

We set stretch targets – and measure our progress

[GRI Reference: this section covers 3.19]

We measure our performance against guidelines drawn up by Business in the Community and the Global Reporting Initiative. We concentrate on five key areas:

Marketplace How we operate in relation to customers and wider society.

Health How we take action to ensure our products and services operate safely.

Environment and sustainability How we pursue policies that protect the environment in a sustainable way.

Workplace How we create a fair and equal workplace that our employees are proud to be a part of.

Community How we can make a real difference to society using our technology, skills and the active involvement of our employees.

Marketplace

[GRI Reference: this section covers 2.22, 3.15, 3.16, 3.19, EC4, HR1, HR2, HR3, HR6, HR7, SO6, SO7, PR3, PA1, PA2, PA3, PA4, PA5, PA7, PA10, PA11, TA1, TA2, TA4]

20.7m
customers

The mobile phone industry in the UK has grown, in just 20 years, from nothing to an industry employing nearly 200,000 people and combined revenues in excess of £20 billion. According to research by the Centre for Economic and Business Research in the UK, commissioned by O₂, the whole mobile sector contributed £22 billion to UK GDP in 2003, 2.2 per cent of total GDP.

The average employee in the mobile sector generated £120,000 in revenue. This is three times the national average. The analysis also reveals that the mobile industry contributes £15 billion a year to government finances, the equivalent to an additional 3 pence on the basic rate of income tax.

Mobile technology has reached the mass market and become a major contributor to the economy in the UK and in our other markets.

Our customers

We are concentrating on improving the customer experience by creating a culture of 'customer-centricity' that is supported by a Group-wide programme. We have made some good progress here. Our customer base grew in every region last year and now amounts to 20.7 million.

In Ireland we introduced the All Ireland tariff, which eliminates roaming charges between the Republic of Ireland and Northern Ireland. We introduced a new international calling tariff for post-pay customers calling African, Asian and European destinations, enabling foreign nationals in Ireland to call home at competitive rates. In Germany, the Genion

External view: "We have had a very good experience working together over the last two years. O₂ is one of the most proactive of the mobile companies, indeed one of the most proactive of all companies, in thought leadership and in stimulating public debate. It's not just a case of sponsoring research and sitting back. O₂ is really engaged in the process."

James Wilsdon, Head of Strategy at Demos

Response from O₂: For two years O₂ has been supporting Demos in looking at the future of mobile technology and what it might mean for broader social change. We sponsored the Demos pamphlet 'Mobilisation' by James Harkin which achieved wide coverage in the media. More recently we have staged a series of seminars with Demos on child protection, privacy and health.

HomeZone service combines advanced technology with reduced tariffs in defined areas. In the UK we introduced new Pay & Go packages, such as O₂ Home for low-cost home-based mobile calls.

The improved performance of our UK network was recognised during the year when we were named Best Network Operator by the regulator, Oftel, now called the Office of Communications (Ofcom).

Pricing and regulation

The price of mobile phone services and the complexity of tariffs continue to be a concern in many places. In Germany there is growing concern that young people are spending too much on mobile phones, especially on new data-rich services and camera phones. In Ireland, the regulator ComReg has called for greater price transparency in the industry, and the European Commission is continuing to investigate mobile operators' international roaming charges.

We co-operate with regulators openly to deal with such issues and take action. This year, for example, we introduced a flat-rate charge for all our roaming services in Europe. We offer pre-pay packages in all our markets so users can control their mobile phone costs. Our mobile phone tariffs are freely available both online and through our shops, which enables consumers to compare prices with other operators. Simpler pricing and clear roaming tariffs across Europe are also the aims of those operators who have joined us in the Starmap Alliance of European operators.

Regulation is starting to reflect the fact that our industry is mature and subject to tough

competition. The new EU regulatory framework requires national regulators to remove regulation from markets that are competitive, and in the UK Ofcom has already reduced mobile regulation to reflect intense competition.

We would never knowingly break planning or advertising rules, hence this area of compliance is closely monitored by our compliance officers. During 2003/04 we received a notice from the local planning authority with regards to three temporary road advertisements that we had placed along the M25 motorway in the UK, the signs were removed once we had been informed about the incident. In 2003/04 we had no complaints about breaches of advertising rules.

Our products and services

Mobile communication has evolved from voice telephony to sophisticated data services that constitute some £1 billion of our revenues. We aim to be a leader in this market.

During the year our general packet radio (GPRS), or 2.5G service, became a mass-market product and take-up of internet-driven services like e-commerce, banking, online billing, and music grew rapidly. We will increasingly offer more capable third-generation (3G) services in the UK, Germany and Ireland.

Our Xda II hand-held combined computer and phone and the Blackberry™ mobile e-mail device have been taken up widely. We have also launched a new O₂ Digital Music Player to complement O₂ Music, Europe's first mobile music download service.

External view: "Business in the Community Ireland is delighted to have O₂ Ireland as one of our founder members. The company is active in our Strategic Corporate Community Involvement service and our Schools' Business Partnership and Danuta Gray, CEO, O₂ Ireland, sits on our Board.

In June 2004, O₂ Ireland launched, in association with the Irish Cellular Industry Association and other operators, the first ever Irish Code of Practice for the responsible and secure use of mobile services. We commend O₂ Ireland for this initiative. It is a unique example of best practice and engagement with customers and competitors to raise standards and quality of service."

Tina Roche, chief executive, Business in the Community Ireland

Response from O₂: Together with Ireland's two other mobile operators O₂ Ireland has agreed to conduct an industry mobile content filtering trial. This trial will test content filtering software on a mobile network for the first time.

Protecting the vulnerable

People want to be assured that we safeguard children and young people from accessing inappropriate material or contacts via their mobiles. As mobile technology advances, it is expected to become a channel for a wide range of services including pornography, gambling, financial services and direct marketing. We respect our customers' rights to make choices about the legal material they access through our network, but equally our customers want to be sure that we protect the vulnerable, particularly children.

During 2003/04 we published a series of child-protection leaflets providing practical advice on such issues as handset theft, the safe use of camera phones and grooming by paedophiles using chatrooms. The series is now available in O₂ stores in the UK and Ireland and on our website. We do not market to children, in line with industry best practice. We address our child-protection material to adults and children's organisations. Our leaflets aim to raise awareness about personal safety amongst young people and children.

In January 2004, we helped publish a UK mobile operators' joint UK Code of Practice for the self-regulation of new forms of content on mobile phones such as visual content, online gambling, mobile games, chatrooms and internet access. A comparable initiative is under way in Ireland with an industry code published in June 2004, and we are advocating a similar approach in Germany. The UK Code commits us to providing information to parents and carers about new mobile

services and devices as well as tools so they can control the internet content their children access.

It also provides for the appointment of an independent body to define the types of content to be classified as 18. Operators will require users to prove they are old enough before they access such content.

In Ireland we are launching parental authorisation to our services which will allow parents and carers to monitor their child's account and the services they access. We do not offer adult content, text or chat services in Ireland and are testing technology to filter or block unsuitable imagery.

