Customers, then Convergence
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This presentation contains certain forward-looking statements. These are based on our current plans, expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions and speak only as of the date they are made. Statements that are not historical facts, including statements about our beliefs and expectations are forward-looking statements. Words like “believe”, “anticipate”, “expect”, “intend”, “seek”, “will”, “plan”, “could”, “may”, “might”, “project”, “goal”, “target” and similar expressions often identify forward-looking statements but are not the only way these are identified. Our results could differ materially from those anticipated in these forward-looking statements.
Agenda

- Highlights - Q3 results
- Communications market overview
- O2’s strategy
- Q & A
Highlights - Q3 Results

- **O2 UK**
  - Customer base ↑ 15% to 17.338 million
  - 524,000 net adds
  - ARPU £272 ↑ £7 year on year (+3%)
  - MoU ↑ 11% to 175 minutes
  - Q3 net service revenue grew by 14.9%
  - OIBDA margin (8 months to 30 September) 27.6%
  - Contract churn ↓ for 5th consecutive quarter (24% Q3 06 vs. 30% Q3 05)

- **Outlook (11 months to 31 December 2006)**
  - Service revenue growth 14% - 15%, from 8% - 11%
  - Margin around 1 percentage point lower than comparable period in 2005

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1. Comparable period is 11 months to 31 December 2005
O2 UK Growth and ARPU

Net adds ('000s) 265 267 269 271 272

2006 Q2 Q3

Q4 2005

269 271 272

£ blended ARPU

Pre-pay

Post-pay

2005 Q3

272 271 271

2006 Q4

470

210 274

360

185 188

523

208
Highlights - Q3 Results

• O2 Germany
  – Customer base ↑ 19% to 10.629 million
    – Tchibo base 722,000
    – 3.8 million Genion customers (72% of contract base)
  – ARPU € 299 ↓ €44 year on year (-13%)
  – MoU ↑ 5% to 124 minutes
  – Q3 net service revenue grew by 6.1% (year to date ↑ 8.1%)
  – OIBDA margin (8 months to 30 September) 24.2%

• Outlook (11 months to 31 December 2006)¹
  – Service revenue growth high single digit, from low double digits
  – Margin stable

¹. Comparable period is 11 months to 31 December 2005
Highlights - Q3 Results

• O2 Czech Republic
  – Q3 total revenue ↑ 2% year on year
  – Q3 OIBDA ↑ 2% year on year
  – Mobile customer base ↑ 6% to 4.760 million
    – ARPU CZK 6,089 ↓ CZK54 (-1%) year on year
    – MoU ↑ 9% to 102 minutes
  – Q3 mobile service revenue grew by 6.5%
  – Fixed
    – broadband revenues (9 months) ↑ 49% year on year
    – 427,000 DSL lines end Q3 (vs. 221,000 end Q3 2005)

• Outlook (12 months to 31 December 2006)¹
  – Revenue flat
  – OIBDA growth around 2%, from flat

¹. Comparable period is 12 months to 31 December 2005
Agenda

Highlights - Q3 results

Communications market overview

O2’s strategy

Q & A
Mobile – a great success story

2.5 billion customers worldwide in <15 years; >1000 customers signing up per minute

More mobile phones on the planet than TV’s and computers worldwide

90% of people take their mobile wherever they go; 5% would rather lose their job or relationship than their mobile

1 billion handsets forecast to be shipped worldwide during 2006

In India, mobile is the fastest selling consumer product, pushing bicycles to number two

Mobile networks to cover 90% of the world’s population by 2010


A challenging future:

The ‘internet generation’ taking off

Industry barriers blurring

Increasing competition
The ‘Internet generation’ is taking off

People are spending more and more free time online

- Most popular leisure activities amongst ‘online’ Europeans
  - Listening to music: 67%
  - Watching films/DVDs/videos: 65%
  - Surfing the internet: 60%
  - Travelling: 58%
  - Going to restaurants/bars: 40%
  - Walking/rambling: 38%
  - Gardening: 36%
  - DIY: 34%

