FIFTH **INVESTOR** CONFERENCE

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

Telefónica

O2
Building on Momentum

David Finch
Chief Financial Officer, O2

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THE BEST COMBINATION OF GROWTH AND RETURNS

Valencia - May 25, 2006

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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

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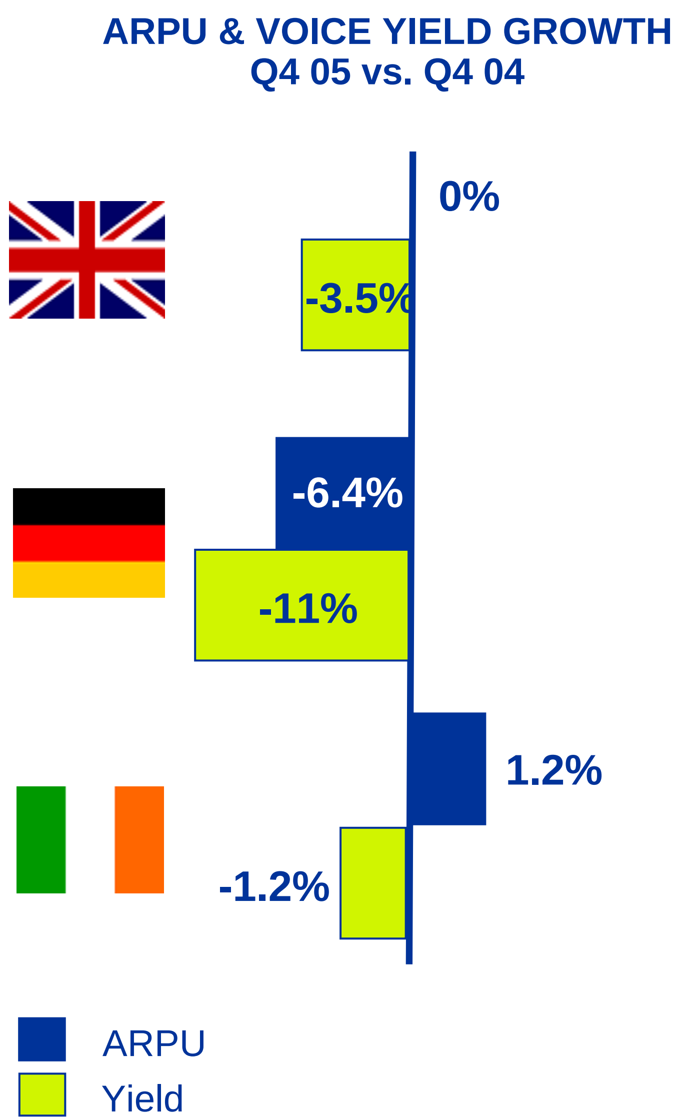
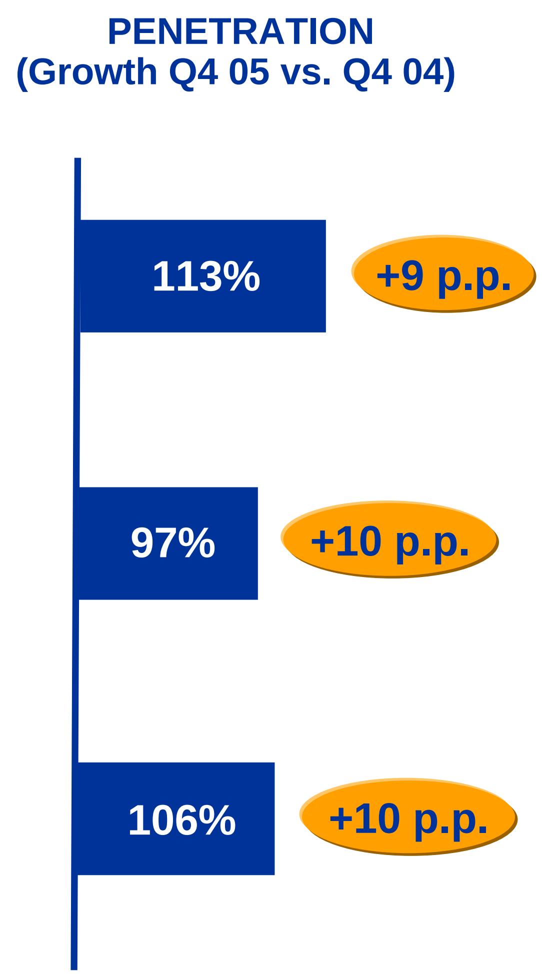
01 Operating in highly competitive environments





