

# mmO<sub>2</sub> Group overview

mmO<sub>2</sub> is a leading provider of mobile telecommunications services in Europe. We were floated as an independent company in November 2001, comprising the wholly owned European businesses that had previously made up BT's mobile and some of its online operations.

mmO<sub>2</sub> has operations in the UK, Germany, Ireland and the Isle of Man, including global roaming services as well as a growing mobile data business. We serve 18.2 million customers and employ some 12,000 people. Each day an average of 30 million text messages are sent across our networks. Last year 11.6 billion text messages were sent and received Group-wide.

In the year to 31 March 2003, turnover of the Group was £4,874 million, an increase of 14 per cent. Data, a market where we have a leading position, accounted for 17.3 per cent of service revenues in the same year.

## The new brand

All operating businesses with the exception of Manx Telecom on the Isle of Man, now operate under the O<sub>2</sub> brand, which we launched in May 2002. The brand is designed to convey a single face to all our customers and to represent the freshness, life, freedom and clarity that we hope they will increasingly come to expect and enjoy from all our services and products.

## Our operations

The business that makes up O<sub>2</sub> UK was formed in 1984 and was previously called BT Cellnet. It is our most significant business in terms of its contribution to revenues and profitability. Our mobile businesses in Germany and the Netherlands both launched Global System for Mobile (GSM) telecommunications services in October 1998. Our German operation, O<sub>2</sub> Germany, has continued to grow each year in terms of subscriber base and EBITDA<sup>1</sup> performance. O<sub>2</sub> Netherlands, which also grew significantly from launch, was sold on 3 June 2003.

We acquired a controlling interest in our Irish business, O<sub>2</sub> Ireland, in March 2000, at a time when its GSM business was already established. With the launch of more advanced services now fully under way, the business is working to bring wireless broadband to rural areas in Ireland. O<sub>2</sub> Ireland was awarded a third generation (3G) or Universal Mobile Telephone Service (UMTS) licence in 2002. Manx Telecom was awarded a licence to operate the Isle of Man's fixed line telecommunications network in 1987, a licence that was extended to mobile in 1994 and to 3G services in 1999.

We have established a leading position in the provision of advanced mobile services that will allow customers to use data-rich web-based services and to send and receive multimedia messages using text, sound and moving images. BT Cellnet was the first company in the world to roll out a General Packet Radio Services (GPRS) network and Manx Telecom's 3G network, launched in December 2001, was the first of its kind in Europe to go into full operation. All our mobile businesses now have licences to offer 3G services.

O<sub>2</sub> Online is our mobile services website portal. Customers use our portal to access their email, send text messages, download ringtones or the latest political and sports news and even build their own mobile internet pages.

We believe these new generations of service – offering more capacity, online internet access and the transfer of sophisticated data – will become widely available and used in the next two to three years.

## Our strategy

Our strategy has focused on the following key areas – improved operating performance, managing our business cohesively, and leading in mobile data services. We have made considerable progress in all areas but we recognise that our

strategy must continue to evolve to reflect the changing nature of the marketplace. During the recent period of rapid industry growth there was a core product – voice – and customers were perceived as having similar needs. But now mobile phone ownership has evolved into a mass market, and there is no longer a single product but a widening range of both voice and data services, customers' needs, and the options available for satisfying those needs, have become more diverse. Therefore our market emphasis must change. Becoming an integral part of our customers' lives by knowing what is important to them and helping them to get more out of life, is a primary aim of our strategy going forward. If we have a clear understanding of their different needs, we should be able to provide customers with a better overall experience of O<sub>2</sub>.

To achieve our aim of providing this, we are developing a new segmentation framework to ensure that we really do understand the priorities of our customers. Using this framework we will deliver a range of service packages to different types of customer. At the same time, we are enhancing our IT systems to improve our capability in customer relationships management and help us transform our retail presence.

Such a change of emphasis requires continuous and far-reaching change in the Company. It is O<sub>2</sub> people who will drive the success of these initiatives. We will continue to build our skills and capabilities in customer service, marketing and brand affinity. We continuously challenge our people to live our brand values – bold, open, trusted and clear – and to keep the customer experience at the centre of our vision.

