



FIFTH **INVESTOR** CONFERENCE

Valencia. May 25 th - 26 th. Ciudad de las Artes y las Ciencias

Telefonica

O2

Building on Momentum

David Finch

Chief Financial Officer, O2



Valencia - May 25, 2006



FIFTH INVESTOR
CONFERENCE

Telefonica

Disclaimer

This presentation contains statements that constitute forward looking statements in its general meaning and within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this document and include statements regarding the intent, belief or current expectations of the customer base, estimates regarding future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company. The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions.

Although Telefónica believes that these statements are based on reasonable assumptions, such forward-looking statements, by their nature, are not guarantees of future performance and involve risks and uncertainties and actual results may differ materially from those in the forward looking statements as a result of various factors, most of which are difficult to predict and are generally beyond Telefónica's control.

Analysts and investors are cautioned not to place undue reliance on those forward looking statements which speak only as of the date of this presentation. Telefónica undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica's business or acquisition strategy or to reflect the occurrence of unanticipated events. Analysts and investors are encouraged to consult the Company's Annual Report as well as periodic filings filed with the relevant Securities Markets Regulators, and in particular with the Spanish Market Regulator.

The financial information contained in this document has been prepared under International Financial Reporting Standards (IFRS). Telefónica may present financial information herein that is not prepared in accordance with IFRS. This non-GAAP financial information should be considered in addition to, but not as a substitute for, financial information prepared in accordance with IFRS. Telefónica has included such non-GAAP financial information because Telefónica's management uses such financial information as part of its internal reporting and planning process and to evaluate Telefónica's performance. Accordingly, Telefónica believes that investors may find such information useful. However, such non-GAAP financial information is not prepared in accordance with IFRS or any other generally accepted accounting principles, and such non-GAAP financial information, as defined and calculated by us, may be different from similarly-titled financial information used by other companies. Investors are cautioned not to place undue reliance on such non-GAAP financial information.



FIFTH INVESTOR
CONFERENCE

Telefonica

Overview

- **We are already gaining benefits from being part of the Telefonica group**
 - Customer propositions
 - Knowledge sharing
 - Benefits of scale

- **There are further opportunities for growth in the sector**
 - Core services
 - New mobile services
 - DSL

- **We have maintained our momentum in competitive markets**

- **In the future we will deepen our existing strategy as well as extending our business**
 - Segmented propositions
 - Converged products



FIFTH INVESTOR
CONFERENCE

Telefonica

Index

- 01 Delivering superior performance**
- 02 Management priorities
- 03 Ambitious financial and operational targets

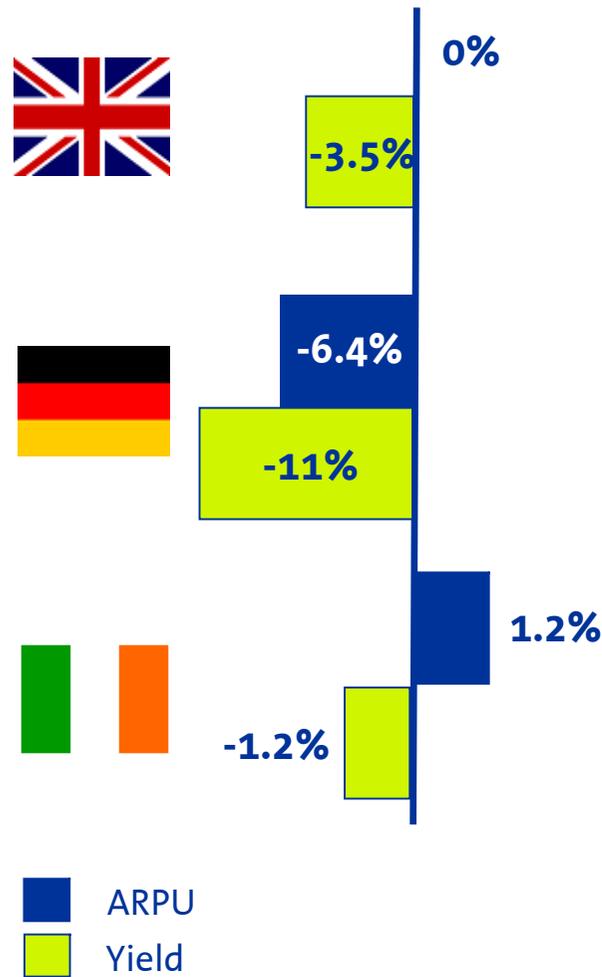


FIFTH INVESTOR
CONFERENCE

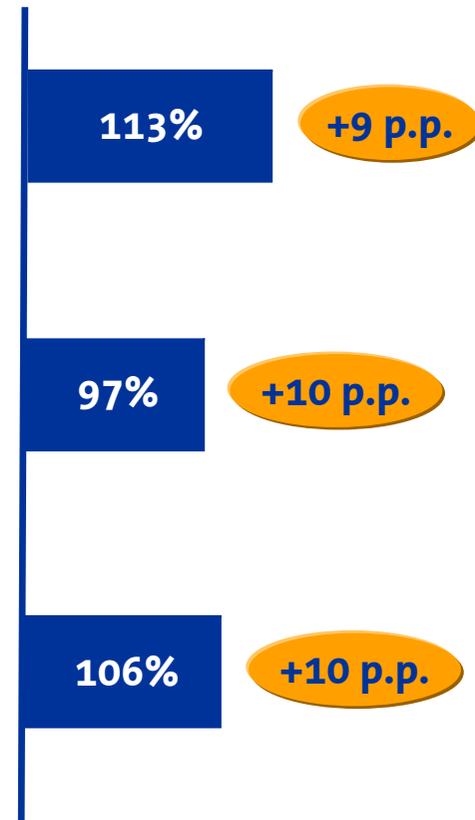
Telefonica

01 Operating in highly competitive environments

ARPU & VOICE YIELD GROWTH
Q4 05 vs. Q4 04



PENETRATION
(Growth Q4 05 vs. Q4 04)