Source: Merrill Lynch European Wireless Matrix Q4 05

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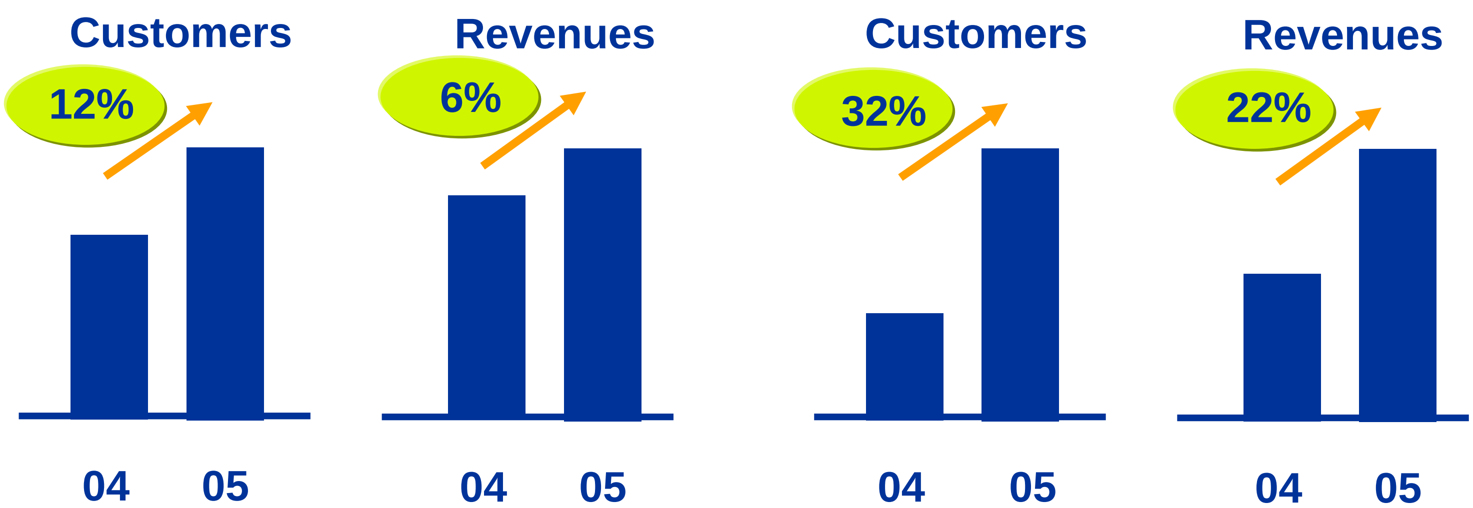
01 Strong operational performance in 2005

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



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

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01 Strong financial performance in 2005

£m	Six months ended Sep 2004	Mar 2005	Sep 2005	Change y-o-y
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%

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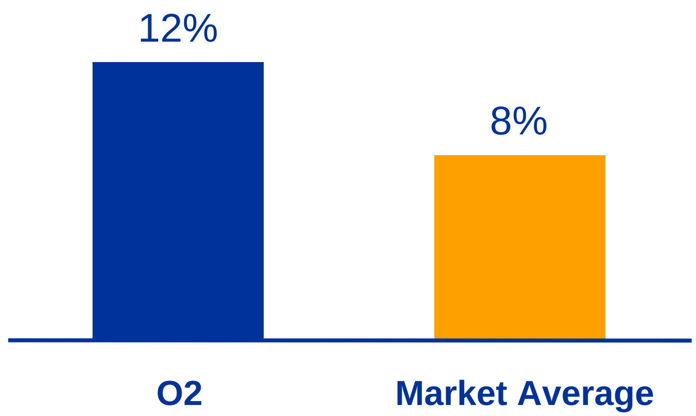
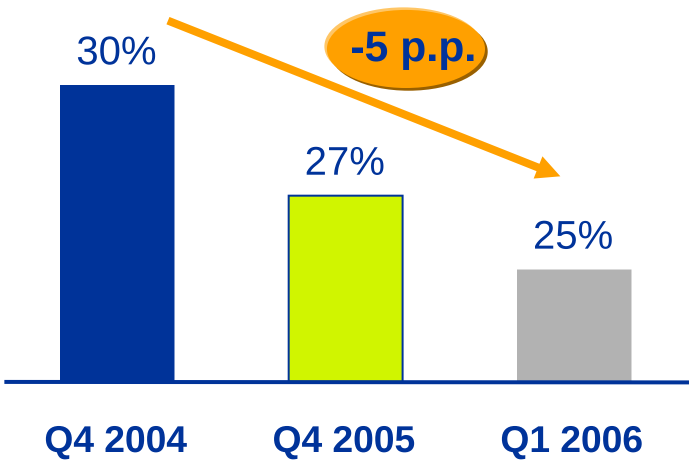
01 O2 UK – 2005 success