<sup>1</sup>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.

# mmo<sub>2</sub>

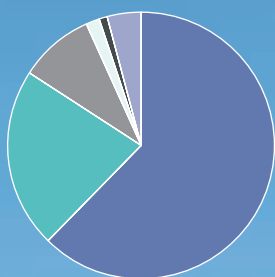
Year ended 31 March 2003

|                           |                   |                     |                     |
|---------------------------|-------------------|---------------------|---------------------|
| Group turnover            | Service revenue   | EBITDA <sup>2</sup> | Capital expenditure |
| £4,874m<br>up 14%         | £4,327m<br>up 18% | £859m<br>up 98%     | £944m<br>down 17%   |
| Year-end net debt         | Customers         | Employees           |                     |
| £549m<br>down £68 million | £19.4m<br>up 11%  | 12,476<br>down 13%  |                     |

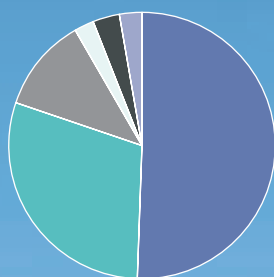
## Operations (by division)<sup>1</sup>

Year ended 31 March 2003

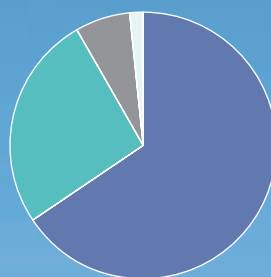
Turnover (£m)



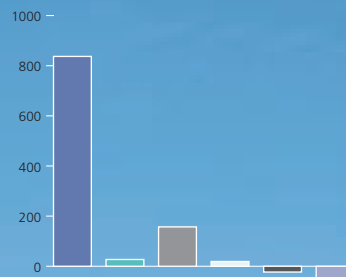
Employees



Customer numbers



EBITDA<sup>2</sup>



|                        |         |
|------------------------|---------|
| O <sub>2</sub> UK      | £3,025m |
| O <sub>2</sub> Germany | £1,060m |
| O <sub>2</sub> Ireland | £442m   |
| Manx Telecom           | £48m    |
| Airwave                | £16m    |
| O <sub>2</sub> Online  | £93m    |

|                        |       |
|------------------------|-------|
| O <sub>2</sub> UK      | 5,824 |
| O <sub>2</sub> Germany | 3,416 |
| O <sub>2</sub> Ireland | 1,317 |
| Manx Telecom           | 274   |
| Airwave                | 374   |
| O <sub>2</sub> Online  | 314   |

|                        |            |
|------------------------|------------|
| O <sub>2</sub> UK      | 12,050,000 |
| O <sub>2</sub> Germany | 4,812,000  |
| O <sub>2</sub> Ireland | 1,225,000  |
| Manx Telecom           | 59,000     |

|                        |        |
|------------------------|--------|
| O <sub>2</sub> UK      | £837m  |
| O <sub>2</sub> Germany | £27m   |
| O <sub>2</sub> Ireland | £157m  |
| Manx Telecom           | £19m   |
| Airwave                | £(23)m |
| O <sub>2</sub> Online  | £(73)m |

<sup>1</sup>O<sub>2</sub> Netherlands was sold to Greenfield Capital Partners in June 2003: Turnover £263m; Employees 710; Customer numbers 1,200,000; EBITDA £1m.

<sup>2</sup>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.

---

## Corporate responsibility issues

Corporate responsibility is an everyday part of our operations. It touches every corner of mmO<sub>2</sub> in a wide variety of ways and we aim to manage all aspects of it carefully. This section describes the issues we are addressing in the different areas of the business.

---

### Network sites and equipment

Our networks are extensive and account for the vast majority of our energy use. They have to be widespread to provide the level of coverage our customers demand. But that means base stations and antennae are sometimes sited close to people's homes and communities. We take safety concerns about the network extremely seriously and abide by strict safety guidelines set out by independent international experts.

The issues raised include: energy efficiency, use of renewable power, health and safety of our employees and of the general public, training, environmental impact, community liaison and dialogue, emissions, planning and the support of scientific research.

