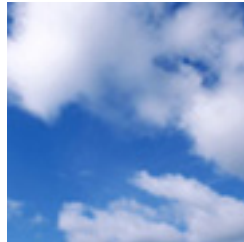


# Delivering Balanced Growth and Cash Returns Through Enhanced Scale



October 31<sup>st</sup>, 2005



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- 02 **A Compelling Transaction for Telefónica's Shareholders: Growth, Scale and Portfolio Rebalancing**
- 03 **O2 is a Top Quality Asset for Telefónica to Build on**
- 04 **Positive Financial Impact and Value Creation**
- 05 **A Compelling Transaction for O2's Shareholders**
- 06 **Conclusion**



# 01 Transaction Overview

## Key Terms

- All-cash consideration through a tender offer
- 200p per O2 share:
  - 22% premium over 164.25p (closing price 28/10/05)
  - 25% premium over 159.77p (average price last month)
  - Implies £17.7bn (EUR 26.0bn\*) total equity consideration

## Key Dates

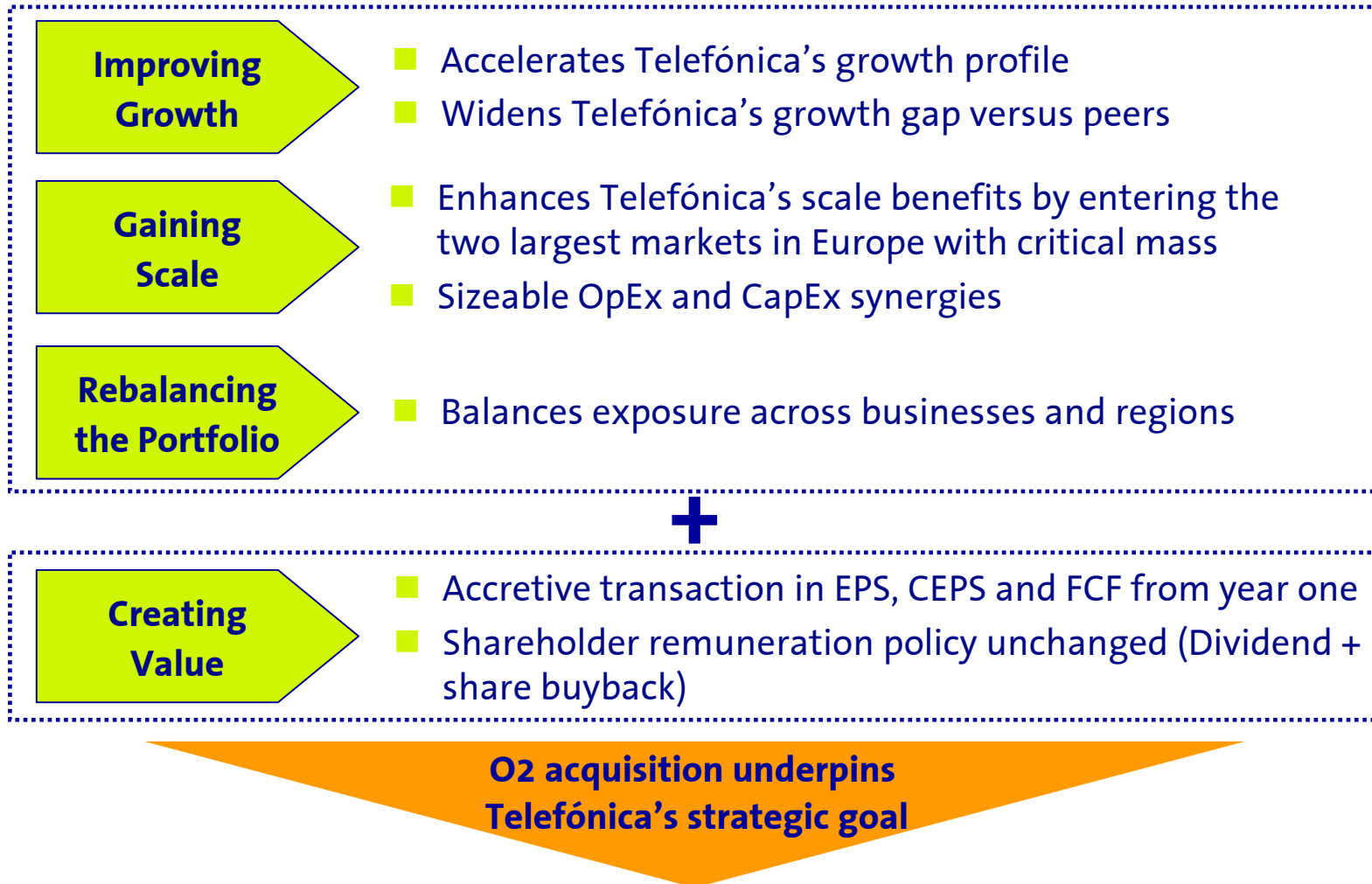
- Offer document expected to be posted in mid November
- Expected closing in January 2006

## Additional Considerations

- Recommended by O2's Board
- Subject to customary conditions including regulatory approvals
- Standard UK acceptance condition of 90%
- No foreseen regulatory risks
- Swift execution implies no business disruption