Source: Merrill Lynch European Wireless Matrix Q4 05



01 Strong operational performance in 2005

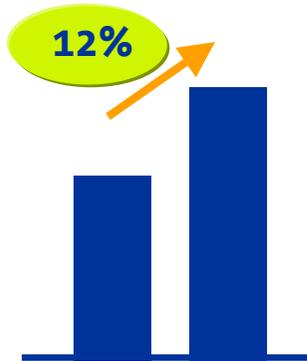
UK

- Superior growth in a highly competitive market
- Successful execution of Customer Plan

Germany

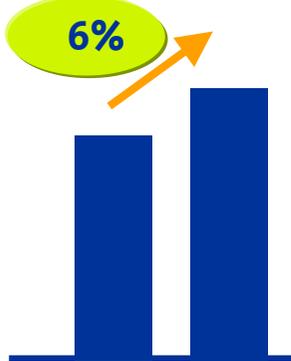
- Grew share of customers and revenues in highly competitive market
- 2.4 m customers added

Customers



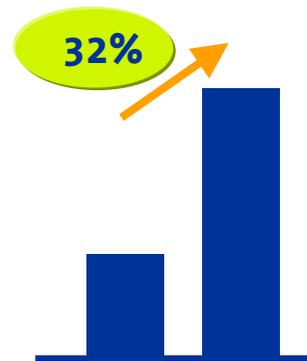
04 05

Revenues



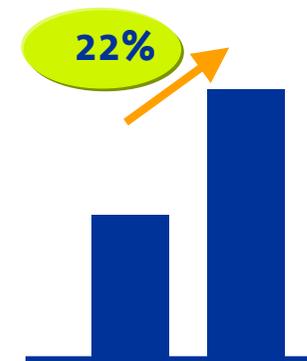
04 05

Customers



04 05

Revenues



04 05

- Ireland – continued ARPU and MOU growth
- Airwave – over £1 billion of new contracts won in last 12 months



FIFTH INVESTOR
CONFERENCE

01 Strong financial performance in 2005

£m	Six months ended			Change y-o-y
	Sep 2004	Mar 2005	Sep 2005	
Subscribers (000s)	22,017	23,956	25,668	17%
Revenues	3,227	3,348	3,615	12%
Service revenues	2,845	2,907	3,143	10%
EBITDA	850	910	975	15%
EBITDA margin	26.3%	27.2%	27.0%	3%
Operating cash flow	185	242	366	98%

