A repeat performance
Building sustainable outperformance

Matthew Key
CEO Telefónica Europe

Merrill Lynch TMT Conference, 3rd – 4th June 2008
Landmark Hotel, London
## The UK in 2002

<table>
<thead>
<tr>
<th>Metric</th>
<th>BT Cellnet</th>
<th>Market Leader</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARPU</td>
<td>£243</td>
<td>£287</td>
</tr>
<tr>
<td>Customers</td>
<td>12m (23% share)</td>
<td>13m</td>
</tr>
<tr>
<td>EBITDA (m)</td>
<td>£786</td>
<td>£1,503</td>
</tr>
<tr>
<td>Margin</td>
<td>26.5%</td>
<td>37.5%</td>
</tr>
<tr>
<td>Network QoS</td>
<td>#3</td>
<td>#1</td>
</tr>
<tr>
<td>% Sales Direct</td>
<td>~30%</td>
<td>?</td>
</tr>
<tr>
<td>Contract churn</td>
<td>30%</td>
<td>26%</td>
</tr>
<tr>
<td>Brand</td>
<td>#4</td>
<td>orange</td>
</tr>
</tbody>
</table>

Source: Merrill Lynch / Company Reports
Ingredients for sustainable outperformance - O2 UK

Customer Plan: Customers into Fans

Differentiated Propositions

Foundations
Network, Distribution, Brand

Employee engagement

2002

Today
We differentiated our propositions and rewarded customers’ loyalty.
We created The Customer Plan—a core business strategy to enable both differentiation and cost savings.

- Differentiate O2 propositions, focusing on what really matters to customers
- Reduce churn
- Create strong customer pull and emotional loyalty to O2
- Re-balance between acquisition and retention
- More sales and upgrades through Direct
- Increase proportion of O2 branded and exclusive devices
- Simplify and rationalise our activities and processes
- Invest in new capabilities for the future
- Make O2 a great place to work for our people
- Reduce cost of complexity and cost of failure and improve end-to-end delivery
- Reduce acquisition and retention costs
We created The Customer Plan - a core business strategy to enable both differentiation and cost savings.

- Differentiate O2 propositions, focusing on what really matters to customers
- Create strong customer pull and emotional loyalty to O2
- Reduce churn
- Reduce acquisition and retention costs
- Reduce cost of complexity and cost of failure and improve end-to-end delivery

Re-balance between acquisition and retention:
- More sales and upgrades through Direct
- Increase proportion of O2 branded and exclusive devices
- Simplify and rationalise our activities and processes
- Invest in new capabilities for the future
- Make O2 a great place to work for our people

Simplify and rationalise our activities and processes

Invest in new capabilities for the future

Make O2 a great place to work for our people
We created The Customer Plan - a core business strategy to enable both differentiation and cost savings.

- Differentiate O2 propositions, focusing on what really matters to customers
- Re-balance between acquisition and retention
- More sales and upgrades through Direct
- Increase proportion of O2 branded and exclusive devices
- Simplify and rationalise our activities and processes
- Invest in new capabilities for the future
- Make O2 a great place to work for our people
- Reduce churn
- Reduce cost of complexity and cost of failure and improve end-to-end delivery
- Reduce acquisition and retention costs
- Create strong customer pull and emotional loyalty to O2
Our strategy worked

Reduce Postpay Churn

Improve network quality

More sales through Direct

Customer Focus and Consistency

Postpay net adds

Source: Merrill Lynch / Company Reports
UK market
managing the growth / margin balance

