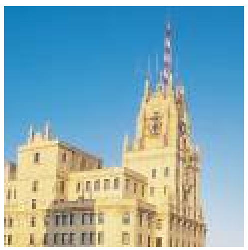
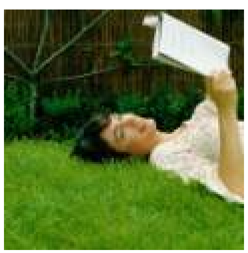
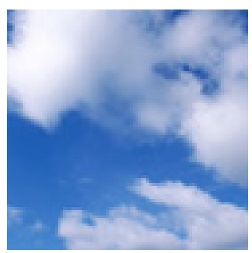
Delivering Balanced Growth and Cash Returns Through Enhanced Scale




October 31st,2005

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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

* Based on a EUR/GBP exchange rate of 1.47 used through this document. Based on a fully diluted number of shares of 8,906 m and net of cash proceeds from options exercised

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

Improving Growth

- Accelerates Telefónica's growth profile
- Widens Telefónica's growth gap versus peers

Gaining Scale

- Enhances Telefónica's scale benefits by entering the two largest markets in Europe with critical mass
- Sizeable OpEx and CapEx synergies

Rebalancing the Portfolio

- Balances exposure across businesses and regions

+

Creating Value

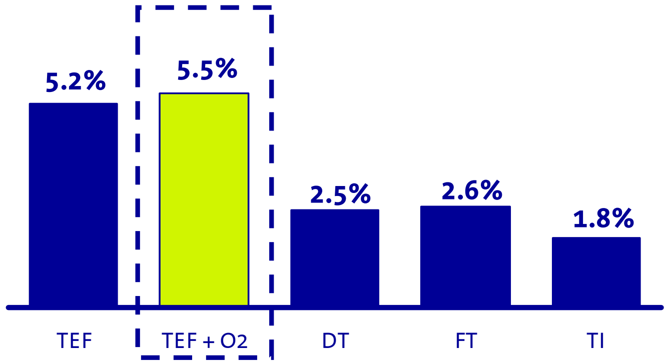
- Accretive transaction in EPS, CEPS and FCF from year one
- Shareholder remuneration policy unchanged (Dividend + share buyback)

O2 acquisition underpins Telefónica's strategic goal

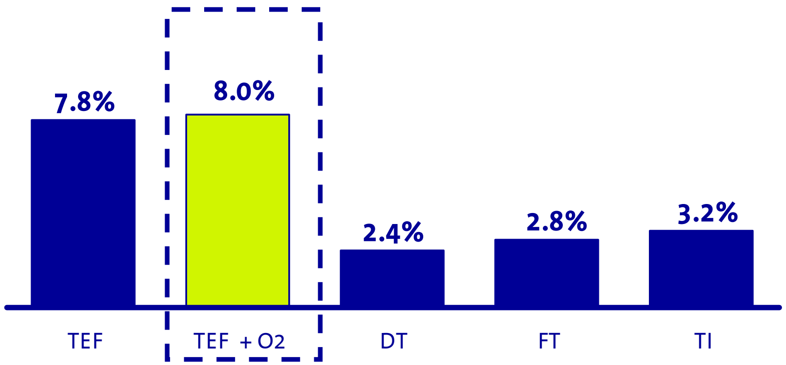
TO PROVIDE THE BEST COMBINATION OF GROWTH AND CASH RETURNS IN THE INDUSTRY

02 Improving Growth: The Fastest Growing Operator

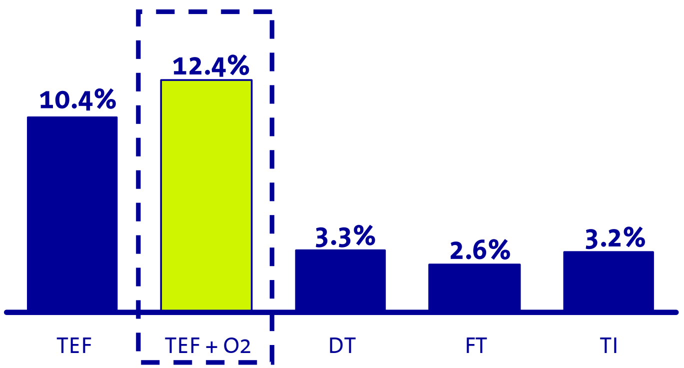
Revenue Growth
(CY05E – CY08E CAGR)



EBITDA Growth
(CY05E – CY08E CAGR)



OpFCF* Growth
(CY05E – CY08E CAGR)



Enhancing Telefónica´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 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

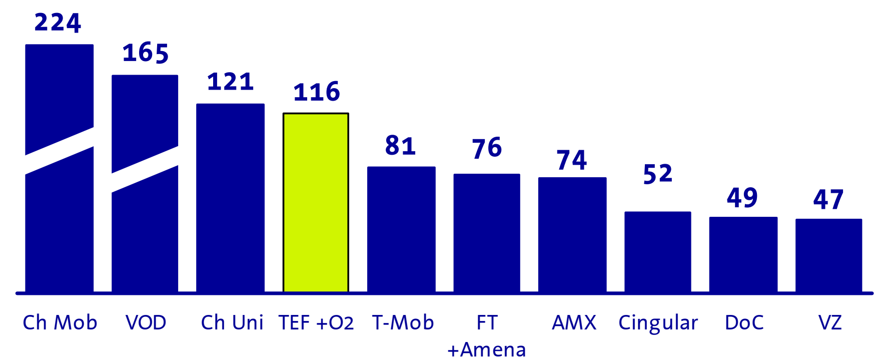
- Plan to launch IP TV in 1H06
- Broadband and UMTS equipment purchase
- Launch of TdE's BB products & services
- Renewed network planning and introduction of Telefónica's practices in fixed-mobile network usage and deployment (transport network) . Reducing CapEx and OpEx.