Broadband adoption continues to grow

- Total broadband subscriptions in Western Europe (millions)
  - 2004: 39
  - 2005: 57
  - 2006E: 73
  - 2009E: 102
  - Penetration (% of total households)
    - 2004: 24%
    - 2005: 35%
    - 2006E: 44%
    - 2009E: 60%

Google reporting massive growth

- Revenues (USD Millions)
  - 2004: 3,189
  - 2005: 6,139
  - 2006E: 10,494
  - 2007E: 15,105
  - CAGR 68%

The number of web blogs doubles every 6 months

- Growth:
  - 2003: 3 m
  - 2004: 6 m
  - 2005: 12 m
  - 2006: 24 m
  - 2007E: 48 m
  - 2008E: 96 m

Industry barriers blurring

Internet players enabling their customers to go ‘mobile’ to increase ad revenues

...and expanding their communications portfolio

Ongoing battle for voice customers intensifying competition

Free broadband ...forever
When you join our Talk3 International plan

O2 Genion & Flat-rate

Content owners seeking to go direct to consumers to achieve reach; in some cases bypassing the operators

BBC
UNIVERSAL
Bloomberg.com
SKY
FT.com
REUTERS
A reality check

**People are talking to each other more than ever**

- **Voice minutes growth index**
  - 2000: 100
  - 2005: 118
  - 2010E: 136

- **Call origination**
  - Fixed line: 65
  - Mobile: 71

**In Europe, online shopping accounted for 2% of the total retail market in 2005, catching US at 2.2%**

- **Online shopping in Europe forecast to be 8% of total retail sales by 2009**

**While high growth, YouTube remains niche**

- **July 2006**
  - YouTube: 3.5 million unique visitors
  - World Cup: 284 million viewers watched the World Cup final; 5.9 billion total viewers for tournament

**Advertising revenues still largely from ‘traditional’ sources (European figures)**

- **Total E2006 = €89Bn**
  - Internet: 5%
  - TV
  - Press
  - Direct mail
  - Outdoor
  - Radio/cinema
  - Directories
  - Others

Sources: 1. JPMorgan (Ge, Fr, UK, Sp, Sw); 2. Researchandmarkets.com, Lehman Brothers; 3. Initiative; 4. Zenith Optimedia
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O2’s strategy

Q & A
The O2 approach

- Maintain focus on performance and competitiveness
- Drive best customer experience even harder
- Broaden scope of our business and build new capabilities
- Align O2 and Telefónica business

2007 priorities

- Maximise customer value/ARPU
- Continue focus on loyalty and churn
- Maintain growth in the UK and Czech Republic
- Keep the brand ‘fresh’
- End-to-end customer experience
- Use customer insight to drive propositions
- Offer ‘virtual’ and ‘real’ experiences (e.g. The O2)
- Continue to grow SMS and non-SMS data usage
- Continue targeted 3G rollout and exploit capabilities
- Extend scope into fixed Broadband
- Expand revenue sources (e.g. mobile advertising)
- Deliver tangible customer benefits (e.g. roaming)
- Share best practice and innovation (e.g. ITPV)
- Leverage cost share, purchase and partnership benefits
Different markets, different approaches

- Local markets driven by customer insight and customer needs...
- enables targeted, agile and relevant approach...
- whilst leveraging Global and European scale (Telefónica and O2).

Sources:
- Population: ComReg
- Mobile penetration, Fixed line, BBand, Pay TV: Ofcom, ECTA, Enders Analysis
- Pay TV: O2 CR
‘Customers’ then ‘convergence’

Customer requirements…
- Communications
- Entertainment
- Sharing/community
- A consistent experience
- Convenience
- Simplicity
- Value for money

…drive customer propositions…
- Best value calls/messaging and email (at home, at work, on the move)
- Internet access
- ‘Community’, blog and image capability
- Music, anywhere
- ‘The O2 Communication Centre’
- Navigation
- Total customer service

…enabled by the right combination of technologies
- GSM, 3G, HSPA
- SMS, MMS, IM
- DSL
- Wifi
- IP/Internet
- Devices
The future

Build and improve core mobile business

Extend scope into fixed broadband

Embrace the internet and expand revenue sources

trusted brand propositions driven by CI
leverage scale
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