



Telekom Austria Aktiengesellschaft

(incorporated with limited liability in Austria)

and

Telekom Finanzmanagement GmbH

(incorporated with limited liability in Austria)

€2,500,000,000

Euro Medium Term Note Programme

unconditionally and irrevocably guaranteed by

Telekom Austria Aktiengesellschaft

Under this €2,500,000,000 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 Offering Circular (or a new offering circular issued in replacement for this Offering Circular) 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 €2,500,000,000 (or its equivalent in other currencies calculated as 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 Offering Circular 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.

Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular 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 a pricing supplement (the "**Pricing Supplement**") which, with respect to Notes to be listed on the Luxembourg Stock Exchange, will be delivered to the Luxembourg Stock Exchange on or before the date of issue of the Notes of such Tranche.

The Programme provides that Notes may be listed on such other or further stock exchange(s) 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.

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 (in the case of Notes intended to be listed on the Luxembourg Stock Exchange) a supplementary Offering Circular, 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 Offering Circular is 30th June, 2003.

Each of Telekom Austria and TFG accept responsibility for the information contained in this document and, to the best of the knowledge and belief 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 Offering Circular 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 Pricing Supplement. This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

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 Offering Circular 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 Offering Circular 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 Offering Circular 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 Offering Circular 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 Offering Circular 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 Offering Circular 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 Offering Circular 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 Offering Circular 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 Offering Circular 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 Offering Circular 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 Offering Circular 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 or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular 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 Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the United Kingdom, Japan, The Netherlands and Austria, see “*Subscription and Sale*”.

All references in this document to “*U.S. dollars*”, “*U.S.\$*” and “*\$*” refer to United States dollars. In addition, 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 (if any) disclosed as the stabilising manager in the applicable Pricing Supplement or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Notes of the Series (as defined below) of which such Tranche forms part at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the stabilising manager or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (a) the most recently published audited consolidated and, if any, non-consolidated annual financial statements and, if published later, the most recently published interim consolidated and non-consolidated financial statements (if any) of each of TFG and Telekom Austria, see “*General Information*” for a description of the financial statements currently published by each of TFG and Telekom Austria; and
- (b) all supplements or amendments to this Offering Circular circulated by the Issuers and/or the Guarantor from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

Each Issuer and the Guarantor will, at the specified offices of the Paying Agents, provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the specified offices of any Paying Agent set out at the end of this Offering Circular. In addition, such documents will be available, free of charge, from the principal office in Luxembourg of The Bank of New York (Luxembourg) SA for Notes listed on the Luxembourg Stock Exchange.

The Issuers and the Guarantor will, in connection with the listing of the Notes on the Luxembourg Stock Exchange, so long as any Note remains outstanding and listed on such exchange, in the event of any material adverse change in the condition of any Issuer or the Guarantor which is not reflected in this Offering Circular, prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of the Notes to be listed on the Luxembourg Stock Exchange.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, a new offering circular will be prepared.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the relevant Issuer 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 below. The applicable terms of any Notes will be agreed between the relevant Issuer 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 Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under "*Form of the Notes*".

This Offering Circular and any supplement will only be valid for listing Notes on the Luxembourg Stock Exchange during the period of 12 months from the date of this Offering Circular in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed €2,500,000,000 or its equivalent in other currencies. For the purpose of calculating the euro equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

- (a) the euro equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") shall be determined, at the discretion of the relevant Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the euro against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the relevant Issuer on the relevant day of calculation;
- (b) the euro equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and
- (c) the euro equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the relevant Issuer for the relevant issue.

SUMMARY OF THE PROGRAMME

The following summary is a summary of and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. 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
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)
Description:	Euro Medium Term Note Programme
Arranger:	ABN AMRO Bank N.V.
Dealers:	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 and any other Dealers appointed in accordance with the Programme Agreement.
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 Sale</i> ”) including the following restrictions applicable at the date of this Offering Circular.

Swiss Francs

Issues of Notes denominated in Swiss francs or carrying a Swiss franc-related element with a maturity of more than one year (other than Notes privately placed with a single investor with no publicity) will be effected in compliance with the relevant regulations of the Swiss National Bank based on article 7 of the Federal Law on Banks and Savings Banks of 8th November, 1934 (as amended) and article 15 of the Federal Law on Stock Exchanges and Securities Trading of 24th March, 1995 in connection with article 2, paragraph 2 of the Ordinance of the Federal Banking Commission on Stock Exchanges and Securities Trading of 2nd December, 1996. Under the said regulations, the relevant Dealer or, in the case of a syndicated issue, the lead manager (the “**Swiss Dealer**”), must be a bank domiciled in Switzerland (which includes branches or subsidiaries of a foreign bank located in Switzerland) or a securities dealer duly licensed by the Swiss Federal Banking Commission pursuant to the Federal Law on Stock Exchanges and Securities Trading of 24th March, 1995. The Swiss Dealer must report

certain details of the relevant transaction to the Swiss National Bank no later than the Issue Date of the relevant Notes.

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 €2,500,000,000 (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 Pricing Supplement 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: (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 Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement.

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 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.

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 Pricing Supplement.
Subordination:	Payments in respect of the Subordinated Notes will be subordinated as described in the applicable Pricing Supplement.
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 for Notes issued under the Programme to be listed on the Luxembourg Stock Exchange. The Notes may also be listed on such other or further stock exchange(s) 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>Unlisted Notes may also be issued.</p> <p>The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).</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 United Kingdom, Japan, The Netherlands and Austria 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*”.

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 Pricing Supplement, 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 Depository*”) 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 Pricing Supplement and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Pricing Supplement), 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 Pricing Supplement 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 Pricing Supplement.

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 30th June, 2003 and executed by the relevant Issuer.

Applicable Pricing Supplement

Set out below is the form of Pricing Supplement 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 €2,500,000,000

Euro Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 30th June, 2003. This Pricing Supplement is supplemental to and must be read in conjunction with such Offering Circular.

[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.]

[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. (i) Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* (*in the case of fungible issues only, if applicable*)]
- (ii) Net proceeds
(*Required only for listed issues*): []
6. Specified Denominations: []
[]
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]]*
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]
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].
- [(ii)] Status of the Guarantee: [Senior/Subordinated]
14. Listing: [Luxembourg/specify other/None]
15. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. **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/semi-annually/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 (ISMA) 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 (ISMA)]
 - (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
17. **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 and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/ 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: []
18. **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)
19. **Index Linked Interest Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Index/Formula: [give or annex details]
- (ii) Calculation Agent responsible for calculating the principal and/or interest due: []
- (iii) Provisions for determining coupon where calculation by reference to Index and/or Formula is impossible or impracticable: []
- (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: []
20. **Dual Currency 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 principal and/or interest payable: []
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: []
- (iv) Person at whose option Specified Currency(ies) is/are payable: []

PROVISIONS RELATING TO REDEMPTION

21. 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 of 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): []
22. Investor Put: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): []
- (iii) Notice period (if other than as set out in the Conditions): []
23. Final Redemption Amount of each Note: [Nominal Amount/specify other/see Appendix]
24. 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

25. 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]]
26. 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 17(iii) and 19(vi) relate)
27. 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]

28. 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]
29. Details relating to Instalment Notes:
- (i) Instalment Amount(s): [Not Applicable/give details]
- (ii) Instalment Date(s): [Not Applicable/give details]
30. 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))
31. Other terms or special conditions: [Not Applicable/give details]

DISTRIBUTION

32. (i) If syndicated, names of Managers: [Not Applicable/give names]
- (ii) Stabilising Manager (if any): [Not Applicable/give name]
33. If non-syndicated, name of relevant Dealer: []
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]

OPERATIONAL INFORMATION

36. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
37. Delivery: Delivery [against/free of] payment
38. Additional Paying Agent(s) (if any): []
-
- ISIN: []
- Common Code: []
-

[LISTING APPLICATION

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the listing of the €2,500,000,000 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 this Pricing Supplement.

Signed on behalf of the Issuer:

By:
Duly authorised

By:
Duly authorised

[Signed on behalf of the Guarantor:

By:
Duly authorised

By:
Duly authorised]

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 4, 5, 6, 7 (except Condition 7(b)), 11, 12, 13, 14 (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 17, they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

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 Pricing Supplement 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 Pricing Supplement (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 Pricing Supplements 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 Pricing Supplement (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 30th June, 2003 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 Pricing Supplement, 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 Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these 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 Pricing Supplement**" are to the Pricing Supplement (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 30th June, 2003 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 “*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) 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 30th June, 2003 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 Pricing Supplement are obtainable during normal business hours at the specified office of each of the Paying Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series 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 Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement, the applicable Pricing Supplement 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 Pricing Supplement.

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 Pricing Supplement.

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

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 Pricing Supplement), the status and subordination of the Notes of this Series will be as set out in the applicable Pricing Supplement.

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 Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement, 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 Pricing Supplement, 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 (ISMA)” is specified in the applicable Pricing Supplement:
 - (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 Pricing Supplement) 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 Pricing Supplement, 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 Pricing Supplement; or*
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, 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 Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement; 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 Pricing Supplement.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Pricing Supplement 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 Pricing Supplement) 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 Pricing Supplement;
- (2) the Designated Maturity is a period specified in the applicable Pricing Supplement; 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 Pricing Supplement.

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 Pricing Supplement 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 Pricing Supplement) 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 Pricing Supplement.