# 01 Transaction Rationale: The Strategic Benefits of Acquiring a High Quality Asset

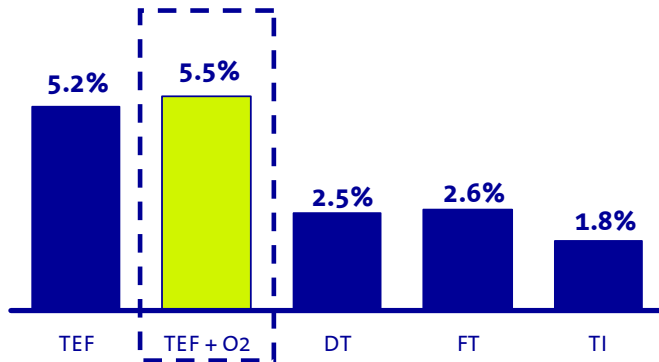


**TO PROVIDE THE BEST COMBINATION OF GROWTH AND CASH RETURNS IN THE INDUSTRY**

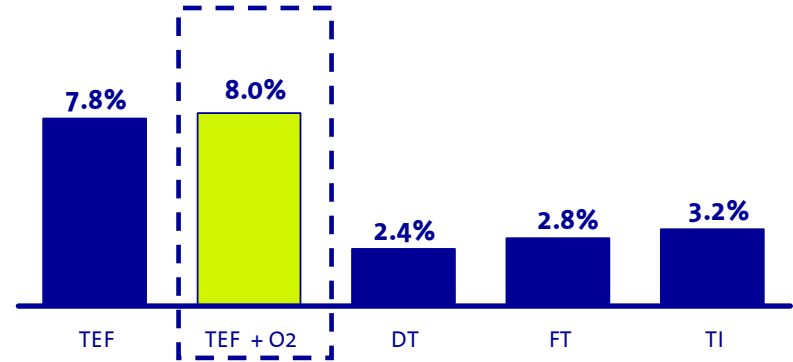


# 02 Improving Growth: The Fastest Growing Operator

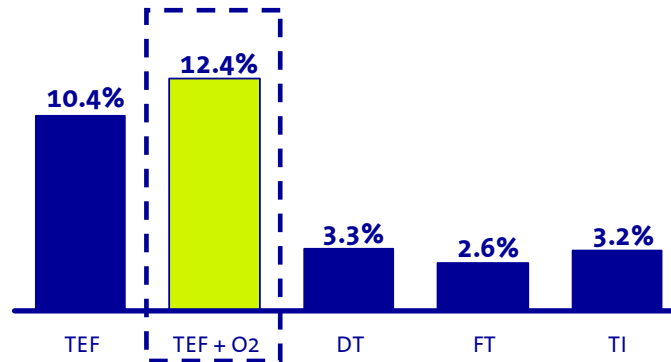
**Revenue Growth**  
(CY05E – CY08E CAGR)



**EBITDA Growth**  
(CY05E – CY08E CAGR)



**OpFCF\* Growth**  
(CY05E – CY08E CAGR)



**Enhancing Telefonica's growth profile...to widen the gap versus peers**

Source: Average of Citigroup, Goldman Sachs, JP Morgan, Merrill Lynch and Morgan Stanley research reports on each company as available. FT Telefonica, S.A. includes Amena for the full year 2005

\* EBITDA- CapEx



# 02 Gaining Scale: Increasingly Important to Better Serve Our Clients & Expand Efficiencies

## BELLSOUTH LATAM ASSETS

From the announced NPV of synergies of USD 1bn to a new estimate of USD 1.5 bn

**we are progressing faster and with stronger results**

- Handsets price reduction due to volume increase
- Unified call centres & customer retention processes
- Unified organizational structure
- Unified accounting & reporting systems & processes

**±65% of value already achieved**

## CESKY TELECOM

NPV of synergies initially announced EUR 250 – 280 million

**we have taken key initiatives in just three months since takeover**

- Plan to launch IP TV in 1H06
- Broadband and UMTS equipment purchase
- Launch of TdE's BB products & services
- Renewed network planning and introduction of Telefónica's practices in fixed-mobile network usage and deployment (transport network) . Reducing CapEx and OpEx.

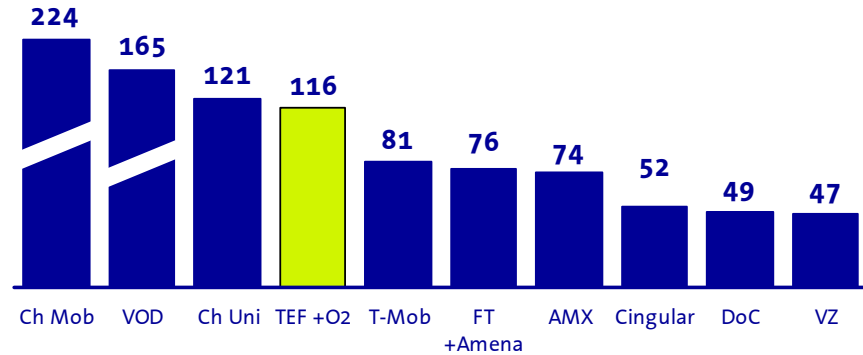
**±25% of value already achieved**



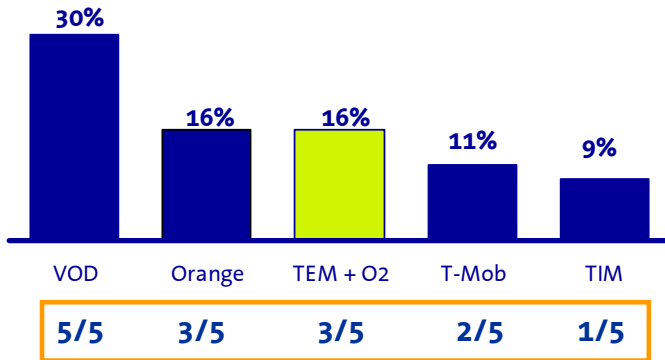
# 02 Gaining Scale: Entering the Two Largest Markets in Europe with Critical Mass

- More than Doubling European Handset and Equipment Purchasing
- Accessing 3.8x more POPs in Europe
- Increasing Content Purchasing Power

Managed Mobile Subscribers (June2005A)



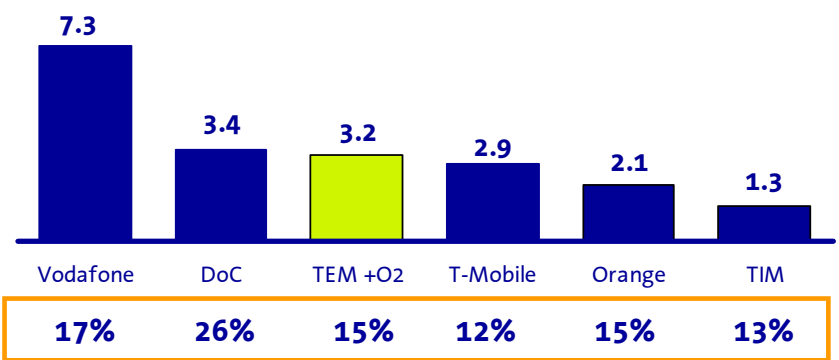
Market Share of Mobile Revenues in Top 5 European Markets 2005E