±25% of value already achieved

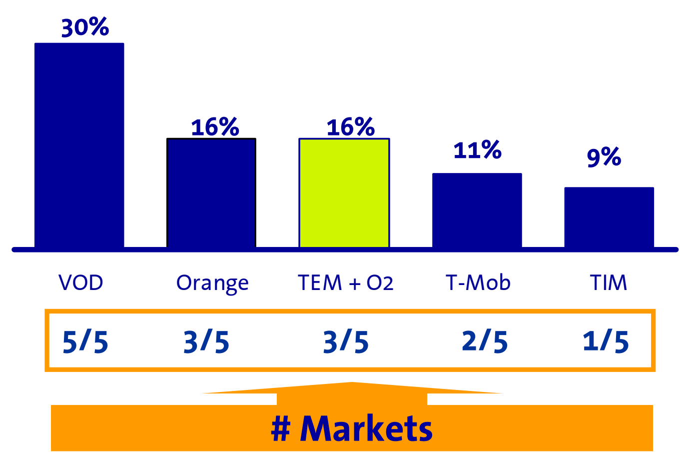
02 Gaining Scale: Entering the Two Largest Markets in Europe with Critical Mass

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

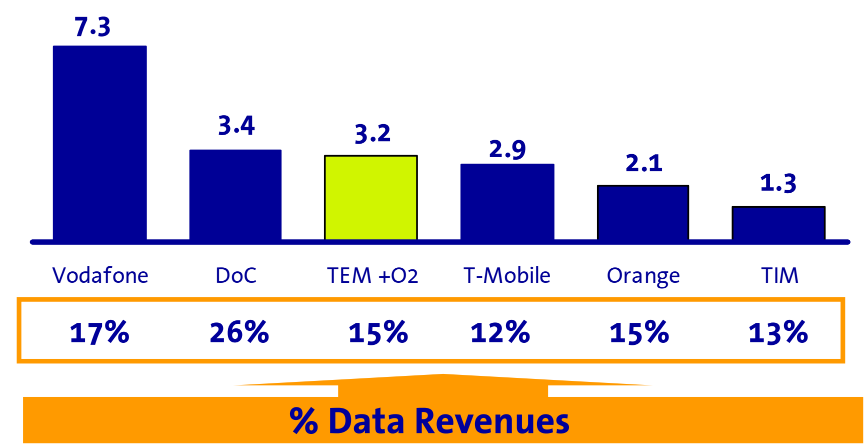
Managed Mobile Subscribers
(June2005A)



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



Total Data Revenues
(Last FY reported, EUR bn)



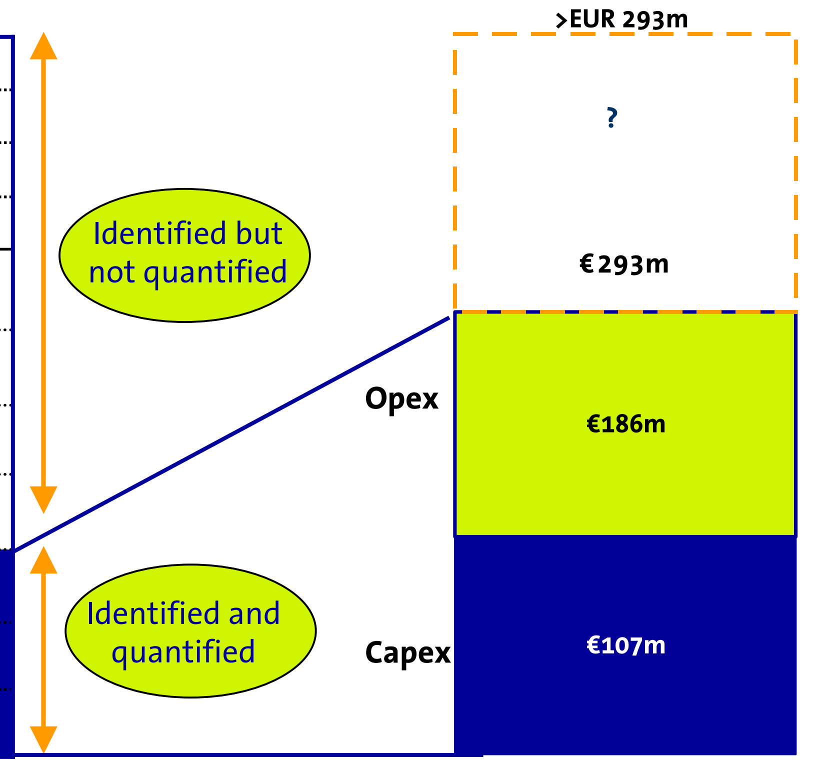
Source: Company's reports for number of subscribers (FT & Orange PF for Amena), average of analyst research reports for market share of wireless revenues. Data revenues for Orange and TIM are only for their core European markets (Orange UK & France, TIM Italy, respectively)