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 Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

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

If the applicable Pricing Supplement 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 Pricing Supplement 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 Pricing Supplement, 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 Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Pricing Supplement, 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 Pricing Supplement, 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 Pricing Supplement, 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 Pricing Supplement, 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 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 Pricing Supplement.

(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 Pricing Supplement.

(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 Pricing Supplement; 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 Pricing Supplement 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 Pricing Supplement, 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 Pricing Supplement 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 Pricing Supplement. 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 Pricing Supplement, 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 Pricing Supplement, 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 Pricing Supplement, 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 depositary 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 Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, 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 Pricing Supplement. Unless otherwise specified in the Pricing Supplement, 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 Pricing Supplement.

(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 any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 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 Pricing Supplement.

(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) if any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to such Directive is introduced, the Issuer will ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to any such Directive or law.

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. It is expected that such publication will be made in the *Financial Times* in London and the *Luxemburger Wort* in Luxembourg. 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 listing. 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 listing 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 shall have confirmed that following the proposed substitution of the Substituted Debtor the Notes will continue to be listed 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 rules and regulations of the Luxembourg Stock Exchange;
- (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 Clifford Chance Secretaries Limited at its registered office at 200 Aldersgate Street, London EC1A 4JJ 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 Issuer for its general corporate purposes.

CAPITALISATION OF TFG

The following table sets out the short-term borrowings, financial liabilities to related parties, long-term debt, stockholders' equity and capitalisation of TFG at 31st December, 2002 and at 31st March, 2003 and is derived from the audited consolidated financial statements of TFG as at 31st December, 2002 as well as from the unaudited consolidated financial statements of TFG as at 31st March, 2003. There has been no material change in the capitalisation or indebtedness of TFG since 31st March, 2003.

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

	At 31st March, 2003, <i>(in EUR thousands)</i>	At 31st December, 2002 <i>(in EUR thousands)</i>
Capitalisation of TFG:		
Short-term borrowings	710,163.4	737,041.3
Financial liabilities to related parties	73,628.8	269,470.0
Long-term debt:		
Bonds and debentures	0.0	0.0
Liabilities to banks	0.0	0.0
Other long-term debt.....	0.0	0.0
Current portion of long-term debt	0.0	0.0
Total long-term debt, net of current portion	0.0	0.0
Stockholders' equity:		
Common stock (one EUR 37,000.00 share authorised, issued and outstanding, held by Telekom Beteiligungs- und Entwicklungs GmbH)	37.0	37.0
Additional paid-in capital	0.0	0.0
Retained earnings	340.7	281.5
Total stockholders' equity	377.7	318.5
Total capitalisation⁽¹⁾	377.7	318.5

Note:

(1) TFG has no long-term debt.

DESCRIPTION OF TFG

Telekom Finanzmanagement GmbH (“**TFG**”), is a second-tier wholly owned subsidiary of Telekom Austria Aktiengesellschaft. TFG was incorporated on 4th March, 1997 and is registered with the Commercial Registry (Commercial Court Vienna under registry no. 155563w). 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 67 of this Offering Circular.

TFG’s business year coincides with the calendar year and its last annual statements were filed with the Commercial Registry on 13th May, 2003. TFG has a stated limited share capital of €37,000 and is incorporated as a limited liability company at the registered office of Telekom Austria.

The object of TFG, according to 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 has three managing directors, Rudolf Fischer, Ernst Pavlik and Stefano Colombo as well as one holder of a statutory general power of attorney, Martin Mayr. Any two of the four representatives acting jointly may bind TFG. No supervisory board is appointed for this company. TFG has no employees, but is operated by staff of Telekom Austria.

The sole shareholder of TFG is Telekom Beteiligungs- und Entwicklungs GmbH (“**TBE**”), a holding company with limited liability and a stated limited share capital of €35,000. All shares in TBE are held by Telekom Austria.

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 31st March, 2003	TFG At 31st December, 2002	TFG At 31st December, 2001
	<i>(in EUR thousands) (unaudited)</i>	<i>(in EUR thousands)</i>	<i>(in EUR thousands)</i>
Statement of operations:			
Operating revenues.....	0	0	0
Operating expenses	(15.7)	(69.3)	(69.5)
Operating income (loss)	(15.7)	(69.3)	(69.5)
Net income (loss).....	59.2	281.5	68.9
Cash flow data:			
Cash generated from operations.....	209,030.2	(535,004.5)	(86,021.8)
Cash used in investing activities	0.0	0.0	0.0
Cash from (used in) financing activities	(213,253.2)	533,468.6	85,935.2
Effect of exchange rate differences	0.0	0.0	0.0
Net decrease in cash and cash equivalents	(4,223.0)	(1,535.9)	(86.6)
Balance sheet data:			
Total assets	793,873.5	1,006,999.3	520,004.5
Total debt	710,163.4	737,041.3	471,767.6
Total shareholders’ equity	377.7	318.5	105.9

CAPITALISATION OF TELEKOM AUSTRIA

The following table sets out the short-term borrowings, financial liabilities to related parties, long-term debt, stockholders' equity and capitalisation of Telekom Austria at 31st December, 2002 and at 31st March, 2003 on a consolidated basis and is derived from the audited consolidated financial statements of the Company as at 31st December, 2002 as well as from the unaudited consolidated financial statements of the Company as at 31st March, 2003. Save as described in the footnotes to the following table, there has been no material change in the capitalisation or indebtedness of Telekom Austria since 31st March, 2003. This table should be read in conjunction with the Company's consolidated financial statements prepared in accordance with the generally accepted accounting standards in the United States ("*U.S. GAAP*"), including the notes to those financial statements.

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

	At 31st March, 2003	At 31st December, 2002
	<i>(in EUR millions)</i>	<i>(in EUR millions)</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Capitalisation of Telekom Austria:		
Short-term borrowings⁽¹⁾	1,285.79	1,202.0
Financial liabilities to related parties	0.6	0.4
Long-term debt ⁽²⁾ :		
Bonds and debentures	173.7	175.5
Liabilities to banks	2,332.1	2,347.7
Other long-term debt.....	11.0	15.7
Current portion of long-term debt	559.3	459.0
Total long-term debt, net of current portion⁽³⁾	1,957.5	2,079.9
Stockholders' equity:		
Common stock (500 million no par value shares each representing a pro rata amount of EUR 2.181 of the share capital authorised, issued and outstanding)	1,090.5	1,090.5
Additional paid-in capital	452.9	452.5
Retained earnings ⁽⁴⁾	1,002.3	966.5
Total stockholders' equity	2,545.7	2,509.5
Total capitalisation	4,503.2	4,589.4

Notes:

- (1) Short-term borrowings include lines of credit and the current portion of long-term debt but exclude the short-term portion of cross border lease obligations in the amount of EUR 102.7 million and EUR 104.0 million and the short-term portion of capital lease obligations in the amount of EUR 5.2 million and EUR 4.3 million for the full year 2002 and for the first quarter of 2003 respectively.
- (2) Long-term debt excludes cross border lease obligations, net of current portion in the amount of EUR 1,074.3 million and EUR 980.4 million and capital lease obligations, net of current portion in the amount of EUR 2.0 million and EUR 1.3 million for the full year 2002 and for the first quarter of 2003 respectively.
- (3) At 31st December, 2002, EUR 1,751.3 million of the Company's EUR 2,079.9 million long-term debt was guaranteed by the Federal Republic of Austria. At 31st March, 2003 EUR 1,713.5 million of the Company's EUR 1,957.5 million long-term debt was guaranteed. This is due to such long-term loans having been incurred under the Telecommunication Investment Act that existed before the privatisation of the Telekom Austria in 1996.
- (4) Retained earnings include accumulated other comprehensive income.

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, Lasallestraße 9. The Company’s commercial registry number is 144 477t (Commercial Court of Vienna).

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 1997 (*Telekommunikationsgesetz*), as amended). It is envisaged that the Telecommunications Act will be replaced by the Communication Services Act (*Kommunikationsgesetz*).

All 500 million no par value bearer shares are listed on the Vienna Stock Exchange. With a market capitalisation of approximately €4.825 billion as of 31st December, 2002, 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 Depositary Shares (ADS), where one ADS represents two ordinary shares.

Telekom Austria’s articles of association state 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 Group

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 (“**OIAG**”), 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 in both Austria and the United States 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.

Ownership and Structure of Share Capital

The share capital of Telekom Austria is fully paid-up and amounts to €1,090,500,000 and is divided into 500 million no par value bearer shares each representing a *pro rata* amount of €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 Company currently does not hold any of its shares, but held (as of 31st December, 2002) 3,936,881 call options to buy its shares in order to limit its exposure under the existing stock option plan. 500,000 of these call options were sold on 24th January, 2003. The Company has no authorised capital and no contingent or conditional share capital.

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.

Telekom Austria’s share capital as of 31st March, 2003 is held as follows:

OIAG	47.2%
Telecom Italia International N.V., (“ TII ”) a member of the Telecom Italia group	14.8%
Free Float ¹	38.0%

¹ This includes 5.3 per cent. shares held by Capital Research and Management Company, L.A., USA.

Shares in Telekom Austria are freely transferable, although the shares held by OIAG and TII are subject to contractual transfer restrictions.