Operators have agreed to help the police tackle illegal activity and to combat bulk and nuisance communications. All our chatroom services are now moderated, to try to identify and stop inappropriate exchanges. This is supported by the Nuisance Call Bureau run by O₂ UK, which is equipped to advise customers on the appropriate use of mobile phones.

As new web-enabled services become more widely available, we know that the problem of virus contamination, junk marketing and hacking may become more serious. We are working to find solutions, and through the implementation of the code we will also look into tackling unsolicited communications, also called spam.

Informing the debate

We are demonstrating how mobile phones play a positive role in public life and this year published a book, 'Options – mobile technology in public service', describing 100 different areas where mobiles are being

used in socially useful ways from car-fleet services to doctors' appointment alerts. We are stimulating debate about the potential future benefits of digital technologies through our opinion-leader seminars. This year we arranged a series of seminars on subjects such as privacy, child protection and health.

Privacy and security

Customer privacy is an increasingly sensitive issue and we believe that the introduction of location-based services – which will identify a mobile phone user's position – could infringe a person's right to privacy. We are working on a code of practice with other operators in the UK.

We are committed to respecting customer confidentiality, but we are obliged by law to make customer records available to police on production of a court order. Heightened security fears have increased the pressure on us in this area and, under UK law, other emergency services can demand access to records. We try to balance individual rights and the wider national security carefully. In 2003 we set up a new Fraud and Security Helpdesk in the UK, including a 365 day, 24-hour customer contact number to respond to queries more effectively.

The O₂ Airwave network is more than two thirds through its roll-out to police forces in mainland Britain. If adopted by fire and ambulance services it will provide interoperability between the emergency services, which is currently not possible. O₂ Airwave's campaign to support road safety for children is designed to underline its wider role in making Britain safer.

External view: “We recognise O₂’s commitment to address social and environmental issues in its supply chain and to foster the development of industry standards through its contribution to initiatives such as GeSI. In our view, companies that systematically integrate these issues into procurement demonstrate a comprehensive approach to risk management. As such, O₂ would further benefit from advancing the training and incentivisation of its procurement staff. Clear policies on end-of-life management would also enhance the company’s responsible approach to its business operations.”

Claudia Kruse, Senior Analyst, ISIS Asset Management

Response from O₂: We are currently assessing detailed feedback from ISIS Asset Management and some of our major suppliers on how we can implement our ethical and environmental procurement policies. Our conclusions will depict which activities we will pursue going forward.

Supply chain

We work with our suppliers to raise awareness about ethical sourcing. Our Ethical Procurement Policy, based on the Ethical Trading Initiative base code, outlines what we expect of our suppliers on key issues such as employment standards and health and safety. We have surveyed a number of our major suppliers with a self-assessment questionnaire and will be widening the scope to cover more suppliers in 2004/05.

We belong to the Global e-Sustainability Initiative (GeSI) and are part of its supply-chain working group which aims to develop common best-practice principles and tools for use in the information and communications technology (ICT) sector. We will use this to benchmark our activities and set targets. In October 2003 we helped arrange an event in Geneva, Switzerland about ethical sourcing. In 2003/04 we were involved in four important supply chain studies by independent organisations, including ‘Clean up your Computer’ led by the Catholic campaigning organisation CAFOD, two studies by Insight Investment and one for FTSE4Good on responsible supply chains.

The payment terms for major contracts are agreed at the same time as other terms are negotiated with individual suppliers. The Group’s policy is to pay for other purchases within 30 working days of the invoice date, provided the invoice is presented in a timely fashion and is complete. We aim to pay our creditors promptly within 30 days of a valid invoice being presented. The Group had 34 (2003: 32 days) days’ purchases outstanding at 31 March 2004 based on the average daily amount invoiced by suppliers during the year.

Digital divide

The majority of the West European population, of all income and age groups, subscribe to a mobile service. But access is not always equal because of cost or geography.

We try to narrow this digital divide. The Group’s Chief Technology Officer, Dave Williams, has joined the UK Government’s Digital Inclusion Panel to support this effort. In all our markets we offer our adult customers pre-pay packages regardless of background or credit history, allowing everyone to benefit from mobile communications. Pre-pay mobile phone services enable the users to control the associated costs of using a mobile.

Our telecommunications networks cover substantially all of the population of the UK, Ireland, the Isle of Man and Germany (in conjunction with our network sharing agreement with T-Mobile). In Ireland we are the only mobile operator to gain government funding to install wireless broadband (WLAN) hot spots to selected locations and recently installed one in the civic offices in Westport, County Mayo as part of this initiative. We are also part of an industry initiative to fund the roll-out of broadband to all 4,100 primary and secondary schools in the country. In the Isle of Man we have rolled out fixed-line broadband internet access to 98 per cent of all households and businesses at discounted rates agreed under a new licence from the Manx Government.

Services for customers with special needs

We want to examine ways to make our services more inclusive, particularly for people who require special assistance to

meet their needs and for whom mobile services could make daily life easier. There is room for much greater development of services for people with disabilities. Although we have made special provisions – like invoicing in Braille, large text size and audio options for people with visual impairment and enabling special text services for the deaf – we recognise there is more we could do. We aim to be fully compliant with General Code 15 and the Code of Practice for Service Delivery for Disabled and Elderly Customers in the UK before March 2005. Outstanding measures are: free directory and relay service for visually impaired customers; lack of literature on appropriate devices; and the O₂ internet portal. We work with leading organisations in this field and belong to the Employer’s Disability Forum to understand how to respond.

In Ireland we have launched a new handset in association with the National Council for the Blind of Ireland (NCBI). The device has specially tailored ‘Talk’ software that converts text messages to voice and tells users what the phone is doing as they use it. We have redesigned our British and Irish website to improve accessibility and navigation for visually impaired users.

During the year we supported DisabledGo, a UK-based not-for-profit, social enterprise funded by business. DisabledGo operates a website for disabled people and their carers, giving detailed information on access to services like hotels, cinemas, restaurants, solicitors’ offices, pubs and train stations. We are testing whether we can offer the service through mobile phones.

Health

[GRI Reference: this section covers 2.22, 3.13, 3.15, 3.19, HR1, SO1, PR1, PR2, IO3, IO4, IO5, IO6, PA8, PA9]

External view: “In general, for the past year the number of complaints against mmO₂ fell in relation to previous years.

We find that the problems arise when the stakeholders for consultation are not properly identified and this needs to be clarified. We would also take issue with their interpretation of community consultation from Commitment 1. We find that in certain cases consultation frequently disintegrates into dictation by the operator, driven by economic rather than community need.

Correctly trained and fully accountable site acquisition agents would help to solve many of the problems encountered.”

Julie Matthew and Christine Mangat, Mast Action UK

Response from O₂: In response to the findings of the external review of the implementation of the Ten Commitments in 2003, we have improved our procedures and controls over the level of local consultation required. We are committed to fund another external review of our performance in this field in 2004.

The health and safety of our employees, customers and the public is very important to us and is included as one of our main risks in our consolidated risk register for the mmO₂ Group. Our approach is to adhere to best-practice guidelines on mast-siting wherever we operate and to consult communities openly where it is appropriate and provide clear information about how our technology works.