Telefonica

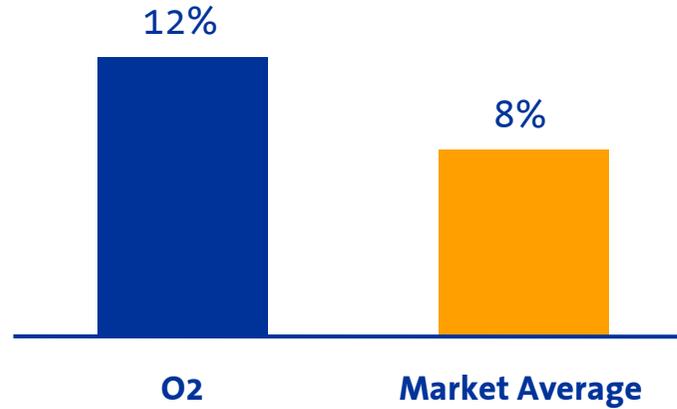


FIFTH INVESTOR
CONFERENCE

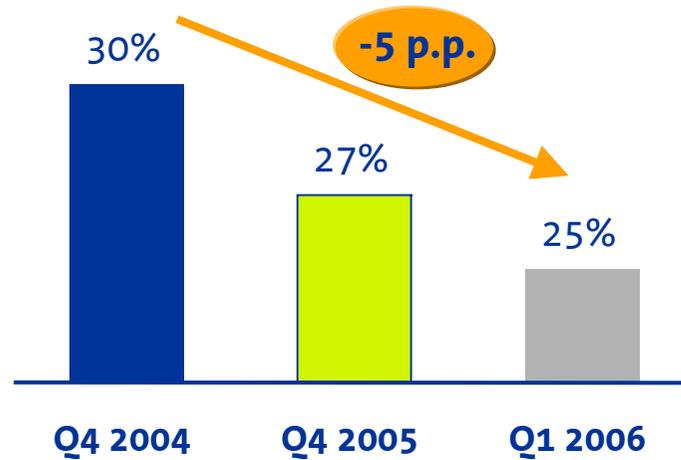
Telefonica

01 O2 UK – 2005 success

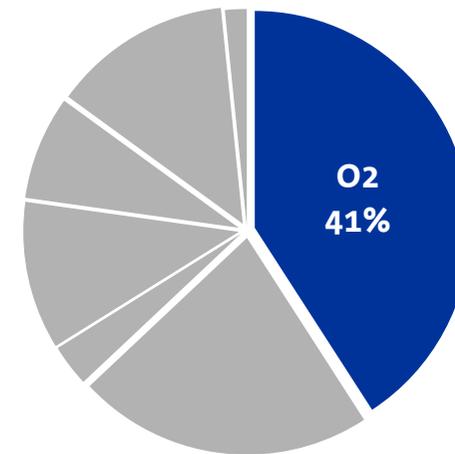
SUBSCRIBER GROWTH 2005 vs. 2004



POSTPAY 12 MONTH ROLLING
CHURN



SHARE OF POSTPAY NET ADDS
Mar 05-Dec 05



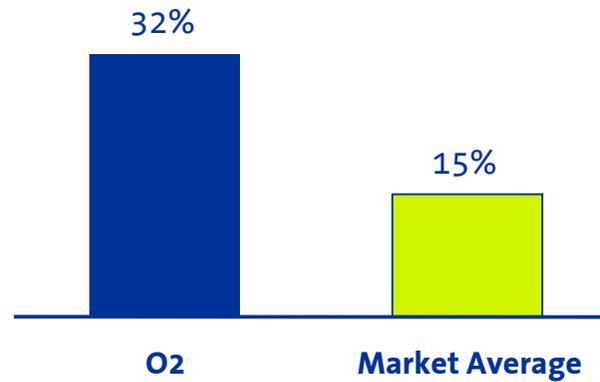
Source: Company reports



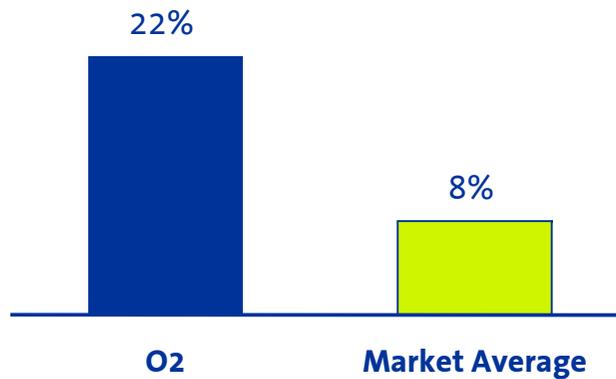
FIFTH INVESTOR
CONFERENCE

01 O2 Germany – 2005 success

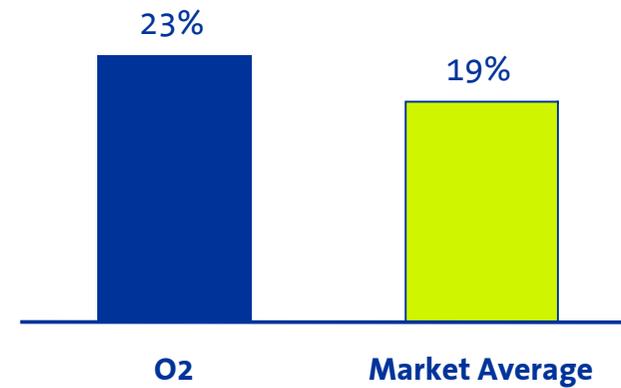
SUBSCRIBER GROWTH 2005 vs. 2004



SERVICE REVENUE GROWTH
2005 vs. 2004



DATA AS % OF SERVICE REVENUES
(12 months to Dec. 2005)



Telefonica



01 02 Ireland – 2005 success

Grow customer base in penetrated market

- Hold share more effectively than Vodafone
 - Brand strength
 - New propositions
- 6% growth 2005 vs. 2004

Maintain growth in usage and ARPU

- Usage stimulation propositions
 - e.g. 1 cent weekends
- Service revenue grew 9% Q4 '05 vs. Q4 '04
- Minutes of use grew 4% Q4 '05 vs. Q4 '04

Grow data revenues

- 12 month rolling data ARPU grew 6% in Q1 '06
 - data currently 21% of service revenues
- i-mode next phase of development
- Broadband potential – DSL, 3G, HSDPA



01 02 Airwave Overview

- Secure digital radio network dedicated to UK's emergency and public safety services
- £2.9 billion 19-year police force contract signed in 2000
- £800m+ capital investment to date
- Network build now completed with 99% geographic coverage
- Positive cash-flow in 6 months to September 2005
- Network also available to other "Public Safety Users"
 - Ministry of Defence
 - Prison Service
- Over £1 billion of new contracts won in last 12 months

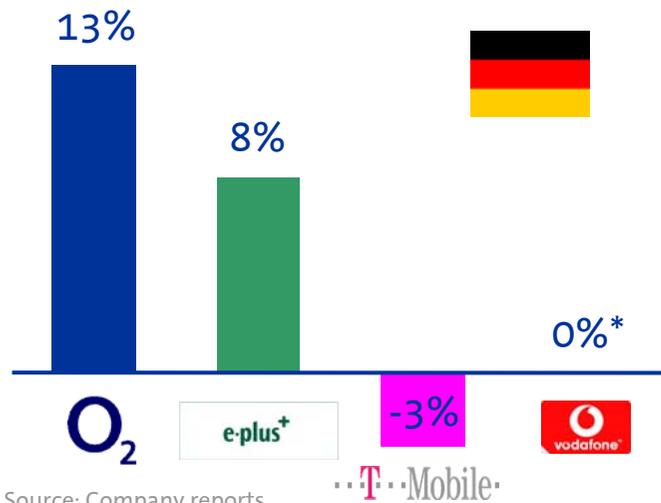
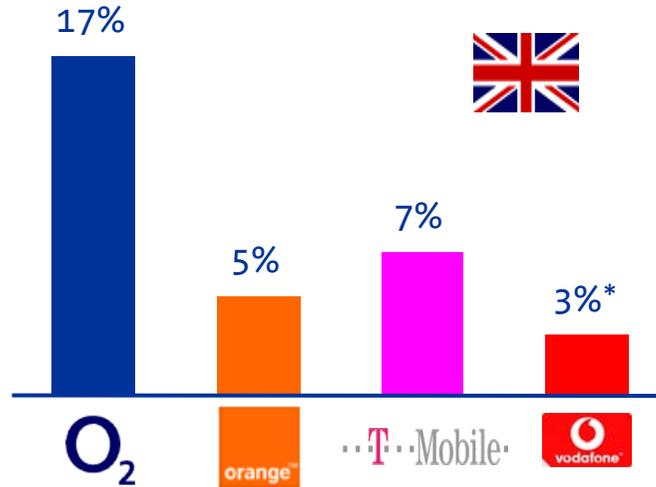