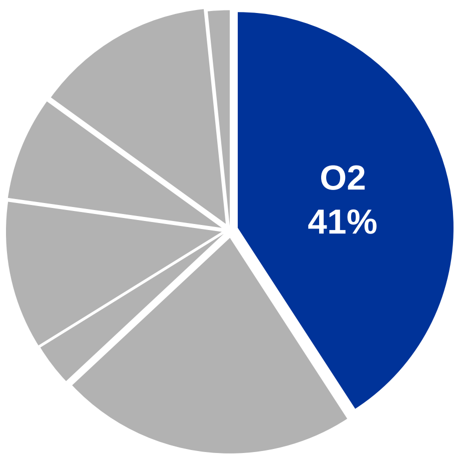
SUBSCRIBER GROWTH 2005 vs. 2004



POSTPAY 12 MONTH ROLLING CHURN



SHARE OF POSTPAY NET ADDS
Mar 05-Dec 05



Source: Company reports

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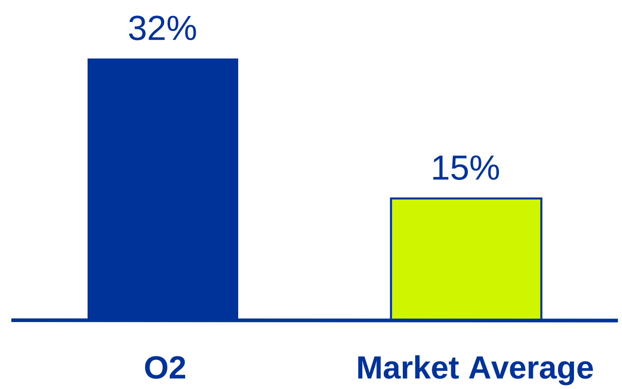
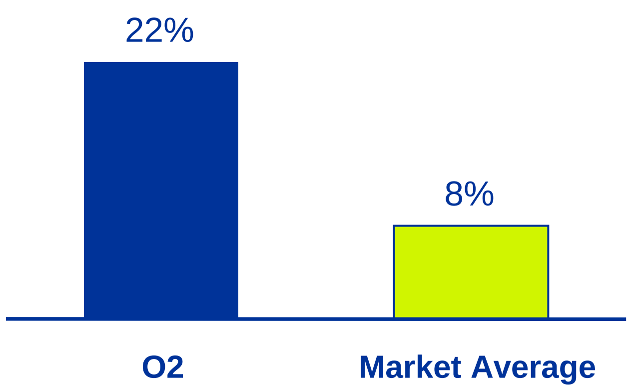
01 O2 Germany – 2005 success

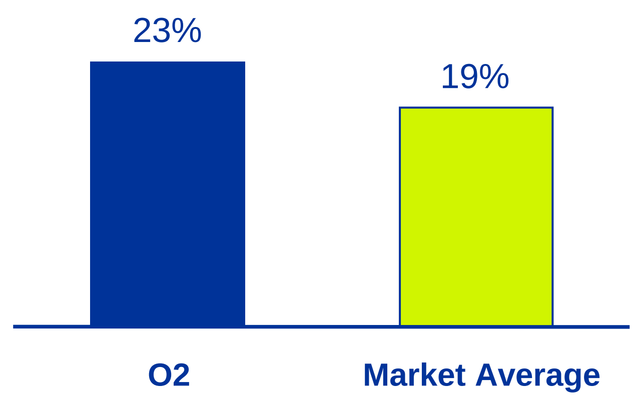
SUBSCRIBER GROWTH 2005 vs. 2004



SERVICE REVENUE GROWTH 2005 vs. 2004



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



Source: Company reports

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01 O2 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

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01 O2 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

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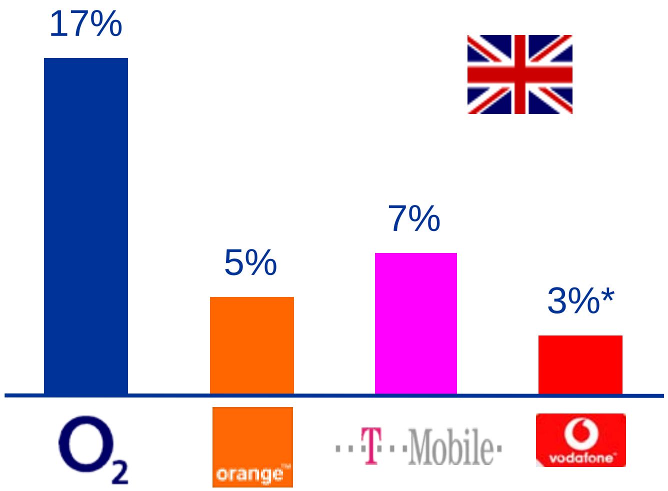
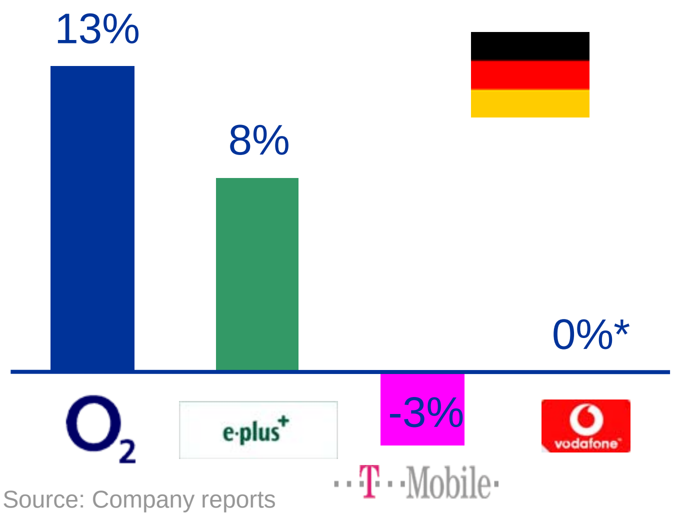
01 Momentum continues in Q1 '06

