the avoidance of doubt, in the case of a holding of Notes in an integral multiple of [] in excess of [] as envisaged in paragraph [6] above, such holding will be redeemed at its nominal amount.")
(N.B. If the Final Redemption Amount is other than 100% of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)

23. Early Redemption Amount of each Note [] payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)):

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
[Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
25. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]
(Note that this item relates to the place of payment and not Interest Period end dates to which items 16(iii) and 18(vi) relate)
26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. NB: a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]
28. Details relating to Instalment Notes:
- (i) Instalment Amount(s): [Not Applicable/give details]
- (ii) Instalment Date(s): [Not Applicable/give details]
29. Redenomination applicable: Redenomination [not] applicable
(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))
30. Other final terms: [Not Applicable/give details]
(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)

DISTRIBUTION

- 31. (i) If syndicated, names [and addresses]**[Not Applicable/give names [and addresses and of Managers [and underwriting underwriting commitments]**] commitments]***: *(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the Managers.)***
- (ii) Date of [Subscription] Agreement:** []**
- (iii) Stabilising Manager (if any): [Not Applicable/give name]
- 32. If non-syndicated, name [and addresses]** [Name [and address]**] of relevant Dealer:
- 33. Total commission and concession:** [] per cent of the Aggregate Nominal Amount**
- 34. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable]
- 35. Additional selling restrictions: [Not Applicable/give details]

[LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the €5,000,000,000 Euro Medium Term Note Programme of Telekom Austria Aktiengesellschaft and Telekom Finanzmanagement GmbH and any duly appointed subsidiary of Telekom Austria Aktiengesellschaft.]

RESPONSIBILITY

The Issuer [and the Guarantor] accept[s] responsibility for the information contained in these Final Terms. [[] has been extracted from []. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [], no facts have been omitted which would render the reproduced information inaccurate or misleading.].

Signed on behalf of the Issuer:

By:.....
Duly authorised

By:.....
Duly authorised

[Signed on behalf of the Guarantor:

By:.....
Duly authorised

By:.....
Duly authorised

PART B – OTHER INFORMATION

1. LISTING

- (i) Listing: [Luxembourg/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [] with effect from [].] [Not Applicable.]
(Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)**
- (iii) Estimate of total expenses related to []* admission to trading:*

2. RATINGS

- Ratings: The Notes to be issued have been rated:
[S & P: []]
[Moody's: []]
[[Other]: []]
[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]**
(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3. [NOTIFICATION

The *Commission de Surveillance du Secteur Financier* has provided the [*names of competent authorities of host Member States*] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the Dealers, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. - Amend as appropriate if there are other interests]

5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES***

- [(i) Reasons for the offer []
(See “Use of Proceeds” wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]**
- [(ii) Estimated net proceeds: []
(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)]**
- [(iii)] Estimated total expenses: []. [Expenses are required to be broken down into each principal intended “use” and presented in order of priority of such “uses”.]**
(N.B.: If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks regardless of the minimum denomination of the securities and where this is the case disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.)

6. YIELD (*Fixed Rate Notes only*)
 Indication of yield: []
 [Calculated as *[include details of method of calculation in summary form]* on the Issue Date.]**
 The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.
7. HISTORIC INTEREST RATES (*Floating Rate Notes only*)**
 Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Telerate].]
8. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (*Index-Linked Notes only*)
[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]
*[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]***
[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]
9. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (*Dual Currency Notes only*)
[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]
*[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]***
10. OPERATIONAL INFORMATION
- (i) ISIN Code: []
- (ii) Common Code: []
- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): []

Notes:

* Delete if the minimum denomination is less than €50,000

** Delete if the minimum denomination is €50,000

*** Delete if the minimum denomination is €50,000 and the Notes are not derivative securities to which Annex XII of the Prospectus Directive Regulation applies

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the relevant Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to “Form of the Notes” for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by the Issuer named in the applicable Final Terms (as defined below) (the “**Issuer**”) pursuant to the Agency Agreement (as defined below).

References herein to the “**Notes**” shall be references to the Notes of this Series and shall mean:

- (i) in relation to any Notes represented by a global Note (a “**Global Note**”), units of the lowest Specified Denomination in the Specified Currency;
- (ii) any Global Note; and
- (iii) any definitive Notes issued in exchange for a Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) dated 20th December, 2005 and made between Telekom Finanzmanagement GmbH (“**TFG**”), Telekom Austria Aktiengesellschaft (“**Telekom Austria**”) as an issuer and as guarantor of Notes issued other than by Telekom Austria (in its capacity as such, the “**Guarantor**”), The Bank of New York as issuing and principal paying agent and agent bank (the “**Agent**”, which expression shall include any successor agent) and The Bank of New York (Luxembourg) S.A. as a paying agent (together with the Agent, the “**Paying Agents**”, which expression shall include any additional or successor paying agents).

Interest bearing definitive Notes have interest coupons (“**Coupons**”) and, if indicated in the applicable Final Terms, talons for further Coupons (“**Talons**”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts (“**Receipts**”) for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplements the Terms and Conditions (the “**Conditions**”) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the “**applicable Final Terms**” are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

If this Note is issued by Telekom Austria, references in these Terms and Conditions to Guarantor and Guarantee, and related expressions, are not applicable.

The payment of all amounts in respect of this Note (if the Issuer is other than Telekom Austria) have been guaranteed by the Guarantor pursuant to a guarantee (the “**Guarantee**”) dated 20th December, 2005 and executed by the Guarantor. The original of the Guarantee is held by the Agent on behalf of the Noteholders, the Receiptholders and the Couponholders at its specified office.

Any reference to “**Noteholders**” or “**holders**” in relation to any Notes shall mean the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to “**Receiptholders**” shall mean the holders of the Receipts and any reference herein to “**Couponholders**” shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, “*Tranche*” means Notes which are identical in all respects (including as to listing and admission to trading) and “*Series*” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (the “*Deed of Covenant*”) dated 20th December, 2005 and made by the Issuer. The original of the Deed of Covenant is held by the common depository for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement, the Guarantee and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing at and copies may be obtained from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Guarantee (the terms of which the Noteholders, the Receiptholders and the Couponholders accept), the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

This Note may also be a Senior Note or a Subordinated Note, as indicated in the applicable Final Terms.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer, the Guarantor and the Paying Agents will (except as otherwise required by law) deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. as operator of the Euroclear System (“*Euroclear*”) and/or Clearstream Banking, société anonyme (“*Clearstream, Luxembourg*”), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all

purposes save in the case of manifest error) shall be treated by the Issuer, the Guarantor and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer, the Guarantor and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “*Noteholder*” and “*holder of Notes*” and related expressions shall be construed accordingly.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system.

2. STATUS OF THE SENIOR NOTES AND THE GUARANTEE AND SUBORDINATION

(a) *Status of the Senior Notes*

The Senior Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by mandatory provisions of law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

(b) *Status of the Guarantee*

The obligations of the Guarantor under the Guarantee in respect of Senior Notes are direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Guarantor and (save for certain obligations required to be preferred by law) rank equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor, from time to time outstanding.

(c) *Subordination*

If the Notes of this Series are Subordinated Notes (as indicated in the applicable Final Terms), the status and subordination of the Notes of this Series will be as set out in the applicable Final Terms.

3. NEGATIVE PLEDGE

This Condition 3 applies only to Senior Notes.

So long as any of the Senior Notes remains outstanding (as defined in the Agency Agreement), neither the Issuer nor the Guarantor will and shall procure that no Material Subsidiary (as defined in the Agency Agreement) of the Issuer or the Guarantor will, create or have outstanding any mortgage, lien (other than solely by operation of law), pledge or other charge upon the whole or any part of its undertaking or assets, present or future, (including any uncalled capital) to secure any Public Debt of any Person or any obligation of any Person under any guarantee of or indemnity in respect of any Public Debt of any other Person without at the same time or prior thereto securing the Notes equally and rateably therewith or providing such other security for the Notes as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders.

Nothing in this Condition 3 shall prevent the Issuer, the Guarantor or any Material Subsidiary of the Issuer or the Guarantor, as the case may be, from creating or permitting to subsist a mortgage, lien, pledge or other charge upon a defined or definable pool of its assets including, but not limited to, receivables (not representing all of the assets of the Issuer, the Guarantor or any Material Subsidiary of the Issuer or the Guarantor, as the case may be) (the “*Secured Assets*”) which is or was created pursuant to any securitisation or like arrangement in accordance with established market practice (whether or not involving itself as the issuer of any issue of asset backed securities) and whereby all payment obligations in respect of the Public Debt of any Person or under any guarantee of or indemnity in respect of the Public Debt of any other Person, as the case may be, secured on, or on an interest in, the Secured Assets are to be discharged solely from the Secured Assets (or solely from (i) the Secured Assets and (ii) assets of a Person other than the Issuer, the Guarantor or any Material Subsidiary of the Issuer or the Guarantor).

“**Material Subsidiary**” at any time shall mean a Subsidiary of the Issuer or the Guarantor, as applicable, *inter alia*:

- (A) whose gross revenues attributable to the Issuer or the Guarantor, as applicable, (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent not less than 10 per cent. of the consolidated gross revenues attributable to the shareholders of the Issuer or the Guarantor, as applicable, or, as the case may be, consolidated total assets, of the Issuer or the Guarantor, as applicable, and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited consolidated accounts of the Issuer or the Guarantor, as applicable, and its Subsidiaries; or
- (B) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer or the Guarantor, as applicable, which immediately before the transfer is a Principal Subsidiary; or
- (C) whose gross revenues and/or total assets represent less than the 10 per cent. threshold in (A) above, but, when aggregated with the gross revenues and/or total assets of one or more Non-Material Subsidiaries, would represent more than such threshold percentage,

all as more particularly defined in the Agency Agreement.

A report of independent auditors appointed by the Issuer or the Guarantor, as applicable, that in their opinion a Subsidiary of the Issuer or the Guarantor, as applicable, is or is not or was not at any particular time or throughout any specified period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

“**Non-Material Subsidiary**” at any time shall mean any Subsidiary of the Issuer or the Guarantor, as applicable which:

- (a) has created or has outstanding any mortgage, lien (other than solely by operation of law), pledge or other charge upon the whole or any part of its undertaking or assets, present or future, (including any uncalled capital) to secure any Public Debt of any Person or any obligation of any Person under any guarantee of or indemnity in respect of any Public Debt of any other Person; and
- (b) whose gross revenues and/or total assets represent less than the 10 per cent. threshold in (A) of the definition of Material Subsidiary.

“**Public Debt**” means indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange, over-the-counter, or other established securities market.

“**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state, agency of a state or other entity, whether or not having separate legal personality.

4. REDENOMINATION

(a) Redenomination

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Noteholders in accordance with Condition 14, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (i) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Agent, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended

so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Paying Agents of such deemed amendments;

- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (iii) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Agent and the Trustee may approve) euro 0.01 and such other denominations as the Agent shall determine and notify to the Noteholders;
- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the “**Exchange Notice**”) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Noteholders (in accordance with Condition 14) in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (v) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (vi) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention; and
- (vii) if the Notes are Floating Rate Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to interest.

(b) *Definitions*

In the Conditions, the following expressions have the following meanings:

“**Established Rate**” means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

“**euro**” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

“**Redenomination Date**” means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to paragraph (a) above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union; and

“**Treaty**” means the Treaty establishing the European Community, as amended.

5. INTEREST

(a) *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, “**Fixed Interest Period**” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest in accordance with this Condition 5(a):

- (i) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
 - (a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “**Accrual Period**”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
 - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Conditions:

“**Determination Period**” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“**sub-unit**” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

(b) *Interest on Floating Rate Notes and Index Linked Interest Notes*

(i) *Interest Payment Dates*

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) *the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or*
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an “**Interest Payment Date**”) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in the Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 5(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, “**Business Day**” means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the “**TARGET System**”) is open.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Final Terms.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), “*ISDA Rate*” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the “*ISDA Definitions*”) and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (“*LIBOR*”) or on the Euro-zone inter-bank offered rate (“*EURIBOR*”), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), “*Floating Rate*”, “*Calculation Agent*”, “*Floating Rate Option*”, “*Designated Maturity*” and “*Reset Date*” have the meanings given to those terms in the ISDA Definitions.

(B) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of 5(b)(ii)(B)(1) above, no offered quotation appears or, in the case of 5(b)(ii)(B)(2) above, fewer than three offered quotations appear, in each case as at the Specified Time, the Agent shall request each of the Reference Banks to provide the Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Agent.

“*Reference Banks*” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a

determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Agent or as specified in the applicable Final Terms.

If on any Interest Determination Date one only or none of the Reference Banks provides the Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the relevant Issuer suitable for the purpose) informs the Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(iii) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and calculation of Interest Amounts*

The Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent will calculate the amount of interest (the “*Interest Amount*”) payable on the Floating Rate Notes or Index Linked Interest Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the

relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest in accordance with this Condition 5(b):

- (i) if “Actual/365” or “Actual/Actual” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

(v) *Notification of Rate of Interest and Interest Amounts*

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and the Guarantor and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression “**London Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(vi) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5(b), whether by the Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith, manifest error or proven error) be binding on the Issuer, the Guarantor, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Guarantor, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or, if applicable, the Calculation Agent in

connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Interest on Dual Currency Interest Notes*

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Final Terms.

(d) *Interest on Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

(e) *Accrual of interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (1) the date on which all amounts due in respect of such Note have been paid; and
- (2) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

6. PAYMENTS

(a) *Method of payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

(b) *Presentation of definitive Notes, Receipts and Coupons*

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented

without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A “**Long Maturity Note**” is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

(c) *Payments in respect of Global Notes*

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

(d) *General provisions applicable to payments*

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer or, as the case may be, the Guarantor will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or, as the case may be, the Guarantor to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the Guarantor, adverse tax consequences to the Issuer or the Guarantor.

(e) *Payment Day*

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, “**Payment Day**” means any day which (subject to Condition 9) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) *the relevant place of presentation;*
 - (B) *London;*
 - (C) *any Additional Financial Centre specified in the applicable Final Terms; and*
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open.

(f) *Interpretation of principal and interest*

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 8;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7(e)); and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8.

7. REDEMPTION AND PURCHASE

(a) *Redemption at maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

(b) *Redemption for tax reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if:

- (i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 or the Guarantor is or would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself, would be required to pay such additional amounts, in each case as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 8) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (ii) such obligation cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent a certificate signed by two Directors of the Issuer or, as the case may be, two Directors of the Guarantor stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer or, as the case may be, the Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 8(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) *Redemption at the option of the Issuer (Issuer Call)*

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Agent;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a Global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant Global Note will be permitted during the period from (and

including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

(d) *Redemption at the option of the Noteholders (Investor Put)*

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Unless otherwise specified in the Final Terms, the Agent shall be responsible for calculating the Optional Redemption Amount.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "**Put Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depository for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Agent for notation accordingly.

Any Put Notice given by a holder of any Note pursuant to this paragraph (d) shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph (d) and instead to declare such Note forthwith due and payable pursuant to Condition 10.

(e) *Early Redemption Amounts*

For the purpose of paragraph (b) above and Condition 10, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (iii) in the case of a Zero Coupon Note, at an amount (the "**Amortised Face Amount**") calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

"**RP**" means the Reference Price;

"**AY**" means the Accrual Yield expressed as a decimal; and

"**y**" is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue

Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms. Unless otherwise specified in the Final Terms, the Agent shall be responsible for calculating the Early Redemption Amount.

(f) *Instalments*

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

(g) *Partly Paid Notes*

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

(h) *Purchases*

The Issuer, the Guarantor or any Subsidiary of the Issuer or the Guarantor may at any time purchase Notes at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike. All Notes so purchased may be held, resold or, at the option of the Issuer, the Guarantor or Subsidiary, surrendered to any Paying Agent for cancellation (provided that, if the Notes are to be cancelled, they are purchased together with all unmatured Coupons and Talons appertaining thereto).

(i) *Cancellation*

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes cancelled pursuant to paragraph (h) above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

(j) *Late payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

8. TAXATION

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer or the Guarantor will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (b) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6(e)); or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
- (e) to, or to a third party on behalf of, a holder who, being a holder of Notes in definitive form and/or holding such Notes other than through a clearing system and being entitled to avoid being liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption in the Tax Jurisdiction, fails to make such a declaration or claim.

As used herein:

- (i) “**Tax Jurisdiction**” means Austria or any political subdivision or any authority thereof or therein having power to tax and/or, if the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than Austria, such other taxing jurisdiction or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the “**Relevant Date**” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

9. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6(b) or any Talon which would be void pursuant to Condition 6(b).

10. EVENTS OF DEFAULT

(a) *Events of Default relating to Senior Notes*

If any one or more of the following events (each an “**Event of Default**”) shall occur and be continuing:

- (i) if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of 7 days in the case of principal and 14 days in the case of interest; or
- (ii) if the Issuer or the Guarantor fails to perform or observe any of its other obligations under the Conditions or the Guarantee and the failure continues for the period of 30 days next following the service by a Noteholder on the Issuer or the Guarantor (as the case may be) of notice requiring the same to be remedied; or
- (iii) (A) if any Indebtedness for Borrowed Money (as defined below) of the Issuer, the Guarantor or any Principal Subsidiary of the Issuer or Guarantor, amounting in aggregate to not less than €25,000,000 or its equivalent in other currencies, becomes due and payable

prematurely by reason of an event of default (however described) and remains unpaid; or

- (B) if default is made by the Issuer, the Guarantor or any Principal Subsidiary of the Issuer or Guarantor in making any payment due, amounting in aggregate to not less than €25,000,000 or its equivalent in other currencies, in respect of Indebtedness for Borrowed Money on the due date for that payment (as extended by any originally provided applicable grace period); or
- (iv) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer, the Guarantor or any of its Principal Subsidiaries, save for the purposes of, or pursuant to, an amalgamation, restructuring or reorganisation (A) where solvent and, in the case of the Issuer or the Guarantor, pursuant to which the surviving or resulting entity expressly assumes all the obligations of the Issuer or the Guarantor, as the case may be, and, in the case of a liquidation, winding-up or dissolution of the Issuer, such obligations are unconditionally and irrevocably guaranteed by the Guarantor on terms substantially the same as those of the Guarantee of the Notes, or (B) on terms previously approved by an Extraordinary Resolution; or
- (v) if the Issuer, the Guarantor or any of its Principal Subsidiaries (A) ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of, or pursuant to, an amalgamation, restructuring or reorganisation (x) where solvent and, in the case of the Issuer or the Guarantor, pursuant to which the surviving or resulting entity expressly assumes all the obligations of the Issuer or the Guarantor, as the case may be, and, in the case of the Issuer, such obligations are unconditionally and irrevocably guaranteed by the Guarantor on terms substantially the same as those of the Guarantee of the Notes, or (y) on terms previously approved by an Extraordinary Resolution, or (B) stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is adjudicated or found bankrupt or insolvent; or
- (vi) if (A) proceedings are initiated against the Issuer, the Guarantor or any of its Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer, the Guarantor or any of its Principal Subsidiaries or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them, or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them and (B) in any case (other than the appointment of an administrator) is not discharged within 30 days; or
- (vii) if the Issuer, the Guarantor or any of its Principal Subsidiaries (A) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, save for the purposes of, or pursuant to, an amalgamation, restructuring or reorganisation (x) where solvent and, in the case of the Issuer or the Guarantor, pursuant to which the surviving or resulting entity expressly assumes all the obligations of the Issuer or the Guarantor, as the case may be, and, in the case of the Issuer, such obligations are unconditionally and irrevocably guaranteed by the Guarantor on terms substantially the same as those of the Guarantee of the Notes or (y) on terms previously approved by an Extraordinary Resolution, or (B) makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors); or
- (viii) if the Issuer or the Guarantor repudiates its obligations in respect of the Notes or the Guarantee or the Guarantee ceases to be, or is claimed by the Guarantor not to be, in full force and effect or any of the obligations of the Issuer or the Guarantor under or in respect of the Notes or the Guarantee are not or cease to be legal, valid and binding; or
- (ix) the Issuer ceases to be a subsidiary wholly owned and controlled, directly or indirectly, by the Guarantor,

then any holder of a Note may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare any Note held by it to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

(b) *Events of Default relating to Subordinated Notes*

In relation to Subordinated Notes, the Events of Default and the related rights of the Noteholders in connection therewith will be as set out in the applicable Final Terms.