FIFTH INVESTOR
CONFERENCE

Telefonica

01 Momentum continues in Q1 '06

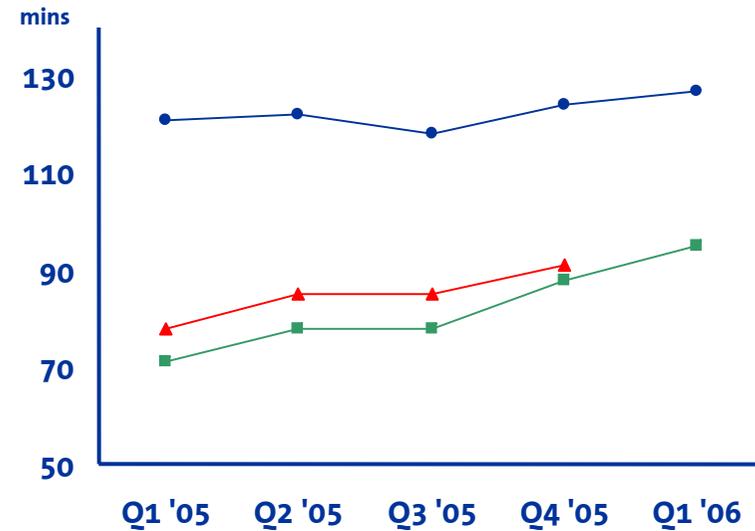
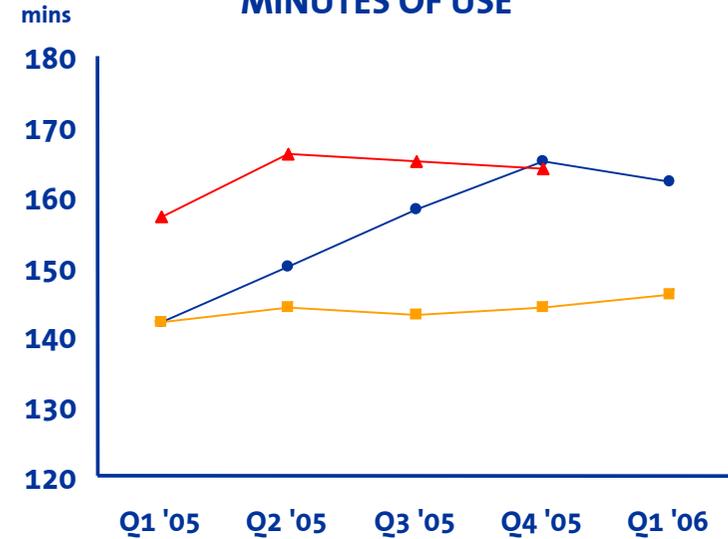
Q1 SERVICE REVENUE GROWTH



Source: Company reports

*Q4 2005

MINUTES OF USE



Source: Company reports



FIFTH INVESTOR
CONFERENCE

Index

01 **Delivering superior performance**

02 **Management priorities**

03 **Ambitious financial and operational targets**

Telefonica



02 We will extend our existing strategy

Deeper

- Strengthen O2's platform for future profitable growth
- Take customer experience to the next level
- Continue to strengthen the O2 brand
- Foster "Fresh Thinking" and innovation

Wider

- DSL & Convergence
 - Integrate fixed and mobile in Czech Rep.
 - Bundled offers in Germany
- Data services
 - HSDPA
 - i-mode / O2 Active, mobile TV, music

Leverage TEF Group

- Services for customers
- Best Practice
- Benefits of scale



02 Driving deeper

Customers

- Grow customer base
 - focus on high value
- Further loyalty initiatives to control churn
- Move customer experience to the next level
 - continue execution of Customer Plan & extend to Germany
- Brand development

Products

- Protect key market USPs through innovation
 - e.g. Genion with UMTS
- Usage stimulation to grow voice & messaging revenues
 - e.g. Genion flat rate, Talk a lot more
- Enhance content offering through partnerships
 - e.g. Disney

02

- New skills (e.g. all IP networks, DSL)
- Resources targeted at areas that customers value
 - e.g. stores, call centres, online self service
- Knowledge sharing with Telefonica



02 Extending the width (scope and scale)

Products

- HSDPA / i-mode / O2 Active
 - true mobile broadband
 - browsing, advertising, downloads, transactions
- Music / TV
 - mobile the primary communication and entertainment device
 - personalised and integrated experience
- Enterprise services
 - work with Moviles and other Telefonica businesses
 - enriched MNC proposition
 - “one stop shop”

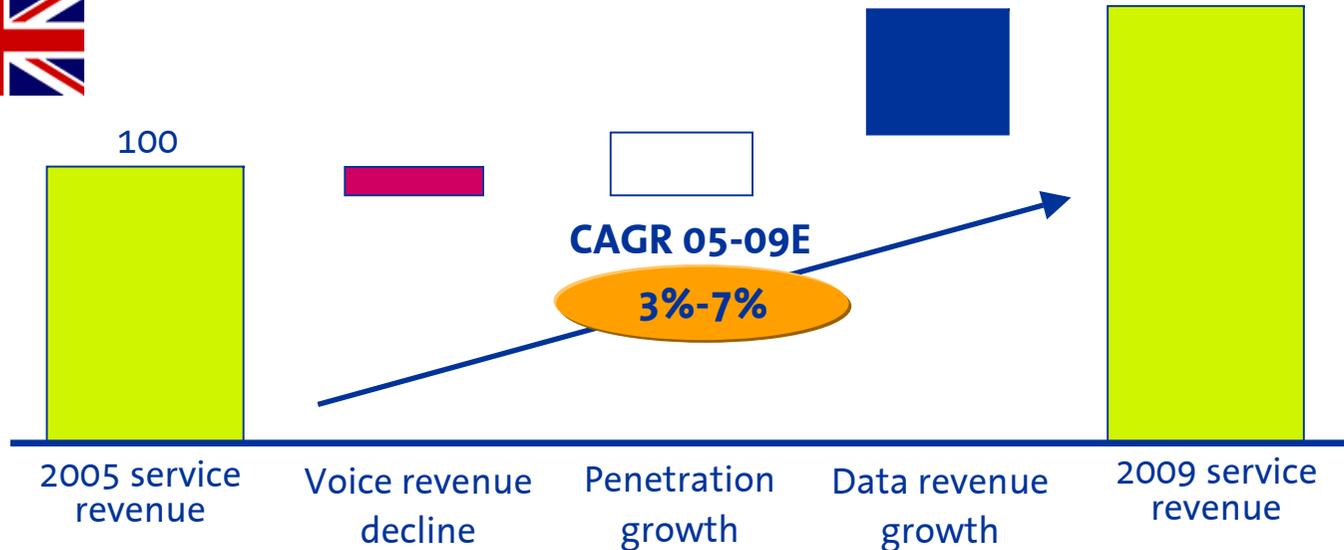
Markets

- DSL / Convergence
 - launch DSL services in Germany
 - new bundled offers from Autumn '06
 - develop convergence roadmap
 - finalise strategy in UK
- Telefonica Group
 - realise synergy benefits as part of Telefonica group
 - integrate Cesky Telecom and Telefonica Deutschland



02 Total market growth potential

Macro economic *	Competition	Regulation
<ul style="list-style-type: none">Population growth = 1 - 2% 2005 - 2009GDP annual growth: average 2006 - 2009 = 2.3%	<ul style="list-style-type: none">Renewed competition from existing playersChange of controlFurther MVNOsConsolidation	<ul style="list-style-type: none">New termination regime from March 2007Regulation of 3G