Company	# Markets
VOD	5/5
Orange	3/5
TEF + O2	3/5
T-Mob	2/5
TIM	1/5

# Markets

Total Data Revenues (Last FY reported, EUR bn)



Company	% Data Revenues
Vodafone	17%
DoC	26%
TEF + O2	15%
T-Mobile	12%
Orange	15%
TIM	13%

% Data Revenues

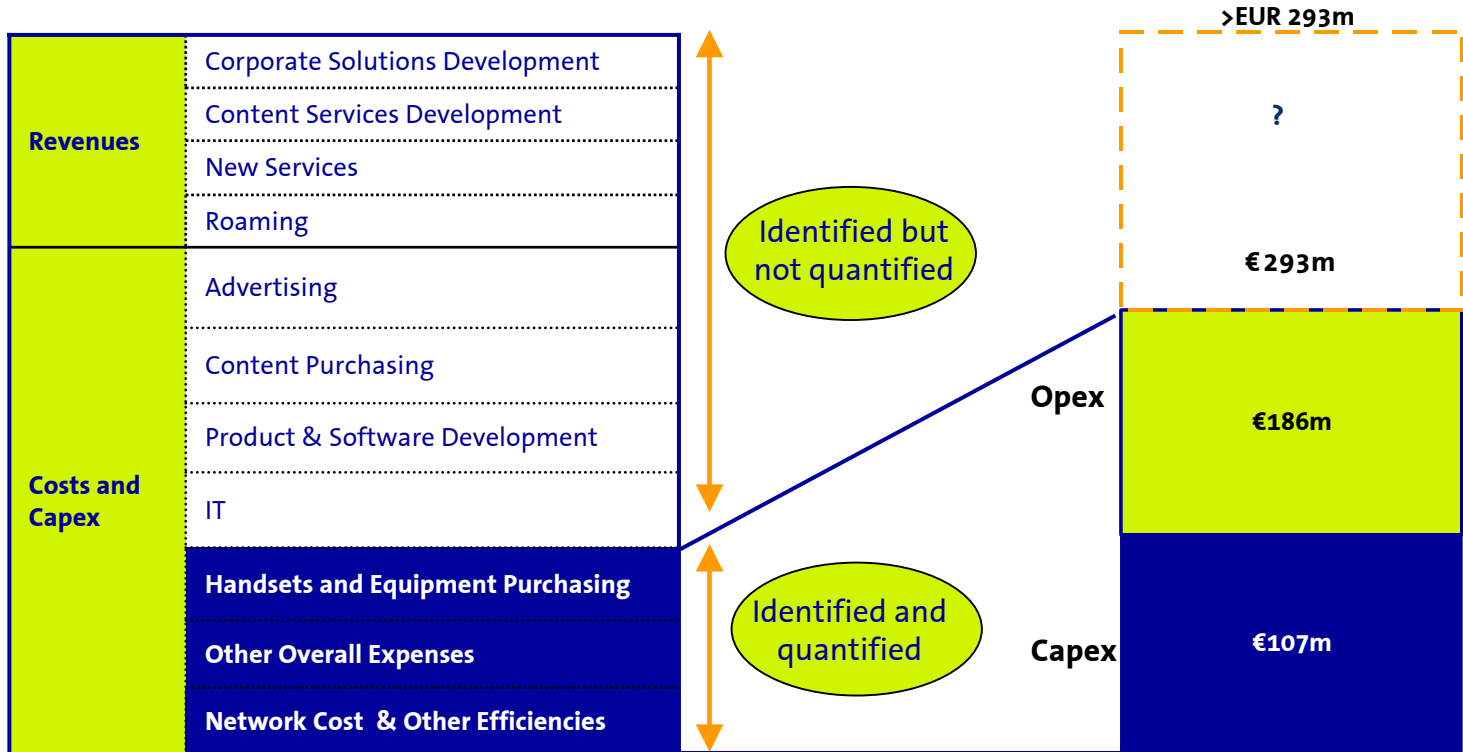




# 02 Gaining Scale: Integrating O2 to Result in Sizeable Synergies

## Potential Sources of Synergies

## Estimated Run-Rate of Annual Synergies \*



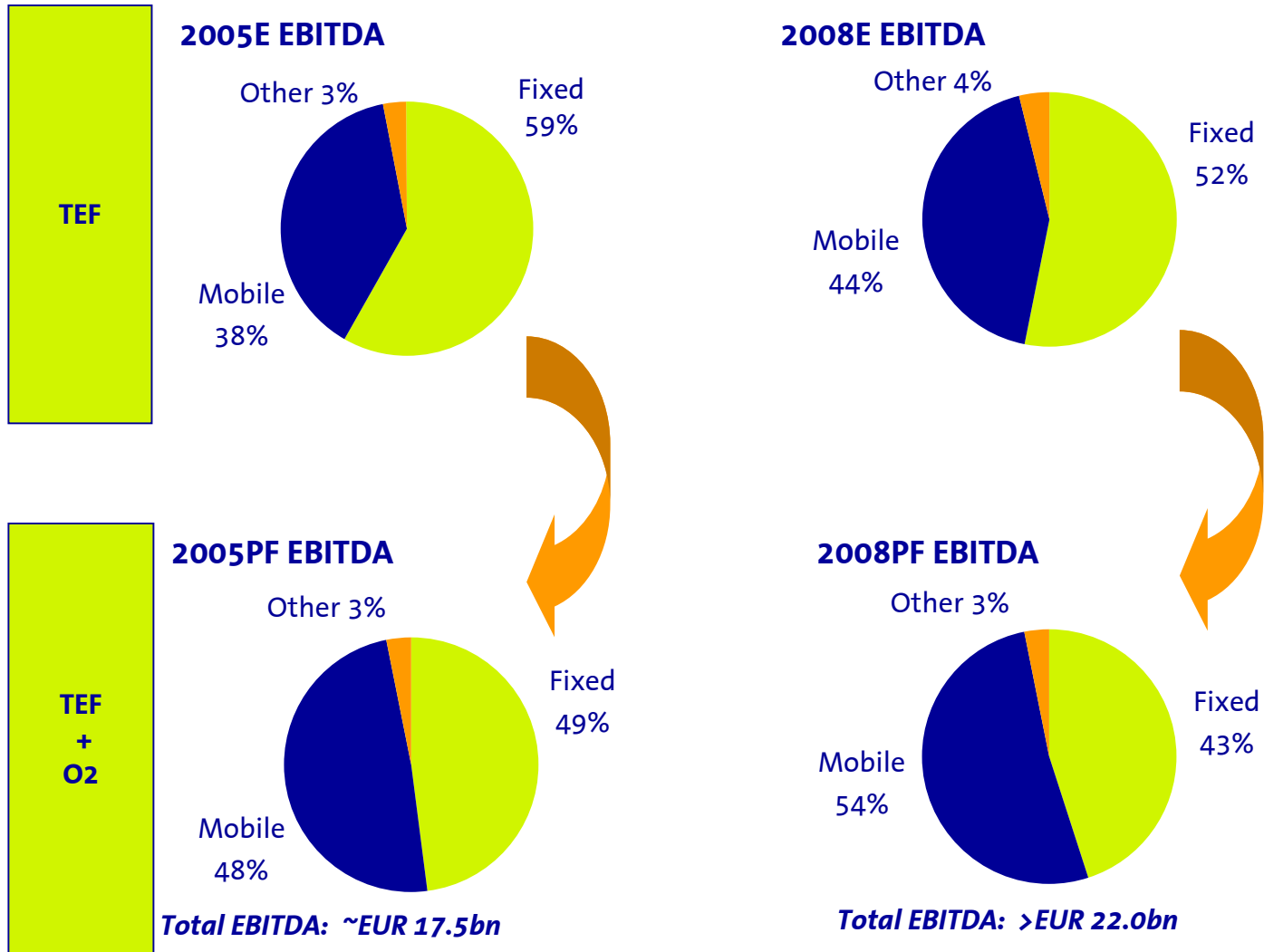
**NPV OF QUANTIFIED SYNERGIES\*\* EUR 3.3 bn**

