

TELEKOM AUSTRIA GROUP

Telekom Austria Aktiengesellschaft

(incorporated as a joint stock company (*Aktiengesellschaft*) with limited liability under the laws of the Republic of Austria) and

Telekom Finanzmanagement GmbH

(incorporated as a limited liability company (*Gesellschaft mit beschränkter Haftung*) with limited liability under the laws of the Republic of Austria)

EUR 500,000,000 senior 1.50% notes due 2026 of Telekom Finanzmanagement GmbH with the benefit of an unconditional and irrevocable guarantee of Telekom Austria Aktiengesellschaft

Telekom Finanzmanagement GmbH ("TFG" or the "Issuer") intends to issue on 7 December 2016 (the "Issue Date") EUR 500,000,000 in aggregate principle amount of senior 1.50% notes due 2026 (the "Notes") at an issue price of 99.284% of their principal amount (the "Issue Price"). The Notes are issued in the denomination of EUR 100,000 each.

Each Note shall bear interest on its principal amount from (and including) the Issue Date to (but excluding) 7 December 2026 (the "Maturity Date") at a fixed rate of 1.50% of their principal amount *per annum* (as set out in the terms and conditions of the Notes, the "Terms and Conditions").

Interest on the Notes is payable annually in arrears on 7 December of each year commencing on 7 December 2017 (each an "Interest Payment Date"). Unless previously redeemed or repurchased and cancelled, the Notes will be redeemed at par on the Maturity Date.

The Notes are unconditionally and irrevocably guaranteed (the "Guarantee") by Telekom Austria Aktiengesellschaft ("Telekom Austria AG" or the "Guarantor").

The Issuer may redeem the Notes in whole, but not in part, at any time during the period commencing on (and including) the day that is 90 days prior to the Maturity Date to (but excluding) the Maturity Date, at par plus any interest accrued to (but excluding) the Maturity Date as described under "The Terms and Conditions – §4. Maturity and Redemption".

The Issuer may also, at its option, and in certain circumstances must, redeem all (but not some only) of the Notes at any time at par plus accrued interest in the event of certain tax changes, as further described in "Terms and Conditions– §4. Maturity and Redemption". In addition, each holder of Notes (each a "Noteholder") may, at its option, in the event of a Change of Control, request from the Issuer the redemption of some or all of the Notes held by it at their principal amount plus accrued interest, as further described in "Terms and Conditions of the Notes - §4. Maturity and Redemption".

Telekom Austria AG as Guarantor has been assigned a long-term issuer rating of Baa2 with stable outlook by Moody's Investors Services Ltd ("Moody's") and BBB with stable outlook by Standard & Poor's Credit Market Services Europe Limited ("Standard & Poor's"). The expected rating of the Notes is "Baa2" from Moody's and "BBB" from Standard & Poor's.

The Notes will initially be represented by a temporary global note (the "Temporary Global Note"), without interest coupons, which will be exchangeable for a permanent global note (the "Permanent Global Note") without interest coupons, not earlier than 40 days after the Issue Date, upon certification as to non-U.S. beneficial ownership.

Prospective investors should consider that an investment in the Notes includes diverse risks. Potential investors should review all the information contained or incorporated by reference in this document and, in particular, the information set out in Section I. (Risk Factors) starting on page 1.

The occurrence of one or more of such risks could lead investors to lose some or all of their investment. Each investor should consult its own professional investment, legal, tax and other relevant advisors in connection with the subscription of Notes.

This prospectus (the "Prospectus") constitutes a prospectus within the meaning of Article 5.3 of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003, as amended, *inter alia*, by Directive 2010/73/EG (the "Prospectus Directive"). This Prospectus will be published in electronic form together with all documents incorporated by reference on the website of the Luxembourg Stock Exchange (www.bourse.lu) as well as on the website of the Issuer (www.telekomaustria.com/en/ir/17848) and will be available free of charge at the specified office of the Issuer.

This Prospectus has been approved by the *Commission de Surveillance du Secteur Financier*, Luxembourg ("CSSF") of the Grand-Duchy of Luxembourg ("Luxembourg") in its capacity as competent authority (the "Competent Authority") under the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities as amended (*loi du 10 juillet 2005 relative aux prospectus pour valeurs mobilières*, the "Luxembourg Act"). The Issuer will prepare and make available an appropriate supplement to this Prospectus if at any time the Issuer will be required to prepare a prospectus supplement pursuant to Article 13 of the Luxembourg Act. By approving a prospectus, CSSF shall give no undertaking as to the economic and financial soundness of the operation or the quality or solvency of the Issuer and/or Telekom Austria AG.

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 United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States of America or to, or for the account or benefit of, U.S. persons as defined in Regulation S under the Securities Act ("Regulation S") unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available.

Application has been made to the Luxembourg Stock Exchange for the Notes to be listed on the official list of the Luxembourg Stock Exchange (the "Official List") and to be admitted to trading on the Luxembourg Stock Exchange's Regulated Market (the "Regulated Market") which is a regulated market for the purposes of the Market and Financial Instruments Directive 2004/39/EC of the European Parliament and of the Council of 15 May 2004 on Markets in Financial Instruments, as amended.

Joint Lead Managers

Banco Bilbao Vizcaya Argentaria

J.P. Morgan Securities plc

UniCredit Bank Austria AG

This Prospectus is dated 6 December 2016.

IMPORTANT NOTICE

This Prospectus constitutes a prospectus within the meaning of Article 5.3 of the Prospectus Directive and the Luxembourg Act, and for the purpose of giving information with regard to Telekom Austria AG and its fully consolidated subsidiaries and affiliates taken as a whole ("**Telekom Austria Group**" or the "**Group**") and TFG and the Notes which is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

Certain information contained in this Prospectus and/or documents incorporated herein by reference has been extracted from sources specified in the sections where such information appears. The Issuer and Telekom Austria AG confirm that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by the above sources, no facts have been omitted which would render the information reproduced inaccurate or misleading.

This Prospectus is to be read in conjunction with any supplement thereto, if any, and with all documents which are incorporated by reference in this Prospectus (see Section X. (*General Information – Documents Incorporated by Reference*) below). Such documents shall be deemed to be incorporated by reference in, and form part of this Prospectus, save that any statement contained in a document which is deemed to be incorporated by reference shall be deemed to be modified or superseded by Telekom Austria AG or TFG (as appropriate) for the purpose of this Prospectus to the extent that a statement contained 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 Prospectus. Full information on the Issuer, Telekom Austria AG and the Notes is only available on the basis of the combination of the Prospectus and any supplement thereto, if any.

Each of Telekom Austria AG and TFG (the "**Responsible Persons**") confirms that this Prospectus contains all information with regard to the Issuer, Telekom Austria AG and the Notes which is material to the issue and offering of Notes thereunder; that the information contained herein with respect to the Issuer, Telekom Austria AG and the Notes is true and accurate in all material respects and is not misleading; that the opinions and intentions expressed herein are honestly held; that there are no other facts with respect to the Issuer, Telekom Austria AG or the Notes, the omission of which would make this Prospectus as a whole or any of such information or the expression of any such opinions or intentions misleading and that all reasonable enquiries have been made to ascertain all facts material for the purposes aforesaid.

The Responsible Persons will supplement this Prospectus if and when the information herein should become materially untrue, inaccurate or incomplete, and to furnish such supplement to the Prospectus mentioning every significant new factor, material mistake or inaccuracy to the information included in this Prospectus which is capable of affecting the assessment of the Notes issued on the basis of this Prospectus and which arises or is noted between the time when this Prospectus has been approved and the time when trading of the Notes on a regulated market begins.

No person has been authorised to give any information which is not contained in, or not consistent with, this Prospectus or any other document entered into in relation to the Prospectus or any information supplied by any of the Responsible Persons or such other information as in the public domain and, if given or made, such information must not be relied upon as having been authorised by the Responsible Persons, the Joint Lead Managers (as defined below) or any of them.

Neither Banco Bilbao Vizcaya Argentaria, S.A., J.P. Morgan Securities plc or UniCredit Bank Austria AG (together, the "**Joint Lead Managers**") nor any other person mentioned in this Prospectus, excluding the Responsible Persons, has 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 Joint Lead Managers or any of their affiliates as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer and/or the Guarantor in connection with the issue and sale of the Notes.

This Prospectus and any supplement thereto reflect the status as of their respective dates of issue. The delivery of this Prospectus or any supplement thereto and the offering, sale or delivery of the Notes may not be taken as an implication that the information contained in such documents is accurate and complete subsequent to their respective dates of issue or that there has been no adverse change in the financial

situation of the Responsible Persons since that date or that any other information supplied in connection with the Prospectus is accurate at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction where, or to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Joint Lead Managers do not represent that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Joint Lead Managers which would permit a public offering of any Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, Notes may not be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes.

For a description of restrictions applicable in the United States of America, Japan, the European Economic Area and the United Kingdom see Section IX. (*Selling Restrictions*). In particular, the Notes and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended, and are subject to tax law requirements of the United States of America; subject to certain exceptions, Notes may not be offered, sold or delivered within the United States of America or to U.S. persons.

This Prospectus has been drafted in the English language and the English language shall be the prevailing language of this Prospectus.

In making an investment decision regarding the Notes, prospective investors should rely on their own independent investigation and appraisal of (a) the Issuer, its business, its financial condition and affairs and (b) the terms of the offering, including the merits and risks involved. The contents of this Prospectus are not to be construed as legal, business or tax advice. Each prospective investor should consult its own advisers as to legal, tax, financial, credit and related aspects of an investment in the Notes. Potential investors should, in particular, read carefully the section entitled "Risk Factors" set out below before making a decision to invest in the Notes.

Neither this Prospectus nor any other information supplied in connection with the Prospectus or the 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 AG or TFG or any of the Joint Lead Managers that any recipient of this Prospectus or any other information supplied in connection with the Prospectus or the 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 of the Responsible Persons. Neither this Prospectus nor any other information supplied in connection with the Prospectus or the issue of the Notes should be considered as a recommendation by the Issuer, the Guarantor or the Joint Lead Managers to or constitutes an offer or invitation by or on behalf of Telekom Austria AG, TFG or any of the Joint Lead Managers to any person to subscribe for or to purchase any Notes.

IN CONNECTION WITH THE ISSUE AND DISTRIBUTION OF THE NOTES, J.P. MORGAN SECURITIES PLC (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT SUCH STABILISING MANAGER(S) (OR ANY PERSON ACTING ON ITS/THEIR BEHALF) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN AT ANY TIME AFTER THE ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE AND 60

DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.

ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

The Notes have not been and will not be registered under the Securities Act. The Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (**Regulation S**)), unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available.

All references in this document to "USD" refer to United States dollars. In addition, all references to "euro", "EUR" 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.

RESPONSIBILITY STATEMENT

Each of Telekom Austria AG and TFG accepts responsibility for the information contained in and incorporated by reference into this Prospectus, provided that TFG is not responsible for Section V. (*Description of Telekom Austria*) and Section VI. (*Description of Telekom Austria Group*). To the best of the knowledge of each of Telekom Austria AG and TFG (which have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

With respect to any information included herein and specified to be sourced from a third party (i) each of the Responsible Persons confirms that any such information has been accurately reproduced and as far as the Responsible Persons are aware and are able to ascertain from information available to them from such third party, no facts have been omitted, the omission of which would render the reproduced information inaccurate or misleading and (ii) the Responsible Persons have not independently verified any such information and accept no responsibility for the accuracy thereof.

INFORMATION REGARDING FINANCIAL INFORMATION

Certain numbers (including percentages) in this Prospectus were commercially rounded. In tables, such commercially rounded numbers may not add up exactly to the totals presented in such tables. The percentages provided refer to the commercially rounded financial information in this Prospectus and may therefore deviate from the actual values in the financial statements of Telekom Austria AG and TFG.

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements. A forward-looking statement is a statement that does not relate to historical facts and events. Forward-looking statements are based on analyses or forecasts of future results and estimates of amounts not yet determinable or foreseeable. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will" and similar terms and phrases, including references and assumptions.

This applies, in particular, to statements in this Prospectus containing information on future earning capacity, plans and expectations regarding Telekom Austria Group's business and management, its growth and profitability, and general economic and regulatory conditions and other factors that affect it.

Forward-looking statements in this Prospectus are based on current estimates and assumptions that the Issuer and/or Telekom Austria AG make to the best of their respective present knowledge. These forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results, including Telekom Austria Group's financial condition and results of operations, to differ materially from and be worse than results that have expressly or implicitly been assumed or described in these forward-looking statements. Telekom Austria Group's business is also subject to a number of risks and uncertainties that could cause a forward-looking statement, estimate or prediction in this Prospectus to become inaccurate. Accordingly, investors are strongly advised to read the following sections of this Prospectus: "Summary", "Risk Factors"

and "Description of Telekom Austria Group". These sections include more detailed descriptions of factors that might have an impact on Telekom Austria Group's business and the markets in which it operates.

In light of these risks, uncertainties and assumptions, future events described in this Prospectus may not occur. Neither the Issuer nor Telekom Austria AG nor either of their respective managements or the Joint Lead Managers can vouch for the future veracity of the opinions contained in the Prospectus or for the actual occurrence of the forecast developments. Moreover, prospective investors should note that statements regarding past trends and developments provide no guarantee that such trends and developments will continue in the future.

In addition, neither the Issuer nor the Joint Lead Managers assume any obligation, except as required by law, to update any forward-looking statement or to conform these forward-looking statements to actual events or developments.

THIRD-PARTY STATEMENTS

Where information was sourced from a third party, the Issuer confirms that this information was accurately reproduced and that as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts were omitted which would render the reproduced information inaccurate or misleading. Where such information was included in this Prospectus, the source is indicated.

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I. RISK FACTORS

Prospective investors should carefully review the following risk factors in conjunction with the other information contained in this Prospectus before making an investment in the Notes. If any of these risks materializes, individually or together with other circumstances, it may have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition. The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer and/or Telekom Austria AG may be unable to fulfil their obligations under the Notes for other reasons than those described below. Additional risks not currently known to Telekom Austria AG or that it currently believes are immaterial may also adversely affect its business, results of operations and financial condition. Should any of these risks materialize, the market price of the Notes could decline, the Issuer and Telekom Austria AG may not be able to fulfil their obligations under the Notes and investors could lose all or a part of their investment. The order in which the individual risks are presented does not provide an indication of the likelihood of their occurrence nor of the severity or significance of the individual risks.

Each prospective purchaser of Notes must determine, based on its own independent review and such professional advice as it deems appropriate under the circumstances, that its acquisition of the Notes is fully consistent with its financial needs, objectives and condition, complies and is fully consistent with all investment policies, guidelines and restrictions applicable to it and is a fit, proper and suitable investment for it, notwithstanding the clear and substantial risks inherent in investing in or holding the Notes. A prospective purchaser may not rely on the Issuer, Telekom Austria AG, the Joint Lead Managers or any of their respective affiliates in connection with its determination as to the legality of its acquisition of the Notes or as to the other matters referred to above.

1. Macroeconomic risks and market environment

An economic downturn or substantial slowdown in economic development in certain markets could adversely affect customer demand for Telekom Austria Group's products and services.

Telekom Austria Group's business is particularly dependent on general economic conditions in Austria as well as in the other markets in Central, Eastern and South-Eastern Europe ("CESEE") in which the Group has operations. Generally, increased volatility in international capital markets as well as other negative global macroeconomic developments may cause a deterioration of the general economic parameters in those countries where Telekom Austria Group does business. Continuing uncertainty about global economic conditions poses a significant risk as local consumer and business customers postpone spending in response to tighter credit, negative financial news (including high levels of unemployment) or declines in income or asset values.

Since approximately 60% of Telekom Austria Group's revenues are generated in Austria, with the remaining revenues derived from other CESEE markets, any economic downturn or substantial slowdown in economic development that leads to a decrease in customer demand in these regions could have a significant impact on Telekom Austria Group's business. CESEE economies have suffered significant economic instability following the recent global economic crisis, leading to challenging macroeconomic conditions in the region. Moreover, budgetary crises, political volatility, labour and social unrest, including strikes and political protests and demonstrations, in the CESEE countries could have political, social and economic consequences, such as increased support for a renewal of centralized authority, increased nationalism, restrictions on foreign ownership and possible violence. This, in turn, could have an adverse effect on the regional economy or exacerbate any negative economic trends, potentially leading to decreased customer demand for Telekom Austria Group's products and services.

If the economic recovery in CESEE does not strengthen, retail customer demand for Telekom Austria Group's products and services and the willingness of Telekom Austria Group's business customers to invest in information and communications technology may stagnate or decline. Moreover, negative developments in the relationships between particular CESEE countries and western governments and institutions, or between particular CESEE countries and their regional neighbours on whom they greatly rely for trade, may have a detrimental effect on those CESEE countries' economies, which in turn could negatively affect Telekom Austria Group's business there.

This could, in turn, have a material adverse effect on the business prospects, results of operations and financial condition of Telekom Austria Group.

Telekom Austria Group operates in a competitive industry and may not be able to maintain its market share, which could adversely affect its business.

The telecommunications industry is highly competitive, both in the fixed-line and mobile communications markets. Such competition has led to significant pricing pressure resulting in sharp price reductions in both mobile communications services and data services. There is a risk that volume increase will not be able to offset such price reductions as evidenced by several of the Group's mature markets. Moreover, price reductions for mobile communications have also accelerated fixed-to-mobile substitution, thereby reducing Telekom Austria Group's revenues from fixed-line services. Telekom Austria Group's competitors may offer products and services comparable or superior to those provided by Telekom Austria Group or adapt more quickly than Telekom Austria Group to evolving industry trends or changing market demands. Telekom Austria Group's competitors may pursue aggressive pricing strategies and offer products and services at prices that Telekom Austria Group cannot match. This could lead to a loss of market share in Telekom Austria Group's most important markets. Such competitors could make it more difficult for Telekom Austria Group to enter or expand in other markets, some of which may be critical for Telekom Austria Group's future strategy. New entrants such as mobile virtual network operators ("MVNO"), who have the right to access other operators' networks at wholesale prices in order to provide services, may further increase pressure on tariffs.

Other factors that may increase competition include new forms of telecommunication that circumvent conventional tariff structures as well as licensing schemes and alternative technologies such as wireless access.

In addition, changes in government or EU regulations, e.g. regarding roaming and interconnection fees, may require the Group to lower tariffs and fees. The materialization of any such risks could increase downward pressure on prices or lead to a decrease in the market share of Telekom Austria Group and could therefore have a material adverse effect on the business prospects, results of operations and financial condition of Telekom Austria Group.

Telekom Austria Group operates in a number of CESEE countries and is thus subject to individual country risks in CESEE.

Telekom Austria Group's operations are concentrated in CESEE. Some of the CESEE countries could suffer from significant economic, tax, legal and political changes. Furthermore, certain countries in which Telekom Austria Group currently operates, or may operate in the future, have materially different regulations, business environment, cultural norms and customer trends, all of which could make it difficult for Telekom Austria Group to successfully pursue its strategy. Moreover, changes in applicable rules and legislation due to geopolitical developments could make it difficult or impossible for Telekom Austria Group to maintain operations in certain countries. Negative developments or circumstances in these countries could have a material adverse effect on the business prospects, results of operations and financial condition of Telekom Austria Group.

For detailed information about the risks in important markets of Telekom Austria Group, see "Risk factors—Country risks affecting Telekom Austria Group's operations".

2. Risks relating to Telekom Austria Group's business

Telekom Austria Group may not, as a result of unsuccessful marketing strategies or lack of market demand, achieve the expected level of demand for its products and services or the expected level or timing of revenues and profitability generated by those products and services.

There is a risk that Telekom Austria Group will not succeed in making customers sufficiently aware of existing and future products and services or in creating customer demand for these products and services at the prices Telekom Austria Group would want to charge. There is also a risk that Telekom Austria Group will not identify trends correctly, or that it will not be able to launch new products and services in the market

at the right time, or that it will target the wrong customer group. Telekom Austria Group may not be able to launch new products and services in the market as quickly or price-competitively as its competitors.

As a result, Telekom Austria Group may not achieve the expected level of demand for its products and services or the expected level or timing of revenues generated by those products and services. This could materially adversely affect Telekom Austria Group's business prospects, results of operations and financial condition.

The telecommunications industry is significantly affected by rapid technological change and Telekom Austria Group may not be able to proactively anticipate or effectively react to these changes.

The telecommunications industry is characterized by rapidly changing technology and related changes in customer demand for new products and services at competitive prices. Technological change and the emergence of alternative technologies for the provision of telecommunications services that are technologically superior, cheaper or otherwise more attractive than those that Telekom Austria Group provides may render the Group's services less profitable, less viable or obsolete.

Technological developments may also shorten product life cycles and facilitate convergence of various segments in the telecommunications industry. As a result, there is a risk that new and established information and telecommunications technologies or products may not only fail to complement one another, but in some cases may even substitute for one another.

Telekom Austria Group may be required to deploy new technologies rapidly if subscribers begin demanding features of a new technology, such as increased bandwidth. When Telekom Austria Group selects and advances one technology over another, it may not be able to accurately predict which technology may prove to be the most economical, efficient or capable of attracting subscribers or stimulating usage, and Telekom Austria Group may develop or implement a technology that does not achieve widespread commercial success or that is not compatible with other newly developed technologies.

The rapid increase in popularity of multimedia content streamed through the telecommunications network and insufficient innovation on the side of telecommunications operators could lead to increased popularity of other content or service providers and a loss by Telekom Austria Group of direct customer relationships. As a result, Telekom Austria Group may lose part of its revenues and margins while being simultaneously required to invest more in modernization of its technologies.

Telekom Austria Group may not receive the necessary licenses to provide services based on these new technologies in the markets in which it operates or may be negatively impacted by unfavourable regulation regarding the usage of these technologies.

If Telekom Austria Group is unable to accurately predict which technology will prove to be the most economical, efficient or capable of attracting customers or stimulating usage, or react to or access technological changes in the telecommunications market, it could lose subscribers, fail to attract new subscribers or incur substantial costs and investments in order to maintain its subscriber base, all of which could have a material adverse effect on its business, financial condition and results of operations.

Technological change could increase competition, allow for new market entrants, render existing technologies obsolete, or require Telekom Austria Group to make substantial additional investments.

The telecommunications sector is facing the challenge to be able to offer new services and products at increasingly faster rates. TV content, cloud services, "over-the-top services" and Machine-to-Machine (M2M) are only a few examples of new business areas where Telekom Austria Group is engaged. However, shorter innovation cycles are also associated with innovation risks.

Telekom Austria Group's services are technology-intensive, and the development of new technologies could render its services non-competitive and require it to write down the book values of investments it has made in existing licenses and technologies.

Telekom Austria Group's existing competitors or new market entrants may introduce new or technologically

superior telecommunication services before Telekom Austria Group does. As a result, Telekom Austria Group may be required to rapidly start providing more advanced telecommunication services or deploying newer technologies. Accordingly, Telekom Austria Group must invest in the development of new products, technology and services so that it can continue to compete effectively with current or future competitors, which may reduce Telekom Austria Group's revenues or margins.

The telecommunications industry is undergoing a number of structural changes. Additional competition may arise from IT companies which position themselves as full IT and telecommunications providers and compete strongly for the large corporate accounts.

The development of broadband network usage for value-added services benefits existing companies and furthers the emergence of new companies that do not have a network (over-the-top players and content and service providers, including aggregators, search engines, handset makers, etc.). Competition to control customer relations with these players is intensifying and could erode the operators' market position. This direct relationship with customers is a source of value for the operators and to lose all or part of it to new entrants could affect revenue, margins, financial position and outlook.

Telekom Austria Group's business is capital intensive and requires significant amounts of investments. Though Telekom Austria Group is already making substantial investments, it may have to make substantial additional investments in new technologies in order to remain competitive. For example, if Telekom Austria Group fails to implement the expansion of next generation network or other technological changes timely, this could lead to competitive disadvantages and thus have a material adverse effect on the Group's results of operations and financial condition. Telekom Austria's Group's capital expenditure program will continue to require significant cash outlays in the foreseeable future. New technologies that Telekom Austria Group chooses to develop or acquire, however, may not prove to be successful. In addition, Telekom Austria Group may not accurately predict how rapidly any competitor might implement a particular new technology. Telekom Austria Group may also not receive the regulatory or intellectual property licenses needed to provide services based on new technologies in Austria or abroad. As a result, Telekom Austria Group might lose customers, fail to attract new customers or incur substantial costs to maintain its customer base.

Telekom Austria Group may not be able to successfully implement its convergence strategy to gain new customers through bundling of its voice, broadband and/or television services.

A significant component of Telekom Austria Group's strategy is to continue to retain existing and gain new customers through bundled offerings comprising mobile services, landline retail voice, landline internet, television and broadband services. The Group's ability to successfully implement its strategy may be adversely affected by broadband and mobile usage growing slower than expected or not at all or by increased competition for reasons such as the entry of new operators, technological developments introducing new platforms for internet or television access, or the provision by other operators of broadband connections superior or at more attractive terms to those that Telekom Austria Group can offer. The Group's ability to successfully implement its strategy may also be adversely affected if the Group experiences any network interruptions or problems related to its network infrastructure. Telekom Austria Group has invested substantially in the ability to offer customers bundles of mobile and fixed-line services. As of the date of this Prospectus, the Group seeks to expand its convergent capabilities. Should Telekom Austria Group be unsuccessful in increasing its operating revenues by bundling its service offerings or in cross-selling and up-selling its various products, this could lead to competitive disadvantages (meaning loss of customers) and thus have a material adverse effect on the Group's results of operations and financial condition.

Telekom Austria Group may require permits for its existing and planned infrastructure in some of the markets in which it operates and may be required to relocate parts of its network infrastructure.

Both mobile and fixed network operations of Telekom Austria Group require certain infrastructure and buildings to operate the Group's network. The Group may be required to obtain building permits and conclude lease contracts to roll out its infrastructure. In some markets, such as Bulgaria, Croatia and the Republic of Macedonia, local authorities may also require retrospective building permits or use permits for already existing infrastructure. Should the Group be unable to obtain such permits and lease contracts, the local operations of the Group may be impacted and the roll out of new infrastructure may be halted. In

addition, local authorities in some of these markets may require the Group to relocate some or all of its already existing network infrastructure, which may lead to additional capital expenditures for the Group. Should the Group be required to relocate its network infrastructure, not be able to conclude necessary lease contracts or be denied any necessary building permits, it may incur additional expenditures or penalties in case of non-compliance. This could materially adversely affect Telekom Austria Group's business, results of operations and financial condition.

Pursuing strategic opportunities, Telekom Austria Group may acquire or sell assets or companies, or enter into joint ventures which could potentially deliver less revenues, cash flows and earnings than anticipated and may experience difficulties integrating acquired assets or companies in a timely manner, while suitable acquisition targets may not be identified and anticipated synergies may not be realized as expected.

The Group plans to continue to explore opportunities in the markets in which it operates to consolidate the market or increase product convergence. In addition, the Group may also pursue opportunities to grow in its target regions (CESEE). Whether the Group will consider an opportunity for investment depends on a variety of factors, such as maintaining the Group's credit rating of Baa2 by Moody's Investors Service, Inc. ("Moody's") and BBB by Standard & Poor's Financial Services LLC ("Standard & Poor's"), the likelihood of synergies with existing operations and full operational control by the Group. Upon making significant acquisitions in the future, the performance of Telekom Austria Group will depend in part on whether it can successfully integrate such acquisitions in an effective and efficient manner. Telekom Austria Group may experience difficulties in integrating newly acquired assets and companies and the anticipated benefits of such acquisitions or joint ventures may not be realized fully (or at all) or may take longer to realize than expected. Such integration will be a complex, time consuming and expensive process and involve a number of risks, including the costs and expenses associated with any unexpected difficulties with respect to such assets and companies. Even if Telekom Austria Group is able to integrate newly acquired assets and companies successfully, this integration may not result in the realization of the full benefits of synergies, cost savings, revenues and cash flow enhancements, growth, operational efficiencies and other benefits as expected.

Telekom Austria Group's assets, such as goodwill and brands, are subject to the risk of impairment.

As of 30 September 2016, goodwill and intangible assets, net, totalling EUR 3,569.6 million and deferred income tax assets of EUR 191.7 million were carried on Telekom Austria's consolidated statement of financial position. The Group determines the value of the intangible assets in accordance with applicable accounting principles, and there is no systematic amortization of brands (except in rare cases where brands are foreseen not to be used anymore) or goodwill. An impairment loss or impairment losses relating to realized goodwill on Telekom Austria AG's balance sheet may have to be recognized if the expectations on which the current carrying amount are based are not fulfilled. In addition, deferred tax assets for tax loss carryforwards and write down of investments in the segment Austria are recognized only if the related tax assets are generally utilizable and it is probable that taxable income will be available for these tax assets to be utilized. Deferred tax assets are calculated on the basis of management estimates on the expected timing and amount of income to be taxed and the future tax planning strategies. Therefore, deferred tax assets may have to be derecognized if the expectations on which the amount of deferred taxes are based are not fulfilled. An impairment loss with respect to, among others, goodwill and/or the derecognizing of deferred tax assets may have a material adverse effect on the Group's net assets, financial condition and results of operations.

As a result of Telekom Austria Group's large number of civil servants and protected employees in Austria, the Group is limited in its ability to adjust its operating expenses according to the changing market environment and may be required to make additional payments to such individuals on account of new rulings, legislation or legislative interpretations or experience a deterioration in its relationships with personnel.

As of 30 September 2016, 49% of the Group's employees in its Austria segment were civil servants (*Beamte*) who cannot be dismissed without cause. Moreover, another 36% of the non-civil servant employees (19% of the employees) in Austria benefit from an enhanced protection against dismissal.

In view of the increasingly competitive environment in which Telekom Austria Group operates, such restrictions may have an adverse impact on its ability to implement restructuring measures and increase profitability. If it is not possible to implement measures to restructure the Group's workforce as required by the market environment, this may have a material adverse effect on the Group's ability to achieve its financial targets and profitability as well as on its reputation. Moreover, the realization of any staff reduction program depends on a range of factors that are beyond Telekom Austria Group's control, such as general developments in the labour market or the demand for Telekom Austria Group's retrained labour force. If planned staff reduction targets are not achieved, this could have a further material adverse effect on Telekom Austria Group's operating expenses and profitability.

In addition, Telekom Austria Group is required under IFRS accounting rules to maintain a reserve relating for redundancy programs (*Sozialpläne*), leaves of absence (*Dienstfreistellungen*) and the program under which civil servants of Telekom Austria Group change to the public service (*Staatsdienst*). The obligation to maintain such a reserve could have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

Furthermore, changes in law, or rulings newly interpreting existing laws, could result in additional obligations on the part of Telekom Austria Group with respect to currently employed or previously retired civil servants and protected employees. For example, on 11 November 2014, in the case C-530/13 (*Leopold Schmitzer vs. Austrian Federal Ministry of the Interior*), a ruling by the European Court of Justice may result in Telekom Austria Group needing to promote certain civil servants to higher salary groups and thereby increasing their actual salaries (and ancillary salary costs) for the present and the future, while certain civil servants may be able to claim lost salary for at least three prior years. Such decision, or similar rulings or legislative changes or interpretations, could lead to a material increase in Telekom Austria Group's labour costs, which ultimately could have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

Moreover, in operating its business, Telekom Austria Group relies on good relationships with its personnel and maintaining good relationships with employees, unions and other employee representatives, such as employee representatives on the supervisory board of Telekom Austria AG, is crucial for its operations. Any deterioration of such relationships in the future or any material work stoppages, strikes or other types of conflicts with labour unions or the Telekom Austria Group's employees, could have an adverse effect on Telekom Austria Group's business, results of operations and financial condition.