We take care to ensure that the equipment we use and supply never exceeds international safety limits. Several independent international agencies have developed safety guidelines within which we operate. These include the UK's National Radiological Protection Board (NRPB), Germany's Strahlenschutzkommission (SSK), the International Commission on Non-Ionising Radiation Protection (ICNIRP) and the European Commission.

The scientific consensus is that mobile communication masts and mobile phones do not pose a threat to human health. But studies, such as the Stewart Report, often call for further independent research into areas of uncertainty and we are committed to help fund and support it. The industry has adopted a precautionary approach to the alleged health concerns of mobile communications.

Safety levels

Our communication masts and handsets operate within safety guidelines specified by ICNIRP. Mobile phone networks are designed so that the phone is, in most cases, operating at less than its maximum power. The closer a caller is to a base station, the lower the power levels in the phone.

The safety limit for mobile phones is called the Specific Absorption Rate (SAR), which measures the amount of radio frequency energy absorbed by the body during mobile phone use. All handsets sold by O₂ conform to relevant SAR safety limits. Details of SAR levels for specific models of mobile phones are available from the Mobile Manufacturer's Forum's website on www.mmfa.org, as well as on the German websites www.izmf.de, www.o2online.de and www.de.o2.com.

Measurements by the UK's NRPB and Ofcom (formerly Radiocommunications Agency) and Germany's Regulation Office for Telecommunications and Post have confirmed that exposure levels from our base stations are always below safety limits, in most cases by many hundreds or even hundreds of thousands of times. Our masts are carefully cordoned off and clear safety signs are posted to warn members of the public not to get close to antennae. When maintenance work is carried out at any of our sites strict safety procedures should be followed in line with local regulation.

Research commitment

We do not carry out any research ourselves but continually monitor international studies and are co-operating with and helping to fund a number of initiatives. We only support studies that meet clear criteria: research must be subject to peer review, of good quality, expertly conducted, published in reputable journals and be independent of industry.

We consult with the Department of Health and the Department of Trade and Industry in the UK, a range of world trade bodies, governments and health organisations to

ensure that research addresses appropriate public health concerns.

The Mobile Telecommunications and Health Research (MTHR) programme, jointly funded by the UK Government and the industry and set up in direct response to the Stewart Report, is the main focus for our support in the UK. We are contributing to the overall research budget which exceeds £7 million over a six-year period. The MTHR programme currently covers 23 studies, including exposure, dosimetry, epidemiology, and the psychological and social effects of mobile telephony.

Separately, the MTHR management committee manages additional programmes, including the £10 million Home Office study on Terrestrial Trunked Radio (TETRA) – the technology provided by O₂ Airwave, our secure network for emergency services. Under the MTHR programme an assessment of Specific Absorption Rates (SAR) to the head from TETRA handsets has already been published.

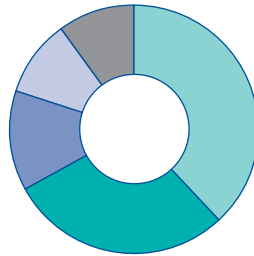
O₂ Germany supports Deutsches Mobilfunk Forschungsprogramm, a €17 million project, which is also jointly funded by the German Government and the industry. O₂ will eventually contribute 11 per cent of the total cost of the four-year research programme of 18 studies – including biology, dosimetry and risk communication.

During 2003/04 we also helped to fund new and continuous research in this subject.

Working with other operators

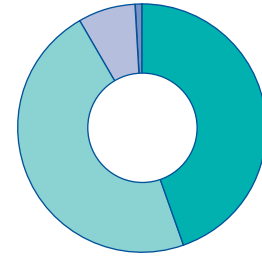
We participate in and fund a number of industry groups, including the Mobile Operators Association (MOA) in the UK, the Informationszentrum Mobilfunk e.V. (IZMF)

Chart 1: O₂ UK queries on the siting of communication masts 2003/04



Site objection (pre-build)	261	38%
Land offer	197	29%
Query (non complaint)	90	13%
Query (planning)	65	10%
Site objection (post-build)	65	10%

Chart 2: O₂ base stations in service (estimate)



UK	8,729
Germany	9,213
Ireland	1,600
Isle of Man	39
Total	19,581

in Germany and GSM Europe. The MOA champions the UK industry's Ten Commitments on the siting of mobile communication masts, which can be viewed on our website at www.mmO2.com/cr/report2004.

They address community concerns about mast development by ensuring transparency in building mobile phone networks, providing more information to the public and local planners and boosting the community's role in the siting of communication masts. We are committed to complying with the Ten Commitments for our operations in the UK while our other operating businesses have committed to similar recommendations developed by the industry association GSM Europe.

Voluntary self-regulation helps us to be transparent in our dealings with local communities and to generate trust among residents affected by our operations. In each of our markets we employ community relations managers to consult the public and local agencies to explain our mast development strategy.

Last year the industry commissioned an external review of UK operators' compliance with the Ten Commitments. The review concluded that operators had made progress in implementing them, but also identified areas for improvement. One recommendation suggested that we improve record keeping because the information kept by acquisition agents did not adequately prove that operators were conforming to best practice. In response to the review's findings we have improved our procedures and controls over the level of local consultation required. The

review was followed by a series of five half-day industry seminars with almost 600 agents, planning consultants and operators to ensure they follow site selection, planning models and record keeping procedures properly. UK operators have agreed to fund another external review in 2004.

We have a formal agreement to share 3G networks with T-Mobile in Germany and a general policy to share masts with all other operators and use existing infrastructure wherever feasible.

Supporting informed debate

The dissemination of clear and accurate information is an important part of the industry's work and we try to influence it at several levels.

We work through consultation and dialogue. O₂ chairs the GSM Europe working group on environment and health issues and regularly engages with public health agencies. We have recently called for improved information on health and mobile telecommunications from the European Commission. During the year, we took an active part in both planning and participating in a health conference jointly organised by GSM Europe, the Mobile Manufacturers Forum and the European Commission to share evidence and opinion on the contribution of mobile communications to safety, the environment and European society. Around 200 government representatives and stakeholders attended and a second conference is planned for September 2004.

We talk to local communities, advertise our activities and employ customer service staff trained in responding to health and mast siting complaints to run our dedicated

helpline for these issues. Our leaflets were reviewed during the year and we have recently published two new ones outlining the health issues of mobile networks and our research policies. The IZMF co-operated with partners and published leaflets for doctors, parents and teachers. We have also issued a new video, that explains the health and safety issues around O₂ Airwave's TETRA technology.

O₂ often takes a lead in producing industry-wide information material. For example, our technology department was responsible for drafting advice for the MOA on Repetitive Strain Injury, an important issue in light of the huge growth in text messaging and games played on mobile phones.

Technology

With the arrival of third generation or 3G services, we will work to reassure the public that more sophisticated services will not mean more health risks. We believe that the perceived risk from these multimedia technologies will, if anything, be reduced because devices tend to be used away from the head. Importantly, TETRA and 3G base stations will not overall require higher levels of power than existing GSM base stations.

