

Stock Option Plan ESOP 2004+

Following approval of the Stock Option Plan 2004+ by the Supervisory Board of Telekom Austria, roughly 2.4 million options of the first tranche of ESOP 2004+ (Employee Stock Option Plan) were issued on April 19, 2004.

On the basis of the annual results for 2004 which were announced on March 16, 2005, it has been noted that the exercise hurdle (EPS target value for the business year 2004) determined by the Supervisory Board has been reached. The options of the tranche ESOP 2004+ can be exercised as of April 20, 2005 up to the end of option life on May 30, 2008.

The ESOP 2004+ is oriented towards the Management Board and other key managers with a strong impact on the success of the company. It thus comprises roughly 200 employees within the Telekom Austria Group. In order to allocate and exercise the options of the first tranche, those eligible to receive options are required to hold a specified investment in company shares throughout the entire period: for each Telekom Austria share held they are granted 15 options.

Members of the Management Board of Telekom Austria AG received 96,000 options with a maximum specified investment of 6,400 shares. Members of the management boards of subsidiaries receive 50,000 options with a maximum specified investment of 3,334 shares; the remaining participating managers, according to their classification group, receive a maximum of 20,000 options with a maximum specified investment of 1,334 shares.

Altogether approximately 2.4 million options were issued in the course of the first tranche ESOP 2004+, whereby one option – in achieving the exercise hurdle - entitles to the purchase of a share at the exercise price of EUR 11.92.

Main Facts

Eligible for options:	roughly 180 employees including the Management Board
Share investment:	upfront investment of up to 6,400 shares necessary; 15 options granted per share held
Exercise price:	EUR 11.92
Exercise hurdle:	achievement of an EPS target determined by the Supervisory Board (profit per share)
Allocation:	April 19, 2004
Option life:	April 19, 2004 – May 30, 2008 / 4 years
Vesting period:	1 year from allocation
Settlement:	Options served through cash compensation

EPS Target Value as an Exercise Hurdle

The ESOP 2004+ is oriented towards the profitability of the company. Exercising the options that are allocated in 2004 requires that the EPS (earnings per share) target value determined by the Supervisory Board for the 2004 business year has been reached.

Exercise Price, Objectives Reached and Share Performance

The exercise price of EUR 11.92 is determined as the average quoted closing price of Telekom Austria shares at the Vienna Stock Exchange during a period of 20 trading days ending two days before the granting of options (April 19, 2004). Thus, in the first tranche 2004, those eligible to participate receive options that entitle them to acquire company shares at an exercise price of EUR 11.92; however, these may only be exercised provided that the EPS target value has been reached.

If options are exercised, those eligible to receive options can make a profit – before income tax - from the difference between the share price on the day the options are exercised and the exercise price of EUR 11.92, multiplied by the number of allocated option notes. Thus, the future share performance of Telekom Austria stock will have an important impact on the profit gained.

Option Life, Vesting Period and Settlement

The first tranche of ESOP 2004+ was allocated on April 19, 2004 and the last exercise date for the options is May 30, 2008 (option life), provided the EPS target value has been reached. The options are subject to a 12-month vesting period from the time they were first granted, therefore they cannot be exercised prior to April 20, 2005. After expiration of the vesting period, the options can be exercised until the end of the option life.

According to the authorization by the Annual General Meeting, the company can choose to serve options by new shares, by repurchased own shares or through cash compensation. On March 15, 2005 the company decided to provide cash compensation. Therefore, the increase in share capital of up to EUR 6,543,000 (corresponds to 3 million shares) decided on March 23, 2004 will not be carried out, which would have served ESOP 2004+ by new stocks.

A comprehensive description of the Stock Option Program ESOP 2004+ can be found in the published

Report by the
Supervisory
Board and
the
Management
Board
according to
Para 159 Sec
3 and Para
95 Sec 6 in
connection
with Para 159
Sec 2 Z 3 of
March 26,
2004
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