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

Telekom Austria Group operates complex information and network technology and its success largely depends on the continued and uninterrupted performance of its information technology, network systems and of certain hardware and data centres that it manages for its clients. Technical infrastructure outages cannot be ruled out. In the event of a power outage or data loss, Telekom Austria Group does not have a backup or alternative supply source for all components of its network. Despite the presence of certain backup systems and similar precautions taken by Telekom Austria Group, unanticipated problems affecting its systems could cause failures.

Sustained or repeated system failures that interrupt Telekom Austria Group's ability to provide service to its customers or otherwise meet its business obligations in a timely manner, including through the failure of billing systems or other back-office systems, could adversely affect Telekom Austria Group's reputation and result in a loss of customers and reputational damage, and may trigger claims for payment of damages or contractual remedies.

Telecommunications companies worldwide face increasing cybersecurity threats as businesses become increasingly dependent on telecommunications and computer networks and adopt cloud computing technologies.

Telekom Austria Group could be adversely affected by malicious attacks on its network and/or IT infrastructure. A successful cyber-attack on Telekom Austria Group's network could result in Telekom Austria Group not being able to deliver service to its customers resulting in serious damage to its reputation,

consequential customer and revenue loss and the risk of financial penalties.

Telekom Austria Group's technical infrastructure (including the network infrastructure for fixed-line network services and mobile telecommunications services) may be damaged or disrupted by fire, lightning, flooding, earthquake and other catastrophes, technological failures, human errors, power loss, intentional wrongdoing, sabotage, hacking and other similar events. Unanticipated problems at Telekom Austria Group's facilities, system failures, hardware or software failures, computer viruses or hacker attacks could affect the quality of Telekom Austria Group's services and cause service interruptions. The disaster recovery, security, information protection and service continuity protection measures that Telekom Austria Group has undertaken or may in the future undertake, and its monitoring of network performance, may be insufficient to identify problems and prevent losses.

Moreover, Telekom Austria Group's infrastructure depends on third party software and hardware. Telekom Austria Group cannot be sure that its measures taken to safeguard its position against reliance on third party software and hardware will be effective under all circumstances. Damage or disruption to its infrastructure, technology or software, or malfunction thereof, may result in reduced user traffic and reduced revenues as well as increased costs, and might damage Telekom Austria Group's reputation and reduce customer satisfaction. The insurance policies of Telekom Austria to cover this type of incidents and risks may not be sufficient to cover all possible monetary losses from these incidents.

Telekom Austria Group may not be able to retain, recruit or train sufficient management staff and skilled employees.

In addition to its technical staff, Telekom Austria Group largely depends on the performance of qualified management and executive staff. If Telekom Austria Group does not succeed to retain such management staff and employees in key positions or to recruit or train a sufficient number of new employees with corresponding qualifications, its market position would be at risk. This could have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

Alleged health risks of wireless communications devices could lead to litigation or decreased wireless communications usage or increased difficulty in obtaining sites for base stations and, as a result, adversely affect the financial condition and results of operations of Telekom Austria Group's wireless services business.

Media reports have suggested that radio frequency emissions from wireless mobile devices and cell sites may raise various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Research and studies are ongoing. The World Health Organization has declared that, on the basis of current scientific knowledge, there are no known adverse effects on health from emissions at levels below internationally recognized health and safety standards. Telekom Austria Group cannot provide assurance that research in the future will not establish links between radio frequency emissions and health risks.

Whether or not such research or studies conclude there is a link between radio frequency emissions and health, concerns about radio frequency emissions may discourage the use of wireless devices and may result in significant restrictions on the location and operation of cell sites by Telekom Austria Group and the usage of its wireless devices, telephones or products using wireless technology. Such restrictions on use could have material adverse effects on Telekom Austria Group's results of operations.

Telekom Austria Group cannot exclude that legislators, regulators or private litigants will take other actions adverse to Telekom Austria Group, based on the purported health-related risks associated with radio frequency emissions. Any such litigation, legislation or adverse actions could negatively influence the development of Telekom Austria Group's mobile communication business, customer base or average usage per customer. Environmental objections may also impair Telekom Austria Group's ability to augment its infrastructure including, primarily, its mobile network, and reduce the willingness of contract partners to renew site contracts for mobile sites in the upcoming years. This may result in additional costs and loss of revenues in Telekom Austria Group's mobile communications businesses.

Shortcomings in Telekom Austria Group's supply and procurement process could negatively affect its

product portfolio, revenues and profits.

Telekom Austria Group cooperates with a wide range of different suppliers and third-party services providers for technical components and assemblies, as well as for software and other goods and information important to the conduct of Telekom Austria Group's business. Telekom Austria Group's contractors may want to extend delivery times, raise prices and limit supply due to their own shortages or changing business and product strategies. Furthermore, Telekom Austria Group's suppliers may be subject to litigation with respect to technology that is important for the conduct of Telekom Austria Group's business. Especially in times of economic turmoil, supply chains, credit access and financial stability of Telekom Austria Group's suppliers may be negatively affected, which could disrupt Telekom Austria Group's commercial relationship with them.

If Telekom Austria Group's suppliers fail to deliver quality products and services in a timely and cost-efficient manner, the ensuing disruptions in Telekom Austria Group's chain of supply could negatively affect Telekom Austria Group's product portfolio, cost structure, revenues and profits. Telekom Austria Group takes a variety of measures to reduce these risks, but it cannot be sure that these measures will be effective under all circumstances.

Telekom Austria Group faces substantial recurring expenses for spectrum licenses to maintain its mobile operations and may be unable to renew or acquire such licenses.

To operate its mobile communication network, Telekom Austria Group uses various spectrum bands in its markets for which it must acquire spectrum licenses from local regulators or governments. Generally, such licenses are awarded at auctions conducted by the local regulators and have finite terms. Due to intense competition in some markets, fees for such licenses may be substantial. For example, in the fall of 2013, Telekom Austria Group participated in the Austrian multiband auction, in which the Group purchased spectrum for a total price of EUR 1.03 billion, securing half of the total spectrum auctioned. Some of this spectrum will replace spectrum that will expire by 2017. In addition, once a spectrum license has been granted, the licenses must be renewed at set intervals. Finally, in some markets, additional annual spectrum license fees may apply. This is for example the case in Croatia, where the annual spectrum fee increased threefold in 2014, thereby weighing heavily on the annual costs and expenses. As these fees are often set arbitrarily and license fees depend on the outcome of auctions, the Group cannot predict the cost of maintaining or expanding its operations in regards to such fees, which could be significant. Should these fees be more expensive than anticipated or should the Group fail to acquire or renew any spectrum licenses, this could have a material adverse effect on the Group's business, results of operations and financial condition.

Major customers or sales partners may decide to terminate their contracts with Telekom Austria Group and Telekom Austria Group may fail to maintain or further develop its direct and indirect distribution channels or fail to anticipate customer preference for a specific distribution channel.

Telekom Austria Group renders its services, directly or via sales partners, to a large number of customers. Major customers or sales partners may terminate their relationships with Telekom Austria Group which may result in the loss of revenues. Additionally, the Group may, in the future, be unable to renew its existing agreements with major customers or sales partners on commercially favourable terms or to maintain or further develop its direct and indirect distribution channels and may fail to anticipate customer preference for a specific distribution channel. Termination of significant relationships with major customers or sales partners or failure to attract new relationships or to maintain or further develop direct and indirect distribution channels or to anticipate customer preference for a specific distribution channel could prevent the Group from maintaining its market share, which could have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

An insolvency of major customers or international suppliers may have an impact on Telekom Austria Group's revenues or profitability.

In the past, some of Telekom Austria Group's large wholesale customers faced severe liquidity constraints. Insolvencies or liquidity problems of these customers might expose Telekom Austria Group to risks in connection with settlement of Telekom Austria Group's accounts receivables. Insolvencies of major international suppliers of bandwidth could negatively impair availability of the connectivity Telekom Austria

Group needs in order to provide services to its customers, thus having a material adverse effect on the Group's business, results of operations and financial condition.

The default of a large number of small customers may have an impact on Telekom Austria Group's revenues or profitability.

The Group is exposed to a counterparty default risk in connection with its business with small customers. This includes customer contracts with counterparties that have been particularly affected by the recent financial and economic conditions in the CESEE countries. The default of a large number of small customers might expose Telekom Austria Group to risks in connection with settlement of Telekom Austria Group's accounts receivables, which could have a material adverse effect on Telekom Austria Group's business, result of operations and financial condition.

Telekom Austria Group faces potential liquidity risks.

Telekom Austria Group's cash from operating activities, current cash resources and existing sources of external financing could be insufficient to meet its capital needs, especially if sales decrease significantly and Telekom Austria Group fails to reduce its costs accordingly.

Disruptions in the financial markets, including the bankruptcy, insolvency or restructuring of a number of financial institutions, and the resulting restricted availability of liquidity could adversely impact the availability and cost of additional financing for Telekom Austria Group and could adversely affect the availability of financing already arranged or committed. Telekom Austria Group's liquidity could also be adversely impacted if its suppliers tighten terms of payment as the result of any decline in Telekom Austria Group's financial condition or if its customers were to extend their normal payment terms.

Moreover, due to more stringent financial regulations applicable to credit institutions, including increased capital requirements, banks may, among other things, be required to either raise additional own funds or limit their loan exposures, which in turn could result in higher costs of capital for Telekom Austria Group because of higher interest rates or non-availability of loans.

Such reductions in liquidity could result in Telekom Austria Group not being able to meet its capital needs and thus could have material adverse effects on Telekom Austria Group's business, results of operations and financial condition.

Exchange rate and interest rate risks have had, and may continue to have, an adverse effect on Telekom Austria Group's revenue and cost development.

Telekom Austria Group is exposed to currency risks, including currency translation risks, related to Telekom Austria Group's business activities outside of Austria, which are generally denominated in currencies other than the Euro, the Group's reporting currency. Generally, Telekom Austria Group takes measures to mitigate currency risks that may have an impact on its cash flows (known as a transaction risk), although there can be no guarantee that such measures will succeed. Currency risks have had a material adverse effect on Telekom Austria Group's results of operations when amounts in local currencies are translated into euros and may have material adverse effect in the future.

Telekom Austria Group may also be exposed to euro-interest rate risks. Interest rate risks arise as a result of fluctuations in interest rates affecting the level of interest payments due on the Group's floating rate indebtedness, if any. There is the risk that Telekom Austria Group fails to identify relevant interest rate risks and even if it has identified such risks and taken measures to mitigate them, these measures could prove to be inadequate or insufficient.

Downgrades in the rating or a decline in the credit metrics of Telekom Austria AG or its inability to obtain new financing at current costs could increase refinancing costs and impair Telekom Austria Group's liquidity and profitability.

Telekom Austria AG is assigned a long-term rating of Baa2 with stable outlook by Moody's and BBB with stable outlook by Standard & Poor's. Possible future downgrades in such financial rating could impair

Telekom Austria Group's ability to refinance its debt and have a material adverse effect on its business, results of operations and financial condition.

A portion of Telekom Austria Group's cash flow from operations is dedicated to the payment of interest and principal on its short-term borrowing and long-term debt. If Telekom Austria Group's credit metrics were to decline, the interest it pays under some of its credit facilities could increase, leading to an increase in the cost of additional financing that Telekom Austria Group may need, thereby negatively affecting its business, results of operations and financial condition.

Telekom Austria Group continues to depend on future financing and refinancing in the credit and capital markets and may fail in securing such financing. Access to financing is dependent on a variety of financial, macroeconomic and other factors, many of which are beyond Telekom Austria Group's control. It is possible that its liquid funds and existing undrawn committed lines of credit will not be sufficient to cover Telekom Austria Group's refinancing and operational needs and that the Group will not obtain additional financing on favourable terms or at all.

Covenants contained in any future Telekom Austria Group's financing arrangements could equally limit its ability to finance its future operations and capital needs. If Telekom Austria Group breaches such covenants and is unable to cure the breach or obtain a waiver from the lenders, it could be in default under the terms of the respective arrangement. A default under any single financing arrangement could result in a default under other financing arrangements and could cause lenders under such other arrangements to accelerate such financing arrangements, in which case amounts under those arrangements would become due as well. This would have an immediate material adverse effect on Telekom Austria Group's liquidity and may have a material adverse effect on its business, results of operations and financial condition. In addition, in an event of default, the lenders under Telekom Austria Group's credit lines could terminate their commitments to extend credit to it or cease providing loans, and Telekom Austria Group could be forced into bankruptcy or liquidation.

Telekom Austria Group may not obtain necessary approvals for some of its transactions or assets or may obtain conditional approvals.

From time to time, Telekom Austria Group may need to obtain local authority approvals for certain of its transactions or assets, ranging from merger approvals for acquisitions to permits for its infrastructure. There is no guarantee that the Group will receive the necessary approvals for such transactions or assets. In addition, even if the Group receives these approvals, they may be based on certain conditions. If the Group is unable to obtain the necessary approvals, or only obtains conditional approvals, the Group may face additional expenses or be unable to finalize certain transactions at all or retain certain assets, which could adversely affect Telekom Austria Group's business, future prospects, results of operations and financial condition.

Unexpected events may result in the insurance coverage of Telekom Austria Group being inadequate.

Telekom Austria Group has various insurance policies necessary for its ongoing business operations and believes that the current level of coverage is sufficient and customary in the industry to protect against risks associated with its business activities. Telekom Austria Group regularly reviews its insurance coverage and adjusts it where necessary. However, Telekom Austria Group may incur damages for which it has no or insufficient coverage, which could have a material adverse effect on Telekom Austria Group's business, financial position and results of operations.

América Móvil has, and will continue to have, the ability to control Telekom Austria AG in the Shareholders' Meeting, the Supervisory Board and the Management Board.

America Movil holds over 50% of the share capital and voting rights in Telekom Austria AG. As a result, as long as América Móvil continues to hold the majority of the share capital and voting rights in Telekom Austria AG, it will have the ability to control Telekom Austria AG and ultimately determine the outcome of important decisions to be taken by vote at Telekom Austria AG's shareholders' meeting (*Hauptversammlung*) (the "**Shareholders' Meeting**"), including the election, appointment or removal of members of the Supervisory Board, approval of the annual financial statements, distribution or carry-forward of dividends,

changes to the Articles of Association, capital increases or decreases, mergers, spin-offs, substantial sale of assets or any other decision that requires approval of Telekom Austria AG's shareholders, except in those cases where the Austrian State and Industrial Holding Limited (*Österreichische Bundes- und Industriebeteiligungen GmbH*) ("**SIHL**") has veto rights.

In addition, eight out of the ten shareholder-elected members of the Supervisory Board are nominated by América Móvil, and two out of the three Management Board members may be nominated by América Móvil. As a consequence, América Móvil effectively also controls all decisions of the Supervisory Board and of the Management Board requiring a majority vote.

Due to América Móvil's controlling influence, resolutions adopted by América Móvil in the Shareholders' Meeting or decisions taken by the Supervisory Board or the Management Board may raise, or be perceived to involve, conflicts of interest between América Móvil on the one hand and Telekom Austria Group on the other. If América Móvil, through its votes at the Shareholders' Meetings or otherwise, were to pursue goals that, while beneficial to América Móvil, may be contrary to the interests of Telekom Austria Group, this could have a material adverse effect on Telekom Austria Group's business, financial position and results of operations.

A veto right by SIHL in regards to shareholder decisions on certain important corporate matters could delay or otherwise impact Telekom Austria AG's ability to react quickly to business developments.

According to the agreement between América Móvil S.A.B. de C.V through its wholly owned subsidiary América Móvil, B.V., formerly Carso Telecom, and SIHL entered into on 23 April 2014 for a 10 year term, which became effective on 27 June 2014, (the "**Shareholders' Agreement**"), as long as SIHL holds 25% plus one share or more of the registered share capital of Telekom Austria AG until SIHL falls below 25% plus one share for the first time, SIHL shall have veto rights on capital increases in Telekom Austria AG which would dilute SIHL's participation in Telekom Austria AG below a participation corresponding to 25% plus one share, capital increases in Telekom Austria AG's subsidiaries, the issuance of certain convertible instruments which would dilute SIHL's participation in Telekom Austria AG below a participation corresponding to 25% plus one share, the appointment of the statutory auditors, related party transactions, the relocation of the headquarters and major business functions including research and development, sale of core businesses, and amendment of the corporate name of Telekom Austria AG and of trademarks of Telekom Austria Group. Such veto right may result in lengthy or protracted shareholder decision processes or deadlocks, which could block decision procedures in Telekom Austria AG's corporate bodies, could delay or otherwise impact Telekom Austria AG's ability to react quickly to business developments and could therefore have a material adverse effect on the business prospects, results of operations and financial condition of Telekom Austria Group.

Certain Supervisory Board members also hold executive positions in the management of América Móvil or serve as members of supervisory boards in companies of América Móvil group, which may create conflicts of interest.

Mr. Carlos José García Moreno Elizondo, Mr. Carlos M. Jarque, Mr. Alejandro Cantú Jiménez and Mr. Oscar Von Hauske Solís, who are members of Telekom Austria AG's Supervisory Board, also hold executive positions in the management of América Móvil or serve as members of the supervisory boards in companies of América Móvil group. To the extent that interests of América Móvil group are not fully aligned with interests of Telekom Austria Group, holding an executive position in the management of América Móvil or serving as a member of supervisory boards in companies of América Móvil group while at the same time being members of the Supervisory Board may potentially create conflicts of interest for Mr. García Moreno Elizondo, Mr. Jarque, Mr. Cantú Jiménez and Mr. Von Hauske Solís. If Mr. García Moreno Elizondo, Mr. Jarque, Mr. Cantú Jiménez and Mr. Von Hauske Solís, in their respective positions, were to exert influence on América Móvil in a way that conflicts with the interests of Telekom Austria Group this may have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

Telekom Austria AG's ability to service its liabilities is limited on account of its character as a holding company.

Telekom Austria AG is a holding company and the Issuer is the financing subsidiary of Telekom Austria

AG, neither of whom has any material assets aside from intangible assets, fixed assets, receivables from other companies, or, in the case of Telekom Austria AG, equity interests in subsidiaries and/or other companies. In order to pay its liabilities to creditors, in general, as well as its liabilities to the Noteholders, in particular, the Issuer, in its capacity as financing subsidiary of Telekom Austria AG, depends especially on inflows of liquidity and profits (e.g. interest payments) from its affiliate companies within Telekom Austria Group. Similarly, as guarantor under the Notes, Telekom Austria AG, in its capacity as a holding company, depends especially on inflows of liquidity (e.g. dividend payments) and profits from its subsidiaries or from companies in which the Telekom Austria Group has an equity interest. If such other companies' financial condition were to deteriorate, Telekom Austria AG might have to make funds available to subsidiaries that are experiencing financial difficulties; this might, in turn, negatively impact Telekom Austria AG's own financial strength. Any deterioration in the financial condition of such other companies might also mean that they may not be able to pay their liabilities to the Issuer and/or Telekom Austria AG. This could impede the ability of the Issuer and/or Telekom Austria AG to fulfil their obligations under the Notes and Guarantee, respectively.

Moreover, if any subsidiary were to file for insolvency, its creditors, which could include Telekom Austria AG or the Issuer, would be entitled to the subsidiary's assets and Telekom Austria AG or the Issuer would only be able to avail itself of remaining proceeds, if any, after satisfaction of all of the subsidiary's creditors. Furthermore, under applicable law, Telekom Austria AG's or the Issuer's claims against a subsidiary might be treated as subordinated liabilities in the event of the subsidiary's insolvency. The occurrence of any of these circumstances could have material adverse effects on the Telekom Austria Group's financial position, cash flows and financial performance.

3. Regulatory, legal and compliance risks

Regulatory decisions and changes in the regulatory environment could adversely affect Telekom Austria Group's business.

Most of Telekom Austria Group's fixed net and mobile communications services, as well as its broadband service businesses, its television services, its international operations and investments are subject to extensive national and EU regulatory requirements.

Telecommunication services offered by a provider with significant market power are subject to extensive network access and price regulations. In Austria, Telekom Austria Group falls into this category in several sub-markets and its foreign subsidiaries are also subject to equivalent regulatory frameworks. Regulation at both retail and wholesale levels restricts operational flexibility with regard to products and product bundles. There is also an obligation to provide access to infrastructure and fixed-line services for alternative providers. Additional regulatory decisions and a further possible reduction in mobile and fixed tariffs and fees, such as termination rates or roaming tariffs but also roll-out obligations and national roaming/wholesale access, could have a material adverse effect on Telekom Austria Group's earnings.

It is impossible to predict the precise impact of potential changes in the regulatory environment at European and national level that may affect the business activities of Telekom Austria Group in the countries in which it operates. Changes in laws, regulations or government policy or adverse court decisions in any of those countries could adversely affect the Group's business and competitiveness. In all of these countries government agencies regularly intervene in the offerings and pricing of the Group's products and services. In particular, Telekom Austria Group's ability to compete effectively in existing or new markets could be adversely affected if regulators expand the restrictions and obligations to which Telekom Austria Group is subject or extend them to new services and markets. Additionally, the regulatory and competition law framework as well as interventions of government agencies may impede the Group's ability to grow and react to the initiatives of competitors and technological change. For example, Telekom Austria Group obtained permission from competition authorities to expand its operations in Austria through the acquisition of YESSS! only after a regulatory process that took several months to complete.

Furthermore, decisions by regulators and/or governments regarding the granting, amendment or renewal of licenses and frequencies of Telekom Austria Group or of third parties could adversely affect the Group's future operations in the countries where it operates. On 25 November 2015, the European Parliament and the

European Council adopted a new regulation to abolish retail surcharges for roaming calls (voice, sms and data) within Europe and on the legal protection of an open internet (net neutrality). This regulation has a severe impact on the entire European telecommunications industry.

The current EU plans for the telecommunications industry concern all EU member states in which Telekom Austria Group operates and may adversely affect the activities of Telekom Austria Group in various ways. Even certain non-EU member states have signed treaties to gradually reduce roaming fees seeking to adjust to EU standards. All these measures will also cause a decline in the Group's revenues and profitability.

Concerning interconnection fees, national regulatory authorities need to follow the European Commission recommendation on termination rates when setting new levels for mobile termination rates ("MTR") or fixed termination rates ("FTR") in Europe, because – according to the European Commission recommendation of 7 May 2009 (2009/396/EC) – a pure long run incremental cost model is mandatory since 1 January 2013. The Austrian Telekom-Control-Commission (the "TKK") has already applied the new cost model in calculating new FTR and MTR rates which are valid from 1 November 2013. As a result, the symmetric MTR level has decreased from initially EUR 0.0201 to EUR 0.008049 per minute and FTRs have decreased from EUR 0.007, formerly the highest level in Europe, to EUR 0.00122 on average per minute.

On 27 April 2016, a new regulation of the European Parliament and of the Council on the protection of individuals with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation) was adopted. The regulation will enter into force on 25 May 2018 after a two-year transition period. The regulation contains extensive obligations for companies in relation to procedures and mechanisms for dealing with personal data and rights of data subjects (for example information rights and right to be forgotten and to erasure of personal data). In case of a breach, the respective supervisory authorities would be able to impose fines of up to EUR 20,000,000 or, in case of an enterprise up to 4% of the Group's annual worldwide turnover. Therefore breaches of the data protection obligations laid down therein by Telekom Austria Group may have a material adverse effect on its business, results of operations and financial condition.

Telekom Austria Group could incur substantial costs to ensure its compliance with applicable regulations. If Telekom Austria Group fails to comply with such regulations, it could be subject to severe sanctions. The Group could also be subject to restrictions imposed by antitrust or competition authorities, which could prohibit certain actions or specific practices. Furthermore, regulators could adopt measures to lower the pricing of the Group's products and services. The materialization of any such risks could have a material adverse effect on Telekom Austria Group's business, results of operations or financial condition.

Telekom Austria Group is continuously involved in disputes and litigation with regulators, competition authorities, tax authorities, competitors and other parties. The ultimate outcome of such legal proceedings is generally uncertain. When finally concluded, they may have a material adverse effect on Telekom Austria Group's results of operations and financial condition.

Telekom Austria Group is subject to numerous risks relating to legal, regulatory and tax proceedings, to which Telekom Austria Group is currently a party or which could develop in the future (see also "Business—Litigation and arbitration"). Proceedings brought against Telekom Austria Group may result in judgments, settlements, fines, penalties, injunctions, or other results adverse to it, which could materially and negatively affect Telekom Austria Group's businesses, financial condition or results of operations, require material changes in Telekom Austria Group's operations, or cause Telekom Austria Group reputational harm. Litigation and regulatory proceedings, including patent infringement lawsuits, are inherently unpredictable. Telekom Austria Group establishes accruals for its litigation and regulatory matters according to accounting requirements, but the amount of loss ultimately incurred in relation to those matters may be substantially higher than the amounts accrued. In addition, while Telekom Austria Group seeks to prevent and detect employee misconduct, such as fraud, employee misconduct is not always possible to deter or prevent, and the extensive precautions Telekom Austria Group takes to prevent and detect this activity may not be effective in all cases, which could subject Telekom Austria Group to additional liability. Legal or regulatory proceedings in which Telekom Austria Group is or comes to be involved (or settlements thereof) may have a material adverse effect on Telekom Austria Group's business, results of operations or financial condition.

Potential breaches of compliance requirements or the identification of material weaknesses in Telekom Austria Group's internal control over financial reporting may have an adverse impact on Telekom Austria Group's corporate reputation, financial condition and the trading price of the Notes

Public authorities including the Vienna prosecution office have been investigating Telekom Austria AG and some of its subsidiaries with respect to alleged unlawful behaviour of former directors and employees in the past. The Vienna prosecution office brought charges against former members of the management and employees of Telekom Austria AG and other individuals such as for example politicians, advertising agency managers and lobbyists for alleged embezzlement to the disadvantage of Telekom Austria AG. Neither Telekom Austria AG nor any of its subsidiaries themselves have been formally accused of any unlawful behaviour.

Criminal proceedings against above mentioned individuals have been going on since February 2013. There has been extensive reporting in the media. Some of the investigations have been closed without any formal accusation, some sentences became final, some were appealed and some trials have not started yet. It is likely that further charges will be brought against individuals, in particular against certain lobbyists.

Telekom Austria AG has taken and takes adequate legal steps and remedies against persons involved in unlawful behaviour. Telekom Austria AG has already been awarded damages in substantial amounts and also entered into settlements with a number of individuals, in particular with former management and employees.

A tax audit is still ongoing in Austria in connection with the alleged unlawful behaviour of former directors and employees. Respective provisions have been made.

Telekom Austria Group may fail in remediating identified shortcomings at all or in a timely manner or may fail to identify all shortcomings. The legal steps and remedies which Telekom Austria AG takes could prove to be inadequate at a later point in time. Should any shortcomings be proved or any further shortcomings be found to have happened, Telekom Austria Group could, in addition to reputational damage, be found liable for fines, damage or additional tax payments, which could have negative effects on the business, financial and earnings position of Telekom Austria Group.

Failures, material weaknesses or other deficiencies in Telekom Austria Group's internal control over financial reporting may result in a deterioration of Telekom Austria Group's corporate image and negative market reactions, including a decline in the price of the shares. This could also have a material adverse effect on the business, results of operations and financial condition of Telekom Austria Group.

Crime, corruption and money laundering in the countries where Telekom Austria Group operates may adversely affect Telekom Austria Group's ability to conduct its business.

Organized crime, including extortion and fraud, poses a risk to businesses in certain countries where Telekom Austria Group operates. Certain countries where Telekom Austria Group operates still face considerable weaknesses in the fight against corruption and organized crime. Property and employees may become targets of theft, violence or extortion. Threats or incidents of crime may force Telekom Austria Group to cease or alter certain activities or to liquidate certain investments, which may cause losses or have other negative impacts on Telekom Austria Group. Moreover, in certain countries where Telekom Austria Group operates there is a higher risk of corruption, including the bribing of officials for the purpose of initiating investigations by government agencies and other purposes. Allegedly, there have also been instances in which government officials have engaged in selective investigations and prosecutions to further the interest of the government and individual officials. Furthermore, in certain countries where Telekom Austria Group operates, there have been allegations that members of the media regularly publish biased articles in return for payment. Telekom Austria Group's operations could be adversely affected by illegal activities, corruption or claims implicating Telekom Austria Group in such activities. Corruption and theft may also arise within Telekom Austria Group. Such activities may cause losses or have other material adverse effects on the reputation, business, results of operations and financial condition of Telekom Austria Group.

4. Country risks affecting Telekom Austria Group's operations

The legal systems, economies, social and other circumstances in CESEE countries are in different stages of the process of transformation towards EU standards.

Telekom Austria Group derives a significant portion of its earnings from operations in CESEE countries. The legal systems, economies, social and other circumstances in the CESEE region are in different stages of the process of transformation towards EU standards. As a result, Telekom Austria Group's CESEE operations are exposed to risks common to all regions that have recently undergone or are undergoing rapid political, economic and social change, including currency fluctuations, exchange control restrictions, an evolving regulatory environment, inflation, economic instability, political and social tensions, local market disruptions and labour unrest. These uncertainties could also affect the ability of Telekom Austria Group's customers or counterparties located in the region to obtain foreign exchange or credit and, therefore, to satisfy their obligations towards Telekom Austria Group. Political or economic disruptions or changes in laws and their application may harm the companies in which Telekom Austria Group has invested. This may significantly impair the value of these investments.

Telekom Austria Group's inability to address the various macroeconomic, competitive and regulatory challenges in each of the markets in which it operates could erode the Group's market share and cause a decline in its revenues and profitability.

Telekom Austria Group faces various macroeconomic, competitive and regulatory challenges in each of the markets in which it operates. In Austria, the primary challenges are intense competition and saturation of the mobile market, while in Bulgaria they are a laggard domestic economy and strong competition. The Croatian market is dominated by persistent macroeconomic, regulatory and competitive pressures, while operations in Belarus are exposed to significant foreign exchange and inflationary pressures. Finally, in Slovenia, Serbia and Macedonia, Telekom Austria Group faces a decline in prices for mobile telecommunications services through competition and regulation. Should Telekom Austria Group fail to pre-empt and react successfully to the various macroeconomic, competitive and regulatory challenges in its markets, the Group's business, results of operations and financial condition could be materially adversely affected.

Telekom Austria Group could become subject to the risk of expropriation and nationalization in CESEE countries.

Most CESEE countries have in place legislation which provides for fair compensation in case of expropriation or nationalization of property. However, there can be no certainty that such protection would be enforced. It is possible that, due to a lack of experience in enforcing these provisions or due to political changes, legislative protection may not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of Telekom Austria Group's assets, potentially with little or no compensation, could have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

Volatility of CESEE currencies may adversely affect Telekom Austria Group's earnings.