(c) *Definitions*

For the purposes of the Conditions:

“**Indebtedness for Borrowed Money**” means any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of (i) money borrowed, (ii) liabilities under or in respect of any acceptance or acceptance credit or (iii) any notes, bonds, debentures, debenture stock, loan stock or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash.

“**Principal Subsidiary**” at any time shall mean a Subsidiary of the Issuer or the Guarantor, as applicable, *inter alia*:

- (A) whose gross revenues attributable to the Issuer or the Guarantor, as applicable, (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent not less than 10 per cent. of the consolidated gross revenues attributable to the shareholders of the Issuer or the Guarantor, as applicable, or, as the case may be, consolidated total assets, of the Issuer or the Guarantor, as applicable, and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited consolidated accounts of the Issuer or the Guarantor, as applicable, and its Subsidiaries; or
- (B) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer or the Guarantor, as applicable, which immediately before the transfer is a Principal Subsidiary,

all as more particularly defined in the Agency Agreement.

A report of independent auditors appointed by the Issuer or the Guarantor, as applicable, that in their opinion a Subsidiary of the Issuer or the Guarantor, as applicable, is or is not or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

11. **REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS**

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of any Paying Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

12. **PAYING AGENTS**

The names of the initial Paying Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be an Agent; and
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place

as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and

- (c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6(d). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

13. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

14. NOTICES

All notices regarding the Notes will be deemed to be validly given if published (i) in a leading English language daily newspaper of general circulation in London, and (ii) if and for so long as the Notes are listed on the Luxembourg Stock Exchange, and the rules of the exchange so require, a daily newspaper of general circulation in Luxembourg or the internet site of the Luxembourg Stock Exchange, www.bourse.lu. It is expected that such publication will be made in the *Financial Times* in London and either the *d'Wort* in Luxembourg or the internet site of the Luxembourg Stock Exchange, www.bourse.lu. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the fifth day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

15. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

(a) *Meetings of Noteholders, Modifications and Waiver*

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or the Guarantor and shall be convened by the Issuer if required in writing by Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (i) any modification (except as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (ii) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

(b) *Substitution*

- (i) The Issuer (where the Issuer is other than Telekom Austria) may, without the consent of the Noteholders, the Receiptholders or the Couponholders be replaced and substituted by the Guarantor or any other company (provided such company is domiciled in a Member State of the European Union) of which more than 90 per cent. of the shares or other equity interests (as the case may be) carrying the right to vote are directly or indirectly owned by the Guarantor, as principal debtor (in such capacity, the “**Substituted Debtor**”) in respect of the Notes provided that:

- (A) a deed poll and such other documents (if any) shall be executed by the Substituted Debtor and (if the Substituted Debtor is not the Guarantor) the Guarantor as may be necessary to give full effect to the substitution (together the “**Documents**”) and (without limiting the generality of the foregoing) pursuant to which the Substituted Debtor shall undertake in favour of each Noteholder, Receiptholder and Couponholder to be bound by the Conditions and the provisions of the Agency Agreement and the Deed of Covenant as fully as if the Substituted Debtor had been named in the Notes, the Agency Agreement and the Deed of Covenant as the principal debtor in respect of the Notes in place of the Issuer (or any previous substitute) and (if the Substituted Debtor is not the Guarantor) pursuant to which the Guarantor shall irrevocably and unconditionally guarantee in favour of each Noteholder, Couponholder and Receiptholder the payment of all sums payable by the Substituted Debtor as such principal debtor substantially in the form of the Guarantee;
- (B) without prejudice to the generality of Condition 15(b)(i)(A), where the Substituted Debtor is incorporated, domiciled or resident for taxation purposes in a territory other

than the Tax Jurisdiction of the Issuer, the Documents shall (a) contain a covenant by the Substituted Debtor and/or such other provisions as may be necessary to ensure that each Noteholder, Receiptholder and Couponholder has the benefit of a covenant in terms corresponding to the provisions of Condition 8 with the substitution for the references to the Tax Jurisdiction of the Issuer of references to the Tax Jurisdiction in which the Substituted Debtor is incorporated, domiciled and/or resident for taxation purposes and (b) shall amend Condition 7(b)(i) so that the reference to “the date on which agreement is reached to issue the first Tranche of the Notes” is replaced by a reference to the date the substitution is effected. The Documents shall also contain a covenant by the Substituted Debtor and (if the Substituted Debtor is not the Guarantor) the Guarantor to indemnify and hold harmless each Noteholder, Receiptholder and Couponholder against all liabilities, costs, charges and expenses provided that insofar as the liabilities, costs, charges and expenses are taxes or duties, the same arise by reason of a law or regulation having legal effect or being in reasonable contemplation thereof on the date such substitution becomes effective, which may be incurred or levied against such holder as a result of any substitution pursuant to this Condition and which would not have been so incurred or levied had such substitution not been made (and, without limiting the foregoing, such liabilities, costs, charges and expenses shall include any and all taxes or duties which are imposed on any such Noteholder, Receiptholder and Couponholder by any political sub-division or taxing authority of any country in which such Noteholder, Receiptholder or Couponholder resides or is subject to any such tax or duty and which would not have been so imposed had such substitution not been made);

- (C) the Documents shall contain a warranty and representation by the Substituted Debtor and (if the Substituted Debtor is not the Guarantor) the Guarantor (x) that the Substituted Debtor and (if the Substituted Debtor is not the Guarantor) the Guarantor have obtained all necessary governmental and regulatory approvals and consents for such substitution and (if the Substituted Debtor is not the Guarantor) for the giving by the Guarantor of the guarantee in respect of the obligations of the Substituted Debtor, that each of the Substituted Debtor and the Guarantor (if the Substituted Debtor is not the Guarantor) has obtained all necessary governmental and regulatory approvals and consents for the performance by each of the Substituted Debtor and the Guarantor (if the Substituted Debtor is not the Guarantor) of its obligations under the Documents and that all such approvals and consents are in full force and effect and (y) that the obligations assumed by each of the Substituted Debtor and the Guarantor (if the Substituted Debtor is not the Guarantor) under the Documents are all valid and binding in accordance with their respective terms and enforceable by each Noteholder, Receiptholder and Couponholder;
- (D) each stock exchange on which the Notes are listed or admitted to trading shall have confirmed that following the proposed substitution of the Substituted Debtor the Notes will continue to be listed and/or admitted to trading on such stock exchange and the Substituted Debtor and/or the Guarantor shall make such documents available for inspection at the office of the Paying Agent in Luxembourg as are then required by the Commission de Surveillance du Secteur Financier;
- (E) the Substituted Debtor shall have delivered to the Agent or procured the delivery to the Agent of a legal opinion from a leading firm of lawyers acting for the Substituted Debtor to the effect that the Documents constitute legal, valid and binding obligations of the Substituted Debtor, such opinion to be dated not more than seven days prior to the date of substitution of the Substituted Debtor for the Issuer and to be available for inspection by Noteholders, Receiptholders and Couponholders at the specified office of the Agent;
- (F) the Guarantor shall have delivered to the Agent or procured the delivery to the Agent of a legal opinion from a leading firm of Austrian lawyers acting for the Guarantor to the effect that in the case where the Substituted Debtor is not the Guarantor, the Documents (including the guarantee given by the Guarantor in respect of the Substituted Debtor) constitute legal, valid and binding obligations of the Guarantor, such opinion to be dated not more than seven days prior to the date of substitution of the Substituted Debtor for the Issuer and to be available for inspection by Noteholders, Receiptholders and Couponholders at the specified office of any Paying Agent;

- (G) the Guarantor shall have delivered to the Agent or procured the delivery to the Agent of a legal opinion from a leading firm of English lawyers to the effect that the Documents (including the guarantee given by the Guarantor in respect of the Substituted Debtor) constitute legal, valid and binding obligations of the parties thereto under English law, such opinion to be dated not more than seven days prior to the date of substitution of the Substituted Debtor for the Issuer and to be available for inspection by Noteholders, Receiptholders and Couponholders at the specified office of any Paying Agent; and
 - (H) the Substituted Debtor shall have appointed the process agent appointed by the Issuer in Condition 18 as its agent in England to receive service of process on its behalf in relation to any legal action or proceedings arising out of or in connection with the Notes.
- (ii) Upon the execution of the documents as referred to in Condition 15(b)(i)(A) above, the Substituted Debtor shall be deemed to be named in the Notes as the principal debtor in place of the Issuer (or of any previous substitute under these provisions) and the Notes shall thereupon be deemed to be amended to give effect to the substitution. The execution of the Documents shall operate to release the Issuer as issuer (or such previous substitute as aforesaid) from all of its obligations as principal debtor in respect of the Notes.
 - (iii) The Documents shall be deposited with and held by the Agent for so long as any Note remains outstanding and for so long as any claim made against the Substituted Debtor or (if the Substituted Debtor is not the Guarantor) the Guarantor by any Noteholder, Receiptholder or Couponholder in relation to the Notes or the documents shall not have been finally adjudicated, settled or discharged. The Substituted Debtor and (if the Substituted Debtor is not the Guarantor) the Guarantor shall acknowledge in the Documents the right of every Noteholder, Receiptholder and Couponholder to the production of the Documents for the enforcement of any of the Notes or the Documents.
 - (iv) Not later than 15 business days after the execution of the Documents, the Substituted Debtor shall give notice thereof to the Noteholders in accordance with Condition 14.

16. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) *Governing law*

The Agency Agreement, the Deed of Covenant, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law, except that the Guarantee and the subordination provisions of the Subordinated Notes are governed by, and will be construed in accordance with, Austrian law.

(b) *Submission to jurisdiction*

The Issuer agrees, for the exclusive benefit of the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes, the Receipts and/or the Coupons and that accordingly any suit, action or proceedings (together referred to as “*Proceedings*”) arising out of or in connection with the Notes, the Receipts and the Coupons may be brought in such courts.

The Issuer hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agrees that a judgment

in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

(c) *Appointment of Process Agent*

The Issuer appoints DWS ASP Limited at its registered office at One Fleet Place, London EC4M 7WS as its agent for service of process, and undertakes that, in the event of it ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

(d) *Other documents and the Guarantor*

The Issuer and, where applicable, the Guarantor have in the Agency Agreement and the Deed of Covenant submitted to the jurisdiction of the English courts and appointed an agent for service of process in terms substantially similar to those set out above.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the relevant Issuer for its general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

DESCRIPTION OF TFG

Telekom Finanzmanagement GmbH (“**TFG**”), is a second-tier wholly owned subsidiary of Telekom Austria. TFG was incorporated for an indefinite duration on 4th March, 1997 and is registered with the Commercial Registry (Commercial Court Vienna under registry no. 155563w). TFG operates under the Austrian Act on Companies with Limited Liability (*Gesetz über Gesellschaften mit beschränkter Haftung*). TFG’s registered office and principal place of business is located at A-1020 Vienna, Lassallestraße 9. As to TFG’s position within the Group, please refer to the Group chart included on page 91 of this Prospectus.

TFG’s business year coincides with the calendar year and its last annual statements were filed with the Commercial Registry on 2nd June, 2005. TFG has a stated limited share capital of EUR 37,000 and is incorporated as a limited liability company at the registered office of Telekom Austria. TFG’s telephone number is +43 59059 1 19000.

The object of TFG, according to paragraph 3 of its articles of association, is to advise Telekom Austria in the investment and raising of funds, in the pooling of cash flows and the preparation of the Group’s accounts’ clearing. TFG is dependent on the performance of the members of the Telekom Austria group to which it makes loans.

The following are the names and functions of TFG’s management, and their principal business activities performed outside TFG:

Name	Function	Principal Business Activities Performed Outside TFG
Rudolf Fischer	Managing Director	COO Wireline Telekom Austria AG
Ernst Pavlik	Managing Director	Revenue Assurance
Stefano Colombo	Managing Director	CFO Telekom Austria AG
Martin Mayr	Managing Director	Group Finance and Treasury Telekom Austria AG
Josef Flandorfer	Holder of Statutory General Power of Attorney	Corporate Finance Telekom Austria AG

Any two of the five representatives acting jointly may bind TFG. No supervisory board or audit committee is appointed for this company. TFG has no employees, but is operated by staff of Telekom Austria. The business address of the persons listed above is Lassallestrasse 9, A-1020 Vienna. There are no potential conflicts of interest between the duties to TFG of the persons listed above and their private interests or other duties.

Austrian Corporate Governance Rules apply only to companies with listed share capital who elect to voluntarily comply with such rules. As TFG does not have listed share capital, the Austrian Corporate Governance Rules do not apply to it.

The sole shareholder of TFG is Telekom Projektentwicklungs GmbH (“**TPE**”), a holding company with limited liability and a stated limited share capital of EUR 35,000. All shares in TPE are held by Telekom Austria. Under Austrian corporate law, companies with limited liability do not have shares *per se*, but share quotas (*Geschäftsanteile*) and each registered shareholder holds only one such quota. The share quotas constitute the only ordinary class of issued capital; no preferred or other classes are permissible. The statutory minimum stated capital stock is EUR 35,000. The sole shareholder of TFG, TPE, holds the only share and the whole of the issued capital, in an amount of EUR 37,000 which is fully paid up.

SUMMARY FINANCIAL INFORMATION RELATING TO TFG

The following table presents a summary of financial and operating data for TFG. The financial data is included in the consolidated financial statements of Telekom Austria AG and the notes thereto, which have been prepared in accordance with U.S. GAAP for all periods indicated.

	TFG at and for the nine months ended 30th September, 2005	TFG at and for the year ended 31st December, 2004	TFG at and for the nine months ended 30th September, 2004	TFG at and for the year ended 31st December, 2003
	<i>(unaudited)</i>	<i>(in EUR thousands)</i> <i>(audited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Statement of operations:				
Operating revenues	0.0	0.0	0.0	0.0
Operating expenses	(37.3)	(54.3)	(36.7)	(43.1)
Operating income (loss)	(37.3)	(54.3)	(36.7)	(43.1)
Net income	203.2	69.0	33.4	62.5
Cash flow data:				
Cash generated from operations.	454.8	16.6	155.8	24.9
Cash used in investing activities	(1,334,646.0)	(70,000.0)	(70,000.0)	(708,929.0)
Cash from (used in) financing activities	1,114,972.9	135,560.3	16,473.8	858,400.0
Net increase (decrease) in cash and cash equivalents	(219,218.3)	65,576.9	(53,370.4)	149,446.1
Balance sheet data:				
Total assets	2,713,718.4	1,250,565.4	1,114,049.8	1,124,894.1
Total debt ⁽¹⁾	(2,286,205.4)	(776,502.6)	(759,851.9)	(759,327.9)
Total shareholders' equity	(372.4)	(168.5)	(133.0)	(99.5)

1. Total Debt of TFG does not include intercompany debt.

DESCRIPTION OF TELEKOM AUSTRIA

Introduction

Telekom Austria Aktiengesellschaft (“*Telekom Austria*” or the “*Company*”) is an Austrian-based full-service telecoms provider with a wide range of advanced fixed-line, mobile, data and other communication services including internet solutions. Its registered office and principal place of business is at A-1020 Vienna, Lassallestraße 9. The Company’s commercial registry number is 144 477t (Commercial Court of Vienna). Telekom Austria’s telephone number is +43 590591 19000.

Telekom Austria is a stock corporation established under Austrian law. The stock corporation was founded by virtue of the Austrian Post Restructuring Act of 1996 (*Poststrukturgesetz*) on 1st May, 1996, as successor to a department of the Federal Ministry of Science and Transportation. Telekom Austria has been incorporated for an unlimited duration.

The Company is a stock corporation acting under a specific regulatory framework (currently the Austrian Telecommunications Act of 2003 (*Telekommunikationsgesetz 2003*), as amended).

All 500 million no par value bearer shares are listed on the Vienna Stock Exchange. With a market capitalisation of approximately EUR 7.0 billion as of 31st December, 2004, the Company is one of the largest Austrian companies listed on the Vienna Stock Exchange. It is also the only Austrian company with a full listing on the New York Stock Exchange (NYSE), in the form of American Depository Shares (ADS), where one ADS represents two ordinary shares.

Paragraph 2 of Telekom Austria’s articles of association states that its object is the provision of telecommunications services and the creation of conditions which will promote the development of telecommunication services in Austria. The services include the provision of telephone voice services, automatic data processing and information technology, the planning, construction, maintenance and operation of infrastructure facilities and networks and the installation of communication facilities and terminals.

Telekom Austria is, together with its core subsidiary, mobilkom austria (as defined below), the main operative company of the Telekom Austria group and is the parent company of the Group.

History and Development of the Company

Before the liberalisation of the Austrian telecommunications market in 1998, the Post und Telegraphenverwaltung (“*PTV*”) and its successor, Post and Telekom Austria AG (“*PTA*”) had the exclusive right to provide telecommunications services in Austria. PTV was an integrated part of the federal property administration of the Republic of Austria and a department of the Federal Ministry of Science and Transportation.

In order to better prepare for, and comply with, the requirements of the liberalisation of the telecommunications sector, PTV was transformed into a stock corporation by a special statutory law. The Austrian Post Restructuring Act of 1996 created PTA as the universal legal successor to PTV in order to continue PTV’s activities in telecommunications, postal services and public transportation.

In October 1996, PTA transferred its mobile communication business to its wholly owned subsidiary Mobilkom Austria AG. In April 1997, PTA sold 25 per cent. plus one share in Mobilkom Austria AG to the Telecom Italia group. Its ultimate parent company, Telecom Italia S.p.A., has in the meantime merged into its majority shareholder, Olivetti S.p.A., which upon completion of the merger in summer, 2003, will change its corporate name again to Telecom Italia S.p.A. In March 2001, in order to realise a number of benefits including an increase in the Group’s liquidity and favourable tax treatment, Mobilkom Austria AG was converted into a limited partnership, mobilkom austria AG & Co KG (together with its general partner, “mobilkom austria”). In June 2002, as a first step of the Telecom Italia group’s withdrawal from its investment in the Group, Telekom Austria repurchased the mobilkom austria shares owned by the Telecom Italia group. As a consequence, mobilkom austria is now a wholly owned subsidiary of Telekom Austria.

In July 1998, PTA’s telecommunications business was spun-off into Telekom Austria owned by PTA. In October 1998, PTA sold 25.00007 per cent. of Telekom Austria to Telecom Italia International N.V., a member of the Telecom Italia group.

In May 2000, the Austrian parliament passed the ÖIAG Act 2000, as a result of which Österreichische Industrie Holding AG (“*ÖIAG*”), the holding and privatisation agency of the Republic

of Austria, directly held 74.99993 per cent. of the share capital of Telekom Austria. Telecom Italia International N.V. held the remaining shares.