Distraction driving

Last year we reported on distraction driving and how we had been involved in consulting the UK Government on the proposed legislation to ban the use of hand-held mobile devices whilst driving. This legislation has been introduced in all of our markets and we continue to make available information leaflets on this topic for our customers as well as our employees.

Environment and sustainability

[GRI Reference: this section covers 2.22, 3.15, 3.16, 3.19, 3.20, EN1, EN2, EN3, EN4, EN10, EN17, EN7, EN25, EN8, EN5, EN9, EN11, EN13, EN33, EN14, EN15, EN16, HR3, HR9, PA11]

Table 1

CO ₂ emissions from energy		Total consumption	MWh	CO ₂ conversion factor	kg CO ₂	Tonnes CO ₂
Buildings (Group-wide offices and UK retail premises)						
Electricity	Kwh	55,927,506	55,928	0.43	24,048,828	24,049
Natural gas	Kwh	32,310,347	32,310	0.19	6,138,966	6,139
Network (switching and cell sites)						
Electricity (excludes O ₂ Airwave)	Kwh	213,090,130	213,090	0.43	91,628,756	91,629
Natural gas	Kwh	5,364,905	5,365	0.19	1,019,332	1,019
Total					122,835,881	122,836
Water consumption						
Buildings (offices)						
Total						
Water (excludes O ₂ Ireland, Manx Telecom and O ₂ Airwave)	m ³	3,184,252				
Waste & recycling						
Total						
Tonnes						
General waste generation (excludes O ₂ Airwave)	kg	2,707,065	2,707			
Goods recycled (excludes O ₂ Airwave and O ₂ Germany)	kg	388,490	389			

At O₂ we want to manage our business in a sustainable way, providing exciting and profitable mobile services without compromising the environment. We aim to minimise any negative impact we have through efficient environmental management and by promoting sustainable development.

Within each of our operating businesses a senior manager champions our Group environmental strategy and reports to the environmental forum, chaired by our Environment Champion, David McGlade, Chief Executive Officer of O₂ UK. The forum meets twice a year to set targets and reports regularly to the Executive Committee and the Board.

Our strengths in managing environmental risks were recognised publicly during the year when we were again included in the Dow Jones Sustainability Indexes. In response to the Index assessment, we are improving our monitoring systems and are refining our environmental data. We are working with some of our main contractors to capture some of their environmental impacts in our figures for the coming year.

We continue to make progress in most areas where we have set specific improvement targets. We have surpassed, for example, our target to recover mobile phones for re-use and recycling by over 71,000 phones.

A greener supply chain

In 2003/04 we launched our Group-wide Environmental Procurement policy to help us source products in the most environmentally responsible way and spread best practice in our supply chain.

O₂'s local and international suppliers provide goods and services that include network infrastructure, mobile devices, distribution transport, IT hardware and software and branded clothing and merchandise. We will work closely with them to help them minimise any shortfall in their operations.

Our target last year was to engage with key suppliers to satisfy ourselves of their environmental performance. To raise awareness about ethical sourcing, we distributed a self-assessment questionnaire to our main suppliers. During 2004/05 we will continue to work closely with them to help us implement our environmental procurement policy. This will include supply chains that have been identified as having greatest potential risk. Details of how our ethical procurement policy deals with human rights and working conditions are on page 20 of this report.

Coltan, a mineral used in the circuit boards of mobile phones, has been subject to widespread concerns due to its illegal mining in the Democratic Republic of Congo. This mining activity has allegedly fuelled ongoing civil unrest in the country and at the same time threatened the habitats of highland gorillas. We have engaged with our suppliers of mobile phones and required them to investigate and inform us about their sourcing of Coltan. Our Chairman David Varney raised further awareness about this topic in his speech to the Institute of Directors in April 2003.

Energy consumption

We seek to reduce our overall energy use, while buying more electricity from renewable sources. As a growing business with an expanding network, we try to balance our business aspirations with a policy of due care for the environment.

Environment and sustainability

20% use of electricity from renewable sources in the UK

For the purpose of this report we will cover the energy and water consumption as well as waste generation by our offices and networks. These figures do not cover our transport data or our retail operations outside the UK, as energy consumption is relatively small by comparison and accurate data is difficult to get. We do not currently measure materials or waste used, or discharges to water. The figures also omit emission conversions to NO_x and SO_x, emissions from the operations of subcontractors who maintain our networks and distribute our products. In future we aim to capture and report on these too.

Our network accounts for more than 70 per cent of our reported energy consumption, with the rest associated with offices and call centres. For the Group overall we set a target of achieving a 10 per cent use of electricity from renewable sources by 2008, this target will be reviewed during 2004/05. We have made progress on this target in all countries where we operate except the Isle of Man.

Our operations in the UK have achieved 20 per cent use of electricity from renewable sources (excludes the O₂ Airwave network). In Ireland the figure is 32 per cent and in Germany 12 per cent. We are currently renewing our energy supply contract in Ireland, which should significantly raise the proportion of renewable energy we use.

We aim to improve our data for water consumption, so that we can express it as a total and per employee, incorporating figures from key contractors.

Waste management and recycling

We have established schemes at all of our major sites to separately collect and recycle paper, cans and plastic cups. Our target is to increase the proportion of office waste recycled by 10 per cent by March 2005.

Besides the office waste referred to above, we have identified a number of other waste streams which are capable of being recycled – overall we believe that we currently achieve a recycling rate of wastes of around 10 per cent in the UK. In 2003/04 we recycled 389 tons of waste Group-wide, which includes handset and battery component recycling as

8% improvement – decreased energy consumption¹

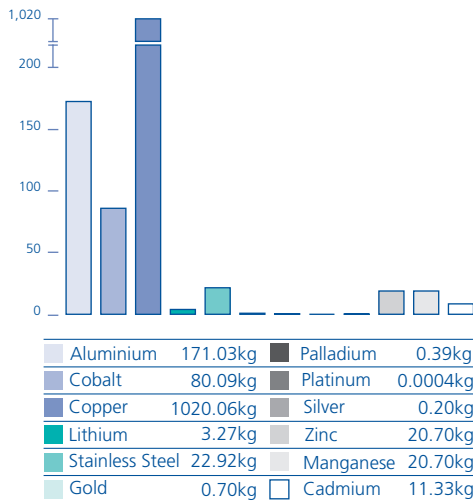
well as materials recovered from network sites. We recognise that we need to establish better systems to audit and manage our waste systems and to track our recycling performance. This is one of our planned activities for 2004/05.

Recycling and re-use of mobile handsets and equipment

Fonebak, the fully managed recycling solution for mobile handsets and accessories, operated across O₂ – with the exception of Germany – by Shields Environmental, has exceeded our expectations. We encourage customers and employees to hand in phones for re-use or recycling, either by depositing them in boxes in our shops and offices or by freepost.

¹ This does not include transport related CO₂ emissions

Chart 1: Recovered materials from mobile handset recycling (kg)



In the first year of Fonebak we recovered 20,000 handsets and set a target to double this in 2003/04. We actually recovered 111,262 phones and these have been refurbished for re-use or recycled, leaving only a small amount of inert plastics from the batteries being sent for controlled landfill. Shields Environmental have set up a recycling facility in Romania to ensure the responsible disposal of mobiles where these are sold for re-use. Details about the material recovered through recycling are included in chart 1 on page 24.