Certain countries in which Telekom Austria Group generates revenues have very volatile currencies, which can significantly impact the value of those revenues from one year to the next. For example, in May 2011, the Belarusian government devalued the nation's currency by approximately 53%. The introduction of a floating exchange rate in September 2011 was followed by a further devaluation of approximately 40%. Furthermore, until the end of 2014, Belarus was classified as a hyperinflationary economy according to IAS 29 due to its inflation rate in excess of 100% and other facts. In January 2015, the Belarusian National Bank changed the currency basket composition weights of BYR to USD 30%, EUR 30% and RUB 40%. Beginning on 1 July 2016, the legal tender of the Republic of Belarus – the Belarusian ruble – was redenominated. The New Belarusian ruble ("BYN") replaced the Belarusian ruble (BYR) at a ratio of 1:10,000.

Furthermore, since 2001, the Serbian Dinar has (more and more loosely) been allowed to float against the Euro, with occasional interventions by the National Bank of the Republic of Serbia.

Such fluctuations in the values of currencies could result in a significant decrease in earnings (upon conversion to Euro) from one year to the next without a corresponding decrease in business in the relevant country. This could have a material adverse effect on Telekom Austria Group's results of operations and financial condition.

Certain countries in which Telekom Austria Group generates revenues peg their national currencies to other currencies. For example, the Bulgarian Lev is pegged to the Euro, as (*de facto*) is the Macedonian Denar. Croatia has, already in the 1990s, implemented a tightly managed float (with the Euro as reference) for its Croatian Kuna.

The pegging of currencies means that those currencies are susceptible to changes to the currency to which they are pegged. In addition, should the relevant authorities choose to remove or change the level of the pegging of their country's currency, greater volatility in that currency's exchange rates would arise, which in turn may have a material adverse effect on Telekom Austria Group's results of operations and financial condition.

Limited financial infrastructure and liquidity problems in CESEE countries may adversely affect Telekom Austria Group's business, results of operations and financial condition.

CESEE countries have a limited infrastructure to support a market system, with communications, banks and other financial infrastructure being generally less well developed and less regulated than their counterparts in more developed jurisdictions. Enterprises in CESEE countries frequently face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, high taxes, limited lending by the banking sector to the industrial sector and other factors. Many such enterprises cannot make timely payments for goods or services and owe large amounts in taxes, as well as wages to employees. In addition, as is the case from time to time in Belarus, foreign exchange liquidity problems may arise in certain markets, which may make it difficult to make payments from such markets. These challenges could have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

Restrictions may be imposed in some CESEE countries which could make the repatriation of profits difficult, hereby causing a transfer risk for Telekom Austria Group.

In some CESEE countries, Telekom Austria Group is exposed to the risk that restrictions, such as exchange controls, may be imposed on the free transfer of funds generated in these countries. Such restrictions could prevent the repatriation of the profits generated by Telekom Austria Group's subsidiaries in such countries and could therefore have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

The evolving legal systems in CESEE countries are subject to risks and uncertainties, which may have an adverse effect on Telekom Austria Group's business.

CESEE governments have introduced various reforms to their legal systems. However, these legal systems remain in transition and are, therefore, subject to greater risks and uncertainties than more mature legal systems. In particular, risks associated with legal systems in the CESEE region include: (i) inconsistencies between and among the countries' constitutions and various laws, presidential decrees, governmental, ministerial and local orders, decisions, resolutions and other acts; (ii) provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted; (iii) difficulty in predicting the outcome of judicial application of legislation; (iv) the fact that not all resolutions, orders and decrees and other similar acts are readily available to the public or are available in an understandably organized form; (v) fast and frequent changes in laws and (vi) harsh and over-proportionate penalties.

The court systems in CESEE countries are in many cases understaffed and underfunded, and judges and courts remain inexperienced in the area of international transactions. Courts may have a large backlog of unresolved cases, which often causes proceedings to take several years. The court systems in CESEE countries are still developing and sometimes inefficient and slow. Independence may also, to a certain extent, be threatened by budgetary reliance on the national government. In addition, court claims can at times be used in the furtherance of political aims.

Enforcement of court orders and judgments can be difficult in practice. Enforcement procedures in CESEE countries are often time-consuming and may fail for a variety of reasons, including the defendant lacking sufficient funds, the complexity of auction procedures for the sale of the defendant's property or the defendant undergoing bankruptcy proceedings. Court orders are not always enforced or followed by law enforcement institutions.

These factors make judicial decisions in CESEE countries difficult to predict and effective redress uncertain, which could have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

Uncertainties in the tax systems in CESEE countries may adversely affect Telekom Austria Group's business, financial condition and results of operations.

CESEE countries have a number of laws related to various taxes imposed by both central and local authorities. These tax laws have not been in force for significant periods compared to more developed market economies, and often result in unclear or non-existent implementing regulations. Moreover, tax laws in CESEE are subject to frequent changes and amendments. Such changes and amendments to tax laws in the countries in which Telekom Austria Group operates, including Austria, could subject Telekom Austria Group to unforeseeable and burdensome new taxes.

Differing opinions regarding legal interpretations often exist both among and within governmental ministries and organizations, including the tax authorities, creating uncertainties and areas of conflict. Tax returns, together with other legal compliance areas (for example customs and currency control matters), are subject to review and investigation by a number of authorities, which are authorized to impose substantial penalties. These circumstances generally create tax risks in CESEE countries which are more significant than those typically found in countries with more developed tax systems. In Croatia, for example, VIPnet d.o.o. is currently subject to a tax audit relating to the year 2014 which is focused on value-added tax and corporate income tax, although the scope could be expanded during the course of the audit if the Croatian tax office so chooses.

In addition, competent authorities in CESEE countries could take positions with regard to interpretative issues which are different from those held in the past. This could have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

5. Risk Factors regarding TFG

The following is a disclosure of risk factors that may affect TFG's ability to fulfil its obligations under the Notes. Prospective investors should consider these risk factors before deciding to purchase Notes.

Additional risks not currently known to TFG or that it currently believes are immaterial may also adversely affect its business, results of operations and financial condition. Prospective investors should consider all information provided in this Prospectus, the documents incorporated by reference, any supplement thereto and consult with their own professional advisers if they consider it necessary. In addition, investors should be aware that the risks described may combine and thus modify one another.

TFG is dependent on Telekom Austria Group's performance

TFG's principal purpose is to provide funding, through the international capital and money markets, to Telekom Austria Group. It has no revenue-producing assets of its own and is thus entirely dependent on the revenues of other companies of Telekom Austria Group. Therefore, TFG's ability to fulfil its obligations under the Notes is dependent on the performance of Telekom Austria Group as a whole.

Investors benefit from the Guarantee of Telekom Austria AG to the extent Telekom Austria AG is able to meet its obligations under the Guarantee.

The Notes have the benefit of a guarantee of Telekom Austria AG. Although such Guarantee of Telekom Austria AG is unconditional and irrevocable, Noteholders should bear in mind that Telekom Austria AG may not be able to meet its obligations vis-à-vis the investors under the Guarantee. Therefore, despite the

Guarantee, the investors may nevertheless be unable to collect all amounts owed to them under the Notes.

Furthermore, the obligations of Telekom Austria AG vis-à-vis the Noteholders under the Guarantee are such as set forth in the Guarantee and Noteholders should not believe to have any other benefits from Telekom Austria AG as Guarantor than those stipulated in the Guarantee. Noteholders are asked to carefully study the provisions of the Guarantee (see section "Guarantee" below).

6. General Risk Factors regarding the Notes

The following is a disclosure of risk factors that are material to the Notes in order to assess the market risk associated with these Notes. Prospective investors should consider these risk factors before deciding to purchase Notes.

Prospective investors should consider all information provided in this Prospectus, the documents incorporated by reference, any supplement thereto and consult with their own professional advisers (including their financial, accounting, legal and tax advisers) if they consider it necessary. In addition, investors should be aware that the risks described may combine and thus intensify one another.

The purchase of Notes may involve substantial risks and may only be suitable for investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate such risks and the merits of an investment in the Notes.

Notes may not be a suitable investment for all Investors.

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

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes, and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- have access to and knowledge of appropriate analytical tools to evaluate, in the context of its particular financial situation and the investment(s) it is considering, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all risks of an investment in the Notes, including where principal or interest is payable in a currency different from the potential investor's currency;
- understand thoroughly the Terms and Conditions of the Notes and be familiar with the behaviours of financial markets;
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks;
- consult its own advisers as to legal, tax and related aspects of an investment in the Notes; and
- recognise that it may not be possible to dispose of the Notes for a substantial period of time, if at all, before maturity.

Noteholders are exposed to the risk of partial or total failure of the Issuer to make interest and/or redemption payments under the Notes (and of the Guarantor to make payments under the Guarantee) (Credit Risk).

Investors are subject to the risk of a partial or total failure of the Issuer to make interest and/or redemption payments that the Issuer is obliged to make under the Notes and the Guarantor (the Issuer and the Guarantor together, the "**Obligors**") to make any payments under the Guarantee. The worse the creditworthiness of any Obligor, the higher the risk of loss. A materialisation of the credit risk may result in partial or total failure of

the Issuer to make interest and/or redemption payments and of the Guarantor to make any payments under the Guarantee.

Investors in the Notes assume the risk that the credit spread of any Obligor changes (Credit Spread Risk).

A credit spread is the margin payable by the Issuer to the holder of a Note as a premium for the assumed credit risk of the Issuer and/or the Guarantor. Credit spreads are offered and sold as premiums on current risk-free interest rates or as discounts on the price.

Factors influencing the credit spread include, among other things, the creditworthiness and rating of the Issuer, probability of default, recovery rate, remaining term to maturity of the Note and obligations under any collateralisation or guarantee and declarations as to any preferred payment or subordination. The liquidity situation, the general level of interest rates, overall economic developments, and the currency, in which the relevant obligation is denominated may also have a positive or negative effect.

Investors are exposed to the risk that the credit spread of any Obligor widens resulting in a decrease in the price of the Notes.

Due to future money depreciation (inflation), the real yield of an investment may be reduced.

Inflation risk describes the possibility that the value of assets such as the Notes or income therefrom will decrease as inflation reduces the purchasing power of a currency. Inflation causes the rate of return to decrease in value. If the inflation rate exceeds the interest paid on any Notes the yield on such Notes will become negative and investors will have to suffer a loss.

Noteholders are exposed to market price risk in any sale of Notes (Market Price Risk).

The development of the market price of the Notes depends on various factors, such as changes of market interest rate levels, the policies of central banks, overall economic developments, inflation rates or the lack of or excess demand for the relevant type of Note. The Noteholder is therefore exposed to the risk of an unfavourable development of the market price of its Notes which materialises if the Noteholder sells the Notes prior to the final maturity of the Notes. If the Noteholder decides to hold the Notes until final maturity, the Notes will be redeemed at the redemption amount.

A Noteholder for whom Euro is a foreign currency may be exposed to adverse changes in currency exchange rates which may affect the yield of the Notes (Currency Risk).

A Noteholder for whom Euro is a foreign currency is exposed to the risk of changes in currency exchange rates which may affect the yield of the Notes. Changes in currency exchange rates result from various factors such as macroeconomic factors, speculative transactions and interventions by central banks and governments. A change in the value of such Noteholder's currency against the euro will result in a corresponding change in the euro value of Notes denominated in such Noteholder's currency and a corresponding change in the euro value of interest and principal payments made in such Noteholder's currency in accordance with the Terms and Conditions of the Notes. If the underlying exchange rate falls and the value of the euro correspondingly rises, the price of the Notes and the value of interest and principal payments made thereunder expressed in euro falls.

Furthermore, there is a risk that authorities with jurisdiction over the currency in which an investor's financial activities are denominated principally, may impose or modify exchange controls. Such exchange controls could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

There can be no assurance that a liquid secondary market for the Notes will develop or, if it does develop, that it will continue. In an illiquid market, an investor may not be able to sell his Notes at fair market prices (Liquidity Risk).

Application has been made to admit the Notes to trading on the Luxembourg Stock Exchange's Regulated Market which is a regulated market for the purposes of the Market and Financial Instruments Directive 2004/39/EC.

There can be no assurance that a liquid secondary market for the Notes will develop or, if it does develop, that it will continue. The fact that the Notes are intended to be listed does not necessarily lead to greater liquidity as compared to unlisted Notes. In an illiquid market, an investor might not be able to sell its Notes at any time at fair market prices or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a material adverse effect on the market value of Notes. The possibility to sell the Notes might additionally be restricted by country-specific reasons.

There is a risk that trading in the Notes will be suspended, interrupted or terminated.

The listing of the Notes may be suspended or interrupted by the respective stock exchange or a competent regulatory authority upon the occurrence of a number of reasons, including violation of price limits, breach of statutory provisions, occurrence of operational problems of the stock exchange or generally if deemed required in order to secure a functioning market or to safeguard the interests of investors. Furthermore, trading in the Notes may be terminated, either upon decision of the stock exchange, a regulatory authority or upon application by the Issuer. Investors should note that the Issuer has no influence on trading suspension or interruptions (other than where trading in the Notes is terminated upon the Issuer's decision) and that investors in any event must bear the risks connected therewith. In particular, investors may not be able to sell their Notes where trading is suspended, interrupted or terminated, and the stock exchange quotations of such Notes may not adequately reflect the price of such Notes. Finally, even if trading in Notes is suspended, interrupted or terminated, investors should note that such measures may neither be sufficient nor adequate nor in time to prevent price disruptions or to safeguard the investors' interests; for example, where trading in Notes is suspended after price-sensitive information relating to such Notes has been published, the price of such Notes may already have been adversely affected. All these risks would, if they materialise, have a material adverse effect on the investors.

Credit ratings of Notes may not adequately reflect all risks of the investment in such Notes and may be suspended, downgraded or withdrawn.

A rating of Notes may not adequately reflect all risks of the investment in such Notes. Equally, ratings may be suspended, downgraded or withdrawn. Such suspension, downgrading or withdrawal may have an adverse effect on the market value and trading price of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In the event that Notes are redeemed prior to their maturity, a holder of such Notes may be exposed to risks, including the risk that his investment will have a lower than expected yield (Risk of Early Redemption).

The Issuer will always have the right to redeem the Notes if the Issuer is required to make additional (gross-up) payments for reasons of taxation. If the Issuer redeems the Notes prior to maturity for reasons of taxation or a maturity par call, or the Notes are subject to early redemption due to a rating downgrade upon a change of control, a holder of such Notes is exposed to the risk that, due to early redemption, its investment will have a lower than expected yield. The Issuer might exercise its optional call right if the yield on comparable Notes in the capital markets falls, which means that the investor may only be able to reinvest the redemption proceeds in Notes with a lower yield.

There is a risk that Noteholders may not be able to reinvest proceeds from the Notes in such a way that they earn the same rate of return (Reinvestment Risk).

Noteholders may be subject to the risk that interest or dividends earned from an investment in the Notes may not in the event of an early redemption of any Notes be able to be reinvested in such a way that they earn the same rate of return as the redeemed Notes.

There is a risk that the purchase of Notes could be illegal.

Neither the Issuer, the Joint Lead Managers nor any of their respective affiliates has or assumes responsibility for the lawfulness of the acquisition of the Notes by a prospective purchaser of the Notes, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if

different) or for compliance by that prospective purchaser with any laws, regulation or regulatory policy applicable to it. A prospective purchaser may not rely on the Issuer, the Joint Lead Managers or any of their respective affiliates in connection with its determination as to the legality of its acquisition of the Notes.

There is a risk that purchasers and sellers of the Notes may be required to pay taxes, documentary charges or duties.

Potential purchasers and sellers of the Notes should be aware that they may be required to pay taxes, documentary charges or duties in accordance with the laws and practices of the country where the Notes are transferred or other jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available for innovative financial instruments such as the Notes. Potential investors are advised not to rely upon the tax overview contained in this document but to ask for their own tax adviser's advice on their individual taxation with respect to the acquisition, sale and redemption of the Notes. Only these advisers are in a position to duly consider the specific situation of the potential investor. This investment consideration has to be read in connection with the section "Taxation" of this Prospectus.

Risks associated with fixed interest coupons.

The Notes are fixed rate notes and Noteholders are exposed to the risk that the market price of such Notes falls as a result of changes in the market interest rate. While the nominal interest rate of the Notes is set for their tenure, the current interest rate on the capital market ("market interest rate") typically changes on an immediate basis. As the market interest rate changes, the market price of a fixed rate note also changes, but in the opposite direction. If the market interest rate increases, the market price of a fixed rate note typically falls, until the initial yield of such Note is approximately equal to the market interest rate. If the market interest rate falls, the market price of a fixed rate note typically increases, until the initial yield of such Note is approximately equal to the market interest rate.

The Notes are governed by Austrian law, and changes in applicable laws, regulations or regulatory policies may have an adverse effect on the Issuer, the Notes and the investors.

The Terms and Conditions of the Notes are governed by Austrian law in effect as at the date of this Prospectus. Investors should thus note that the governing law may not be the law of their own home jurisdiction and that the law applicable to the Notes may not provide them with similar protection as their own law. Furthermore, no assurance can be given as to the impact of any possible judicial decision or change to Austrian law (or law applicable in Austria), or administrative practice after the date of this Prospectus.

If a loan or credit is used to finance the acquisition of the Notes, the loan may significantly increase the risk of a loss.

If a loan is used to finance the acquisition of the Notes by an investor and the Notes subsequently go into default, or if the trading price diminishes significantly, the investor may not only have to face a potential loss on its investment, but it will also have to repay the loan and pay interest thereon. Investors should not assume that they will be able to repay the loan or pay interest thereon from the profits of a transaction in the Notes. Instead, investors should assess their financial situation prior to an investment, as to whether they are able to pay interest on the loan, repay the loan on demand, and that they may suffer losses instead of realising gains.

Incidental costs related in particular to the purchase and sale of the Notes may have a significant impact on the profit potential of the Notes.

When Notes are purchased or sold, several types of incidental costs (including transaction fees and commissions) may be incurred in addition to the purchase or sale price of the Notes. These incidental costs may significantly reduce or eliminate any profit from holding the Notes. Credit institutions as a rule charge commissions which are either fixed minimum commissions or pro-rata commissions, depending on the order value. To the extent that additional - domestic or foreign - parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, investors may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs).

In addition to such costs directly related to the purchase of Notes (direct costs), investors must also take into

account any follow-up costs (such as custody fees). Investors should inform themselves about any additional costs incurred in connection with the purchase, custody or sale of the Notes before investing in the Notes.

Failures of relevant clearing systems may negatively affect investors or Noteholders.

The Notes are purchased and sold through certain clearing systems, such as Clearstream Banking S.A. or Euroclear Bank S.A./N.V. The Issuer does not assume any responsibility as to whether the Notes are actually transferred to the securities portfolio of the relevant investor. Investors have to rely on the functionality of the relevant clearing system.

An Austrian court can appoint a trustee (Kurator) for the Notes to exercise the rights and represent the interests of Noteholders on their behalf.

Pursuant to the Austrian Notes Trustee Act (*Kuratorenengesetz*), a trustee (*Kurator*) can be appointed by an Austrian court, upon the request of any interested party (e.g., a Noteholder) or upon the initiative of the competent court, for the purposes of representing the common interests of the Noteholders in matters concerning their collective rights. In particular, this may occur if insolvency proceedings are initiated against the Issuer, in connection with any amendments to the Terms and Conditions of the Notes or changes relating to the Issuer, or under other similar circumstances. If a trustee is appointed, it will exercise the collective rights and represent the interests of the Noteholders and will be entitled to make statements on their behalf which shall be binding on all Noteholders. Where a trustee represents the interests and exercises the rights of Noteholders, this may conflict with or otherwise adversely affect the interests of individual or all Noteholders.

The Notes do not convey voting rights.

The Terms and Conditions of the Notes do not provide for meetings of Noteholders at which voting rights could be exercised. Moreover, the Notes do not qualify as equity instruments and therefore do not afford the Noteholders voting rights at the shareholders' meetings. Therefore Noteholders have no influence with respect to matters relating to the Notes or the Issuer.

Telekom Austria AG is a holding company as a result of which Telekom Austria AG's ability to meet its payment obligations under the Notes or the Guarantee could be adversely affected.

Telekom Austria AG is a holding company without its own operations and most of its assets are shares of its subsidiaries, including the shares held in the Issuer. Consequently, Telekom Austria AG is dependent on interest, dividends, loan repayments and other inter-company cash flows received from its subsidiaries to generate funds. The ability of Telekom Austria AG's subsidiaries to make funds available to Telekom Austria AG depends, in part, on their ability to generate positive cash flow. Moreover, their ability to pay dividends and to make payments on inter-company debt owed to Telekom Austria AG is subject to statutory, tax and other restrictions applicable in the jurisdictions in which these companies operate, their earnings, level of statutory reserves and capitalization, and various business considerations. If insufficient funds are made available to Telekom Austria AG by its subsidiaries, Telekom Austria AG may be unable to meet its payment obligations under the Notes or the Guarantee.

II. DESCRIPTION OF THE NOTES AND GUARANTEE

1. Terms and Conditions of the Notes

§1

Currency, Denomination, Form, Clearing System and Noteholder

- (1) *Currency, Denomination and Form.* Telekom Finanzmanagement GmbH (the "**Issuer**") issues on 7 December 2016 (the "**Issue Date**") fixed rate bearer notes (the "**Notes**") in a denomination of € 100,000 each (the "**Specified Denomination**") in an aggregate principal amount of € 500,000,000.
- (2) *Temporary Global Note – Exchange.*
 - (a) The Notes are initially represented by a temporary global note (the "**Temporary Global Note**") without coupons which will be exchangeable for a permanent global note (the "**Permanent Global Note**" and, together with the Temporary Global Note, the "**Global Notes**" and each a "**Global Note**") without coupons. Each Global Note shall be signed manually by two directors of the Issuer and shall each be authenticated by or on behalf of the Paying Agent (as defined below). The right to have definitive Notes or coupons issued is excluded.
 - (b) The Temporary Global Note shall be exchanged for the Permanent Global Note on a date (the "**Exchange Date**") not earlier than 40 days and not later than 180 days after the Issue Date. Such exchange and any payment of interest on Notes represented by a Temporary Global Note shall only be made upon delivery of certifications to the effect that the beneficial owner or owners of the Notes represented by the Temporary Global Note is or are not (a) U.S. person(s) as defined by the U.S. Securities Act of 1933. A separate certification shall be required in respect of each such payment of interest. Any such certification received by the Paying Agent on or after the 40th day after the Issue Date will be treated as a request to exchange such Temporary Global Note as described above. Any securities delivered in exchange for the Temporary Global Note shall be delivered only outside of the United States.
- (3) *Clearing System.* Each Global Note will be kept in custody by or on behalf of the Clearing System until all obligations of the Issuer under the Notes have been satisfied. "**Clearing System**" means each of the following: Clearstream Banking société anonyme, Luxembourg and Euroclear Bank S.A./N.V. (together, the "**ICSDs**" and each an "**ICSD**") or any successor in this capacity. Notes issued in "new global note" ("**NGN**") form will be kept in custody by a common safekeeper on behalf of the ICSDs.
- (4) *Noteholder.* "**Noteholder**" means any holder of a proportionate co-ownership or other similar right in the Global Notes, which are transferable exclusively pursuant to the conditions of the Clearing System and applicable law.
- (5) *Records of the ICSDs.* The nominal amount of the Notes represented by the Global Notes shall be the aggregate amount from time to time entered in the records of the ICSDs. The records of the ICSDs (which expression means the records that the ICSD holds for its customers which reflect the amount of such customer's interest in the Notes) shall be conclusive evidence of the aggregate nominal amount of the Notes represented by the Global Notes and, for these purposes, a statement issued by a ICSD stating the nominal amount of the Notes so represented at any time shall be conclusive evidence of the records of the relevant ICSD at that time.

On any redemption or payment of an instalment or interest being made in respect of, or purchase and cancellation of, any of the Notes represented by the Global Notes, the Issuer shall procure that details of such redemption, payment or purchase and cancellation (as the case may be) in respect of the Global Notes shall be entered pro rata in the records of the ICSDs and, upon any such entry being made, the aggregate nominal amount of the Notes recorded in the records of the ICSDs and represented by the Global Notes shall be reduced by the aggregate nominal amount of the Notes so

redeemed or purchased and cancelled or by the aggregate amount of such instalment so paid.

On an exchange of a portion only of the Notes represented by a Temporary Global Note, the Issuer shall procure that details of such exchange shall be entered pro rata in the records of the ICSDs.

- (6) *ISIN and Common Code.* The ISIN (International Securities Identification Number or ISIN) Code of the Notes is XS1405762805 and the Common Code of the Notes is 140576280.
- (7) *Euro.* Any references in these Terms and Conditions to "EUR" or "euro" means the official currency unit of the member countries of the European Union who have adopted monetary union.

§2

Status of the Notes, Negative Pledge and Guarantee

- (1) *Status of the Notes.* The obligations under the Notes constitute unsecured (notwithstanding the Guarantee in relation to Notes issued by Telekom Finanzmanagement GmbH) and unsubordinated obligations of the Issuer ranking *pari passu* among themselves and *pari passu* with all other unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by mandatory provisions of law.
- (2) *Negative Pledge.* Each of the Issuer and the Guarantor undertakes, as long as any Notes are outstanding, but only up to the time all amounts of principal and interest have been placed at the disposal of the Paying Agent, not to, and shall procure that no Material Subsidiary (as defined below) of the Issuer or the Guarantor will, create or permit to subsist any mortgage, charge, pledge, lien (other than solely by operation of law) or other encumbrance upon any or all of its present or future assets (including any uncalled capital) to secure any Public Debt (as defined below) of any Person (as defined below) 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 having the Noteholders' share equally and ratably in such security or such other security as shall be approved by an independent accounting firm of internationally recognised standing as being equivalent security.

Nothing in this §2 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).

- (3) "**Material Subsidiary**" at any time shall mean a Subsidiary (as defined below) of the Issuer or the Guarantor, as applicable:
 - (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% 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 the whole or substantially the whole of the undertaking and assets of a Subsidiary

of the Issuer or the Guarantor, as applicable, is transferred which immediately before the transfer is a Material Subsidiary; or

- (c) whose gross revenues and/or total assets represent less than the 10% 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.

A report of independent auditors appointed by the Issuer or the Guarantor, as applicable, stating 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.

- (4) "**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, charge, pledge, lien (other than solely by operation of law), or other encumbrance upon any or all of its present or future assets (including any uncalled capital) to secure (i) any Public Debt of any Person or (ii) 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% threshold in (a) of the definition of Material Subsidiary.

- (5) "**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 regulated or unregulated markets. For the avoidance of doubt, certificates of indebtedness (*Schuldscheindarlehen*) do not constitute Public Debt.

- (6) "**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.

- (7) A company is a "**Subsidiary**" of another company, its "**holding company**", if that other company:

- (a) holds a majority of the voting rights in it; or
- (b) is a member of it and has the right to appoint or remove a majority of (i) its board of directors and/or (ii) its supervisory board (if applicable); or
- (c) is a member of it and controls alone, pursuant to an agreement with other shareholders or members, a majority of the voting rights in it,

or if it is a subsidiary of a company which is itself a subsidiary of that other company.

- (8) *Guarantee*. Telekom Austria AG (the "**Guarantor**") has given its unconditional and irrevocable guarantee (the "**Guarantee**") for the due payment of principal of, and interest on, and any other amounts expressed to be payable under the Notes. Under the Guarantee, each Noteholder may require performance of the Guarantee directly from the Guarantor and may enforce the Guarantee directly against the Guarantor. The Guarantee constitutes a direct, unconditional, unsubordinated and unsecured obligation of the Guarantor which ranks and will at all times rank at least *pari passu* with all other present and future direct, unconditional, unsubordinated and unsecured obligations of the Guarantor, save for such obligations as may be preferred by mandatory provisions of law. Copies of the Guarantee may be obtained free of charge at the office of the Paying Agent set forth in §9. The Guarantee is meant to be and shall be interpreted as *abstrakter Garantievertrag* pursuant to §880a 2nd alternative of the Austrian General Civil Code (*Allgemeines Bürgerliches Gesetzbuch*), and not as surety (*Bürgschaft*) or as a joint obligation as a borrower (*Mitschuldner*).

§3 Interest

- (1a) *Rate of Interest and Interest Payment Dates.* The Notes shall bear interest on their then outstanding principal amount at the rate of 1.50% per annum (the "**Interest Rate**") from and including the Issue Date to but excluding the Maturity Date (as defined in §4(1)). Interest shall be payable annually in arrears on 7 December of each year (each such date, an "**Interest Payment Date**"). The first payment of interest shall be made on 7 December 2017 (the "**First Interest Payment Date**").
- (1b) *Calculation of Interest.* Each period from and including the Issue Date to, but excluding, the First Interest Payment Date and any subsequent period from and including an Interest Payment Date to, but excluding, the next Interest Payment Date is an "**Interest Period**". The amount of interest payable on the Notes (the "**Interest Amount**") for each Interest Period shall be calculated by multiplying the Interest Rate and the Day Count Fraction with the principal amount of each Note and rounding the resulting figure to the nearest cent, with 0.5 or more of a cent being rounded upwards.
- (1c) *Day Count Fraction.* Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period, "**Day Count Fraction**" will be the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).
- (2) *Business Day Convention.* If the date for payment of any interest in respect of any Note is not a Business Day, it shall be postponed to the next day which is a Business Day.
- (3) If the Issuer for any reason fails to render any payment in respect of the Notes when due, interest shall continue to accrue at the default rate established specified by law on the outstanding amount from (including) the due date to (excluding) the day on which such payment is received by or on behalf of the Noteholders.
- (4) *Business Day.* For the purposes of these Terms and Conditions, "**Business Day**" means a day which is a day (other than a Saturday or a Sunday) on which all relevant parts of the Trans-European Automated Real-Time Gross Settlement Express Transfer System (TARGET2) and the relevant Clearing System are operational to forward the relevant payment.

§4 Maturity and Redemption

- (1) *Final Redemption.* The Notes shall be redeemed at their Redemption Amount (as defined below) on 7 December 2026 (the "**Maturity Date**").
- (2) *Early Redemption for Reasons of Taxation.* The Notes shall be redeemed at their Redemption Amount together with interest accrued to the date fixed for redemption at the option of the Issuer in whole, but not in part, on any Interest Payment Date upon giving not less than 30 days' notice to the Noteholders (which notice shall be irrevocable) by settlement in cash in accordance with §5 if; (i) on the occasion of the next payment or delivery due under the Notes, the Issuer or the Guarantor has or will become obliged to pay Additional Amounts (as defined below) as provided or referred to in §6 as a result of any change in, or amendment to, the laws or regulations of the Republic of Austria ("**Austria**") or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date; and (ii) such obligation cannot be avoided by the Issuer or the Guarantor taking reasonable measures (but not including Substitution of the Issuer pursuant to §10) available to it. Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Paying Agent a certificate signed by an executive director of the Issuer 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 or tax advisers of recognised standing to the effect that the Issuer or the Guarantor has or will become obliged to pay such Additional Amounts as a result of

such change or amendment.

- (3) *Change of Control.* If there occurs a Change of Control and within the Change of Control Period a Rating Downgrade in respect of that Change of Control occurs (together, a "**Put Event**"), each Noteholder will have the option (unless, prior to the giving of the Put Event Notice referred to below, the Issuer gives notice to redeem the Notes under §4 (4)) to require the Issuer to redeem or, at the Issuer's option, purchase (or procure the purchase of) that Note on the Optional Redemption Date at its principal amount together with (or, where purchased, together with an amount equal to) accrued interest to but excluding the Optional Redemption Date.