02 Gaining Scale: Integrating O2 to Result in Sizeable Synergies

Potential Sources of Synergies

Revenues	Corporate Solutions Development
	Content Services Development
	New Services
	Roaming
Costs and Capex	Advertising
	Content Purchasing
	Product & Software Development
	IT
	Handsets and Equipment Purchasing
	Other Overall Expenses
	Network Cost & Other Efficiencies

Estimated Run-Rate of Annual Synergies *



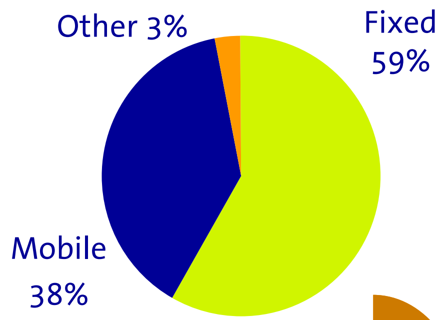
NPV OF QUANTIFIED SYNERGIES EUR 3.3 bn**
- **89% at O2**
- **11% at Telefónica**

* Run-rate from 2008
** Including one-off implementation charges of EUR 39 m pre-tax

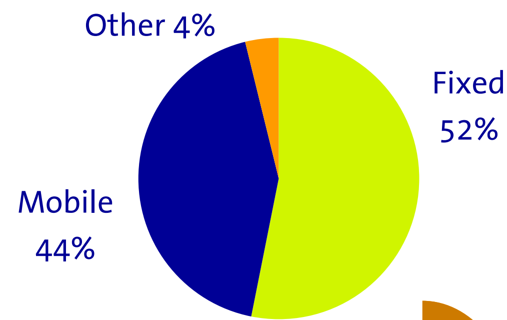
02 Rebalancing the Portfolio: A Diversified Exposure Across Businesses