In Germany we have recently launched a similar initiative with Greener Solution, which has included an internal campaign to raise awareness about mobile recycling among employees.

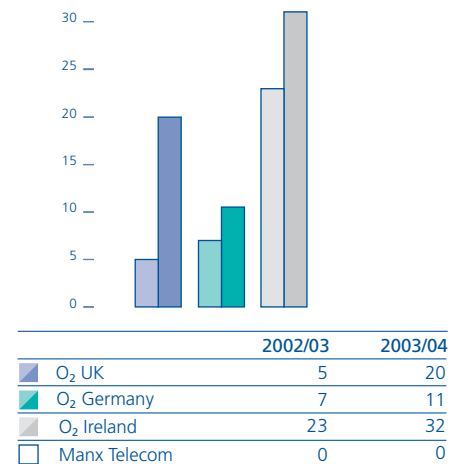
A proportion of the revenue from the sale of refurbished phones is donated to chosen charities, which also acts as an incentive for customers to hand in their redundant phones. To build on our previous experience of tree planting projects with Future Forest we decided through Fonebak to support Rainforest Concern, an international charity working to combat global warming by conserving forests and their biodiversity. In Ireland we have also partnered with The National Tree Council of Ireland to support a tree-planting initiative of 15,000 trees.

In accordance with our commitment to reduce the environmental impact of our supply chain we have extended Fonebak to corporate customers, among them the Co-op Group and AT&T.

Base station equipment throughout our networks is upgradeable. In March 2004 we signed a contract with one of our suppliers to ensure our third generation (3G) mobile systems will be processed for re-use or recycling.

We are currently rolling out our new Airwave network and are not expecting to refurbish or recycle any of the network materials within the next few years. The Airwave handsets have a five-year manufacturer's guarantee. We will address the responsible recovery of the handsets once the guarantee period has run out, starting from 2008.

Chart 2: Electricity from renewable sources (per cent)



Producer responsibility is an increasingly important issue within the European Union and we are affected by two directives. The first obliges us to gather accurate data on the packaging we use and evidence that our recovery and recycling targets have been met. This is carried out on our behalf by the Valpak Compliance Scheme. The second – the European Commission Directive on Waste Electrical and Electronic Equipment (WEEE) – obliges operators and retailers to provide ways to recover and recycle electrical and electronic equipment. By participating in a takeback scheme we should meet our collection obligations under the current draft regulations.

Greenhouse gases and pollution

We aim to reduce emissions of the greenhouse gases associated with our consumption of energy, in line with UK Government commitments on global warming. We will also reduce our use of other materials such as refrigerant gases, which may further contribute to global warming and also to ozone depletion.

Environment and sustainability (cont)

External view: "As one of the biggest corporate users of mobile phones we're confident and happy with our involvement in the Fonebak scheme with O₂ and Shields Environmental. It was exceptionally easy to set up. What appeals most is that it provides an audit trail so that we can verify how we are dealing with our waste and track the money we are raising through it for our chosen charity, Water Aid."

Becky Toal, Environmental Programme Manager, the Co-op Group

Response from O₂: We are encouraged to promote the Fonebak scheme to more customers by companies such as the Co-op Group. Together with our customers we will have a greater impact on environmental protection.

We have a target to reduce refrigerants and HCFC gases by 10 per cent per unit of total volume by March 2008. A programme to replace R22 coolants in air conditioning with HFC R407c is under way in the UK. We are also considering the feasibility of replacing air conditioning altogether with forced air systems, as our long-term goal is to significantly reduce the amount of stored refrigerants relative to the number of active cell sites.

Diesel tanks at our fixed installations store large quantities of fuel and our goal is for 100 per cent to be secondary protected against spills and leakage by March 2005. This has already been achieved throughout the Group, except on the Isle of Man where we aim to secure 12 installations before March 2005.

There were no significant spills of chemicals, oils or fuels in our operations during 2003/04 and there were no environmental fines or enforcement actions against any of the operating companies.

Consulting with communities

The environmental impact of our network – visually and in terms of noise and landscaping – continues to cause some concerns, which we try to handle through early consultation with local authorities and communities. Our dedicated O₂ UK response team recorded 999 queries on new sites or site objections during the year, see chart 2 on page 22.

For more information about our strategy for the siting of mobile communication masts, please see pages 21-22 of this report.

An environmental checklist helps minimise the impact of our mast siting and base station building programme on local communities, for example where schools or places of natural beauty are concerned. We work to find alternative sitings or to mitigate the impacts when issues of biodiversity or visual impact occur.

To reduce our impact, we have a policy to share masts with other operators where feasible. Currently we operate a total of 19,581 base stations.

Greener ways to work

Another way we can improve our performance is to reduce the amount of travelling by our employees. This cuts fuel use and emissions and is safer. As planned, during 2003/04 we tested various green travel options for our employees in the UK and in Ireland.

A travel survey by external consultants was also undertaken to establish existing travel patterns to and from O₂ offices. As a result

we are now implementing car sharing for employees across our UK sites. This supplements the online, inter-company car-share scheme run by Leeds County Council, in which 134 of our employees participate. During the year we also increased the frequency of company buses between our Slough buildings to cut the use of cars and taxis.

We are committed to using more audio, video and web conferencing to reduce road mileage. Leading by example, our environmental forum to be held in September 2004 will be conducted entirely through video link.

External certification and verification

Our environmental management systems are reviewed internally and externally. The international environmental management standard ISO 14001:1996 is now being integrated into most parts of our business. Operations in the UK have been externally verified to ISO 14001 for four years and mmO₂ Group headquarters achieved certification during 2003. All other businesses in the Group are on track to achieve certification by December 2004, in line with our stated Group-wide target. Our environmental impact is also subject to external audits as part of our insurance programme.

Workplace

[GRI Reference: this section covers 2.22, 3.18, 3.19, 3.20, LA1, LA2, LA3, LA4, LA5, LA6, LA7, LA8, LA14, LA15, LA9, LA16, LA17, LA10, LA11, HR1, HR4, HR5, HR10, IO3, PA7]

External view: “mmO₂ understands the importance of good employee relations. The company and Connect have a strong record of working in partnership to manage the challenges which arise in a fast changing industry. The benefits of this approach were demonstrated this year during the Project Stockholm reorganisation, where complex people issues were handled in an open and professional way.”

Steve Donnelly, National Officer, Connect – the union for professionals in communications

Employee representative: “Any big change which involves people losing their jobs is inevitably traumatic – and it wasn’t without pain. But by and large it was done as quickly as possible while ensuring fairness and objectivity. To my mind it was handled as well as it could be in the circumstances.”

Julian Keeley, Head of Regulatory and Carrier Services and one of the employee representatives for middle and senior management of O₂ UK. During the restructuring of our operations last year, he played an important part in ensuring that people affected by change were dealt with fairly and objectively

We want O₂ to be a business where people are proud to work, motivated, knowledgeable, included and well rewarded. Our success depends on the skills and talents of our 12,905-strong workforce, their well-being and job satisfaction.