In November 2000, OIAG sold 22.4 per cent. of Telekom Austria's shares as part of Telekom Austria's initial public offering ("IPO") in both Austria and the United States of America and as a private placement elsewhere. As part of an adjustment arrangement, OIAG, in the course of this IPO, transferred a 4.78 per cent. stake in Telekom Austria to the Telecom Italia group.

In November 2002, as the second step in Telecom Italia International N.V.'s withdrawal from its investment in the Group, Telecom Italia International N.V. sold a 15 per cent. stake of Telekom Austria in an accelerated bookbuilding to institutional investors, reducing its shareholding in Telekom Austria to 14.8 per cent. On 21st January, 2004 Telecom Italia sold this residual shareholding in a private placement to institutional investors.

In December 2004, OIAG sold 85 million Telekom Austria Shares in a private placement to institutional investors and internationally, reducing its shareholding to 30.2 per cent. (5 per cent. of which is held as underlying under its Exchangeable Notes issued).

Ownership and Structure of Share Capital

The share capital of Telekom Austria is fully paid-up and amounts to EUR 1,090,500,000 divided into 500 million no par value bearer shares each representing a pro rata amount of EUR 2.181 of the share capital. Only this class of shares exists. No convertible debt securities, exchangeable debt securities or debt securities with warrants attached have been issued.

The initial share capital was raised pursuant to section 10 Austrian Post Restructuring Act by way of a contribution in kind by the Republic of Austria and amounted to 15 billion Austrian Schilling divided into 1.5 million registered shares with a nominal value of 10,000 Austrian Schilling each. In October 2000, the Company's share capital was converted in Euro and split into 500 million no par value shares.

On 4th June, 2003 Telekom Austria's shareholders authorised the Company to increase the share capital by up to EUR 21,810,000 by issuing up to 10 million new ordinary bearer shares or new ordinary registered shares with no par value in order to allow stock options to be granted to employees, directors and members of the Management Board of the Company or of an affiliated company for a period of five years and Telekom Austria's Articles of Association were modified accordingly. The statutory rights of existing shareholders to subscribe for additional shares issued by the company for cash on a pro rata basis have been excluded for the purposes of this capital increase.

In addition, Telekom Austria's shareholders authorised the Management Board to acquire up to 50 million own bearer or registered shares, i.e. up to 10 per cent. of the share capital of Telekom Austria at the time of this resolution, for a period of 18 months from the day of this resolution at a minimum price of EUR 9 and a maximum price of EUR 15 per share. The Management Board received authorisation to (i) decrease the share capital of the Company up to EUR 109,050,000 without a further shareholders' resolution by withdrawing up to 50 million registered or bearer shares with no par value; and (ii) use the purchased shares to allow stock options to be granted to employees, directors and members of the Management Board of the Company or of an affiliated company.

On 27th February, 2004, Telekom Austria exercised 3,326,881 American call options and received 3,326,881 shares on 3rd March, 2004. These treasury shares represent 0.67 per cent. of Telekom Austria's share capital, and were used and are intended for the beneficiaries of Telekom Austria's IPO stock option program as well as for future stock option programs. Under this program 3,230,718 outstanding stock options were exercised on 27th February, 2004.

On 3rd June, 2004 Telekom Austria's shareholders authorised the Company to increase the share capital by up to EUR 109,050,000 by issuing up to 50 million new ordinary bearer shares with no par value in order to serve holders of convertible bonds. The capital increase shall only be effected to the extent that holders of convertible bonds exercise their subscription right and/or their conversion right with respect to shares of the Company. Telekom Austria's Articles of Association were amended accordingly. In addition, the Management Board was authorised to issue during a period of five years from the day of this resolution convertible bonds which grant the right of subscription and/or conversion of up to 90 million Shares of the Company. So far the Management Board has not made use of its authorisation.

In the same Annual General Meeting, Telekom Austria's shareholders authorised the Management Board to acquire own shares up to the maximum extent legally permitted, for a period of 18 months from the day of this resolution at a minimum price of EUR 9 and a maximum price of EUR 18 per share. The

Management Board furthermore received authorisation to (i) decrease the share capital of the Company up to EUR 109,050,000 after a further shareholders' resolution by withdrawing these shares; use the purchased shares (ii) to serve stock options to be granted to employees, directors and members of the Management Board of the Company or of an affiliated company, (iii) to serve convertible bonds, (iv) as consideration – also abroad – for the acquisition of enterprises, businesses or parts thereof, or shares of one or more companies, (v) to sell own Shares within a period of five years, in any way permitted by law, also other than over the stock exchange, if they are not used for any of the above mentioned purposes, whereby the Management Board is entitled to exclude the shareholders' purchase rights.

Telekom Austria's share capital as of 31st December is held as follows (rounded figures):

OIAG	25.2%
OIAG Notes Exchangeable	5.0%
Free Float ⁽¹⁾	69.8%

Notes:

(1) This includes 7.2 per cent. shares held by Capital Research & Management Company, Delaware, USA and 5.6 per cent. held by Capital Group International, Inc., California, USA.

Shares in Telekom Austria are freely transferable.

All of the Company's 500 million no par value bearer shares are currently listed in the top trading segment of the Vienna Stock Exchange, i.e. in the "Prime Market". Furthermore, American Depository Shares, each representing two shares, are listed on the New York Stock Exchange. All shares are represented by one or more global certificates deposited with Oesterreichische Kontrollbank AG, the Austrian central securities depository. The shares can only be transferred in book-entry form. Other than the global certificates, there are no plans to issue separate share certificates in bearer form.

The shares can only be transferred in book-entry form. Other than the global certificates, no separate share certificates in bearer form will be issued.

The Group – Principal Subsidiaries of Telekom Austria

A chart of the Group is included on page 91 of this Prospectus.

Telekom Austria is the parent company of the Group with subsidiaries in Austria, Bulgaria, Croatia, the Czech Republic, Hungary, Liechtenstein, Slovakia, Slovenia, and stakes in companies in Germany and the Netherlands.

TFG, one of the Issuers, is a wholly owned subsidiary of Telekom Projektentwicklungs GmbH with its registered seat in Vienna, Austria, which in turn is a wholly owned subsidiary of Telekom Austria. TFG is further described on page 61 of this Prospectus.

Telekom Austria's principal subsidiary is mobilkom austria, a limited partnership in which Telekom Austria holds 74.999 per cent. directly and 25.001 per cent. indirectly, via its wholly owned subsidiary Telekom Austria Personalmanagement GmbH, of both the shares in the general partner, mobilkom austria Aktiengesellschaft and the participations as limited partners in mobilkom austria AG & Co KG. The general partner, mobilkom austria Aktiengesellschaft, is a stock corporation with a share capital of EUR 100,000. Limited partners in mobilkom austria AG & Co KG are Telekom Austria with a limited partner's capital contribution of EUR 59,954,288.79 and Telekom Austria Personalmanagement GmbH with a contribution of EUR 19,985,828.80.

The mobile communications business of mobilkom austria is described in the Group's general description of its business beginning on page 69 of this Prospectus.

Recent Developments

On 21st January, 2004, the Telecom Italia group sold its residual shareholding in the Company corresponding to 14.78 per cent. of Telekom Austria's share capital by way of a private placement to institutional investors at a price of EUR 10.55 per share. Following completion of this transaction, the free float in Telekom Austria's share capital increased to 52.8 per cent. The remaining stake was owned by OIAG. In December 2004, OIAG sold 85 million Telekom Austria Shares in a private placement to institutional investors and internationally, reducing its shareholding to 30.2 per cent (5 per cent of which is held as underlying under its Exchangeable Notes issued).

As of 27th February, 2004, the average share price had exceeded the Initial Public Offering price by at least 30 per cent. for five consecutive days. Therefore, 3,230,718 stock options / stock appreciation rights under the Company's management and employee stock option plan became exercisable. In the first quarter of 2004 the Company recorded a compensation expense in the amount of EUR 9.4 million. Accordingly, on 27th February, 2004, the Company exercised its 3,326,881 American call options on treasury shares which were acquired during the IPO in November 2000 to limit the Company's exposure under the employee stock option plan that expired on 27th February, 2004. The strike price of each call option was EUR 9. Following the exercise of the options, 0.67 per cent. of Telekom Austria's share capital was credited to its accounts through an off-market transaction on 3rd March, 2004.

At the annual general meeting of shareholders of 4th June, 2003 the Management Board was granted authorisation to increase Telekom Austria's share capital by up to 10 million shares to serve stock options. The current stock option plan intends to grant options in three annual tranches beginning in 2004. To issue the first tranche, on 23rd March, 2004 the Management Board decided to increase the Company's share capital by up to EUR 6.5 million on the condition that the options issued in 2004 will have been served. The Supervisory Board approval for this share capital increase was granted on 23rd August, 2004.

On 26th August, 2004, Telekom Austria's Management Board announced the beginning of the share buyback of up to 30 million shares (or up to 6 per cent. of the current common stock) at a price between EUR 9 and EUR 18. As at 31st December, 2004, a total of 3,018,561 shares (or 0.6038 per cent. of the current common stock) have been repurchased under the share buyback program, based on the authorisation by the Company's shareholders of the shareholders' meeting of 3rd June, 2004.

In the annual general meeting of 25th May, 2005, Telekom Austria's shareholders authorised the Management Board to acquire up to 10 per cent. of the share capital of Telekom Austria, during a period of 18 months from the day of this resolution at a minimum price of EUR 9 and a maximum price of EUR 21 per share and to use the purchased shares to service stock options to be granted to employees, directors and members of the Management Board of the Company or of an affiliated company, service convertible bonds, as consideration for acquisitions, to reduce the share capital by a share redemption of up to EUR 109.05 million, or to re-sell the shares in any way permitted by law, also over the counter and to any purchaser as chosen by Telekom Austria, eventually by exclusion of any existing general purchase/ subscription rights. The authorisation replaced the authorisation given the shareholders' meeting of 3rd June, 2004. In January 2005, under its EMTN programme Telekom Austria (through TFG) issued two bonds with a nominal value of EUR 500 million each, one with a 5 year maturity and a coupon of 3.375 per cent., and one with a 12 year maturity and a coupon of 4.25 per cent.

Under the existing Stock Option Plan, the exercise hurdle (on the basis of earnings per share for the year 2004) for the first tranche of stock options issued in 2004 was met and therefore the options of the first tranche 2004 were able to be exercised from 20th April, 2005 until 30th May, 2008. On 15th March, 2005, the management board decided to settle all stock options of the first tranche issued in 2004 in cash only. This would have the effect as of 31st December, 2004, that the stockholder's equity decreases by EUR 4.5 million and the liabilities increase by EUR 5.5 million together with a rise of employee costs by EUR 1.0 million. The decision of the Management Board of 23rd March, 2004, to increase the share capital by up to EUR 6.5 million to service the stock options of the first tranche issued in 2004 will therefore not be realised.

On 19th January, 2005, the second tranche of 3,398,000 options were offered to the eligible employees under the Stock Option Plan approved in 2004. 2,858,460 options of these offered options were granted. The exercise price of EUR 13.98 was based on the average quoted closing price of Telekom Austria stock during a period of twenty trading days ending two days before the granting of options. The options can be settled either in cash or in shares at the Company's choice. Vesting of the stock options awarded is based on the performance of basic earnings per share adjusted for certain effects. The options have a vesting period of about 14 months from the grant day and an exercise period of approximately three years after becoming exercisable.

On 17th December, 2004, Telekom Austria acquired call options to purchase MobilTel AD, the leading Bulgarian wireless operator. The call options entitled Telekom Austria to enter into a share purchase agreement with the aim of purchasing 100 per cent. of MobilTel AD, between 31st May and 25th June, 2005. As of 1st June, 2005, Telekom Austria exercised the option and acquired 100 per cent. of MobilTel AD on 12th July, 2005. The option price was applied to the acquisition price of MobilTel AD.

Summary Financial Information relating to the Group

The following table presents a summary of consolidated financial and operating data for Telekom Austria. The financial data presented in these tables is derived from the audited consolidated financial statements of Telekom Austria and the notes thereto, which have been prepared in accordance with U.S. GAAP and are included in Telekom Austria's Annual Report for the fiscal years ended 31st December, 2004 and 2003, respectively, as well as from the unaudited consolidated financial statements of the Company as at 30th June, 2005 and 2004, respectively, which have also been prepared in accordance with U.S. GAAP. The fiscal data presented below should be read in conjunction with such financial statements and the notes thereto.

Although Austrian GAAP would have permitted Telekom Austria to consolidate mobilkom austria, mobilkom austria was not consolidated under U.S. GAAP prior to 28th June, 2002. This is because, prior to the Telecom Italia group's withdrawal from its investment in the Group by selling its participation in mobilkom austria to Telekom Austria, mobilkom austria's minority shareholder, a subsidiary of the Telecom Italia group, held substantial contractual rights in connection with its investment. After the reacquisition of the shares in mobilkom austria on 28th June, 2002, Telekom Austria gained full strategic and operational control of its mobile communications business. Telekom Austria consolidated the balance sheet of mobilkom austria for the first time effective 28th June, 2002. However, the consolidated statement of operations for the fiscal year ending 2002 reflects Telekom Austria's equity in earnings of mobilkom austria group through to 28th June, 2002 and consolidates mobilkom austria group's results of operations for the period from 28th June, 2002 through to 31st December, 2002.

The fiscal year of the Group coincides with the calendar year.

The consolidated financial statements for the years ended 31st December, 2004 and 31st December, 2003, respectively, have been audited in accordance with U.S. GAAS by KPMG Alpen-Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. The consolidated financial statements of mobilkom austria AG & Co KG and mobilkom austria AG for the year ended 31st December, 2004 have been audited in accordance with U.S. GAAS by KPMG Alpen-Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft and for the year ended 31st December, 2003 have been audited in accordance with U.S. GAAS by Grant Thornton Wirtschaftsprüfungs- und Steuerberatungs-GmbH.

Totals in the following tables may differ from the sum of their components as a result of rounding effects.

	Telekom Austria at and for the nine months ended 30th September, 2005	Telekom Austria at and for the year ended 31st December, 2004	Telekom Austria at and for the nine months ended 30th September, 2004	Telekom Austria at and for the year ended 31st December, 2003
	<i>(unaudited)</i>	<i>(in EUR millions)</i> <i>(audited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Consolidated statement of operations:				
Operating revenues	3,205.8	4,056.3	3,031.2	3,969.8
Operating expenses	(2,646.4)	(3,603.6)	(2,619.4)	(3,600.0)
Operating income	559.4	452.7	411.8	369.8
Net income	375.5	227.3	202.3	134.2
Consolidated cash flow data:				
Cash generated from operations	1,022.5	1,304.7	987.6	1,219.9
Cash used in investing activities	(1,254.9)	(509.3)	(292.1)	(643.9)
Cash from (used in) financing activities	71.6	(704.9)	(721.4)	(406.8)
Effect of exchange rate differences ..	0.2	(4.1)	(2.0)	5.4
Net increase (decrease) in cash and cash equivalents	160.6	86.3	(27.9)	174.6
Consolidated balance sheet data:				
Total assets	8,578.5	7,242.5	7,175.3	7,896.3
Total debt ⁽¹⁾	(3,178.9)	(2,304.6)	(2,286.2)	(2,880.2)
Total shareholders' equity	(2,877.5)	(2,741.6)	(2,722.0)	(2,639.4)

Notes:

- (1) Total debt consists of short-term borrowings and long-term debt including capital leases and excluding asset backed securities transactions and cross border lease transactions.

BUSINESS OVERVIEW

In 2003 Telekom Austria started to report its business in the following three segments:

- Wireline (merging the previous fixed line, data communications, and internet services segments);
- Wireless (renaming Telekom Austria's previous mobile communications segment); and
- Other activities (covering internal financial services).

Telekom Austria is the market leader in Austria in the Wireline and Wireless business segments.

Apart from the two distinct operating segments, Wireline and Wireless, the third segment "Other activities" primarily includes various centralised financial services that are provided by TFG to both business segments, Wireline and Wireless. These two business segments also conduct business with each other, which is accounted for in the form of eliminations. In order to give shareholders a clear view of Telekom Austria's external performance as a company, Telekom Austria separately discloses these internal transactions when presenting its results.

Telekom Austria has started reporting in accordance with the new segments commencing with the first quarter of 2003.

Statements in this Prospectus regarding Telekom Austria's competitive position are, unless specified otherwise, based on Telekom Austria's internal market research.

Wireline

In 2004, the Wireline segment generated revenues of EUR 2,184.7 million. Switched voice telephony services in particular continue to be Telekom Austria's most significant revenue contributor, representing approximately 44.6 per cent. of total Wireline revenues in 2004.

Telekom Austria is the leading provider of Wireline telecommunications services in Austria. In 2004, the Company was able to retain its market position in the Wireline segment. At 31st December, 2004, Telekom Austria had a market share of 54.4 per cent. of the voice telephony market, (excluding internet dial-up) based on traffic volume compared to 52.7 per cent. end of 2003. Despite a decrease of dial-up minutes the Company's market share for voice telephony including internet dial-up traffic increased slightly to 55.2 per cent. in 2004 compared to 54.1 per cent. in 2003. Telekom Austria serviced 2.9 million access lines in Austria, of which 451,200 operate on its Integrated Services Digital Networks (ISDN). ISDN networks allow simultaneous, fully digital transmission of voice and data at higher speed than over normal access lines. The Company's network infrastructure covers all of Austria and is fully digital.

Telekom Austria is the overall market leader in data communications and IT-solutions in the Austrian telecommunications market. In particular, Telekom Austria believes that it is the market leader in its core service areas of switched and routed data networks. Although the weak economic environment has negatively impacted the Austrian data communications market, Telekom Austria has managed to stabilise its revenues. In order to provide its customers with one-stop-solutions and in order to stabilise its revenues, Telekom Austria has extended its business into a wide range of IT-services supplementing its provision of data communications services, which the Company markets as "network centric IT services".

With approximately 1,187,000 internet customers Telekom Austria is the largest internet service provider in Austria in terms of customers. In the fourth quarter of 2004 in the residential internet market, Telekom Austria's market share remained stable at 42 per cent. (including 3 per cent. contributed by mobilkom austria's mobile internet customers) compared to the fourth quarter of 2003. According to the Austrian Internet Monitor (AIM) survey, Austria had an internet user penetration rate of 58 per cent., up from 55 per cent. in the fourth quarter of 2003 based on a population of 6.8 million persons aged 14 and older. In total 3.9 million Austrians use the internet.

Telekom Austria is also the leading provider of wholesale fixed line services in Austria. In 1999, the Company was one of the first incumbent telecommunications companies in Europe to introduce Asymmetrical Digital Subscriber Lines (ADSL) services. ADSL is one of the XDSL technologies (all types of digital subscriber line technologies via copper lines) that permit the transmission of data at very high speeds using a standard copper access line.

The Wireline business segment includes switched voice telephony; pay phones and value-added services (VAS); data and IT-solutions including wholesale; Internet access and media; wholesale voice and internet; and other ancillary businesses (customer premises equipment and directory services).

As the main network operator and provider of electronic (tele-)communications services, Telekom Austria is required by law to grant other operators access to its subscriber lines. As Telekom Austria is leader in two of the leased lines markets, the regulatory authority requires Telekom Austria to give other operators access to its leased lines network. The Austrian universal service obligation also requires Telekom Austria to provide the following services throughout Austria: access to public voice telephony via a fixed line (including fax, modem and functional access to internet excluding broadband); free and unrestricted access to emergency services; access to comprehensive directory enquiry services; access to a comprehensive telephone directory; and nationwide provision of public payphone services at accessible locations.