Q1 '08 Service revenue growth

O2: 26.0%*
T-Mobile: 24.0%*
Orange: 9.0%**
Vodafone: 25.7%*

Service revenue growth
Margin

9% 8% 7% 6% 5%
10% 9% 8% 7% 6% 5%
26% 25% 24% 23% 22% 21%

Source: Merrill Lynch / Company Reports

** 6 months to December 2007
* 6 months to March 2008
Our strategy worked

**EBITDA change 2002 – 2007 (£ m)**

- £167m
- £33m
- £95m

£554m

**Service Revenue growth**

- FY 2003: 20%
- FY 2004: ~13%
- FY 2005: 14%
- FY 2006: ~8%
- FY 2007: 16%


0% 2% 4% 6% 8% 10% 12% 14% 16% 18% 20%

**#1 Customer Satisfaction**

**#1 EBITDA growth**

**#1 Service Revenue growth**

**#1 Active Customer Base**

**#1 Brand**

Source: Merrill Lynch / Company Reports
## The UK in 2002…and now today

<table>
<thead>
<tr>
<th></th>
<th>BTcellnet</th>
<th>O2</th>
<th>Average 3 other major MNOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARPU</td>
<td>£243</td>
<td>£286 (+18%)</td>
<td>£263 (+5%)</td>
</tr>
<tr>
<td>Customers</td>
<td>12m (23% share)</td>
<td>18m (+54%) (29% share)</td>
<td>32% growth</td>
</tr>
<tr>
<td>EBITDA (m)</td>
<td>£786</td>
<td>£1,340 (FY '07) (+70%)</td>
<td>£1,061 (-9%)</td>
</tr>
<tr>
<td>Margin</td>
<td>26.5%</td>
<td>26.4% (FY '07)</td>
<td>24.6%</td>
</tr>
<tr>
<td>Network QoS</td>
<td>#3</td>
<td>=#1</td>
<td>-</td>
</tr>
<tr>
<td>% Direct</td>
<td>~30%</td>
<td>61%</td>
<td>-</td>
</tr>
<tr>
<td>Contract churn</td>
<td>30%</td>
<td>19%</td>
<td>21.1%</td>
</tr>
<tr>
<td>Brand</td>
<td>#4</td>
<td>#1</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Merrill Lynch / Company Reports
O2 Germany has already come a long way....

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>4m (7% share)</td>
<td>12m (13% share)</td>
</tr>
<tr>
<td>Revenue (m)</td>
<td>€1,425</td>
<td>€3,541</td>
</tr>
<tr>
<td>EBITDA (m)</td>
<td>€(270)</td>
<td>€720</td>
</tr>
<tr>
<td>Margin</td>
<td>n.a.</td>
<td>20.3%</td>
</tr>
<tr>
<td>Network QoS</td>
<td>#3</td>
<td>#3</td>
</tr>
<tr>
<td>Brand</td>
<td>#4</td>
<td>#2</td>
</tr>
</tbody>
</table>

Source: Merrill Lynch / Company Reports
Timeline for Germany turnaround

- **Foundations**: Network, Distribution, Brand
- **Employee engagement**
- **Brand / Differentiated Propositions**
- **Customer Plan**: Customers into Fans

2002 → Today
Everything revolves around the customer

**Product Innovations**

- Innovative Products e.g.
  - first prepaid flat rate in Germany
  - inclusive packages
  - simplified S/M/L/XL tariff structure

**Network Expansion**

€3.5 billion network investment 2007 – 2010:
- cessation of national roaming
- enhanced network coverage
- additional functionalities (e.g. HSDPA, EDGE)
- enhanced network quality (dual vendor strategy)

**Brand Refresh**

New campaign to communicate O2 is now **“mobile, fixed net and DSL”**
Total communications supplier

**Customer Service & Distribution**

Partner channels
1,000+ own stores in 2 years
Online channel
Customer service: No IVR
Single bill & contact for all O2 services
Green shoots...

Share of gross adds >17% for past 2 quarters

- Q2 '07: -2.9%
- Q3 '07: -1.8%
- Q4 '07: -0.3%
- Q1 '08: 1.5%

Revenue growth
Service revenue growth
Summary

- O2 UK formula was successful
  - We are applying these lessons in Germany
- But we are not complacent in the UK
  - The market changes quickly and you’re only as good as your last performance!
  - Maintain a “challenger” mindset
- We are building a sustainable business in Germany
  - Building the foundations
  - In parallel creating segmented propositions
- To create sustainable outperformance in a market takes time
  - But we are on the right track
  - Seeing green shoots in Q1
  - Lessons from the UK show it can be done

Confident we will continue to outperform in UK and continue to gain momentum in Germany