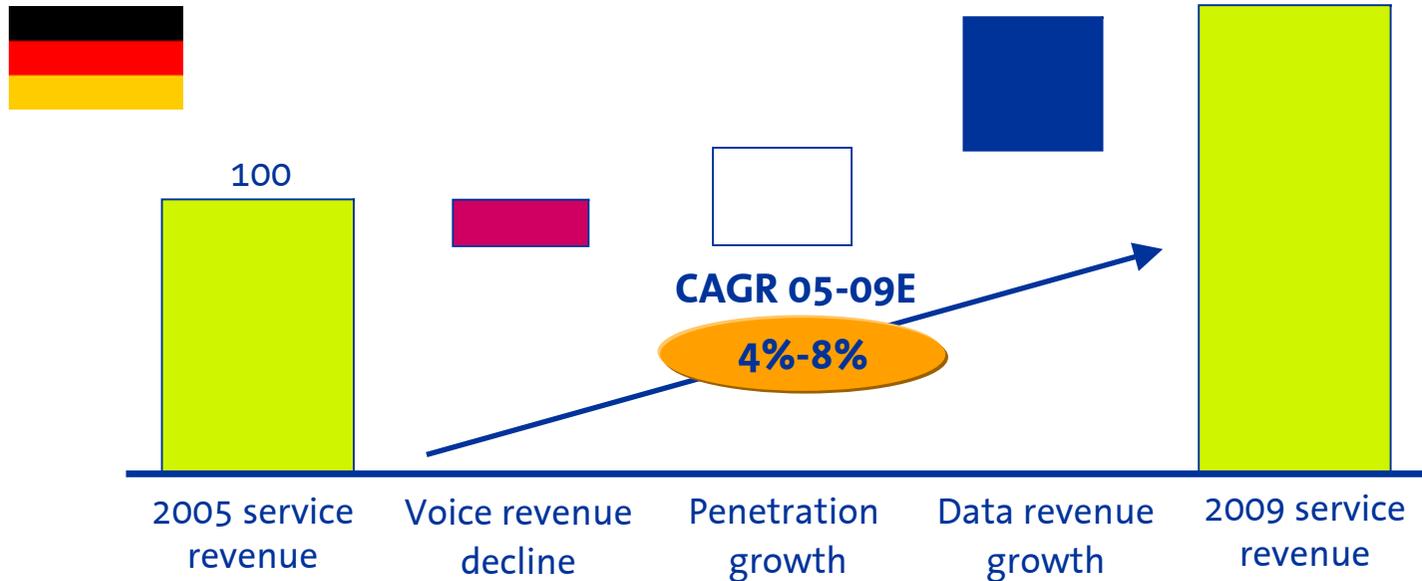
Opportunities

- Usage stimulation on core services
- Further Churn reduction
- Growth in multi-SIM
- New services – music, TV, advertising, services for corporates



02 Total market growth potential

Macro economic *	Competition	Regulation
<ul style="list-style-type: none"> Population growth = 1% 2005 - 2009 GDP annual growth: average 2006 - 2009 = 1.5% 	<ul style="list-style-type: none"> Multiple MVNO brands Pricing pressure Fixed/mobile convergence Maturing market 	<ul style="list-style-type: none"> New termination regime from December 2006



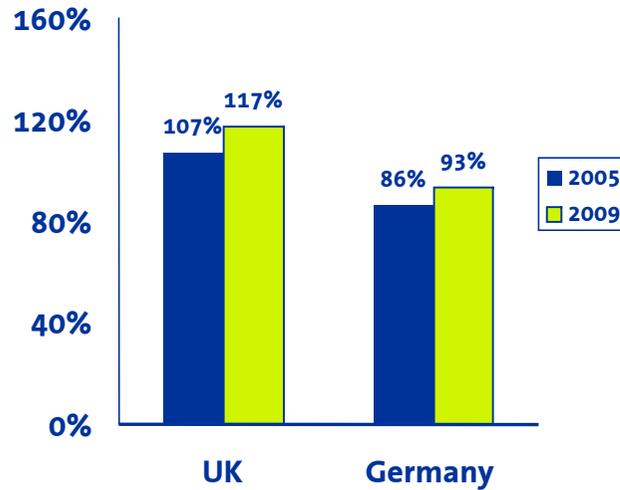
Opportunities

- Usage stimulation on core services
- DSL
- Development of Genion
- New services – music, TV, advertising, services for corporates



