

mmO₂ plc Group overview

[GRI Reference: this section covers 2.1, 2.2, 2.3, 2.4, 2.5, 2.7, 2.8, 2.14, 3.18, EC1, EC2, IO1, PA6]

mmO₂ plc is a leading provider of mobile communication services in the UK, Germany and Ireland.

We also provide secure communications for police forces and other public safety services in England, Wales and Scotland through O₂ Airwave and a full range of fixed and mobile communications on the Isle of Man through Manx Telecom. The mmO₂ Group was formed in 2001 through a demerger from British Telecom. In June 2003 we completed the sale of O₂ Netherlands.

In the year to 31 March 2004, mmO₂ recorded a pre-tax profit of £95 million. Turnover from continuing operations was £5,646 million (2003: £4,611 million). The Group employs 12,905 employees across its international operations.

In 2003/04 we saw our customer base exceed 20 million for the first time. We now offer global roaming services in 161 countries. We are a leader in mobile data services for use in business, leisure and entertainment. Last year a total of 11 billion text messages were sent and received across our networks.

The O₂ brand

All the operating companies trade under the O₂ brand name, with the exception of Manx Telecom. Today, two years into its new life, O₂ has achieved brand awareness levels between 51 and 72 per cent in all markets.

The operating businesses

Our customer numbers in the UK and Ireland continue to grow, with the UK reaching 13.3 million at 31 March 2004, an increase of 10 per cent, and 1.39 million in Ireland, up by 11 per cent. Both have a good share of high-value customers, and growing revenues from data services.

O₂ Germany's growth continued in 2003/04. It added nearly 1.2 million new customers, the majority of which were on higher value post-pay contracts, and significantly increased its EBITDA margin to almost 15 per cent.

O₂ Airwave has a £2.9 billion, 19-year contract from the UK Government to supply secure communications to all police forces in mainland Britain. By 31 March 2004 O₂ Airwave had rolled out services to 35 police forces with over 50,000 police officers.

During 2003/04 Manx Telecom was awarded a 15-year licence extension two years ahead of schedule.

Many of our customers, using our higher speed 2.5G service (GPRS), this year began to use mobile phones not only to make voice calls and send text messages, but to download games and music, watch video streams, surf the internet and send e-mails.

All our mobile businesses have also secured licences to offer a new generation of Universal Mobile Telephone Services (UMTS), or 3G, services which will offer more sophisticated data applications including high-resolution video.

Our strategy

Our main aim is to become an integral part of our customers' lives by providing relevant, highly usable services that they truly value through a range of tailored packages.

Achieving our strategic goals depends on our employees' performance and skills. We continue to concentrate on improving our capabilities in customer care and to develop our brand in dynamic ways that reflect our brand values – to be bold, open, trusted and clear.

Financial highlights – continuing operations
(Year ended 31 March 2004)

Group turnover

£5,646m

Service revenue

£5,030m

EBITDA¹

£1,367m

Capital expenditure²

£1,213m

Year-end net debt

£366m

Customers

20.7m

Employees

12,905

¹ EBITDA is our earnings before interest, tax, depreciation, amortisation and exceptional items, excluding our share of operating profits and losses of our joint ventures and associates.

² O₂ UK £502 million; O₂ Germany £391 million; O₂ Ireland £52 million, O₂ Airwave £243 million and other businesses £25 million.

Our approach to corporate responsibility

[GRI Reference: this section covers 1.1, 2.9, 2.11, 2.12, 2.13, 2.14, 2.17, 2.18, 2.20, 2.21, 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.8, 3.10, 3.11, 3.12, 3.13, 3.19, SO1]

Reporting on corporate responsibility

Corporate responsibility informs how we operate as a company and how we relate to society at large. Our objectives are expressed through explicit corporate responsibility targets for the business, which are outlined on pages 34-35. Through this we aim to take full account of the social, environmental and ethical impact of our operations, within a risk management and governance system, and to make a positive contribution to our business and society.

Engaging actively with stakeholders that are affected by the business is an important part of our corporate responsibility approach.