The United Nations Universal Declaration of Human Rights and the International Labour Organisation’s principles underpin our practices. We always aim to treat everyone fairly, impartially and without prejudice, regardless of race, colour, nationality, ethnicity, religious affiliation, gender, sexual orientation, marital status, age, disability or caring responsibilities. We exercise zero tolerance to all forms of harassment, and take steps to prevent injury or ill health in the workplace.

Our emphasis is on communicating with employees through regular business updates, team briefings, works councils and good relationships with recognised trade unions in the UK. By 31 March 2004 70 per cent of our UK workforce was represented by trade unions. In mid-2004 we will hold the inaugural meeting of our European Works Council where representatives from across the business will discuss Group performance with senior executives.

Our culture

We promote diversity and individual fulfilment in work by offering competitive rewards, opportunities for personal development and a supportive, flexible and modern working environment. We also encourage employees to take a positive role in the communities they serve.

We have continued to assess employee engagement and offer a channel for feedback through Reflect O₂. In October 2003 we saw our employee engagement scores rise by 2.2 per cent to reach 72.7 per cent across the Group.

In August 2003, in response to Reflect O₂ findings, we began to introduce extra product training, better information for employees and opportunities for non-retail employees to spend time in our shops.

We are also taking steps to ensure that our culture matches our commitment to corporate responsibility. During the year we gauged our employees’ attitudes to it through a Group-wide research programme. The exercise generated a range of new ideas for our business and especially for the ‘Can Do in the Community’ programme.

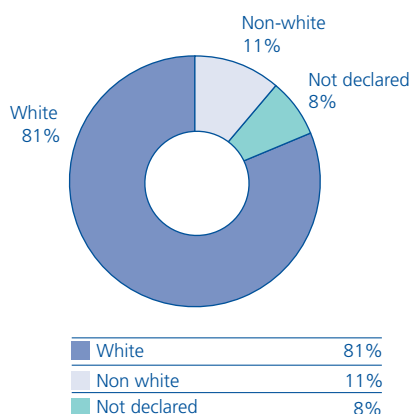
As part of our drive to improve the Group’s performance and to support our focus on people development we are implementing a new online human resources system. The new system will provide real-time accurate data and automate many currently manual processes, such as recruitment and management reporting. It will enable managers to make fully informed commercial decisions about their team and increase the amount of time they can spend developing their people.

Diversity and human rights

We believe that a company is most likely to serve its employees, customers and stakeholders well if it reflects the diversity of society at large. We want all our employees to benefit from equality of opportunity and reward.

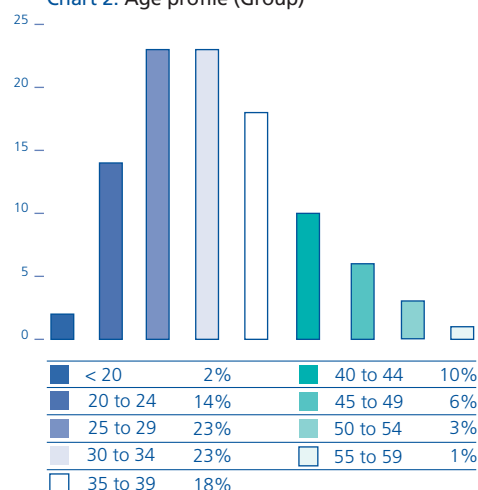
An audit by an external agency in 2003 revealed that, as a Group, we exceed accepted standards on human rights as laid out by the UN Universal Declaration of Human Rights. A study of our employees showed we could do more on diversity hence it became a Group-wide initiative. Danuta Gray, Chief Executive Officer of O₂ Ireland, was appointed diversity champion for a new steering group in 2004. This has generated O₂’s vision for diversity and set out to address specific areas, as well as generated a human rights policy which is available on our website www.mmO2.com/cr/report2004. The assessment of human rights also asked for improved reporting and measurement which has been followed-up by the introduction of a new database system for our human resources function. We have not devised

Chart 1: Ethnicity (UK)



O₂, Germany, O₂ Ireland and Manx Telecom are not able to provide ethnicity data due to legal restrictions or because the data is not recorded.

Chart 2: Age profile (Group)



a separate approach for AIDS and HIV programmes as this matter has not been identified through our operations or through stakeholder engagement.

At O₂ we believe that diversity and equality has many facets. We want our managers to be knowledgeable and flexible in dealing with issues as wide-ranging as religious affiliation, dyslexia and the needs of mothers returning to work part-time. We want to instil good practice into managing diversity in our day-to-day activities, such as recruitment, opportunities for job changes and personal development. Details about the ethnic composition of our UK workforce are described in chart 1.

Through a renewed voluntary census check we managed to encourage 85 per cent of our UK employees to declare their ethnic origin, and the proportion of undeclared individuals who participated in the survey has dropped from 26 per cent to 8 per cent. The proportion of white employees rose to 81 per cent and that of non-white to 11 per cent.

We are increasing our support for events within different ethnic communities to enforce the importance of tolerance and diversity. This year O₂ UK sponsored an interactive photographic exhibition celebrating British Asian Youth and we sponsored Asian Mela festivals across Britain. In Ireland we were involved in the Chinese New Year festival.

We noted last year that 24.3 per cent of senior management posts were filled by women, even though they made up 40 per cent of the total workforce. In 2003/04

the figure increased slightly to 25 per cent. Group-wide, 102 out of 408 senior managers are women. We are continuing to monitor and challenge our performance here. See chart 4 for more details.

We used our annual management pay review to address disparities between the pay and grading levels for men and women in the UK. In consultation with our management union, Connect, we set aside a part of the total remuneration bill to help rectify imbalances.

We are a member of the Employers' Forum on Disability in the UK and aim to offer genuine opportunity for employees with disabilities. To raise our awareness about the topic O₂ Ireland is sponsoring the O₂ Ability Best Practice Awards, an annual business event to establish the first award system for best practice in employment of people with disabilities.

To continue this work, we have been admitted to the Two Ticks scheme in the UK, guaranteeing that we will interview people with disabilities who apply for jobs with us and meet our criteria for qualifications. Two Ticks will be integrated into our new human resources online recruitment system to ensure managers demonstrate compliance.

Almost half of our permanent workforce is between 25 and 34 years of age. In addition to the information presented in chart 2 we employ 29 individuals above 60 years of age.

Training, development, reward and recognition

Across the Group we promote continuous learning, through on-the-job training, knowledge sharing, projects, e-learning, workshops and development programmes. Employees are required to agree personal development plans with their managers to get the right support and to track and record progress.

Development activities last year focused on deepening customer and market awareness and on leadership. For example, within the Isle of Man 99 per cent of all employees have attended 'Customer Excellence' events to share experience and identify issues that prevent us from delighting the customer.

In March 2004 we began to enhance our performance review processes to ensure everyone is clear about expectations, and to enable managers to evaluate performance consistently and fairly. We have also created the Executive Development Programme, a leadership forum for around 100 of our most senior managers. This is backed by three further tiers of leadership and management development, supporting those from team leader upwards.