---

### Offices, buildings and call centres

As a sizeable company, employing some 12,000 people, we operate a number of offices and buildings as well as a network of call centres in the markets we serve. We aim to run these buildings efficiently, with minimal impact on the environment and to ensure we provide a safe and healthy workplace for employees.

The issues raised include: energy usage and efficiency, emissions, landscape and bio-diversity, waste management, recycling, health and safety standards, employment practices, community liaison and dialogue.

---

### Transport

Many of our employees drive extensively in the course of their work. We are examining ways to use wireless technology to cut the amount of travel our employees have to do and provide clear guidance to them about safe driving.

The issues raised include: emissions, fuel and energy efficiency, health and safety, employment practices, flexible working and training.

---

### Retail outlets

Our shops are one of the places where we interface with our customers. We aim to run them efficiently, offering excellent service and clear and knowledgeable help and advice. We want our shops to be a pleasant environment for our customers and our employees.

The issues raised include: energy usage and efficiency, packaging, equipment recycling, health and safety, customer service standards, training, employment practices and openness and frankness with customers and employees alike.

---

### Customers

We are determined to provide excellent service to our customers and are working hard to develop a customer-centric culture throughout mmO<sub>2</sub>. The values we attach to the O<sub>2</sub> brand are to be bold, open, trusted and clear. The customer is the most important judge of those values.

The issues raised include: customer service training, employment practices, pricing policies, providing information, regulation, improving response times, listening to and acting on customer complaints and ensuring that our products are safe.

# Our approach to corporate responsibility

We aim to act responsibly in all we do as a company. We want to ensure that we take full account of the social, environmental and ethical impact of our business on our customers and on the communities we serve.

Our approach to corporate responsibility is straightforward. We believe it should be part of the normal pattern of things we do as a business – as important as getting customer service right, and as fundamental as striving to operate efficiently and profitably.

Ever since our demerger in November 2001, we have striven to create a culture of responsibility throughout the Company. During the past financial year we have made considerable progress in this area.

## Championing corporate responsibility

In July 2002, we established a Corporate Responsibility Advisory Council, led by our Chairman, David Varney. The Council meets every two months to review corporate responsibility policy and performance and make recommendations to the Executive Committee and the main Board. Senior management, our internal audit team, functional experts and representatives from our operating businesses are all represented on the Council.

Members of the Board and the Executive Committee act as champions for different aspects of our corporate responsibility strategy. The Group's corporate responsibility management team is supported by a 'virtual' team. The virtual team covers all main areas of corporate responsibility policy and practice across the Group, including environmental protection, human resources, health and community investment. Our UK, German and Irish operations have a specific corporate responsibility contact person.

During the past year we have published an environmental policy, launched a major study of employment diversity within the Group and completed a new ethical procurement policy. A highlight of the year was the launch in December 2002 of our 'Can Do in the Community' programme which aims to find ways we can use our mobile services and skills to bring social benefits to the communities in which we operate.

## How we are seen and judged

mmO<sub>2</sub> is now represented in some of the main sustainability funds and indices. During the year we were selected to join both the Dow Jones Global Sustainability Indexes World – which covers the top 10 per cent of some 2,500 companies around the globe – and the Dow Jones Indexes Stoxx – which tracks leading European companies. In addition we are now represented on the FTSE4Good index of top 50 UK companies and the FTSE4Good Global index. We are also a member of the Brussels-based Ethibel investment and sustainability registers.

Together with some 120 major companies quoted on the London Stock Exchange, we took part in Business in the Community's Index of Corporate Responsibility. We were among the top ranked companies overall for our performance in this field and the highest placed mobile telecoms company in the Index.

These are important achievements for a company that is still relatively young. But we are ambitious and we know we have a great deal more to do.

This corporate responsibility report, and the associated online report that we intend to update regularly, describes the policies and processes we have put in place – or are planning to introduce – to manage our operations responsibly. We also describe our efforts to engage fully with all of our stakeholders. It covers all of our fully owned businesses and includes relevant data for the

year under review. Data has been included for O<sub>2</sub> Netherlands, the business that was sold in June 2003. The scope of this report covers the year ended 31 March 2003. This report is independently verified by the external assurance providers, Ernst & Young. Their assurance statement can be found on page 48. We aim to produce annual updates of this report.