This is our second corporate responsibility report. The online version is available at www.mmO2.com/cr/report2004. In addition, our Annual Report and Annual Review contain information on our corporate responsibility approach and on how we manage corporate governance.

Managing corporate responsibility

We want corporate responsibility to sit in the mainstream of our business. We have therefore decided to absorb the work of the former Corporate Responsibility Advisory Council into the work stream of the Executive Committee, where Directors already individually champion different aspects of corporate responsibility.

In addition, we have devolved day-to-day management of corporate responsibility to our individual operating business units, each of which now has a designated Corporate Responsibility Manager. The corporate responsibility activity across the Group is monitored through the monthly Corporate

Responsibility Forum that brings together practitioners from across the business. Starting in June 2004 our corporate responsibility activities are reported to the Executive Committee every quarter and to the main Board twice a year.

Corporate governance

When O₂ was first formed in November 2001, we made it a priority to establish a lead in corporate governance. The work we have done over the last two years means we now have a system of governance that is robust and among the best.

It is important to get this right. Corporate responsibility can only flourish in an environment where internal control and governance procedures are rigorous and well-managed within a wide-reaching risk management system.

Risk management is about identifying, measuring and controlling issues that could damage our revenues, assets, brand, reputation and value. It is also about identifying opportunities to enhance those things and differentiate ourselves from competitors. Companies that manage risk well are generally regarded as more likely to prosper for the good of their customers, employees, suppliers, investors and society generally.

The social disclosure guidelines of the Association of British Insurers (ABI) and the Turnbull Internal Control Guidance on the Combined Code oblige companies to state how they are managing risk. We fully support these requirements and have published the ways that we meet them in our Annual Report. An overview of how

we manage social, environmental and ethical risks in reference to the ABI guidelines is available in our Annual Report and on page 14 of this report.

How we manage risk

To ensure that our own risk-management procedures are thorough we explicitly assess the value at risk and our appetite for specific risks. A Group-wide risk register is mirrored by separate risk registers for each of the operating businesses and headquarters functions.

Individual Directors within the Group have responsibility for the different risks we face and are responsible for devising and implementing remedies where possible. They are encouraged to assess the social, environmental and ethical impact of our actions in managing risk. All new appointees to the Board take part in appropriate training for their role including those risks of social, environmental or ethical nature.

Risks are assessed by the Executive Committee every month and twice a year by the Board, which currently comprises four Executive Directors, seven Non-executive Directors and a part-time Chairman.

Our approach to corporate responsibility (cont)



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Our internal audit team reviews the implementation of the risk management policy at all levels of the Company and reports independently to the Audit Committee of the Board. We have a fast-track risk management system which enables us to deal quickly and effectively with any risks that are material to our business.

Senior management, including Directors, have the responsibility for managing risks, which includes those of social, environmental and ethical nature. Risk management is taken into account in determining their remuneration. But with management of risk occurring at many different levels within the Group, other employees also have explicit corporate responsibility objectives to meet.

How we are seen and judged

How we are judged is very important to us. We welcome the fact that we continue to be rated highly by investors.

We are represented in some of the main sustainability indices and funds. For a second year running we were included in the Dow Jones Sustainability Indexes World – which ranks the top 10 per cent of 2,500 companies around the world – and became the leading company in the wireless communication sector. We are also included in the Dow Jones Indexes Stoxx, the FTSE4Good listing of the top 100 UK companies, the FTSE4Good Global Index and are also members of the Brussels-based Ethibel investment and sustainability registers.

In 2003/04 we improved our position in the UK-based Business in the Community Index on Corporate Responsibility which this year saw 139 companies take part, including 56 of the top 100 UK-listed companies. Overall we were ranked 32nd and were the leading mobile communications company with an improved score of 91.21 per cent against 82.49 per cent in the preceding year. We improved our score in all assessed categories and recorded above-average scores in all areas.

Areas highlighted for some improvement include increased training in corporate responsibility for all employees including Directors; inclusion of social, environmental and ethical criteria in product development; focusing our measurement and reporting on diversity within our business; enhancing our ethical supply chain work; improved reporting on waste; expansion of our certified environmental management and health and safety systems. Our actions responding to these are described in greater detail in this report.