According to such contract, both OIAG and TII may sell their shares in either public market or private transactions. A public market transaction includes fully marketed public offers, accelerated book buildings, block trades or placements in accordance with Rule 144A under the U.S. Securities Act 1933. A private transaction includes any other transaction including a sale in a public tender offer. In the case of public market transactions, TII and OIAG have agreed to sell their shares either alone or jointly in a concerted manner. During the period from 1st July, 2002 to 31st December, 2002, TII had the right to sell up 75 million shares and OIAG had agreed not to sell any shares in a public market transaction. From 1st January, 2003 until 30th September, 2003, OIAG has the right to sell up to 25 million shares in a public market transaction and, if OIAG initiates such transaction, TII may sell in it any of the 75 million shares it was entitled to sell but did not sell in 2002. Thereafter, both parties may initiate a public market transaction to sell any unsold portion of the shares they were entitled to sell in 2002 and 2003 with OIAG having a priority right to sell its 25 million portion in 2003. Until the end of the third quarter of 2003, each party initiating a public market transaction is free to set the timing, price and size of the offering within the foregoing parameters. Starting in the fourth quarter of 2003 both parties must agree on price and size of the offering. If on 31st December, 2003, TII holds less than 100 million shares, for any shares sold thereafter in a public market transaction, TII and OIAG have the right to sell an equal number of shares. If on 31st December, 2003, TII holds more than 100 million shares, TII may not transfer any shares in excess of 100 million shares or announce such transfer until 31st December, 2005. From any remaining non-blocked shares, TII may sell up to 30 per cent. of the aggregate number of shares to be sold in a public market transaction irrespective of whether initiated by OIAG or TII. Any sale of shares initiated by TII in 2002 and 2003 is furthermore subject to

consent of OIAG if the offer price per share is more than 15 per cent. below the volume-weighted average share price on the 30 trading days on the Vienna Stock Exchange prior to the day of pricing. The parties have agreed to provide customary lock-up periods regarding Telekom Austria's shares in connection with these transactions. In addition to any public market transactions, OIAG and TII retain the right to sell shares in private transactions. In TII's case, such sales are subject to the consent of OIAG. OIAG and TII have granted each other reciprocal tag-along rights.

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 Group – Principal Subsidiaries of Telekom Austria

A chart of the Group is included on page 67 of this Offering Circular.

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

TFG, one of the Issuers, is a wholly owned subsidiary of Telekom Beteiligungs- und Entwicklungs 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 47 of this Offering Circular.

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 €100,000. Limited partners in mobilkom austria AG & Co KG are Telekom Austria with a limited partner's capital contribution of €59,954,288.79 and Telekom Austria Personalmanagement GmbH with a contribution of €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 56 of this Offering Circular.

Recent Developments

As of 1st January, 2003, the Company's management reorganised its operations into two distinct business lines; wireline, which will include fixed line, data communication and internet services, and wireless. Wireline will focus on wholesale and retail customers. Wholesale customers, including telecommunication operators and service providers, will be offered network-based services, while retail customers, including business and residential end-users will be offered voice telephony, data communications, internet and other services. Wireless, operated by the Company's wholly-owned subsidiary mobilkom austria, offers a full range of digital mobile communications services to business and residential customers.

mobilkom austria increased its stake in the Croatian operator VIPnet from 71 per cent. to 80 per cent. and 99 per cent. in January 2003 and June 2003, respectively. mobilkom austria acquired the 9 per cent. stake from Vecernji List, a Croatian publishing house and the 19 per cent. stake from Western Wireless International. A 1 per cent. stake is held by Vecernji List.

The UMTS license and the related equipment will be depreciated beginning May 2003 since the UMTS services will be then offered to customers and revenues will be generated. Telekom Austria expects amortisation and depreciation expense from the use of these assets of €19 million in 2003.

On 15th April, 2003 the Company entered into an agreement for the sale of its 26 per cent. holding in Herold, the leading telephone directory provider in Austria, to an investor group led by Veronis Suhler Stevenson and 3i. The agreement is still subject to the approval of the Austrian Cartel Court and the majority shareholder in Herold. After the sale, Herold will continue to publish the Company's telephone directories.

During the first quarter of 2003 Telekom Austria claimed a refund from the Austrian Ministry of Finance for certain administrative expenses covered by it in prior years. It is too early to determine whether Telekom Austria will be successful in its claim. It is also uncertain whether refunds at all will be made, and if so, how many.

In line with Telekom Austria Group's strategy, Telekom Austria has submitted a non-binding indication of interest to acquire 100 per cent. of the share capital of MobilTel E.A.D, a wireless operator in Bulgaria. Should the transaction be completed, it is currently envisaged that up to €400 million of the acquisition will be financed from cash flow generated by the Group and the balance will be financed from the proceeds of an offering of new shares in Telekom Austria.

Summary Financial Information relating to the Group

The following table presents a summary of consolidated financial and operating data for Telekom Austria and for mobilkom 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 year ended 31st December, 2002. 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 until the fiscal year ended 31st December, 2001. 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 as of 30th 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.

For the fiscal year ended 31st December, 2001, Telekom Austria has presented separate consolidated financial information for mobilkom austria. For the fiscal year ended 31st December, 2002, Telekom Austria's consolidated financial information includes that of mobilkom austria. The fiscal year of the Group coincides with the calendar year.

The consolidated financial statements for the year ended 31st December, 2001 have been audited in accordance with U.S. GAAS by Grant Thornton – Jonasch & Platzer Wirtschaftsprüfungs- und Steuerberatungs-OHG and KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. For consistency of presentation, the Company has reclassified items from its mobile communications services segment from "other income" to "revenues" in 2001. In addition it has balanced receivables and payables from related parties. The consolidated financial statements for the year ended 31st December, 2002 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, 2002 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	mobilkom austria
	At and for the year ended	
	31st December,	
	2001	2001
	<i>(in EUR millions)</i>	
Consolidated statement of operations:		
Operating revenues	2,659.7	1,713.2
Operating expenses	(2,855.1)	(1,409.7)
Operating income (loss)	(195.4)	303.5
Net income (loss)	(104.6)	131.8
Consolidated cash flow data:		
Cash generated from operations	842.4	683.0
Cash used in investing activities.....	(453.2)	(574.0)
Cash from (used in) financing activities.....	(380.7)	(134.8)
Effect of exchange rate differences	0.1	(2.3)
Net increase (decrease) in cash and cash equivalents	8.7	(28.1)
Consolidated balance sheet data:		
Total assets	7,727.3	2,214.1
Total debt ⁽¹⁾	2,903.3	470.5
Total shareholders' equity	2,500.4	668.1

Notes:

- (1) Total debt including capital leases and excluding asset backed securities transactions and cross border lease transactions and debts due from related parties.

	Telekom Austria	Telekom Austria
	At and for the quarter	At and for the year
	ended 31st March,	ended 31st December,
	2003	2002
	<i>(in EUR millions)</i>	
Consolidated statement of operations:		
Operating revenues	966.5	3,118.1
Operating expenses	(844.6)	(3,060.7)
Operating income (loss)	121.9	57.4
Net income (loss)	43.1	12.8
Consolidated cash flow data:		
Cash generated from operations	135.8	1,171.4
Cash used in investing activities.....	(87.7)	(1,175.9)
Cash from (used in) financing activities.....	(39.0)	1.8
Effect of exchange rate differences	5.5	3.7
Net increase (decrease) in cash and cash equivalents	14.6	0.9
Consolidated balance sheet data:		
Total assets	8,254.2	8,534.3
Total debt ⁽¹⁾	3,248.8	3,289.1
Total shareholders' equity	2,545.7	2,509.5

Notes:

- (1) Total debt including capital leases and excluding asset backed securities transactions and cross border lease transactions.

Business Overview

Until the end of the business year 2002 Telekom Austria operated in four strategic business segments:

- fixed line services, including traditional voice telephony;
- mobile communications services;
- data communications services and
- internet services.

On 1st January, 2003 Telekom Austria finished the reorganisation of its operations into two distinct business lines: Wireline, which includes fixed line, data communications and internet services, and Wireless. As part of this process, Telekom Austria's wholly owned subsidiaries Datakom Austria GmbH, Datakom International Solutions GmbH, Jet2Web Internet Services GmbH and Jet2Web Network Services GmbH were merged into the Company in late 2002.

In a new group responsible for the wholesale business, the Company's voice telephony and data communications networks operate on a multi-service network. This network is a combination of existing voice telephony and data networks. The Wireline segment will be able to offer services and products over this network.

The Company's new retail group sells the products and services developed by the wholesale group. The retail group focuses on servicing end-consumers' needs and expectations.

Wireless, operated by mobilkom austria, offers a full range of digital mobile communications services to business and residential customers.

Fixed Line Services

In 2002, the Company's fixed line services segment generated revenues of €2,057.2 million before inter-segmental eliminations and EBITDA of €813.2 million in 2002. Fixed line voice telephony services, in particular, continue to be the most significant revenue contributor, representing approximately 53 per cent. of total managed revenues in 2002. Approximately 13 per cent. are internal revenues, mainly with the mobile communications segment and with the data communications segment.

Telekom Austria is the main provider of fixed line telecommunications services in Austria in terms of market share. As of 31st December, 2002, the Company had a market share of 55.3 per cent. of voice telephony, including internet dial-up, carried over fixed network (based on traffic volume). In 2002, for the first time since the liberalisation of the telecommunications market in Austria, Telekom Austria was able to stabilise its fixed line market position and even increase its market share in the second and third quarters of 2002. Telekom Austria serviced more than 3.1 million access lines in Austria, including Public Switched Telephone Networks ("*PSTN*"), basic Integrated Services Digital Network ("*ISDN*") and multi-ISDN access lines. The Company's network infrastructure covers all of Austria and is fully digital.

