Delivering Balanced Growth and Cash Returns Through Enhanced Scale
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02  A Compelling Transaction for Telefónica’s Shareholders: Growth, Scale and Portfolio Rebalancing

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05  A Compelling Transaction for O2’s Shareholders

06  Conclusion
**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

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

- Accelerates Telefónica’s growth profile
- Widens Telefónica’s growth gap versus peers
- Enhances Telefónica’s scale benefits by entering the two largest markets in Europe with critical mass
- Sizeable OpEx and CapEx synergies
- Balances exposure across businesses and regions
- 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)
- TEF: 5.2%
- TEF + O2: 5.5%
- DT: 2.5%
- FT: 2.6%
- TI: 1.8%

**EBITDA Growth**
(CY05E – CY08E CAGR)
- TEF: 7.8%
- TEF + O2: 8.0%
- DT: 2.4%
- FT: 2.8%
- TI: 3.2%

**OpFCF* Growth**
(CY05E – CY08E CAGR)
- TEF: 10.4%
- TEF + O2: 12.4%
- DT: 3.3%
- FT: 2.6%
- TI: 3.2%

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 Telefónica, S.A. includes Amena for the full year 2005

* EBITDA- CapEx
Gaining Scale: Increasingly Important to Better Serve Our Clients & Expand Efficiencies

<table>
<thead>
<tr>
<th><strong>BELLSOUTH LATAM ASSETS</strong></th>
<th><strong>CESKY TELECOM</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>From the announced NPV of synergies of USD 1bn to a new estimate of USD 1.5 bn</td>
<td>NPV of synergies initially announced EUR 250 – 280 million</td>
</tr>
<tr>
<td>we are progressing faster and with stronger results</td>
<td>we have taken key initiatives in just three months since takeover</td>
</tr>
</tbody>
</table>

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

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.

±65% of value already achieved
±25% of value already achieved
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
(June 2005A)

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

<table>
<thead>
<tr>
<th>Operator</th>
<th>Market Share (%)</th>
<th># Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>VOD</td>
<td>30</td>
<td>5/5</td>
</tr>
<tr>
<td>Orange</td>
<td>16</td>
<td>3/5</td>
</tr>
<tr>
<td>TEM + O2</td>
<td>16</td>
<td>3/5</td>
</tr>
<tr>
<td>T-Mob</td>
<td>11</td>
<td>2/5</td>
</tr>
<tr>
<td>TIM</td>
<td>9</td>
<td>1/5</td>
</tr>
</tbody>
</table>

Total Data Revenues
(Last FY reported, EUR bn)

<table>
<thead>
<tr>
<th>Operator</th>
<th>Total Data Revenues (EUR bn)</th>
<th>% Data Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vodafone</td>
<td>7.3</td>
<td>17%</td>
</tr>
<tr>
<td>DoC</td>
<td>3.4</td>
<td>26%</td>
</tr>
<tr>
<td>TEM + O2</td>
<td>3.2</td>
<td>15%</td>
</tr>
<tr>
<td>T-Mobile</td>
<td>2.9</td>
<td>12%</td>
</tr>
<tr>
<td>Orange</td>
<td>2.1</td>
<td>15%</td>
</tr>
<tr>
<td>TIM</td>
<td>1.3</td>
<td>13%</td>
</tr>
</tbody>
</table>

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).
# Gaining Scale: Integrating O2 to Result in Sizeable Synergies

## Potential Sources of Synergies

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Costs and Capex</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Solutions Development</td>
<td>Handsets and Equipment Purchasing</td>
</tr>
<tr>
<td>Content Services Development</td>
<td>Other Overall Expenses</td>
</tr>
<tr>
<td>New Services</td>
<td>Network Cost &amp; Other Efficiencies</td>
</tr>
<tr>
<td>Roaming</td>
<td></td>
</tr>
</tbody>
</table>

