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The Board supports high standards in corporate governance. The application during the financial year of the principles in Section 1 of the Combined Code published by the Hampel Committee on Corporate Governance in 1998 is described in the appropriate sections of this statement and in the report on directors' remuneration on pages 51 to 62. The Directors consider that the Company has fully complied with the provisions set out in Section 1 of the 1998 Combined Code, except for the service contract in respect of Rudolf Gröger, which is for a fixed term ending on 31 October 2005 in recognition of local market practice, but will convert to a one-year rolling contract after the end of this initial period. Additionally, in the event of termination of Mr Gröger's employment within 12 months of a change of control of mmO_2 or its German business, the employer is obliged to make a cash payment equal to two times his base salary and bonus. The amount of bonus payable will be that expected for an on-target performance. On-target bonus is equal to 80 per cent of base salary.

In July 2003, the Financial Reporting Council issued a revised Code on Corporate Governance (the revised Combined Code) which is effective for reporting years beginning on or after 1 November 2003. The Board has reviewed the Company's corporate governance arrangements in the light of the revised Combined Code and this report also reflects changes which have been made as a consequence of that review.

The Board

The Directors' biographies appear on pages 41 and 42.

The Board currently comprises the Chairman, Chief Executive Officer, Chief Financial Officer, two further executive Directors, and seven independent non-executive Directors, which is considered to be an effective size and balance for the Company. The Board considers that all the non-executive Directors are independent under the criteria set out in the revised Combined Code, including David Arculus at the date of the announcement of his appointment as Chairman from the conclusion of the Annual General Meeting on 28 July 2004.

The division of responsibilities between the Chairman and the Chief Executive Officer has been set out in writing and agreed by the Board.

Andrew Sukawaty, the Deputy Chairman, is recognised as the senior independent Director to whom concerns can be conveyed independently of the Chairman or Chief Executive Officer or Chief Financial Officer by other Directors or by shareholders.

The differing roles of executive Directors and non-executive Directors are clearly delineated, with both having fiduciary duties towards shareholders.

Non-executive Directors are appointed initially for three years. During the financial year, the non-executive Directors entered into revised letters of appointment setting out their expected time commitment and key elements of the role, reflecting the guidelines in Sir Derek Higgs' review of the role and effectiveness of non-executive directors (the Higgs' Report). Their appointment is subject to one month's notice from either the Company or the Director. Towards the end of the three-year period, the Board will consider whether to continue the appointment for a further three-year period.

At the time of a Director's appointment to the Board, an internal induction programme is provided on the Group's strategic and business plans and developments to date. The content of this induction programme and, where appropriate, any additional training which may be required by the Director is kept under review. Directors are also advised of their legal and other obligations as a Director of a listed company.

In accordance with the revised Combined Code and the Company's Articles of Association, all Directors submit themselves for re-election every three years.

The Board as a whole is collectively responsible for the success of the Company and provides entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. It sets out the Company's values and standards and ensures that its obligations to its shareholders and other stakeholders are understood and met.

The Board has regular scheduled meetings throughout the year together with an annual off-site conference to review and discuss corporate strategy. Additional meetings are held as necessary. During the financial year ended 31 March 2004, the Board met nine times.

The Board has a formal schedule of matters specifically reserved to it for decision, including the approval of strategic plans and the annual operating plan, significant investments and capital projects, and treasury and risk management policies. All Directors take decisions objectively in the interests of the Company.

Guidelines are in place concerning the content, presentation and timely delivery of papers by management to Directors for each Board meeting, so that the Directors have enough information to be properly briefed. Where issues arise at Board meetings, the Chairman ensures that all Directors are properly briefed and, where necessary, appropriate further enquiries are made.

All Directors have access to the advice and services of the Company Secretary who, under the direction of the Chairman, is responsible to the Board for ensuring that Board procedures are followed, maintaining compliance with all applicable rules and regulations, and advising the Board on all governance matters. The appointment and removal of the Company Secretary is a matter for the Board as a whole. There is an agreed procedure for Directors to take, if necessary, independent professional advice at the Company's expense.

Whilst not actively involved in the day-to-day management of the Company, the non-executive Directors play an important role in bringing their independent judgement and considerable knowledge and experience to the Board's deliberations with their advice being

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reflected in management meetings. They have regular contact with senior managers in the business.

During the financial year, the Chairman met regularly with non-executive Directors without the executive Directors present and the non-executive Directors also met without the Chairman present under the leadership of the senior independent Director. One of these latter meetings was to review the performance of the Chairman.