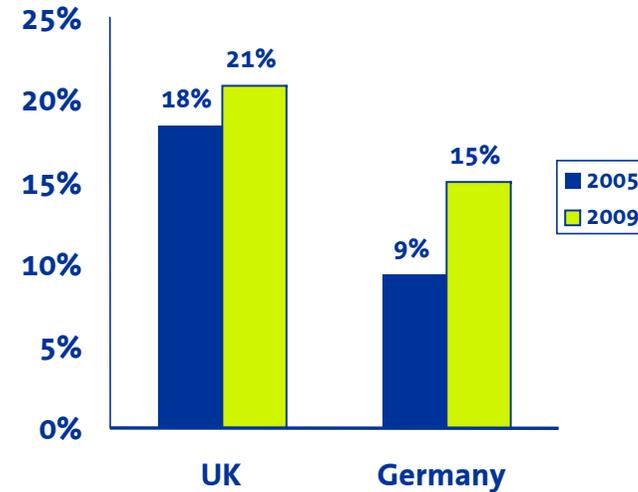
02 Growth in market penetration

TOTAL MARKET PENETRATION



Source: Analysys

MULTI-SIM AS % OF TOTAL
MARKET SUBSCRIPTIONS



Source: Strategy Analytics

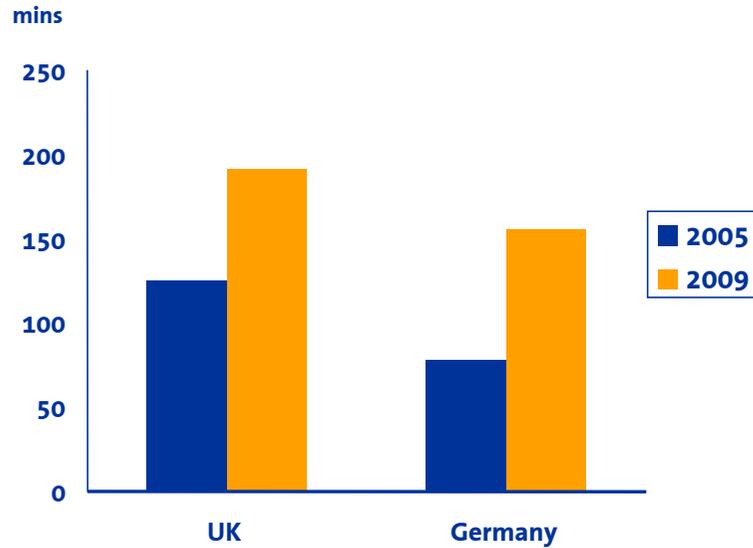
Drivers

- Generational effect
- Dual SIMs
 - Work / Personal or Peak / Off peak
- Dual devices
 - Work / Personal
 - BlackBerry, PDA, PC Card
- Machine 2 machine applications (high volume, low ARPU)



02 Growth in mobile voice usage

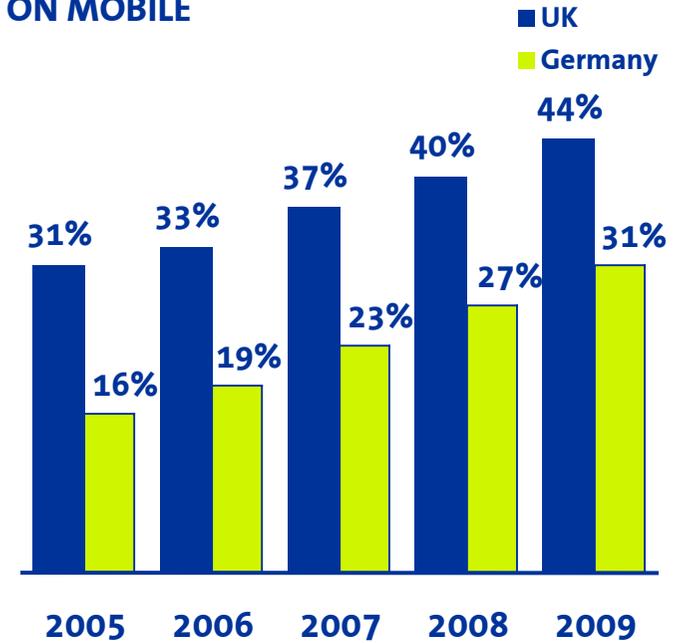
TOTAL MOBILE MINUTES



	CAGR 2005 - 2009
Germany	19%
UK	11%

Source: Strategy Analytics

% OF TOTAL OUTBOUND MINUTES ON MOBILE

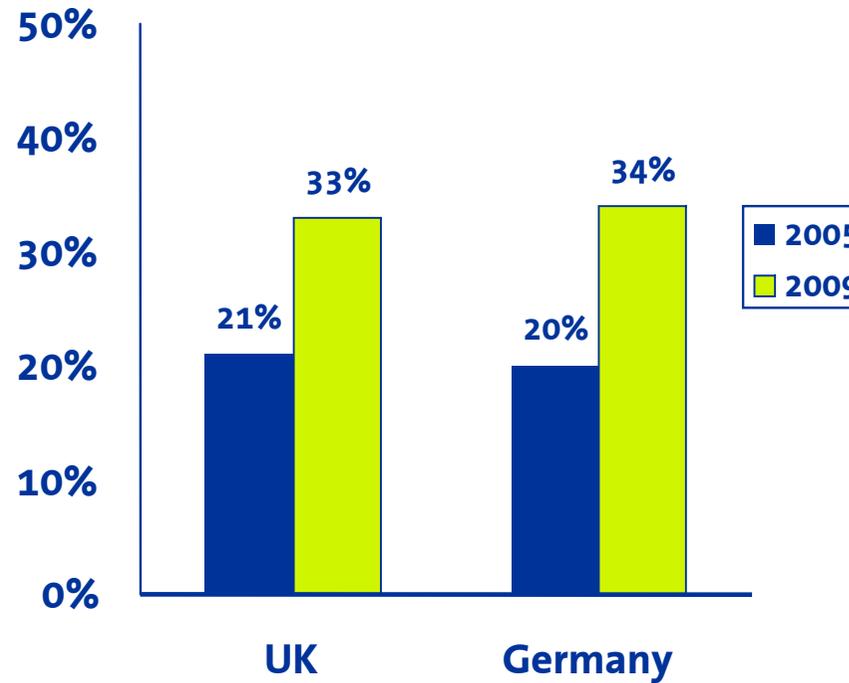


Source: Strategy Analytics



02 Growth in mobile data revenues

DATA AS A PERCENTAGE OF SERVICE REVENUES



	Data ARPU CAGR 2005 - 2009
Germany	17%
UK	14%

Source: Strategy Analytics, Analysys



02 Initiatives to capture future growth

- Customer experience

- Growth opportunities in core services

- Growth opportunities in new services

- Measured rollout of 3G

- Leverage Group size, scale and knowledge



FIFTH INVESTOR
CONFERENCE

Telefonica

02 Customer experience

- Continue to grow customer base
 - 2m customers added in both UK and Germany in last 12 months
 - Reach new segments through MVNOs
 - Tap into growth in multi-SIM
- Improve customer loyalty
 - Focus on things that really matter to customers
 - Long term contracts (18 month)
 - Pay & Go rewards => 7% churn benefit
 - Account managers for Business Customers