Switched voice telephony. Telekom Austria provides traditional telephone line access, also called Public Switched Telephone Network (PSTN) access, and Integrated Services Digital Network (ISDN) basic and multi access. Telekom Austria offers a variety of calling services to residential and business customers throughout Austria. These services include local, long distance, fixed-to-mobile and internet dial-up at different tariffs. Telekom Austria provides international fixed line voice services to destinations worldwide as well as a range of call management services comprising digital voicemail, call waiting, call forwarding, three-way conference calls and caller identification. Total switched voice telephony traffic amounted to 5,495 million minutes in 2004, as opposed to 5,824 million in 2003. In 2004, the decrease in voice traffic resulted from lower national traffic minutes due to increased migration of voice traffic to mobile networks. In 2004, Telekom Austria's customers generated 467 million minutes of outgoing international traffic through Telekom Austria's fixed line network, compared to 484 million minutes in 2003 and 472 million minutes in 2002.

In 2001, Telekom Austria introduced a "pay-per-second" tariff scheme, the so-called TikTak tariffs, which is adapted to its customers' calling patterns. This was relaunched in 2004. As a result, Telekom Austria managed to increase its voice market share (excluding internet dial-up) to 54.4 per cent. at 31st December, 2004, up from 52.7 per cent. at 31st December, 2003. At the end of 2004, the TikTak tariff scheme accounted for 69.4 per cent. of Telekom Austria's traffic volume.

Pay phones and value-added services. Telekom Austria is the principal provider of public pay phones in Austria and operates approximately 21,700 pay phones including about 500 public multimedia terminals across Austria. Multimedia terminals provide access to internet, e-mail, video telephony and various other multimedia services. The number of pay phones was reduced by 4.0 per cent. The roll out of public multimedia terminals, primarily in premium locations, began in 2003 and increased in 2004 by approximately 400 per cent.

Telekom Austria's current portfolio of value-added services includes toll-free services; shared cost service; premium rate services; voting lines which allow the caller to participate in various polls; IVR (interactive voice response) solutions; voice virtual private network (VPN); and calling cards.

In 2004 the demand for toll-free services, especially for customer service hotlines, has increased due to stronger competition and higher demands for professional customer services. Premium rate services allow Telekom Austria's business customers to sell their products and services directly over the telephone, thereby reducing sales costs and meeting their customers' needs. Telekom Austria expects to increase market share in the area of premium-rate, free-phone and shared cost services due to further product innovations and variations launched in 2005. In particular, new event-based services show high growth rates and the Company is able to gain from the early adoption of its services. Event-based services are believed to establish new markets in which Telekom Austria expects to perform highly in terms of market shares and revenues. The strategic aim of VAS for 2005 is to provide more services and cover a broader range of the value-added chain on the customer side. The Company adheres to the regulated tariffs for toll-free numbers, shared cost and premium rate services.

Data and IT-solutions. Telekom Austria offers customers a full range of integrated services by bundling data, internet and IT services into customised solutions. Telekom Austria offers a wide range of national and international data communications and IT-solutions, including leased lines and related services, switched data services, corporate network services, data value-added services, IT-solutions; and business applications.

Leased lines and related services. Telekom Austria is the principal provider of national and international leased lines in Austria and operates a centrally managed national leased line network. The

leased line business generates revenues by leasing fixed lines to customers for their exclusive and dedicated use. The Company's leased line basic service establishes a permanent connection for the transmission of voice and data traffic between two geographically separate points or between one point and several other points. These points can be entirely within Austria or partly in Austria and partly abroad. Moreover, Telekom Austria offers its leased lines in combination with a service package such as security and network management. These packages are used by customers to establish, operate and extend their own networks. As the Company is Austria's leader in two of the three leased lines markets, the regulatory authority requires Telekom Austria to adhere to several regulatory obligations concerning these markets. Telekom Austria's Datastream/SDH network provides cost-effective broadband services for business customers requiring higher and more flexible levels of bandwidth.

Switched data services. Telekom Austria offers a range of data services on its switched network, including packet-switched, frame relay and ATM (*asynchronous transfer mode*), video connection and IP-MPLS (multi-protocol label switching technology based on the internet protocol standard services). Packet-switched services allow data communications for a range of applications, such as database searches, electronic funds transfers, and e-mail. Frame relay is a high speed open protocol which is well suited to data-intensive applications, such as connecting local area networks. After being re-launched in 2004, frame relay now provides QoS (Quality of Service) and premium service levels. ATM is a high-performance, cell-oriented switching and multiplexing technology that utilises fixed-length packets to carry different types of traffic. It offers standardised quality levels and flexible bandwidth connections in order to accommodate varying application requirements.

Corporate network services. Telekom Austria offers a wide range of corporate network services, including planning, installation, network management, and maintenance of corporate-wide communications networks. These services include corporate network LAN solutions; Corporate network WAN solutions; Network Management Solutions; International Corporate & Partner Services and IP Voice Services.

Video Connection services. The Video Connection service provides access to the Company's domestic Video Connection platform and its international Video Connection gateway. The service started experimentally in the fourth quarter of 2004.

IP-MPLS services (multi-protocol label switching technology based on the internet protocol standard). Telekom Austria was the first provider in Austria with a standalone business IP backbone, based on multi-protocol label switching technology (MPLS) with different classes of service features. Standalone means that the Company operates its customer VPNs (virtual private networks) on its network rather than on a public internet platform, which is important for security and performance reasons. MPLS is a technology to increase the performance of a routed network, determining the best path for forwarding packets of data between any two hosts. Each customer application can be assigned to one of five classes of services, each providing different performance levels. This business IP backbone is the basis network for Telekom Austria's business IP products and solutions. IP-MPLS services is a segment with substantial growth since it allows new features and applications, such as data prioritisation, high class video and voice applications or integration of home and mobile users.

Electronic payment systems. Datacash is a solution which enables cashless payment systems with online verification and meets the increasing demand for secure electronic payment. Aircash is the wireless equivalent to Datacash. Aircash is a joint product of Telekom Austria's Wireline and Wireless segments.

Telemetry and Security Services (TuS) enables the transmission of emergency calls and alarms to security firms (public emergency units and private sentries) as well as telemetry data from the customer to its central security and control office. The TuS network is a uniform area-wide, highly available and 24-hour-monitored high security network that is on par with international security network specifications.

IT-solution services. IT-solution services deals with a wide range of IT-services supplementing the Company's provision of data communication services which Telekom Austria markets as "network centric IT services", and generates additional value for the Company's customers beyond traditional data services. The services offered range from consulting to design and implementation of customer specific IT-solutions. The solutions are designed for outsourcing customers' IT infrastructures to external service providers. In this way several IT services modules can be flexibly and efficiently combined to create a homogenous IT-solution best suited to customers' needs. Moreover, Telekom Austria is responsible for the continuous surveillance, end-to-end management and maintenance of the IT services, which ensures the ongoing success of customers' business transactions.

Business applications. Business applications represent a wide range of services, which are focused on e-business, e-office and e-customised solutions. E-business mainly consists of the Company's well established business-to business communication services and some newer products associated with e-commerce services. Through its co-operation with A-Trust, in which the Company holds a 19.9 per cent. stake, Telekom Austria provides a digital signature product allowing secure digital signatures to be used on-line, thereby enabling the secure processing of transactions and payments over the internet. E-office solutions, such as the new e-conferencing solution enable companies to conduct virtual meetings and share virtual presentations. New web-learning products provide virtual classrooms. A typical customised e-business solution is the electronic data interchange services of legal documents (*Elektronischer Rechtsverkehr*). This is a secure on-line system operated for the Austrian Federal Ministry of Justice in cooperation with Austrian bar associations which enables customers to file legal documents electronically with the Austrian courts. Telekom Austria also provides a service called the European Business Register (*Europäisches Firmenbuch*) providing access to commercial register databases in 13 European countries.

In the medical sector, the Company offers a special network used for the transmission and management of patient data to and from medical institutions, called DaMe. The Company signed a contract to take part in the national health insurance project "E-Card" (Electronic Card), which is designed to replace the paper-based health insurance certificates and in a future step, to process electronically approvals granted by the health insurance authorities for special medical treatment. As a full service provider Telekom Austria offers solutions including access to the platform, standard content, individual content creation and consulting and customised solutions from customer relationship management, e-marketing or e-procurement to corporate website services. This is due to the successful cooperation with the Company's wholly owned subsidiary World-Direct eBusiness solutions GmbH.

Internet access & media. Telekom Austria provides internet services in Austria and in the Czech Republic, through its wholly owned subsidiary Czech On Line Internet access & media include access services (broadband ADSL access, business internet access, dial-up access), and portal business with online media sales, e-commerce, paid services and multimedia services. The brand Aon combines all product and service offerings for private internet access and internet services. At 31st December, 2004, Telekom Austria had about 888,600 dial-up subscribers and 298,400 ADSL subscribers as opposed to about 819,000 Dial-up subscribers and 207,600 ADSL subscribers at 31st December, 2003. Of 298,400 ADSL customers, 27,100 were business internet customers and 271,300 were residential customers in addition the Company has approximately 85,200 ADSL subscriptions that were sold to Telekom Austria's wholesale customers. For its business customers Telekom Austria re-launched the whole product group "Business Access" in 2004, consisting of a new pricing scheme for XDSL, higher transfer limit, lower high usage fee and included many more than the standard features. This re-launch made the XDSL products more competitive and resulted in an increase of the product activations. With XDSL Office Light Telekom Austria closed the gap between AonSpeed and XDSL Office. Now Telekom Austria can offer products for each target group which provides for more flexibility to the customer.

The Telekom Austria portals including mobilkom austria AG & Co KG's portal A1.net led the Austrian portal market of internet service providers with approximately 815 million page impressions excluding mobilkom austria's portal A1.net and 2.0 million unique visitors in 2004. Page impressions refer to the number of times a specific website has been accessed or viewed by users. The Company's main portal, Aon.at, offers a wide range of services from communication, information and entertainment to online shopping and tries to satisfy various daily needs of Austrian users. A portal is defined as a network that aggregates, navigates and delivers a wide range of internet commerce, community, communication, customer services and content. Telekom Austria continued its success with the broadband television service Aon.tv by signing several new contracts with international partners. The service offers both, national and international broadcast channels as well as a variety of on demand content such as feature films, TV-series, music clips or news exclusively to AonSpeed customers. In October 2004 Telekom Austria experimentally launched the first village television service in *Engerwitzdorf* (Upper Austria) where customers create content for their community.

Telekom Austria also provides internet services in the Czech Republic through its 100 per cent. subsidiary, Czech On Line a.s., a leading provider of internet services and the first provider to introduce free dial-up internet access in the Czech Republic. Czech On Line offers free dial-up internet access through PSTN, ISDN and GSM; internet access for customers via frame relay, leased lines, and wireless point-to-point and point-to-multipoint access services and ADSL services; PSTN voice services for business customers for local, national and international calls based on direct access and carrier pre-selection, and for residential customers based on carrier selection; value-added services; content services,

including a news aggregator and a customised search engine for Czech content; and free customer support 24 hours a day, seven days a week. At 31st December, 2004, Czech On Line had approximately 247,100 active subscriber accounts, down from approximately 279,400 at the end of 2003. The decrease in the number of customers results from a decrease of low-end dial up customers due to stronger competition, which could not be compensated by the increase in the more valuable ADSL and voice customers.

Wholesale voice & internet. Telekom Austria provides wholesale services for national and international mobile and fixed network operators and Internet Service Providers (ISP). National wholesale services include call origination and termination; transit and access to other services; toll-free and premium rate services; unbundling of local loop and collocation; signalling services for mobile applications; network constructions; broadband solutions for internet service providers and other telecommunications providers; and emergency and directory inquiry services. International wholesale services include call termination; voice transit service; signaling for international roaming; bandwidth transit services; international internet access; satellite services; international Virtual Private Networks (VPNs); and Jet2Web Stream. In 2004 Telekom Austria further expanded the development of its fibre optic backbone network in foreign markets. The efforts were mainly focused on working out solutions to extend the Jet2Web Stream in Slovenia and to Croatia. At present, Telekom Austria is also developing appropriate solutions to further extend the Jet2Web Stream from Budapest to Romania and Bulgaria. Telekom Austria's incoming and outgoing international traffic includes calls to and from Telekom Austria's customers and customers of other network operators routed through Telekom Austria's network. Telekom Austria processed more than 2.8 billion traffic minutes of international incoming and outgoing calls, especially incoming calls to fixed and mobile networks in 2004.

Other services (customer premises equipment and directory services). Telekom Austria is a leading provider of telecommunications equipment, systems, related post-sales maintenance, and service for residential and business customers in Austria. Telekom Austria sells and leases customer premises equipment manufactured by leading vendors through retail outlets, including the Company's own call centers, Telekom and A1 Shops, direct sales force (for business customers), door-to-door agents, as well as third-party distributors. Telekom Austria's range of customer premises equipment includes telephone systems, which help corporate customers manage their telephone extensions based on state-of-the-art technologies and developments like Voice over IP (VoIP) telephony; enhancements and supplements to PABX (private automatic branch exchange) such as Computer-Telephony Integration (CTI), contact-center applications or unified messaging (UMS), which provides a single interface for voice, e-mail and fax messages; LAN and WAN networks based on standardised ISDN-telephony or based on VoIP telephony; voice communication based on ISDN and VoIP telephony, and PC software applications; telephones and accessories, fax machines; mobile products; and maintenance services.

Telekom Austria provides national and international directory services through value added new products like directory services per SMS for reverse searches of names and addresses were launched during 2004 and now complete the directory assistance portfolio. Furthermore, the Company provides directory assistance for other carriers and is also hosting directory service numbers for other service providers. Moreover, Telekom Austria offers a number of information-services and the classic telegram. In 2005, Telekom Austria plans to extend its portfolio in the information-business with new automated voice-operated services. According to the Austrian Universal Service Ordinance Telekom Austria collects and maintains a database of its subscriber data and other fixed-line and mobile service providers' subscribers, which is the basis for the Austrian telephone directory published by Herold. This database is also offered to other directory assistance providers and telephone book publishers. In January 2004, the online telephone directories "www.etb.at", provided by Telekom Austria and "www.herold.at", provided by Herold Business Data AG merged into a joint search machine for Austrian telephone numbers, provided by Herold Business Data GmbH & Co. KG.

Networks. Telekom Austria is the largest telecommunications operator for fixed and mobile network services in Austria. All customer services are based on advanced, high quality technology networks with proven reliability.

Switched network. Telekom Austria operates a fully digital voice switching network serving more than 2.5 million PSTN access lines, about 443,600 ISDN basic access lines, and 7,600 ISDN multi access lines as at 31st December, 2004. The Company's call success rate and exchange availability for 2000 through 2004 was between 99 per cent. and 100 per cent. The call success rate is the percentage of originating calls resulting in successful connections (ringing tone) with the intended destinations. At 31st December, 2004, more than 94 per cent. of the voice switches and remote units were connected to Telekom Austria's transmission network by optical fiber cables, the highest capacity medium available.

Through the Company's intelligent network, also known as IN platform, Telekom Austria offers, among other services, toll-free, value-added services and number portability. By adopting the same IN technology in its fixed and mobile networks, Telekom Austria will be able to offer convergent services such as using the same handheld phone for fixed and mobile calls.

Data networks. Technological innovations and advances in standardisation have allowed Telekom Austria to provide a range of new telecommunications and multimedia services in connection with the Company's large established network infrastructure. These innovations have occurred in three different areas: backbone network infrastructure, access infrastructure, and advanced services.

Backbone network infrastructure is based on optical signal transmission. Telekom Austria predominantly uses optical fiber as the transport medium for high-speed digital transmission. The Company's core network was based on approximately 20,087 kilometers of optical fiber cables as at 31st December, 2004. In addition, Telekom Austria provides radio links to specific areas upon customer demand. Telekom Austria runs a state-of-the-art multiservice network which is based on ATM and IP technology. Through the deployment of MPLS networking technologies Telekom Austria is able to integrate SDH, ATM and IP networking concepts in order to offer the required quality of service for the whole of its service portfolio.

Telekom Austria's access infrastructure is the means by which its customers connect to its networks. Broadband technologies such as ADSL permit high-speed internet access and digital video transmission on normal telephone lines. Across Austria Telekom Austria has installed 903 ADSL relay stations covering more than 87 per cent. of Austrian households. Telekom Austria had about 383,600 ADSL lines installed at the end of December 2004, up from 261,100 at the end of the year 2003, and the Company is continuing this expansion. In addition, Telekom Austria provides multimedia and other data services with high capacity requirements using direct access via optical fiber for large business customers. Advanced services are driven partly by technological developments and partly by the demand from customers for more sophisticated services.

International network. Telekom Austria's international voice traffic is routed through two international gateways. The Company has connections to 244 destinations (including global satellite networks) and direct links to 136 international operators in 81 countries. Telekom Austria partially owns or has rights to use undersea cables in addition to satellite capacities of the corporations Intelsat and Eutelsat. Telekom Austria also takes part in projects for the installation of international optical fiber-backbones such as Trans European Lines and Trans Asia European Lines. With the installation of Jet2Web Stream the Company has expanded its broadband activities abroad, which now cover Prague, Frankfurt, Munich, Bratislava, Budapest, Ljubljana and Milan.

Next generation network. Similarly to the way in which the entire telecommunications network had to be completely renewed through digitalisation at the beginning of the 1980's, new technology is being developed to enable a gradual transition from the digital networks to a packet oriented network, commonly referred to as Next Generation Network ("NGN"). A packet oriented network is expected to enable a more efficient simultaneous transmission of data services and voice telephony services, easier access and the opportunity to offer new services like videoconferencing, multimedia messaging services, audio/video streaming applications or video mailboxes. Telekom Austria is in the process of evaluating the details of the financial implications of different migration plans to NGN and had begun a technical review of concept projects in order to evaluate the technology and compare how the different existing technologies enable the Company to deploy new innovative services on new technologies with regard to optimising network costs using existing infrastructure.

Wireless

Telekom Austria Group's Wireless segment is represented by mobilkom austria group which is comprised of mobilkom austria and its subsidiaries. mobilkom austria group generated revenues of EUR 2,125.5 million in 2004 and EUR 2,030.2 million in 2003, before intersegmental eliminations. In addition the Group also provides mobile communications services through VIPnet in Croatia, Si.mobil in Slovenia and mobilkom liechtenstein in Liechtenstein, representing 21.6 per cent. of its mobile communications revenues in 2004 compared to 20.9 per cent. in 2003.

The Wireless segment covers a total population of about 15 million. Wireless market penetration ranges from 64.5 per cent. in Croatia and 79.1 per cent. in Slovenia to 98.0 per cent. in Austria.

In January, 2003 mobilkom austria agreed upon an exclusive partnership with Vodafone to co-operate in the Austrian, Croatian and Slovenian market. The co-operation has extended the range of

existing products and services offered by the mobilkom austria group and has improved its product portfolio, particularly in respect of business customers. Both companies collaborate in the field of roaming, purchasing, development of new products and services, technical platforms, global account management and joint marketing initiatives. In 2004, numerous joint products were launched, especially in the area of data services and roaming, including Vodafone live!, a mobile lifestyle service, Vodafone Mobile Connect Cards, a data card for laptops enabling fast wireless access to internet and corporate networks, and therefore offering full mobility for Telekom Austria's customers; Vodafone World, a new transparent roaming pricing scheme, and Blackberry, enabling customers to automatically send and receive all e-mails on handheld devices.