Fixed line services includes network access for end-users, traffic services (including local, national long distance, fixed-to-mobile and internet dial-up calls), and services provided to other carriers. Telekom Austria also offers other products and services, including customer premises equipment, value-added services, call management services, public payphone services, call centre services and directory publications.

As the main market participant, Telekom Austria is required by law to grant other operators access to its subscriber lines, also called the local loop. 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 data transmission); free and unrestricted access to emergency services; access to directory inquiry services; access to telephone directories; and nationwide provision of public payphone services at accessible locations.

Traffic services. These services include local, long distance, fixed-to-mobile and internet dial-up at different tariffs. Telekom Austria provides outgoing international fixed line voice services to destinations worldwide. Total national fixed line traffic amounted to 9,738 million minutes in 2002, as opposed to 10,493 million in 2001 and 12,048 million in 2000. In 2001, the decrease in traffic was due to the loss of market share in local, national long distance and fixed-to-mobile traffic. This was partially off-set by an increase in internet dial-up minutes and traffic volume from the Company's flat-rate internet product, which was discontinued in 2000 but

nevertheless produces growing traffic. In 2002, Telekom Austria's customers generated 472 million minutes of outgoing international traffic through the Company's fixed line network, compared to 476 million minutes in 2001 and 507 million minutes in 2000.

Carrier services. Telekom Austria's carrier services business sector generates revenues by providing network services to domestic and international carriers. These carrier services consist of termination, origination (or carrier selection) and transit of national traffic and international termination in Austria and abroad, international bandwidth services and internet access.

Revenues from carrier services declined to €366.4 million in 2002 from €637.0 million in 2001. Effective from 1st January, 2002, the Austrian regulatory authority approved a change in the way interconnection charges between Austrian alternative service providers are billed and collected. As a result of the change, Telekom Austria is no longer a party to such transactions. Had the new regulatory regime been in place during 2001, operating revenues would have been lower by €257.2 million.

In 2002, after the change in interconnection between alternative service providers, revenues from carrier services decreased by 3.5 per cent. to €366.4 million from €379.8 million in 2001. This downturn was caused by lower incoming mobile traffic. Many multinational carriers have set up subsidiaries in Austria and are therefore in a position to directly route their traffic. In addition, in September 2002, the regulatory authority decided on new interconnection rates which were reduced by 4.8 per cent. on average.

Leased Lines. Telekom Austria's leased line business sector generates revenues by leasing fixed lines to customers for their exclusive use. Revenues from leased lines decreased by 4.1 per cent. in 2002 to €246.1 million from €256.6 million in 2001. This decline is attributable to the decrease in the Company's international business sector as a result of strong competition. In addition, within Austria Telekom Austria's domestic competitors were in a position to benefit from lower costs pursuant to the optimisation of their networks resulting in lower revenues to the Company. Furthermore, the reduction of leased line rates which took effect since 1st September, 2001 also contributed to this negative development. The average price reduction was 3.6 per cent. for all leased lines. The decline was, however, partially offset by the increased demand for higher capacities or bandwidths.

Equipment. Telekom Austria generates revenues from sales of telecommunications equipment including residential, mobile telephone equipment and systems for business customers and by providing related post-sale maintenance and services. Revenues from equipment sales decreased by 3.3 per cent. in 2002 to €94.5 million from €97.7 million in 2001. This decline was primarily attributable to reduced sales quantities of equipment as well as declining demand for maintenance and services. As Telekom Austria de-emphasised sales efforts on lower margin products, sales of Private Automatic Branch Exchange ("**PABX**") installations and telecommunications infrastructure declined by approximately 14 per cent. in 2002.

Other. This includes value-added services, public payphone services, call centre services and directory services. Revenues increased slightly by 0.4 per cent. to €231.7 million in 2002 from €230.8 million in 2001. This increase resulted from an increase in inquiry service tariffs that more than compensated for declining revenues from public payphones, which have become less popular due to the increasing use of mobile phones.

Mobile Communications

Telekom Austria's mobile communications services segment comprises the Austrian activities of mobilkom austria and its foreign subsidiaries, VIPnet in Croatia (ownership 99 per cent.), Si.mobil in Slovenia (ownership 75 per cent. plus one share) and mobilkom [liechtenstein] (ownership 100 per cent.). The wireless business generated revenues of €1,909.4 million in 2002 before inter-segmental eliminations. mobilkom austria had 4.5 million mobile communications customers at the end of 2002 representing an 11.9 per cent. increase compared to 2001.

	2002	2001	2002/2001
	(in thousands)		(% change)
Mobile communications customers			
Austria	3,001.4	2,849.9	5.3
Croatia	1,097.8	855.7	28.3
Slovenia	350.0	269.6	29.8
Liechtenstein	2.0	1.3	55.3
Total customers	<u>4,451.2</u>	<u>3,976.5</u>	<u>11.9</u>

During 2002, mobilkom austria stopped its Austrian mobile communications drop in market share and was able to increase it to 44.4 per cent. in 2002 from 42.9 per cent. in 2001.

The Group has offered mobile telecommunications services since 1974. In 1994 the Global System for Mobile communication ("GSM") digital A1 network was introduced. Since May 2001, mobilkom austria operates also on GSM 1800 frequencies. In August 2000, mobilkom austria launched General Packet Radio Services ("GPRS") providing data service enhancement technology for GSM allowing for faster data transmission. At the end of September 2002, mobilkom austria became the first operator in Europe to launch its nationwide Universal Mobile Telecommunication System ("UMTS") network. Commercial service started in April, 2003. In 2001, the Company purchased 49 per cent. of paybox österreich AG in order to offer mobile payment services and intends to acquire full indirect ownership during 2003. In 2002, one of mobilkom austria's subsidiaries was assigned a bank licence through which the Group aims to enable a broad range of commercial services where payment is affected electronically via the handset ("*m-commerce services*").

On 7th January, 2003 mobilkom austria group entered into a partnership with Vodafone Global Products and Services Ltd. in order to co-operate in the Austrian, Croatian and Slovenian market. The co-operation will extend the range of existing products and services of mobilkom austria group and improve the product portfolio, in particular for business customers. The agreement was signed without either party taking an ownership stake in the other and will allow mobilkom austria group to join a global partner network without giving up its independence. With Eurocall the Group offers favourable and transparent roaming prices to users in more than 30 European countries.

Austria

Customers. mobilkom austria has experienced substantial growth in its mobile customer base over the past few years. According to its own market research, there were about 6.76 million mobile customers in Austria in December 2002 which represents a mobile penetration rate of 83.1 per cent. of the population. Of 26 European countries surveyed at the end of 2002, Austria has one of the highest penetration rates of mobile communication in Europe. The growth of the penetration rate has slowed down. As a result of the market saturation, mobilkom austria has focused on retaining customers (rather than acquiring new 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. In December 2002, mobilkom austria's mobile customers represented approximately 44.4 per cent. of the mobile communications market in Austria, 1.5 percentage points more than at the end of 2001.

mobilkom austria was able to reduce its churn rate in the contract and prepaid sectors. 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 2002, mobilkom austria's GSM contract churn rate was 24.2 per cent. These rates are in line with the average churn rate of mobile operators in European Union countries where mobile operators subsidise handsets given to customers as an incentive to switch operators. Subsidised handsets have been available in Austria since late 1998.

mobilkom austria focuses on keeping its churn rate low with particular emphasis on retaining high value customers and optimising customer satisfaction. As part of its aim to encourage customer loyalty, mobilkom austria introduced a points-based customer loyalty programme in April 1999 for which approximately one million customers were registered at 31st December, 2002. Participants earn one point per call minute. This minute-based points accrual mechanism will be changed into a revenue-based accrual in 2003. The collected points entitle customers to purchase new subsidised handsets and accessories for mobile phones. mobilkom austria actively manages churn through customer relationship management systems, developing its own distribution and logistics capabilities, direct marketing and other retention initiatives.

Traffic. In 2002, mobilkom austria's customers generated 4,124 million minutes of mobile traffic, compared to 3,706 million minutes in 2001 and 3,198 million minutes in 2000.

Contract services. Telekom Austria offers dedicated customer service and special tariff packages for all contract customers. Its customised products are targeted at all segments from residential customers to large corporate accounts. mobilkom austria offers large corporate customers a range of specialised corporate services such as mobile communication with full virtual private network functionalities. For instance, mobilkom austria's "A1 MOBILE OFFICE" product combines hardware and software that allows internet access, voice, data and fax communications via mobile telephone. mobilkom austria's GPRS product "A1 DATA GUARD" enables employees to have secure access to their employer's internal computer network via their mobile telephone. Furthermore, the mobilkom austria group offers solutions for Virtual Private Networking ("VPN") to its business customers. VPN is a network designed for a corporate or governmental entity using the infrastructures of a carrier and providing customised services.

Prepaid services. In September 1997, mobilkom austria launched the first prepaid mobile telephone service in Austria. These prepaid products are marketed primarily to lower volume mobile phone users. The Group's advantages of prepaid services are decreased credit risk, lower costs of sales, increased traffic levels and reduced administrative costs. From its introduction until 2000, mobilkom austria's prepaid service experienced rapid growth and was a significant element in the growth of its mobile customer base. In 2002, mobilkom austria observed a saturation of the market.