Q1 SERVICE REVENUE GROWTH

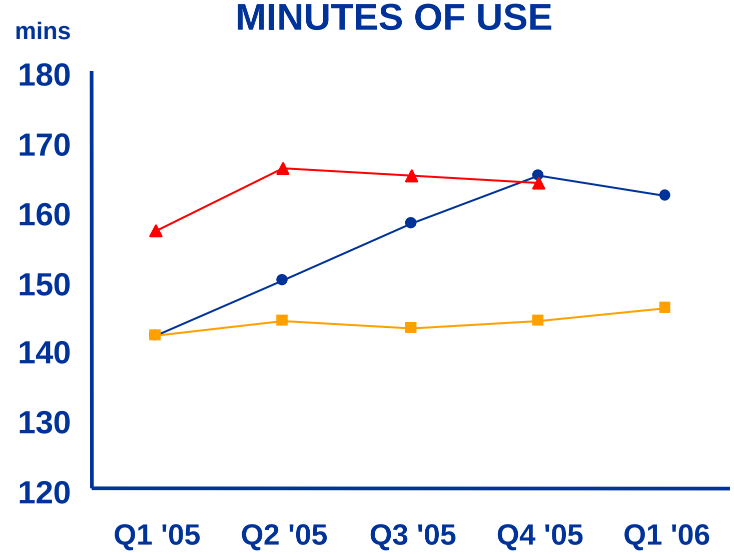


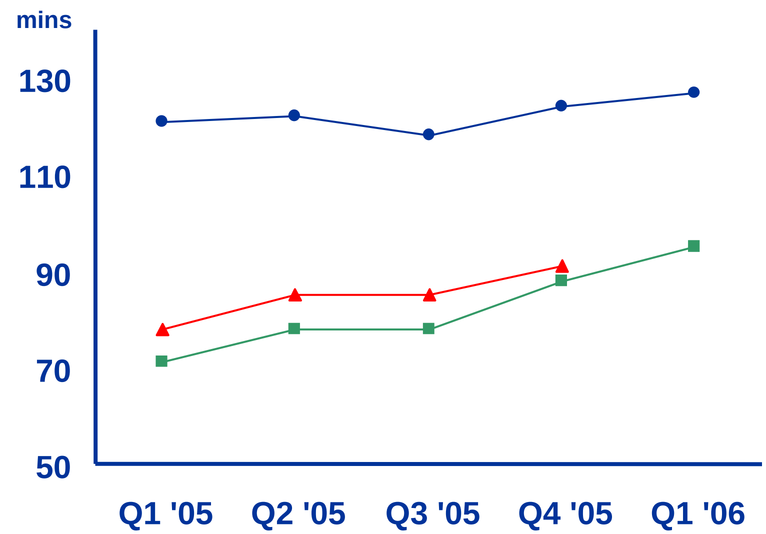


Source: Company reports

*Q4 2005

MINUTES OF USE





Source: Company reports

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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

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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

O2

- 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

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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

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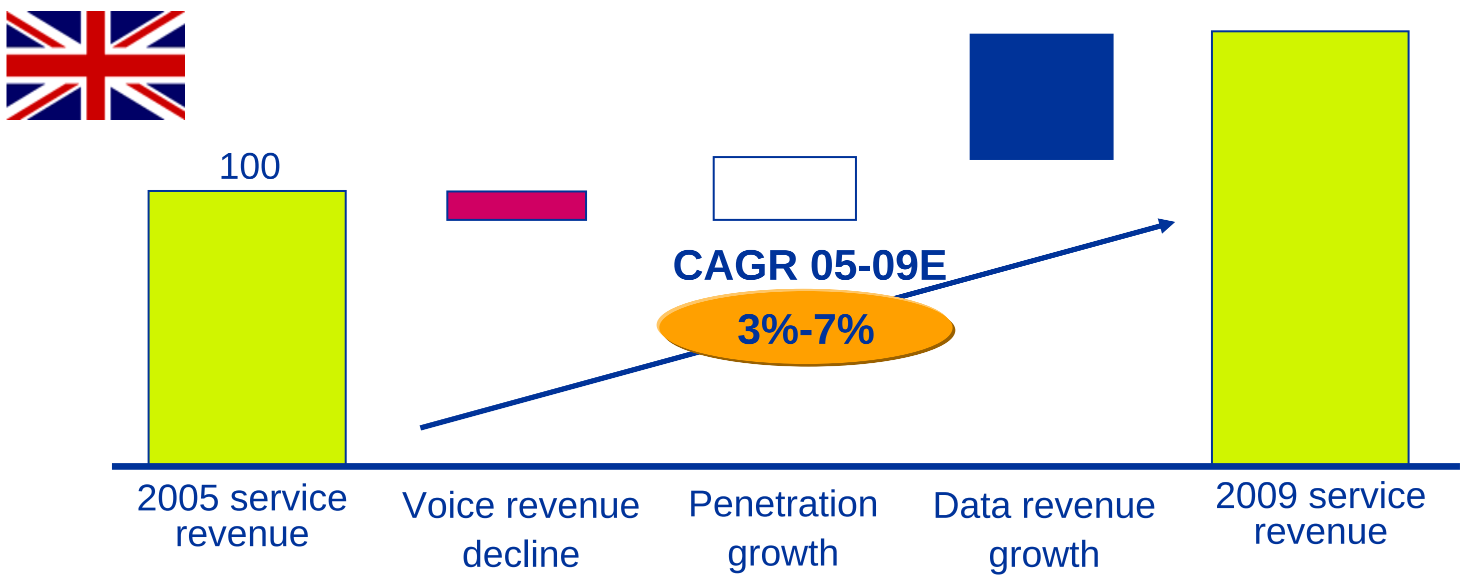
02 Total market growth potential

Macro economic *	Competition	Regulation
▪ Population growth = 1 - 2% 2005 - 2009 ▪ GDP annual growth: average 2006 – 2009 = 2.3%	▪ Renewed competition from existing players ▪ Change of control ▪ Further MVNOs ▪ Consolidation	▪ New termination regime from March 2007 ▪ Regulation of 3G



Opportunities

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

Source: Strategy Analytics, Analysys

*Source: Consensus Economics, Government Actuary, UN

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02 Total market growth potential