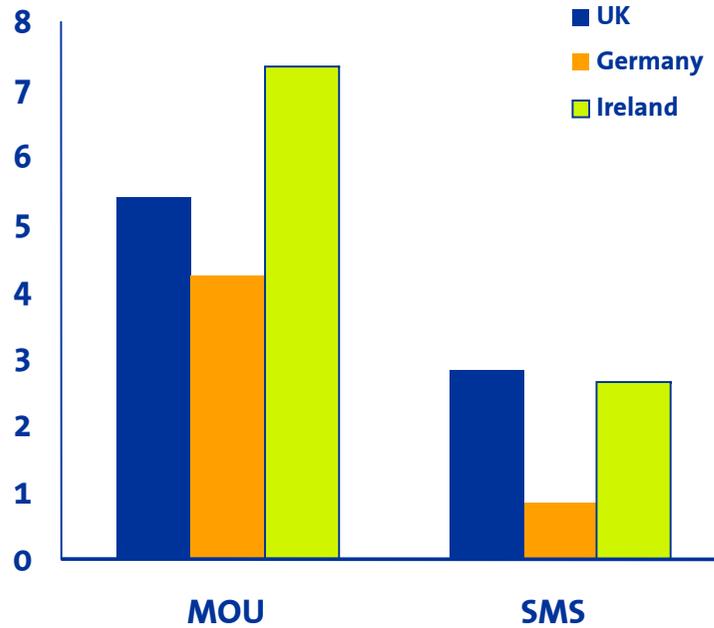


FIFTH INVESTOR
CONFERENCE

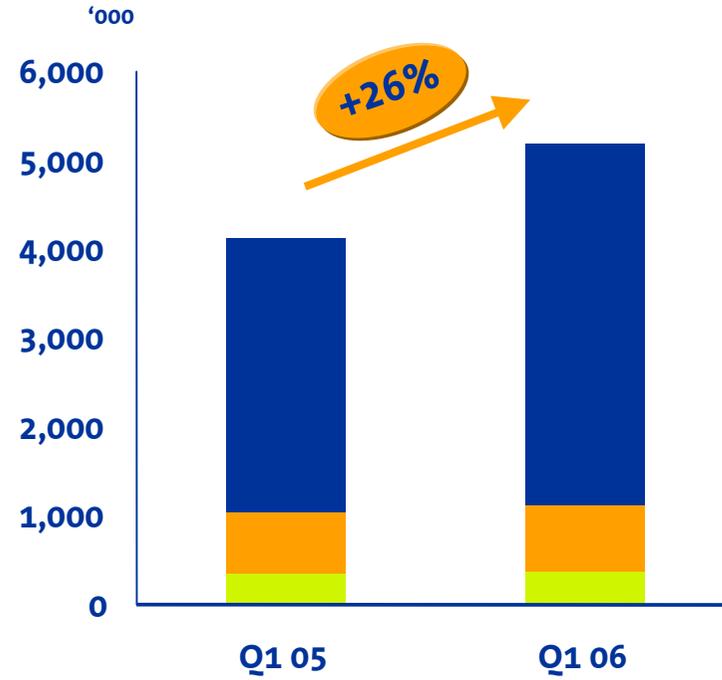
Telefonica

02 Growth opportunities in core services

MOU AND SMS PER CUSTOMER
PER DAY



TOTAL SMS MESSAGES



Source: Company reports

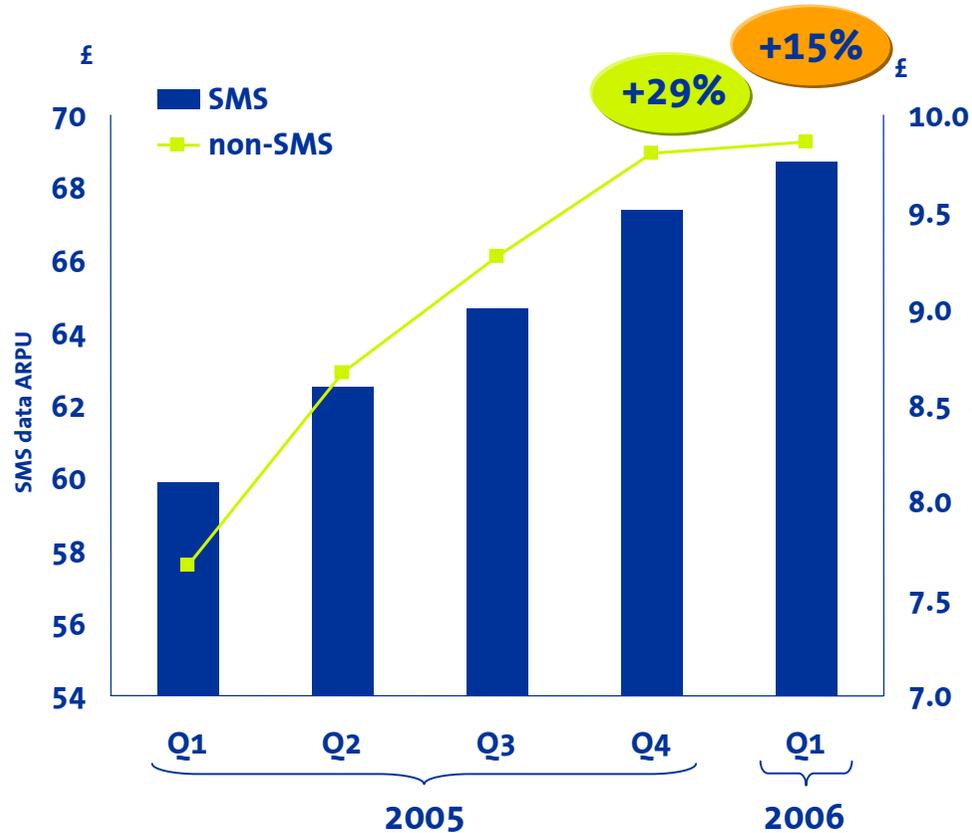
■ Demand stimulation

- Bolt ons
- Rewards & Treats
- Talk a lot more
- Genion flat rate



02 Growth opportunities in new services

O2 UK 12 MONTH SMS / NON-SMS DATA ARPU



O2 UK 12 MONTH DATA ARPU



Source: Company reports

- Non-SMS making an increasing contribution to data revenues
 - Growing quickly off small base
 - Over £260 million in revenue across the group in the last 12 months



FIFTH INVESTOR
CONFERENCE

Telefonica

02 Underpinned by growth in users

UK

NON-SMS DATA USERS



47% of customers still do not use a non-SMS data service

GERMANY

NON-SMS DATA USERS



76% of customers still do not use a non-SMS data service

- We expect non-SMS data ARPU as a % of data ARPU to grow between 50% – 100% over the next 4 years
- Driven by a number of factors
 - Devices: increasing penetration of 3G devices & new multimedia terminals
 - Network: HSDPA, all IP networks
 - Services: Instant Messaging, TV, Video, Advertising, Mobile Payments, Music, Browsing