## Reporting guidelines

We have looked at all the external reporting guidelines for corporate responsibility to assess which of them provides the most challenging criteria by which to judge our activities.

We have chosen an integrated approach in benchmarking and measuring our corporate responsibility performance. We have opted to use the Business in the Community (BITC) reporting guidelines as the framework for this report and for our wider reporting activities. In addition, to ensure that we have covered all the essential areas, we have also incorporated the Global Reporting Initiative (GRI) reporting guidelines to provide us with sub-categories not dealt with by the BITC guidelines. And we have added Health as a category of our own because we see it as important to the business.

The GRI reporting framework requires that we present quantitative data covering numerous subject areas. In those places where we do not measure our performance, we have tried to illustrate our performance through qualitative information and case studies.

In our determination to engage in active dialogue with all of our stakeholders, we aim to account for ourselves openly and frankly. It is important how we are seen and judged. We welcome views from all groups and individuals who want to engage with us on what we can do to improve our performance.





| Disclosure requirement  | mmO <sub>2</sub>  |
|---|---|
| The Board takes regular account of the significance of social, environmental and ethical (SEE) matters to the business and the Company.   | During the year, the Board was regularly briefed on a range of social, environmental and ethical issues facing the Company. These included community investment, business ethics, health, safety and environmental protection.  |
| The Board has identified and assessed the significant risks to the Company's short and long-term value arising from SEE matters, as well as the opportunities to enhance value that may arise from an appropriate response. | The corporate responsibility programme is expertly managed across all businesses with direct responsibility for issues resting with individual Directors and ultimately with the main Board as a whole. Social, environmental and ethical issues are integral to the business and integrated within our risk management procedures.   |
| The Board has received adequate information to make this assessment and account is taken of SEE matters in the training of Directors.   | Our Directors attended a two-day off-site conference covering – among other things – specific social and ethical matters. Some of our new Directors participated in a training seminar in February 2003 which also covered elements of corporate responsibility.  |
| The Board has ensured that the Company has in place effective systems for managing significant risks which, where relevant, incorporate performance and management systems and appropriate remuneration incentives.         | Our risk management procedures are guided by the Combined Code and the Turnbull committee recommendations. In common with other risks, we manage SEE risks by assessing their potential impact on the Company, measuring our appetite to manage them and by developing strategies to mitigate them. Many members of staff have explicit social, environmental and ethical objectives to meet. All those charged with managing risks are remunerated on the basis of their success in meeting set targets. |
| A description of SEE related risks and opportunities that may significantly affect the Company's short and long term value, and how they might 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 communications masts. A detailed review of these risks is included in the Health section on page 29 of this report.   |
| A description of the Company's policies and procedures for managing risks to short and long-term value arising from SEE matters.  | Our risk management policy describes in detail the procedures for management of risks.  |
| A description of the extent to which the Company has complied with its policies and procedures for managing risks arising from SEE matters.   | Our risk management programme is under regular scrutiny via internal and external audits. Our Audit Committee is regularly updated on our new and refreshed risk registers and the progress in mitigating those risks. Our compliance with the Ten Commitments for responsible mast siting has been subject to third party review and this report should be published during Summer 2003.   |
| A description of the procedures for verification of SEE disclosures.  | This table has been externally verified by our assurance providers, Ernst & Young, see page 48 of this report. In addition, our environmental and health and safety risks are subject to third party audits through our operational risk reviews, which form part of our insurance programme.   |

Source: Association of British Insurers: Disclosure Guidelines on Social Responsibility (2001)

# Corporate governance

Ever since mmO<sub>2</sub> became an independent company, we have made corporate responsibility fundamental to the culture of the Company and an essential part of how we operate as a business.

One important way in which this is achieved is to create an operating environment that demonstrates good corporate governance practice; another is to manage our approach to corporate responsibility as part of a well-developed and rigorous strategy for internal control and risk management. Good corporate governance is among our highest priorities. We aim to be at the forefront of best practice.