- 89% at O2
- 11% at Telefónica

Telefónica, S.A. \* Run-rate from 2008 \*\* Including one-off implementation charges of EUR 39 m pre-tax



# 02 Rebalancing the Portfolio: A Diversified Exposure Across Businesses

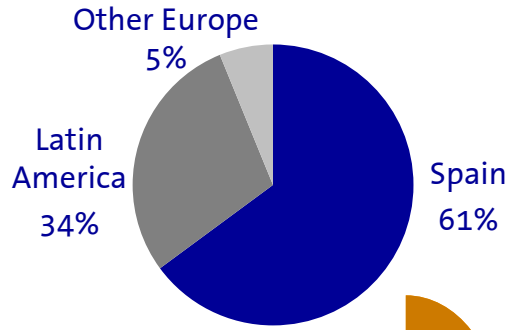




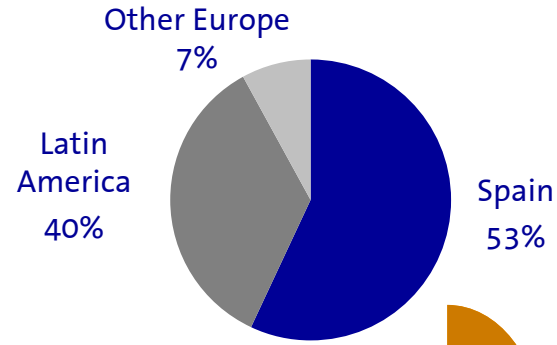
# 02 Rebalancing the Portfolio: A Diversified Exposure Across Regions

TEF

2005E EBITDA

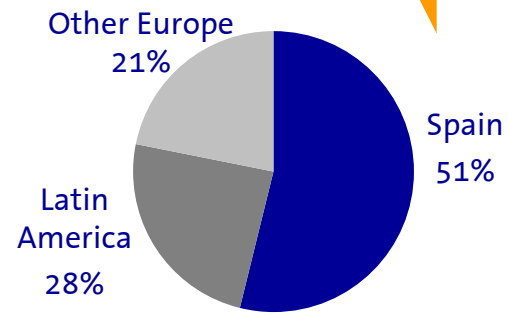


2008E EBITDA



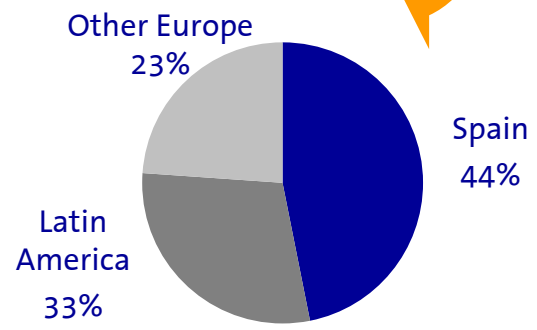
TEF + O2

2005PF EBITDA



Total EBITDA: ~EUR 17.5bn

2008PF EBITDA



Total EBITDA: >EUR 22.0bn



# 03 O2: A Top Quality Asset for Telefónica to Build On



**A EUR 9.8 bn revenue company \*\***  
**A EUR 2.6 bn EBITDA company \*\***

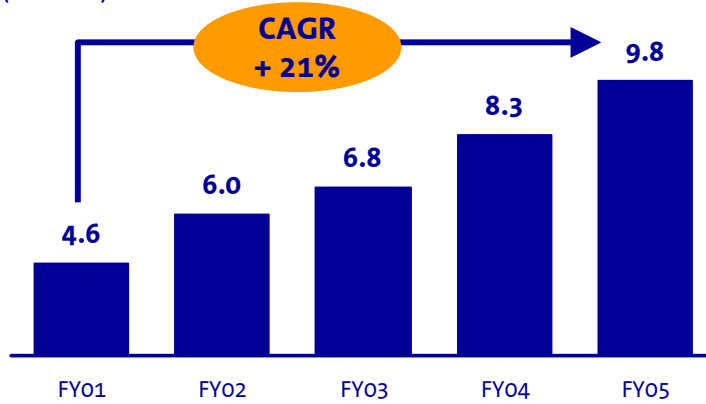
\*June 2005

\*\* FY 2005.