TEF

2005E EBITDA

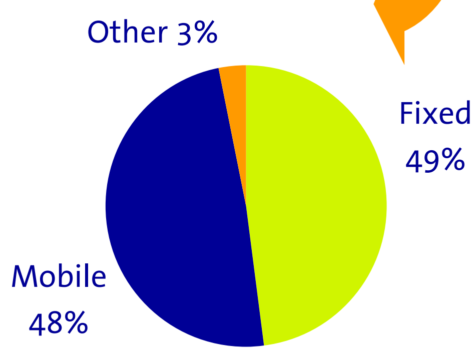


2008E EBITDA



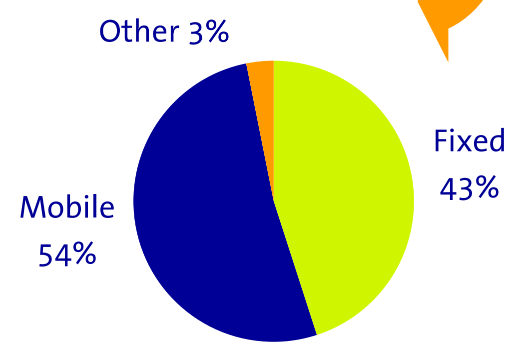
TEF + O2

2005PF EBITDA



Total EBITDA: ~EUR 17.5bn

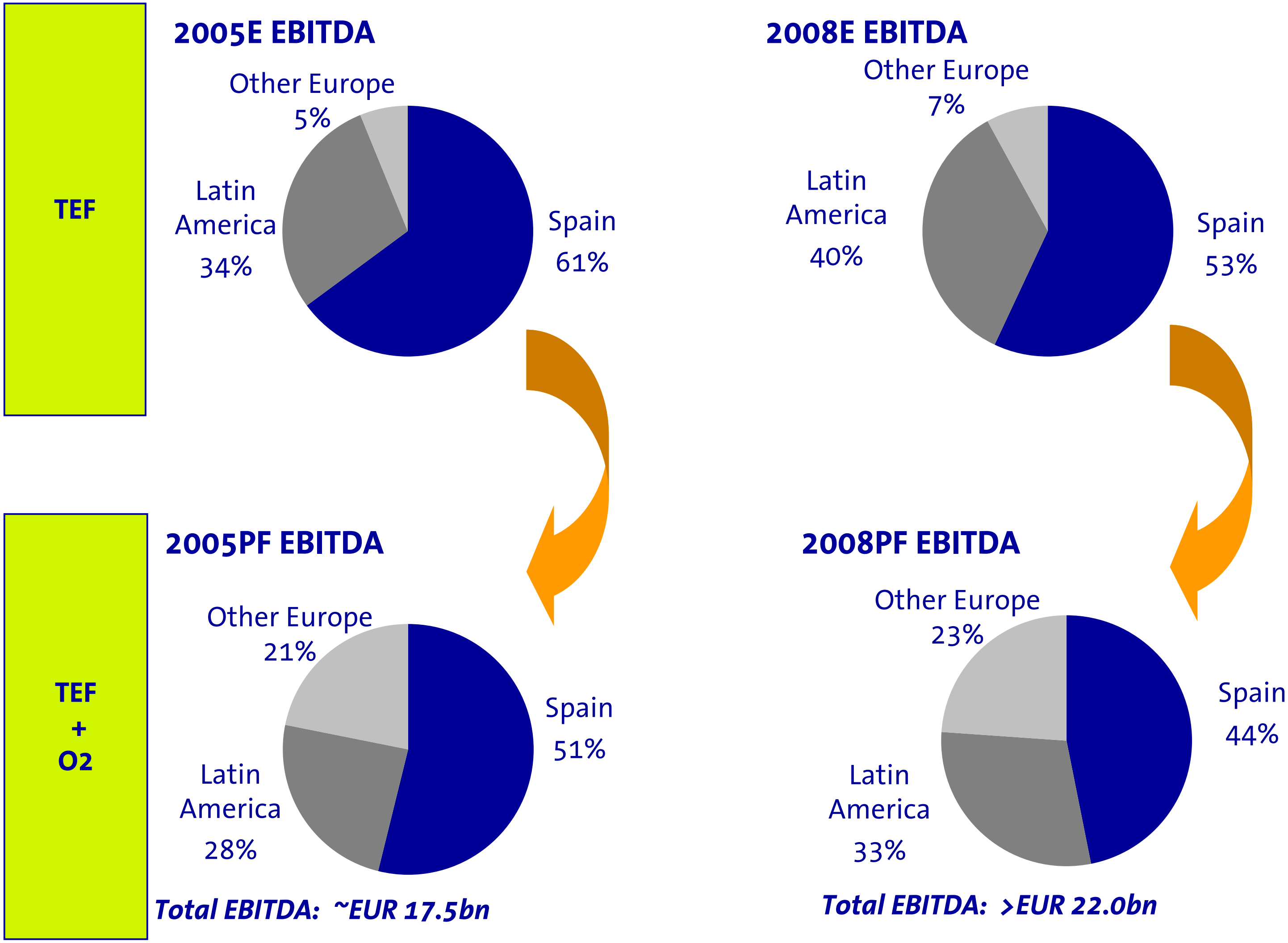
2008PF EBITDA



Total EBITDA: >EUR 22.0bn

Source: Average of Citigroup, Goldman Sachs, JP Morgan, Merrill Lynch and Morgan Stanley research reports on each company as available excluding consolidation adjustments. No synergies considered.

02 Rebalancing the Portfolio: A Diversified Exposure Across Regions



Total EBITDA: ~EUR 17.5bn

Total EBITDA: >EUR 22.0bn

Source: Average of Citigroup, Goldman Sachs, JP Morgan, Merrill Lynch and Morgan Stanley research reports on each company as available excluding consolidation adjustments. No synergies considered.

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

Strong track record in gaining market share and enhancing margins

Differentiated brand and unique product innovation skills

Strong management team committed to building the business within Telefónica

The fastest growing network operator with critical mass in the two largest European markets (24.6 MM clients*)

Top tier cash flow growth prospects

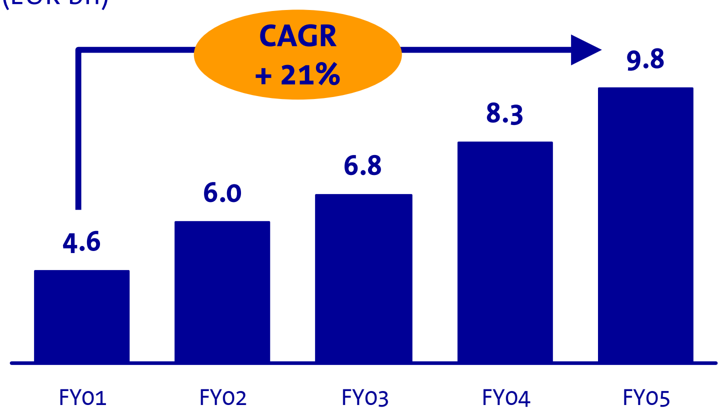
A EUR 9.8 bn revenue company **

A EUR 2.6 bn EBITDA company **

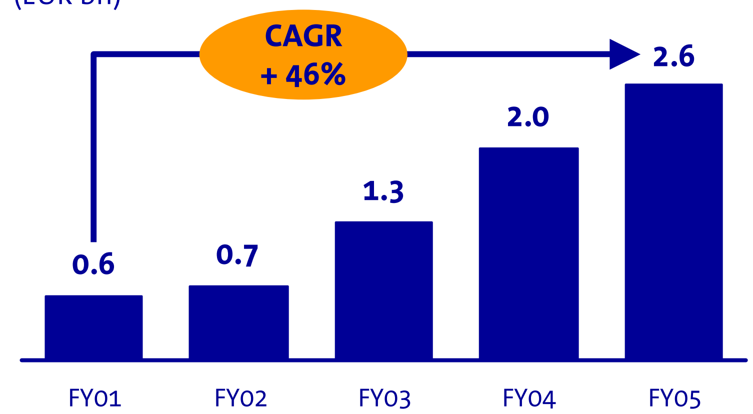
*June 2005
** FY 2005. Based on a EUR/GBP exchange rate of 1.47

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

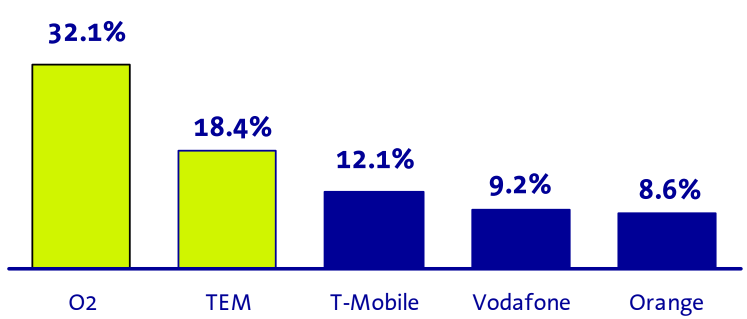
Historical Revenue Growth
(EUR bn)