In this §4 (3):

A "**Change of Control**" occurs if any person or group, acting in concert, or any person(s) or any group(s) acting on behalf of any such person or group gains Control over Telekom Austria Aktiengesellschaft.

"**Control**" means any direct or indirect legal or beneficial ownership or any direct or indirect legal or beneficial entitlement (as described in §92¹ of the Austrian Exchange Act (*Börsegesetz*)) of, in the aggregate, more than 50% of the shares carrying voting rights of Telekom Austria Aktiengesellschaft.

"**Change of Control Period**" means the period commencing on the earlier of (a) the date of the relevant Change of Control and (b) the date of the earliest Relevant Potential Change of Control Announcement (if any) and ending 90 days after the Change of Control (or such longer period for which the ratings assigned to Telekom Austria Aktiengesellschaft or the Notes are under consideration (such consideration having been announced publicly within the period ending 90 days after the Change of Control) for rating review or, as the case may be, rating by a rating agency, such period not to exceed 60 days after the public announcement of such consideration).

The "**Optional Redemption Date**" is the fifteenth day after the last day of the Put Period.

"**Rating Agency**" means Moody's Investor Service Limited or Standard & Poor's Credit Market Services Europe Limited and their respective successors or any other rating agency of equivalent international standing specified from time to time by Telekom Austria Aktiengesellschaft.

A "**Rating Downgrade**" shall be deemed to have occurred in respect of a Change of Control if within the Change of Control Period (i) any rating previously assigned to Telekom Austria Aktiengesellschaft or the Notes by any Rating Agency is (x) withdrawn or (y) changed from an investment grade rating (for example, BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (for example, BB+/Ba1, or their respective equivalents for the time being, or worse) or (z) (if the rating assigned to the Notes by any Rating Agency shall be below an investment grade rating (as described above)) lowered one full rating category (from BB+ to BB or such similar lower or equivalent rating), or (ii) if at the time of the Change of Control there is no rating assigned to the Notes or Telekom Austria Aktiengesellschaft and no Rating Agency assigns during the Change of Control Period an investment grade credit rating (as described above) to the Notes (unless Telekom Austria Aktiengesellschaft is unable to obtain such a rating within such period having used all reasonable endeavours to do so and such failure is unconnected with the occurrence of the Change of Control) provided, in each case, that a Rating Downgrade otherwise arising by virtue of a particular change in rating or failure to obtain an investment grade rating (as described above) shall be deemed to have not occurred in respect of a particular Change of Control if the Rating Agency making the change in or withdrawing the rating or failing to award an investment

¹ *For descriptive and information purposes only: §92 of the Austrian Exchange Act provides for certain situations in which voting rights of different persons are added together as if such voting rights were held by one person alone. §92 refers to, inter alia, (i) voting rights held by other persons in their own name but for the account of another person, (ii) voting rights held by companies controlled by another person, (iii) voting rights a person can exercise without being the owner of the respective shares and (iv) voting rights a person can exercise due to the issuance of a power of attorney by the respective shareholder when lacking specific instructions as to how to exercise voting rights.*

grade rating (as described above), to which this definition would otherwise apply, does not confirm that the withdrawal, reduction or such failure was the result, in whole or part, of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable Change of Control or Relevant Potential Change of Control Announcement.

"Relevant Potential Change of Control Announcement" means any formal public announcement or statement by or on behalf of Telekom Austria Aktiengesellschaft or any actual or potential bidder or any advisor thereto relating to any potential Change of Control where, within 120 days of the date of such announcement or statement, a Change of Control occurs.

On the occurrence of a Put Event, the Issuer shall give notice (a **"Put Event Notice"**) to the Noteholders in accordance with §12 specifying the nature of the Put Event and the circumstances giving rise to it and the procedure for exercising the option contained in this §4 (3).

To exercise the option to require redemption or, as the case may be, purchase of a Noteholder's interest in the Notes under this §4 (3) in relation to a Change of Control, the relevant Noteholder must deliver to the Paying Agent through the ICSDs a duly completed and signed option exercise notice (an **"Exercise Notice"**), in the form obtainable (for the current time being) from the specified office of the Paying Agent, on any Business Day in the city of the specified office of the Paying Agent falling within the period (the **"Put Period"**) of 45 days after a Put Event Notice is given. No option so exercised may be revoked or withdrawn without the prior consent of the Issuer.

If 95% or more in principal amount of the Notes then outstanding have been redeemed or purchased pursuant to this §4 (3), the Issuer may, having given not less than 30 days' notice to the Noteholders in accordance with §12, such notice to be given within 30 days after the Optional Redemption Date, redeem or, at the Issuer's option, purchase (or procure the purchase of) all but not some only of, the Notes then outstanding at their principal amount, together with interest accrued to but excluding the date of such redemption. The notice referred to in the preceding sentence shall be irrevocable and shall specify the date fixed for redemption (which shall not be more than 60 days after the date of the notice). Upon expiry of such notice, the Issuer will redeem, purchase (or procure the purchase of) the Notes.

- (4) *Maturity Par Call.* The Issuer may, having given not less than 15 nor more than 30 days' notice to the Noteholders in accordance with §12, redeem the Notes in whole, but not in part, at any time during the period commencing on (and including) the day that is 90 calendar days prior to the Maturity Date to (but excluding) the Maturity Date, at par plus any interest accrued to (but excluding) the Maturity Date.
- (5) *Redemption Amount.* For the purposes of this §4 and §8 (Events of Default) the following applies: the **"Redemption Amount"** in respect of each Note shall be its principal amount.

§5 Payments

- (1) (a) *Payment of Principal.* Payment of principal in respect of Notes shall be made through the ICSDs, subject to applicable fiscal and other laws and regulations in Euro, to the Clearing System or to its order for credit to the accounts of the relevant account holders of the Clearing System upon presentation and surrender of the Global Note at the specified office of any Paying Agent outside the United States.
- (b) *Payment of Interest.* Payment of interest on Notes shall be made, subject to applicable fiscal and other laws and regulations in Euro, to the Clearing System or to its order for credit to the relevant account holders of the Clearing System upon presentation of the Global Note at the specified office of any Paying Agent outside the United States and upon delivery of certifications to the effect that the beneficial owners or owners of the Notes represented by the Temporary Global Note are not U.S. persons as defined by the U.S. Securities Act of 1933.

- (2) *Payment Business Day.* If the date for payment of any amount in respect of any Note is not a Business Day, the Noteholder thereof shall not be entitled to payment until the next following Business Day, and shall not be entitled to further interest or other payment in respect of such delay.
- (3) *United States.* "**United States**" means the United States of America including the States thereof and the District of Columbia and its possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands).
- (4) *Discharge.* The Issuer or, as the case may be, the Guarantor, shall be discharged by payment to, or to the order of, the Clearing System.
- (5) *References to Principal and Interest.* References to "**principal**" shall be deemed to include, as applicable the Redemption Amount of the Notes and the redemption amount pursuant to §4(4); and any premium and any other amounts which may be payable under or in respect of the Notes. References to "**interest**" shall be deemed to include, as applicable, any Additional Amounts which may be payable under §6.

§6 Taxation

All payments of principal and interest in respect of the Notes and any payments under the Guarantee to the Noteholders shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or on behalf of Austria or any political subdivision or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall, to the extent permitted by law, pay such additional amounts of principal and interest (the "**Additional Amounts**") as shall result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Amounts shall be payable with respect to any Note or under the Guarantee if:

- (a) Taxes are to be paid otherwise than by withholding or deduction at the source of payments under the Notes or the Guarantee; or
- (b) a Noteholder has, or had at the time of acquisition of the Notes, for tax purposes a relationship to Austria other than the mere holding of the Notes, and as a result of this is liable to pay Taxes; or
- (c) a Noteholder receives principal and interest in respect of the Notes or any payments under the Guarantee by, or involving an Austrian paying agent (*auszahlende Stelle*) or an Austrian custodian agent (*depotführende Stelle*; both terms as defined in sec. 95(2) of the Austrian Income Tax Act 1988 (*Einkommensteuergesetz 1988*) as amended or a subsequent legal provision, if any); Austrian withholding tax on investment income (*Kapitalertragsteuer*) shall thus not qualify as a tax for which the Issuer would be obliged to pay Additional Amounts; or
- (d) such withholding or deduction would not have been required if the Noteholder or any person acting on his behalf had presented the requested form or certificate or had made the requested declaration of non-residence or similar claim for exemption upon the presentation or making of which that Noteholder would have been able to avoid such deduction; or
- (e) Taxes are to be paid because of a change in law which will enter into force (i) later than 30 days after the applicable payment date under the Notes or the Guarantee, or (ii) to the extent that payment is made late by the Issuer, later than 30 days after the Issuer effects payment in full of all due and payable amounts and notifies Noteholders of such payment pursuant to §12; or
- (f) Taxes are withheld or deducted by an agent or any other person after payment by the Issuer in the course of the transfer of such amounts to the Noteholder; or
- (g) Taxes could be reclaimed or regarding Taxes a relief at source is available pursuant to the laws of Austria, a European Union directive or regulation or an international treaty or understanding to

which the Republic of Austria and/or the European Union is a party/are parties; or

- (h) Taxes are withheld or deducted pursuant to or as a consequence of an international treaty or a civil law agreement concluded by a state and/or one of its political subdivisions and/or one of its authorities and/or a group of states on the one hand and Austria and/or one of its political subdivisions and/or the European Union and/or the Issuer and/or an intermediary on the other hand; or
- (i) Taxes are withheld or deducted pursuant to (i) any European Union directive or regulation concerning the taxation of interest income, or (ii) any international treaty or understanding relating to such taxation to which Austria and/or the European Union is a party/are parties, or (iii) any provision of law implementing, or introduced in connection with, such directive, regulation, treaty or understanding; Austrian EU-withholding tax (*EU-Quellensteuer*) pursuant to the Austrian EU-Withholding Tax Act (*EU-Quellensteuergesetz*) shall thus not qualify as a tax for which the Issuer would be obliged to pay Additional Amounts; or
- (j) Taxes are withheld or deducted, if such payment could have been effected by another paying agent without such withholding or deduction; or
- (k) Taxes would not have fallen due if the Noteholder could have obtained tax exemption, tax restitution or tax rebate in a reasonable way; or
- (l) any combination of items (a)-(k).

§7 Prescription

Claims for payment of interest shall expire within three years after maturity. The prescription period of claims for payment of principal under the Notes shall be reduced to ten years and therefore the claims for payment of principal under the Notes shall expire ten years after maturity.

§8 Events of Default

- (1) *Events of Default.* If any of the following events (each an "**Event of Default**") occurs, each Noteholder may by written notice to the Issuer at the specified office of the Paying Agent declare such Note to be forthwith due and payable, whereupon the Redemption Amount of such Note together with accrued interest to the date of payment shall become immediately due and payable, unless such Event of Default shall have been remedied prior to the receipt of such notice by the Issuer:
 - (a) *Non-Payment:* if a 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
 - (b) *Breach of Other Obligations:* if the Issuer or the Guarantor fails to perform or observe any of its other obligations under the Notes or the Guarantee and the failure continues for a period of 30 days 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
 - (c) *Cross-Default:* (i) if any Indebtedness for Borrowed Money (as defined below) of the Issuer, the Guarantor or any Principal Subsidiary of the Issuer or the Guarantor, amounting in aggregate to not less than EUR 50,000,000 or its equivalent in other currencies, becomes due and payable prematurely by reason of an event of default (however described) and remains unpaid; or (ii) if default is made by the Issuer, the Guarantor or any Principal Subsidiary in making any payment due, amounting in aggregate to not less than EUR 50,000,000 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

- (d) *Insolvency*: 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 the Principal Subsidiaries, save for the purposes of, or pursuant to, an amalgamation, restructuring or reorganisation 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; or
 - (e) *Cessation of Business Operations*: if the Issuer, the Guarantor or any of the Principal Subsidiaries (i) 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 where solvent and, in the case of the Issuer or the Guarantor, pursuant to which the surviving or resulting entity expressly assumes all of 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, or (ii) 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
 - (f) *Liquidation*: if (i) proceedings are initiated against the Issuer, the Guarantor or any of the Principal Subsidiaries, as the case may be, 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 the 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 (ii) in any case (other than the appointment of an administrator) is not discharged within 30 days; or
 - (g) *Initiation of Proceedings*: if the Issuer, the Guarantor or any of the Principal Subsidiaries (i) 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 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 that 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 or (ii) 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
 - (h) *Repudiation of Obligations*: if (i) 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 (ii) 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
 - (i) Telekom Finanzmanagement GmbH ceases to be a subsidiary wholly owned and controlled, directly or indirectly, by Telekom Austria AG.
- (2) **"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.

- (3) **"Principal Subsidiary"** at any time shall mean a Subsidiary of the Issuer or of the Guarantor, as applicable:
- (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% 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.

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.

§9

Paying Agent

- (1) *Appointment.* The paying agent (the **"Paying Agent"**) and its office is Citibank, N.A., London Branch, Citigroup Centre Canada Square, Canary Wharf, London, E14 5LB, United Kingdom.
- (2) *Variation or Termination of Appointment.* The Issuer reserves the right at any time to vary or terminate the appointment of the Paying Agent and to appoint additional or other Paying Agents, provided that the Issuer shall at all times maintain (i) a Paying Agent and (ii) so long as the Notes are listed on a regulated market of a stock exchange, a Paying Agent with a specified office in such place as may be required by the rules of such stock exchange. 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 §12.
- (3) *Agent of the Issuer.* The Paying Agent acts solely as the agent of the Issuer and does not assume any obligations towards or relationship of agency or trust for any Noteholder.
- (4) *Responsibility.* The Paying Agent shall not have any responsibility in respect of any error or omission or subsequent correcting made in the calculation or publication of any amount in relation to the Notes, whether caused by negligence or otherwise (other than gross negligence or willful misconduct).

§10

Substitution of the Issuer

- (1) *Substitution of Debtor.* The Issuer (reference to which shall always include any previous substitute debtor) may and the Noteholders hereby irrevocably agree in advance that the Issuer may without any further prior consent of any Noteholder at any time, substitute for the Issuer any Affiliate of the Guarantor as the principal debtor in respect of the Notes or undertake its obligations in respect of the Notes through any of its branches (any such company or branch, the **"Substitute Debtor"**), provided that:

- (a) such documents shall be executed by the Substituted Debtor and the Issuer as may be necessary to give full effect to the substitution (together the "**Documents**") and pursuant to which the Substitute Debtor shall undertake in favour of each Noteholder to be bound by these Terms and Conditions of the Notes and the provisions of the applicable agency agreement as fully as if the Substitute Debtor had been named in the Notes and such agency agreement as the principal debtor in respect of the Notes in place of the Issuer and pursuant to which the Issuer and the Guarantor (if the Guarantor is not the Substituted Debtor) shall irrevocably and unconditionally guarantee in favour of each Noteholder the payment of all sums payable by the Substitute Debtor as such principal debtor (such guarantee of the Issuer herein referred to as the "**Substitution Guarantee**");
 - (b) the Documents shall contain a warranty and representation by the Substitute Debtor and the Issuer that the Substitute Debtor and the Issuer have obtained all necessary governmental and regulatory approvals and consents for such substitution and for the giving by the Issuer of the Substitution Guarantee in respect of the obligations of the Substitute Debtor, that the Substitute Debtor has obtained all necessary governmental and regulatory approvals and consents for the performance by the Substitute Debtor of its obligations under the Documents and that all such approvals and consents are in full force and effect and that the obligations assumed by the Substitute Debtor and the Substitution Guarantee given by the Issuer are each valid and binding in accordance with their respective terms and enforceable by each Noteholder and that, in the case of the Substitute Debtor undertaking its obligations with respect to the Notes through a branch, the Notes remain the valid and binding obligations of such Substitute Debtor;
 - (c) §8 shall be deemed to be amended so that it shall also be an Event of Default under the said Condition if the Substitution Guarantee shall cease to be valid or binding on or enforceable against the Issuer; and
 - (d) there shall have been delivered to the Paying Agent one opinion for each jurisdiction affected of lawyers of recognised standing to the effect that sub-paragraphs (a), (b) and (c) above have been satisfied.
 - (e) For purposes of this §10, "**Affiliate**" shall mean any enterprise which has its seat within the European Union and of which more than 90% of the voting stock is held directly or indirectly by the Guarantor (either separately or together).
- (2) Upon the Documents becoming valid and binding obligations of the Substitute Debtor and the Issuer and subject to notice having been given in accordance with sub-paragraph (4) below, the Substitute Debtor shall be deemed to be named in the Notes as the principal debtor in place of the Issuer as issuer and the Notes shall thereupon be deemed to be amended to give effect to the substitution including that the relevant jurisdiction in §6 shall be the jurisdiction of incorporation of the Substitute Debtor. The execution of the Documents together with the notice referred to in sub-paragraph (4) below shall, in the case of the substitution of any other company as principal debtor, operate to release the Issuer as issuer from all of its obligations as principal debtor in respect of the Notes.
 - (3) The Documents shall be deposited with and held by the Paying Agent for so long as any Notes remain outstanding and for so long as any claim made against the Substitute Debtor or the Issuer by any Noteholder in relation to the Notes or the Documents shall not have been finally adjudicated, settled or discharged. The Substitute Debtor and the Issuer acknowledge the right of every Noteholder to the production of the Documents for the enforcement of any of the Notes or the Documents.
 - (4) Not later than 15 Business Days after the execution of the Documents, the Substitute Debtor shall give notice thereof to the Noteholders and, if any Notes are listed on any stock exchange, to such stock exchange in accordance with §13 and to any other person or authority as required by applicable laws or regulations.

§11

Further Issues, Purchases and Cancellation

- (1) *Further Issues.* The Issuer may from time to time without the consent of the Noteholders create and issue further Notes having the same terms and conditions as the Notes (except for the issue price of the Notes, the Issue Date and the First Interest Payment Date) so that the same shall be consolidated and form a single Series with the Notes, and references to "Notes" shall be construed accordingly.
- (2) *Purchases.* The Issuer 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. Such Notes may be held, reissued, resold or cancelled, all at the option of the Issuer.
- (3) *Cancellation.* All Notes redeemed in full shall be cancelled forthwith and may not be reissued or resold.

§12

Notices

- (1) *Publication.* All notices concerning the Notes shall, subject to subparagraphs (2) and (3), be published through the ICSDs and on the website of the Luxembourg Stock Exchange (www.bourse.lu) and may in addition be published in a newspaper. Any notice will be deemed to have been validly given on the fifth day following the date of such publication (or, if published more than once, on the fifth day following the first such publication).
- (2) *Notification to Clearing System.* The Issuer may, instead of a publication pursuant to subparagraph (1) above, deliver the relevant notice to the Clearing System, for communication by the Clearing System to the Noteholders, provided that, so long as any Notes are listed on any stock exchange, the rules of such stock exchange permit such form of notice. Any such notice shall be deemed to have been given to the Noteholders on the fifth day after the day on which the said notice was given to the Clearing System.
- (3) *Notice via Electronic Means.* If the Notes are admitted for trading on any stock exchange, notices to the Noteholders will be valid if published through electronic means having general circulation within the European Union and in the jurisdiction of any stock exchange on which the Notes may be listed from time to time, for so long as the Notes are listed on the respective exchange and the rules of any such exchange so require. Any such notice shall be deemed to have been given on the date of the first publication or, when required to be published by more than one electronic means, on the date on which the notice has first been published by all required electronic means.

§13

Governing Law, Jurisdiction and Enforcement

- (1) *Governing Law.* The Notes and any contractual and non-contractual obligations thereunder shall be governed by Austrian law, excluding its conflict of law rules insofar as such rules would lead to the applicability of foreign law.
- (2) *Place of Jurisdiction.* The courts competent in commercial matters for Vienna, Austria, First District (*Wien Innere Stadt*) shall have jurisdiction to settle any dispute arising out of or in connection with the Notes. The Noteholders, however, may also pursue their claims before any other court of competent jurisdiction in the European Economic Area.
- (3) *Partial Invalidity.* If a provision in these Terms and Conditions becomes legally invalid, in whole or in part, the remaining provisions shall remain in effect. Invalid provisions shall pursuant to the purpose of these Terms and Conditions be replaced by valid provisions that form an economic point of view come as close as legally possible to the invalid provision.

§14

Stock Exchange Listing and Admission to Trading

It is intended to apply for listing of the Notes on the official list of the Luxembourg Stock Exchange.

2. The Guarantee

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

THIS GUARANTEE is given on 7 December 2016 by Telekom Austria Aktiengesellschaft (the "**Guarantor**").

WHEREAS:

- (A) The Guarantor has agreed to guarantee the obligations of Telekom Finanzmanagement GmbH (the "**Issuer**") in respect of the senior 1.50% notes due 2026 (the "**Notes**") issued by it.
- (B) Terms defined in the Terms and Conditions of the Notes (the "**Terms and Conditions**") and not otherwise defined in this Guarantee shall have the same meaning when used in this Guarantee.

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

- (1) The Guarantor as primary obligor unconditionally (except as specifically set out herein), irrevocably and independently:
 - (a) as holding company of the Issuer, undertakes to any Noteholder from time to time to exert any influence (including the exertion of influence on the use of the voting rights attached to the shares (*Geschäftsanteile*) by the direct shareholder Telekom Projektentwicklungs GmbH) to ensure that the Issuer will at all times perform and comply with its obligations under the Notes in any and all respects; and
 - (b) agrees in favour of each Noteholder to pay to the relevant Noteholder the amount set out in the confirmation (referred to below) by such Noteholder upon first written demand by such Noteholder including a written confirmation by such Noteholder of the failure of the Issuer to perform its obligations in respect of the Notes and the amount due in respect thereof. In so agreeing, and notwithstanding any provision of this Guarantee, the Guarantor waives all rights of objection and defence arising from and irrespective of the validity, legality, bindingness, enforceability or the legal effects of the Issuer's obligations in respect of the Notes and irrespective of any matter, event or circumstances of whatever nature which might operate to affect the obligations of the Guarantor, including, without limitation any time or indulgence granted to or composition with the Issuer or any other person, the taking, variation, renewal or release of remedies or securities against the Issuer or any other person, or any unenforceability, invalidity or irregularity (*unbedingt, unwiderruflich, über erste Anforderung und unter Verzicht auf alle Einwendungen*). This Guarantee given by the Guarantor is meant to be and shall be interpreted as an "*abstrakter Garantievertrag*" pursuant to §880a 2nd alternative of the Austrian General Civil Code (*Allgemeines Bürgerliches Gesetzbuch*), and not as surety (*Bürgschaft*) or as a joint obligation as a borrower (*Mitschuldner*).
- (2) All payments by the Guarantor under this Guarantee shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or on behalf of Austria or any political subdivision or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Guarantor shall, to the extent permitted by law, pay such additional amounts (the "**Additional Amounts**") as shall result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Amounts shall be payable with respect to any Note if:
 - (a) Taxes are to be paid otherwise than by withholding or deduction at the source of payments under the Notes or the Guarantee; or
 - (b) a Noteholder has, or had at the time of acquisition of the Notes, for tax purposes a relationship

to Austria other than the mere holding of the Notes, and as a result of this is liable to pay Taxes; or

- (c) a Noteholder receives principal and interest in respect of the Notes or any payments under the Guarantee by, or involving an Austrian paying agent (*auszahlende Stelle*) or an Austrian custodian agent (*depotführende Stelle*; both terms as defined in sec. 95(2) of the Austrian Income Tax Act 1988 (*Einkommensteuergesetz 1988*) as amended or a subsequent legal provision, if any); Austrian withholding tax on investment income (*Kapitalertragsteuer*) shall thus not qualify as a tax for which the Issuer would be obliged to pay Additional Amounts; or
 - (d) such withholding or deduction would not have been required if the Noteholder or any person acting on his behalf had presented the requested form or certificate or had made the requested declaration of non-residence or similar claim for exemption upon the presentation or making of which that Noteholder would have been able to avoid such deduction; or
 - (e) Taxes are to be paid because of a change of law which will enter into force (i) later than 30 days after the applicable payment date under the Notes or the Guarantee, or (ii) to the extent that payment is made late by the Issuer or the Guarantor, later than 30 days after the Issuer or the Guarantor effects payment in full of all due and payable amounts and notifies Noteholders of such payment pursuant to §12 of the Terms and Conditions; or
 - (f) Taxes are withheld or deducted by an agent or any other person after payment by the Issuer or the Guarantor in the course of the transfer of such amounts to the Noteholder; or
 - (g) Taxes could be reclaimed or regarding Taxes a relief at source is available pursuant to the laws of Austria, a European Union directive or regulation or an international treaty or understanding to which the Republic of Austria and/or the European Union is a party/are parties; or
 - (h) Taxes are withheld or deducted pursuant to or as a consequence of an international treaty or a civil law agreement concluded by a state and/or one of its political subdivisions and/or one of its authorities and/or a group of states on the one hand and Austria and/or one of its political subdivisions and/or the European Union and/or the Issuer and/or an intermediary on the other hand; or
 - (i) Taxes are withheld or deducted pursuant to (i) any European Union directive or regulation concerning the taxation of interest income, or (ii) any international treaty or understanding relating to such taxation to which Austria and/or the European Union is a party/are parties, or (iii) any provision of law implementing, or introduced in connection with, such directive, regulation, treaty or understanding; Austrian EU-withholding tax (*EU-Quellensteuer*) pursuant to the Austrian EU-Withholding Tax Act (*EU-Quellensteuergesetz*) shall thus not qualify as a tax for which the Issuer would be obliged to pay Additional Amounts; or
 - (j) Taxes are withheld or deducted, if such payment could have been effected by another Paying Agent without such withholding or deduction; or
 - (k) Taxes would not have fallen due if a Noteholder could have obtained tax exemption, tax restitution or tax rebate in a reasonable way; or
 - (l) any combination of items (a)-(k);
- (3) Where any discharge (whether in respect of the obligations of the Issuer or any security for the obligations of the Issuer or otherwise) is made in whole or in part or any arrangement is made on the faith of any payment, security or other disposition which is avoided or must be repaid on bankruptcy, liquidation or otherwise without limitation, the liability of the Guarantor under this Guarantee shall continue as if there had been no discharge or arrangement. The holder of any Note shall be entitled to concede or compromise any claim that any payment, security or other disposition is liable to avoidance or repayment.

- (4) So long as any of the Notes remains outstanding, but only up to the time all amounts of principal and interest have been placed at the disposal of the Paying Agent, the Guarantor undertakes not to and shall procure that no Material Subsidiary (as defined in the Terms and Conditions) of the Guarantor will, create or permit to subsist any mortgage, charge, pledge, lien (other than solely by operation of law) or other encumbrance upon any or all of its present or future assets (including any uncalled capital) to secure any Public Debt (as defined in the Terms and Conditions) 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 having the Noteholders' share equally and rateably in such security or such other security as shall be approved by an independent accounting firm of internationally recognised standing as being equivalent security.

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

- (5) The Guarantor represents and warrants that the obligations of the Guarantor under this Guarantee constitute the direct, unconditional, unsubordinated and (subject to the provisions of Clause (4)) unsecured obligations of the Guarantor and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured and unsubordinated obligations of the Guarantor, including, for the avoidance of doubt, any guarantee provided by the Guarantor, from time to time outstanding and that all necessary consents, approvals and authorisations for giving and implementing the Guarantee have been obtained.
- (6) Until all amounts which may be or become payable under the Notes have been irrevocably paid in full, the Guarantor shall not by virtue of this Guarantee be subrogated to any rights of any Noteholder or claim in competition with the Noteholders against the Issuer.
- (7) This Guarantee shall ensure for the benefit of and the obligations contained herein are owed to each and every Noteholder. The Guarantee shall be deposited with and held by the Paying Agent. Subject to mandatory provisions of Austrian law, each and every Noteholder shall be entitled severally to enforce the said obligations against the Guarantor.
- (8) This Guarantee shall bind the successors, assigns, receivers, trustees and representatives of the Guarantor. The Guarantor shall not transfer, which shall, for the avoidance of doubt, also encompass any transfer in the course of a corporate restructuring including by merger or spin-off, its obligations hereunder in any circumstances without the explicit prior written approval of the Noteholders.
- (9) Each of the provisions contained in this Guarantee shall be severable and distinct from one another and if at any time one or more of such provisions is or becomes invalid, illegal or unenforceable, this shall not affect, prejudice or impair the validity, legality and enforceability of the remaining provisions hereof. The invalid, illegal or unenforceable provision shall be replaced by a provision which best meets the intent of the replaced provision. Changes, supplements and amendments of this Guarantee including this subsection shall be made in writing and require the explicit consent of the Noteholders.
- (10) Subject to compliance by the relevant Noteholder with Clause (11) below, any Austrian tax, including transfer taxes, stamp duties, and costs and expenses incurred in connection with the defence against the payment of taxes and stamp duties by a Noteholder in connection with this Guarantee are borne directly by the Guarantor. The Guarantor agrees to indemnify each and every

Noteholder without delay for any such Austrian taxes, including transfer taxes, stamp duties, and costs and expenses incurred in connection with the defence against the payment of taxes and stamp duties in connection with this Guarantee.

- (11) Each Noteholder undertakes not to bring the original, or a certified copy, of this Guarantee into Austria, unless an Austrian court of competent jurisdiction requires the presentation of such original or certified copy to enable the Noteholder to enforce any claim in relation to this Guarantee.
- (12) This Guarantee and all undertakings contained herein constitute a contract for the benefit of the Noteholders as third party beneficiaries pursuant to §881(2), second sentence, of the Austrian General Civil Code (*Allgemeines Bürgerliches Gesetzbuch*). They shall give rise to the right of each Noteholder to claim performance of the obligations undertaken herein directly from the Guarantor, and to enforce such obligations directly against the Guarantor. Any Noteholder may take action directly against the Guarantor to pursue his claims pursuant to this Guarantee, without being required to bring first an action against the Issuer.
- (13) This Guarantee and any non-contractual obligations arising out of or in connection with this Guarantee shall be governed by Austrian law, excluding its conflict of law rules insofar as such rules would lead to the applicability of foreign law.
- (14) The courts competent in commercial matters for Vienna, Austria, First District (*Wien Innere Stadt*) shall have jurisdiction to settle any dispute arising out of or in connection with this Guarantee. The Noteholders, however, may also pursue their claims before any other court of competent jurisdiction in the European Economic Area.

Vienna, 7 December 2016

TELEKOM AUSTRIA AKTIENGESELLSCHAFT

We accept the conditions of the above Guarantee without recourse, warranty or liability and without acting as agent, fiduciary or in any similar capacity for any Noteholders.

Vienna, 7 December 2016

TELEKOM FINANZMANAGEMENT GMBH

III. USE OF PROCEEDS

The Issuer intends to use the proceeds from the sale of the Notes primarily for the refinancing of its EUR 500 million bond due January 2017 and also for general corporate purposes, including opportunistic acquisitions.

IV. DESCRIPTION OF TFG

1. Introduction

TFG is an indirectly wholly owned subsidiary of Telekom Austria AG. TFG was incorporated for an indefinite duration on 4 March 1997 and is registered with the commercial register (*Firmenbuch*) at the Commercial Court Vienna (*Handelsgericht Wien*) under FN 155563w. TFG operates under the Austrian Act on Companies with Limited Liability (*Gesetz über Gesellschaften mit beschränkter Haftung*). TFG's registered office and principal place of business is located at Lassallestraße 9, 1020 Vienna, Austria. TFG's telephone number is +43 50 6640. As to TFG's position within the Group, please refer to the chart included in Section VI. (*Description of Telekom Austria AG – Introduction*).