Defining material issues

We strongly believe that non-financial aspects of a business's performance are increasingly regarded as material. We aim to address matters that people care about and that affect our business through this report. In line with the AA1000 Assurance Standard's materiality principle this report includes information about our corporate responsibility performance.

We identified issues relevant to our business by following research activities that focused on corporate responsibility matters:

- Research of O₂ opinion leaders through one-to-one interviews;
- Research of some 300 employees through interviews, focus groups and online surveys;
- Sector-wide research of the British public;
- A dedicated conference for some 30 corporate responsibility practitioners within O₂ that included stakeholder mapping; and
- Media reviews and publicly available opinion leader research.

Through our research activities we aimed to capture the opinions of stakeholders who have an interest in or affect the performance of our business. We have chosen the Five-Part Materiality Test developed by AccountAbility to help us determine the issues that are material to our business and should be disclosed in future reports. This year the exercise was exploratory and carried out as a desk review. Going forward the intention is for the mmO₂ Corporate Responsibility Forum to examine the practical adoption of the Five-Part Materiality Test.

During the year the reporting process has involved detailed reports about our engagement with employees to our Executive Committee. A future target is to systematically capture other stakeholder engagement and when appropriate include this information in our regular corporate responsibility reports to the Board. The disclosure of relevant corporate responsibility objectives and targets covering material issues to our business has been subject to approval

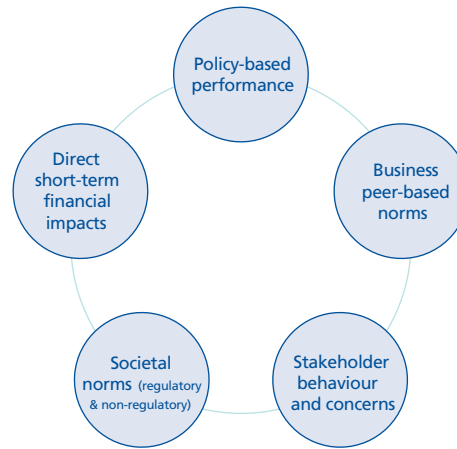


Table 1 – Five-Part Materiality Test (source: AccountAbility)

Test 1: Direct short-term financial impacts	Short-term financial impacts resulting from aspects of social and environmental performance.	- E.g. Pricing regulation
Test 2: Policy-based performance	Policies that are core to our business rather than add-ons.	- E.g. Corporate governance, Customer care, Procurement, Environmental, and Employee policies
Test 3: Business peer-based norms	Issues that our peers are deeming to be important.	- E.g. Siting of communication masts and antennae - Research into potential health effects of mobile communications - Distraction driving
Test 4: Stakeholder behaviour and concerns	The practical definition of relevance to stakeholders in terms of reasonable evidence of likely impact on their decisions and behaviour.	- Ethical sourcing of Coltan for the handsets we sell - Siting of communication masts and antennae - Research into potential health effects of mobile communications - Adult content and other inappropriate material on mobile phones and contacts made via mobile phones
Test 5: Societal norms	Regulatory and non-regulatory	- Adult content and other inappropriate material on mobile phones and contacts made via mobile phones - Personal safety issues relating to mobile phones

by the Executive Committee. To ensure that we will meet our objective of creating a credible report, the process has been reviewed by our external assurance providers. We have adopted this approach to continuously improve the quality and usefulness of our annual corporate responsibility reporting.

The table on the right describes examples of areas that would be captured through the Five-Part Materiality Test.

Reporting guidelines

This report covers all of our core activities that are fully owned, excluding our joint ventures, associates, and O₂ Netherlands, which was sold in June 2003, for the year ended 31 March 2004. The report has been independently verified by our external assurance providers, Ernst & Young (see page 36).

In choosing how best to present our activities we have followed two sets of widely accepted guidelines. We use the Business in the Community (BITC) Reporting Guidelines to highlight four main areas of activity – marketplace, environment and sustainability, workplace and community. Once again we have added a section on health because we know it is an area of concern to some of our stakeholders.