Historical EBITDA Growth
(EUR bn)



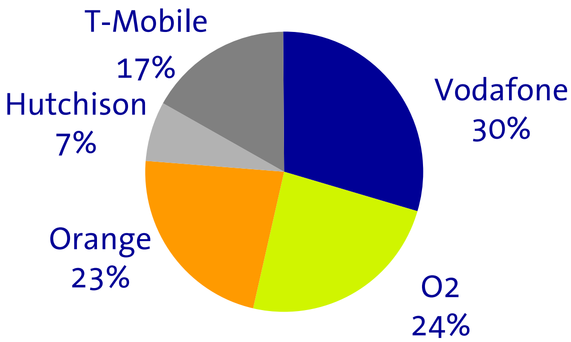
Expected OpFCF* Growth
CY05-CY08 CAGR



Source: Annual reports for actuals excluding Netherlands. Average of Citigroup, Goldman Sachs, JP Morgan, Merrill Lynch and Morgan Stanley research reports on each company as available. Based on a EUR/GBP exchange rate of 1.47
*EBITDA-CapEx

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

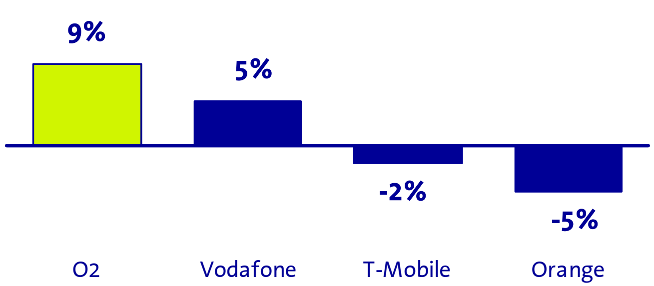
2005E Revenue Market Share



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

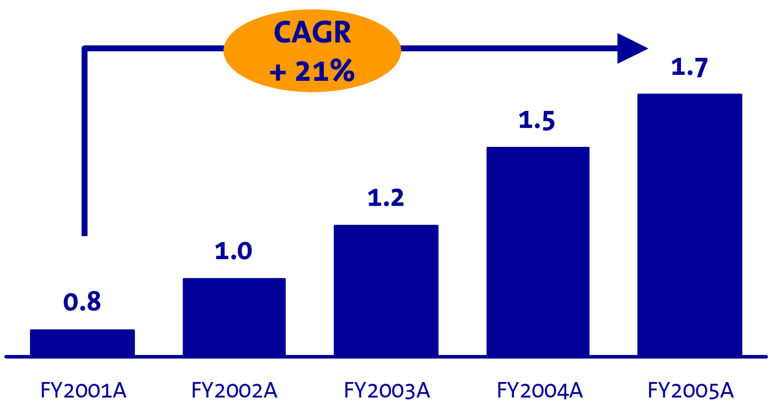
The 2nd UK player by revenues and EBITDA

CY 2004A-2005E Revenue Growth



Historical EBITDA Growth

(EUR bn)

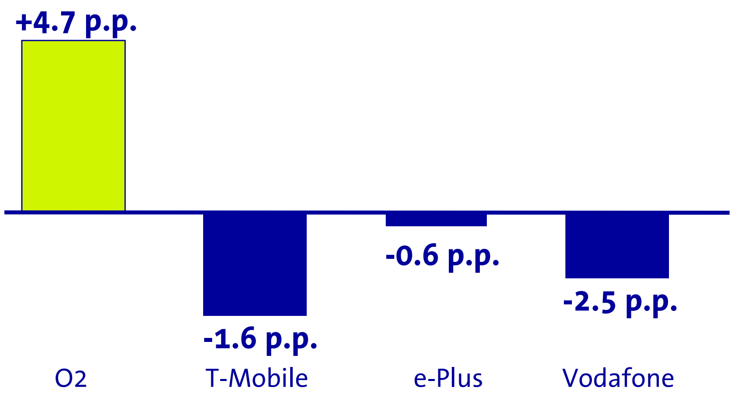


Source: Annual reports for actuals. Average of Citigroup, Goldman Sachs, JP Morgan, Merrill Lynch and Morgan Stanley research reports on each company as available. Based on a EUR/GBP exchange rate 1.47. Hutchison estimates as per Bear Stearns research