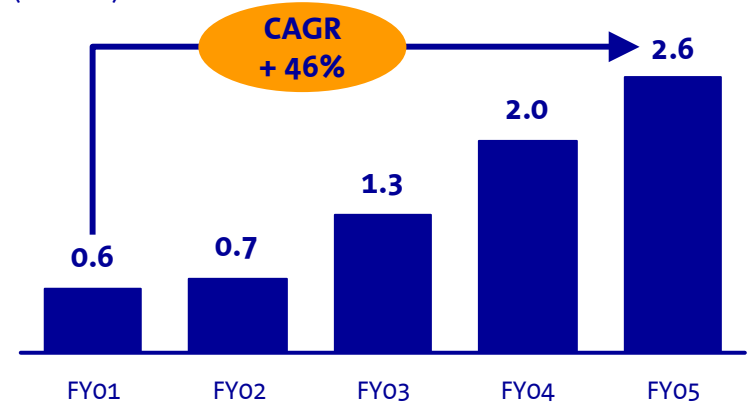


# 03 O2: Strong Financial Performance and Superior Cash Flow Growth Prospects

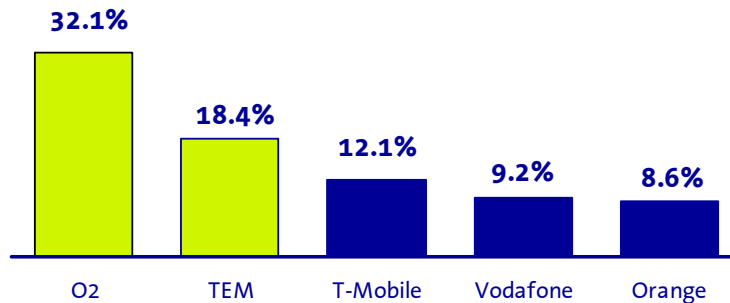
**Historical Revenue Growth**  
(EUR bn)



**Historical EBITDA Growth**  
(EUR bn)



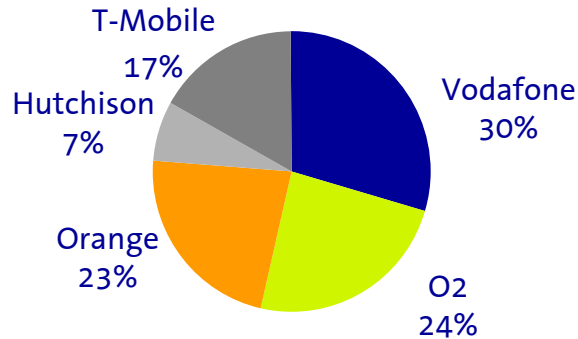
**Expected OpFCF\* Growth**  
CY05-CY08 CAGR





# 03 O2 UK: High Growth Operator in the Largest Mobile European Market

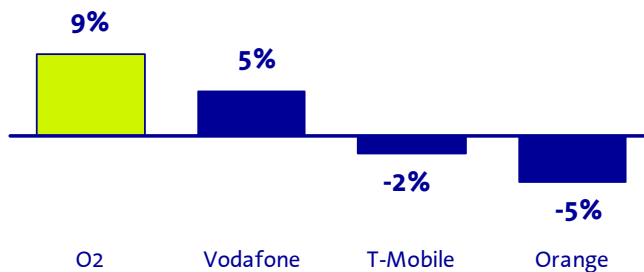
2005E Revenue Market Share



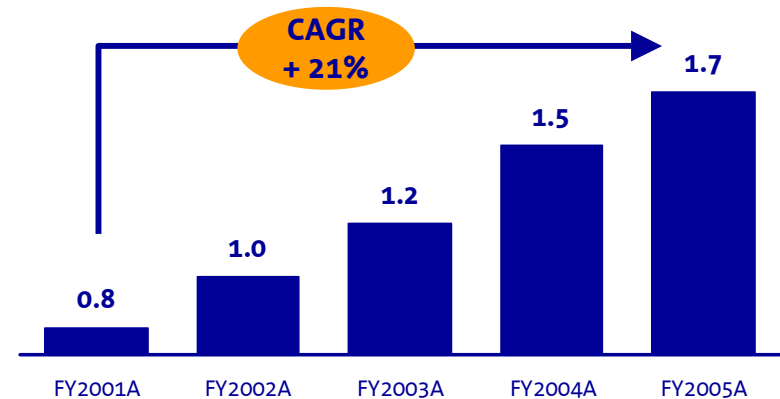
- +8% subscriber y-o-y growth & +17% annual revenue growth (FY 2005)
- 2<sup>nd</sup> highest ARPU in the UK
- 28% of June 05 revenues derived from data

The 2<sup>nd</sup> UK player by revenues and EBITDA

CY 2004A-2005E Revenue Growth



Historical EBITDA Growth (EUR bn)