Telekom Austria Group has offered mobile telecommunications services since 1974. In 1994 the Global System for Mobile communication ("GSM") was introduced. In August 2000, mobilkom austria was one of the first mobile communications operators worldwide to launch a nationwide and commercially operated network based on general packet radio service, or GPRS. mobilkom austria was the first European operator to set up a national UMTS network, with the commercial launch of mobilkom austria's UMTS network in April 2003. By the end of 2004, mobilkom austria covered all major cities in Austria and about 60 per cent. of the Austrian population with its UMTS network and has therefore already fulfilled its regulatory obligations concerning UMTS for the year 2005. Furthermore, the extension of the service abroad has been successfully initiated by launching UMTS roaming in ten countries by year-end 2004. In January 2005, mobilkom austria launched EDGE (Enhanced Data Rates for Global Evolution), which is provided in addition to UMTS for those parts of Austria without UMTS-coverage so far. This will allow data transfer in broadband quality all over Austria, reaching 95 per cent. of the Austrian population by the end of the first half of 2005.

Austria. mobilkom austria is the leading provider of mobile communications services in Austria with nearly 3.3 million customers at 31st December, 2004, which represented a total market share of about 41.0 per cent. of the Austrian mobile communications market, in comparison to 43.3 per cent. at the end of 2003. mobilkom austria's mobile business has experienced rapid growth in recent years as the mobile penetration rate in Austria increased from 14.4 per cent. at 31st December, 1997 to 98.0 per cent. at 31st December, 2004, one of the highest penetration rates for mobile communications in Europe. According to market research on mobilkom austria, there were about 7.99 million mobile customers in Austria in December 2004. As a result of the market saturation mobilkom austria has focused its efforts on retaining existing customers. mobilkom austria expects growth in the medium-term will be driven by new data services as well as the expansion of mobile technology to new products and services. Such focus on contract customers resulted in a stronger growth of contract customer base in 2003 and 2004.

Customers. The Austrian market experienced an increase in churn rate as a result of an aggressive price policy. Nevertheless, mobilkom austria has the lowest churn rate among the more established Austrian providers, which is approximately 17.0 per cent., compared to 16.1 per cent. in 2003. The churn rate provides insight into the growth or decline of the subscriber base as well as the average length of participation in the service. mobilkom austria's Austrian churn rate is calculated based on the total number of customers who discontinue their use of mobilkom austria's service in a 12 month period, divided by the average number of total customers during that period. A prepaid customer is disconnected 13 months following the last account deposit. In 2004, mobilkom austria's contract churn rate was 11.9 per cent. and mobilkom austria's prepaid churn rate was 22.8 per cent. These rates are in line with the average churn rate of mobile operators in European Union countries where mobile operators subsidize handsets given to customers as an incentive to switch operators. Subsidized handsets have been available in Austria since late 1998.

Products and Services. mobilkom austria offers a wide range of mobile communication products and services including value-added services such as voicemail, information services, m-commerce, mobile internet access, mobile office solutions, telematics (a combination of location-based services, global-positioning system (GPS) localization and remote control), and service allowing the use of up to three mobile phones under the same number, SMS and multimedia messaging services (MMS). Location-based services encompass all services where information about the location of the consumer is needed, such as finding the closest hospital, restaurant, post office or grocery store and other location based information.

mobilkom austria offers contract customers dedicated customer service and special tariff packages. mobilkom austria's customised products target all segments, from residential customers to large corporate accounts. mobilkom austria's large corporate customers benefit from a range of specialised corporate services such as mobile communications with full virtual private network functionalities. Furthermore, mobilkom austria was the first operator in Austria to launch Push to Talk (PTT), a

communications technology for mobile networks which is comparable to a walkie-talkie, in a friendly user trial among the teenagers segment as well as Telekom Austria's customers in the business segment.

Prepaid products are marketed primarily to lower volume mobile phone users. The advantages of prepaid services for mobilkom austria are decreased credit risk, lower costs of sales and reduced administrative costs. Since 2002, mobilkom austria observed a saturation of the pre paid-market. mobilkom austria's call back service development in the voice segment focused on call completion services aimed at increasing voice usage of the total customer base by e.g. successfully introducing missed call notification or increasing the usability of the voice mail system by notifying customers about the caller ID of people who left a voice mail to facilitate easy call back.

Due to mobilkom austria's wide range of m-commerce (mobile commerce) services it managed to significantly broaden its customer base in the last year. The portfolio of services is large and ranges from event ticketing to short-term insurance contracts for major sports injuries and paying at vending machines as well as betting via mobile phone.

In September 2003 mobilkom austria launched a ticketing solution for public transportation in Vienna, enabling customers to purchase tickets via mobile phone. In October 2003, mobilkom austria started the m-parking service in Vienna, Austria. This enables car drivers to pay short-term parking fees via their mobile phone, processed through mobilkom austria's subsidiary A1 Bank. A1 Bank administers the funds generated through parking management in trust for the City of Vienna. Further services have been launched such as the public transport ticket in other cities than Vienna or a highway toll ticket. Furthermore, the most popular gambling service in Austria, the national lottery, offers its service via SMS. In 2004, mobilkom austria in cooperating with Vodafone Germany, launched a cross border ticketing solution, allowing customers to purchase train tickets from Austria to Germany. mobilkom austria broadened its product portfolio with A1 SIGNATURE - an e-government-compliant electronic signature or A1 NAVI, providing full turn-by-turn, dynamic, graphic and voice-enabled navigation to GPRS/UMTS mobile phones within the home and roaming networks.

International roaming enables mobilkom austria's customers to make and receive calls with their mobile phones in other countries using the networks of 288 operators (at 31st December, 2004) with whom mobilkom austria has entered into international roaming agreements. At 31st December, 2003, mobilkom austria offered GPRS roaming in 64 countries with 86 operators. In 2004, mobilkom austria started to focus on offering 3G roaming to its customers. At year end 2004, mobilkom austria launched 3G roaming in ten countries with ten operators, significantly increasing the possibilities of data transmission abroad.

Networks. mobilkom austria's networks in Austria are based on digital GSM, GPRS, EDGE and UMTS Technologies. During 2004 the GSM "call success rate" was 98.2 per cent. on average, which is higher than each of Telekom Austria's competitors. This is a result of a test carried out under the supervision of the Technical University of Vienna, Institute of Broadband Communications. In addition, the cooperation with Vodafone enables Telekom Austria to compare its results with those of various European companies. At 31st December, 2004, mobilkom austria's GSM network consisted of 11 mobile switching centers, 4 home location registers and 5,363 base stations. An intelligent network platform is installed for GPRS and value-added services. mobilkom austria provides dual band services to accommodate its expanding customer base with the necessary capacities and the best quality. At 31st December, 2004, mobilkom austria held nationwide a 2x17MHz (85 channels) spectrum in the 900MHz band and a 2x15.0MHz (75 channels) spectrum in the 1800MHz band. This includes additional 2x6.6 MHz E-GSM (extended GSM) frequencies which have been auctioned for EUR 0.56 million in November 2004. E-GSM is an extension to the spectrum of GSM. Necessary for more total capacity for GSM systems, the ETSI-standard GSM 05.05 spectrum was extended several times. The first and most prominent extension was DCS-1800 or GSM-1800, the second was E-GSM. With E-GSM, the original P-GSM (primary GSM) spectrum was enlarged by 2x10 MHz. mobilkom austria will continue to expand dual band service to areas with significant amounts of mobile traffic such as large and medium cities, technology parks, tourist sites, highways and airports.

GPRS enables high-speed mobile data-transfers, particularly for data applications such as mobile internet browsing and e-mail. mobilkom austria launched its GPRS services in August 2000. Based on this GPRS data transport capability, MMS was introduced in 2002. Since March 2000, mobilkom austria has offered a personalised WAP-portal with an integrated search engine. Enhanced Data Rates for Global Evolution (EDGE), launched in Austria in January 2005, evolved through an enhancement of GSM providing faster data transmission. Because it is built upon the existing network, EDGE is used by mobilkom austria to complement its 3G coverage. mobilkom austria successfully bid for a UMTS license

in Austria on 3rd November, 2000. UMTS allows operators to transmit data significantly faster, significantly exceeding the speed of the preceding mobile systems. It also permits implementation of multimedia applications that integrate voice, video, and data communications. As the first operator in Austria, mobilkom austria commercially launched the service on 25th April, 2003, covering about 50 per cent. of the Austrian population at the end of 2003. At the end of 2004 mobilkom austria's UMTS-network covered about 60 per cent. of the Austrian population. The takeover of 3G Mobile in December 2003 increased the available frequency spectrum for mobilkom austria from 2x10 MHz to 2x14.8 MHz which gives mobilkom austria ample capacity to handle the potential growth of mobile services in the future and will allow mobilkom austria to reach its goals with a smaller number of macrocell stations. Another 2x5 MHz frequency spectrum, that was acquired in the takeover, had to be re-sold due to regulatory requirements by 31st January, 2005. Licenses for spectrum in the TDD (Time Division Duplex) domain remained unchanged at 1x10 MHz.

WLAN uses high-frequency radio waves to create a locally-limited, broadband connection to computer networks. WLAN was launched in March 2004. mobilkom austria's main focus is to address business customers in high density areas, such as seminar hotels, conference centres, and public transport. By year end 2004, the actual rollout exists of 238 WLAN area access points. Key partners for WLAN are major hotel groups including Hilton, Trend Hotel Austria, and Arcotel. All premises of the restaurant chain McDonald's Austria were covered.

Croatia. The Croatian mobile market has two GSM operators. Croatia's mobile communications penetration rate was 64.5 per cent. as of 31st December, 2004. In September 1998, Croatia awarded its second GSM license to VIPnet, a consortium in which the Group has held an interest through mobilkom austria since 1998. mobilkom austria increased its stake in VIPnet by 9 per cent. on 30th January, 2003, 19 per cent. on 23rd June, 2003 and further by 1.0 per cent. on 31st December, 2004, bringing its total interest in VIPnet to 100 per cent. VIPnet started operations on 1st July, 1999, and by 31st December, 2004 it served 1.3 million customers (85 per cent of them users of prepaid services), increasing its customer base in 2004 by 8.1 per cent. compared to 31st December, 2003. VIPnet shares the Croatian mobile communications market with the incumbent operator T-Mobile, a subsidiary of T-HT (Hrvatske telekomunikacije d.d.), with Deutsche Telekom as its main shareholder. In December, 2004, the Swedish operator Tele2 received a combined GSM/UMTS license, which is valid for 20 years. The commercial launch of the third Croatian operator is not expected before the second half of 2005. Tele2 signed a contract on national roaming with VIPNet which will allow Tele2 users to connect to the VIPNet mobile network. VIPnet had a low annual churn rate of 15.4 per cent. in 2004. VIPnet has a 46.0 per cent. share in the Croatian mobile communications market.

As a major tourist destination, Croatia has a high number of visitor roamers in the summer season. Visitors generated more than 12 per cent. of VIPnet's total revenues. The strategic partnership with Vodafone resulted in a successful launch of Vodafone live!, Vodafone Mobile Connect card. In October 2004, VIPnet has introduced a new prepaid tariff to the market; prices have been decreased by up to 43 per cent. compared to those applicable previously. In 2004, VIPnet expanded its activities by offering different services for third parties such as call centre services, offering consultant services concerning customer support and by offering Open Interface service which enables 3rd parties access to VIPnet's infrastructure (for example SMS centre) for their own purposes.

Slovenia. In February 2001 mobilkom austria purchased a 75 per cent. plus one share interest in Si.mobil, a Slovenian mobile communications provider. Si.mobil is fully consolidated because mobilkom austria holds an option until 2007 to purchase the shares which mobilkom austria does not currently own for a fixed price. The Slovenian mobile market currently has three GSM operators and one service provider. Slovenia has a penetration rate of 79.1 per cent. at 31st December, 2004. Si.mobil's number of customers amounted to more than 363,300 by the end of 2004, representing an increase of the customer base by 0.5 per cent. compared to end of 2003. At 31st December, 2004, Si.mobil was the second largest mobile operator in Slovenia with a market share of 23.3 per cent. Si.mobil introduced EDGE commercially in December 2003 as one of the first European operators, with population coverage of 40 per cent. Si.mobil introduced its (dual-) brand "Si.mobil – Vodafone" for its entire market presence in September 2003. In February 2004, Si.mobil launched Vodafone Mobile Connect Card. In 2003 Si.mobil offered, as first operator in Slovenia, flat tariffs for the Residential segment which was well accepted, hence it introduced flat tariffs for the Business segment in February 2004. For GPRS roaming Si.mobil offered in February 2004 unified tariffs to ensure transparent roaming prices for its customers. In May 2004, Si.mobil launched a new tariff portfolio for residential customers, aiming to improve transparency for customers. At the beginning of June 2004, Si.mobil launched Vodafone live! and between August and October 2004 launched ORTO SMART.

Liechtenstein. On 16th November, 1999, the Principality of Liechtenstein granted a GSM license to mobilkom liechtenstein, a wholly owned subsidiary of mobilkom austria. mobilkom liechtenstein launched services on 13th September, 2000. Furthermore, mobilkom liechtenstein started premium-rate services and services for mobile virtual network operators, which are interconnection margin-businesses that account for a substantial part of its financial results. The penetration rate reached 78.9 per cent. at 31st December, 2004. The customer base of mobilkom liechtenstein accounts for a 13.1 per cent. share of the mobile communications market in Liechtenstein.

Bulgaria. In December 2004, Telekom Austria entered into call option agreements giving it a right to acquire 100 per cent. of the share capital of MobilTel AD ("**Mobiltel**"). The call options were priced at up to EUR 80 million, which were paid on 21st March, 2005. The call options entitled Telekom Austria to enter into a share purchase agreement with the aim of purchasing 100 per cent. of Mobiltel, between 31st May and 25th June, 2005. As of 1st June, 2005, Telekom Austria exercised the option and acquired 100 per cent. of MobilTel on 12th July, 2005. The option price was applied to the acquisition price of MobilTel. For further information see "**Mobiltel**" below.

Mobiltel is consolidated into Telekom Austria's Wireless segment since 12th July, 2005. Mobiltel is the leading Bulgarian wireless operator with a strong customer base of more than 3.3 million customers (as of 30th September, 2005) and a market share of approximately 60.8 per cent (as of 30th September, 2005).

Regulation and legal framework

Regulatory framework

The amended Telecommunications Act of 2003 the ("**2003 Telecommunications Act**") which entered into force on 20th August, 2003, allows unrestricted market access to all entrants who qualify under the Act and replaced the former licensing regime by a general notification requirement. One of the principal objectives of the 2003 Telecommunications Act is the promotion of competition within the Austrian communications sector and the provision of reliable, high-quality and innovative telecommunications services at a reasonable price. Regulatory measures are supposed to promote a modern telecommunications infrastructure that leads to high-quality sites and effective competition by stimulating investments in innovation and infrastructure. Additional objectives include the provision of universal service throughout Austria, the protection of customers and operators against the distortion of competition, access to information and transparency of prices and general terms, data protection, avoidance of significant market power and efficient and interference-free use of frequencies. Operators having significant market power in particular communications markets are subject to a special regulatory regime. In general, sector specific regulatory measures should be applicable only in the absence of effective competition. Regulatory measures should be kept technologically neutral and may not restrict the introduction of innovative products and services (generally referred to as "emerging markets").

The regulatory authority

The 2003 Telecommunications Act and the Communications Authority Act establish the legal basis for the existing regulatory bodies in the telecommunications (Telekom-Control-Kommission) and the broadcasting media sector (Communications Authority). The Rundfunk und Telekom Regulierungs-GmbH serves as the administrative arm of both of these authorities. Within this Prospectus the term "regulatory authority" refers to "Telekom-Control-Kommission" and to "Rundfunk und Telekom Regulierungs-GmbH." Pursuant to the Communications Authority Act, the Communications Authority is responsible for the broadcasting media sector. In some cases, the Communications Authority may serve as the regulatory authority under the 2003 Telecommunications Act or has at least the status of a party in proceedings. The minister, the Telecommunications Offices and the Office for Radio Installations and Telecommunications Facilities are administrative authorities empowered to take all measures requiring the exercise of administrative power in the area of telecommunications with regard to Austrian telecommunications law. Although not established at this point, the Telecommunications Advisory Board will advise the minister and the regulatory authority regarding telecommunications matters. Decisions of the regulatory authority may be appealed to the Supreme Administrative Court and in limited circumstances to the Constitutional Court.

Pricing and price regulation for end users

Under the 2002 EU directives, the sector-specific concept of market dominance, now called "significant market power" ("**SMP**") has been adjusted to the concept of market dominance as used in European Union and Austrian competition law. In May 2003, the EU Commission identified the

18 markets which may be subject to sector-specific regulation, most of which are relevant for telecommunications. To date, the Austrian regulatory authority has defined 17 nationwide markets which may be subject to sector-specific regulation in the Austrian communications sector by market ordinance (*Märkteverordnung*) which entered into force on 17th October, 2003. Under the new regime, an operator is considered to have SMP if it faces little or no competition or compared to its competitors, it has an overwhelming position due to its ability to influence market conditions, its revenues in comparison to the size of the market, its control of the means of access to customers, its access to financial resources or its experience in providing products and services. Only if an operator is identified as having SMP, the regulatory authority, in order to promote and strengthen competition will impose measures which should be proportional and appropriate and take into consideration existing capacities, investment risks, industrial or intellectual property rights, provision of European Union-wide services and long-term competition.

Accordingly, the regulatory authority may impose specific obligations (which are generally referred to as “remedies”) for operators with SMP in the relevant retail (or end user) market if (i) there is no effective competition in that market and (ii) specific obligations such as carrier selection and carrier pre-selection can not achieve effective competition. Once the regulatory authority has determined that Telekom Austria exercises SMP in one of the relevant markets, it may subject Telekom Austria to the requirement that it does not charge excessive prices, or provide unreasonable bundles. The regulatory authority still has the power to control individual tariffs and cost orientation (the prices of tariffs have to be based on the fully distributed costs) of these tariffs. The regulatory authority will approve the minimum offer of leased lines and the prices for those leased lines. In late 2003, the regulatory authority began its analyses of the markets pursuant to the Telecommunications Act of 2003. To date the markets have been analysed. The main change for Telekom Austria is that the remedies the regulatory authority has imposed on it are more detailed than under the old regime. The overall scope of intervention, however, has not materially changed. The market analyses have resulted in the conclusion that Telekom Austria is no longer viewed as having SMP in two markets (wholesale trunk segments of leased lines and international calls of private customers) which leads in these markets to more freedom in pricing, selecting the product mix, as well as the ability to respond quickly to customer needs. The NRA has also found that the wholesale market for transit services is effectively competitive and no operator has SMP. However this decision has been vetoed by the European Commission and the procedure is still pending before the European Court of Justice, to which the NRA has appealed.