Macro economic *

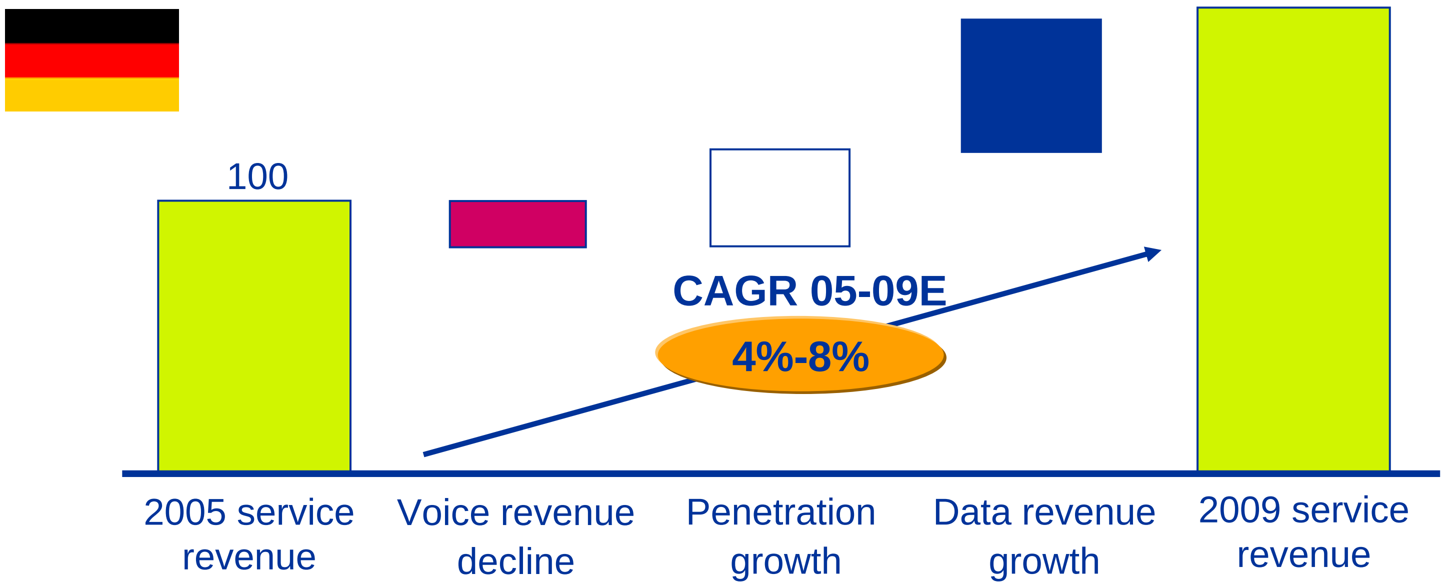
- Population growth = 1% 2005 - 2009
- GDP annual growth: average 2006 - 2009 = 1.5%

Competition

- Multiple MVNO brands
- Pricing pressure
- Fixed/mobile convergence
- Maturing market

Regulation

- New termination regime from December 2006



Opportunities

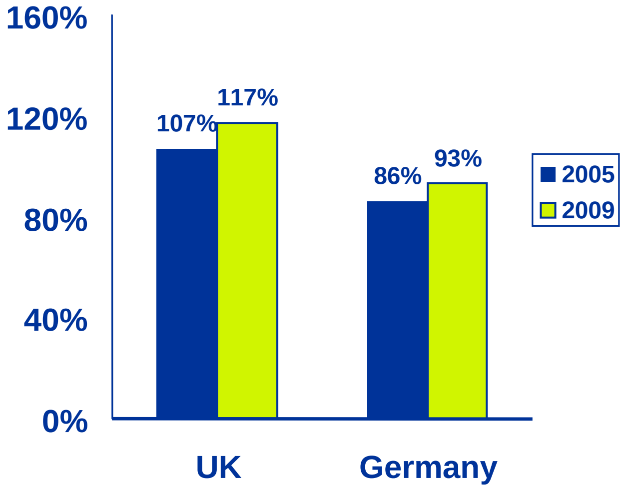
- Usage stimulation on core services
- DSL
- Development of Genion
- New services – music, TV, advertising, services for corporates