## Estimated Run-Rate of Annual Synergies *

<table>
<thead>
<tr>
<th></th>
<th>Opex</th>
<th>Capex</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identified and quantified</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identified but not quantified</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EUR 293m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EUR 186m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EUR 107m</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**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
Rebalancing the Portfolio: A Diversified Exposure Across Businesses

**2005E EBITDA**
- Fixed: 59%
- Mobile: 38%
- Other: 3%

**2008E EBITDA**
- Fixed: 52%
- Mobile: 44%
- Other: 4%

**2005PF EBITDA**
- Fixed: 49%
- Mobile: 48%
- Other: 3%

**2008PF EBITDA**
- Fixed: 43%
- Mobile: 54%
- Other: 3%

*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.
Rebalancing the Portfolio: A Diversified Exposure Across Regions

2005E EBITDA
- Other Europe: 5%
- Latin America: 34%
- Spain: 61%

2008E EBITDA
- Other Europe: 7%
- Latin America: 40%
- Spain: 53%

2005PF EBITDA
- Other Europe: 21%
- Latin America: 28%
- Spain: 51%

2008PF EBITDA
- Other Europe: 23%
- Latin America: 33%
- Spain: 44%

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.
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
- 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.
**O2: Strong Financial Performance and Superior Cash Flow Growth Prospects**

**Historical Revenue Growth**

<table>
<thead>
<tr>
<th>Year</th>
<th>EUR bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY01</td>
<td>4.6</td>
</tr>
<tr>
<td>FY02</td>
<td>6.0</td>
</tr>
<tr>
<td>FY03</td>
<td>6.8</td>
</tr>
<tr>
<td>FY04</td>
<td>8.3</td>
</tr>
<tr>
<td>FY05</td>
<td>9.8</td>
</tr>
</tbody>
</table>

CAGR + 21%

**Historical EBITDA Growth**

<table>
<thead>
<tr>
<th>Year</th>
<th>EUR bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY01</td>
<td>0.6</td>
</tr>
<tr>
<td>FY02</td>
<td>0.7</td>
</tr>
<tr>
<td>FY03</td>
<td>1.3</td>
</tr>
<tr>
<td>FY04</td>
<td>2.0</td>
</tr>
<tr>
<td>FY05</td>
<td>2.6</td>
</tr>
</tbody>
</table>

CAGR + 46%

**Expected OpFCF* Growth**

<table>
<thead>
<tr>
<th>Company</th>
<th>CY05-CY08 CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>O2</td>
<td>32.1%</td>
</tr>
<tr>
<td>TEM</td>
<td>18.4%</td>
</tr>
<tr>
<td>T-Mobile</td>
<td>12.1%</td>
</tr>
<tr>
<td>Vodafone</td>
<td>9.2%</td>
</tr>
<tr>
<td>Orange</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

*EBITDA-CapEx

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

- +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

2005E Revenue Market Share

- O2: 24%
- Vodafone: 30%
- Orange: 23%
- Hutchison: 7%
- T-Mobile: 17%

CY 2004A-2005E Revenue Growth

- O2: 9%
- Vodafone: 5%
- T-Mobile: -2%
- Orange: -5%

Historical EBITDA Growth (EUR bn)

- FY2001A: 0.8
- FY2002A: 1.0
- FY2003A: 1.2
- FY2004A: 1.5
- FY2005A: 1.7

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.
O2 Germany: Achieved Critical Mass and Highest ARPU

Gaining Market Share
2000A-2005A
O2  T-Mobile  e-Plus  Vodafone

Blended ARPU
(EUR/month as of June 2005)
30  25  23  21
O2  Vodafone  T-Mobile  e-Plus

Accelerating Revenue Growth
EUR bn
CAGR 01-05E
Achieving nº3 position
3.2  2.9  16%
2001 2002 2003 2004 2005
O2  E-Plus