We want our people to know they are valued through our pay and remuneration policies and in our conduct day to day. Share-save schemes are offered to eligible employees across the Group. Each of our businesses runs its own recognition and reward schemes and in July 2003 our top achievers across the Group were informally entertained for a day by the Board. O₂ UK ran a summer fun day, with some 4,000 employees and family members attending.

Chart 3: Gender (Group)

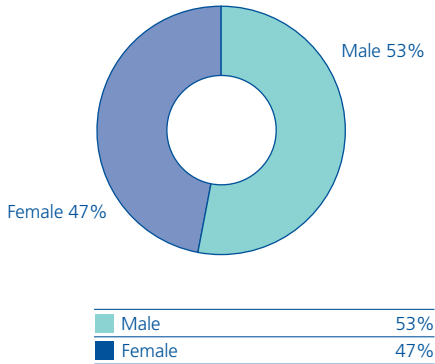
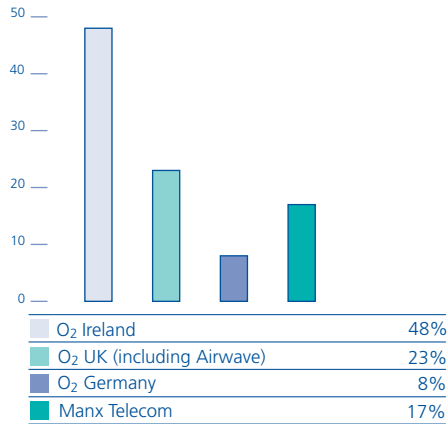


Chart 4: Women in senior management (Group)



25% of senior managers are women

Our pay negotiations with the UK trade unions, the CWU and Connect, were concluded constructively during the year, including the introduction of an adjustment to take account of performance, equal pay and market rates.

Reorganisation

We reorganised the Group last year. The main aims of the exercise, started in October 2003, were to get closer to our customers and devolve operational responsibility more fully to the individual businesses. It involved closing our UK-based products and online business and integrating its role within local operations. The move led to 170 job losses.

We approached this challenge openly, explaining to employees why we needed to strengthen our position for future growth and profitability. This was supported by an internal communications programme, CEO and team briefings, including audio calls, and question and answer sessions.

We consulted employee representative groups and our trade unions. Those who left the Group did so on redundancy terms that exceeded statutory redundancy compensation and additional support was also offered through CV surgeries and job-seeking workshops.

Call centres

Converting employees from temporary employment to full-time status is an important part of improving call centre performance.

The proportion of full-time workers in our UK call centres is 74 per cent, compared to 66 per cent a year ago. During the year we recruited 786 new staff to our call centres and increased the number of people we employ in O₂ UK's call centres. This measurement helped us retain the activity in the UK without out-sourcing it overseas.

Health and safety

We have a Group-wide health and safety strategy, agreed at main Board level, which is championed by David McGlade, CEO of O₂ UK and an mmO₂ plc Board Director. The key health and safety issues for O₂ employees are car driving, repetitive strain injury, fire and ensuring a level of general awareness of health and safety at work.

We run a number of mandatory training programmes in all our operating businesses covering our policies and arrangements for ensuring health and safety. In addition, O₂ Germany and O₂ Ireland have introduced programmes on well-being, which cover such things as social activities, sports and health screening.

During the financial year O₂ UK introduced a drivers' risk assessment and training programme, a web-based package to assess driver knowledge, skill and risk avoidance techniques among employees, and gave 'on road' skills training for 132 employees.

Management of health and safety in the operating businesses is externally audited each year as part of our insurance programme. O₂ UK and O₂ Ireland have achieved certification to the international health and safety system OHSAS 18001. The management of health and safety procedures of every operating business is reviewed regularly through external audits, which are carried out as part of our insurance programme.

Managers regularly consult with trade unions and other representative bodies on occupational health and safety standards. We are represented at the European Commission Social Dialogue Committee Health and Safety Working Group and we comply with the key elements of the ILO Safety and Health Management System 2001, the UK's HSG65 and the guidelines documented in OHSAS 18001. Our accident reporting arrangements are in line with the ILO Reporting Code of Practice 1995.

During 2003/04, there were 169 accidents resulting in 557 days lost in sick absences. Based on our total workforce, this is equivalent to 13 accidents and 43 days lost in sick absences per 1,000 FTE. We are making good progress towards our target of reducing work injuries by 10 per cent by March 2005. In 2003/04 we received two health and safety enforcement notices in the UK.

Community

[GRI Reference: this section covers 2.22, 3.17, 3.19, EC10, TA4]

External view: "The Telecomputer bus project, for which Manx Telecom is the biggest sponsor, offers whole classes of children and their teachers an important way to build their ICT skills. On arrival the bus connects to the school's network to offer a really integrated approach where work created on board is saved directly back on the school's server. Since being launched in 1998, it has helped introduce many exciting projects and it has made a significant contribution to ICT skills across the Island."

**John Thornely, Information & Communications Technology Adviser,
Dept of Education, Isle of Man**

£1.7 million
contributed through
community involvement

We believe that companies that respond to the needs of the communities in which they operate are more likely to succeed.

We believe that we can also play an important role in tackling social needs by providing innovative products and services that our customers want, and by giving back knowledge, experience and resources in ways that benefit many more.

Community involvement is important, demonstrating that we look beyond narrow self-interest and that our brand and technology have lasting relevance to society. In turn, a commitment to the community helps to protect and enhance our reputation and to motivate and retain our employees. Our local communities constitute local residents where we have communication masts, towns and cities that host our offices and where we recruit employees, our customers and other individuals and organisations who can benefit from mobile communications wider afield.

We particularly look to support initiatives where mobile services can be used to tackle social needs and where our employees can become involved. Our efforts focus on the 'Can Do in the Community' programme we launched in 2002.

Our approach

In each of our markets we have identified key community issues that we want to address through our community involvement. Before the launch of our 'Can Do in the Community' programme employees were asked to identify key issues they thought important and also to vote for the charity of choice. This process was supported by a MORI survey that canvassed the opinion of the British public to community involvement. In consequence each of our operating businesses has adopted its own approach to community involvement, however, the overriding theme is focused around youth. We continue to monitor our approach through regular internal and external surveys, which will be discussed at Group-wide Corporate Responsibility Forum meetings.

In 2003/04 we made £427,000 charitable donations in cash to community initiatives, of which £192,000 was spent in the UK. In total we contributed £1.7 million in

charitable sponsorships and in-kind contributions across the Group. Through our recent membership of the London Benchmarking Group (LBG) we continue to improve our initiatives and learn from our peers. In 2004/05 we aim to improve our measurement and reporting on community involvement through the LBG benchmarking model. A detailed breakdown of our community involvement according to the LBG methodology can be reviewed through chart 4 on page 32.

Focusing on youth

Last year, as a Group, we chose to help young people overcome disadvantage, escape crime and gain access to better opportunities. Our employees voted the International Youth Foundation (IYF) as the Group's Charity of the Year and we set up projects supporting IYF in each of our operating countries. This year we will measure the short-term effects of these.