Source: Strategy Analytics, Analysys

*Source: Consensus Economics, UN

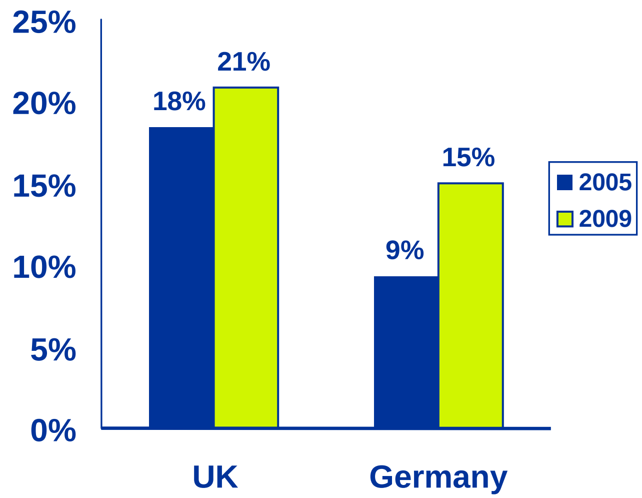
02 Growth in market penetration

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

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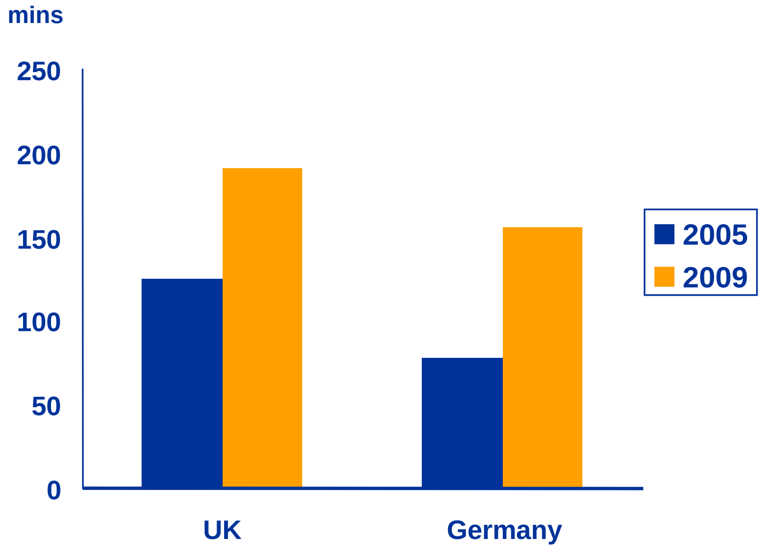
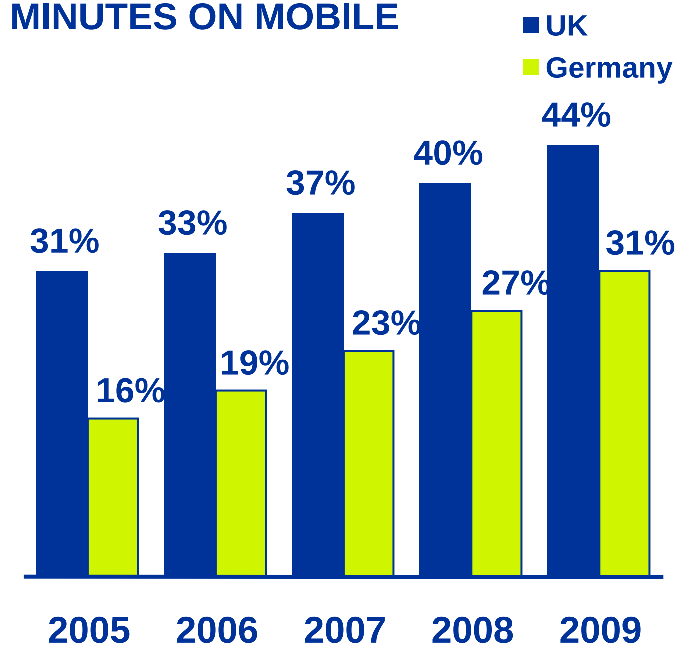
TOTAL MOBILE MINUTES



	CAGR 2005 - 2009
Germany	19%
UK	11%

Source: Strategy Analytics

% OF TOTAL OUTBOUND MINUTES ON MOBILE



Source: Strategy Analytics

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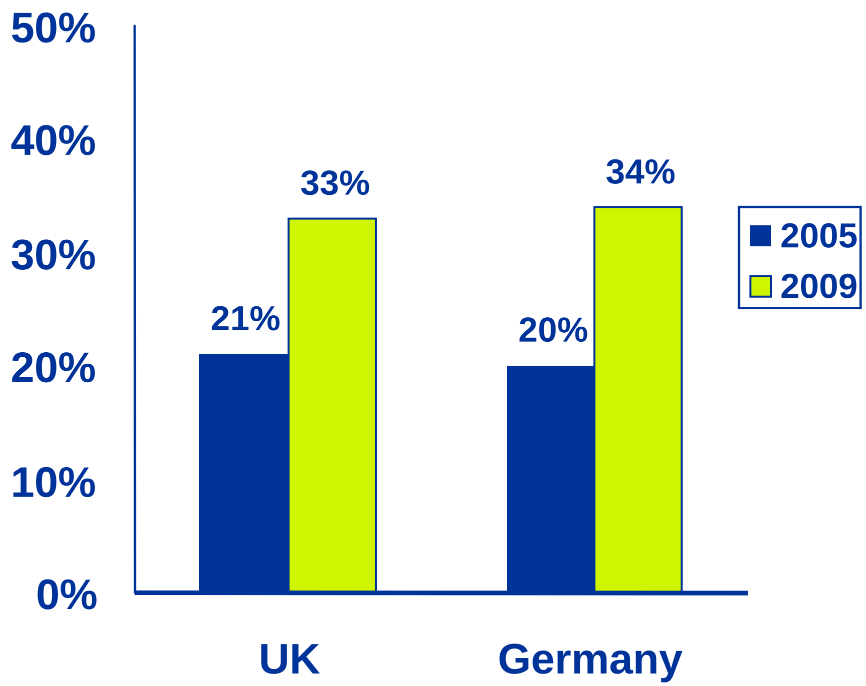
02 Growth in mobile data revenues

DATA AS A PERCENTAGE OF SERVICE REVENUES



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

Source: Strategy Analytics, Analysys

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02 Initiatives to capture future growth