-+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.
O2 Germany: Strong Upside Potential & Comparable in Size with Recent Transactions

Cumulative Subscriber Growth
05A-09E (m)

<table>
<thead>
<tr>
<th></th>
<th>France</th>
<th>Germany</th>
<th>UK</th>
<th>Italy</th>
<th>Spain</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005E</td>
<td>7.5</td>
<td>6.1</td>
<td>4.1</td>
<td>2.9</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Mobile Service Revenue per Pop
(2005E) (EUR/year)

<table>
<thead>
<tr>
<th></th>
<th>Germany</th>
<th>France</th>
<th>Italy</th>
<th>Spain</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. ex-Germany</td>
<td>€361</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EUR 101</td>
<td>260</td>
<td>321</td>
<td>358</td>
<td>379</td>
<td>387</td>
</tr>
</tbody>
</table>

Comparing Different Transactions

<table>
<thead>
<tr>
<th></th>
<th>O2 Germany</th>
<th>Wind</th>
<th>Amena</th>
</tr>
</thead>
<tbody>
<tr>
<td>1H05A Customers (m)</td>
<td>8.4</td>
<td>12.9</td>
<td>9.7</td>
</tr>
<tr>
<td>2005E Revenues (EUR bn)</td>
<td>3.2</td>
<td>4.9</td>
<td>3.6</td>
</tr>
<tr>
<td>CY04-CY05 EBITDA Growth (%)</td>
<td>45%</td>
<td>5%</td>
<td>15%</td>
</tr>
</tbody>
</table>

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.
**O2 Ireland and Airwave: Attractive Operating Profile**

**High ARPU**
- **Ireland**
  - O2: 48.2 EUR
  - Netcom: 42.4 EUR
  - Mobistar: 35.2 EUR
  - Elisa: 33.8 EUR
  - T-Mobile: 33.0 EUR
  - Sonofon: 31.4 EUR
  - Vodafone: 27.2 EUR

- **Airwave**: 1.5 million clients as of June 05

**Strong EBITDA Margin**
- **Ireland**
  - O2: 38.2%
  - Mobistar: 37.0%
  - Netcom: 36.0%
  - T-Mobile: 30.0%
  - Elisa: 25.1%
  - Sonofon: 25.0%
  - Vodafone: 23.5%

- **Airwave**
  - Significant operating leverage driven by success based CapEx

**A Fast Growing Business**
- **FY2003A-FY2005A (£ m)**
  - Source: Annual reports & research estimate for EBITDA 2003

Source: Merrill Lynch Research
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.
Positive Financial Impact: Accretive from Year One

Expected EPS Accretion
- 2006E: +3.5%
- 2007E: +6.0%

Expected Cash EPS Accretion
- 2006E: +7.3%
- 2007E: +10.0%

Expected FCF per Share Accretion
- 2006E: +5.6%
- 2007E: +8.3%

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

Firm Value Breakdown (EUR bn)

<table>
<thead>
<tr>
<th></th>
<th>Firm Value</th>
<th>NPV O2 NOLs</th>
<th>Implied O2 Business Value</th>
<th>Quantified Synergies</th>
<th>Implied O2 Business Value ex-Synergies</th>
<th>Identified but not quantified Synergies + estimated NPV GW Tax Deductibility</th>
<th>Total Implied Business Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amena Wind</td>
<td>25.9</td>
<td>1.4</td>
<td>24.5</td>
<td>3.3</td>
<td>21.2</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td>?</td>
<td>?</td>
</tr>
</tbody>
</table>

Multiples in Precedent Transactions
(05EBITDA Multiple)

<table>
<thead>
<tr>
<th></th>
<th>Amena</th>
<th>Wind</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiples</td>
<td>6.8x</td>
<td>7.5x</td>
</tr>
</tbody>
</table>

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.

In line with recent transactions
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

* Based on 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
What does the acquisition of O2 bring to Telefónica’s shareholders?

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

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

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