International roaming services. International roaming enables mobilkom austria's digital customers to make and receive calls with their mobile phones in other countries using the networks of 227 operators with whom mobilkom austria has entered into international roaming agreements. Additionally, mobilkom austria offered to unregistered prepaid customers roaming via CAMEL in 12 countries with 13 mobile operators.

Other services. Further revenues are generated from the sale of equipment such as mobile phones. mobilkom austria operates 37 shops solely for mobile telephone sales. In 2001, the range of m-commerce services was enlarged, allowing customers to order more than 50,000 items from an Austrian mail-order house, such as tickets, short-term parking permits, insurance contracts for major sports injuries as well as via mobile telephone. Entertainment services targeted primarily at young persons include downloads of ringing tones, picture Short Message Service ("SMS") and group logos, Wireless Application Protocol ("WAP") and SMS games and community services.

Croatia. The Croatian mobile market has two GSM operators. Croatia has about two million total subscribers and a penetration rate of 51.9 per cent. as of 31st December, 2002. In September 1998, Croatia awarded its second GSM licence to VIPnet, a consortium in which the Group holds an interest through mobilkom austria. At year end 2002, mobilkom austria held an ownership interest of 71 per cent. which was increased to 80 per cent. and 99 per cent. in January 2003 and June 2003 respectively. In July, 1999 VIPnet launched its services in Croatia (as the second operator) and quickly became the technology leader as well as the leader in the business market segment. Since its launch, VIPnet has increased subscriber numbers rapidly through the introduction of pre-paid services. VIPnet offers a package that allows customers to have access to the internet via their cellular phones. Moreover, VIPnet provides fixed line internet access services, an internet portal and 21 other internet providing terminals in the main tourist regions in Croatia.

Slovenia. In February, 2001 mobilkom austria purchased a 75 per cent. plus one share interest in Si.mobil d.d., a Slovenian mobile operator. Due to contractual rights, mobilkom austria fully consolidates Si.mobil into its accounts. On 15th June, 2001, Si.mobil was the first operator in Slovenia to introduce GPRS. Its network has been one of the fastest built in Europe and is growing. The Slovenian mobile market currently has three GSM operators and one service provider. Slovenia has a total of 1.4 million subscribers and a penetration rate of 74.7 per cent. as of 31st December, 2002. Since it was acquired by mobilkom austria in February, 2001, Si.mobil has more than doubled its subscriber base. At 31st December, 2002, Si.mobil had a market share of 23.4 per cent. of the mobile communications market in Slovenia. It is also the second largest mobile operator in Slovenia.

Liechtenstein. On 16th November, 1999, the Principality of Liechtenstein granted a GSM licence to mobilkom [liechtenstein] AG, a wholly owned subsidiary of mobilkom austria. mobilkom [liechtenstein] launched its services in September, 2000. In addition to standard services, mobilkom [liechtenstein] offers premium-rate services and services for mobile virtual network operators which are interconnection-margin businesses.

Data Communications Services

Telekom Austria's data communications services generated revenues of €330 million in 2002 and €330.2 million in 2001 before inter-segmental eliminations. EBITDA decreased by 14.9 per cent. to €46.6 million in the same time period. The data communications services segment encompasses the business activities of Datakom Austria GmbH, which was reintegrated on October, 2002, with effect from 31st December, 2001. Telekom Austria is the overall market leader for data communications services in Austria, notably in the core service areas of leased lines and switched data networks as well as other areas such as corporate network services and data value-added services.

Services. The Company offers a wide range of national and international data communications services, including corporate network services, leased lines and related services, switched data transmission services on different levels of speed and volume and data value-added services. As the Company is Austria's main provider in the leased lines market, the regulatory authority requires it to give other operators access to the leased lines network.

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. The corporate network office packages are full-service products for companies providing them with an entire network infrastructure. For corporate intranet services, the Company designs and manages customised network infrastructures for corporate customers. Telekom Austria also offers corporate customers the integration of real-time voice communications into corporate data networks by using Voice-over internet protocol technology.

Leased lines and connected services. Telekom Austria is the principal provider of national and international leased lines in Austria and operates a centrally managed national leased line network. Leased lines are fixed point-to-point connections between locations and are mainly used for high volume data transmission. The leased lines are usually marketed 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. The overall transmission capacity of the leased lines measured in 64 kilobit equivalents has increased by more than 17 per cent. between December, 2001 and December, 2002. The Company expects demand for leased lines and connected services to continue to increase as telecommunications and internet service providers lease additional capacity to establish new or extend existing networks.

Switched data services. Telekom Austria offers a range of data services on its switched network, including packet-switched, frame relay and SDH-based services. SDH stands for synchronous digital hierarchy and is the transport system for non-switched services such as IP-data traffic, corporate networks, asynchronous transfer mode services, leased line services and international transit traffic. Packet-switched services allow data communications for a range of applications, such as database searches, electronic funds transfers and e-mail, all of which use the X.25 protocol, which is a worldwide standard for transmitting data via packet-switched networks. Frame relay is a high speed open protocol that is more efficient than X.25 packet-switching and is well suited to data-intensive applications, such as connecting local area networks. In 1996, the Company launched its Datastream/SDH network which provides cost-effective broadband services for business customers requiring higher and more flexible levels of bandwidth.

Data value-added and other services. As data value-added services, Telekom Austria primarily offers electronic data interchange services of legal documents (*Elektronischer Rechtsverkehr*). This is a secure on-line system operated for the Austrian Ministry of Justice, in co-operation with Austrian bar associations, which enables customers to file legal documents electronically with the Austrian courts. Telekom Austria's A-Sign product allows secure digital signatures to be used on-line, thereby enabling the secure processing of transactions and payments over the internet. On 28th September, 2002 the Company became one of 15 shareholders in *A-Trust Gesellschaft für Sicherheitssysteme im elektronischen Datenverkehr GmbH* which currently offers, in particular, the signature services "a.sign Uni", "trust/sign" and "a.sign.premium".

Internet Services

Telekom Austria is the main internet service provider in Austria with 846,500 residential dial-up and Asymmetric Digital Subscriber Line ("**ADSL**") customers at the end of 2002. Revenues from the internet segment before inter-segmental eliminations were €119.6 million in 2002, which represents an increase of 20.2 per cent. compared to 2001. The Group's subsidiary, Czech On Line a.s. ("**COL**"), is the market leader in the Czech Republic with 274,000 active user accounts at the end of 2002.

Services. The Group's internet operations comprise access, portals and advertising, e-business and application service provision. Fixed network internet access through dial-up service has been offered by Telekom Austria since April 1995. In November 1999, the Company was one of the first European operators to introduce ADSL high speed broadband internet access service. At 31st December, 2002, Telekom Austria had 703,400 dial-up subscribers (as opposed to 580,000 in 2001) and 143,100 ADSL subscribers (as opposed to 86,400 in 2001). These figures exclude 2002's 31,000 ADSL wholesale customers who are part of the fixed line segment. Telekom Austria portals (excluding mobilkom austria's portal A1.net) lead the Austrian portal market of internet service providers with 520 million page impressions in 2002. Page impressions refer to the number of times a specific website has been accessed or viewed by users. E-business includes business-to-consumer products such as travel services, electronic bill payment, computer hardware and software, books, music and financial products and services. Business-to-business services include complete e-commerce platforms, corporate web site development, and electronic shopping mall creation. Application service provision is a business to deploy, host, implement, manage and support software applications from a central data centre connected to customers via the internet or leased lines.

Czech Republic. COL is the main internet services provider in the Czech Republic. COL offers the following services: 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; PSTN voice services for business customers for local, national and international calls and voice over internet protocol services for international calls; value-added services including a news aggregator and a customised search engine for Czech content; and free customer support 24 hours a day.

Networks

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

Fixed networks. The Company operates a fully digital voice switching network which serves more than 2.66 million PSTN access lines, about 430,200 ISDN basic access lines and 8,100 ISDN multi-access lines at 31st December, 2002. Its voice switching network is 100 per cent. digitalised. The Company's call success rate and exchange availability for 1998 through 2002 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. The Company is currently optimising the switching network and in the course of that program has reduced its switching network by 8 switches in 2002. Through its intelligent network platform ("**IN**"), Telekom Austria offers, among other services, freephone, value-added services and number portability. By adopting the same IN technology in fixed and mobile networks, the Group 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 occurred in three different areas: backbone network infrastructure, access infrastructure, and advanced services.

The backbone network infrastructure is based on optical signal transmission. At 31st December, 2002 the Company's core network was based on approximately 17,642 kilometers of optical fibre cables. The primary transmission technology is a transmission standard for fibre optic networks and allows for a simpler and more easily managed network with enhanced reliability and with different levels of multiplexing. In addition, the Company has recently deployed a new technology, which allows for multiplied transmission capacity of existing optical fibres through the simultaneous use of different wavelengths. The Company also uses networking technologies such as Asynchronous Transfer Mode ("*ATM*") which allows the use of one network for different kinds of information such as voice, data and video. ATM offers guaranteed quality levels and flexible bandwidth connections in order to accommodate varying application requirements. In response to increased demand for ADSL lines, the Company expanded its ATM backbone, which it expects to form the basis for the development of an all internet protocol network and which the Company refers to as the "All IP Network".