Chart 1: Total community contributions

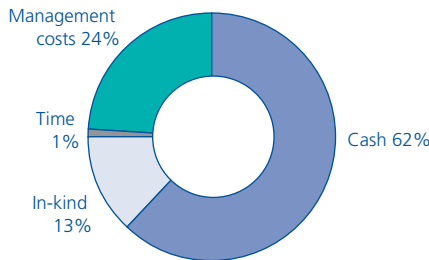


Chart 2: Geographical breakdown

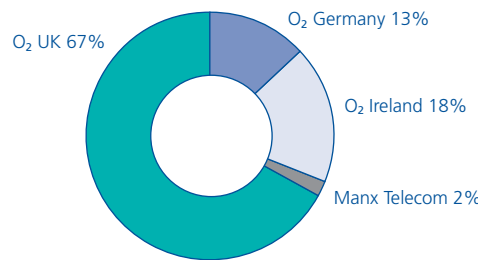
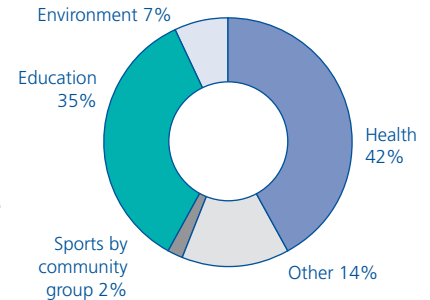


Chart 3: Main areas of involvement



O2 Germany sponsored SCHOLA-21, an interactive learning and information system providing a technological network for students, schools and their teachers to improve project work. SCHOLA-21 is part of the German Children and Youth Foundation's work to strengthen self-confidence in young people. It particularly focuses on building civic responsibility and entrepreneurship, and on combating intolerance and violence.

In Ireland the charity of choice is the Irish Youth Foundation, which aims to make a lasting difference to the lives of disadvantaged children. O2 Ireland sponsored the Communications and Information Technology for Youth (CITY) project to upgrade an internet café in Dublin's Ballymun area with new computers, supervised e-mail and internet surfing, and help in funding an IT trainer for 10-19 year-olds.

Ireland also supported Children's Hour in association with the Irish Youth Foundation. This scheme invites employees to donate one hour's pay to support educational and social projects for disadvantaged young people. 202 employees from our Irish business supported the scheme.

The UK project is Safe Moves. This pilot programme organised by The Foyer Federation and the UK Government's Connexions service aims to reduce homelessness in young people by improving life skills, independence and employability. Launched in September 2003, O2 UK is providing funds and volunteering support from our call centre in Leeds.

Employee involvement

Our employees continued to give their time and imagination to a range of fundraising schemes. Group-wide, we launched our 'Can Do Matching' programme in April 2003, matching each employee's fundraising by up to £350. Funds for charitable causes were raised in various ways including trekking in Nepal and custard pie throwing on the Isle of Man. Take-up has gained momentum and, to date, we have had 112 applications from individuals and teams, supported 91 charities and together contributed £110,000 to charitable causes.

We also enhanced our UK-only 'Can Do Giving' Scheme. This promises 20 per cent extra funding for every £1 donated by employees through payroll. During the year it raised almost £95,000 for a wide range of charities. We have set a target to increase the employee contribution through 'Can Do Giving' by 25 per cent.

Mobile services benefiting the community

Last year we reported a groundbreaking trial of a new asthma monitoring solution in the Thames Valley region of the UK. We provided funding, technical support, Xda combined mobile phones and computers and network capacity to record the breathing of asthma sufferers accurately, using an electronic peak flow meter attached to the Xda from O2. Our partner in this project was e-San.

This solution helped the 94 participants, aged between 12 and 55, to monitor their own breathing and alert their doctors when an asthma attack threatened.



The London Benchmarking Group Model

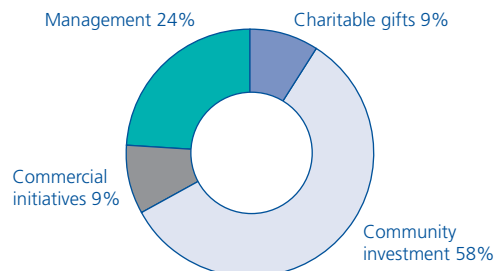
Intermittent support to a wide range of good causes in response to the needs and appeals of charitable and community organisations, increasingly through partnerships between the company, its employees, customers and suppliers.

Long-term strategic involvement in community partnerships to address a limited range of social issues chosen by the company in order to protect its long-term corporate interests and to enhance its reputation.

Activities in the community, usually by commercial departments, to support directly the success of the company promoting its corporate brand identities and other policies, in partnership with charities and community-based organisations.

The core business activities in meeting society's needs for cost-effective goods and services in a manner which is ethically, socially and environmentally responsible.

Graph 4: LBG categories



We were particularly aiming to encourage regular self-monitoring and are pleased to report that 65 per cent of people in the trial did comply, compared with less than 50 per cent of sufferers monitoring themselves in normal ways. With 100 per cent electronic accuracy, the trial aimed to alert doctors to adverse readings, so that they could intervene quickly and warn patients of the need to treat themselves.

Overall, 78 per cent of trial participants said they were satisfied or very satisfied with the system, while the same proportion agreed that the solution improved their monitoring abilities. Nearly 60 per cent said their symptoms improved as a result. We are now awaiting analysis from doctors, covering nearly 11,000 readings, and we expect scientific appraisal to be published in medical journals.

We have now launched a second project with e-San Ltd to help cystic fibrosis sufferers. This illness is different because it involves primary care. Our trial is with the Bristol Royal Infirmary and will run across England and South Wales to help reduce the need for hospital admission and to significantly decrease the cost of the illness to the National Health Service.

The LBG model helps businesses to improve the management, measurement and reporting of their corporate community involvement programmes. It moves beyond charitable donations to include the full range of contributions (in time, in kind and in cash) made to community causes, and assesses the actual results for the community and for the business. (See www.lbg-online.net for more information)

As managers of the Group, we have worked with mmO₂ plc [O₂] to review its understanding of the LBG model and its application to the wide range of community programmes. Our aim has been to ensure that the evaluation principles are correctly and consistently applied. Having conducted an assessment, we are satisfied this has been achieved. Our work has not extended to an independent audit of the data.

This is the first year that O₂ has applied the model. The company has made commendable progress in accurately calculating the costs of its community contribution (inputs) and in starting to assess what the programme is achieving, in terms of additional resources attracted (leverage), community benefits and the business case (outputs and impacts). Going forward, one challenge is to extend this evaluation to include the full range of employee involvement options.

In reviewing the programme this year, we were also impressed by the way the company has formed charity partnerships to explore new ways of applying its technology to benefit people in need, notably on cystic fibrosis and asthma. By engaging the business in this way, the concept of 'community contribution' moves away from narrow cash donations and the ability of the company to make a real difference is enhanced.

The Corporate Citizenship Company
www.corporate-citizenship.co.uk
 30 June 2004