In addition we report against the Global Reporting Initiative (GRI). We have included signposts in each of the sections of this report to make it easier for readers to cross-refer our performance to the GRI. A full reference to our compliance against GRI is available on our website at www.mmO2.com/cr/report2004.

Association of British Insurers (ABI)

Disclosure guidelines on social responsibility

[GRI Reference: this section covers 2.20, 3.3, 3.4, 3.8]

Disclosure requirement	mmO ₂ plc
The Board takes regular account of the significance of social, environmental and ethical matters to the business and the Company.	<p>During the year, the Board of mmO₂ plc was briefed on eight occasions on a range of social, environmental and ethical issues facing the Company.</p> <p>The topics covered included community investment, health and safety, industrial relations, adult content and child protection, as well as environmental protection. A specific report on business ethics was presented to the Audit Committee.</p>
The Board has identified and assessed the significant risks to the Company's short- and long-term value arising from social, environmental and ethical matters, as well as the opportunities to enhance value that may arise from an appropriate response.	Social, environmental and ethical issues are integral to all aspects of the business and are included in our risk-management procedures. We aim to include any social, environmental or ethical risks in our risk registers to ensure they are fully integrated in our day-to-day operations.
The Board has received adequate information to make this assessment and account is taken of social, environmental and ethical matters in the training of Directors.	All new appointees to the Board receive training on a wide range of issues including elements of corporate responsibility. Existing Directors can receive training on request. In addition, the Directors attend a two-day off-site conference covering – among other things – specific social and ethical matters. The Board is briefed at least twice a year on corporate responsibility matters.
The Board has ensured that the Company has in place effective systems for managing significant risks which, where relevant, incorporate performance management systems and appropriate remuneration incentives.	<p>Our risk-management procedures are guided by the Combined Code developed by the Turnbull Committee. In common with other risks, we manage social, environmental and ethical risks by assessing their potential impact on the Company, measuring our appetite to manage them and by developing strategies to mitigate them.</p> <p>A number of Directors of Group companies and other employees have explicit corporate responsibility objectives to meet. All those charged with managing risks are remunerated on the basis of their success in meeting clearly defined targets. This has been an important step in encouraging good ethical conduct in all our dealings and in providing a framework for managing, measuring and accounting for the impact of our business. During 2004/05 we aim to align the management of corporate responsibility to the Company's performance management process.</p>
A description of social, environmental and ethical related risks and opportunities that may significantly affect the Company's short- and long-term value, and how they may impact on the business.	Two particularly significant corporate responsibility risks confront mobile communications companies: public concerns about the safety of handsets and other portable equipment and worries about the siting of communication masts. A detailed review of these and other risks are included in this report.
A description of the Company's policies and procedures for managing risks to short- and long-term value arising from social, environmental and ethical matters.	Our risk-management policy describes in detail our procedures for managing risks. All social, environmental and ethical risks are covered by this policy.
A description of the extent to which the Company has complied with its policies and procedures for managing risks arising from social, environmental and ethical matters.	Controls for risk-management are constantly scrutinised through internal audits. The Audit Committee is regularly updated about our risk registers and the progress of mitigating risks.
A description of the procedures for verifying social, environmental and ethical disclosures.	Corporate responsibility matters are included in our internal audit reviews, where appropriate, and reported to the Audit Committee. The content of this corporate responsibility report has been externally verified by our assurance providers, Ernst & Young (see page 36). In addition, our environmental and health and safety risks are subject to third-party audits through operational risk reviews, which form part of our insurance programme. Our compliance with the industry-agreed Ten Commitments on responsible mast siting in the UK is subject to third-party review.

Business Principles

[GRI Reference: this section covers 1.1, 3.7, 3.14, 3.16, 3.19, HR3, HR6, HR7, HR10, SO2, SO3, SO5, SO7]

Everyone who works for O₂ is expected to act ethically at all times in their dealings with each other, with suppliers, with customers and with the wider public.

Our statement of Business Principles – a copy of which is made available to all employees through leaflets and internal and external websites – makes it clear to everyone that no job is more important than protecting and enhancing the Company's reputation.