Telekom Austria's access infrastructure is the means by which its customers connect to the networks. The access network plays a key role in the business as it supports the entire range of services. New broadband technologies such as ADSL permit high-speed internet access and digital video transmission on normal telephone lines. In addition, the Company provides multimedia and other data services with high capacity requirements using direct access via optical fibre for large business customers. As the demand for broadband services increases, the Company expects to implement next generation solutions such as the so-called "very high speed digital subscriber line" on existing copper lines. Advanced services are driven partly by the development of technology and partly by customers demand for more sophisticated services.

International network. Telekom Austria's international voice traffic is routed through two international gateways with connections to 244 countries and direct links to about 110 international operators in 80 countries. The Company partially owns (or has rights to use) 52 submarine cables in addition to the satellite capacities of the Intelsat and Eutelsat corporations.

Mobile networks. mobilkom austria's mobile networks consist of a digital mobile network based on GSM/GPRS technology and a digital mobile network based on UMTS technology. In 2002, mobilkom austria's GSM network had on average a dropped call rate below 1 per cent. and a blocking rate of less than 0.7 per cent. At 31st December, 2002 mobilkom austria's digital network consisted of 16 mobile switching centers, 4 home location registers and 4,957 base stations. An intelligent network platform is installed for GPRS and value-added services. mobilkom austria invested an additional €86 million during the financial year 2002 to meet increases in mobile traffic volumes. At 31st December, 2002 mobilkom austria operated a nationwide 2x10.4 (52 Channels) MHz spectrum in the 900 MHz band and 2x 15 (75 Channels) MHz spectrum in the 1800 MHz band. It further expands 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. mobilkom austria introduced WAP in December 1999. Since March 2000, mobilkom austria has offered a personalised WAP-portal with an integrated search engine. mobilkom austria successfully bid for UMTS licenses in Austria on 3rd November, 2000. UMTS allows for packet-switching and would allow operators to transmit data rates significantly exceeding those of existing mobile systems. It also permits implementation of multimedia applications that integrate voice, video, and data communications. On 25th September, 2002, the technical launch of UMTS was demonstrated with a live video conference over mobilkom austria's UMTS network. mobilkom austria's UMTS network with nearly 1,000 integrated base stations now covers 40 per cent. of the Austrian population.

Licensing And Regulatory Issues

Regulatory framework. The Telecommunications Act of 1997 implemented European Union directives requiring the complete liberalisation of the Austrian telecommunications market as of 1st January, 1998. Several ordinances issued relate to numbering, interconnection and special network access, universal service and tariffs for value added services. The Telecommunications Act allows unrestricted market access to all entrants that qualify under the Act. Major objectives are the equal opportunity to enter the Austrian market, the provision of universal service, the protection of customers and operators against the abuse of significant market power and the efficient and interference-free use of frequencies. Operators which offer either public voice telephony services (fixed line or mobile) or public leased lines must apply for a license issued by the regulatory authority. Licenses

must be granted if the applicant proves the necessary technical competence and if there is no reason to assume that the applicant will not be able to provide the relevant service in accordance with the terms of the license.

On 1st April, 2001 the Communication Authority Act entered into force. With this law, harmonised authorities for regulation of the telecommunications and the media (broadcasting) sector were implemented, anticipating the expected convergence of these two sectors. Both the Telecommunications Act and the Communications Authority Act provide for authorities which render the regulatory decisions in the telecommunications (*Telekom-Control-Kommission*) and the broadcasting media sector (communications authority). Apart from these bodies, the *Rundfunk und Telekom Regulierungs-GmbH* serves as the (non-exclusive) administrative arm of both bodies (together “*the regulatory authority*”).

Although the regulatory authority is wholly owned by the Republic of Austria, it is financially independent from the Austrian state. Its expenditures are covered by license fees and annual payments from telecommunications service providers and broadcasting companies in relation to the total revenue of the respective markets.

In April 2002, the European Commission published a package of new directives, which will require EU-member states to implement a new regulatory framework for the entire telecommunications sector by mid 2003. The new legal environment is based on the Framework Directive which harmonises general competition law. The 25 per cent. threshold identifying significant market power will no longer apply. The Access and Interconnection Directive regulates the wholesale markets (carrier-to-carrier relations) based on the principle of technical neutrality, while the Universal Service directive focuses on the provision of universal service and limited ways of regulating retail prices. The Licensing directive establishes a common ground for obtaining a national telecommunications license. This new regulatory regime is currently envisaged to be implemented in Austria by the new Act on Communication Services.

Competition law. In addition to the Telecommunications Act, Telekom Austria is subject to Austrian and European competition laws.

Austrian law and EU law prohibit collusive behaviour between competitors which restricts or is intended to restrict competition within the relevant markets. Abuse of a dominant market position is also prohibited and may be fined by the relevant authority. Depending on certain turnover thresholds applicable merger control is being performed either by the Austrian authorities or the European Commission.

Mobile communications. The total number of GSM licenses granted is limited by the number of available frequencies. The existing four licenses were granted under different regulatory regimes and have all been awarded by public auction. Mobile licenses are renewable and granted for a limited period, which is generally 20 years.

In November 2000, six mobile operators (including mobilkom austria), the three other GSM operators in Austria as well as two new entrants, successfully bid for UMTS licenses. Under the terms of the license, mobilkom austria is required to cover 25 per cent. of the Austrian population by the end of 2003 and 50 per cent. by the end of 2005. While the technical launch took place in September, 2002, the service was rolled out in April, 2003. mobilkom austria currently covers 40 per cent. of the Austrian population with its UMTS network and is currently testing various kinds of products and services.

UMTS licensees which, like mobilkom austria, also hold digital GSM licenses, must grant national roaming services against payment for a period of four years to any UMTS licensees which do not operate a GSM network provided that there is spare capacity. National roaming enables the customers of a UMTS operator to set up phone calls in areas not covered by their UMTS operator through the network of another GSM operator. In addition to the above mentioned operators, one fixed network operator tried to enter the mobile market as a virtual mobile network operator (MVNO). However, its request for interconnection was also rejected by Telekom Austria. The rejection was confirmed as lawful by the regulatory authority. The regulatory authority argued that offering public mobile telephony requires a license according to the Telecommunications Act. Nevertheless the situation could change with introduction of the new Act on Communication Services.

Significant market power. To date, the regulatory authority determines annually which operators are deemed to have significant market power. In 2002, no mobile operator was deemed to have significant market power. Currently, Telekom Austria is the only operator considered to have significant market power.

As an operator having significant market power, Telekom Austria is subject to special rules and obligations. Telekom Austria must obtain prior approval for business terms and conditions relating to the provision of voice telephony on fixed networks and leased lines as well as for tariffs on fixed line voice telephony and Telekom Austria must adhere to the principle of non-discrimination and has to grant access to its telecommunications network (or the unbundled parts thereof) on a non-discriminatory basis to all competitors and users. In 2001, the regulatory authority decided that Telekom Austria must offer full unbundling for a fee of €11.63 until the end of 2001 and could charge a monthly fee of €9.01 until the end of 2001. As of 1st January, 2002, this fee was reduced to €8.43. On 1st January, 2003, the applicability of the above mentioned fee was extended by the regulatory authority until September, 2004.

Telekom Austria is obliged to grant co-location which is the allowing of competitors to use transmission, switching and operational interfaces for their networks on Telekom Austria's premises on the same conditions as are applied within the Company. Such space must be leased at market rates.

Telekom Austria must implement adequate, separate accounting systems for its telecommunications activities and other businesses to ensure transparency and prevent cross-subsidisation. A cost accounting system that assigns costs and cost elements to all the services and service elements and permits subsequent auditing must be implemented (based on forward-looking long-term average incremental costs).

Telekom Austria is obliged to offer to its customers carrier pre-selection (i.e. where the customer chooses the network operator for all local, long distance, international, fixed-to-mobile calls and calls to special service numbers) on a permanent basis, with the opportunity for call-by-call override, and call-by-call selection, where the customer dials a Carrier Access Code and a Carrier Identification Code prior to dialling the required party's number in order to identify the network operator to be used to route the call.

In July 2002, the regulatory authority ordered Telekom Austria to submit a resale offer covering access services to enable all the competitors to bill, among other things, monthly line rental costs directly to the customers. Although this requirement was complied with by Telekom Austria, further negotiations on other essential issues in connection with the resale offer are still ongoing with the regulatory authority.

Under the new EU regulatory framework, significant market power is supposed to be determined in a way which is more consistent with general competition law.

Interconnection and special 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 significant market power are involved.

In various decisions since March 1998, the regulatory authority set the fees for interconnection from fixed and mobile-to-fixed line. 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 free phone numbers, value added services, shared cost services, private networks, personal numbers and access to on-line services. Fees for call termination vary depending on the route taken by the signal, more specifically the number of switching elements used. Compared to the other member states of the European Union, interconnection fees in Austria are in the upper middle field.

Mobile operators must pay the same fees as fixed network operators for terminating their calls in the fixed network. For fixed to mobile termination, the fees vary depending on the mobile network the call is terminated in.

Effective from 1st January, 2002 the regulatory authority approved a change in the way interconnection charges between Austrian alternative service providers are billed and collected. As a result of the change, Telekom Austria is no longer a party to such transactions. Had the new regulatory regime been in place during 2001, operating revenues would have been lower by €257.2 million.