As an issuer of bonds listed on a regulated market, TFG has published its annual financial statements, as regulated information, and filed them at the Issuer Information Center operated by the OeKB in accordance with the officially appointed mechanism for the central storage of regulated information pursuant to article 21(2) of directive 2004/109/EC of the European Parliament and of the Council in Austria. TFG is incorporated as a limited liability company and has a stated limited share capital of EUR 37,000 which is fully paid up.

According to Article 3 of its declaration of establishment as a company with limited liability, the purpose of TFG as well as its principal activity is to advise Telekom Austria Group in the investment and raising of funds, in the pooling of cash flows and the preparation of Telekom Austria AG's accounts. TFG is dependent on the performance of the members of Telekom Austria Group to which it provides loans.

2. Management

The following are the names and functions of TFG's representatives:

Name	Position	Additional activities ⁽¹⁾ / functions
Siegfried Mayrhofer	Managing Director	–
Martin Mayr	Managing Director	–
Josef Flandorfer	Holder of statutory general power of attorney (<i>Prokurist</i>)	–

⁽¹⁾ Activities outside of the Issuer that are significant to it.

The members of TFG's management hold functions predominantly in other entities of Telekom Austria Group, which may be regarded as activities for Telekom Austria Group. Other activities performed outside Telekom Austria Group are not regarded to be significant from the view of Telekom Austria Group. The members of TFG's management have no potential conflicts of interest between their duties owed to TFG and their private interests or other duties.

Any two of the three representatives, acting jointly, may bind TFG. No audit committee is appointed for TFG. TFG has no employees, but is operated by staff of other Telekom Austria Group companies. The business address of the persons listed above is Lassallestraße 9, A-1020 Vienna.

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

3. Supervisory Board

The following are the names and functions of TFG's supervisory board members:

Name	Position	Additional activities ⁽¹⁾ / functions
Alejandro Douglass Plater.....	Chairman	–
Wolfgang Hackl	Vice Chairman	–
Bernd Schmutterer.....	Member	–

⁽¹⁾ Activities outside of TFG that are significant to it.

The members of TFG's supervisory board hold functions predominantly in other entities of Telekom Austria Group, which may be regarded as activities for Telekom Austria Group. Other activities performed outside Telekom Austria Group are not regarded to be significant from the view of Telekom Austria Group. The members of TFG's supervisory board have no potential conflicts of interest between their duties owed to TFG and their private interests or other duties.

4. Overview of financial data

The following table presents an overview of financial and operating data for TFG. The financial data presented below and marked as “audited” is extracted from TFG's audited non-consolidated financial statements for the financial years ended 31 December 2015 and 31 December 2014 which have been drawn up in accordance with the national Austrian accounting standards according to the Austrian Companies Act (*Unternehmensgesetzbuch*, the "UGB") and are incorporated into this Prospectus by reference. The national Austrian accounting standards according to the UGB are not comparable with IFRS. The financial data presented below should be read in conjunction with such financial statements and the notes thereto. The fiscal year of TFG coincides with the calendar year.

TFG (in tEUR)	year ended 31.12.2015 (audited)	year ended 31.12.2014 (audited)
Other operating income	27	25
Other operating expenses.....	-5,002	-9,585
Operating Income.....	-4,975	-9,560
	31.12.2015	31.12.2014
	(audited)	(audited)
Total Assets	4,192,106	4,752,721
Liabilities.....	4,179,892	4,738,377
Bonds.....	3,142,862	3,143,106
Liabilities to banks	362,887	604,473
Liabilities to affiliated entities.....	674,143	990,797
Other liabilities	0	1
Stockholders' Equity	2,791	2,791
Common stock.....	37	37

(Source: 2015 Financial Statements of TFG)

There has been no material adverse change TFG's prospects since 31 December 2015. There has been no significant change in TFG's financial or trading position since 31 December 2015.

5. Ownership and share capital

TFG's sole shareholder is Telekom Projektentwicklungs GmbH ("TPG"), a holding company with limited liability and a stated limited share capital of EUR 35,000. 99% of the shares in TPG are held by Telekom Austria AG. The remaining 1% of the shares in TPG is held by A1 Telekom Austria AG, which is a wholly owned subsidiary of Telekom Austria AG. Under Austrian corporate law, limited liability companies do not have shares but share quotas (*Geschäftsanteile*) and each registered shareholder holds only one such share quota. The share quotas constitute the only ordinary class of issued capital; no preferred or other classes are

permissible. The statutory minimum amount of capital stock is EUR 35,000. TPG holds the only share and the entire issued capital of TFG in an amount of EUR 37,000, which is fully paid up.

Through TFG's sole shareholder, TPG, Telekom Austria AG, as the parent company of Telekom Austria Group, exercises significant influence regarding matters requiring shareholder approval.

6. Material contracts

For a list of material contracts entered into by TFG, see the Section VI. (*Description of Telekom Austria Group – Material contracts – Finance agreements*) below.

7. Litigation and arbitration

For information regarding litigation and arbitration proceedings relating to TFG, see the Section VI. (*Description of Telekom Austria Group – Litigation and arbitration*) below.

V. DESCRIPTION OF TELEKOM AUSTRIA AG

1. Introduction

Telekom Austria AG ("**Telekom Austria AG**") is the holding company of an Austrian-based full-service telecommunications provider group with a wide range of advanced fixed-line, mobile, data and other communication services, including internet solutions, multimedia services, wholesale and payment solutions. As a holding company, Telekom Austria AG has no business operations as such but is responsible for the management of and for support functions for the Group. Telekom Austria AG is dependent upon dividend payments to be made by its subsidiaries. Telekom Austria AG is also known under the commercial name "Telekom" and has its principal operative subsidiaries in Austria, Belarus, Bulgaria, Croatia, Macedonia, Serbia and Slovenia. Its registered office and principal place of business is at A-1020 Vienna, Lassallestraße 9. Telekom Austria AG is registered with the Commercial Court of Vienna under the commercial register number 144477t, its telephone number is +43 50 664 0.

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

Telekom Austria AG's shares are listed on the Vienna Stock Exchange. With a market capitalization of approximately EUR 3.35 billion (Source: Vienna Stock Exchange website - <http://www.wienerborse.at/stocks/atx/> as of 16 November 2016) Telekom Austria AG is one of the twenty largest Austrian companies listed on the Vienna Stock Exchange. A second listing of Telekom Austria AG's shares on the New York Stock Exchange was withdrawn in June 2007. Since then, Telekom Austria AG's American Depository Receipts have been traded over-the-counter with a Level 1 American Depository Receipt program.

Article 2 of Telekom Austria AG's articles of association states that its objects are (i) the investment in other enterprises and corporations as well as the management and administration of such investment (holding company), including the acquisition and the disposal of investments in Austria and abroad; (ii) all activities in connection with the performance of services and the creation of the necessary requirements for the operation and provision of (tele)communication networks and services (including, but not limited to, mobile communication and fixed line) and associated services and infrastructure in Austria and abroad, in particular, but not limited to, the acquisition of necessary licenses and the distribution of end devices; as well as services economically connected with such activities; such activities may either be undertaken directly by Telekom Austria AG or through affiliated companies.

2. Management Board

The members of Telekom Austria AG's management board (the "**Management Board**") are appointed by the Supervisory Board (as defined below) for a maximum period of five years; re-election is possible. The Management Board has two to four members. Telekom Austria AG is represented by two members of the Management Board or by one member of the Management Board, together with one proxy holder (*Prokurist*). Currently, the management board consists of the following two members:

Name	Position	Additional activities ⁽¹⁾ / functions
Alejandro Douglass Plater.....	Chief Executive Officer and Chief Operating Officer of Telekom Austria AG, Chairman of the Management Board of Telekom Austria AG	–
Siegfried Mayrhofer	Chief Financial Officer of Telekom	–

Name	Position	Additional activities ⁽¹⁾ / functions
	Austria AG, Vice Chairman of the Management Board of Telekom Austria AG	

⁽¹⁾ Activities outside of Telekom Austria AG that are significant to it.

The Management Board members hold functions predominantly in other entities of Telekom Austria Group. Other activities performed outside Telekom Austria Group are not regarded as significant from Telekom Austria AG's perspective. The members of the Management Board have no potential conflicts of interest between their duties owed to Telekom Austria AG and their private interests or other duties.

3. Supervisory Board

Telekom Austria AG's supervisory board (the "**Supervisory Board**") consists of up to ten members elected by the shareholders' meeting (*Hauptversammlung*) and those members nominated by the works council (*Betriebsrat*). Employee co-determination on the Supervisory Board is a legally regulated aspect of the corporate governance system in Austria. Currently, the Supervisory Board consists of ten members elected by the shareholders' meeting plus five additional members nominated by Telekom Austria AG's works council.

The current members of the Supervisory Board are:

Name	Position	Additional activities ⁽¹⁾ / functions
Wolfgang Ruttensdorfer	Chairman	Chairman of the management board of RHI AG; member of the supervisory board of CA Immobilien Anlagen AG and Flughafen Wien AG, and managing director of Doreia Consulting- und Beteiligungsgesellschaft m.b.H., chairman of the supervisory board of AMIC Energy Management GmbH
Carlos García Moreno Elizondo...	Vice Chairman	Chief Financial Officer (CFO) of América Móvil, S.A.B. de C.V., supervisory board member of Royal KPN N.V.
Alejandro Cantú Jiménez	Member	General Counsel of América Móvil, S.A.B. de C.V.
Karin Exner-Wöhler.....	Member	Member of the management board of Achen Kraftwerke AG, Chief Financial Officer (CFO) of Salzburger Aluminium AG, managing director of SAG Business Improvement GmbH, member of the supervisory board of BAST Unternehmensbeteiligungs AG and SAG Motion GmbH
Peter Hagen	Member	–
Carlos M. Jarque	Member	Chief Executive Officer (CEO) of FCC Group, Supervisory board member of Grupo Carso S.A.B. de C.V.
Reinhard Kraxner	Member	Assistant General Counsel Treasury/Finance of Philip Morris International Inc.
Ronny Pecik	Member	Entrepreneur; managing director of ANNA Industriebeteiligung GmbH, Cosima Holding GmbH, Marathon Beteiligungs GmbH and Theseus

Name	Position	Additional activities ⁽¹⁾ / functions
		Beteiligungs GmbH; engagement in several companies in Austria, Germany and Switzerland as well as various functions in supervisory and management boards
Stefan Pinter	Member	Managing director of Philip Morris Austria GmbH, Head of Corporate Affairs
Oscar Von Hauske Solís.....	Member	Chief Executive Officer (CEO) of Telmex Internacional and Chief Fixed-Line Operations Officer of América Móvil, S.A.B. de C.V., supervisory board member or comparable function at América Móvil S.A.B. de C.V., Teléfonos de México S.A.B. de C.V., Embratel Participações S.A, Telmex Brasil, Telmex Argentina, Telmex Colombia, Telmex Perú, Telmex Ecuador, Telmex USA and KPN (Netherlands), Net Servicios de Comunicacao, Brasil and HITTS, Mexiko
Silvia Bauer	Employee representative	–
Walter Hotz	Employee representative	Member of the supervisory board of APK Pensionskasse AG, vice chairman of the supervisory board of Tele-Post Privatstiftung
Werner Luksch	Employee representative	–
Alexander Sollak	Employee representative	–
Gottfried Kehrer	Employee representative	–

⁽¹⁾ Activities outside of Telekom Austria AG that are significant to it.

Further to the positions mentioned above, some of the Supervisory Board members hold functions in other supervisory boards or similar functions which are not significant with respect to Telekom Austria AG and Telekom Austria Group. Upon their appointment, the members of the Supervisory Board have confirmed that they have no potential conflicts of interest between their duties owed to Telekom Austria AG and their private interests or other duties and that they are independent pursuant to C Rule 53 of the Austrian Corporate Governance Code as of 2003 (the "**Code**"). The shareholder representatives on the Supervisory Board are nominated in line with the terms of the shareholders' agreement between the controlling shareholder America Movil and SIHL.

The members of the Management Board and the Supervisory Board may be contacted at Telekom Austria AG's registered office at Lassallestraße 9, 1020 Vienna, Austria.

4. Committees of the Supervisory Board and their responsibilities

In order to carry out its work effectively and in compliance with legal requirements, the Supervisory Board has set up three permanent committees:

Audit Committee

The audit committee is responsible for auditing and preparing the approval of the annual financial statements, auditing the consolidated financial statements, the proposal for the distribution of profit, the

management report and the Group management report as well as the corporate governance report. High priority is also given to monitoring the accounting process, the effectiveness of the internal control system, the internal audit system and the risk management system. It also prepares the selection of the auditor and monitors the independence of the auditor and the auditor of the consolidated accounts, in particular with regard to the performance of additional services. The members of the Audit Committee are Carlos García Moreno Elizondo as Chairman, Carlos Jarque, Oscar Von Hauske Solís, Wolfgang Ruttendorfer, Peter Hagen, Ronny Pecik, who acts as the financial expert and Silvia Bauer, Walter Hotz and Alexander Sollak as the employee representative.

Remuneration Committee

The remuneration committee is made up of Wolfgang Ruttendorfer as Chairman, Carlos García Moreno Elizondo as Vice Chairman and Oscar Von Hauske Solís. The Remuneration Committee is responsible for concluding contract negotiations with the Management Board and defining the remuneration of the Management Board and it also sets the targets for the calculation of the performance-related bonuses and monitors the achievement of goals.

Personnel and Nomination Committee

The personnel and nomination committee submits proposals to the Supervisory Board for appointments to positions on the Management Board that have become vacant and also deals with questions of succession planning. This Committee comprises Oscar Von Hauske Solís as Chairman, Carlos García Moreno Elizondo, Carlos Jarque, Wolfgang Ruttendorfer, Alejandro Cantú, Ronny Pecik, Walter Hotz, Werner Luksch and Alexander Sollak.

5. Compliance with Corporate Governance Code

Telekom Austria AG committed itself to voluntary compliance with the Code. Telekom Austria AG complies with all the legal requirements laid down in the so-called "**L Rules**". As potential deviations from the "**C Rules**" of the Code must be explained, Telekom Austria AG in its consolidated financial statements for the year 2015 made the following statements with regard to Rules 28, 28a as well as 36: Stock option plans and programmes for the beneficial transfer of shares, including the long-term and sustainable exercise criteria, are decided upon by the Supervisory Board to ensure an optimal alignment with the business plan. A long-term incentive programme was introduced at the Annual General Meeting on 27 May 2010, which replaced the existing employee stock option programme as of the financial year 2010. Details can be found in Telekom Austria Group's consolidated financial statements.

The self-evaluation of the Supervisory Board as stipulated in Rule 36 is performed bi-annually.

In accordance with Rule 62 of the Code, Telekom Austria AG has its compliance with the provisions of the Code and the accuracy of its reporting externally evaluated every three years. The most recent evaluation, carried out by Deloitte Audit Wirtschaftsprüfungs GmbH in early 2014, discovered no facts which conflicted with the declaration made by the Management Board and the Supervisory Board concerning observance of and compliance with the 'C' and 'R' rules of the Code for the financial year 2013. The next evaluation will be carried out in early 2017.

6. Overview of financial data

As Telekom Austria AG is the holding company of Telekom Austria Group, the historical financial information incorporated by reference in this Prospectus is the consolidated historical financial information for Telekom Austria Group. An overview of financial data for Telekom Austria Group is presented under Section VI. (*Description of Telekom Austria Group – Overview of financial data*).

7. Ownership and share capital

Share Capital

The share capital of Telekom Austria AG is fully paid-up and amounts to EUR 1,449,274,500, divided into 664,500,000 ordinary non-par value bearer shares carrying voting rights, each representing a pro rata amount

of EUR 2.181 of the share capital, which was last increased in 2014 by EUR 483,091,500 by issuing of 221,500,000 new no-par value bearer shares. Telekom Austria AG has only issued this one class of shares and it has not issued convertible securities, exchangeable securities or warrant instruments.

All of Telekom Austria AG's 664,500,000 bearer shares with no par value are currently listed in the "Prime Market" segment of the Vienna Stock Exchange.

Treasury shares

As of the date of this Prospectus, Telekom Austria AG held 415,159 treasury shares, which represent approximately 0.062% of the share capital (or a proportionate amount of EUR 905,461.78), with an average purchase price of EUR 18.80. Telekom Austria AG may sell such treasury shares at any time via the stock exchange or by public offer and up until 29 May 2018 in any manner permitted by law, also other than via the stock exchange, whereby the Management Board is entitled to exclude the general purchase opportunity.

Shareholder structure

Telekom Austria AG's share capital, as of the date of this Prospectus is held as follows (rounded figures):

Shareholder	Ordinary shares	Holdings in %
América Móvil*	338,895,000	51.00
SIHL** (Republic of Austria)	188,876,602	28.42
Free float* incl. employee stocks and treasury shares	136,728,398	20.58
Total number of shares	664,500,000	100.0

* According to an announcement according to §§91ff of the Austrian Stock Exchange Act (*Aktiengesetz – AktG*) per 29 July 2016 as well as the press release of América Móvil on 22 August 2016.

** As disclosed in connection with the Annual General Meeting held on 25 May 2016. Former ÖIAG – Österreichische Industrieholding AG – was transformed into the Austrian State and Industrial Holding Limited (*Österreichische Bundes- und Industriebeteiligungen GmbH*) (SIHL) on 20 March 2015.

América Móvil S.A.B. de C.V through its wholly owned subsidiary América Móvil, B.V., formerly Carso Telecom, and SIHL entered into a shareholders' agreement on 23 April 2014 for a 10 year term, which became effective on 27 June 2014 (the "**Shareholders' Agreement**"), by which the parties contractually undertook to jointly pursue a long-term policy with regard to the management of Telekom Austria Group by exercising voting rights on a concerted basis. On 15 May 2014, América Móvil, published a voluntary public takeover offer for all shares of Telekom Austria AG, which has been converted into a mandatory takeover offer on 30 June 2014 and subsequently, América Móvil held in aggregate 59.7% of the share capital of Telekom Austria Group, while SIHL continued to hold 28.42%. In accordance with the Shareholders' Agreement, América Móvil subsequently reduced their holding in Telekom Austria AG to 51.00%.

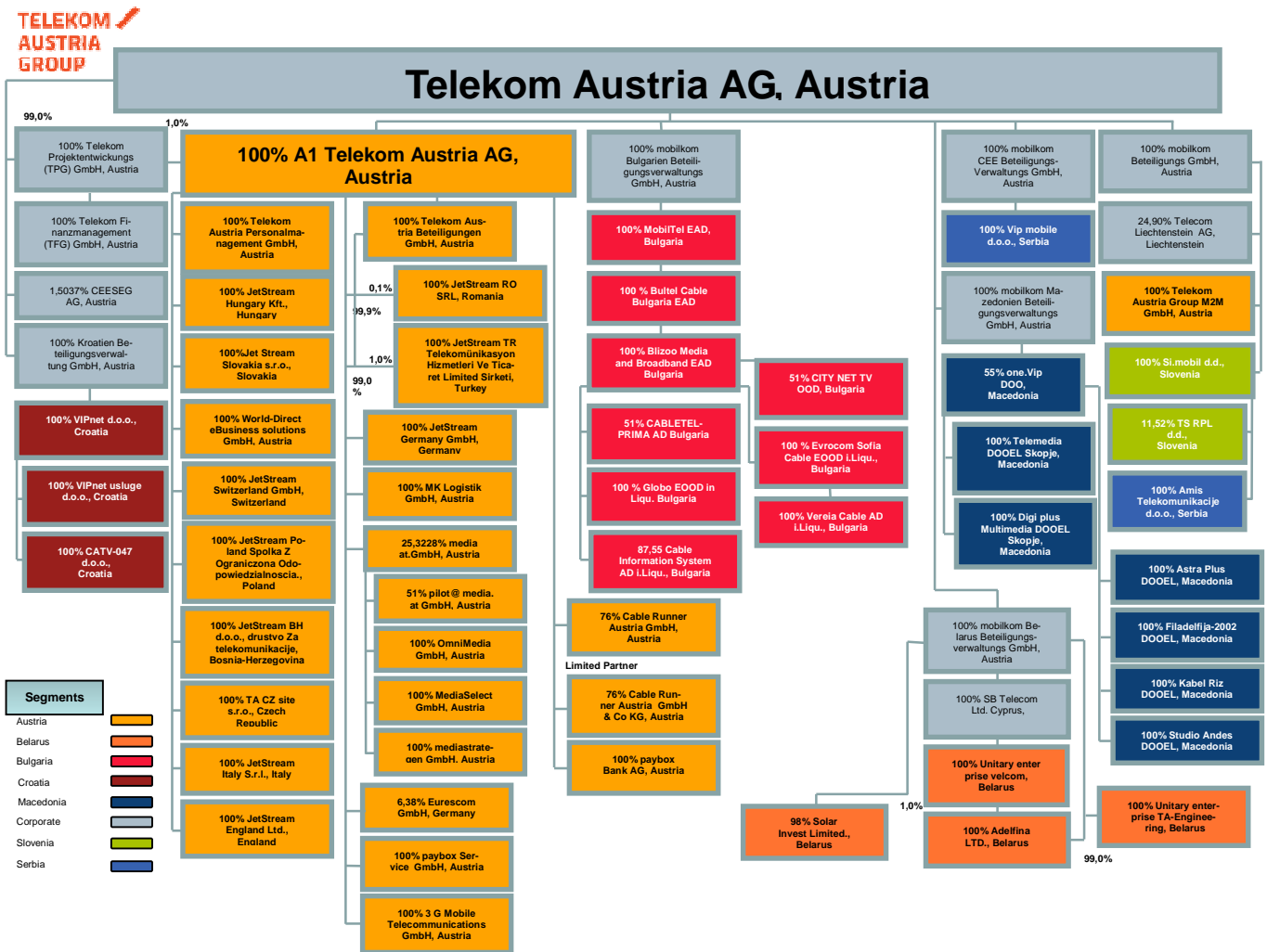
The main shareholders of Telekom Austria AG, SIHL and América Móvil, may be able to significantly influence matters requiring shareholder approval.

VI. DESCRIPTION OF TELEKOM AUSTRIA GROUP

1. Introduction

TFG and Telekom Austria AG are companies of Telekom Austria Group, a full-service telecommunications provider group with a wide range of advanced fixed-line, mobile, data and other communication services, including internet solutions. Within Telekom Austria Group, Telekom Austria AG is the parent company and TFG is a sub-subsidiary of Telekom Austria AG. Telekom Austria AG's principal operative subsidiaries are A1 Telekom Austria AG (Austria), FE Velcom (Belarus), MobilTel EAD (Bulgaria), VIPnet d.o.o. (Croatia), one.Vip DOOEL (Republic of Macedonia), Vip mobile d.o.o. (Republic of Serbia) and si.mobil d.d. (Slovenia).

The chart below shows, in simplified form, the main entities of Telekom Austria Group as of



31 October 2016.

(Source: Telekom Austria Group information)

2. Business overview

General

Telekom Austria Group is a telecommunication provider with high quality network serving approximately 24 million customers in seven countries across CESEE.

Starting from its domestic market in Austria, Telekom Austria Group has positioned itself in selected markets in CESEE over the last ten years. As for the 9-month period ending 30 September 2016, approximately 39.3% of total revenues of Telekom Austria Group were generated outside Austria.

Telekom Austria Group offers to its customers local brand, local sales and service organization on the respective local markets. The business is operated locally with central coordination and guidance. Telekom Austria Group's portfolio of fixed and mobile communication products and services covers many aspects of modern information and communication technologies, i.e. fixed and mobile voice telephony, fixed line and mobile broadband internet, multimedia services, value-added services, Internet Protocol Television ("**IP**TV"), cable and satellite TV, an OTT TV platform, data and IT applications, wholesale and payment services.

Telekom Austria AG's Austrian subsidiary, A1, is a fully integrated fixed and mobile operator for consumers and business customers. A1 is a convergent operator in Austria, offering its customers bundled product packages for fixed net, mobile communication, internet and TV. Its market position is supported by almost nationwide coverage with fourth-generation mobile networks, significant spectrum holdings, and progress with upgrading to higher fixed-broadband speeds.

Telekom Austria Group's Bulgarian local company MobilTel EAD ("**M**-tel") also follows Telekom Austria Group's convergence strategy by establishing a basis for the expansion of its services portfolio with convergent products. The Bulgarian market is characterized by strong competition and intense price pressure.

VIPnet d.o.o. ("**VIP**net") offers convergent bundle products in Croatia thereby utilizing all its market capabilities. The Croatian information and communication technology market is marked by intense competition and regulatory headwinds.

In Belarus, Telekom Austria Group's company FE VELCOM ("**velcom**") offers mobile voice and data communication, value added services as well as fixed-line services for selected business customers. In the Republic of Macedonia and in Slovenia, Telekom Austria Group offers mobile and fixed-line voice and broadband services, as well as TV and wholesale offers. In the Republic of Serbia, customers are being offered mobile voice and data communication.

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

Strategy overview

Telekom Austria Group is focusing on growth and improved efficiency. The Group is seeking organic growth by excelling in its existing core business and developing new business areas, but also growth via M&A activities. For instance, on 30 November 2016, Telekom Austria Group acquired 100% of the shares in the Belarusian telecommunications operators Atlant Telecom and TeleSet. The acquisition price in EUR was in the low double-digit million range. This acquisition allows Telekom Austria Group to develop its Belarusian subsidiary velcom from a mobile-only player into a fully converged operator.

Within its core business, Telekom Austria Group is focusing in particular on improving its sales execution and targeted cross-selling and upselling activities in its existing customer base. This involves the key objective to optimise the ratio of households that are covered and those already connected. Convergence is a key element here: In addition to Austria, the Group offers fixed-line and mobile services to its customers in Bulgaria, Croatia, Slovenia and the Republic of Macedonia. The Group particularly focuses on the premium customer segment with convergent product bundles that also contain TV and music streaming services or cloud solutions.

Telekom Austria Group is also targeting to expand its business and thus its value chain. To do this, the Group is addressing existing as well as new customers or customer segments. In the private customer segment, the focus increasingly turns addressing the entire household, offering package solutions, new content solutions, additional OTT services or internet TV. In the business segment, Telekom Austria Group is operating a cloud brokerage platform with which it can offer backup services, virtual server capacity or Microsoft Office 365.

The aim is also to generate growth via mergers and acquisitions, with the focus on in-market consolidation and convergence and, as a third priority, entering into new markets.

Telekom Austria Group plans to further pursue operational excellence by optimizing the efficiency of its existing operations.

Telekom Austria Group also seeks, through a conservative financial profile, to maintain its current investment grade rating in order to better secure access to capital markets and have the necessary financial flexibility to pursue potential future M&A opportunities.

3. Customers, products and services

Customers

Telekom Austria Group provides its telecommunications services to businesses as well as consumers in the markets in which it is active. As of 30 September 2016, Telekom Austria Group provides a portfolio of fixed-line and mobile communication products to approximately 24 million customers.

Mobile communication customers

Most of the Group's approximately 20.7 million mobile communication market customers are located in Austria, Belarus and Bulgaria (5.9 million, 4.9 million and 4.1 million customers, respectively as of 30 September 2016). While a majority of the customers in these markets already have post-paid contracts, Telekom Austria Group is seeking to expand its share of such contracts, as they stabilize monthly revenue stream as opposed to pre-paid products, where customer spending may vary dramatically from month to month.

Mobile users (in thousands)	9 months ended 30.09.2016 (unaudited)	9 months ended 30.09.2015 (unaudited)	Change (in %)
Total mobile users*	20,731.7	20,191.7	2.7
Thereof in Austria.....	5,919.2	5,709.5	3.7
Thereof in Bulgaria.....	4,116.8	4,296.7	-4.2
Thereof in Croatia.....	1,822.8	1,804.8	1.0
Thereof in Belarus	4,913.6	4,937.3	-0.5
Thereof in Slovenia	716.6	702.4	2.0
Thereof in the Republic of Serbia.....	2,105.3	2,116.7	-0.5
Thereof in the Republic of Macedonia	1,137.5	624.3	82.2

Due to the changes in the reporting structure, M2M subscribers are now reported in the Segment Austria. Historical figures in the new reporting structure are only available for 2015.

(Source: 2016 Telekom Austria Interim Financial Statements)

Revenue generating units

In addition to mobile communication customers, Telekom Austria Group also serves customers with fixed-line products such as broadband internet, TV and fixed-line telephony. Telekom Austria Group operates fixed-line services in five countries: Austria, Bulgaria, Croatia, Slovenia and the Republic of Macedonia. As of 30 September 2016, Telekom Austria Group operated approximately 5.6 million revenue generating units ("RGUs"): approximately 3.5 million in Austria, approximately 1.0 million in Bulgaria, approximately 607,400 in Croatia, approximately 172,000 in Slovenia and approximately 307,100 in the Republic of Macedonia.

RGUs (in thousands)	9 months ended 30.09.2016 (unaudited)	9 months ended 30.09.2015 (unaudited)	Change (in %)
Total RGUs*	5,607.1	4,677.4	19.9
Thereof in Austria.....	3,501.4	3,521.2	-0.6
Thereof in Bulgaria.....	1,019.3	285.0	257.7
Thereof in Croatia.....	607.4	535.8	13.4

Thereof in Slovenia	172.0	147.5	16.6
Thereof in the Republic of Macedonia	307.1	187.9	63.4

* In the course of the change in the reporting structure, the focus on analysing the fixed-line business is now on RGUs instead of access lines. Historical figures for RGUs are only available for 2015.

(Source: 2016 Telekom Austria Interim Financial Statements)

Main products and services

Telekom Austria Group offers a variety of mobile, fixed and related services to consumer and business customers. Although the services and products vary from country to country, the following are the principle services and products of Telekom Austria Group:

Fixed-line voice services

Telekom Austria Group fixed-line services include fixed-line voice services based on public switched telephone network and integrated services digital network; public telephone services, corporate communication services, value-added services and telephony information services. Telekom Austria Group provides international fixed-line voice services to destinations worldwide. It also offers a range of call management services comprising digital voicemail, call waiting, call forwarding, three-way conference calls and caller identification.

Fixed data services

Telekom Austria Group offers a range of internet and broadband services based on Digital Subscriber Line ("DSL"), fiber and cable; value-added services; television services including IPTV and cable TV with advanced services such as high definition television channels, video-on-demand ("VoD") services and electronic program guide. Moreover Telekom Austria Group offers customers integrated services, bundling data, internet and IT-services into customized solutions and a wide range of national and international data communications and IT-solutions, including: leased lines and related services; business data services; corporate network services; electronic payment solutions; IT-solution services and business applications.

Mobile services

Telekom Austria Group's principal services in all its operating segments are mobile voice and data services based on the global system for mobile communications ("GSM"), the general packet radio service, the universal mobile telecommunications system ("UMTS"), enhanced data rates for GSM evolution and high speed download packet access plus and Long Term Evolution ("LTE").

Furthermore, Telekom Austria Group offers value added services, mobile data and internet services including short message service ("SMS"), multimedia messaging services ("MMS"), mobile broadband and internet access.

Wholesale

The Wholesale unit of Telekom Austria Group offers communication products and services in the areas of voice solutions, mobile solutions, data and IP services as well as satellite solutions designed for wholesale customers.

