

Stock Option Plan ESOP 2005+

Upon approval by the Supervisory Board of Telekom Austria, approximately 2.86 million options were issued on January 19, 2005 within the scope of the second tranche of the Stock Option Program ESOP 2005+, with an option life of up to May 2009 and an exercise price of EUR 13.98.

ESOP 2005+ is primarily based on the first tranche ESOP 2004+, but regarding the exercise hurdle, required specified investment and additional parameters is completely independent from the first tranche ESOP 2004+.

As with ESOP 2004+, ESOP 2005+ 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 second tranche, those eligible to receive options are required to hold a specified investment in company shares, whereby members of the Management Board of Telekom Austria AG are granted 15 options per share held and all others who are eligible to receive options are granted 20 options per share held. Therefore, members of the Management Board must hold a relatively higher specified investment than the others who are eligible.

Members of the Management Board of Telekom Austria AG receive 99,100 options with a maximum specified investment of 6,607 shares. Members of the management boards of subsidiaries receive 51,300 options with a maximum specified investment of 2,565 shares; the remaining participating managers, according to their classification group, receive a maximum of 22,800 options with a maximum specified investment of 1,140 shares.

Under ESOP 2005+ approximately 2.86 million options were issued, whereby one option – in achieving the exercise hurdle – entitles to the purchase of a share at the exercise price of EUR 13.98.

Main Facts

Eligible for options:	up to 220 employees including the Management Board
Share investment:	upfront investment of up to 6,607 shares; 15 options per share held for the Management Board, 20 options per share held for the rest of those granted options
Exercise price:	EUR 13.98
Exercise hurdle:	achievement of an EPS target determined by the Supervisory Board (profit per share)
Allocation:	January 19, 2005 - roughly 2.86 million options (subscription ratio 1:1)
Option life:	January 19, 2005 – May 29, 2009 / 4.5 years
Vesting period:	14 months from allocation
Settlement:	Options served through cash compensation

EPS Target Value as an Exercise Hurdle

As with the first tranche ESOP 2004+, ESOP 2005+ is oriented towards profitability of the company. Exercising the options that are allocated in 2005 requires that the EPS target value (earnings per share) determined by the Supervisory Board for the 2005 business year has been reached. It is thus possible to exercise ESOP 2005+ as of the publication of the annual results for the year 2005, provided that the EPS target value has been reached. If the EPS target value is not achieved for the 2005

business year, the options can still be exercised, provided that a certain EPS target value for the 2006 or 2007 business years determined by the Supervisory Board - which must at least be in line with the EPS target value for 2005 - is met. This is to support the long-term orientation of the management.

Exercise Price, Target Value Achieved and Share Performance

The exercise price of EUR 13.98 is the average quoted closing price at the Vienna Stock Exchange during a period of 20 trading days ending two days before the granting of options (January 19, 2005). The options of the second tranche entitle those eligible to participate to acquire shares of Telekom Austria at an exercise price of EUR 13.98, 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, 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 second tranche ESOP 2005+ was issued on January 19, 2005 and can be exercised – provided that the EPS target value has been reached – until the end of May 2009 (option life).

Concretely, the options can only be exercised once the EPS target value for 2005 has been determined or upon publication of the annual results for 2005 up to the end of option life at the end of May 2009. Consequently, there is a vesting period of roughly 14 months as of issuing the options.

According to the authorization by the Annual General Meeting, the company can choose to serve options by new shares or by repurchased own shares, whereby the general blackout periods for trading stocks shall be observed according to the Compliance Code of Telekom Austria AG. Instead of delivering stocks the company can also provide cash compensation.

To issue the second tranche ESOP 2005+, on December 13, 2004 the Management Board decided to increase the share capital to up to EUR 7,415,400 (corresponds to 3.4 million shares, or 0.7% of the current share capital), provided that options issued in 2005 for ESOP 2005+ would be served.

The conditional capital increase will only take place to the extent that the options exercised within the scope of ESOP 2005+ will be served by new stocks. If the options exercised are served by means of repurchased own stocks or cash compensation, the decided increase in share capital will not be carried out.

 [News Release on the Occasion of the Publication of the Report on the Conditional Capital Increase](#)

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
of December
12, 2004
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