In 2002, after the change in interconnection between alternative service providers, revenues from carrier service decreased by 3.5 per cent. to €366.4 million from €379.8 million in 2001. This downturn was caused by lower incoming mobile traffic. Many multinational carriers have set up subsidiaries in Austria and are therefore in the position to directly route their traffic. In addition, in September, 2002, the regulatory authority decided on new interconnection rates which were reduced by 4.8 per cent. on average.

Number portability. All fixed network operators in Austria are required to provide number portability. Customers may change operators while keeping their telephone number provided they do not change their residence. The obligation to provide operator portability and service number portability became effective on 1st January, 1998. The obligation to provide geographic number portability became effective on 1st January, 2000. The regulatory authority ruled that operator portability of geographic numbers and service number portability have to be offered at a one-time fee of €21.79.

To date there is no obligation for mobile operators to make number portability available to customers. The new European Regulatory Framework does however specify such an obligation which has to be implemented in Austria by July 2003.

Universal service. Universal service is defined as the minimum public telecommunications services that all users must have access to, at an affordable price and at a specific quality level, independent of their places of residence or business. The Telecommunications Act of 1997 declared the prices effective from 1st January, 1998 to be affordable by law.

The scope of universal service comprises access to public voice telephony via fixed line including fax, modem and data transmission, free and unrestricted access to emergency services, access to directory enquiry services, access to telephone directories and the provision of public payphones.

As the universal service provider Telekom Austria is entitled to claim compensation. The Telecommunications Act states that the costs of universal service which cannot be covered despite cost-efficient management are to be refunded to the provider upon application. Costs are only to be refunded if the universal service provider has a market share of less than 80 per cent. in the market for public voice telephony. In December 2001, Telekom Austria filed an application for reimbursement of the costs of the provision of the universal service that were incurred in 1999. The application was subsequently withdrawn by the Company.

In the case of a deficit, the regulatory authority will create and manage a "Universal Service Fund". All operators who generate revenues of more than €18.2 million per year will contribute according to their revenues in relation to the revenues of the other operators. The share of contribution will be fixed by the regulatory authority on an annual basis.

Both under the Postal Restructuring Act of 1996 and the Telecommunications Act of 1997, Telekom Austria is obliged to provide voice telephony services for certain disadvantaged persons at special tariffs (social tariffs) against appropriate compensation from the government. At 31st December, 2002, Telekom Austria served about 259,000 entitled customers.

Regulatory Matters Regarding mobilkom austria.

mobilkom austria has filed a number of appeals against decisions of the regulatory authority on interconnection, the determination of significant market power until 2001. These appeals were pending at the Supreme Administrative Court and the Constitutional Court on 31st December, 2002. In 2002, the regulatory authority did not consider mobilkom austria to have significant market power on any market. In spite of this decision, mobilkom austria was required by the regulatory authority to reduce their interconnection fees by 20 per cent.

Properties

The consolidated financial statements of Telekom Austria show a net value for property, land and equipment of €5,000.7 million in 2002 and €4,591.8 million in 2001. The gross values were €10,650.5 million in 2002 and €8,754.3 million in 2001. The gross values include, among others, communications network and other equipment totalling €9,358.1 million, land totalling €62.5 million and buildings totalling €653.0 million at 31st December, 2002. The item communications network and other equipment includes primarily switching and transmission technology as well as access and trunk cables.

Telekom Austria's properties consist primarily of buildings with integrated technical facilities, such as switching devices, transmission towers, antennae and, to a relatively small extent, administrative buildings. The Group also leases space. At 31st December, 2002, the Group used about 2,099 facilities, of which approximately 35 per cent. were leased.

Litigation

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

Telekom Austria. In September, 2000, Telekom Austria received a complaint filed by one of its competitors with the European Commission, General Directorate for Competition against the Company and the Republic of Austria concerning the Company's tariff and discount system, alleging that it abuses its dominant market position. The Company replied to this complaint in October, 2000, denying the allegations. To date, the Company has not received a response.

The Company and Telekom Austria Personalmanagement GmbH have filed several claims against the chairmen of the seven Employee Representation Committees. Under Austrian law, employees do not have to accept a relocation if the relocation would put the employee in a worse position and the Employee Representation Committee does not accept the transfer. The Labour and Social Court has the right to order the relocation of an employee even if the Employee Representation Committee is opposed to the relocation following a complaint by the employer to the Court. The legal proceedings are still ongoing.

An ordinance for the regulation of surveillance systems (*Überwachungsverordnung*) became effective on 1st December, 2001, which sets forth a harmonised European wide surveillance system for the search of persons alleged to be involved in criminal activities. The implementation of the new standards which are based on the standards set forth by the European Telecommunications Standards Institute will require material investments by the Company. Telekom Austria and mobilkom austria, like other network operators, have therefore filed a complaint with the Constitutional Court, arguing the unconstitutionality of this ordinance. In February, 2003, the Constitutional Court set aside the provisions effective as of the end of 2003. As a result, Austrian legislation is required to issue a new ordinance in order to comply with the standards of the European Telecommunications Standards Institute by 31st December, 2003.

One of the Company's former competitors, which is now insolvent, has brought four claims for damages against the Company relating to alleged default in providing hardware and services. Telekom Austria reached a settlement in September 2002 with the insolvency administrator, who filed two of these claims, with an amount in question totalling €5.2 million. In the meantime, one of these claims has been withdrawn by the debtor. The remaining case for a claim of €58.1 million is still pending and the Company does not expect a decision before summer 2003. Management believes that this claim has a low likelihood of success.

Telekom Austria has filed a claim against a former competitor in the amount of €1.2 million, which it has since reduced to about €1.0 million. This competitor has served on Telekom Austria a notice of claim for €5.7 million for damages alleged to have been caused by an abuse of dominant position. Management believes that this claim has a low likelihood of success.

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

In addition, the Republic's auditing service (the *Rechnungshof*) acting on behalf of the Austrian parliament, has started an investigation into the early retirement practices of several current and prior 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 the Company's retirement policy is not clear, the Company denied any access to its files and the *Rechnungshof* may seek a ruling on this point from the Austrian Constitutional Court.

mobilkom Austria. Six claims have been brought against mobilkom austria relating to alleged health problems caused by the emission of radiation through mobile communication transmitting and receiving stations. Some of these claims also seek damages for the alleged decrease in value of the plaintiffs' real estate.

In the first of the six proceedings, an initial decision has been made, pertaining only to the collection of expert reports through the appellate court and a subsequent hearing has been announced. mobilkom austria prevailed in the subsequent proceeding, but the decision is not yet effective. In three proceedings the parties agreed to suspend the case until a decision had been reached in the first set of proceedings. In the remaining two proceedings, the claimant failed to gain a provisional injunction. All claimants appealed. A successful claim for damages against mobilkom austria may have a negative impact on Telekom Austria's results of operations.

mobilkom austria is involved in a number of proceedings before the Supreme Administrative Court where breaches of environmental or building laws by mobilkom austria are alleged. In one of these cases, a decision was rendered obliging mobilkom austria to remove a mobile communication transmitting and receiving station from a site. mobilkom austria has appealed against this decision.

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

A labour union group (*Vertrauenspersonenausschuss Wien*) has filed a claim against mobilkom austria regarding the extent of additional vacation time for night shift heavy workers, as it is provided through the Night Shift Heavy Workers Act (*Nachtschwerarbeitergesetz*). The Postal Restructuring Act of 1997 excludes the Group's employees from the application of the Night Shift Heavy Workers Act. Therefore, Telekom Austria and its subsidiaries are not required to provide additional vacation time. A favourable lower court decision would probably be appealed against by the labour union group for constitutional reasons.

Management and Employees of Telekom Austria

Management Board

Name	Term of appointment	Area of responsibility
Heinz Sundt	11th April, 2000 – 11th April, 2005	Chairman of the Board, Chief Executive Officer
Stefano Colombo	11th April, 2000 – 11th April, 2005	Vice Chairman, Chief Financial Officer
Rudolf Fischer	1st November, 1998 – 11th April, 2005	Chief Operating Officer Wireline
Boris Nemsic	1st July, 2002 – 11th April, 2005	Chief Operating Officer Wireless, Chief Executive Officer of mobilkom austria

Supervisory Board

Name	Member since	Principal occupation
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	Chief Executive Officer of Verbund
Stephan Koren	17th September, 1999	Chief Executive Officer Österreichische Postsparkasse AG
Rainer Wieltsh	12th June, 2002	Member of Management Board of OIAG
Harald Sommerer	4th June, 2003	Chief Financial Officer of AT&S
Harald Stöber	4th June, 2003	Chief Executive Officer of Arcor AG & Co.
Otto G. Zich	17th September, 1999	General Director Sony Europe
Erich Huhndorf	7th June, 2001	Employee representative
Michael Kolek	20th March, 2002	Employee representative
Karl-Heinz Muik	23rd July, 1998	Employee representative
Willhelm Eidenberger	30th April, 2001	Employee representative