- Customer experience

- Growth opportunities in core services

- Growth opportunities in new services

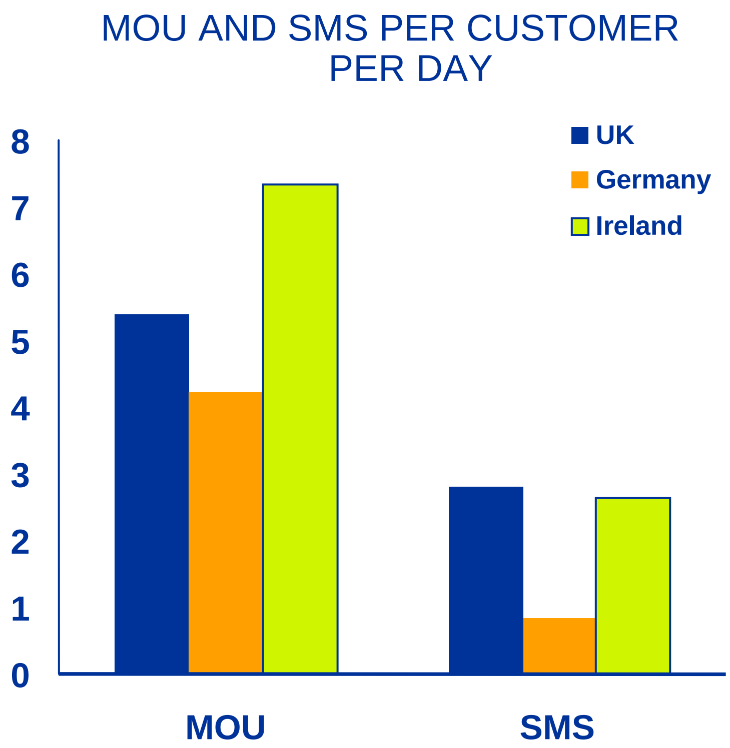
- Measured rollout of 3G

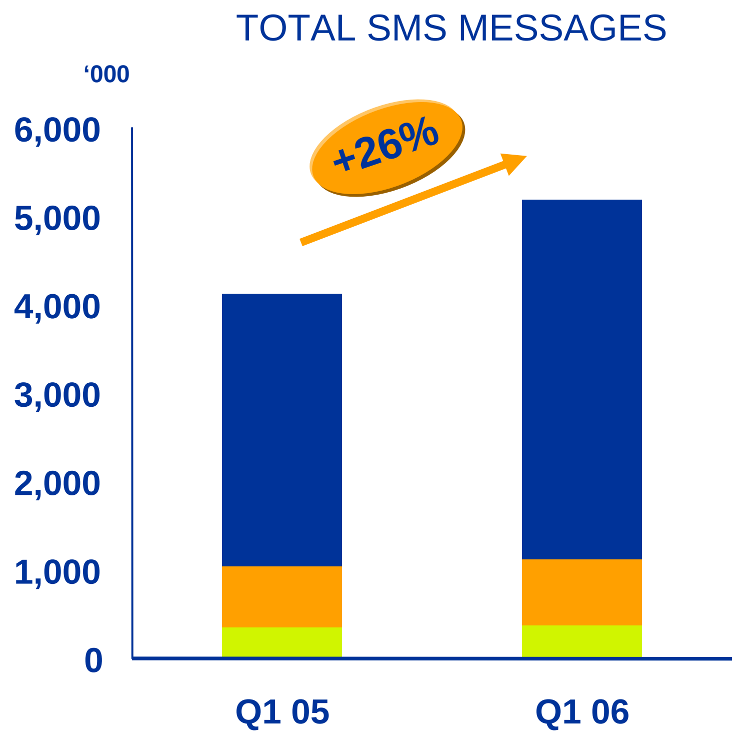
- Leverage Group size, scale and knowledge