Machine to Machine communication ("M2M")

In M2M, Telekom Austria Group offers products and services for the communication of individuals and machines as well as the communication between machines. M2M is designed to allow smart devices to directly exchange data with each other without human interaction. This interaction provides opportunities for transparency, security, optimization of processes and costs, and new business models. The use-cases for M2M connectivity are diverse. In certain industries wireless connectivity may enrich products and services and enable more efficient processes. The M2M business is performed by Telekom Austria M2M GmbH, a subsidiary of Telekom Austria AG.

New products

Being an international telecommunication services group, Telekom Austria Group is using and developing new technologies constantly and in many fields of business where it operates. M2M as described above constitutes a new product which has been introduced by Telekom Austria.

4. Overview of financial data

Annual Financial Statements 2015 and 2014

The following tables present an overview of consolidated financial and operating data for Telekom Austria Group. The financial data presented in these tables and marked as “audited” is extracted from the audited consolidated financial statements of Telekom Austria Group for the financial years ended 31 December 2015 and 2014 which were prepared in accordance with IFRS. The financial data presented in these tables and marked as “unaudited” is not extracted but derived from such financial statements. For more detailed information on Telekom Austria Group's financial information, please refer to these Consolidated Financial Statements.

Overview of the consolidated statements of profit or loss

Telekom Austria AG (in tEUR)	year ended 31.12.2015	year ended 31.12.2014
	(audited)	(audited)
Operating revenues	4,026,582	4,017,964
Other operating income	126,275	119,035
Material expenses	-518,642	-497,336
Employee expenses, including benefits and taxes	-853,198	-876,409
Other operating expenses	-1,408,447	-1,477,149
Operating expenses	-2,780,288	-2,850,894
EBITDA comparable	1,372,569	1,286,105
Restructuring	-394	-89,565
Impairment and reversal of impairment	0	-345,700
EBITDA incl. effects from restructuring and impairment tests	1,372,175	850,840
Depreciation and amortisation	-798,179	-853,826
OPERATING INCOME	573,996	-2,986
Interest income	22,449	14,562
Interest expense	-177,990	-194,545
Foreign exchange differences	-2,257	-1,921
Other financial result	164	105
Result from investments in affiliates	240	668
Financial result	-157,394	-181,131
EARNINGS BEFORE TAXES	416,602	-184,117
Income taxes	-23,829	-1,281
NET RESULT	392,774	-185,398
<i>Attributable to:</i>		
<i>Owners of the parent</i>	<i>367,286</i>	<i>-210,900</i>
<i>Non-controlling interests</i>	<i>175</i>	<i>190</i>
<i>Hybrid capital holders</i>	<i>25,313</i>	<i>25,313</i>
Basic and fully diluted earnings per share	0.55	-0.46

Overview of the consolidated statements of financial position

Telekom Austria AG (in tEUR)	31.12.2015	31.12.2014
	(audited)	(audited)
ASSETS		
Current assets		
Cash and cash equivalents	909,176	1,018,065
Short-term investments	2,367	14,433
Accounts receivable – trade, net of allowances	624,635	600,068
Receivables due from related parties	878	1,255
Inventories	130,972	140,124

Prepaid expenses	115,597	125,418
Income tax receivable	4,448	27,373
Non-current assets held for sale	0	413
Other current assets	117,129	120,137
Total current assets	1,905,203	2,047,288
Non-current assets		
Investments in associates	40,428	38,253
Long-term investments	8,226	7,400
Goodwill	1,229,712	1,189,481
Other intangible assets, net	2,507,855	2,570,106
Property, plant and equipment, net	2,357,367	2,246,115
Other non-current assets	49,012	46,859
Deferred tax assets	206,719	170,895
Total non-current assets	6,399,319	6,269,110
TOTAL ASSETS	8,304,522	8,316,397
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	-903,640	-340,813
Accounts payable – trade	-573,650	-522,344
Current provisions and accrued liabilities	-335,473	-337,297
Payables due to related parties	-1,829	-7,058
Income tax payable	-38,885	-33,448
Other current liabilities	-238,305	-132,703
Deferred income	-161,518	-163,877
Total current liabilities	-2,253,301	-1,537,539
Non-current liabilities		
Long-term debt	-2,584,122	-3,384,984
Employee benefit obligations	-196,550	-200,916
Non-current provisions	-750,298	-867,518
Deferred tax liabilities	-71,427	-90,804
Other non-current liabilities and deferred income	-22,804	-16,595
Total non-current liabilities	-3,625,200	-4,560,818
Stockholders' equity		
Common stock	-1,449,275	-1,449,275
Treasury shares	7,803	7,803
Additional paid-in capital	-1,100,148	-1,100,148
Hybrid capital	-591,186	-591,186
Retained earnings	78,750	418,032
Available-for-sale reserve	387	50
Hedging reserve	32,848	37,227
Translation adjustments	596,706	460,649
Equity attributable to equity holders of the parent	-2,424,115	-2,216,846
Non-controlling interests	-1,907	-1,195
TOTAL STOCKHOLDERS' EQUITY	-2,426,022	-2,218,041
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	-8,304,522	-8,316,397

Additional Key Figures

Telekom Austria AG (in mEUR)	year ended 31.12.2015	year ended 31.12.2014
	(unaudited unless otherwise indicated)	(unaudited unless otherwise indicated)
Operating revenues ⁽¹⁾	4,026.6	4,018.0
<i>of which generated abroad (in %)</i>	37.9	39.0
EBITDA comparable ⁽¹⁾	1,372.6	1,286.1
<i>of which generated abroad (in %)</i>	37.0	41.7
EBITDA comparable margin (in %)	34.1	32.0
EBITDA incl. effects from restructuring and impairment tests ⁽¹⁾	1,372.2	850.8
Operating income ⁽¹⁾	574.0	-3.0
Net result ⁽¹⁾	392.8	-185.4
Free cash flow	354.9	156.1
Cash flow from operating activities ⁽¹⁾	1,072.4	901.4
Capital expenditures ⁽²⁾	780.0	757.4
Total stockholders' equity ⁽¹⁾	2,426.0	2,218.0
Equity ratio (in %) ⁽³⁾	29.2	26.7

Return on Invested Capital — ROIC (in %)	9.3	-0.1
Return on Equity — ROE (in %)	16.9	-10.1

(1) Audited figures.

(2) Excluding additions to asset retirement obligations.

(3) Total stockholders' equity divided by total liabilities and stockholders' equity.

(Source: 2015 Telekom Austria Financial Statements)

Quarterly financial statements for the 9 months ending 30 September 2016

The following tables present an overview of consolidated financial and operating data for Telekom Austria Group. The financial data presented in these tables is derived from the unaudited consolidated interim financial statements for the 9 months ending 30 September 2016 and 2015 which were prepared in accordance with IFRS. For more detailed information on Telekom Austria Group's financial information, please refer to these Interim Consolidated Financial Statements.

Change of reporting

Beginning in 2016, Telekom Austria Group aligned its financial reporting structure with that of its parent company América Móvil. The new financial reporting structure seeks to allow investors a better understanding of the entity's financial performance.

To provide further relevant information, Telekom Austria Group's segment reporting on geographical markets was expanded. As a result, Telekom Austria Group now reports separately on all 7 of its operating segments: Austria, Bulgaria, Croatia, Belarus, Slovenia, Republic of Serbia and Republic of Macedonia. In the previous reporting structure, the results for Slovenia, the Republic of Serbia and the Republic of Macedonia were combined under the Additional Markets segment together with those for the Austrian subsidiary Telekom Austria Group M2M GmbH, which is now included in the Austria segment.

In prior periods, the condensed consolidated statements of profit or loss were presented in a separate statement in accordance with the nature of expense method and are now presented in the statements of comprehensive income in accordance with the cost of sales method, since the management believes that this provides even more relevant information on Telekom Austria Group's financial performance in the telecommunication industry. Material, employee and other expenses are now presented according to their function as cost of service, cost of equipment, selling, general and administrative expenses and others (mainly including loss on retirement of equipment, fines and penalties). Depreciation and amortisation is not allocated to functions.

Additionally, some line items were reclassified in the course of the harmonisation with América Móvil's financial reporting structure.

The fluctuation in revenues (including other operating income ("OOI")) and cost and expenses mainly results from own work capitalised that was previously reported on a gross basis in the original expenses and the corresponding amount in other operating income. In the new reporting format, the original expenses are directly offset by the amounts capitalised. Income from penalties and collection fees, which was previously reported in other operating expenses, is now presented in OOI.

Following the reclassification of spare parts, cables and supplies from inventories to property, plant and equipment, the measurement of these materials is no longer reported in material expense, but is instead reported in depreciation. In the Croatia segment, penalty interest charged to customers was previously reported in other operating expense, but is now reported in interest income.

Total interest expense was previously reported in a single line item, but is now split into interest expense on financial liabilities (including interest expense on debt, interest charged by suppliers and the unwinding of asset retirement obligation) and interest on employee benefits and restructuring and other financial items, net. Fees related to issuance of bank debt and fees for unused credit lines were previously presented in other operating expenses, but are now reported in interest on employee benefits and restructuring and other financial items, net, as these expenses represent financing costs.

Additionally, the following changes were made in condensed consolidated statements of financial position and net debt calculation:

- Accounts receivable - trade, net of allowances now include accounts receivable from subscribers, distributors and mobile phone carriers for network interconnection and other services and the item was therefore renamed.
- Spare parts, cables and supplies were previously included in inventories, but are now reported in property, plant and equipment in accordance with IAS 16.8, as these items are expected to be used during more than one period.
- Prepaid expenses were previously reported in a separate line item, but are now included in other current assets.
- Accrued interest was previously included in short-term debt, but is now included in accounts payable. As a consequence, accrued interest as well as purchase price liabilities from business combinations are no longer included in net debt.
- Accounts payable – trade and other current liabilities were previously presented in two separate line items, but are now presented in one item: accounts payable.
- Available-for-sale reserve, hedging reserve and translation adjustments were previously presented in three separate line items, but are now presented in one line item: other comprehensive income (loss) items together with the remeasurement of defined benefit plans, which was included in retained earnings. The reclassification of the remeasurement of defined benefit plans is also reflected in the condensed consolidated statements of changes in stock-holders' equity.

The following describes the reallocations between operating, investing and financing activities in condensed consolidated statements of cash flows:

- Following the reclassification of spare parts, cables and supplies from inventories to property, plant and equipment, the measurement effects of these items is no longer reported in material expense within EBITDA, but is instead reported in depreciation. The reclassification also leads to a reallocation from inventories within working capital changes to capital expenditures paid (purchase of spare parts, cables and supplies) and proceeds from sale of property, plant and equipment (sale of spare parts, cables and supplies). In the previous reporting structure, only total capital expenditures were included in cash flow from investing activities and the change in accounts payable related to capital expenditures was included in cash flow from operating activities. In the new reporting structure, capital paid is reported in the cash flow from investing activities in accordance with IAS 7.43 (see also the reconciliation in the table "capital expenditures").
- Interest paid was previously not reported separately in the cash flow statements. Interest expense was reported in net cash flow from operating activities, while the change of accrued interest was reported in changes in short-term borrowings within net cash flow from financing activities. Only interest expense from the unwinding of asset retirement obligation and from the release of the hedging reserve was adjusted as non-cash. In the new structure, total interest paid is reported in net cash flow from financing activities leading to a reallocation from operating to financing activities.

In addition to the reallocations between operating, investing and financing activities, the structure of cash flow from operating activities was changed. The primary changes are as follows: income taxes paid were previously included in net result and changes in other assets and liabilities, but is now reported in a separate line item. Payments for restructuring were previously reported in the line item provisions and accrued liabilities, but are now reported together with employee benefits in the item employee benefits and restructuring. Bad debt expense is no longer adjusted as non-cash item, but is instead included in the changes of accounts receivable from subscribers, distributors and other. Dividends received from associates are now reported in investing cash flow, while they were previously included in operating activities.

Overview of the interim condensed consolidated statements of comprehensive income

Telekom Austria AG (in mEUR)	9 months ended 30.9.2016 (unaudited)	9 months ended 30.9.2015 (unaudited)
Total revenues (including other operating income – OOI)	3,113.3	3,019.0
Total cost and expenses	-2,034.1	-1,984.0
Earnings before interest, tax, depreciation and amortisation - EBITDA	1,079.1	1,035.0
Depreciation and amortisation	-644.7	-587.1
OPERATING INCOME - EBIT	434.4	447.9
Interest income	9.3	20.6
Interest expense on financial liabilities	-103.5	-121.6
Interest on employee benefits and restructuring and other financial items, net	-6.1	-13.2
Foreign currency exchange differences, net	8.2	-1.7
Equity interest in net income of associated companies	0.8	0.1
Financial result	-91.3	-115.7
Earnings before income tax - EBT	343.2	332.2
Income tax	-36.5	-23.8
NET RESULT	306.7	308.4
<i>Attributable to:</i>		
<i>Equity holders of the parent</i>	<i>287.4</i>	<i>289.4</i>
<i>Non-controlling interests</i>	<i>0.3</i>	<i>0.1</i>
<i>Hybrid capital owners</i>	<i>19.0</i>	<i>18.9</i>
Basic and diluted earnings per share attributable to equity holders of the parent	0.4	0.4

Overview of the interim condensed consolidated statements of financial position

Telekom Austria AG (in mEUR)	30.9.2016 (unaudited)	31.12.2015 (audited)
ASSETS		
Current assets		
Cash and cash equivalents	67.5	909.2
Short-term investments	1.7	2.4
Accounts receivable: Subscribers, distributors and other, net	662.6	624.6
Receivables due from related parties	1.1	0.9
Inventories, net	92.6	78.9
Income tax receivable	16.2	4.4
Other current assets, net	247.7	232.7
Total current assets	1,089.4	1,853.1
Non-current assets		
Property, plant and equipment, net	2,477.4	2,409.4
Intangibles, net	2,338.3	2,507.9
Goodwill	1,231.3	1,229.7
Investments in associated companies	39.8	40.4
Long-term investments	8.6	8.2
Deferred income tax assets	191.7	206.7
Other non-current assets, net	53.1	49.0
Total non-current assets	6,340.2	6,451.4
TOTAL ASSETS	7,429.6	8,304.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term debt and current portion of long-term debt	-499.9	-810.4
Accounts payable	-786.6	-905.2
Accrued liabilities and current provisions	-303.8	-335.5
Income tax payable	-42.3	-38.9
Payables due to related parties	-3.1	-1.8
Deferred revenues	-165.3	-161.5
Total current liabilities	-1,801.0	-2,253.3
Non-current liabilities		
Long-term debt	-1,986.6	-2,584.1
Deferred income tax liabilities	-55.4	-71.4
Deferred revenues and other non-current liabilities	-21.1	-22.8
Asset retirement obligation and restructuring	-702.8	-750.3
Employee benefits	-229.5	-196.5

Total non-current liabilities	-2,995.5	-3,625.2
Stockholders' equity		
Capital stock	-1,449.3	-1,449.3
Treasury shares	7.8	7.8
Additional paid-in capital	-1,100.1	-1,100.1
Hybrid capital	-591.2	-591.2
Retained earnings	-197.8	48.0
Other comprehensive income (loss) items	699.4	660.7
Equity attributable to equity holders of the parent	-2,631.1	-2,424.1
Non-controlling interests	-2.0	-1.9
TOTAL STOCKHOLDERS' EQUITY	-2,633.2	-2,426.0
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	-7,429.6	-8,304.5

(Source: 2016 Telekom Austria Interim Financial Statements)

Operating segments

Telekom Austria Group reports in the following operating segments:

- Austria
- Bulgaria
- Croatia
- Belarus
- Slovenia
- Republic of Serbia
- Republic of Macedonia

Financial key figures per segment

in mEUR	Total revenues (incl. OOI)		EBITDA		Operating income - EBIT	
	9 months ended 30.9.2016 (unaudited)	9 months ended 30.9.2015 (unaudited)	9 months ended 30.9.2016 (unaudited)	9 months ended 30.9.2015 (unaudited)	9 months ended 30.9.2016 (unaudited)	9 months ended 30.9.2015 (unaudited)
Austria	1,913.2	1,901.3	721.1	658.4	353.0	309.4
Bulgaria	303.3	269.8	100.4	101.5	18.1	40.2
Croatia	295.2	271.2	69.3	63.5	10.6	12.5
Belarus	230.3	249.3	110.9	127.0	60.9	67.3
Slovenia	159.0	158.8	42.7	58.1	18.7	40.7
Republic of Serbia	161.1	152.2	30.5	33.1	-4.0	-5.5
Republic of Macedonia	88.4	51.1	20.2	11.6	-19.6	1.5

(Source: 2016 Interim Financial Statements of Telekom Austria)

Debt maturities

The debt maturity profile of Telekom Austria Group is as follows:

Debt maturities (in mEUR)*

2016	0.0
2017	499.9
2018	200.0
2019	0.0

2020.....	0.0
2021.....	744.6
2022.....	743.6
2023.....	298.3
Total.....	2,486.5

* Telekom Austria Group's EUR 600 million non-call 5 year hybrid bond qualifies as 100% equity under IFRS.

(Source: Telekom Austria Group information)

The average cost of debt for Telekom Austria Group is approximately 3.67%. As of 30 September 2016, Telekom Austria Group had cash and cash equivalents and short-term investments totalling EUR 69.2 million and undrawn committed credit lines of EUR 1,000 million.

5. Regulation

Austria

The Regulatory Authorities

The Austrian Telecommunications Act of 2003 (*Telekommunikationsgesetz 2003*, BGBl I 70/2003, the "TKG") was amended in November 2011, transposing into Austrian law the European Union Telecommunications Directive No 2009/140/EC on a common regulatory framework for electronic communications networks and services and the European Union Telecommunications Directive 2009/136/EC on universal service and users' rights and on issues relating to the processing of personal data and the protection of privacy into Austrian law. Furthermore, as part of this framework, a Body of European Regulators for Electronic Communications ("BEREC") as well as its office have been established by European Union Regulation No. 1211/2009. The amendment of the TKG fosters competition, investment and innovation but also puts a deeper focus on the rights of customers. The current legal framework improves supervisory rights of the regulatory authorities, introduces more flexible provisions for the administration of frequencies and establishes stricter provisions on transparency in respect of prices and services as well as stricter data protection and data security provisions. The TKG and the Austrian Communications Authority Act (*Bundesgesetz über die Einrichtung einer Kommunikationsbehörde Austria und eines Bundeskommunikationssenates*, BGBl I 32/2001, *KommAustria-Gesetz*) establish the legal basis for the existing regulatory bodies in the telecommunications (i.e. the *Telekom-Control-Kommission*, the "Telekom-Control-Commission" or the "TKK") and the broadcasting media sectors (i.e. the *Kommunikationsbehörde Austria*, the "Communications Authority").

Telekom-Control-Commission -TKK

The TKK was established as a panel authority with the powers of a court pursuant to Article 116 of the TKG 2003. Under Article 20 (2) of the Federal Constitutional Act (B-VG), the members of the TKK are not bound by any instructions in the performance of their official duties. Since January 2014 their decisions can be amended or overturned by way of administrative procedures (appeal to the Austrian Federal Administrative Court (*Bundesverwaltungsgericht – BVwG*)), furthermore it is possible to file complaints with the Austrian Constitutional Court (*Verfassungsgerichtshof – VfGH*) or the Austrian Administrative Court (*Verwaltungsgerichtshof – VwGH*). The TKK is a court in material terms.

The TKK is inter alia responsible for the sector-specific supervision of competition, frequency assignment procedures, the approval of general terms and conditions of business, as well as monitoring the fees charged by telecommunications companies. Another duty assigned to the TKK is its role as the supervisory authority for electronic signatures. Within its field of responsibility, the TKK has far reaching competences; these include the following: ordering the joint use of telecommunication infrastructure; issuing decisions in proceedings concerning data of subscriber directories; determining whether one or more undertakings in a respective relevant market have significant market power or whether effective competition prevails on those markets, and whether specific obligations are to be withdrawn, maintained, amended or imposed; issuing decisions in proceedings concerning specific obligations (e.g. obligation of non-discrimination, access to network equipment and network features, interconnection, number portability and carrier selection); approving conditions of business and charges and exercising the right to object; issuing decisions on the licensing and allocation of frequencies as well as the change and revocation of frequency allocations; issuing

decisions on the right to provide communications networks or services, including the right to revoke these rights; issuing decisions on preliminary injunctions; identifying and filing applications concerning unjust enrichment by providers through excessive pricing and filing applications with the Austrian Cartel Court (*Kartellgericht*).

Communications Authority

The Communications Authority is the regulatory authority for electronic audio media and electronic audiovisual media. Since 2010, the Communications Authority is an independent panel authority which is not subject to instructions from any other authority. The Communications Authority is responsible for issuing licenses to private television and radio stations, managing broadcasting frequencies, handling the legal supervision of private broadcasters, as well as preparing and launching digital broadcasting in Austria. Since 2004, the Communications Authority is also in charge of administering the Austrian federal government's press and journalism subsidies. In the same year, it also assumed responsibility for monitoring compliance with Austrian advertising regulations in broadcasts of the Austrian Broadcasting Corporation (*Österreichischer Rundfunk*, the "**ORF**") and private broadcasters. The Communications Authority is also responsible for the legal supervision of ORF and its subsidiaries, for the legal supervision of private providers of audiovisual media services on the Internet, and for certain tasks under the Austrian Act on Exclusive Television Rights (*Fernseh-Exklusivrechtgesetz*). The Austrian Federal Minister of Transport, Innovation and Technology (*Bundesminister für Verkehr, Innovation und Technologie*) does not have the power to issue instructions to the Communications Authority. However, the Austrian Federal Minister of Transport, Innovation and Technology is authorized to gather and request relevant information on all matters handled by the Communications Authority. Appeals against Communications Authority decisions can be submitted to the Austrian Federal Administrative Court. Further appeals against Federal Administrative Court decisions may be submitted to the Austrian Administrative Court and the Austrian Constitutional Court.

Regulatory Authority for Broadcasting and Telecommunications

The Austrian Regulatory Authority for Broadcasting and Telecommunications (*Rundfunk und Telekom Regulierungs GmbH*, "**RTR**") provides operational support for the Communications Authority and the Telekom-Control Commission. RTR is organised as a company with limited liability (*Gesellschaft mit beschränkter Haftung*) led by two managing directors. For the Communications Authority, RTR manages working groups, perform tasks in the fields of broadcasting frequency management, legal supervision and advertising monitoring, and supports the authority in procedures carried out under broadcasting law. In providing operational support for the Telekom-Control Commission, RTR's activities are related to approvals of general terms and conditions of business, electronic signatures, frequency allocation procedures and competition regulation. RTR also provides operational support for the Postal Service Regulation Commission (*Post-Control-Kommission*), specifically in the field of post office regulation, general terms and conditions of business, competition regulation and supervisory measures. Additional activities at RTR include alternative dispute resolution between end-users and operators and dispute resolution among operators, the administration of the Austrian Digitization Fund (*Digitalisierungsfonds*), Television Fund (*Fernsehfonds Austria*), Private Broadcasting Fund (*Privatrundfunkfonds*) and Non-Commercial Fund (*Nichtkommerziellen Rundfunkfonds*), dispute settlement for retail customers, the administration of communications parameters (e.g., numbering) and the definition of relevant markets. The activities of RTR are supervised by the Austrian Minister for Transport, Innovation and Technology (the "**Federal Minister**"). RTR together with the Telekom-Control- Commission and the Communications Authority is required to publish a common yearly report about their activities in the Communications Report (*Kommunikationsbericht*), which will be forwarded to the Austrian Federal Chancellor (*Bundeskanzler*) and the competent federal minister as well as to the Austrian Federal Parliament (*Nationalrat*).

Other regulatory bodies

The Austrian Federal Minister of Transport, Innovation and Technology is the highest telecommunications authority. In this respect, he assumes the following functions:

- (i) to lay down fundamental guidelines for the activities of the regulatory authority;

- (ii) to enact and administer regulations required for the implementation of international agreements, in particular on the usage of the frequency spectrum; and
- (iii) to decide on appeals against notices by the Telecommunications Offices (*Fernmeldebüros*) and the Office for Radio Systems and Telecommunications Terminal Equipment (*Büro für Funkanlagen und Telekommunikationsendeinrichtungen*), unless an independent administrative tribunal has jurisdiction. The Federal Minister, the Telecommunications Offices and the Office for Radio Systems and Telecommunications Terminal Equipment are administrative authorities that are empowered to take all measures requiring the exercise of administrative power in the area of telecommunications with regard to Austrian telecommunications law.

BEREC

The Body of European Regulators for Electronic Communications ("**BEREC**") was established by Regulation (EC) No 1211/2009 of the European Parliament and of the Council of 25 November 2009, as part of the 2009 telecom reform package. It replaced the European Regulators Group for electronic communications networks and services which was established as an advisory group to the European Commission in 2002. BEREC assists the European Commission as well as national regulatory authorities in implementing the EU regulatory framework for electronic communications and gives advice on request and on its own initiative to the European institutions. BEREC furthermore complements at European level the regulatory tasks performed at national level by the regulatory authorities.

Spectrum

The frequency award procedure for the 800, 900 and 1800 MHz frequency bands took place in the fourth quarter of 2013 as a combinatorial clock auction.

A1 Telekom Austria AG participated in this auction of both new and existing frequencies. Although A1 Telekom Austria AG had to pay a very high price, a major tract of strategically important spectrum in the 800-MHz band (digital dividend) was secured, providing the precondition for offering clearly- differentiated, high-quality communications services, particularly indoors and in rural areas, to customers. Holdings in the 800-MHz band will enable the cost-effective deployment of high performance LTE networks across Austria, allowing Telekom Austria Group to provide customers, particularly in the high value segment, with attractive services in Austria, its most important market.

The remaining license duration in the 900/1800 MHz ranges (2015-2019) will not be affected.

Market Consolidation

The acquisition of Orange Austria by Hutchison 3G Austria Holding was approved by the European Commission and the Austrian regulator in December 2012. A1's acquisition of YESSS! from Orange was approved by the national competition authority.

Market Analysis

Remedies are instruments of the regulation of operators with significant market power and are imposed in the course of market analysis proceedings. These proceedings are conducted on a regular basis as part of the EU regulatory framework in order to assess competition and market development in the sector.

Austria is among those countries most advanced with its market analysis. As of the date of this Prospectus, already the fifth round of market analysis is being finalized by the Austrian regulatory authority.

Unbundling

A1 published VULA for the first time in late 2011 and meanwhile amended it several times whereas the latest version was published in the third quarter of 2016. The VULA- offer does not involve direct sharing of physical infrastructure, but needs to be as similar as possible to physical unbundling, especially with regard to the product design and pricing possibilities on the part of the wholesale customers. Virtual Unbundling is an instrument which renders A1's NGA roll out possible. Therefore, Telekom Austria Group offers "virtual

unbundling" access to alternative operators in areas where it rolled out a next generation network. This solution encourages fixed net competition on the Austrian telecom market by making it easier for other operators to offer their high speed broadband services.

Interconnection

Another area of regulatory activity is interconnection. In the context of interconnection A1 is subject to regulation concerning origination and termination services (both at local level), where the main obligations are strict cost orientation of interconnection fees, non-discrimination and the publication of an actual reference interconnection offer. Origination and termination fees are in general applied symmetrically.

Concerning interconnection fees national regulatory authorities need to follow the EC Recommendation on Termination rates when setting new levels for mobile termination rates ("MTR") or FTR in Europe, because a pure LRIC cost model is mandatory since 1 January 2013. The Austrian national regulation authority has already applied the new cost model by calculating FTRs and MTRs in current fourth round of market analysis proceedings followed by a final decision on new FTR and MTR rates which are valid from 1 November 2013. The symmetric MTR level has decreased from initially EUR 0.0201 to EUR 0.008049 per minute and FTRs have decreased from formerly the highest level in Europe EUR 0.007 to EUR 0.00122 on average per minute. The current proceedings within the fifth round of market analysis are still pending.

To compensate effects of lowered FTRs, fixed net origination tariffs have been increased from EUR 0.007 to EUR 0.01815 in average per minute.

Regulation in other Markets

Belarus

From 8 September 2016 the function of regulating prices within telecoms was moved from the Ministry of Economy to the Belarussian Ministry of Trade. This change leads to a high risk of tightening the price control in Belarus in general and an revision of the existing price regulation mechanism for Velcom. The NRA (OAC) is ambitious to engage into growing business models. After establishing NTEC, which was authorized for international interconnection and BeCloud, which got an exclusive right for LTE frequencies, OAC created another (sub)organization – the National Center of Electronic Services (Please define.). From September 2016 all operators need to check the passport and personal data of new customers via exclusive service from NCES. The tariffs for this new service is not regulated. Currently the financial impact is minor but there is a clear trend of OAC to monetarize several services and to enlarge its influence and business.

Bulgaria

Strict consumer protection rules are one of the prevailing issues for network operators in Bulgaria. The Bulgarian Consumer protection commission is frequently proposing new measures. Additionally, the NRA (CRC) is also focused on the end users rights instead of promoting completion on the electronic communications market. As regards spectrum, there will be an auction of 2x10 MHz in the 800 MHz band, where the NRA recently started a public consultations process. In parallel the NRA is finalizing the procedure for updating the BU-LRIC models where it proposed 0.7 €Cent for MTR and 0,077 €Cent for FTR. Moreover a new law on counteraction against terrorism is amending the ECA which leads among others to restrictions regarding the registration of SIM cards per person.

Croatia

The Croatian government puts an actual focus on development of broadband infrastructure and services. The National Broadband Strategy 2016-2020 and national frame program for development of broadband infrastructure in areas of no commercial interest for investments was successfully adopted. The last will enable the utilization of EU funds on behalf of local municipalities in cooperation with operators. The finalization of the mentioned national program for development of broadband aggregation, as a precondition of development of NGA networks, is still pending.

The NRA conducted an analysis of wholesale services charges in 2016 (ULL, BSA, NBSA, IC, WLR

charges) offered by the incumbent and, after prior notification to the European Commission, published final decisions on changes of the charges effective as of January and 1 July 2017.

VIPnet faces severe competition problems as the incumbent HT significantly dominates the market and the Croatian telecommunications market might be heading towards a re-monopolization. This becomes particularly evident, as in July 2016 Optima submitted a request to the competition authority for concentration with another alternative fixed operator. If the concentration would be approved it would lead to an increase of the incumbent market share up to 88%.

Macedonia

In Macedonia Telekom Austria Group still faces obstacles to its business activities due to delays regarding the remedies after the merger of Vip and ONE to "one.Vip". The Commission for Competition Protection placed remedies on this merger regarding frequencies.

Serbia

A draft law on Electronic Communications has been prepared by the Serbian Ministry of Trade, Tourism and Telecommunications followed by a public debate till the end of year 2016. Further alignment with EU legislation and more protection of consumers are expected from the new draft law.

The new Serbian Government was formed in August 2016 whereas the responsible minister and the state secretary for telecommunications have not changed.

Slovenia

The Electronic Communication Act in Slovenia is currently under review, mainly due to the implementation of the EU Cost Reduction Directive. There are discussions about deploying public funds in order to achieve the National NGN Strategy. Slovenia introduced new MTR/FTR price rules for non-EU/EEA calls. Moreover the NRA (AKOS) already began new analyses for fixed wholesale markets.