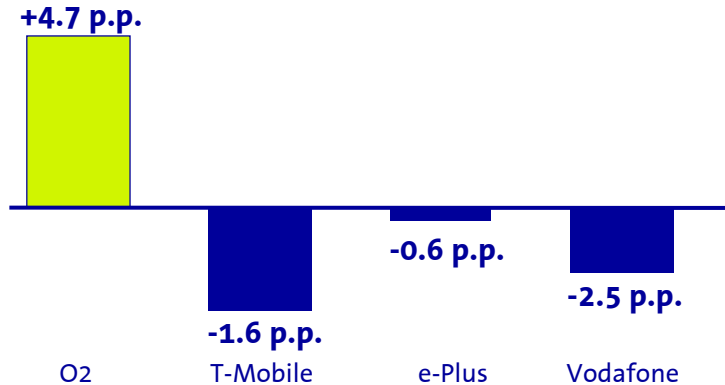




# 03 O2 Germany: Achieved Critical Mass and Highest ARPU

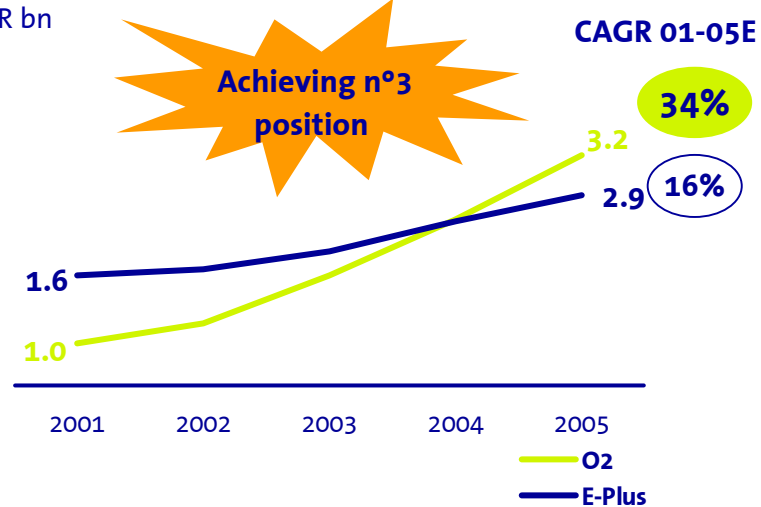
## Gaining Market Share

2000A-2005A



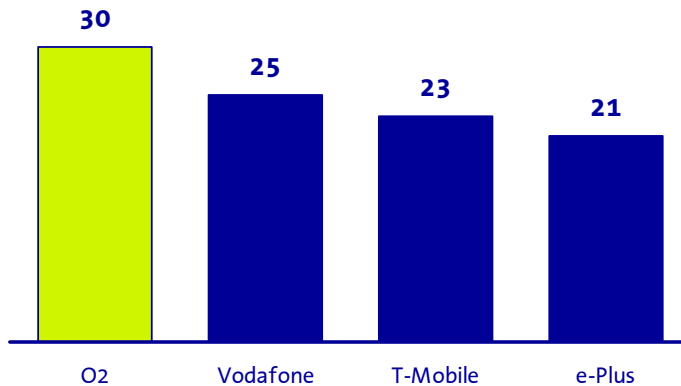
## Accelerating Revenue Growth

EUR bn



## Blended ARPU

(EUR/month as of June 2005)



- +33% subscriber y-o-y growth & grabbing 36% of 1H05 market net adds
- 23% premium over market ARPU
- 23% of June 05 revenues derived from data

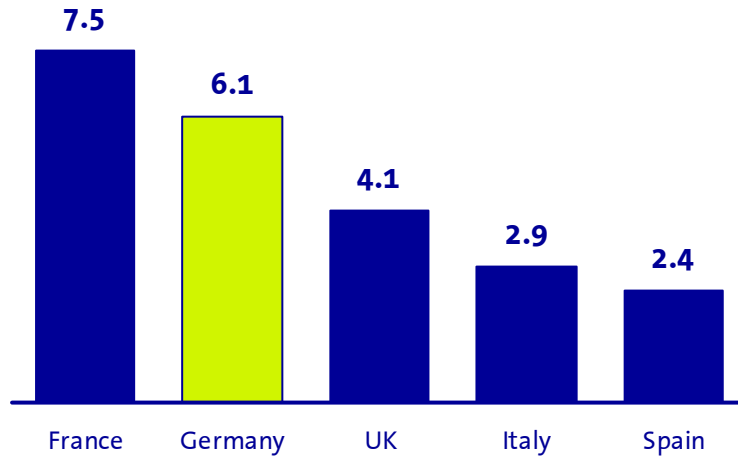
**The 3<sup>rd</sup> German player by revenues and EBITDA in 2005E**



# 03 O2 Germany: Strong Upside Potential & Comparable in Size with Recent Transactions

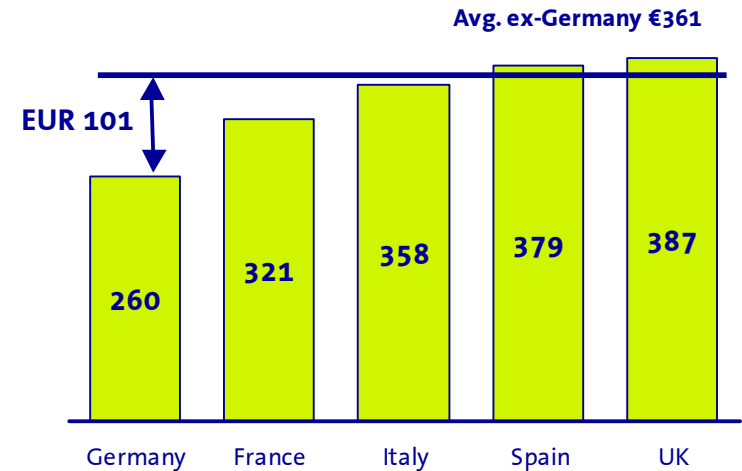
## Cumulative Subscriber Growth

05A-09E (m)



## Mobile Service Revenue per Pop

(2005E) (EUR/year)



## Comparing Different Transactions

	O2 Germany	Wind	Amena
1H05A Customers (m)	8.4	12.9	9.7
2005E Revenues (EUR bn)	3.2	4.9	3.6
CY04-CY05 EBITDA Growth (%)	45%	5%	15%

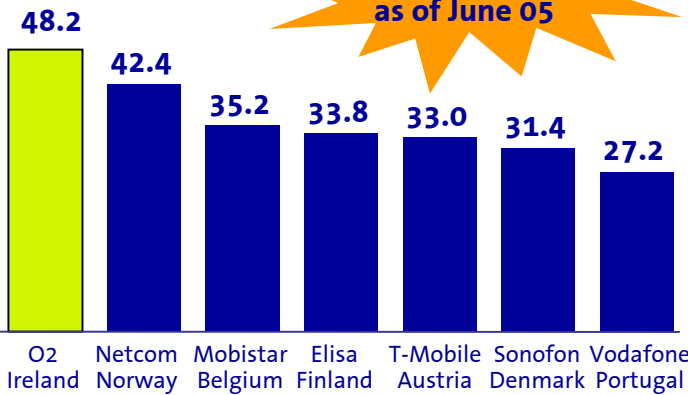




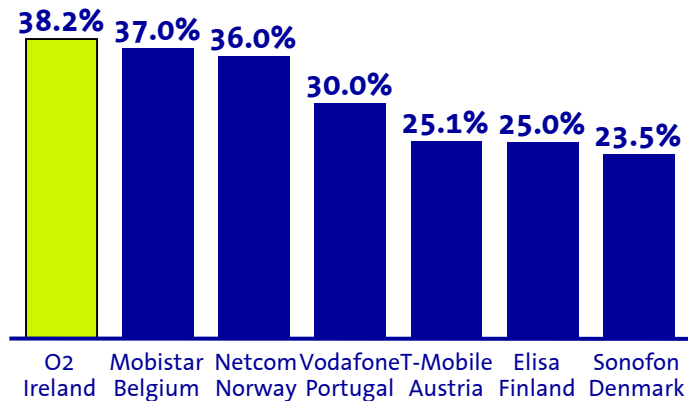
# 03 O2 Ireland and Airwave: Attractive Operating Profile