03 O2 Germany: Achieved Critical Mass and Highest ARPU

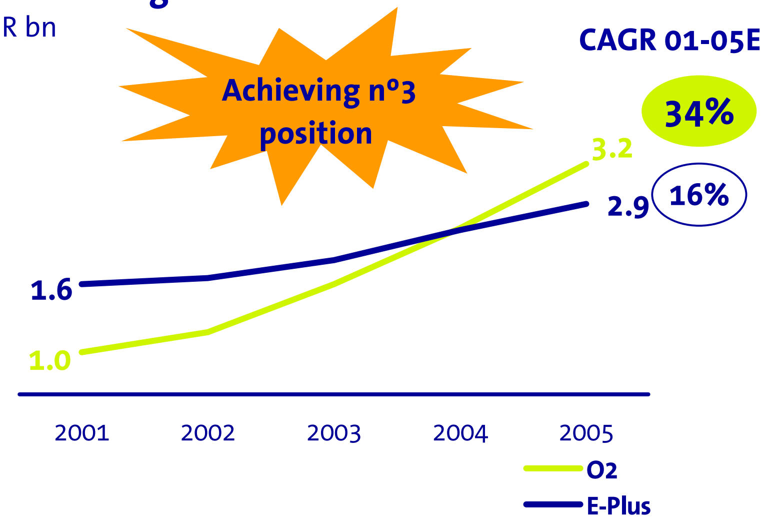
Gaining Market Share

2000A-2005A



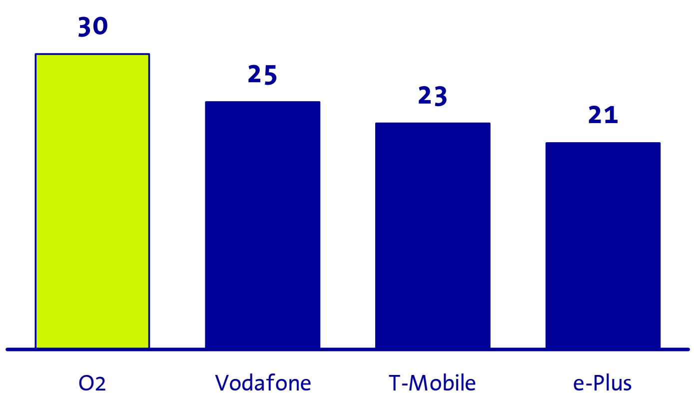
Accelerating Revenue Growth

EUR bn



Blended ARPU

(EUR/month as of June 2005)



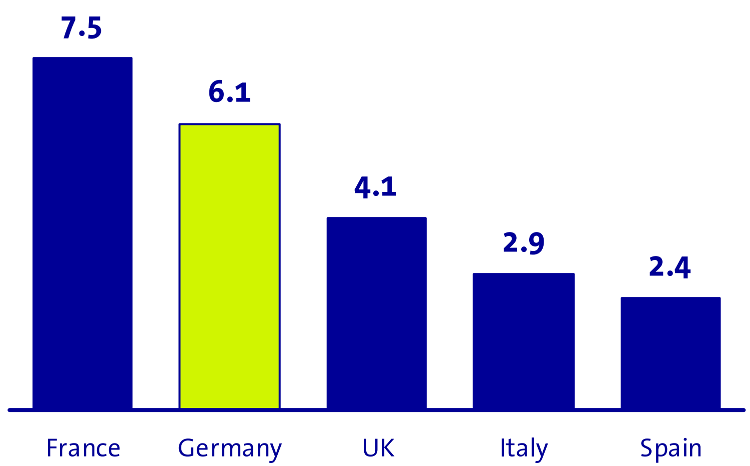
- +33% subscriber y-o-y growth & grabbing 36% of 1H05 market net adds
- 23% premium over market ARPU
- 23% of June 05 revenues derived from data

The 3rd German player by revenues and EBITDA in 2005E

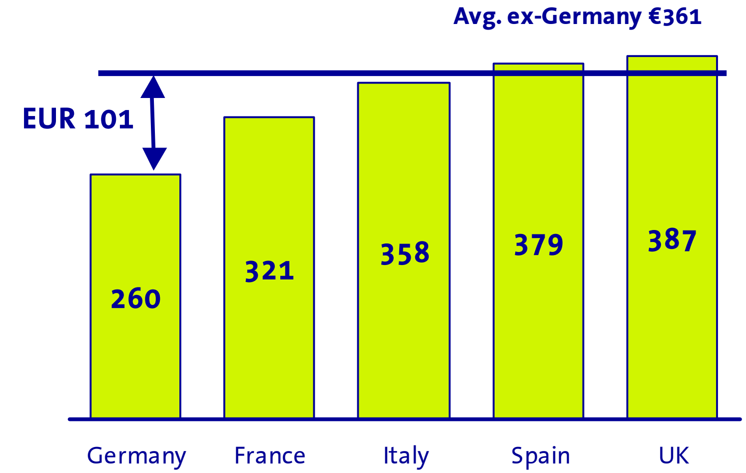
Source: Company reports for actuals. Consensus of Citigroup, Goldman Sachs, JP Morgan, Merrill Lynch and Morgan Stanley research reports on each company as available

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%

Source: Pyramid for subscribers growth, Strategy Analytics for mobile service revenue per Pop (includes incoming interconnection revenues), UBS, Morgan Stanley and Centrosim research for Wind projections (financial information on Wind includes wireline) and Goldman Sachs, JP Morgan and Morgan Stanley research for Amena projections