GSM

The TKG set up a notification regime for mobile operators using the GSM technology. However, the provision of mobile telecommunication services continues to be limited by the allocation of the frequency spectrum. There are currently three GSM network operators, which are:

- A1 Telekom Austria AG;
- T-Mobile Austria GmbH and
- Hutchison 3G Austria.

In addition several MVNOs are active in the market, as well as a number of service providers.

UMTS

All Austrian GSM operators operate a UMTS network in addition to a GSM network.

6. Risk management

As one of the leading telecommunications companies in Austria as well as CEESA, the Telekom Austria Group is exposed to a wide range of risks and changes in market circumstances. The risk management system of the Telekom Austria Group is set up to anticipate such developments at an early stage in order to allow an effective response. It consists essentially of four areas: (i) market and competition risks, which may arise in the respective countries due to competition and are managed at Group level by means of the regular analysis of risks and opportunities and the use of effective measures to mitigate and detect them; (ii) regulatory and legal risks, due to regulatory intervention or an unclear legal situation, which are monitored and analysed throughout Telekom Austria Group by a central risk manager; (iii) compliance risks, which are monitored by Group Compliance, aided by local compliance managers; and (iv) financial risks, such as

liquidity, default, currency, transfer and interest rate risks, which are handled by Telekom Austria Group's treasury. Risks that may influence the guaranteed availability and security of the services offered, such as technical or topographical risks (through natural disasters, major technical disruptions, third-party construction work, hidden faults or criminal activities), are covered by business interruption management. Personnel-related risks are covered by various recruitment and training programs, as well as Group-wide talent management and human resource and succession planning. Investment risk is covered by measures such as the active management of equity investments through target requirements, coordination processes and, where acquisitions of equity interests are concerned, thorough due diligence and enterprise valuation. Telekom Austria Group's risk management is monitored by the Audit Committee of the Supervisory Board.

7. Internal control system for financial reporting

Telekom Austria Group has an internal control system ("ICS") over the financial reporting process as required by law. The ICS is intended to provide reasonable assurance regarding the reliability, completeness and accuracy of external financial reporting in compliance with international and national accounting standards. Regular internal reporting to management and the review of the internal control system by internal audit also ensure that weaknesses are identified promptly, and reported and eliminated accordingly. The most important content and principles apply to all Telekom Austria Group companies. Each significant financial transaction is reflected in a risk and control matrix to ensure that its financial reporting is accurate and complete. The effectiveness of the ICS is reviewed, analysed and assessed at regular intervals. At the end of each year, the Telekom Austria Group's management carries out an assessment of the relevant companies with the involvement of the respective business units. Based on the findings of this assessment and the defined criteria, management stated the internal control system to be effective as of 31 December 2015.

Due to the listing of the ultimate parent América Móvil at the New York Stock Exchange (NYSE) the implementation of the U.S. Sarbanes-Oxley Act ("SOX") is required (again) pursuant to the specifications of América Móvil. Therefore an adjustment and amendment of the internal control system to this standard in the financial year 2015 had to be implemented. For the financial year 2015 Telekom Austria Group was included in the SOX scope by América Móvil for the first year of the SOX implementation. Full scope for SOX in 2016 was defined for Austria, for all other segments a limited scope was defined. The scope of SOX is redefined each year by the ultimate parent, América Móvil.

8. Material contracts

In the ordinary course of their respective business, the subsidiaries of Telekom Austria Group enter into numerous contracts with various entities. Besides the finance agreements described below, members of Telekom Austria Group have not entered into contracts outside the ordinary course of their respective businesses that could result in any entity of the Group becoming subject to an obligation or entitlement that is material to the Group's business and results or that the Group believes that could not be substituted in the ordinary course of business.

Interconnection agreements

Telekom Austria Group has interconnection agreements with services providers all over the world. Interconnection agreements connect the Group's networks with networks of other providers. These agreements allow the Group's operating subsidiaries to provide and receive connecting transit and termination services. They are generally concluded for an indefinite period of time. Interconnection agreements regarding voice services tend to have no minimum monthly fees and therefore no minimum term is agreed. Other interconnection agreements are generally entered into for a minimum period of 12 months.

Roaming Agreements

Telekom Austria Group has entered into roaming agreements with telecommunication providers around the world. Roaming agreements permit the Group's customers to use their mobile devices on partners' mobile networks and regulate the conditions and technical aspects under which the Group can offer its customers access to such partner networks. Roaming agreements generally continue indefinitely until one party provides notice of termination.

Distribution agreements

Telekom Austria Group companies offer their products and services not only through direct sales channels, such as A1 stores and company owned online-stores, but the Group companies have also entered into distribution agreements with various partners, such as electronics stores and online dealers. Most of these agreements contain the Group's standard terms and conditions for the respective markets but may vary depending on the distribution partner. Distribution agreements are generally concluded for an indefinite period of time.

Finance agreements

To finance its acquisitions and other corporate matters, Telekom Austria Group has engaged in the following finance agreements:

- In January 2005, under a Euro medium term note program, the underlying documentation of which was signed on 30 June 2003, TFG issued EUR 500 million 4.25% bonds due 27 January 2017.
- In September 2007, TFG entered into a EUR 300 million multi-currency short term treasury notes program that has not been drawn as of the date of the Prospectus.
- In January 2011, TFG entered into a syndicated loan facility in the total amount of EUR 445 million, of which EUR 89 million was repaid in June 2012, EUR 178 million was due in December 2015 and EUR 178 million is due in November 2018.
- Under a Euro medium term note program, the underlying documentation of which was signed on 23 March 2012, in April 2012 TFG issued EUR 750 million 4% bonds due 4 April 2022.
- In January 2013, Telekom Austria AG issued EUR 600 million 5.625% subordinated fixed rate bonds with indefinite term and subject to interest rate reset. The bonds can be redeemed at the earliest after a period of five years.
- In July 2013, under a Euro medium term note program the underlying documentation of which was signed on 9 April 2013, TFG issued EUR 300 million 3.5% bonds due 4 July 2023.
- In December 2013, under a Euro Medium Term Note Program the underlying documentation of which was signed on 9 April 2013 and supplemented on 22 November 2013, TFG issued EUR 750 million 3.125% bonds due December 3, 2021.
- On November 4, 2014, TFG entered into a EUR 1,000 million syndicated Revolving Facility Agreement with a term of up to 5 years, which has not been drawn since then.

9. Litigation and arbitration

TFG, Telekom Austria AG and its subsidiaries are parties to certain lawsuits and administrative proceedings before various courts and governmental agencies arising from the ordinary course of business involving various contractual, labour, cartel, tax and other matters as well as proceedings under laws and regulations related to interconnection. Such matters are subject to many uncertainties, and the outcomes are not predictable with certainty.

Except as described below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer are aware) during the 12 months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of TFG, Telekom Austria AG or Telekom Austria Group, except as described herein.

Tax proceedings

Austria

A tax audit is performed in Austria in connection with the alleged unlawful behaviour of former directors and employees in the past. Respective provisions have been made. In addition, tax audits (covering corporate income tax, labour taxes, capital gain tax and VAT) in Austria with respect to Telekom Austria AG and A1 Telekom Austria AG for the financial year 2008 are ongoing.

Furthermore, a tax audit with respect to A1 as legal successor of YESSS! for the financial years 2011 and 2012 was performed and resulted in potential additional payment of about EUR 100,000 (in connection with VAT duty and pre-paid cards) A1 has appealed against the tax assessment, despite the fact that the payable amount is rather low as there is a risk that - should the legal opinion of the tax authorities be confirmed – it might have negative impact on A1 in the future. Respective provisions have been made at A1 level.

Bulgaria

A tax audit has been undertaken by the Bulgarian tax authorities with respect to Telekom Austria Group's subsidiary, M-tel in Bulgaria since mid-2012 for the financial years 2006 to 2008; the tax audit was completed at the beginning of 2014 and further tax audits were initiated for the financial years 2009 to 2013 (covering corporate income tax, capital gains tax and VAT). On 15 August 2016, tax authorities issued a tax report for financial year 2009, M-tel filed its objection on 3 October 2016. The respective Tax Assessment Act was subsequently issued on 17 October 2016 and appealed by M-tel. The only findings are related to brand name and customer base tax amortization and the additionally imposed corporate income tax including interest up to 30 September 2016 worth to TEUR 17,900.

In June 2014, M-tel received the tax assessment act related to the taxation treatment of amortization of brand name and customer base in 2007. M-tel appealed to the highest tax authority in Sofia. In December 2014 this appeal was rejected. M-tel appealed to the administrative court in Sofia.

On 26 October 2015, the administrative court decided in favour of M-tel. On 13 November 2015, the tax authorities appealed to the highest administrative court. The tax case is therefore assigned to the highest administrative court as final instance.

On 24 September 2015, the tax authorities issued a second tax assessment act regarding the tax treatment of the brand name and the customer base. The assessment relates to the financial year 2008 and amounts to TEUR 20,620 including interest up to 30 September 2016. M-tel appealed to the highest Bulgarian tax authority. At the same time it requested suspension of the administrative appealing procedure until the highest administrative court has reached a final decision relating to the financial year 2007. The request for suspension was answered positively.

In total M-tel has issued bank guarantees covering up to TEUR 62,249 including a new bank guarantee issued in October 2016 covering the tax assessment for the financial year 2009 to secure the possible tax claims.

Moreover, a subsequent tax audit covering the years 2010 to 2012 is currently ongoing, the results of which are hard to estimate because the outcome is depending on the decision of the highest administrative court.

In case of an unfavourable outcome of the court proceedings, M-tel might face a further potential additional claim for the years 2010 to 2012 of up to TEUR 44,124 including penalty interest, calculated till 30 September 2016.

M-tel expects the court decision to be in favour of M-tel due to the fact that M-tel followed the approach confirmed by the Minister of Finance and two consecutive tax audits in the past. M-tel assesses an additional claim including interest to be improbable.

Other proceedings

In Croatia, a former legal adviser of VIPnet has initiated court proceedings against VIPnet claiming approximately EUR 5.4 million for rendered legal services. Proceedings are ongoing. A competitor of VIPnet initiated court proceedings against VIPnet for free use of ducts and pipes. VIPnet won the case in the second and final instance. However, the competitor initiated revision proceedings before the Croatian Supreme Court. VIPnet estimates that the financial risk in connection with the proceedings amounts to EUR 6.5 million.

In Macedonia the State Attorney has filed a law suit against ONE (now one.Vip) for alleged outstanding radio frequencies fees in the total amount of approx. EUR 5.7 million plus interests. The proceedings are in an early stage, in one.Vip's view there is no legal ground for the claim.

Litigation proceedings regarding former employees

Public authorities including the Vienna prosecution office have been investigating Telekom Austria AG and some of its subsidiaries with respect to alleged unlawful behaviour of former directors and employees in the past. The Vienna prosecution office brought charges against former members of the management and employees of Telekom Austria AG and other individuals such as for example politicians, advertising agency managers and lobbyists for alleged embezzlement to the disadvantage of Telekom Austria AG. Neither Telekom Austria AG nor any of its subsidiaries themselves have been formally accused of any unlawful behaviour.

Criminal proceedings against above mentioned individuals have been ongoing since February 2013. There has been extensive reporting in the media. Some of the investigations have been closed without any formal accusation, some sentences became final, some were appealed and some trials have not started yet. It is likely that further charges will be brought against individuals, in particular against certain lobbyists.

Telekom Austria AG has taken and takes legal steps and remedies which it deems to be adequate against persons involved in unlawful behaviour. Telekom Austria AG has already been awarded damages in substantial amounts and also entered into settlements with a number of individuals, in particular with former management and employees.

10. Recent events

There have been no recent events particular to the Issuer that are to a material extent relevant to the evaluation of the Issuer's solvency.

VII. TAXATION

1. Austria

The following is a general overview of certain Austrian tax aspects in connection with the Notes and contains the information required on taxation by the Commission Regulation (EC) No 809/2004 of 29 April 2004 (as amended). It does not claim to fully describe all Austrian tax consequences of the acquisition, ownership, disposition or redemption of the Notes nor does it take into account the Noteholders' individual circumstances or any special tax treatment applicable to the Noteholder. It is not intended to be, nor should it be construed to be, legal or tax advice. The summary is not a substitute for obtaining individual tax advice from a qualified tax advisor. Prospective investors are therefore advised to consult their own professional advisors as to the particular tax consequences of the acquisition, ownership, disposition or redemption of the Notes.

This overview is based on Austrian law as in force as of the date of this Prospectus. The laws and their interpretation by the tax authorities may change and such changes may also have retroactive effect. It cannot be ruled out that the Austrian tax authorities adopt a view different from that outlined below. The following considerations only illustrate tax implications for investors in Austria and do not address any tax consequences relating to an investment in the Notes which may arise under the laws of any other jurisdiction. This overview is based on the assumption that the Notes are legally and actually publicly offered in the form of securities. The tax consequences may substantially differ if the Notes are not legally or factually publicly offered in the form of securities. Where in this summary English terms and expressions are used to refer to Austrian concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Austrian concepts under Austrian tax law.

General Remarks

Individuals having a domicile (*Wohnsitz*) and/or their habitual abode (*gewöhnlicher Aufenthalt*) in Austria ("**resident individuals**") are subject to income tax (*Einkommensteuer*) in Austria on their worldwide income (unlimited income tax liability; *unbeschränkte Einkommensteuerpflicht*). Individuals having neither a domicile nor their habitual abode in Austria ("**non-resident individuals**") are subject to income tax only on income from certain Austrian sources (limited income tax liability; *beschränkte Einkommensteuerpflicht*).

Corporations having their place of management (*Ort der Geschäftsleitung*) and/or their legal seat (*Sitz*) in Austria ("**resident corporations**") are subject to corporate income tax (*Körperschaftsteuer*) in Austria on their worldwide income (unlimited corporate income tax liability; *unbeschränkte Körperschaftsteuerpflicht*). Corporations having neither their place of effective management nor their legal seat in Austria ("**non-resident corporations**") are subject to corporate income tax only on income from certain Austrian sources (limited corporate income tax liability; *beschränkte Körperschaftsteuerpflicht*).

Both in case of unlimited and limited (corporate) income tax liability, Austria's right to tax may be restricted by double taxation treaties.

Except for Austrian withholding taxes which have to be withheld at source, the responsibility for adherence to obligations under applicable tax legislation is the responsibility of the relevant investor.

The Issuer does not assume responsibility for Austrian withholding tax (*Kapitalertragsteuer*) at source and is not obliged to make additional payments in case of withholding tax deductions at source.

Resident Individuals

Taxation of Interest Payments

Income from the Notes derived by individuals whose domicile and/or habitual abode is in Austria is subject to Austrian income tax pursuant to the provisions of the Austrian Income Tax Act (*Einkommensteuergesetz*, "**ESTG**").

Interest income from the Notes is subject to a special income tax rate of 27.5%. If the interest is paid out to the Noteholder by an Austrian paying agent (Austrian bank or Austrian branch of foreign bank or investment

services provider domiciled in an EU Member State or the issuer paying out the interest to the investor), the interest income from the Notes is subject to Austrian withholding tax (*Kapitalertragsteuer*) at a rate of 27.5% which is withheld by the paying agent (*auszahlende Stelle*). For resident individuals, the 27.5% withholding tax fully discharges any further income tax liability on such interest income (final taxation – *Endbesteuerung*), which means that no further income tax is due and the interest payments do not have to be included in the investor's income tax return (*Einkommensteuererklärung*). This applies irrespective of whether the Notes are held as private assets (*Privatvermögen*) or as business assets (*Betriebsvermögen*) of the resident individual.

The individual investor may opt to include the interest payments in his regular annual tax return (*Regelbesteuerungsoption*), which makes sense if the applicable income tax rate is less than 27.5%. However, the option may not be exercised for particular interest payments only (i.e. no cherry picking available). Rather, if this option is exercised, the individual's regular progressive income tax rate will apply to any other income from capital investments which would otherwise be subject to the special 27.5% or 25% tax rate. In this case, the interest payments are taxed at the regular progressive income tax rate applicable to the investor's total income and any Austrian withholding tax on interest payments under the Notes will be credited against the investor's personal income tax liability and will, if exceeding, be refunded.

In the absence of an Austrian paying agent, the resident individual investor must include the interest payments in the income tax return. In this case 27.5% Austrian income tax will be levied by way of assessment which equally has the effect of final taxation.

In case the 27.5% special income tax rate applies (irrespective of whether Austrian withholding tax is levied or not), interest income is not taken into consideration as part of taxable income upon calculating the individual's income tax burden (unless the option to regular taxation outlined above is exercised). Expenses economically directly related to the interest income, e.g., interest expenses from third-party financing or banking fees, are not deductible for income tax purposes (which also applies in case of the exercise of the option to regular taxation).

Taxation of Capital Gains

Realized capital gains (*Einkünfte aus realisierten Wertsteigerungen*) from the Notes are also subject to Austrian income tax. Realized capital gains mean any income derived from the sale or redemption of the Notes. The tax base is, in general, the difference between the sale proceeds or the redemption amount and the acquisition costs, in each case including accrued interest. For the calculation of the acquisition costs of the Notes held within the same securities account and having the same securities identification number but which are acquired at different points in time, an average price shall apply. For Notes held as private assets, the acquisition costs do not include ancillary acquisition costs (*Anschaffungsnebenkosten*).

For resident individual investors holding the Notes as private assets, capital gains realized upon a sale are subject to a special income tax rate of 27.5% unless the individual taxpayer opts for taxation at the progressive income tax rate. In case the 27.5% special income tax rate applies, capital gains are not taken into consideration (neither as part of taxable revenues nor as part of taxable income) when calculating the individual's income tax burden.

In the case of capital gains with a nexus relevant for Austrian withholding tax purposes, basically income that is paid by an Austrian custodian agent (*depotführende Stelle*) or, without an Austrian custodian agent, by an Austrian paying agent (*auszahlende Stelle*), provided the non-Austrian custodian agent is a non-Austrian branch or group company of such paying agent and the Austrian paying agent executes the transaction in cooperation with the non-Austrian custodian agent and processes the payment, a withholding tax of 27.5% is levied. For resident individuals holding the Notes as private assets, the 27.5% Austrian withholding tax on realized capital gains has the effect of final taxation (*Endbesteuerswirkung*), i.e. the capital gains – except for the option for taxation at the individual's progressive income tax rate and/or for assessment in order to achieve an offset of losses – do not have to be included in the individual's annual income tax return. An Austrian custodian or paying agent within the present context may be a credit institution within the meaning of sec. 1 of the Austrian Banking Act (*Bankwesengesetz*), an Austrian branch of a non-Austrian credit institution from another EU Member State within the meaning of sec. 9 of the Austrian Banking Act or

an Austrian branch of certain investment services providers.

In the case of income from capital gains without a nexus relevant for Austrian withholding tax purposes (i.e. in the absence of an Austrian custodian or paying agent), the income must be included in the investor's income tax return and is subject to a flat income tax rate of 27.5% unless a Swiss or Liechtenstein paying agent withholds 27.5% tax (with the effect of final taxation) under the respective domestic Swiss or Liechtenstein withholding tax acts implementing the Treaty between the Republic of Austria and the Swiss Confederation on Cooperation in the Areas of Taxation and Capital Markets (in force since 1 January 2013) and the Treaty between the Republic of Austria and the Principality of Liechtenstein on Cooperation in the Area of Taxation (in force since 1 January 2014) which final withholding tax discharges the investor's Austrian income tax liability.

Given the Agreement between the European Community and the Swiss Confederation providing for measures equivalent to those laid down in Council Directive 2003/48/EC on taxation of savings income in the form of interest payments as amended by the Amending Protocol dated 19 December 2015, the Treaty between the Republic of Austria and the Swiss Confederation on Cooperation in the Areas of Taxation and Capital Markets (in force since 1 January 2013) will be repealed with effect from 1 January 2017. Therefore, as of 1 January 2017, no withholding tax will be levied by Swiss paying agents. Rather, income derived through Swiss bank accounts or securities accounts after 31 December 2016 must be included in the income tax return.

Furthermore, given the Amending Protocol to the Agreement between the European Community and the Principality of Liechtenstein providing for measures equivalent to those laid down in Council Directive 2003/48/EC on taxation of savings income in the form of interest payments dated 24 December 2015, also the Treaty between the Republic of Austria and the Principality of Liechtenstein on Cooperation in the Area of Taxation (in force since 1 January 2014) will be, in general, repealed as of 1 January 2017. As a consequence, income derived through Liechtenstein bank accounts or securities accounts after 31 December 2016 must be included in the income tax return. However, this does not apply with regard to income derived through bank accounts or securities account held by certain investment vehicles (*Vermögensstrukturen*).

The individual investor has the option to include the capital gains in his regular annual tax return and apply for taxation at the progressive income tax rate on the investor's total income, in which case the Austrian withholding tax will be credited against the investor's personal income tax liability and will, if exceeding, be refunded. Such application for opting into taxation at the regular personal income tax rate does, however, apply for all investment income subject to a special tax rate. A deduction of expenses that are directly economically connected to income that is subject to the (special) 27.5% tax rate is equally not allowed if the option for taxation at the regular personal income tax rate is exercised.

Losses realized by individual investors upon the disposal of the Notes held as private assets may generally be offset with certain investment income subject to the 27.5% Austrian income tax rate (including, for example, interest payments made under the Notes). However, the losses may not be offset, inter alia, with interest income from savings accounts or other non-securitised debt claims against credit institutions (except for cash settlements and lending fees) or distributions effected by private foundations, foreign private law foundations and other comparable legal estates (*Privatstiftungen, ausländische Stiftungen oder sonstige Vermögensmassen, die mit einer Privatstiftung vergleichbar sind*). Negative income subject to the special tax rate of 27.5% such as losses from the disposal of the Notes, may not be offset with income subject to the progressive income tax rate (this equally applies in case of an exercise of the option to be taxed at the regular progressive income tax rate). In addition, losses may not be offset with any other types of the investor's income. Furthermore, losses from the sale of the Notes held as private assets may not be carried forward to subsequent years. In case of an Austrian custodian agent, according to sec. 93(6) EStG, the offset of losses has to be effected directly by the Austrian custodian agent taking into account all of a taxpayer's securities accounts with this custodian agent (subject to certain exemptions). In order to affect such an offset of losses for securities held with different credit institutions, the taxpayer generally has to exercise the option for the loss offset upon filing the annual income tax return (*Verlustausgleichsoption*).

For individual resident investors holding the Notes as business assets, capital gains realized upon a sale (including, inter alia, a redemption or withdrawal of the Notes from the business) are subject to Austrian

income tax. In the case of capital gains with an Austrian nexus relevant for Austrian withholding tax purposes (as described above), such income is subject to a withholding tax of 27.5% unless generating this type of income constitutes a key area of the respective investor's business activity. However, the Austrian withholding tax does not discharge of Austrian income tax liability, but may be credited against the income tax liability assessed. Therefore, in contrast to interest income, the capital gains must always be included in the income tax return (even if Austrian withholding tax is triggered), but are nevertheless taxed at a flat income tax rate of 27.5% with any withholding tax being credited. In addition, the option exists to include income subject to the tax rate of 27.5% in the annual tax return at the progressive income tax rate (for the consequences see already above).

Pursuant to sec. 6(2)(c) EStG, impairment losses as well as losses derived from the sale, redemption or other realization of the Notes held as business assets are primarily to be offset against positive income from realized increases in value of financial assets and derivatives in the sense of sec. 27(3) and (4) of the Austrian Income Tax Act of the same business unit and appreciations in value of such assets; only 55% of any residual loss may be offset against other types of income (and fully carried forward).

Withdrawals and other transfers of the Notes from the securities account (*Entnahmen oder sonstiges Ausscheiden aus dem Depot*) will be treated as disposals (sales). As an exception to this general rule withdrawals and other transfers of the Notes from an investor's account are not deemed to be a disposal if Austria's taxation right is not being restricted and certain exemptions pursuant to sec. 27(6)(2) EStG are met, such as the transfer of the Notes to a securities account owned by the same taxpayer (i) with the same Austrian custodian agent (bank), (ii) with another Austrian bank if the account holder instructs the transferring bank to disclose the acquisition costs to the receiving bank or (iii) with a non-Austrian bank, if the account holder instructs the transferring bank to transmit within one month the pertaining information to the competent tax authority or, in the case of transfers from a foreign account, notifies himself the competent Austrian tax authority within one month; or (iv) in the case of a transfer without consideration to a securities account held by another taxpayer, if the fact that the transfer is made without consideration is evidenced to the bank or the bank is instructed to inform the Austrian tax authority within one month thereof or if, in case the Notes are gratuitously transferred to another taxpayer from a non-Austrian bank, the taxpayer notifies himself the competent Austrian tax authority within one month.

Furthermore, the transfer of the investor's tax residence (*Wegzug*) outside of Austria, the transfer of the Notes to a non-resident without consideration (*unentgeltliche Übertragung*) or any other circumstances which lead to a restriction of Austria's existing taxation right with respect to the Notes are, in general, deemed as a disposal resulting in exit taxation. Upon application of the taxpayer, the exit taxation of the Notes held as private assets can be deferred until the actual disposal of the Notes in case the investor being an individual transfers his or her tax residence outside of Austria to an EU Member State or certain states of the European Economic Area or transfers the Notes for no consideration to another individual resident in an EU Member State or certain states of the European Economic Area. In all other cases leading to a restriction of Austria's taxation right with respect to an EU Member State or certain states of the European Economic Area the taxpayer may apply for a payment of the triggered income tax in instalments over a period of seven years. In case the Notes are held as business assets and represent current assets (*Umlaufvermögen*), a payment period of two years applies instead.

Income from Notes which are not legally or actually publicly offered in the form of securities within the meaning of the Austrian Income Tax Act are not subject to withholding tax and final taxation but subject to normal progressive personal income tax rates.

Resident Corporations

Income including interest income as well as capital gains from the Notes derived by corporate Noteholders, whose seat and/or place of management is based in Austria, is subject to Austrian corporate income tax pursuant to the provisions of the Austrian Corporate Income Tax Act (*Körperschaftsteuergesetz*, "**KStG**"). Such income is generally subject to the 25% corporate income tax rate. Any expenses economically and directly related to the sale are in general deductible. In the case of a nexus relevant for Austrian withholding tax purposes, basically income that is paid by an Austrian custodian agent or, without an Austrian custodian agent, by an Austrian paying agent (see already section "Resident Individuals" above), capital gains or

interest payments will be subject to Austrian withholding tax. According to sec. 93(1a) EStG, the withholding tax may be levied at a rate of 25% (instead of 27.5%). However, corporations resident in Austria are obliged to include such income in their Austrian corporate income tax return. In the course of such tax assessment, Austrian withholding tax levied on the interest payments or capital gains will be credited against the corporate income tax liability of the corporate investor or will, if exceeding, be refunded. A corporation deriving business income from the Notes may avoid the application of Austrian withholding tax by submitting a declaration of exemption (*Befreiungserklärung*) pursuant to sec. 94(5) EStG to the paying agent and the tax authority.

Deviating therefrom, private foundations pursuant to the Austrian Private Foundations Act (*Privatstiftungsgesetz*) fulfilling the prerequisites contained in sec. 13(3) and (6) KStG and holding the Notes as private assets are subject to so-called interim taxation at a rate of 25% (which is, however, not levied if and to the extent the private foundation makes distributions to beneficiaries which are subject to Austrian withholding tax in the same period) on interest income, income from realized capital gains and income from derivatives. Under the conditions set forth in sec. 94(12) EStG no withholding tax is levied. A deduction of expenses that are directly economically connected to the interest or the capital gains is generally not allowed.

Resident Partnerships

An Austrian partnership (e.g., *Offene Gesellschaft* or *Kommanditgesellschaft*) is treated as transparent for income tax purposes and (corporate) income tax is levied at the level of the partners. Nevertheless, if the Notes are held by an Austrian partnership as business assets, interest payments are included in a separate tax assessment of the partnership's income, which is binding for the proportional income taxation at the level of the partners. Accordingly, if the Notes have been business assets of the Austrian partnership prior to the sale, capital gains and losses are included in a separate binding tax assessment of the partnership's income, which is binding for the proportional income taxation at the level of the partners.

Non-residents

Income including capital gains derived from the Notes by non-residents is, in general, only taxable in Austria if the respective income is attributable to a permanent establishment in Austria. Where non-residents receive income from the Notes as part of business income taxable in Austria (e.g. permanent establishment), they are, in principle, subject to the same tax treatment as resident investors.

In addition, before 1 January 2017, non-residents may be subject to Austrian limited tax liability with interest income derived from the Notes provided that the interest payments fall within the scope of the Austrian EU Withholding Tax Act (*EU-Quellensteuergesetz*, "**EU-QuStG**") and that Austrian withholding tax is to be deducted by an Austrian paying agent. The said withholding tax on interest payments is meant to correspond to the EU Withholding Tax (*EU-Quellensteuer*). Accordingly, the limited tax liability on interest payments does, inter alia, not apply for recipients covered by the EU Withholding Tax Act and for corporate recipients. As a consequence, in particular, non-EU-resident individuals may be subject to such limited tax liability. Such withholding tax can be reduced or recovered in accordance with Art 11 (or the respective article on interest income) of the relevant double tax treaty with the Noteholder's state of residence, if applicable. As of 1 January 2017, interest payments within the meaning of sec. 27(2)(2) EStG and accrued interest within the meaning of sec. 27(6)(5) EStG received by an individual investor are subject to limited tax liability in case (i) the debtor of the interest payments has its domicile, seat or place of management in Austria or is an Austrian branch of a non-Austrian credit institution or (ii) in case of accrued interest, the underlying financial instrument has been issued by an Austrian issuer. This does not apply to individuals being resident in a state with which automatic exchange of information exists.

An Austrian custodian or paying agent may abstain from levying 27.5% withholding tax under sec. 94(13) EStG if the respective income from the Notes is not subject to limited tax liability. This applies, in general, for capital gains derived from the disposal of the Notes by non-resident individuals and corporations not having a permanent establishment in Austria and – insofar as it regards corporate investors not having a permanent establishment in Austria – equally for interest payments under the Notes. If in case of such a lack of limited tax liability any Austrian withholding tax is deducted by the custodian or paying agent, the tax withheld shall be refunded to the non-resident Noteholder upon his application, which has to be filed with

the competent Austrian tax authority within five calendar years following the end of the year of the imposition of the withholding tax.

A special withholding tax of 35% on interest payments generally applies before 1 January 2017 to individuals that are residents of another EU Member State, unless certain disclosures are made (see hereafter the section *EU Savings Directive*).

EU Savings Directive

The EU Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments ("**EU Savings Directive**"), as amended, aimed at enabling savings income in the form of interest payments made in one EU Member State to beneficial owners who are individuals resident in another EU Member State to be made subject to effective taxation in accordance with the laws of the latter EU Member State.

Austria has implemented the EU Savings Directive by way of the EU-QuStG which provides for a withholding tax rather than for an exchange of information. Under the EU-QuStG, interest within the meaning of sec. 6 paid or credited by an Austrian paying agent to an individual beneficial owner resident in another EU member state is subject to EU withholding tax at a rate of 35%.

An exemption from EU Withholding Tax applies, among others, if the beneficial owner of the interest submits to the Austrian paying agent a certificate issued by the competent tax authority in the tax payer's state of residence stating (a) the beneficial owner's name, address and tax identification number (in the absence of a tax identification number the beneficial owner's date and place of birth), (b) the paying agent's name and address (c) the beneficial owner's account number or (in the absence of an account number the security identification number).