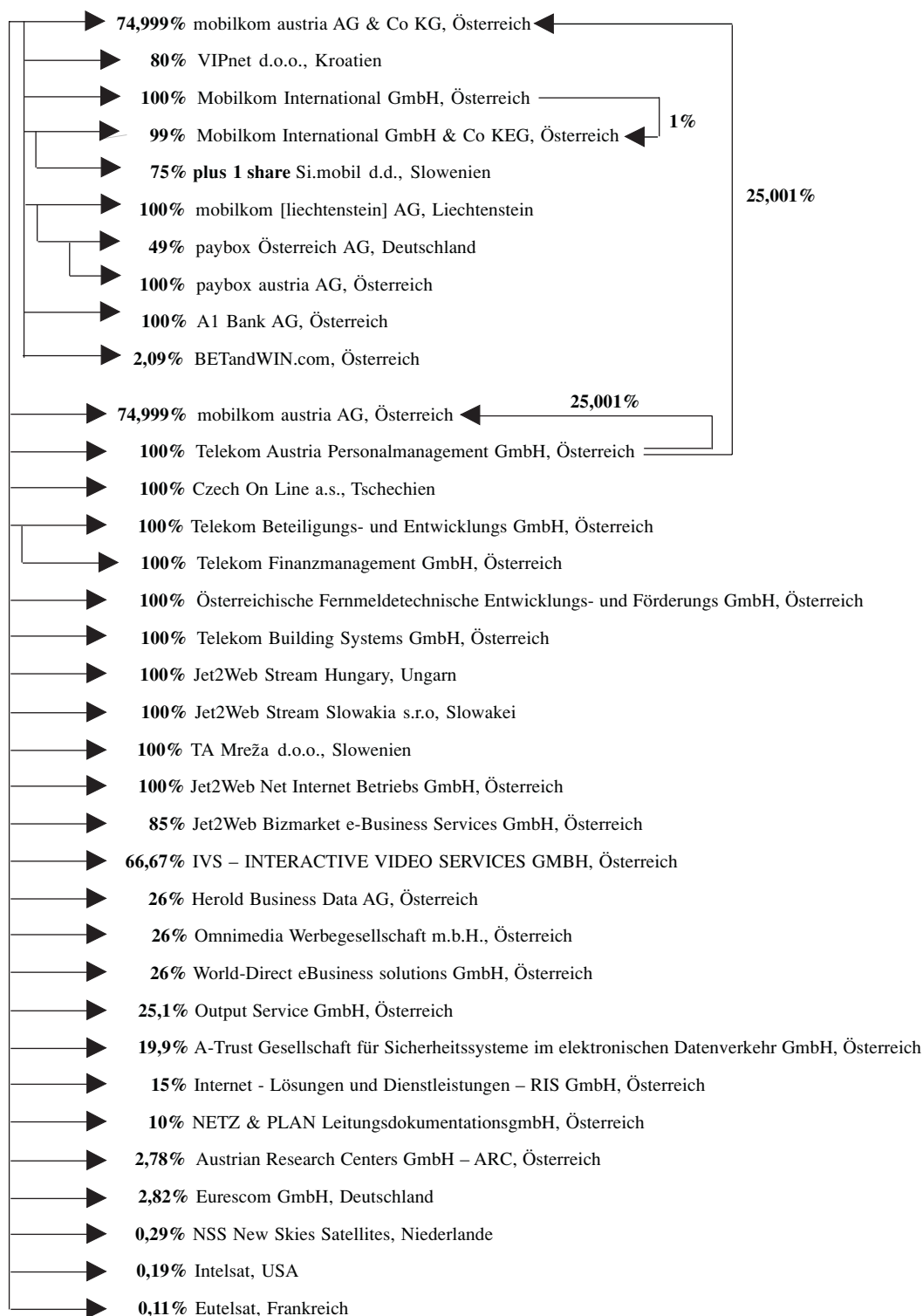
Due to the sale of a 15 per cent. stake of Telekom Austria, two members of the Supervisory Board have resigned. At the next shareholders' meeting, two new members (who are independent from OIAG) will be elected.

Employees. At 31st December, 2002, approximately 57 per cent. of all employees of Telekom Austria were civil servants and 43 per cent. were private law employees. The employment of civil servants is regulated by the Post Restructuring Act of 1996 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.

In 2002, Telekom Austria employed 10,973 persons in the fixed line segment, as opposed to 13,088 in 2001. This figure includes 592 and 565 idle employees for 2002 and 2001 respectively. The headcount for the mobile segment was 3,530 in 2002 as opposed to 3,251 in 2001. The headcount of the data communications segment was 841 in 2002 and 908 in 2001. The internet service segment included 370 employees in 2002 and 302 in 2001.

The Telekom Austria Group

Telekom Austria AG



As of: March, 2003

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 Austrian Income Tax Act (*Einkommensteuergesetz*) or the Austrian 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), 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 ("**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.

For corporate investors holding the Notes as business property, the 25 per cent. withholding tax is not treated as a final taxation and the income from the Notes remains taxable at the corporate income tax rate of 34 per cent. However, such corporate investors may avoid the application of withholding tax by filing a declaration of exemption.

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 public offer of the Notes or if the Notes are held by the Private Trust as a business property, the tax rate is 34 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 (to the extent of the intrinsic value of the Notes) is taxable. However, actual taxation does not take place before maturity or prior redemption or sale of the Notes. A similar treatment is provided for discounted Notes, index-linked Notes or similar debt-claims. The treatment of index-linked Notes is subject to recent jurisdiction by the Austrian Administrative Court and imminent changes in legislation and administrative rules and practice.

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 taxable in Austria.

Thus, non-resident investors 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.

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 date 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 Austrian 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 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. Non-residents include Austrian citizens (except public servants) if they have not been domiciled in Austria for at least two years and have had their permanent abode during this period outside Austria. 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.

Proposed EU Savings Directive

On 3rd June, 2003 the EU Council of Economic and Finance Ministers agreed on proposals under which Member States will be required 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, except that, for a transitional period, Austria, Belgium and Luxembourg will instead be required 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). The proposals are anticipated to take effect from 1st January, 2005.

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 30th June, 2003 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 of the Notes, 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 Pricing Supplement.

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 Notes which have a maturity of one year or more, it has not offered or sold and, prior to the expiry of the period of six months from the issue date of such Notes, will not offer or sell any such Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);
- (ii) 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 FSMA by the relevant Issuer;

- (iii) 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
- (iv) 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 (i) it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in the Netherlands any Notes issued by Telekom Austria other than to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises) and (ii) it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in the Netherlands any Notes issued by Telecom Finanzmanagement GmbH other than Notes with a minimum denomination of €500,000 (or its foreign currency equivalent) which are held through Euroclear and/or Clearstream and provided that Telecom Finanzmanagement GmbH is not aware of the identity of the holder of such Notes (other than the Dealers) prior to the Issue Date.

A copy of the offer document containing this selling restriction must be filed with the Dutch Authority for the Financial Markets prior to any offer by Telekom Austria if the Notes have denominations of less than €50,000.

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.

The information contained in the Offering Circular does not contain an offer to purchase or sell nor a solicitation to make a purchase or subscription order for the Notes under circumstances where such an offer or solicitation is prohibited in Austria without first drawing up and publishing a prospectus in Austria, nor may the information contained therein be construed to contain such information. In particular, the Offering Circular may not be construed to contain a public offer or a public solicitation to subscribe for or purchase the Notes or an invitation to make an offer for the Notes or any advertisement or marketing which is equivalent to such an offer or solicitation pursuant to the Austrian Capital Market Act, whenever such an offer or solicitation is prohibited in Austria, without first drawing up and publishing a prospectus 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 Offering Circular 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 by way of a private placement and that only professional investors acting within the scope of their business or professional activity, as defined in § 3/1/11 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 recognition procedure as defined in the Austrian Capital Market 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.

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 Offering Circular 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 Pricing Supplement.

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 and 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 list Notes issued under the Programme on the Luxembourg Stock Exchange. A legal notice relating to the Programme and the constitutional documents of the Issuer are being lodged with the Trade and Companies Register (*Registre de Commerce et des Sociétés*) in Luxembourg where such documents may be examined and copies obtained. The Luxembourg Stock Exchange has allocated the number 12867 to the Programme for listing purposes.

Documents Available

So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the registered office of the Issuer 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, 2002 and 31st December, 2001 (with an English translation thereof) and the consolidated audited annual financial statements of Telekom Austria in respect of the financial years ended 31st December, 2002 and 31st December, 2001 (with an English translation thereof). Telekom Austria currently prepares audited consolidated accounts on an annual basis; TFG currently prepares audited non-consolidated accounts on an annual basis;
- (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). Telekom Austria currently prepares unaudited consolidated interim accounts on a quarterly basis (at present TFG does not prepare interim accounts);
- (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 Offering Circular;
- (vi) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note 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 Offering Circular and any other documents incorporated herein or therein by reference; and
- (vii) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream,

Luxembourg will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

Significant Change

Save as disclosed in this Offering Circular, there has been no material adverse change in the financial or trading position of Telekom Austria or TFG or the Group since 31st December, 2002.

Litigation

Save as disclosed in this Offering Circular, neither Telekom Austria nor TFG nor any other member of the Group is or has been involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which Telekom Austria or TFG are aware) which are material in the context of the Programme or the issue of the Notes thereunder.

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 Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft and Grant Thornton-Jonasch & Platzer Wirtschaftsprüfungs- und Steuerberatungs-OHG for the financial years ended on 31st December, 2000 and on 31st December, 2001 and KPMG Alpen-Treuhand GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft for the financial year ended on 31st December, 2002. 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 and Grant Thornton-Jonasch & Platzer Wirtschaftsprüfungs- und Steuerberatungs- OHG for the financial years ended on 31st December, 2000 and 31st December, 2001 and KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft for the financial year ended on 31st December, 2002.

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