Ordinances under the new 2003 Telecommunications Act

Since the enactment of the 2003 Telecommunications Act, the minister and the regulatory authority have issued several important ordinances. The Telecommunications Market Ordinance, which became effective on 17th October, 2003, defines the markets that may be subject to regulation. The Mobile Number Portability Ordinance, issued by the minister on 4th November, 2003, established the legal and regulatory framework for the portability of mobile subscriber numbers between operators and stipulates the requirements and the timeframe of a porting case, customer protection and transparency of costs. In August 2004, the ordinance was completed by a decision of the regulatory authority concerning the relevant interconnection obligations, for example the manner in which calls originating in the fixed networks will be routed to these ported numbers; although the administrative court repealed the decision in February 2005, it is unlikely that this will have immediate effects on the provision of the service. The Numbering, Tariffs and Value-added Services Ordinance was released on 15th May, 2004 and its aim was to optimise consumer protection in cases of value-added-services, resulting from an ever increasing number of objections against these services (especially dialler-abuse). Maximum prices for shared cost services and premium rate services, several complex and detailed transparency rules as well as prohibitions for misuse were added. The numbering parameters and the requirements for allocation of numbers changed only slightly. The ordinance of Legal Surveillance of 12th August, 2004 introduced the fees to be paid by courts and governmental authorities for the interception of voice. The Ordinance of Collecting Data for Statistics of 20th September, 2004 sets out the frequency and details of information that need to be provided to the regulatory authority for statistical purposes.

The 1997 and 2003 Telecommunications Acts contain provisions relating to the nation-wide availability of certain basic telecommunications services, referred to as universal services. Additional details concerning universal service requirements are provided in the Universal Service Ordinance which became effective in June 1999 and was amended during 2000. The ordinance which determines the amount operators are required to contribute to the funding of the regulatory authority entered into force on 8th March, 2004. According to this ordinance, in 2004, operators with a revenues exceeding

EUR 230,000 in the telecommunications sector are required to contribute to the financing of the regulatory authority.

Regulation of market entry

The 2003 Telecommunications Act abolished the former licensing regime. Entry into the market by a new participant requires only notification with the regulatory authority and the payment of a processing fee. The 2003 Telecommunications Act also replaced the former licensing regime for mobile operators using the GSM technology with a notification regime. However, the provision of mobile telecommunication services continues to be limited by the allocation of frequency spectrum. Therefore, the number of GSM-network operators has remained the same as under the 1997 Telecommunications Act.

UMTS

On 3rd November, 2000, six mobile operators, including mobilkom austria, the three other GSM-operators in Austria and two new entrants, successfully bid for UMTS licenses. Under the terms of the license award, mobilkom austria was required to cover 25 per cent. of the Austrian population by the end of 2003 and 50 per cent. by the end of 2005. At the end of 2004, mobilkom austria's UMTS network already covered about 60 per cent. of the Austrian population. By the end of 2003, one of the new entrants, Telefonica, had suspended its operations in Austria. mobilkom austria bought the Telefonica-owned Austrian company 3G Mobile, thereby acquiring an additional paired 9.8 MHz frequency spectrum. However, prior to its approval, the regulatory authority imposed an obligation on mobilkom austria to sell 2x5 MHz frequency spectrum by 31st January, 2005 which it did in March 2004. The transaction was completed in January, 2005.

The Telecommunications Act of 2003 requires that UMTS licensees, like mobilkom austria, also hold digital GSM licenses. UMTS licenses grant national roaming services to any UMTS licensees who do not operate a GSM network provided that there is enough capacity. National roaming means that the customers of a UMTS operator are able to make and receive phone calls in areas not covered by their UMTS operator by using the network of another GSM operator.

Major regulatory decisions affecting Telekom Austria

Wholesale line rental

In November 2004, the regulatory authority approved an offer from Telekom Austria for its competitors after lengthy proceedings. In January 2005, one of Telekom Austria's competitors appealed to the Supreme Administrative Court. The regulatory authority decided that due to Telekom Austria's SMP in the access market, it is now formally obliged to provide a standard offer for wholesale line rental. In March 2005, one operator initiated a regulatory proceeding against Telekom Austria requiring wholesale billing services to enable him to bill his customers the monthly line rental as well as the traffic volume.

Current tariffs: voice telephony services and leased lines

In anticipation of a decision to be rendered by the Austrian Supreme Court Telekom Austria introduced a new tariff plan and frequent user reward program which was approved by the regulatory authority in May 2004. It allows customers to benefit from the now wider choice of tariffs for calls to mobile phones, different regions and friends. In November 2004 Telekom Austria introduced additional tariff packages completing customers' choice for calls to mobile phones.

Telekom Austria's "*Minimum set of leased lines for end users*" is still subject to approval. In October 2004, the regulatory authority attested Telekom Austria SMP on the market for "*wholesale terminating segments of leased lines*". As a consequence Telekom Austria had to release a wholesale offer for these network elements. The latter has been approved by the Regulator lately and was considered to be non-discriminating.

This may result in higher competition on the market of "*leased lines*" in the next years.

Fixed-to-mobile tariffs

The regulatory authority set the amount which Telekom Austria may retain for each minute originating from Telekom Austria's fixed line network, known as the mobile turnover retention, at EUR 0.06 per minute. Telekom Austria may retain this amount for each minute originating from Telekom Austria's fixed line network, notwithstanding the mobile operator's termination charge. Even if Telekom

Austria was to increase the fixed-to-mobile tariff it is not allowed to retain more than EUR 0.06 per minute but is required to pass the increase on to the mobile operator.

Interconnection and specific network access

All operators of public telecommunications networks are obliged upon request to offer network interconnection to other operators. The regulatory authority is entitled to determine fees for interconnection if providers with SMP are involved. The interconnection agreement must contain certain terms required by the Interconnection Ordinance discussed below.

Provisions applicable to operators with significant market power

An operator of a communications network with SMP and which offers communications services to the public must grant other operators specific access to its communications network and facilities, on basically equal terms and conditions to those which it uses internally and in an unpackaged way so that competitors do not need to purchase services they did not request. In imposing these obligations the regulatory authority is supposed to take not only the issues of technical and economic viability into consideration, but also should ponder matters of feasibility and investment by the facility owner.

In addition, operators with SMP are also obliged to grant physical collocation. This means the operator is obliged, if technically feasible, to allow competitors to use transmission, switching and operational interfaces to the competitors' network on the operators' premises on equal terms and conditions which it uses internally.

An operator with SMP furthermore must adhere to harmonised technical standards in conformity with applicable EU Directives, especially the Access Directive and may be obliged to issue reference interconnection offers and if so has to file agreements on interconnection and special network access to the regulatory authority. Interconnection and special network access must be provided on a non-discriminatory basis.

Interconnection in Austria

In various decisions since March 1998, the regulatory authority has set out additional principles for interconnection. With these decisions, the regulatory authority sets the tariffs for interconnection from fixed and mobile-to-fixed line and also from fixed line to mobile networks. The regulatory authority decides on the tariffs for carrier selection, the type and scope of carrier selection to be implemented, local interconnection, mutual access to toll-free numbers, value-added services, shared cost services, private networks, personal numbers and access to on-line services.

Number portability

All fixed network providers in Austria are required to provide geographic number portability. This means that customers can change operators while keeping their existing telephone number. The 2003 Telecommunications Act now requires also mobile operators to provide for number portability. The number portability ordinance entered into force in November 2003. Prior to the effectiveness of the ordinance in mid-2002 all GSM-operators, the new UMTS-licensees, and all fixed line operators established a working group with a goal to agree on the technical and commercial terms for mobile number portability. As no agreement was reached, several proceedings were pending with the regulatory authority to determine the details of the number portability ordinance. Following a decision of the regulatory authority issued in August 2004 the service was launched on 16th October, 2004, while there are ongoing discussions on the amount of porting fees paid by the customers and the new provider. The administrative court has repealed this decision in February 2005. However, it is unlikely that this has immediate effects on the provision of the service.

Access to local subscriber lines

As described above, a network operator with SMP in a particular market must allow other providers access to its network or unbundled parts of that network. Limitations on access may be based only on the EU "essential requirements" rules, which include the preservation of the security of network operations, the maintenance of network integrity, the interoperability of services and the protection of data. Agreements on network access must be based on objective criteria, must be comprehensible and must provide non-discriminatory unbundled access with equal opportunity of access to an operator's telecommunications network.

In light of these obligations, various competitors have requested a reference unbundling offer which contains the conditions according to which Telekom Austria provides them access to local subscriber lines, also called unbundling of the local loop. Agreements have been reached on ULL with Inode, etel, colt on prices and conditions; further negotiations with two other providers are ongoing. Allowing competitors to connect to customer access lines also gives them direct access to customers without having to construct local networks on their own. Therefore, competitors may use Telekom Austria's customer access lines to offer a wide range of services. Telekom Austria receives a flat monthly fee from the operators, irrespective of the bandwidth transmitted. The regulatory authority's decisions to date are not restricted to voice telephony or a certain bandwidth. Telekom Austria has always adapted Telekom Austria's reference unbundling offer to these decisions. At 31st December, 2004, Telekom Austria has entered into agreements with about 34 competitors concerning unbundling the local loop and about 73,000 subscriber lines have been fully unbundled.

A related issue is collocation, whereby Telekom Austria must grant space to operators requesting unbundling, which must be physically close to the telecommunications lines. The regulatory authority has determined that such space must be leased at market rates. Telekom Austria has filed appeals with the Supreme Administrative Court on the basis that the imposed monthly and one-time fee per customer do not cover Telekom Austria's costs.

An alternative to full unbundling is high speed bit stream access in which an operator installs a high speed access link to the customer's premises, for example by installing its preferred DSL equipment and configuration in its local access network. The access link must be made available to third parties to enable them to provide high speed services to customers. This form of unbundling is available on demand as a result of an agreement with ISPA, the organization of Austrian Internet Service Providers, and became effective in March 2000. The agreement has been frequently amended to reflect technical changes.

In light of the European Union Regulation on Unbundling of the Local Loop which became effective at the beginning of 2001, the regulatory authority requires Telekom Austria to offer shared use. With shared use of the copper subscriber line, one of the operators provides telephone service, while the other delivers high speed data services over the same subscriber line using its own high-speed DSL modems. Telephone traffic and data traffic are separated by means of a splitter before the switch.

The line remains connected to and part of the public switched telephone network. While Telekom Austria is presently required to offer shared use, there has been no significant demand in the Austrian market for such usage so far and Telekom Austria appealed against this decision.

Frequency spectrum

In December 2003, the regulatory authority granted a regional 5 MHz GSM-1800MHz-frequency spectrum to mobilkom austria, free of charge.

Numbering

Pursuant to the 2003 Telecommunications Act, the national telephone numbering system is administered by the regulatory authority and the minister. The regulatory authority must allocate numbers for all applications (geographical, non-geographical), including numbers which provide access to services (toll-free, shared cost and value-added services as well as emergency services and special numbers). The regulatory authority is also responsible for designing the numbering plan set out in the Numbering Ordinance, which has been replaced by the Ordinance for Numbering, Tariffs and Value-added Services.

According to this ordinance operators are required to ensure interoperability to all customers, independent of the operator they use. Moreover, pre-selection of a carrier and call-by-call selection must be offered by operators with SMP and in addition, customers must have the option of overriding their pre-selected carrier on a call-by-call basis. The selected carrier, whether on a call-by-call or a pre-selected basis, is responsible for billing and collecting the fees for the call.

Universal service

The 2003 Telecommunications Act sets forth the framework for universal service in Austria. Universal service is defined as the minimum public services that all users must have access to, at an affordable price and at a specific quality level, independent of their place of residence or business. The scope of universal service comprises access to public voice telephony via fixed line including fax, modem and functional access to internet (excluding broadband), access to a comprehensive directory enquiry

service, access to a comprehensive telephone directory and the full area coverage of public payphones at accessible locations. Pursuant to the Telecommunications Act 2003 Telekom Austria has been the only provider that was required to provide universal service until 31st December, 2004. The Federal Minister of Transport, Innovation and Technology has determined that the general conditions for a tender procedure exist for the comprehensive directory services and the provision of comprehensive enquiry services. Regarding the other elements of universal services, Telekom Austria remains the universal service provider until the next review which will be scheduled within the next five years. In the event that the provision of a universal service should lead to a deficit, the regulatory authority will create and manage a Universal Service Fund. All operators of telecommunications services which generate revenues of more than EUR 5 million per year will contribute according to their revenues in relation to the revenues of the other operators. The amount of the contribution will be fixed by the regulatory authority.

Regarding the net costs of the universal service in the past, a bilateral agreement between Telekom Austria and alternative network operators has been reached. This agreement covers the period of the last six years and comprises a refund of EUR 14.9 million. Austria is one of the first countries of the European Union where the implementation of such a refund has been accomplished.

Telekom Austria's Properties

The consolidated financial statements of Telekom Austria show a net value for property, land and equipment of EUR 3,888.7 million in 2004 and EUR 4,457.7 million in 2003. The acquisition costs were EUR 10,863.6 million in 2004 and EUR 10,682.3 million in 2003. The acquisition costs include, among others, communications network and other equipment totaling EUR 9,506.6 million, land totaling EUR 59.2 million and buildings totaling EUR 689.6 million at 31st December, 2004. The item communications network and other equipment primarily include switching and transmission equipment as well as access and trunk cables.

The properties of Telekom Austria consist primarily of buildings with integrated technical facilities, such as switching devices, transmission towers, antennas and, to a relatively small extent, administrative buildings. In addition to the buildings Telekom Austria owns, it also leases space. At 31st December, 2004, the Company used about 2,075 facilities, of which approximately 32 per cent. were leased. The majority of the Company's information technology equipment is located at its own premises of approximately 11,000 square meters in Vienna. The Company's main switching and transmission equipment is based in its Arsenal facility, which occupies approximately 90,000 square meters in Vienna's third district.

Litigation

Telekom Austria and its subsidiaries are involved in a number of legal proceedings in the ordinary course of business. The following is a summary of litigation matters outside the ordinary course of Telekom Austria's business.

Telekom Austria Group. The Vienna public prosecutor's office is investigating whether legal proceedings should be opened against Telekom Austria's management in connection with allegations published in the Austrian press to the effect that Telekom Austria's civil servants, like other civil servants of other present or formerly state-owned Austrian enterprises have been granted early retirement on medical grounds based upon fraudulent medical certificates. Telekom Austria has publicly stated that in management's view it has fully complied with applicable law and it is fully cooperating with the investigation.

In addition, the audit court of the Republic of Austria, the Rechnungshof, has begun an investigation into the early retirement practices of several current and formerly state owned enterprises, including Telekom Austria, to determine whether there has been any abuse of the current legal framework for early retirement. As the authority of the Rechnungshof to review Telekom Austria's retirement policy is not clear, Telekom Austria denied any access to Telekom Austria's files; in 2003 the Rechnungshof has started proceedings with the Austrian Constitutional Court to render a ruling on whether it has the right of access to Telekom Austria's files. The proceedings are still pending.

mobilkom austria. Six claims have been brought against Telekom Austria's subsidiary mobilkom austria relating to alleged health problems caused by the emission of radiation through mobile communications transmitting and receiving stations. Some of these claims also seek damages for the alleged decrease in the value of the plaintiff's real estate. In the first of the six proceedings, an initial ruling has been made, only pertaining to the gathering of expert reports through the appellate court, and a later date was set for the remaining five proceedings. In three of these proceedings, the parties agreed to

suspend the case until a decision had been reached in the first proceedings. In the other two proceedings, the claimants failed to gain a provisional injunction. The claimants have appealed. In one of these two cases the Court of Appeal rendered a decision, which is now effective. The right of forbearance has been rejected, because the claimant could not prove that health problems are caused by electromagnetic radiation from mobilkom austria's base transceiver station. One claim has been rejected by the Court of Appeal. Six claims are still pending in which mobilkom austria is alleged to be responsible for a decrease of value of property adjoining transmitting and receiving stations.

mobilkom austria is involved in a number of proceedings before the Supreme Administrative Court for alleged breaches of environmental or zoning laws. In one of these cases, a decision was rendered by a lower court obliging mobilkom austria to remove a mobile communications transmitting and receiving station. mobilkom austria has appealed against this decision.

A competitor in the bidding process for the license granted to mobilkom austria's subsidiary Si.mobil by the Slovenian government filed a claim to nullify the license granted to Si.mobil and the Concession Agreement entered into between Si.mobil and the Slovenian government in 1998. The Slovenian Supreme Court nullified the license decision for failure to comply with form requirements, whereupon the government issued a new license decision complying with the procedural instructions of the Supreme Court. The former competitor in the bidding process thereupon appealed the new license decision. This appeal has been pending since 1999. Management believes that this claim has a low likelihood of success.

A labour union group has instituted legal action to avoid Telekom Austria's new achievement-orientated payment-model at mobilkom austria introduced in 1st January, 2004. The claim is based on the view that such payment model arrangements require an agreement among the Company and employee representatives. The trade union group argues that in the absence of such an agreement the payment model is not enforceable and the former payment model should be applied. Telekom Austria expects the court of first instance to decide by the end of 2005.

The same labour union group instituted legal action with the aim that Telekom Austria's computer program to design duty rosters can no longer be used. This computer program replaced the former program which was also computer based. The trade union argues that the launch of this new program would have required an agreement between management and employee representatives. In the absence of such an agreement the former computer program should be used to design Telekom Austria's duty roster. Telekom Austria expects the court of first instance to decide by the end of 2005.

Some contractual settlements in Telekom Austria's collective agreement concern special payments for employees who work on Sundays, on bank holidays or at night. The labour union group has taken legal action because of different legal positions between them. Due to an out-of-court settlement with the labour union group, the legal proceedings against mobilkom were discontinued in 2004.

In 2000 mobilkom austria was awarded a UMTS license and paid the license fee under the assumption that the fee included VAT. However, the Republic of Austria refused to issue an invoice and mobilkom austria has filed a claim for a refund with the competent court. Other mobile operators have filed similar claims. The European Court of Justice has been asked for clarification (Preliminary Rulings). The ruling of the European Court is binding on the Austrian Court, which will continue the proceedings and decide on the merits once the listing is issued. mobilkom austria has also filed a claim against the regulatory authority regarding the same issue, but as agreed by both parties, this claim will be stayed until the decision in the other proceedings against the Republic of Austria is rendered.

Regulatory matters regarding Telekom Austria and mobilkom austria. mobilkom austria has filed a number of appeals against decisions by the regulatory authority regarding interconnection, the determination of SMP up to 2001, and tariff approval for its A1-Total product (which concerns the provision of voice telephony through fixed lines). These appeals were pending at the Supreme Administrative Court and the Constitutional Court on 31st December, 2004. Between mid-2001 and October, 2004, the regulatory authority did not consider mobilkom austria to have SMP.

In December 2004, mobilkom austria filed two complaints (one at the Supreme Administrative Court, the other at the Constitutional Court) against the decision of the regulatory authority from October 2004 determining SMP in the market for "*termination in each individual mobile network*". Other operators have appealed as well.

Mobile Number Portability is regulated by the Telecommunications Act 2003. In August 2004 the regulatory authority decided that Mobile Number Portability should come into force on 16th October,

2004. The regulatory authority ruled by notice the relationship between mobilkom austria and two competitors with regard to Mobile Number Portability. The decision requires mobilkom austria to charge at a maximum a certain amount for each piece of information provided based on the individual costs of porting. In February 2005 the Administrative Court repealed the decision between mobilkom austria and one of the competitors. As a consequence, the regulatory proceeding is again pending, and negotiations with the operator are ongoing. However, Telekom Austria considers that it is unlikely that this will have significant effects on the provision of the service.

On 19th December, 2004, the regulatory authority decided that mobilkom austria may not charge more than a certain amount for the actual porting. mobilkom austria has taken legal action and has appealed against this decision.

Furthermore, there are also legal actions pending between mobilkom austria and a competitor based on private and competition law, with regard to the porting costs charged to consumers. The competitor's claims with regard to messages used by mobilkom austria in its advertising were rejected by the court. mobilkom austria took action against the competitor with regard to its advertisement, alleging a breach of competition law. mobilkom austria obtained an injunction with regard to a part of this claim and with regard to messages used by mobilkom austria in its advertisement. mobilkom austria took action against the competitor with regard to their advertisement alleging a breach of competition law.

