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Building on Momentum

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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 Delivering superior performance

02 Management priorities

03 Ambitious financial and operational targets
Operating in highly competitive environments

ARPU & VOICE YIELD GROWTH
Q4 05 vs. Q4 04

-3.5%
-6.4%
-11%
1.2%
0%

PENETRATION
(Growth Q4 05 vs. Q4 04)

113% +9 p.p.
97% +10 p.p.
106% +10 p.p.

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

- Ireland – continued ARPU and MOU growth
- Airwave – over £1 billion of new contracts won in last 12 months
**01 Strong financial performance in 2005**

<table>
<thead>
<tr>
<th>£m</th>
<th>Six months ended</th>
<th>Change y-o-y</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sep 2004</td>
<td>Mar 2005</td>
</tr>
<tr>
<td>Subscribers (000s)</td>
<td>22,017</td>
<td>23,956</td>
</tr>
<tr>
<td>Revenues</td>
<td>3,227</td>
<td>3,348</td>
</tr>
<tr>
<td>Service revenues</td>
<td>2,845</td>
<td>2,907</td>
</tr>
<tr>
<td>EBITDA</td>
<td>850</td>
<td>910</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>26.3%</td>
<td>27.2%</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>185</td>
<td>242</td>
</tr>
</tbody>
</table>
01 O2 UK – 2005 success

**SUBSCRIBER GROWTH 2005 vs. 2004**

- O2: 12%
- Market Average: 8%

**POSTPAY 12 MONTH ROLLING CHURN**

- Q4 2004: 30%
- Q4 2005: 27%
- Q1 2006: 25%

**SHARE OF POSTPAY NET ADDS**

- Mar 05-Dec 05

  - O2: 41%

Source: Company reports
**O2 Germany – 2005 success**

**SUBSCRIBER GROWTH 2005 vs. 2004**

- O2: 32%
- Market Average: 15%

**SERVICE REVENUE GROWTH 2005 vs. 2004**

- O2: 22%
- Market Average: 8%

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

- O2: 23%
- Market Average: 19%

Source: Company reports
11 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

6% growth 2005 vs. 2004

Hold share more effectively than Vodafone

Usage stimulation propositions

Service revenue grew 9% Q4 ’05 vs. Q4 ‘04

Minutes of use grew 4% Q4 ’05 vs. Q4 ‘04

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  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
Momentum continues in Q1 ‘06

Q1 SERVICE REVENUE GROWTH

- O2: 17%
- Orange: 5%
- T-Mobile: 7%
- Vodafone: 3%

Source: Company reports

MINUTES OF USE

Q1 ‘05 Q2 ‘05 Q3 ‘05 Q4 ‘05 Q1 ‘06

O2: 13%
- eplus: 8%
- T-Mobile: -3%
- Vodafone: 0%

Source: Company reports

*Q4 2005
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01 Delivering superior performance

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03 Ambitious financial and operational targets
02  We will extend our existing strategy

- 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

Deeper

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

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
## 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
### Total market growth potential

#### Macro economic *

- Population growth = 1 - 2% 2005 - 2009
- GDP annual growth: average 2006 – 2009 = 2.3%

#### Competition

- Renewed competition from existing players
- Change of control
- Further MVNOs
- Consolidation

#### Regulation

- 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

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**Source:** Strategy Analytics, Analysys  
*Source: Consensus Economics, Government Actuary, UN*
## 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

UK

Germany

107% 117%

86% 93%

MULTI-SIM AS % OF TOTAL MARKET SUBSCRIPTIONS

UK

Germany

18% 21%

9% 15%

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)

Source: Analysys

Source: Strategy Analytics
02 Growth in mobile voice usage

<table>
<thead>
<tr>
<th></th>
<th>CAGR 2005 - 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>19%</td>
</tr>
<tr>
<td>UK</td>
<td>11%</td>
</tr>
</tbody>
</table>

Source: Strategy Analytics

TOTAL MOBILE MINUTES

% OF TOTAL OUTBOUND MINUTES ON MOBILE

Source: Strategy Analytics
**Growth in mobile data revenues**

**Data ARPU CAGR 2005 - 2009**

<table>
<thead>
<tr>
<th></th>
<th>Germany</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>21%</td>
<td>14%</td>
</tr>
<tr>
<td>2009</td>
<td>33%</td>
<td>17%</td>
</tr>
</tbody>
</table>

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
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

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

Source: Company reports
Growth opportunities in new services

- 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

Source: Company reports
Underpinned by growth in users

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

Source: Company reports
## Growth opportunities from new services

### DVB-H and Music

<table>
<thead>
<tr>
<th><strong>DVB-H Trial</strong></th>
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<tbody>
<tr>
<td>▪ 375 O2 customers for up to 6 months</td>
</tr>
<tr>
<td>▪ 85% satisfied with the end-to-end service provided</td>
</tr>
<tr>
<td>▪ 72% indicate they would take up the service within 12 months</td>
</tr>
<tr>
<td>▪ Extend trial in Oxford – interactivity, Video on Demand</td>
</tr>
<tr>
<td>▪ Irish trial December 2006 and “showcase” for Ryder Cup</td>
</tr>
<tr>
<td>▪ Germany has bid for pilot licences in Berlin, Hamburg and Lower Saxony</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Music</strong></th>
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<tbody>
<tr>
<td>▪ Launched 1st “over the air” digital music service in 2004</td>
</tr>
<tr>
<td>▪ Cross platform service launched in Germany last year</td>
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<td></td>
</tr>
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<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td>▪ 40% of O2 Active users in UK use music services</td>
</tr>
<tr>
<td>▪ Currently selling over 100k music videos per month</td>
</tr>
<tr>
<td>▪ To reach mass market we still need:</td>
</tr>
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</tbody>
</table>
Growth opportunities from new services
Fixed Broadband (DSL)

Fixed Broadband Subscribers (CAGR 2004—2009)

- 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

Source: Global Media Intelligence
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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## O2 CAGRs for 2005-2009

<table>
<thead>
<tr>
<th>€ in Millions</th>
<th>FY 2005 (11 months)</th>
<th>CAGR 2005-09E *</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>9,716</td>
<td>6% to 10%</td>
</tr>
<tr>
<td>Operating Income before D&amp;A**</td>
<td>2,633</td>
<td>7% to 11%</td>
</tr>
<tr>
<td>Operating Income **</td>
<td>877</td>
<td>15% to 21%</td>
</tr>
<tr>
<td>CAPEX</td>
<td>1,987</td>
<td>6,800 to 7,500</td>
</tr>
</tbody>
</table>

* 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