Telefónica

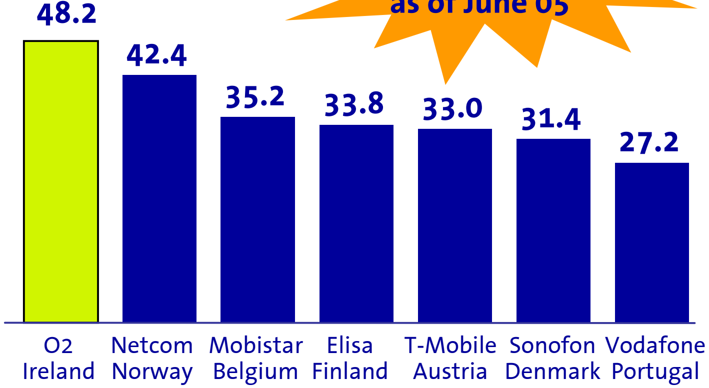
O2

03 O2 Ireland and Airwave: Attractive Operating Profile

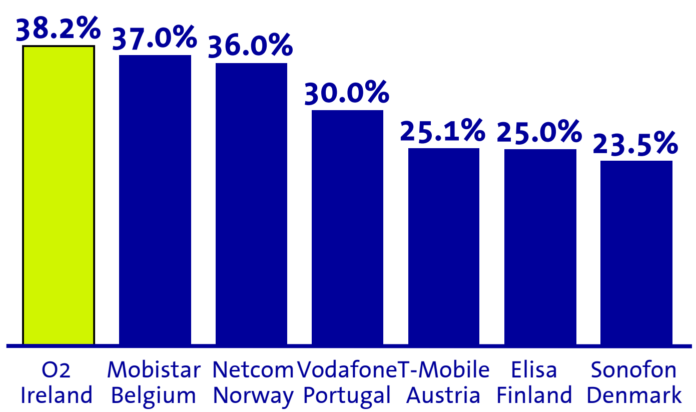
Ireland

High ARPUs
(2Q05 EUR)

1.5 m clients as of June 05



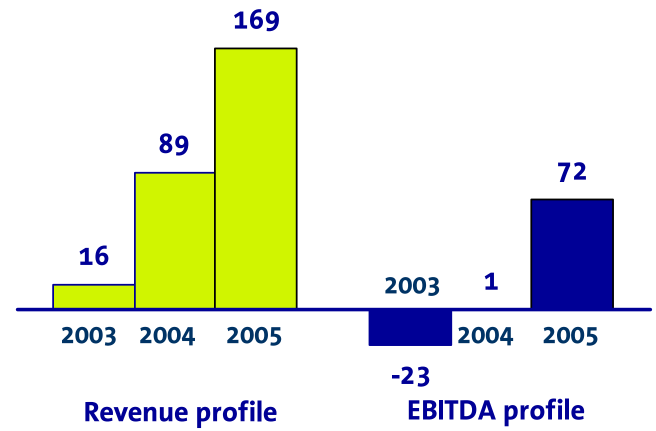
Strong EBITDA Margin
(2Q05)



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)



Source: Merrill Lynch Research

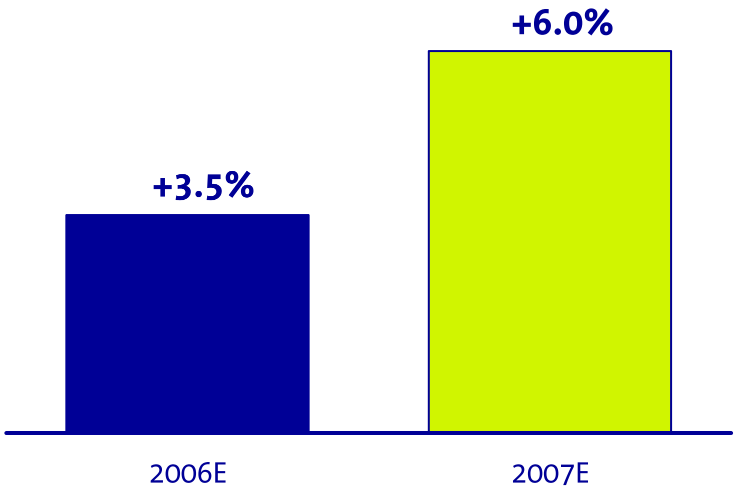
Source: Annual reports & research estimate for EBITDA 2003

03 Building on O2's Successful Platform

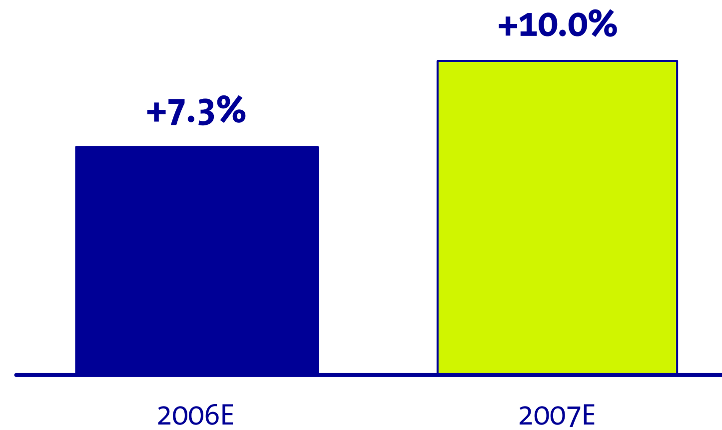
- O2 to remain a UK based entity
- O2 will continue to be led by the current management team
- No business disruption
- Maintenance of highly successful brand
- The Board of Directors of Telefónica will procure, as soon as practicable following the date the Offer becomes or is declared wholly unconditional 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