In March and April 2005 Telekom Austria filed three complaints with the Supreme Administrative Court against the decision of the regulatory authority determining SMP in the markets for "*publicly available local and/or national telephone services provided at a fixed location for residential and non-residential customers*" and in the market for "*publicly available international telephone services provided at a fixed location for non-residential customers*".

Management and Employees of Telekom Austria

Management Board

<u>Name</u>	<u>Term of appointment</u>	<u>Area of responsibility</u>
Heinz Sundt	11th April, 2000 – 10th April, 2007	Chairman of the Board, Chief Executive Officer (CEO)
Stefano Colombo	11th April, 2000 – 10th April, 2007	Chief Financial Officer (CFO)
Rudolf Fischer	1st November, 1998 – 10th April, 2008*	Chief Operating Officer Wireline (COO Wireline)
Boris Nemsic	1st July, 2002 – 10th April, 2008*	Chief Operating Officer Wireless, (COO Wireless), Vice Chairman and Chief Executive Officer of mobilkom austria

*If the Supervisory Board does not inform the respective member of the Management Board by 10th April, 2007 that his mandate for the Management Board will not be extended, the respective mandate is automatically extended for a further two years, and will end on 10th April, 2010.

Supervisory Board

<u>Name</u>	<u>Term of appointment</u>	<u>Area of responsibility</u>
Peter Michaelis (Chairman)	28th June, 2001	Speaker of the Management Board of OIAG
Edith Hlawati (Vice Chairperson)	28th June, 2001	Attorney
Hans Haider	4th June, 2003	CEO Verbund
Stephan Koren	17th September, 1999	CEO Österreichische Postsparkasse AG
Rainer Wieltsch	12th June, 2002	Member of the Management Board of OIAG
Harald Sommerer	4th June, 2003	Member of the Management Board of AT&S
Harald Stöber	4th June, 2003	CEO Arcor AG & Co.
Otto G. Zich	17th September, 1999	Former General Director Sony Europe
Peter Mitterbauer	15th July, 2005	CEO Miba AG
Wilfried Stadler	15th July, 2005	CEO Investkredit Bank AG
Walter Hotz	9th December, 2003	Employee representative
Michael Kolek	20th March, 2002	Employee representative
Franz Kusin	6th August, 2004	Employee representative
Wilhelm Eidenberger	30th April, 2001	Employee representative
Markus Hinker	15th July, 2005	Employee representative

The business address of the persons listed above is Lassallestrasse 9, A-1020 Vienna. There are no potential conflicts of interest between the duties to Telekom Austria of the persons listed in this section and their private interests or other duties.

With the publication of its 2003 Annual Report, Telekom Austria announced its voluntary compliance with the Austrian Corporate Governance Code (the “**Code**”). The respective declaration has been published on its corporate website www.telekom.at. In accordance with the Code, Telekom Austria’s adherence to the rules stipulated in the Code was externally evaluated and no facts were discovered that contradicted the declaration of the Management Board and Supervisory Board concerning compliance with the Code.

Audit Committee

The Supervisory Board has established the Financial Committee (*Finanzausschuss*), which also acts as the Company’s Audit Committee. Its members are Rainer Wieltsch, Harald Sommerer and Michael Kolek. The Financial Committee, whose duties, responsibilities and processes are set out in separate by-laws, fulfil the requirements of the Austrian Corporate Governance Code and take into account the

Sarbanes-Oxley requirements. On 18th November, 2003, the Supervisory Board extended the responsibility of the Financial Committee to become an Audit Committee meeting the requirements under the Sarbanes-Oxley Act. The Audit Committee now comprises two shareholder representatives and one employee representative. The Audit Committee oversees Telekom Austria's internal and external accounting processes. On the basis of reports provided by the independent auditors, it reviews Telekom Austria's quarterly and annual financial statements, and informs the Supervisory Board about its recommendation whether or not to approve the annual financial statements. In addition, the Audit Committee will oversee the Company's internal control system and the procedures for assessing, monitoring and managing risk. The Audit Committee is responsible for liaising between Telekom Austria and its independent auditors. In particular, it awards the audit contract to the independent auditors elected by the Company's AGM and determines the focal points of their audit as well as their fee. In addition, the Audit Committee monitors the auditors' independence. In accordance with the requirements of the Sarbanes-Oxley Act, the Supervisory Board has designated Harald Sommerer the independent financial expert of the Audit Committee.

Employees

At 31st December, 2004, approximately 51 per cent. of all employees of Telekom Austria Group were civil servants and 49 per cent. were private law employees. The employment of civil servants is regulated by the Post Restructuring Act of 1996, as amended, and related laws. The Company's employees were taken over from the Republic of Austria's civil administration upon the formation of PTA on 1st May, 1996. Since 1st May, 1996, the Company's newly hired employees are no longer given civil servant status but are instead private law employees. In Austria, civil servants' employment cannot be terminated without their consent unless this termination is made for gross breach of their civil servant duties, as defined in the Civil Servants Employment Act (Beamten-Dienstrechtsgesetz) of 1979, as amended.

At the end of 2004, 9,682 persons were employed in the Wireline segment, as opposed to 10,234 in 2003. The headcount for the Wireless segment was 3,625 at year end 2004 as opposed to 3,656 at year end 2003.

MobilTel

The following unaudited pro forma condensed combined financial information combines the historic consolidated statements of operations of Telekom Austria for the nine month periods ended 30th September, 2004 and 2005 and the pro forma condensed combined financial information of MobilTel for the nine month periods ended 30th September, 2004 and 2005. The following pro forma financial information is provided in thousand euro.

This financial information gives effect to Telekom Austria's acquisition of 100 per cent. of the shares of MobilTel (including Alabin 48 OOD ("*Alabin*")). The shares in MobilTel and Alabin were acquired by TAG-Tel EAD ("*TAG-Tel*"), a wholly-owned subsidiary of Telekom Austria. The purchase price allocation reflects the estimated fair value of the assets acquired and the liabilities assumed by Telekom Austria. Such allocations are preliminary and will be adjusted upon the final determination of fair values.

This information is derived from the unaudited interim financial statements for the period ended 30th September, 2004 and 2005 of Telekom Austria and MobilTel. The financial information was prepared in accordance with the accounting principles generally accepted in the United States of America ("*US-GAAP*").

Transactions between Telekom Austria and MobilTel have been eliminated in the accompanying unaudited pro forma condensed combined financial information. Such consolidating adjustments include elimination of intercompany revenues, expenses and profits.

The unaudited pro forma condensed combined financial information is for illustrative purposes only and should be read in conjunction with the historical financial statements and related notes of Telekom Austria. Pro forma financial information addresses, because of its nature, a hypothetical situation. Consequently, the pro forma condensed combined financial results are not necessarily indicative of the historical results that would have occurred if the business combination had been completed on the dates indicated or which may result in the future.

In accordance with US-GAAP, the pro forma condensed combined financial information is prepared as if the acquisition of MobilTel by Telekom Austria was effected on 1st January, 2004 and on 1st January, 2005. All income statement effects arising as a result of the business combination were

recognised in the nine month periods ended 30th September, 2004 and 2005. The adjustments recognised are explained in detail on page 89.

The pro forma financial information has been prepared using the following facts and assumptions:

- 1) Telekom Austria has acquired 100 per cent. of MobilTel for a total aggregate cash purchase price of EUR 1,114,077 as of 12th July, 2005, including direct cost of acquisition of EUR 7,155 and a deferred consideration of EUR 181,871 due on 31st December, 2005. Additionally, consideration of maximum EUR 100,191 which was contingent on the achievement of some financial ratios and performance measurements in August and September 2005, was paid.
- 2) The purchase price allocation shown below is based on preliminary estimates of the fair value using information available at the date of preparation. Telekom Austria is in the process of obtaining independent appraisals of the acquired property, plant and equipment, intangible assets and estimates of their remaining useful lives. Telekom Austria is also obtaining fair value of the other assets acquired and liabilities assumed. Accordingly, the allocation of the purchase price to the acquired assets and liabilities of MobilTel is subject to revision as a result of the final determination of appraised fair values. Management is not aware of any circumstances other than deferred taxes (for which there are some uncertainties regarding the tax implications for MobilTel resulting from its acquisition by BidCo AD, a special purpose vehicle incorporated for the sole purpose of acquiring MobilTel's shares, the subsequent merger of MobilTel into BidCo AD and its renaming back to MobilTel, all of which occurred prior to Telekom Austria's acquisition of MobilTel) that would cause the final purchase price allocation to differ from the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition which is reflected in the following table:

Current assets.....	110,974
Tangible assets.....	274,031
Intangible assets	870,740
Goodwill	585,260
Current liabilities.....	(376,609)
Long-term liabilities.....	(238,639)
Other liabilities.....	(11,489)
Net assets acquired	<u>1,214,268</u>

- 3) The financial information for 2004 is based on MobilTel's pro forma financial statements. The pro forma financial information includes the actual financial results of MobilTel and incorporates all the transactions that have happened in the course of a business combination in 2004. These include the following transactions:
 - i. Acquisition of MobilTel EAD and subsequent post acquisition merger.
 - ii. Loans obtained in relation to financing the acquisition and all related interest and pertinent underwriting cost
 - iii. Increase in share capital.

**Unaudited Financial Information for the
nine months ended 30th September, 2004
Adjustments**

	TELEKOM	MOBILTEL	Preliminary Purchase Price Allocation	Elimination	Financing	Pro forma for the nine months ended 30th September, 2004
Operating revenues.....	3,031,245	358,680	(4,840)	(2,124)		3,382,961
Operating expenses.....	(2,619,401)	(167,045)	(50,456) ^{a)b)c)}	2,124		(2,834,778)
OPERATING INCOME.....	411,844	191,635	(55,296)	0	0	548,183
Other income (expense).....	(79,865)	(7,533)	5,045 [†]		(44,023) ^{d)}	(126,376)
INCOME BEFORE INCOME TAXES, EQUITY IN EARNINGS OF AFFILIATES AND MINORITY INTEREST	331,979	184,102	(50,251)	0	(44,023)	421,807
income tax (expense) benefit	(129,169)	(36,116)	9,434 [‡]		11,618 [§]	(144,233)
INCOME BEFORE MINORITY INTEREST	202,810	147,986	(40,817)	0	(32,405)	277,574
Minority interest.....	(521)	0	0			(521)
NET INCOME.....	202,289	147,986	(40,817)	0	(32,405)	277,053

- 4) The pro forma information for the nine month period ended 30th September, 2005 is based on actual amounts reported for MobilTel, Alabin and TAG-Tel for the period 12th July, 2005 until 30th September, 2005, which already include the income statement effects from the purchase price allocation and the financing of the purchase price. The amounts reported in the columns “Preliminary Purchase Price Allocation” and “Financing” therefore only include adjustment for the period 1st January, 2005 until 12th July, 2005.

**Unaudited Financial Information for the
nine months ended 30th September, 2005
Adjustments**

	TELEKOM	MOBILTEL	ALABIN	TAGTEL	Preliminary Purchase Price Allocation	Elimination	Financing	The nine months ended 30th September, 2005
Operating revenues.....	3,081,734	392,740	5,377		(869)	(12,041)	0	3,466,941
Operating expenses.....	(2,571,626)	(247,274)	(5,624)	(118)	7,719 ^{a)b)c)}	12,041		(2,804,882)
OPERATING INCOME.....	510,108	145,466	(247)	(118)	6,850	0	0	662,059
Other income (expense).....	(67,184)	(22,116)		2,125	0 [‡]	0	(15,584) ^{d)}	(102,759)
INCOME BEFORE INCOME TAXES, AND MINORITY INTEREST.....	442,924	123,350	(247)	2,007	6,850	0	(15,584)	559,300
Income tax (expense) benefit..	(102,382)	(21,507)	37	(304)	(1,028) [‡]	0	3,166 [‡]	(122,018)
INCOME BEFORE MINORITY INTEREST.....	340,542	101,843	(210)	1,703	5,822	0	(12,418)	437,282
Minority interest.....	0	(3)	0		0	0	0	(3)
NET INCOME.....	340,542	101,840	(210)	1,703	5,822	0	(12,418)	437,279

The adjustments to give effect to Telekom Austria’s acquisition of MobilTel are as follows:

- a) **Customer Base:** Recognised customer base totalling EUR 508,700 in accordance with preliminary appraisal. The customer base is being amortised over its estimated useful life of 7 years.
- b) **Licenses:** Recognised fair value of license totalling EUR 99,000 in accordance with preliminary appraisal. The licenses are being amortised over its estimated remaining useful lives.
- c) **Fixed assets:** Recognised the fair value of fixed assets in accordance with preliminary appraisals. Fixed assets are depreciated over their estimated remaining useful life.
- d) **Debt TA:** Interest costs totalling EUR 44,023 incurred on the debt to finance the acquisition are recognised in 2004. In 2005 the interest income on the funds generated for the time period from issuing the bond under the EMTN Programme to partially finance the acquisition until the actual payment of the purchase price was eliminated from interest income and interest expense was recognised for the purchase price excess the debt incurred under the EMTN Programme.
- e) **Debt of MobilTel:** Recognised the fair value of MobilTel’s long-term debt. The step up is amortised over the remaining life of the loan into interest income.

- f) **Deferred tax:** Deferred tax was recorded on the difference of the fair values and the tax values of assets acquired and liabilities assumed. Related income tax effect was recognised on amortisation expense and other effects resulting from purchase price allocation and on other adjustments for financing the purchase price.

Of the adjustments listed above, the amortisation of the customer base and the licenses, the depreciation of fixed assets and the interest expense resulting from the financing of the purchase price and related tax effects will have a continuing impact on the results of Telekom Austria. Goodwill recognised will only have an impact if an impairment charge has to be recorded in future periods. Other insignificant items not listed above will only have a minor (if any) impact on the financial results.

FORM OF GUARANTEE

Set out below is the text of the Guarantee to be given by the Guarantor in respect of Notes issued from time to time by TFG:

THIS GUARANTEE is given on 20th December, 2005 by Telekom Austria Aktiengesellschaft (the “**Guarantor**”).

WHEREAS:

- (A) The Guarantor has agreed to guarantee the obligations of Telekom Finanzmanagement GmbH (the “**Issuer**”) in respect of the Notes (the “**Notes**”) issued by it under the EUR 5,000,000,000 Euro Medium Term Note Programme established by the Issuer and the Guarantor (the “**Programme**”).
- (B) The Issuer has executed a Deed of Covenant on 20th December, 2005 (as amended, supplemented or restated from time to time, the “**Deed of Covenant**”) relating to certain Notes issued by the Issuer under the Programme.
- (C) Terms defined in the Conditions of the Notes (the “**Conditions**”) and in the Agency Agreement dated 20th December, 2005 between, *inter alios*, the Issuer, the Guarantor and The Bank of New York and not otherwise defined in this Guarantee shall have the same meaning when used in this Guarantee.

NOW, THEREFORE, the Guarantor executes and delivers this Guarantee for the benefit of the Noteholders, Receiptholders and Couponholders as follows:

1. The Guarantor as primary obligor unconditionally (except as specifically set out herein), irrevocably and independently:
 - (a) as holding company of the Issuer, undertakes to the holder from time to time of each Note, Receipt or Coupon to exert any influence and/or to use its voting rights in the Issuer to ensure that it will at all times perform and comply with its obligations under the Notes, Receipts and Coupons or under the Deed of Covenant (including any premium or additional amount which may become payable under the foregoing) in any and all respects; and
 - (b) agrees in favour of the holder of each Note, Receipt or Coupon to pay to the relevant Noteholder, Receiptholder or Couponholder the amount set out in the confirmation (referred to below) by such Noteholder, Receiptholder or Couponholder upon first written demand by such Noteholder, Receiptholder or Couponholder including a written confirmation by such Noteholder, Receiptholder or Couponholder of the failure of the Issuer to perform its obligations in respect of the Notes or the Deed of Covenant and the amount due in respect thereof. In so agreeing, the Guarantor waives all rights of objection and defence arising from and irrespective of the validity and the legal effects of the Issuer’s obligations in respect of the Notes, Receipts, Coupons or under the Deed of Covenant and irrespective of any matter or thing which might operate to affect the obligations of the Guarantor, including, without limitation any time or indulgence granted to or composition with the Issuer or any other person, the taking, variation, renewal or release of remedies or securities against the Issuer or any other person, or any unenforceability, invalidity or irregularity (*unbedingt, unwiderrufflich, ueber erste Anforderung und unter Verzicht auf alle Einwendungen*). This Guarantee given by the Guarantor is meant to be and shall be interpreted as an “*abstrakter Garantievertrag*” pursuant to section 880a of the Austrian General Civil Code (*Allgemeines Bürgerliches Gesetzbuch*), and not as surety (*Bürgschaft*) or as a joint obligation as a borrower (*Mitschuldner*).
2. All payments by the Guarantor under this Guarantee shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed or levied by or on behalf of Austria, or any political sub-division of, or any authority in, or of, Austria having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or, as the case may be, Coupons, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of such Note, Receipt or Coupon by reason of his having some connection with Austria other than the mere holding of such Note, Receipt or Coupon; or
 - (b) presented for payment more than 30 days after the Relevant Date (as defined in Condition 8) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6(e)); or
 - (c) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
 - (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
 - (e) to, or to a third party on behalf of, a holder who, being a holder of Notes in definitive form and/or holding such Notes other than through a clearing system and being entitled to avoid being liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption in the Tax Jurisdiction, fails to make such a declaration or claim.
3. Where any discharge (whether in respect of the obligations of the Issuer or any security for the obligations of the Issuer or otherwise) is made in whole or in part or any arrangement is made on the faith of any payment, security or other disposition which is avoided or must be repaid on bankruptcy, liquidation or otherwise without limitation, the liability of the Guarantor under this Guarantee shall continue as if there had been no discharge or arrangement. The holder of any Note, Receipt or Coupon, shall be entitled to concede or compromise any claim that any payment, security or other disposition is liable to avoidance or repayment.
 4. So long as any of the Senior Notes remains outstanding (as defined in the Agency Agreement), the Guarantor will not and shall procure that no Material Subsidiary (as defined in the Agency Agreement) of the Guarantor will, create or have outstanding any mortgage, lien (other than solely by operation of law), pledge or other charge upon the whole or any part of its undertaking or assets, present or future, (including any uncalled capital) to secure any Public Debt of any Person or any obligation of any Person under any guarantee of or indemnity in respect of any Public Debt of any other Person without at the same time or prior thereto securing the Notes equally and rateably therewith or providing such other security for the Notes as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders.

Nothing in this clause 4 shall prevent the Guarantor or any Material Subsidiary of the Guarantor, from creating or permitting to subsist a mortgage, lien, pledge or other charge upon a defined or definable pool of its assets including, but not limited to, receivables (not representing all of the assets of the Guarantor or any Material Subsidiary of the Guarantor) (the “**Secured Assets**”) which is or was created pursuant to any securitisation or like arrangement in accordance with established market practice (whether or not involving itself as the issuer of any issue of asset backed securities) and whereby all payment obligations in respect of the Public Debt of any Person or under any guarantee of or indemnity in respect of the Public Debt of any other Person, as the case may be, secured on, or on an interest in, the Secured Assets are to be discharged solely from the Secured Assets (or solely from (i) the Secured Assets and (ii) assets of a Person other than the Issuer, the Guarantor or any Material Subsidiary of the Issuer or the Guarantor).