Companies and their stakeholders increasingly see managing risk as a crucial part of operating successfully, in the widest sense. Risk management is about identifying, measuring and controlling future events that could threaten the Company's assets, its revenues, brand, reputation and value. It aims to create value, on the one hand, by having a system in place to properly assess and take advantage of potential opportunities. It also seeks to protect value by ensuring that risks that could damage the Company are identified and mitigated.

The social disclosure guidelines of the Association of British Insurers (ABI) and the Turnbull Internal Control Guidance on the Combined Code make specific demands of companies about how they manage risk. We fully support these guidelines and our procedures in this area aim to comply with, or exceed, their requirements. Our detailed response to the ABI Guidelines can be found on page 16 of this report or in the 2003 mmO<sub>2</sub> Annual Report and Financial Statements.

## Managing risk and the role of Directors

Our own risk management procedures are designed to be thorough and expertly managed. For example, we specifically assess value at risk and articulate our appetite for specific risks. Responsibility for all risk issues rests with designated Directors who are given the task of monitoring particular risks and devising and implementing remedies, where necessary.

Directors are encouraged to take account of social, environmental and ethical issues as part of the risk management process, building on existing policies that deal with issues such as corporate governance, health, safety and the environment. We have

drawn up risk registers for each of the operating companies and these form the basis of a consolidated Group risk register. Our risk management process is under continuous review as we seek to improve further the identification of corporate responsibility risks at all levels of the business.

Risk issues are reviewed by executive management every month and by the Board every six months. Our internal audit team also promotes effective risk management in each of the operating businesses. The internal audit team reports to the Audit Committee of the Board. All Directors and those specifically charged with managing risks are remunerated on the basis of their success in meeting set targets.

The Board which currently comprises Chairman, the Chief Executive Officer, the Chief Finance Officer, three further Executive Directors and seven independent Non-executive Directors, is regularly briefed on a range of social, environmental and ethical issues and potential risks facing the Company. These issues include community investment, human resources, business ethics, health and safety and environmental protection. In addition, during the year our Board attended a two-day strategy event that included corporate responsibility issues. A number of recent Board appointees chose to take part in a training seminar, which included the discussion of social, environmental and ethical issues.

Along with training on corporate governance issues, all Directors have received information on the requirements of the ABI's social disclosure guidelines. These deal with the identification and assessment of social, environmental and ethical risks. At six monthly review meetings by the Board, Directors receive reports on all major operational risks. The integral nature of corporate responsibility in the risk management process is also highlighted to Directors.

The management of risk takes place throughout the operations of the Company. Responsibility issues affect every part of the business and a number of employees have explicit corporate responsibility objectives to meet. Our fast track risk management process allows us to address risks swiftly and effectively.

## Business Principles

Enhancing the good name and reputation of the Company is one of the most important jobs that anyone working for mmO<sub>2</sub> has to do.

Our own Business Principles, a copy of which we aim to make available to every employee in mmO<sub>2</sub>, sets out the standard of behaviour we demand of ourselves in our dealings with each other, with partners and suppliers, with customers and with all external agencies. A revised version of our Business Principles was approved by our Board in December 2002 (see pages 46 and 47).

We continue to promote these Principles throughout the Company to make sure that our strict standards on issues like the acceptance of gifts, the award of contracts to suppliers, confidentiality, harassment, health and safety, are widely understood and acted upon. In 2003/04 we intend to introduce further measures – including an online training programme and measurement procedures – to ensure our Business Principles are being adopted and adhered to across the Company.

Managers are responsible for making employees aware of the Principles and reporting on compliance. The Business Principles document enables employees to use a confidential help and notification system to report any behaviour that they are concerned about. They are assured that their concerns will be taken seriously and that their complaints will be dealt with privately and without fear of retribution. We are confident that we will be able to meet the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) requirements for Code updates and the logging of calls to the confidential help line.

Approaches to corporate governance are evolving. While we meet all the demands of the Combined Code, we are also actively involved in the debate about new corporate governance practice, most notably the Higgs review in the UK and Sarbanes-Oxley in the US.