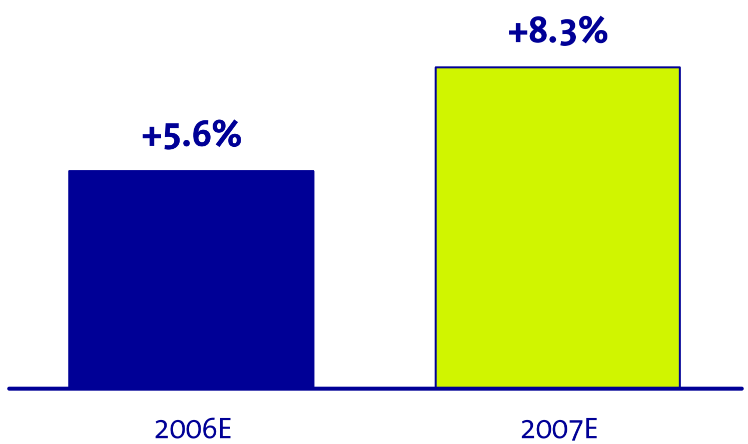
Expected EPS Accretion



Expected Cash EPS Accretion



Expected FCF per Share Accretion

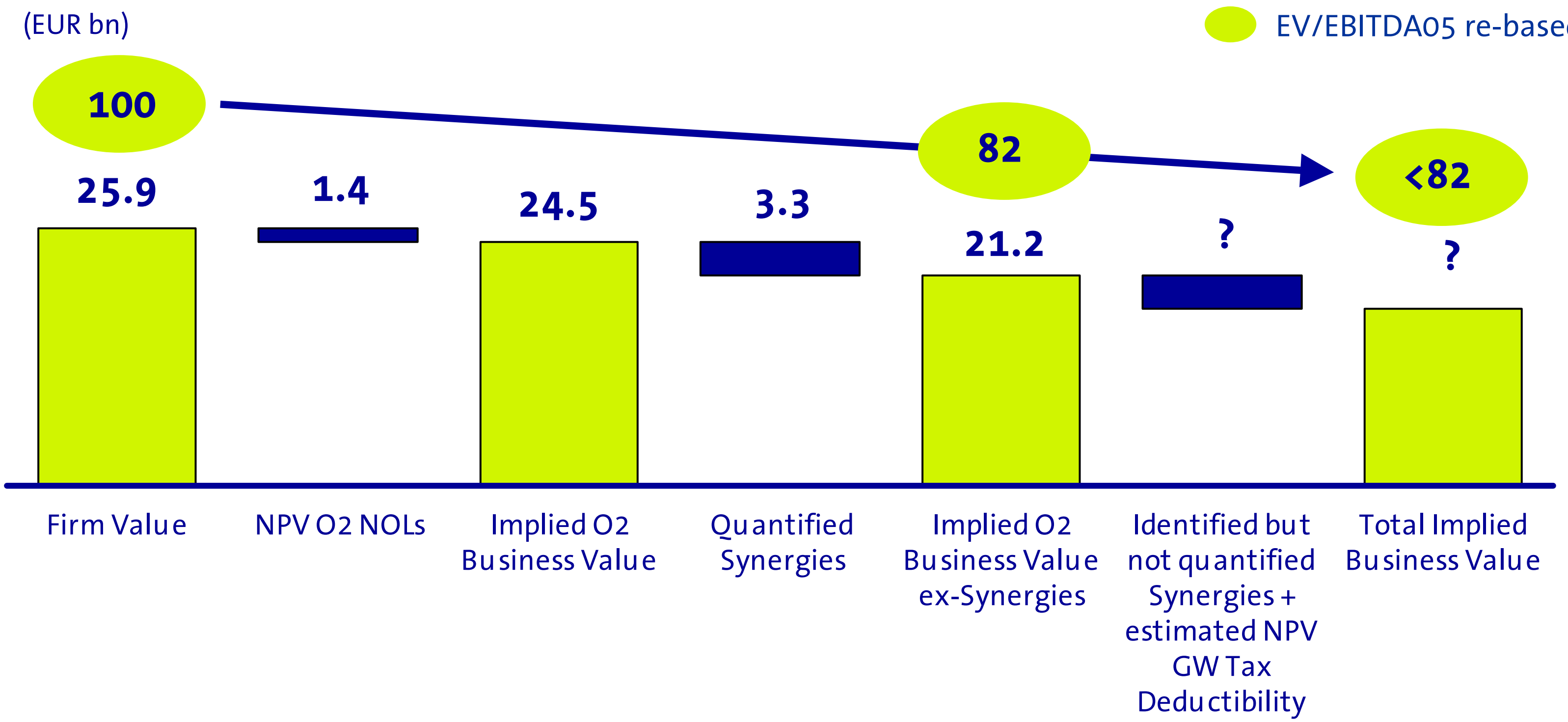


The statement as to financial accretion is not intended to mean that Telefónica's future earnings per share will necessarily exceed or match those of any prior year.

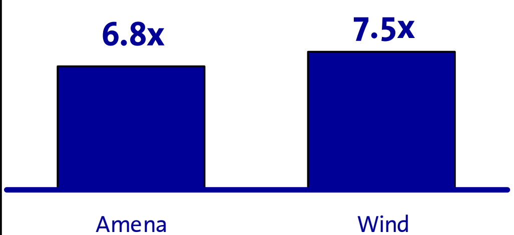
Source: Average of Citigroup, Goldman Sachs, JP Morgan, Merrill Lynch and Morgan Stanley research reports on each company as available. Financial impact assumes 100% of fully diluted shares acquired at £2.0 per share

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

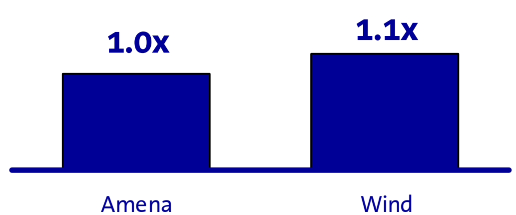
Firm Value Breakdown
(EUR bn)



Multiples in Precedent Transactions
(05EBITDA Multiple)



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



In line with recent transactions

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

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- 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

 Based on a EUR/GBP exchange rate 1.47

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