02 Growth opportunities from new services

DVB-H and Music

DVB-H Trial

- 375 O2 customers for up to 6 months
- 85% satisfied with the end-to-end service provided
- 72% indicate they would take up the service within 12 months
- Extend trial in Oxford – interactivity, Video on Demand
- Irish trial December 2006 and “showcase” for Ryder Cup
- Germany has bid for pilot licences in Berlin, Hamburg and Lower Saxony

Music

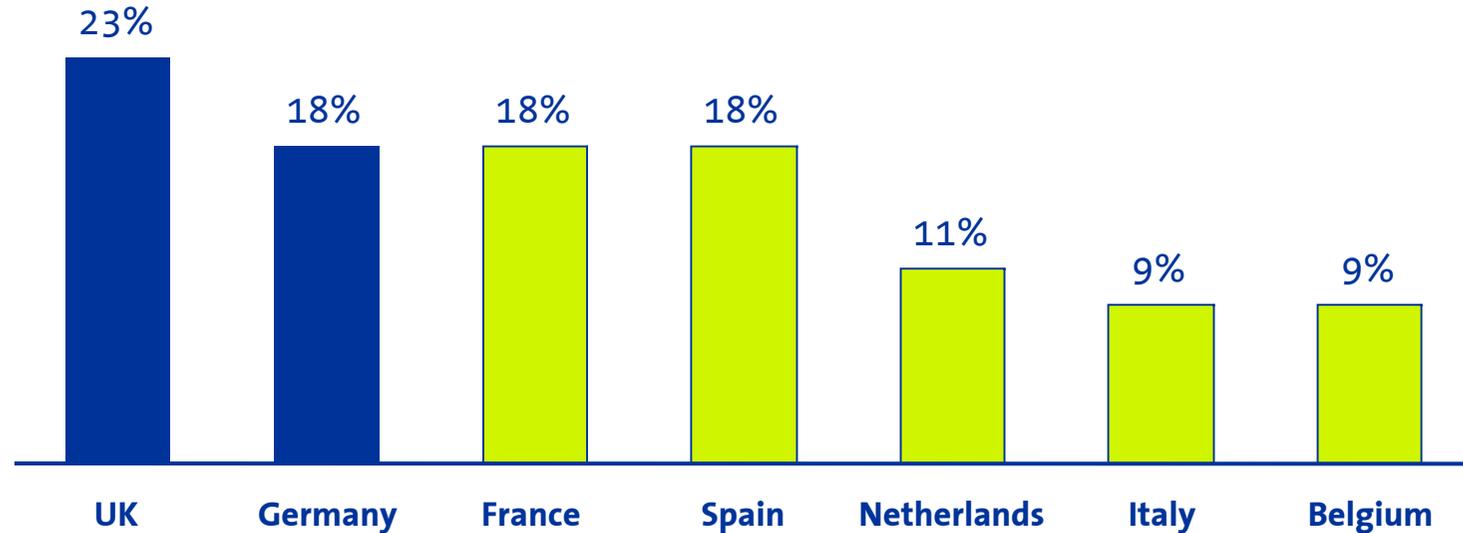
- Launched 1st “over the air” digital music service in 2004
- Cross platform service launched in Germany last year
 - seamless integration of dual delivery (mobile and PC)
 - attractive pricing (from €0.99)
 - sales increased 5x compared to existing service
- 40% of O2 Active users in UK use music services
- Currently selling over 100k music videos per month
- To reach mass market we still need:
 - open technical standards & device manufacturer support
 - improved customer experience



02 Growth opportunities from new services

Fixed Broadband (DSL)

FIXED BROADBAND SUBSCRIBERS (CAGR 2004—2009)



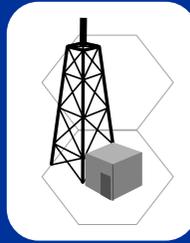
Source: Global Media Intelligence

- Germany and UK among the largest and fastest growing broadband markets in Europe
 - German market particularly fragmented
 - UK seeing new players entering from adjacent markets
 - Significant potential in Ireland due to relatively low broadband penetration



02 Continuing to take a measured approach to 3G roll-out

Network



Optimise roll-out to customer demand for 3G services

Take advantage of later generation equipment

— Lower cost to upgrade to HSDPA

Devices



Offer best range of devices on both 3G and 2G

Propositions



Ensure O2 is competitive in each local market

Customer experience



High quality coverage in high traffic mobile locations



02 Leveraging Group size, scale and knowledge

Services to Customers

- Roaming
 - “My Europe”
 - Joint promotions with Moviles for summer ‘06 & “high roamer proposition”
- Devices
- Solutions for MNCs
- DSL

Best Practice

- Marketing
- Products & Services e.g. i-mode, Genion
- Airwave
- MVNO

Benefits of scale

- Procurement and R&D
- Networks
- Content
- Roaming / Wholesale (TIWS)



FIFTH INVESTOR
CONFERENCE

Index

01 **Delivering superior performance**

02 **Management priorities**

03 **Ambitious financial and operational targets**

Telefonica



FIFTH INVESTOR
CONFERENCE

03 O2 CAGRs for 2005-2009

€ in Millions	FY 2005 (11 months)	CAGR 2005-09E *
Revenues	9,716	6% to 10%
Operating Income before D&A**	2,633	7% to 11%
Operating Income **	877	15% to 21%
CAPEX	1,987	6,800 to 7,500 (2006-2009 cumulative)

* CAGR 2005-2009E guidance assumes constant exchange rates as of 2005 and excludes changes in consolidation

** In terms of guidance calculation, Operating Income before D&A and Operating Income excludes other exceptional revenues/expenses not foreseeable in 2006-2009. For comparison purpose, the equivalent other exceptional revenues/expenses registered in 2005 are also deducted from reported figures

Telefonica



Summary

- Maintain above average growth in UK
- Superior execution of Customer Plan
- Maintain above average growth in Germany
- Exploit DSL opportunity
- Grow margin
- Capitalize on wider TEF Group size, scale and expertise



Boost O2 group operating performance

Telefonica