The Issuer does not assume responsibility for EU withholding tax at source and is not obliged to make additional payments in case of withholding tax deductions at source.

The EU Savings Directive has been repealed by the Council Directive (EU) 2015/2060 of 10 November 2015 repealing Directive 2003/48/EC on taxation of savings income in the form of interest payments, in principle, with effect from 1 January 2016. However, with regard to Austria, the EU Savings Directive continues to apply until 31 December 2016 (except in connection with new bank accounts (*Neukonten*) within the meaning of sec. 82 of the Austrian Common Reporting Standard Act (*Gemeinsamer Meldestandard-Gesetz*), regarding which it is not being applied anymore since 1 October 2016), or with respect to certain obligations established therein, e.g. the obligations of the paying agents and economic operators, until 30 June 2017 or until those obligations have been fulfilled.

Inheritance and Gift Tax

The Austrian inheritance and gift tax (*Erbschafts- und Schenkungssteuer*) was abolished with effect as of 1 August 2008. As a consequence, at present, Austria does not levy inheritance or gift tax.

However, it should be noted that certain gratuitous transfers of assets to (Austrian or foreign) private law foundations and comparable legal estates (*privatrechtliche Stiftungen und damit vergleichbare Vermögensmassen*) are subject to a foundation entry tax (*Stiftungseingangssteuer*) pursuant to the Austrian Foundation Entry Tax Act (*Stiftungseingangssteuergesetz*, "**StiftEG**"). Such tax is triggered if, at the time of transfer, the transferor and/or the transferee have a domicile, their habitual abode, their legal seat or their place of management in Austria. Certain exemptions apply in the event of a transfer mortis causa of financial assets within the meaning of sec. 27(3) and (4) EStG (except for participations in corporations) if income from such financial assets is subject to the special tax rates of 27.5 or 25%. The tax base is the fair market value of the assets transferred minus any debts, calculated at the time of transfer. In general, a tax rate of 2.5% applies, in certain cases, however, a tax rate of 25% applies. Since 1 January 2014, special provisions apply to transfers of assets to non-transparent foundations and similar vehicles (*Vermögensstrukturen*) falling within the scope of the tax treaty between Austria and Liechtenstein.

In addition, a special notification obligation exists for gifts of money, receivables, shares in corporations,

participations in partnerships, businesses, movable tangible assets and intangibles if the donor and/or the donee have a domicile, their habitual abode, their legal seat or their place of management in Austria. Not all gifts are covered by the notification obligation. In case of gifts to certain related parties, a threshold of EUR 50,000 per year applies; in all other cases, a notification is obligatory if the value of gifts made exceeds an amount of EUR 15,000 during a period of five years. Furthermore, gratuitous transfers to foundations within the scope of the StiftEG described above are also exempt from the notification obligation. Intentional violation of the notification obligation may lead to the levying of fines of up to 10% of the fair market value of the assets transferred.

Other taxes

There should be no transfer tax, registration tax or similar tax payable in Austria by Noteholders as a consequence of the acquisition, ownership, disposition or redemption of the Notes.

Currently, the introduction of a financial transaction tax on the transfer of certain financial instruments is discussed and envisaged on an EU level. It is recommended for investors to get in touch with their tax advisors with respect to potential tax consequences caused by an introduction of a financial transaction tax.

2. Luxembourg

The following is a general description of certain Luxembourg tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in Luxembourg or elsewhere neither to address the tax consequences applicable to all categories of investors, some of which may be subject to special rules. This overview is based upon the law as in effect on the date of this Prospectus. It is subject to any change of the law that may apply after such date. Prospective investors should not apply any information set out below to other areas. References in this section to the holders of the Notes include the beneficial owner(s) of the Notes. Prospective purchasers of the Notes should consult their own tax advisers as to the consequences of making an investment in, holding or disposing of the Notes and the receipt of any amount under the Notes.

Non-Luxembourg tax resident holders

Luxembourg Withholding Tax

Under the Luxembourg general tax laws currently in force, there is no withholding tax to be withheld by the debtor of Notes on payments of principal, premium or arm's length interest (including accrued but unpaid interest) to non-Luxembourg tax resident holders. Nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by non-Luxembourg tax resident holders to the extent said Notes do not (i) give entitlement to a share of the profits generated by the issuing company and (ii) the issuing company is not thinly capitalised.

Automatic exchange of information

Under the law of December 18th 2015 implementing the Directive on Administrative Cooperation (“**DAC2**”) and the OECD Common Reporting Standard (the “**Law**”), since January 1st 2016, the Luxembourg financial institutions are required to provide to the fiscal authorities of other EU Member States and jurisdictions participating to the OECD Common Reporting Standard (the “**CRS**”) details of payments of interest, dividends and similar type of income, gross proceeds from the sale of financial assets and other income, and account balances held on reportable accounts, as defined in the DAC2 and the CRS, of account holders residents of, or established in, an EU Member State and certain dependent and associated territories of EU Member States or in a jurisdiction which has introduced the CRS in its domestic law.

Payment of interest and other income derived from the Notes will fall into the scope of the Law and are therefore subject to reporting obligations.

Prospective purchasers should consult their own tax advisor with respect to the application of the DAC2 and the CRS in light of their individual circumstances.

Luxembourg Income Taxes

Luxembourg non-resident Noteholders who have neither a permanent establishment, a permanent representative nor a fixed base of business in Luxembourg with which the holding of the Notes is connected) will not be liable to any Luxembourg income taxes, whether they receive payments of principal, payments of interest (including accrued but unpaid interest), payments received upon redemption or repurchase of the Notes, or realise capital gains on the sale of any Notes.

Net Wealth Tax

Luxembourg net wealth tax in connection with the Notes will not be levied on a non-resident Noteholder, unless (a) such Noteholder is a corporation and (b) the Notes are attributable to an enterprise or part thereof which is carried on in Luxembourg through a permanent establishment or a permanent representative.

Luxembourg tax resident holders

Luxembourg resident individuals

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005, as amended (hereinafter "**Law**"), there is no withholding tax to be withheld by the debtor of Notes on payments of principal, premium or arm's length interest (including accrued but unpaid interest) to Luxembourg tax resident holders. Nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg tax resident holders to the extent said Notes do not (i) give entitlement to a share of the profits generated by the issuing company and (ii) the issuing company is not thinly capitalised.

Under the Law, payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner who is tax resident of Luxembourg will be subject to a withholding tax of 10 per cent. In case the individual beneficial owner is an individual acting in the course of the management of his/her private wealth, said withholding tax will be in full discharge of income tax. Individual Luxembourg resident Noteholders receiving the interest or realising a capital gain as business income must include such income in their taxable income; the 10% Luxembourg withholding tax levied on interest will be credited against their final income tax liability, if applicable.

Responsibility for the withholding tax will be assumed by the Luxembourg paying agent.

An individual beneficial owner resident in Luxembourg, acting within the course of the management of its private wealth, may opt for the final withholding of 10 per cent on eligible interest income received from a paying agent established in an EU Member State (other than Luxembourg) or an EEA State (Iceland, Liechtenstein and Norway). In case such option is exercised, such withholding tax is final and the interest does not need to be reported in the annual tax return.

Luxembourg resident corporations

Corporate Income Taxes

Luxembourg fully taxable resident corporate Noteholders or foreign entities of the same type which have a permanent establishment or a permanent representative in Luxembourg with which the holding of the Notes is connected, must include in their taxable income any interest (including accrued but unpaid interest) and the difference between the sale or redemption price (received or accrued) and the lower of the cost or book value of the Notes when sold or redeemed.

Luxembourg resident corporate Noteholders which are companies benefiting from a special tax regime (such as family wealth management companies subject to the law of 11 May 2007, undertakings for collective investment subject to the law of 17 December 2010, specialised investment funds subject to the law of 13 February 2007 and reserved alternative investment funds subject to the law of 23 July 2016) are tax exempt entities in Luxembourg, and are thus not subject to any income Luxembourg tax.

Net Wealth Tax

Luxembourg net wealth tax in connection with the Notes will be levied on a Luxembourg resident corporate Noteholder, unless such Noteholder is governed by (i) the law of 17 December 2010 on undertakings for

collective investment as amended (ii) the law of 13 February 2007 on specialised investment funds as amended (iii) the law of 23 July 2016 on reserved alternative investment funds or (iv) the law of 11 May 2007 on family estate management companies as amended.

Corporate Noteholders governed by (i) the law of 15 June 2004 on venture capital vehicles as amended or by (ii) the law of 22 March 2004 on securitization undertakings as amended are also exempt from Luxembourg net wealth tax but have to take into account the Notes for the determination of Luxembourg minimum net wealth tax.

Registration tax

Neither the issuance nor the transfer of Notes will give rise to any Luxembourg stamp duty, issuance tax, registration tax, transfer tax or similar taxes or duties. Notwithstanding, documents relating to the Notes, other than the Notes themselves, presented in a notarial deed or in the course of litigation may require registration. In this case, and based on the nature of such documents, registration duties may apply.

VIII. SUBSCRIPTION, OFFER, AND SALE OF THE NOTES

General

The Issuer will agree in a subscription agreement to be signed on or about the date of this Prospectus to issue and sell to the Joint Lead Managers, and the Joint Lead Managers will agree, subject to certain customary closing conditions, to purchase, the Notes on 7 December 2016 (the "**Issue Date**") each at a price of 99.284% of their aggregate Principal Amount (the "**Issue Price**"). Proceeds to the Issuer will be net of commissions of 0.275% of the aggregate Principal Amount of the Notes payable to the Joint Lead Managers. The Issuer will furthermore agree to reimburse the Joint Lead Managers for certain expenses incurred in connection with the issue of the Notes.

The Joint Lead Managers will be entitled, under certain circumstances, to terminate the agreement reached with the Issuer. In such event, no Notes will be delivered to investors. Furthermore, the Issuer will agree to indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Notes.

The Joint Lead Managers or their affiliates have provided from time to time, and expect to provide in the future, investment services to the Issuer and its affiliates, for which the Joint Lead Managers or their affiliates have received or will receive customary fees and commissions.

There are no interests of natural and legal persons involved in the issue, including conflicting ones, which are material to the issue.

Offer of the Notes

The Notes were offered only to qualified investors in compliance with applicable offer restrictions. There will be no public offer of the Notes. The Notes will be delivered on the Issue Date via book-entry through the Clearing System and its account holding banks against payment of the relevant Issue Price.

The Issuer will not charge any costs, expenses or taxes directly to any investor. Investors must inform themselves about any costs, expenses or taxes in connection with the purchase of Notes which are generally applicable in their respective country of residence, including any charges of their own depository banks in connection with the purchase or holding of securities.

IX. SELLING RESTRICTIONS

1. General

Each Joint Lead Manager has represented and agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in or from which it purchases, offers, sells or delivers the Notes or possesses or distributes the Prospectus and that it will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of the 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 Issuer, Telekom Austria AG nor any of the other Joint Lead Managers shall have any responsibility therefor.

2. United States of America and its Territories

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 under the Securities Act ("**Regulation S**").

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells 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.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

3. United Kingdom of Great Britain and Northern Ireland

Each Joint Lead Manager has represented and agreed that,

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, as amended ("**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 Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

4. Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan, as amended (the "**FIEL**") and, accordingly, each Joint Lead Manager has undertaken 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 FIEL and any other applicable laws, regulations and ministerial guidelines of Japan. For purposes of this paragraph, "resident of Japan" shall have the meaning as defined under the FIEL.

X. GENERAL INFORMATION

1. Listing and Admission to Trading

Application has been made for the Notes to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange (*Bourse de Luxembourg*) (the "**Market**"). The Market is a regulated market for the purposes of the Market and Financial Instruments Directive 2004/39/EC of the European Parliament and of the Council of 15 May 2004 on Markets in Financial Instruments, as amended. At the date of this Prospectus, notes of the Issuer are admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and on the Vienna Stock Exchange.

The Issuer estimates the costs for the admission to trading of the Notes on the Luxembourg Stock Exchange's Regulated Market to be EUR 12,000.

2. Authorisations

The issue of the Notes was authorised by a resolution of the managing directors (*Geschäftsführer*) of TFG dated 21 November 2016 and by a resolution of the Management Board (*Vorstand*) of Telekom Austria AG dated 21 November 2016.

3. Statutory Auditors

Deloitte Audit Wirtschaftsprüfungs GmbH, Renngasse 1 / Freyung, 1010 Vienna, a member of the Austrian Chamber of Chartered Accountants and Tax Advisers (*Kammer der Wirtschaftstreuhänder Österreich*) and independent auditors of the Issuer and the Guarantor, have audited, and rendered unqualified audit reports on, the annual consolidated financial statements of Telekom Austria AG and the annual financial statements of TFG for the financial years ended 31 December 2014 prepared by the management of Telekom Austria AG and TFG in accordance with IFRS as adopted in the European Union and UGB respectively.

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Wagramer Straße 19, 1220 Vienna, a member of the Austrian Chamber of Chartered Accountants and Tax Advisers (*Kammer der Wirtschaftstreuhänder Österreich*) and independent auditors of the Issuer and the Guarantor, have audited, and rendered unqualified audit reports on, the annual consolidated financial statements of Telekom Austria AG and the annual financial statements of TFG for the financial year ended 31 December 2015 prepared by the management of Telekom Austria AG and TFG in accordance with IFRS as adopted in the European Union and UGB respectively.

4. Ratings

Telekom Austria Credit Ratings

As of the publication date of the Prospectus, the issuer ratings assigned to Telekom Austria AG as Guarantor were as follows:

by Moody's (as defined below):

long-term rating: Baa2

short-term rating: P-2

by S&P (as defined below):

long-term rating: BBB

short-term rating: A-2

The outlook for the long-term issuer rating assigned by Moody's is stable and the outlook for the long-term issuer rating assigned by Standard & Poor's is stable.

The expected rating of the Notes is:

Moody's: Baa2
Standard & Poor's: BBB.

Important Notice

Detailed information on the rating can be found on Telekom Austria AG's website (<http://www.telekomaustria.com/de/ir/ratings>). General information regarding the meaning of the rating and the qualifications which have to be observed in connection therewith can be found on Moody's (www.moody.com) and S&P's (www.standardandpoors.com) websites.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (as amended) (the "**CRA Regulation**"), unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused.

Moody's Investors Service Ltd ("**Moody's**") has its registered office at One Canada Square, Canary Wharf, E14 5FA London, United Kingdom and is registered at Companies House in England under registration number 19501912. Moody's assigns long-term ratings based on the following scale: Aaa, Aa, A, Baa, Ba, B, Caa, Ca and C. For each general rating category from Aa to Caa, Moody's assigns a numerical modifier "1", "2" and "3". The modifier "1" indicates a rating at the top end of the respective letter rating class, the modifier "2" indicates a midrange rating and the modifier "3" indicates a rating at the bottom end of the respective letter rating class. The short-term ratings of Moody's indicate the estimation of the ability of the Issuer to meet its short-term financial obligations and range from P-1, P-2, P-3 down to NP.

Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**") has its registered office at 20 Canada Square, Canary Wharf, London, United Kingdom E14 5LH and is a business unit of The McGraw-Hill Companies Inc. whose headquarter is at 1221 Avenue of the Americas, New York, NY 10020. S&P assigns long-term credit ratings on a scale from AAA to D. The ratings from AA to CCC can be modified by a "+" or "-" to indicate the relative position within the main rating category. Additionally, S&P can provide an estimation (known as Credit Watch) as to whether a rating will be upgraded, downgraded or whether the trend is uncertain (neutral). S&P can assign specific issues short-term ratings on a scale from A-1, A-2, A-3, B, C down to D. Within the A-1 class, the rating can be given a "+".

Moody's Investors Service Ltd and Standard & Poor's Credit Market Services Europe Limited are established in the European Union and are included as a registered rating agency in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

A rating is not a recommendation to buy, sell or hold securities and may be suspended, changed or withdrawn at any time by the assigning rating agency.

5. Significant Changes and Material Adverse Changes

There have been no significant changes in the financial or trading position of the Issuer since 31 December 2015 or of Telekom Austria Group since 30 September 2016 and no material adverse changes in the prospects of the Issuer or of Telekom Austria Group since 31 December 2015.

6. Clearance

The Notes have been accepted for clearance through Euroclear and Clearstream Luxembourg. The Common Code and the International Securities Identification Number (ISIN) of the Notes are: XS1405762805.

7. Consent to the use of the Prospectus

Neither the Issuer nor Telekom Austria AG consents to the use of the Prospectus for the subsequent resale or final placement of the Notes.

8. Documents Incorporated by Reference

The following documents which have previously been published or are published simultaneously with this Prospectus on the website of the Luxembourg Stock Exchange (www.bourse.lu) and have been filed with the CSSF shall be incorporated by reference in, and form part of, this Prospectus:

- (a) the English language translation of the German language audited consolidated financial statements of Telekom Austria Group for the financial years ended 31 December 2015 (the "**2015 Financial Statements of Telekom Austria**") (http://cdn1.telekomaustria.com/final/en/media/pdf/TAG_Annual_Financial_Report_2015.pdf) and 31 December 2014 (the "**2014 Financial Statements of Telekom Austria**") (http://cdn1.telekomaustria.com/final/en/media/pdf/TAG_Annual_Financial_Report_2014.pdf), as contained in the Annual Reports 2015 and 2014 of Telekom Austria Group, which have been drawn up in accordance with IFRS;
- (b) the English language translation of the German language unaudited condensed consolidated interim financial statements of Telekom Austria Group for the first nine months of the 2016 financial year (the "**2016 Interim Financial Statements of Telekom Austria**") (<http://cdn1.telekomaustria.com/final/en/media/pdf/results-qu3-2016.pdf>), as contained in the Q3 Interim Report 2016 of Telekom Austria Group, which have been drawn up in accordance with IFRS; and
- (c) the audited German language non-consolidated financial statements of TFG for the financial years ended 31 December 2015 (the "**2015 Financial Statements of TFG**") (<http://issuierinfo.oekb.at/searchDokument.html;jsessionid=72700020103997C224300DE3B647643A#>) and 31 December 2014 (the "**2014 Financial Statements of TFG**") (<http://issuierinfo.oekb.at/searchDokument.html;jsessionid=72700020103997C224300DE3B647643A#>) which have been drawn up in accordance with the national Austrian accounting standards according to the Austrian Companies Act (*Unternehmensgesetzbuch*, the "**UGB**").

The documents listed at (a) to (c) above contain financial information for Telekom Austria Group and TFG, as described in the table below. The information incorporated by reference that is not included in the cross-reference list is considered as additional information and is not required by the relevant schedules of Commission Regulation (EC) No. 809/2004 of 29 April 2004, as amended.

	Telekom Austria Group	TFG
Balance Sheet	2015 Financial Statements of Telekom Austria, page 74	2015 Financial Statements of TFG, annex I (third page of the PDF)
	2014 Financial Statements of Telekom Austria, page 108	2014 Financial Statements of TFG, annex I (third page of the PDF)
	2016 Interim Financial Statements of Telekom Austria, page 38	–
Income Statement	2015 Financial Statements of Telekom Austria, page 72	2015 Financial Statements of TFG, annex II (fourth page of the PDF)
	2014 Financial Statements of Telekom Austria, page 106	2014 Financial Statements of TFG, annex II (fourth page of the PDF)
	2016 Interim Financial Statements of Telekom Austria, page 37	–

Cash Flow Statement	2015 Financial Statements of Telekom Austria, page 75	–
	2014 Financial Statements of Telekom Austria, page 109	–
	2016 Interim Financial Statements of Telekom Austria, page 39	
Accounting Policies and Explanatory Notes	2015 Financial Statements of Telekom Austria, page 78-142	2015 Financial Statements of TFG, annex III (fifth to twentieth page of the PDF)
	2014 Financial Statements of Telekom Austria, pages 112-173	2014 Financial Statements of TFG, annex III (fifth to nineteenth page of the PDF)
	2016 Interim Financial Statements of Telekom Austria, page 42-49	–
Audit Reports	2015 Financial Statements of Telekom Austria, page 143	2015 Financial Statements of TFG, annex VI (twenty-seventh to last page of the PDF)
	2014 Financial Statements of Telekom Austria, page 174	2014 Financial Statements of TFG, annex VI (twenty-sixth to last page of the PDF)

9. Documents on Display

Prospectus

This Prospectus, any supplement thereto, if any, and any documents incorporated by reference into this Prospectus will be published in electronic form on the website of the Luxembourg Stock Exchange under "www.bourse.lu" and will be available, during normal business hours, free of charge at the specified office of the Issuer.

Other Documents

Copies of the documents specified below will be available for inspection at the specified office of the Issuer and at the specified office of the Paying Agent, during normal business hours, as long as any of the Notes are outstanding:

- (a) the Articles of Association of the Issuer;
- (b) the audited annual financial statements of TFG in respect of the financial years ended 31 December 2015 and 31 December 2014 and the Annual Report 2015 and 2014 of Telekom Austria Group containing English language translations of the consolidated audited annual financial statements of Telekom Austria Group in respect of the financial years ended 31 December 2015 and 31 December 2014, in each case together with the audit reports prepared in connection therewith and Q3 Interim Report 2016 of Telekom Austria Group containing English language translations of the consolidated unaudited Q3 financial statements of Telekom Austria Group in respect of the 2016 financial year. Telekom Austria Group currently prepares audited consolidated and audited non-consolidated accounts on an annual basis; TFG currently prepares audited non-consolidated accounts on an annual basis and does not prepare any consolidated accounts; and
- (c) the guarantee granted by Telekom Austria AG including material contracts and other documents

relating to such guarantee.

10. Eurosystem Eligibility of the Notes

The Notes are intended to be held in a manner which will allow Eurosystem eligibility. This simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

XI. GLOSSARY AND TABLE OF ABBREVIATIONS

2014 Financial Statements of Telekom Austria	means the English language translation of the German language audited consolidated financial statements of Telekom Austria Group for the financial years ended 31 December 2014, as contained in the Annual Reports 2014 of Telekom Austria Group, which have been drawn up in accordance with IFRS.
2014 Financial Statements of TFG.....	means the audited German language non-consolidated financial statements of TFG for the financial years ended 31 December 2014, which have been drawn up in accordance with the national Austrian accounting standards according to the Austrian Companies Act (<i>Unternehmensgesetzbuch</i>).
2015 Financial Statements of Telekom Austria	means the English language translation of the German language audited consolidated financial statements of Telekom Austria Group for the financial years ended 31 December 2015, as contained in the Annual Reports 2015 of Telekom Austria Group, which have been drawn up in accordance with IFRS.
2015 Financial Statements of TFG.....	means the audited German language non-consolidated financial statements of TFG for the financial years ended 31 December 2015, which have been drawn up in accordance with the national Austrian accounting standards according to the Austrian Companies Act (<i>Unternehmensgesetzbuch</i>).
2016 Interim Financial Statements of Telekom Austria	means the English language translation of the German language unaudited condensed consolidated interim financial statements of Telekom Austria Group for the first nine months of the 2016 financial year, as contained in the Q3 Interim Report 2016 of Telekom Austria Group, which have been drawn up in accordance with IFRS.
Financial Statements	means the 2014 Financial Statements of Telekom Austria, the 2014 Financial Statements of TFG, the 2015 Financial Statements of Telekom Austria, the 2015 Financial Statements of TFG and the 2016 Interim Financial Statements of Telekom Austria.
A1	A1 Telekom Austria Aktiengesellschaft, 100% subsidiary of Telekom Austria and part of Telekom Austria Group.
Additional Markets	Operating segment comprising the Group's mobile communication companies operating in Slovenia, the Republic of Serbia, the Republic of Macedonia and, until the merger of mobilkom liechtenstein with Telecom Liechtenstein AG, which became effective on August 27, 2014, also Liechtenstein.
América Móvil	América Móvil, S.A.B. de C.V., a <i>sociedad anónima bursátil de capital variable</i> (public stock corporation with variable capital) established under Mexican law with business address at Lago Zurich 245, Plaza Carso/Edificio Telcel, Piso 16, Colonia Granada Ampliación, 11529, México, D.F., registered

under 263,770 in Mexico City's Registro Público de Comercio.

Articles of Association	The Articles of Association of Telekom Austria AG.
Audit Committee	A committee of the Supervisory Board of Telekom Austria AG.
Austria	The Republic of Austria.
BEREC	The Body of European Regulators for Electronic Communications, which was established by Regulation (EC) No. 1211/2009 of the European Parliament and of the Council of 25 November 2009, as part of the 2009 Telecom Reform package.
BYN	The New Belarusian ruble.
C Rules	Comply or explain rules of the Code, where non-compliance with these rules must be explained.
CESEE	Central, Eastern and South-Eastern Europe.
Code	The Austrian Corporate Governance Code 2003.
Communications Authority	The regulatory body within the Austrian broadcasting media sector (<i>Kommunikationsbehörde Austria</i>).
Companies Register	The Austrian companies register (<i>Firmenbuch</i>).
CRA Regulation	Regulation (EU) No 513/2011 (credit rating agency regulation).
CSSF	<i>Commission de Surveillance du Secteur Financier</i> , Luxembourg.
EBITDA	The net income excluding financial result, income taxes, depreciation and amortisation and restructuring and impairment charges. The Issuer believes the presentation of this indicator provides an important insight into the operational performance of Telekom Austria AG.
EBITDA comparable	EBITDA, excluding effects from restructuring and impairment tests. The Issuer believes the presentation of this indicator provides an important insight into the operational performance of Telekom Austria AG.
EEA	The European Economic Area and its member states.
EStG	The Austrian Income Tax Act (<i>Einkommensteuergesetz</i>).
EU	The European Union.
EU Roaming II Regulation	EC Regulation No. 544/2009.
EU Roaming III Regulation	EC Regulation No. 531/2012.
EU Roaming Regulation	EC Regulation No. 717/2007.
EU Savings Directive	The EU Council Directive 2003/48/EC on taxation of savings income in the form of interest payments.

EU-QuStG	The Austrian EU Withholding Tax Act, <i>EU-Quellensteuergesetz</i> .
Euro, EUR or €	Refers to the legal currency of Austria since January 1, 2002.
Exchange Act	The United States Securities Exchange Act of 1934, as amended.
Federal Minister	The Austrian Minister of Transport, Innovation and Technology.
FP Order	The United Kingdom's Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.
GSM	Global System For Mobile Communications.
IAS	International Accounting Standards.
ICT	Information and Communication Technology.
IFRS	International Financial Reporting Standards as adopted by the EU.
IRS	The U.S. Internal Revenue Service.
Joint Lead Managers	Banco Bilbao Vizcaya Argentaria, S.A., J.P. Morgan Securities plc and UniCredit Bank Austria AG.
KStG	The Austrian Corporate Income Tax Act (<i>Körperschaftsteuergesetz</i>).
LTE	Long Term Evolution.
Luxembourg	The Grand-Duchy of Luxembourg.
Luxembourg Act	The Luxembourg Act dated 10 July 2005 relating to prospectuses for securities as amended (<i>loi du 10 juillet 2005 relative aux prospectus pour valeurs mobilières</i>).
M2M	Machine to Machine communication
Management Board	The management board (<i>Vorstand</i>) of Telekom Austria AG.
Market	Regulated Market of the Luxembourg Stock Exchange (<i>Bourse de Luxembourg</i>).
MMS	Multimedia Messaging Services
Mobilkom	mobilkom austria AG, a former mobile communication subsidiary of Telekom Austria which was merged into A1.
mobilkom Liechtenstein	mobilkom liechtenstein AG, a former Liechtenstein 100% subsidiary of Telekom Austria that was merged into Telecom Liechtenstein AG in August 2014.
Moody's	Moody's Investors Service, Inc.
M-tel	MobilTel EAD, a Bulgarian 100% subsidiary of Telekom Austria and part of Telekom Austria Group.

MTR	Mobile termination rates.
MVNO	Mobile virtual network operators.
OeKB	Oesterreichische Kontrollbank Aktiengesellschaft.
Official List	The official list of the Luxembourg Stock Exchange.
OOI	Other operating income
OPEX	Operational expenditure.
ORF	The Austrian Broadcasting Corporation (<i>Österreichischer Rundfunk</i>).
Personnel and Nomination Committee	A committee of the Supervisory Board of Telekom Austria AG.
Private Foundations Act	The Austrian Private Foundations Act (<i>Privatstiftungsgesetz</i>).
Prospectus	Means this prospectus.
Prospectus Directive	Directive 2003/71/EC (and any amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State).
PTA	Post and Telekom Austria AG, the former parent company of Telekom Austria.
PTSG	The Austrian Law on the Restructuring of Postal and Telecommunication Services (<i>Poststrukturgesetz</i>).
PTV	Post- und Telegrafverwaltung, the former government telecommunications authority and predecessor of PTA.
Remuneration Committee	Telekom Austria AG's Supervisory Board's committee responsible for structuring the remuneration package awarded to the Management Board.
RGUs	Revenue generating units.
RTR	The Austrian Regulatory Authority for Broadcasting and Telecommunications (<i>Rundfunk und Telekom Regulierungs GmbH</i>).
Securities Act	The U.S. Securities Act of 1933, as amended.
Si.mobil	Si.mobil d.d, a Slovenian 100% subsidiary of Telekom Austria and part of Telekom Austria Group.
SIHL	The Austrian State and Industrial Holding Limited (<i>Österreichische Bundes- und Industriebeteiligungen GmbH</i>).
SMS	Short Message Service.
SOX	The U.S. Sarbanes-Oxley Act.
Stabilising Manager	Means J.P. Morgan Securities plc.
Standard & Poor's	Standard & Poor's Financial Services LLC.

StiftEG	The Austrian Foundation Entry Tax Act (<i>Stiftungseingangssteuergesetz</i>).
Stock Corporation Act	The Austrian Stock Corporation Act (<i>Aktiengesetz</i>).
Stock Exchange Act	The Austrian Stock Exchange Act 1989, as amended (<i>Börsegesetz</i>).
Supervisory Board	The Issuer's supervisory board (<i>Aufsichtsrat</i>).
Telekom Austria AG	Telekom Austria Aktiengesellschaft.
Telekom Austria Group or Group	Telekom Austria Aktiengesellschaft including all its consolidated subsidiaries.
TFG	Telekom Finanzmanagement GmbH, Telekom Austria Group's financing company.
TKG	The Austrian Telecommunications Act of 2003 (<i>Telekommunikationsgesetz 2003</i>).
TKK	The Austrian Telekom-Control Commission (<i>Telekom-Control Kommission</i>), the Austrian telecommunications regulating authority.
TPG	Telekom Projektentwicklungs GmbH.
UGB	The Austrian Commercial Code (<i>Unternehmensgesetzbuch – UGB</i>).
UMTS	Universal Mobile Telecommunications System.
velcom	FE VELCOM, a Belarusian 100% subsidiary of Telekom Austria and part of Telekom Austria Group.
VAT	Value-added tax..
Vip mobile	Vip mobile d.o.o., a Serbian 100% subsidiary of Telekom Austria and part of Telekom Austria Group.
Vip Operator	Vip Operator DOOEL Skopje, a Macedonian 100% subsidiary of Telekom Austria and part of Telekom Austria Group.
VIPnet	VIPnet d.o.o., a Croatian 100% subsidiary of Telekom Austria and part of Telekom Austria Group.
VoD	Video-on-demand.
YESSS!	YESSS! Telekommunikation GmbH, a discount mobile operator, acquired by Telekom Austria Group in January 2013.

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