“**Public Debt**” means indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange, over-the-counter, or other established securities market.

“**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state, agency of a state or other entity, whether or not having separate legal personality.
 5. The Guarantor represents and warrants that the obligations of the Guarantor under this Guarantee constitute the direct, unconditional, unsubordinated and (subject to the provisions of clause 4) unsecured obligations of the Guarantor and rank *pari passu* among themselves and (save for certain

obligations required to be preferred by law) equally with all other unsecured and unsubordinated obligations of the Guarantor, including, for the avoidance of doubt, any guarantee provided by the Guarantor, from time to time outstanding and that all necessary consents, approvals and authorisations for giving and implementing the Guarantee have been obtained.

6. Until all amounts which may be or become payable under the Notes, Receipts and the Coupons have been irrevocably paid in full, the Guarantor shall not by virtue of this Guarantee be subrogated to any rights of any holder of any Note, Receipt or Coupon or claim in competition with the holders against the Issuer.
7. This Guarantee shall enure for the benefit of and the obligations contained herein are owed to each and every Noteholder, Receiptholder and Couponholder. The Guarantee shall be deposited with and held by the Agent. Subject to mandatory provisions of Austrian law, each and every Noteholder, Receiptholder and Couponholder shall be entitled severally to enforce the said obligations against the Guarantor.
8. This Guarantee shall bind the successors, assigns, receivers, trustees and representatives of the Guarantor. The Guarantor shall not transfer, which shall, for the avoidance of doubt, also encompass any transfer in the course of a corporate restructuring including by merger or spin-off, its obligations hereunder in any circumstances without the explicit prior written approval of the Noteholders, Receiptholders and/or Couponholders.
9. Each of the provisions contained in this Guarantee shall be severable and distinct from one another and if at any time one or more of such provisions is or becomes invalid, illegal or unenforceable, this shall not affect, prejudice or impair the validity, legality and enforceability of the remaining provisions hereof. The invalid, illegal or unenforceable provision shall be replaced by a provision which best meets the intent of the replaced provision. Changes, supplements and amendments of this Guarantee including this subsection shall be made in writing and require the explicit consent of the Noteholders, Receiptholders and/or Couponholders.
10. Subject to compliance by the relevant Noteholder, Receiptholder or Couponholder with paragraph 11 below, any Austrian tax, including transfer taxes, stamp duties, and costs and expenses incurred in connection with the defence against the payment of taxes and stamp duties by a Noteholder, Receiptholder and Couponholder in connection with this Guarantee are borne directly by the Guarantor. The Guarantor agrees to indemnify each and every Noteholder, Receiptholder and Couponholder without delay for any such Austrian taxes, including transfer taxes, stamp duties, and costs and expenses incurred in connection with the defence against the payment of taxes and stamp duties.
11. Each Noteholder, Receiptholder and Couponholder undertakes not to bring the original, or a certified copy, of this Guarantee into Austria, unless an Austrian court of competent jurisdiction requires the presentation of such original or certified copy to enable the Noteholder, Receiptholder or Couponholder to enforce any claim in relation to this Guarantee.
12. This Guarantee is governed by, and shall be construed in accordance with, the laws of the Republic of Austria, except for its rules on the conflict of laws.
 - (a) Subject to (b) below, the Guarantor irrevocably agrees for the benefit of the Noteholders, the Receiptholders and the Couponholders that the courts of Austria are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with this Guarantee and accordingly submit to the exclusive jurisdiction of the Austrian courts. Place of jurisdiction is Vienna, Inner District.
 - (b) The Noteholders, the Receiptholders and the Couponholders may take any suit, action or proceeding arising out of or in connection with this Guarantee (together referred to as "**Proceedings**") against the Guarantor in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

TELEKOM AUSTRIA AKTIENGESELLSCHAFT

TAXATION

Austrian Taxation

The summary below does not claim to fully describe all tax consequences of a decision to invest in the Notes. It does not take into account or discuss the tax laws of any country other than Austria nor does it take into account specific double taxation treaties nor the investors' individual circumstances, financial situation or investment objectives. Prospective investors are advised to consult their own professional advisors with regard to their particular circumstances.

Austrian residents

Income derived from the Notes by individuals with a domicile (*Wohnsitz*) or their habitual abode (*gewöhnlicher Aufenthalt*) in Austria or by corporate investors with their corporate seat or place of management in Austria (“*residents*”) is taxable pursuant to the Income Tax Act (*Einkommensteuergesetz*) or the Corporate Income Tax Act (*Körperschaftsteuergesetz*).

Generally, income arising from the Notes will qualify as capital income from debt-securities (*Kapitalerträge aus Forderungswertpapieren*). Capital income arising from the Notes includes interest payments as well as capital income realised upon redemption (being the difference between the issue price and the redemption price; a 2 per cent. tax-exempt threshold applies pursuant to the Income Tax Act to notes bearing interest paid out on an ongoing basis), prior redemption or sale of the Notes.

If such capital income is paid out by a coupon paying agent (*Kuponauszahlende Stelle*) located in Austria (where the coupon paying agent is a bank, including an Austrian branch of a non-Austrian bank, or is the Issuer), it is subject to 25 per cent. Austrian withholding tax (*Kapitalertragsteuer*).

Provided that the Notes have been offered to the public for the purposes of section 97 of the Austrian Income Tax Act (“*legal and factual public offer*”), the 25 per cent. withholding tax constitutes a final taxation (*Endbesteuerung*) for all individuals, no matter whether they act as private investors or hold the Notes as business property. Final taxation means that no further income tax will be assessed and the capital income is not to be included in the investor's income tax return. If the individual's rate of income tax is lower than the 25 per cent. withholding tax, the withholding tax will, if requested, be credited against the income tax liability and the excess amount shall be refunded. As a consequence of the final taxation, expenses in connection with the Notes are not deductible.

Where there is no deduction of Austrian withholding tax because the income from the Notes is not received in Austria (not paid out by a coupon paying agent located in Austria) Austrian investors will have to declare the income derived from the Notes in their income tax returns pursuant to the Austrian Income Tax Act. A special 25 per cent. tax rate is applicable pursuant to section 37 para 8 of the Austrian Income Tax Act. Expenses incurred by the investor in connection with the Notes are not deductible.

Corporate investors deriving business income from the Notes may avoid the application of withholding tax by filing a declaration of exemption (*Befreiungserklärung*) with the coupon paying agent. Income derived from the Notes by corporate investors is subject to corporate income tax at the general rate of 25 per cent.

Private Trusts established pursuant to Austrian law (*Privatstiftung*) are exempt from the 25 per cent. withholding tax. However, income from capital investment derived from the Notes by Private Trusts is subject to 12.5 per cent. interim corporate income tax. This 12.5 per cent. interim corporate income tax may be credited against tax due on distributions of the Private Trust. If there is no legal and factual public offer of the Notes or if the Notes are held by the Private Trust as a business property, the tax rate is 25 per cent.

In the case of zero-coupon Notes the difference between the issue price and the redemption price or, in the case of a sale, the difference between the issue price and the proceeds from the sale (for private investors, however, only to the extent of the intrinsic value of the Notes or for the exceeding amount as speculative gain) is taxable. Also, income derived from discounted Notes, index-linked Notes or similar debt-claims is treated as capital income from debt securities and is therefore subject to Austrian withholding tax (where such withholding tax applies).

Rulings issued by the Austrian Ministry of Finance provide further details for the tax treatment of these and certain other financial products such as convertible bonds or “Cash or Share” (i.e. reverse convertible) certificates.

Non-residents

Income derived from the Notes by individuals who do not have a domicile or their habitual abode in Austria or by corporate investors who do not have their corporate seat or their place of management in Austria (“***non-residents***”) and who do not have a permanent establishment in Austria is not (other than EU withholding tax (see below)) taxable in Austria.

Thus, non-resident investors – in case they receive income from the Notes through a coupon paying agent located in Austria – may avoid the application of the 25 per cent. Austrian withholding tax if they keep the Notes in an Austrian deposit account and evidence their non resident-status vis-à-vis the coupon paying agent by disclosing their identity and address. Non-residents who are Austrian citizens or citizens of a neighbouring country will have to confirm their non-resident status in writing. For EU-resident individuals and the application of the EU Directive on Taxation of Savings Income, please see below.

If any Austrian withholding tax has been deducted by the coupon paying agent, the tax withheld shall be credited or refunded to the non-resident investor upon his/her application, which has to be filed with the competent Austrian tax authority within five calendar years following the year of the imposition of the withholding tax.

Where non-residents receive income from the Notes as part of business income taxable in Austria, they will be subject to the same tax treatment as resident investors.

Inheritance and gift tax

Inheritance and gift tax is levied on inheritances, gifts and special purpose donations, as defined in the Inheritance and Gift Tax Act, as amended (Erbschafts- und Schenkungssteuergesetz). The tax rate varies from 2 per cent. to 60 per cent. depending upon the value of the transferred Notes and upon the relationship of the beneficiary to the deceased or the donor.

Notes held by private investors are exempt from inheritance tax if they qualify for final (income) taxation or for the special 25 per cent. tax rate pursuant to section 37 para 8 Income Tax Act on the date of the private investor’s death (subject to a prior legal and factual public offer of the Notes). This exemption is restricted to inheritance tax and does not apply in cases of gifts and special purpose donations.

Notes held by non-resident investors are not subject to Austrian inheritance and gift tax if they are transferred (whether by reason of death, gift or special purpose donation) to another non-resident. Foreign citizens having a domicile or habitual abode within Austria on the date of their death or accession to inheritance or of the donation qualify as Austrian residents for purposes of inheritance and gift tax.

EU Directive on Taxation of Savings Income

EU Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the “***EU Savings Directive***”), which came into effect on 1st July, 2005, provides for an exchange of information between the authorities of EU member states regarding interest payments made in one member state to beneficial owners who are individuals and resident for tax purposes in another member state. Austria has implemented the EU Savings Directive by way of the EU Withholding Tax Act (*EU-Quellensteuergesetz*) which provides for an EU withholding tax rather than for an exchange of information. Such EU withholding tax is levied on interest payments within the meaning of the EU Withholding Tax Act made by a paying agent located in Austria to an individual resident for tax purposes in another member state. EU withholding tax is deducted upon payment of interest, sale or redemption of the Notes, transfer of the Notes to the securities account of another person, changes of the EU withholding tax status and transfer of the individual’s residence to another country. The EU withholding tax amounts to 15 per cent. during the first three years, 20 per cent. for the subsequent three years and 35 per cent. thereafter.

Deduction of EU withholding tax can be avoided if the EU-resident investor provides the paying agent with a certificate drawn up in his name by the tax office of his member state of residence. Such certificate has *inter alia* to indicate the name and address of the paying agent as well as the account number of the investor or the identification of the Notes.

The interpretation of interest payments within the meaning of the EU Withholding Tax Act may deviate from the interpretation of interest within the meaning of the Austrian Income Tax Act.

Luxembourg Taxation

Under Luxembourg tax law, there is currently no withholding tax on payments of principal, premium or interest, nor on accrued but unpaid interest, in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes. Luxembourg levies withholding tax on interest payments made by a Luxembourg paying agent to individual beneficial owners who are tax resident of (i) another EU Member State, pursuant to the EU Savings Directive in the form of interest payments, or (ii) certain non-EU countries and territories which have agreed to adopt similar measures to those provided for under EC Council Directive 2003/48/EC (see “*Risk Factors – EU Savings Directive*” above). Responsibility for the withholding of such tax will be assumed by the Luxembourg paying agent and not by the relevant Issuer.

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (such programme agreement as modified and/or supplemented and/or restated from time to time, the “**Programme Agreement**”) dated 20th December, 2005 agreed with the Issuers and the Guarantor a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Programme Agreement, the Issuers (failing which, the Guarantor) have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Notes to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) in relation to any Notes having a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “**FSMA**”) by the relevant Issuer;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuers or the Guarantor; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the “**Securities and Exchange Law**”) and each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws and regulations of Japan.

The Netherlands

Each Dealer has represented and agreed that any Notes with a maturity of less than 12 months will be offered in the Netherlands in accordance with the Securities Transactions Supervision Act 1995 (*Wet toezicht effectenverkeer 1995*).

Austria

Each relevant Dealer with regards to each Tranche has represented and agreed and each further Dealer will represent and agree that it will only offer Notes in Austria in compliance with the provisions of the Austrian Capital Market Act, Federal Law Gazette 1991/625, as amended (*Kapitalmarktgesetz 1991 idgF*), and any other laws applicable in Austria governing the offer and the sale of the Notes in Austria.

Whenever the Notes will be resold or sold by the purchaser and whenever investment advice is given, or brokerage services are provided in relation to the Notes, the information contained in the Prospectus must not be used for purposes of a public offer or a public solicitation to subscribe for the investment or an invitation to make an offer for the investment or any marketing or advertisement which is equivalent to such an offer or solicitation pursuant to the Austrian Capital Market Act, provided that such public offer is unlawful pursuant to the Austrian Capital Market Act. The investor is hereby informed and acknowledges that the Notes are, if no public offering takes place in Austria in conformity with the legal requirements pursuant to the Austrian Capital Market Act, distributed within Austria exclusively to qualified investors, as defined in §1/1/5a of the Austrian Capital Market Act will be approached.

If and before a public offer of a Tranche will take place in Austria and neither a prospectus exemption nor a prospectus notification procedure as defined in the Austrian Capital Market Act or the Stock Exchange Act applies, the relevant Dealer will procure to draw up and publish a prospectus in Austria and to notify the competent authorities and/or to take any other step required to make such public offer lawful in Austria.

Republic of Italy

The offering of the Notes has not been cleared by CONSOB (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

- (a) to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1st July, 1998, as amended; or
- (b) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24th February, 1998 (the “**Financial Services Act**”) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14th May, 1999, as amended.

Any offer, sale or delivery of the Notes or distribution of copies of the Prospectus or any other document relating to the Notes in the Republic of Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of 1st September, 1993 (the “**Banking Act**”); and
- (ii) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the issue or the offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics; and
- (iii) in compliance with any other applicable laws and regulations.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuers, the Guarantor nor any of the other Dealers shall have any responsibility therefor.

None of the Issuers, the Guarantor and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of the Notes have been duly authorised by a resolution of the Board of Directors of TFG dated 28th May, 2003, by a resolution of the Board of Directors of Telekom Austria dated 23rd April, 2003 and by a resolution of the Supervisory Board of Telekom Austria dated 28th April, 2003. The current update has been made pursuant to those authorisations. The giving of the Guarantee has been duly authorised by a resolution of the Board of Directors of the Guarantor dated 23rd April, 2003 and by a resolution of the Supervisory Board of the Guarantor dated 28th April, 2003.

Listing of Notes

Application has been made to the CSSF for this document to be approved as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market. The Luxembourg Stock Exchange has allocated the number 12867 to the Programme for listing purposes for Telekom Austria, and the number 13204 to the Programme for listing purposes for TFG. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Investment Services Directive (Directive 93/22/EEC) and Directive 2004/39/EC on Markets in Financial Instruments. The listing of the Programme in respect of Notes is expected to be granted on or before 20th December, 2005.

Documents Available

For the period of 12 months following the date of this Prospectus, copies of the following documents will, when published, be available from the registered office of the Issuers and from the specified office of the Paying Agent for the time being in Luxembourg:

- (i) the constitutional documents of Telekom Austria and the constitutional documents of TFG;
- (ii) the audited annual financial statements of TFG in respect of the financial years ended 31st December, 2004 and 31st December, 2003 and the consolidated audited and audited non-consolidated annual financial statements of Telekom Austria in respect of the financial years ended 31st December, 2004 and 31st December, 2003 (with an English translation thereof), in each case together with the audit reports prepared in connection therewith. Telekom Austria currently prepares audited consolidated and audited non-consolidated accounts on an annual basis; TFG currently prepares audited non-consolidated accounts on an annual basis and does not prepare any consolidated accounts;
- (iii) the most recently published audited annual financial statements of Telekom Austria and TFG and the most recently published unaudited interim financial statements (if any) of Telekom Austria and TFG (in the case of Telekom Austria with an English translation thereof), in each case together with any audit or review reports prepared in connection therewith. Telekom Austria currently prepares unaudited consolidated interim accounts on a quarterly basis; TFG currently prepares unaudited non-consolidated interim accounts on a semi-annual basis;
- (iv) the Programme Agreement, the Agency Agreement, the Guarantee, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (v) a copy of this Prospectus;
- (vi) any future prospectuses, information memoranda and supplements including Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Prospectus and any other documents incorporated herein or therein by reference; and

- (vii) in the case of each issue of Notes to be admitted to the Luxembourg Stock Exchange's regulated market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

In addition, copies of this Prospectus, each Final Terms relating to Notes which are admitted to trading on the Luxembourg Stock Exchange's regulated market and each document incorporated by reference are available on the Luxembourg Stock Exchange's website at www.bourse.lu.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the relevant Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

Save as disclosed on pages 66 (bond issues of January, 2005) and 87 to 90 (acquisition of Mobiltel) of this Prospectus there has been no significant change in the financial or trading position of TFG or of Telekom Austria or the Group since 30th September, 2005 and there has been no material adverse change in the financial position or prospects of Telekom Austria or TFG or the Group since 31st December, 2004.

Litigation

Neither Telekom Austria nor TFG nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Telekom Austria or TFG are aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of Telekom Austria or TFG or the Group.

Auditors

The auditors of Telekom Austria, who have audited Telekom Austria's accounts, without qualification, in accordance with generally accepted auditing standards in the United States of America were KPMG Alpen-Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, independent registered public accountants and a member of the Austrian Chamber of Chartered Accountants, for the financial years ended on 31st December, 2003 and on 31st December, 2004. The auditors of Telekom Austria have no material interest in Telekom Austria. The auditors of TFG, who have audited TFG's accounts, without qualification, in accordance with Austrian generally accepted auditing standards, were KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, independent registered public accountants and a member of the Austrian Chamber of Chartered Accountants, for the financial years ended on 31st December, 2003 and on 31st December, 2004. The auditors of TFG have no material interest in TFG.

Post-issuance information

The Issuers do not intend to provide any post-issuance information in relation to any assets underlying issues of Notes constituting derivative securities.

Dealers transacting with the Issuers and the Guarantor

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuers, the Guarantor and their affiliates in the ordinary course of business.

ISSUERS

Telekom Austria Aktiengesellschaft
Lassallestrasse 9
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Austria

Telekom Finanzmanagement GmbH
Lassallestrasse 9
A-1020 Vienna
Austria

GUARANTOR

Telekom Austria Aktiengesellschaft
Lassallestrasse 9
A-1020 Vienna
Austria

ISSUING AND PRINCIPAL PAYING AGENT

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One Canada Square
London E14 5AL

OTHER PAYING AGENT

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Aerogolf Centre
1A, Hoehenhof
L-1736 Senningerberg
Luxembourg

ADDITIONAL PAYING AGENT FOR THE PURPOSES OF THE AUSTRIAN STOCK EXCHANGE ACT

ABN AMRO Bank N.V., Filiale Wien
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A-1011 Vienna
Austria

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*To Telekom Austria
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Finanzmanagement GmbH
as to Austrian law*

*To Telekom Austria
Aktiengesellschaft and Telekom
Finanzmanagement GmbH
as to English law*

*To the Dealers
as to English law*

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London EC4M 9QQ

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Austria

To Telekom Finanzmanagement GmbH

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DEALERS

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London E14 5HQ

J.P. Morgan Securities Ltd.
125 London Wall
London EC2Y 5AJ

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LISTING AGENT

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