As well as encouraging all employees to abide by the Business Principles, we also aim to persuade suppliers to embrace them by referring to them in our UK supplier contracts.

Our Business Principles cover the ethical behaviour we expect of everyone on issues such as competing fairly; accepting gifts and hospitality; delivering good value; health and safety; and fair and equal employment. They make it clear that we will not tolerate harassment in the workplace, do not make donations to political parties and aim to protect the confidentiality of employees and customers.

We measure the appropriateness of our Business Principles by benchmarking ourselves against leading UK and US companies. Our membership of both the Institute of Business Ethics and the General Counsel Round Table have given us invaluable insight into how well we are doing compared to others.

We have also modernised our training procedures to ensure our Business Principles are understood and adhered to across the business. Our online training modules have been updated and redesigned and cover a wide range of key policy areas, for instance, compliance training on competition law, marketing, health, safety and the environment. We aim to make these courses available to all employees during 2004/05.

A network of compliance officers now works across the business to track compliance with the Business Principles and helps managers to ensure that all employees complete their training requirements.

Our statement of Business Principles is supported by a confidential helpline and e-mail facility that enables people with concerns about the way we are operating to come forward in confidence. This is a UK regulatory requirement of the revised Combined Code C.3.4/Smith Guidance 4.8 introduced in July 2003. The US Sarbanes-Oxley Act 2002 specifically requires SEC-registered companies to keep a register of complaints made by so-called 'whistle-blowers' and actions taken to investigate complaints.

Our own systems to monitor compliance with the Business Principles continue to be developed and we intend to use online tools more effectively to support this process, including a governance certificate submission tool for managers and a revised booklet of '10 top tips' to promote our training courses and alert employees to the confidential help facility.

Approaches to corporate governance are changing rapidly and we track these changes carefully. One of our main aims for 2004/05 is to make sure that compliance with our regulatory requirements and our commitments to Turnbull, Sarbanes-Oxley and our Business Principles are brought together under an overarching Internal Control framework comprising risk management, certification and internal-audit procedures.

Strategic objectives

[GRI Reference: this section covers 1.1, 3.16]

Strategic objectives

One of our most important achievements in ensuring that corporate responsibility is rooted at all levels of O₂ is the creation of explicit strategic objectives for our corporate responsibility activity. This was endorsed by the Executive Committee in May 2004.

Our strategic objectives on corporate responsibility sit alongside the operational strategy for the business and will be similarly measured by key performance indicators to ensure that we set ourselves stretch targets and successfully meet them within established timeframes. Key performance indicators for our corporate responsibility activity for each of our businesses will be established during 2004/05. The table on pages 34-35 sets out the specific corporate responsibility targets that we are currently working towards. We have highlighted those that have been modified or are new.

Our strategic objectives on corporate responsibility are to guide our operations so that social, environmental and ethical considerations are embedded into our business.

We aim to:

Make all our employees proud to be working for O₂, and encourage them to demonstrate the highest levels of integrity, while advocating and pursuing responsible business management.

Achieve continuous improvement in our operations in all areas that affect our customers, the physical environment and society as a whole through measurement, monitoring and review of our performance and by committing ourselves to excellence.

Be proactive in developing exciting mobile services that enable people to have great experiences and that contribute to innovation, satisfaction, well-being and safety in the community.

To achieve these overriding objectives we will focus our efforts on proactive engagement with stakeholders across society, including our peers within our sector and our suppliers. Through this engagement we want to promote responsible business behaviour and advocate universal labour standards, human rights and environmental protection in our operations and our supply chain. Further, we want to enhance our stakeholder engagement through increased communications and interaction with local communities to enhance trust and acceptance. We will continue our campaigns to promote personal safety and pursue active self-regulation in emerging subject areas to ensure a positive experience for all stakeholders.

Through these newly adopted corporate responsibility objectives each of our main operating businesses are committing to:

- Integrating the management of corporate responsibility within their own organisations.
- Continuously improving the performance in social and environmental areas and enable external review of all related activities.
- Establishing a field of corporate responsibility excellence in each of our main markets.