## Ireland

### High ARPUs (2Q05 EUR)



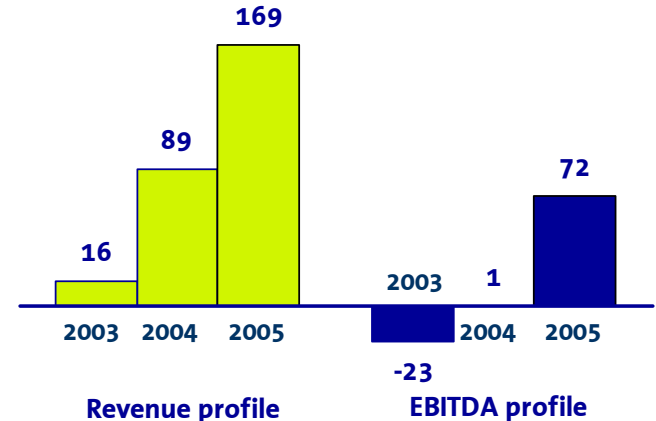
### Strong EBITDA Margin (2Q05)



## Airwave

- Primary wireless operator for UK emergency services
- Long term contracts with high quality customer base
- Significant operating leverage driven by success based CapEx

### A Fast Growing Business FY2003A-FY2005A (£ m)





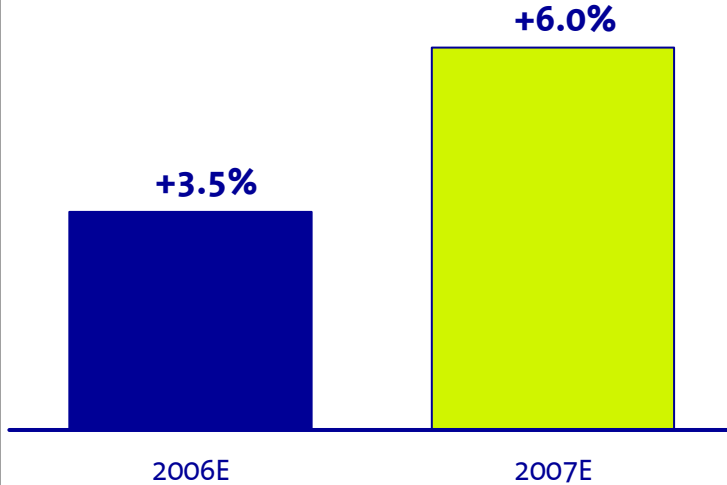
## 03 Building on O2's Successful Platform

- O2 to remain a UK based entity
- O2 will continue to be led by the current management team
- No business disruption
- Maintenance of highly successful brand
- The Board of Directors of Telefónica will procure, as soon as practicable following the date the Offer becomes or is declared wholly unconditional the appointment of
  - (a) two persons nominated by O2, as members of the Board of Directors of Telefónica, one of whom will also be appointed to the Executive Committee of the Board of Directors of Telefónica and will be part of the Telefónica's Management Committee, and
  - (b) one person, nominated by O2, as a member of the Board of Directors of Telefónica Móviles SA
- O2 has decided to nominate Sir David Arculus and Peter Erskine to the Board of Telefónica, with Peter Erskine also to be nominated to the Telefónica Executive Committee and Management Committee. Rudolf Groeger will be nominated to the Board of Telefónica Móviles S.A.