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

02 Growth opportunities in core services



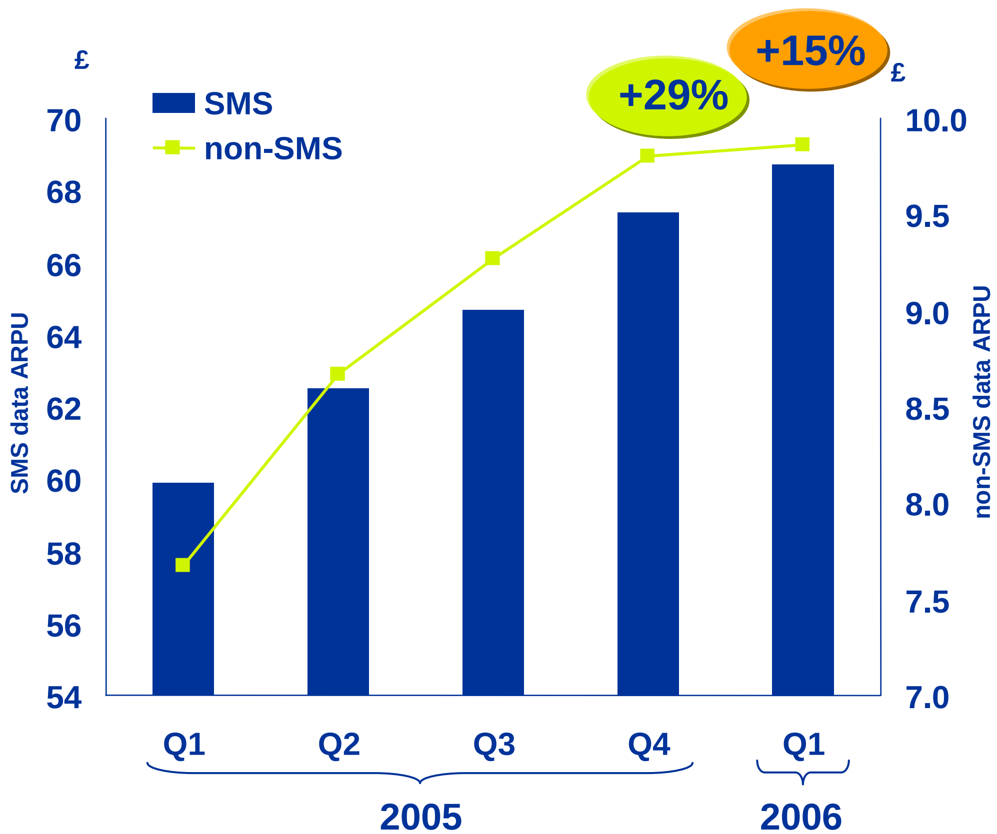


Source: Company reports

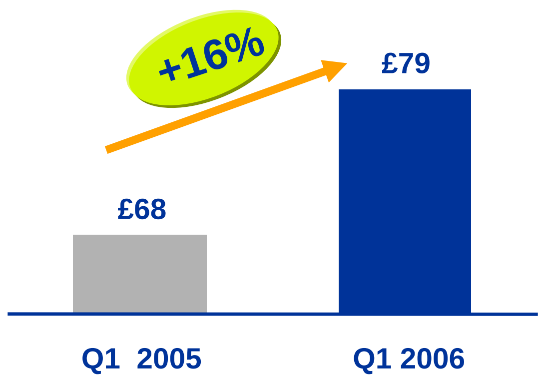
- **Demand stimulation**
  - Bolt ons
  - Rewards & Treats
  - Talk a lot more
  - Genion flat rate

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

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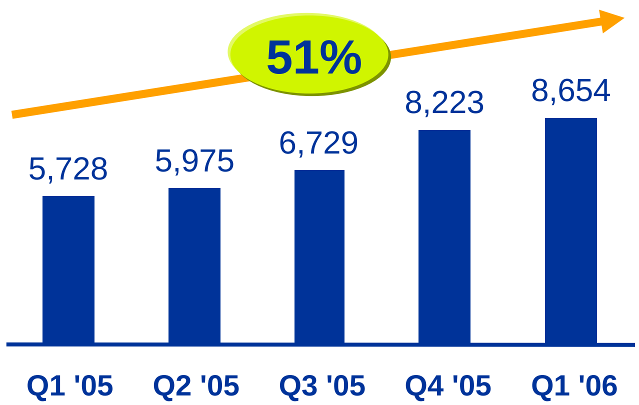
02 Underpinned by growth in users

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

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Source: Company reports

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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

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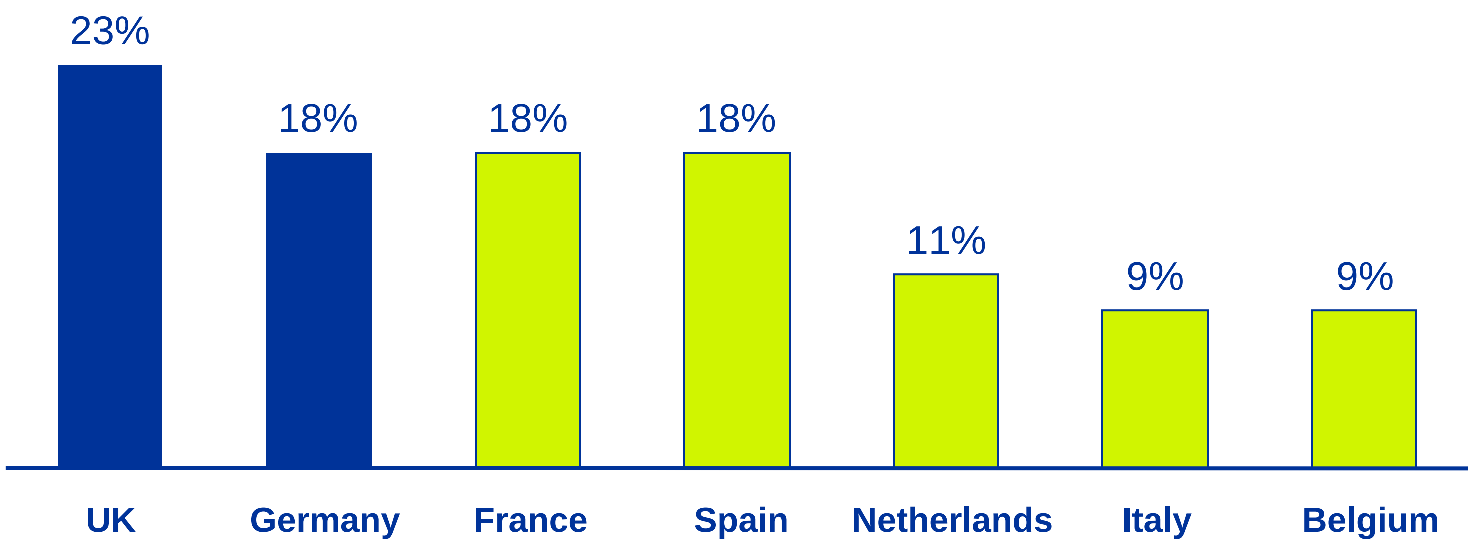
02 Growth opportunities from new services

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

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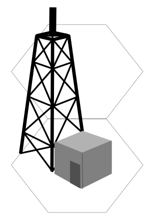
02 Continuing to take a measured approach to 3G roll-out

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)

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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

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

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