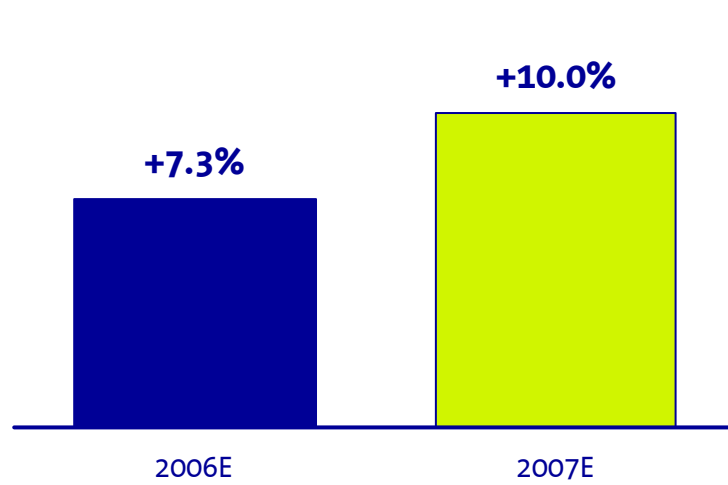


# 04 Positive Financial Impact: Accretive from Year One

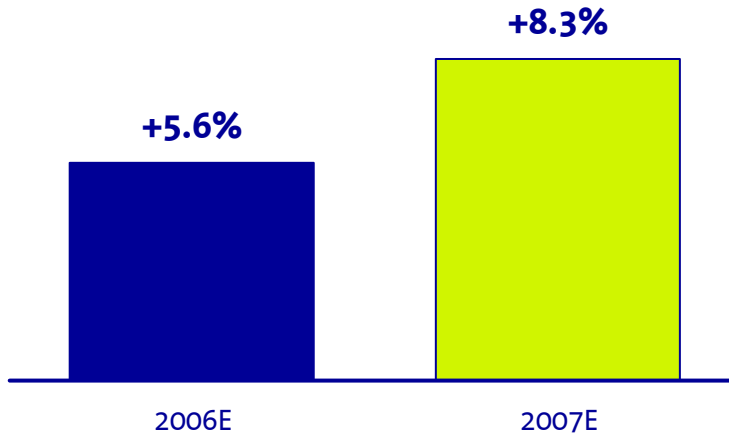
Expected EPS Accretion



Expected Cash EPS Accretion



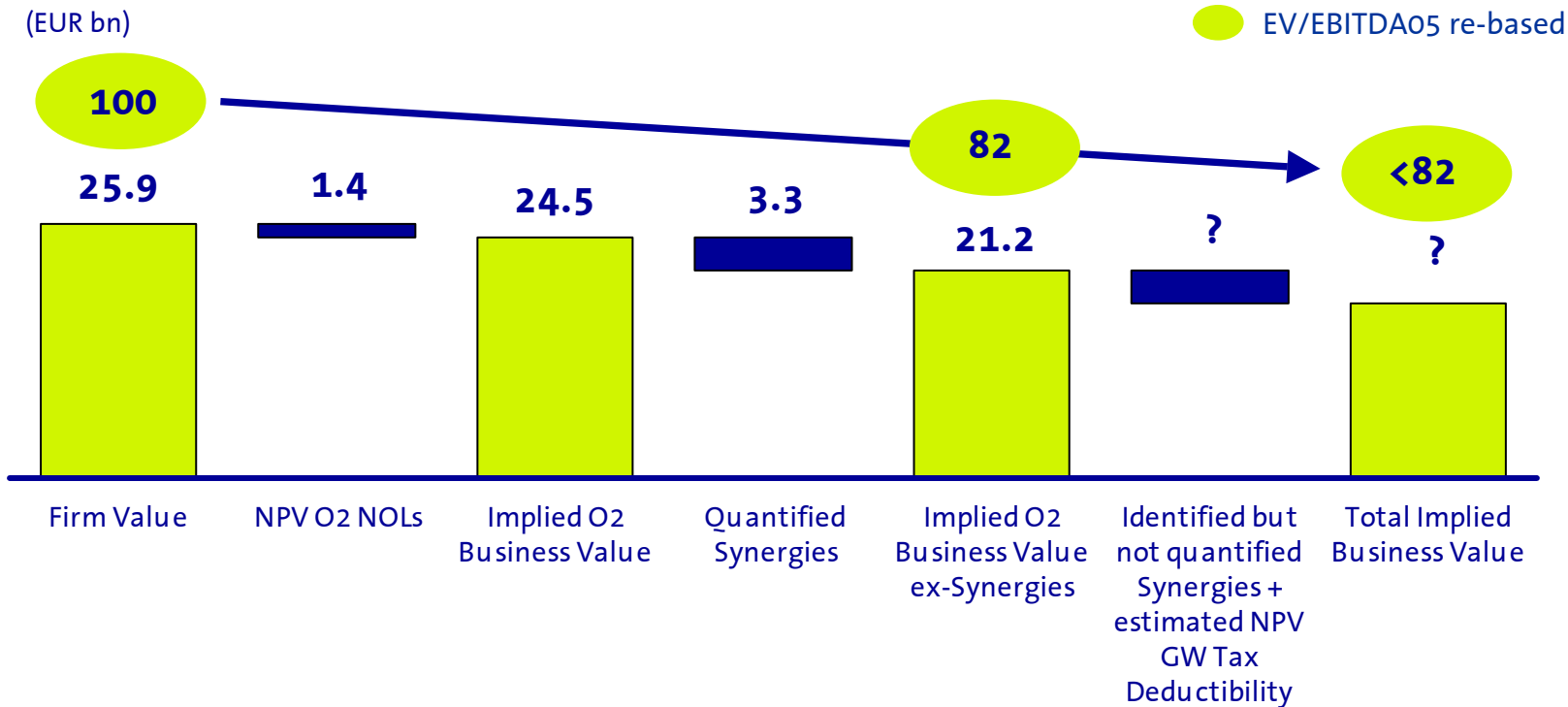
Expected FCF per Share Accretion



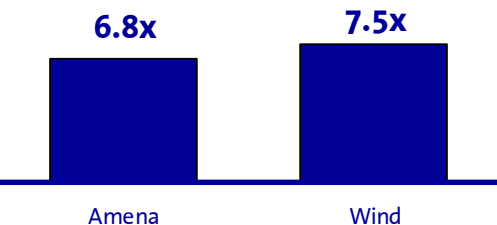


# 04 ...and Value Creation: A Compelling Valuation Case

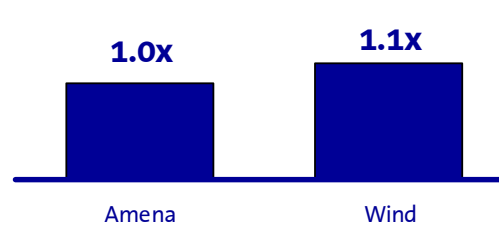
**Firm Value Breakdown**  
(EUR bn)



**Multiples in Precedent Transactions**  
(05EBITDA Multiple)



**Multiples in Precedent Transactions**  
(05EBITDA/05E-08ECAGR Multiple)



**In line with recent transactions**

Amena  
Telefónica, S.A.

Multiples for Amena calculated adjusting the €10.6bn headline EV number for €1.1bn of synergies and €1.7bn of tax shield.  
Multiples for Wind based on €12.1bn of EV. Financial projections based on average of research estimates for both companies.

## 04 Financing Structure and Shareholder Remuneration

- Dividend and Buyback program **unchanged**
  - **No equity issuance** is contemplated as a consequence of the transaction
- 
- Financing **100% with debt**
  - GBP 18.5 bn (EUR 27.2 bn\*) **bridge facility** underwritten by Citigroup, Goldman Sachs and Royal Bank of Scotland. Maturity is extendable to 2.0, 2.5 and 3.0 years
  - Telefónica to **refinance** in the capital markets
  - Initial margins of the acquisition facility are **less than 40 bp**
  - Our aim when structuring the transaction was either keeping single A rating category or at worst being one notch below



# 05 Compelling Transaction for O2's Shareholders

- **Compelling value** →
  - 22% premium over last Friday closing price
  - 25% premium over average price of the last month
- **Price certainty** → **All cash**
- **Completion certainty** → **No foreseen regulatory risk**
- **Rapid timetable** → **Expected closing in January-2006**
- **No business disruption** → **No risk of value leakage during regulatory review**

**Recommended by O2's Board**

# 06 Conclusion



What does the acquisition of O2 bring to Telefónica's shareholders?



- Improving Growth ✓
- Gaining Scale ✓
- Rebalancing the Portfolio ✓
- Financially Accretive ✓

Underpins Telefónica's Strategic Goal to Provide the Best Combination of **Growth** and **Cash Returns** in the Industry...

...Through an Offer that Provides to O2's Shareholders a **Compelling Value**, **Price Certainty** and a **Rapid Execution**

*Telefónica*

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