During the financial year, the Board conducted an internal review of its performance and that of its principal Board Committees and individual Directors. Each Director completed a comprehensive questionnaire and there were one-to-one interviews between the Chairman and each Director. Directors were asked to comment on matters such as the culture and approach of the Board, the effective setting of strategy based on information about the business and how the market operates, the quality and timeliness of information provided, the composition of the Board, the role of the senior independent Director, Board meeting processes, the form of continuing professional development, and communication of Board decisions and discussions. The results of this review were considered in one-to-one discussions with the Chairman and collectively at a Board meeting. The Directors concluded that the Board and its Committees operated effectively and that, as individuals, the Directors were each contributing to the overall effectiveness of the Board.

There is a programme of regular dialogue with major institutional shareholders and fund managers and summaries of these discussions and meetings are provided to the Board. In addition, the Board received a presentation on the findings of an independent investor audit. These summaries and reports enable the Directors to gain an understanding of the views and opinions of those with an interest in the Company.

The Company maintains Directors' and Officers' Liability Insurance in respect of legal action against its Directors.

The Board has adopted appropriate governance policies dealing with the conduct of Board affairs and has delegated responsibility for monitoring the day-to-day performance of the Group as a whole, allocation of resources within agreed plans, implementation of policies and decisions relating to specific value-related commitments to the Executive Committee and designated managers in accordance with a schedule of delegated authorities.

Attendance

The attendance of Directors at Board and principal Board Committee meetings held during the year is detailed in the table below:

	Board (9 meetings)	Audit Committee (4 meetings)	Nomination and Governance Committee (2 meetings)	Remuneration Committee (8 meetings)
D Varney	9	n/a	2	n/a
P Erskine	9	n/a	n/a	n/a
D Finch	9	n/a	n/a	n/a
R Gröger	9	n/a	n/a	n/a
D McGlade	8	n/a	n/a	n/a
K Thexton[1]	7	n/a	n/a	n/a
A Sukawaty	9	n/a	2	8
D Arculus	9	2	2	n/a
D Chance	9	4	2	n/a
S Hodge	9	4	n/a	8
N Kroes	9	2	n/a	8
I Meakins	8	2	n/a	7
P Myners	9	n/a	2	7

n/a – non-applicable as not a Committee member.
[1]Kent Thexton resigned from the Board on 4 February 2004.

Arrangements were made for any Directors who were unable to attend meetings to discuss the agenda items with the relevant Chairman of that meeting in advance.

Board Committees

The Board has delegated authority to the Committees described below on specific matters. All of the Committees have formal terms of reference. Minutes of meetings are formally recorded.

The terms of reference of the Audit, Nomination and Governance, and Remuneration Committees were reviewed and revised during the year in the light of the recommendations in the Higgs' Report and Sir Robert Smith's report on the role of audit committees. As part of that review, the Nomination Committee was renamed the Nomination and Governance Committee. The terms of reference of these Committees are posted on the Company's website and are available, on request, from the Company Secretary and General Counsel who acts as Secretary to these Committees. The Board reviews the membership of the Committees on an annual basis at the start of each financial year or more frequently as circumstances require.

During the year, the Board disbanded the Finance Committee and delegated its responsibilities for reviewing and approving financing and investment decisions to the Chief Executive Officer and the Chief Financial Officer and other specified senior managers.

Chairman's Committee. Chairman: David Varney
The Chairman's Committee advises and assists the Chairman in the preparation for Board meetings. The Committee also acts on behalf of the Board between scheduled Board meetings, in exceptional circumstances, where it is not possible or practicable to convene a meeting of the Board. In addition to the Chairman, Peter Erskine and David Finch are members of the Committee. Following the conclusion of the 2004 Annual General Meeting, David Arculus will become Chairman of the Committee.

Audit Committee. Chairman: Stephen Hodge
The Committee comprises Stephen Hodge, David Arculus, David Chance, Neelie Kroes and Ian Meakins.

The Committee monitors the integrity of the Company's financial statements; reviews the Company's internal financial control system and risk management systems; monitors and reviews the effectiveness of the Company's internal audit function; makes recommendations to the Board in relation to the appointment of the external auditors and recommends the audit fee (and terms of engagement) to the Board following appointment by the shareholders in general meeting; monitors and reviews the external auditors' independence, objectivity and effectiveness; considers management's response to any major external or internal audit recommendations; approves the appointment or dismissal of the Head of Internal Audit; reviews the Company's procedure for handling allegations from whistleblowers; and considers other topics, such as the Company's policies for preventing or detecting fraud and its code of corporate conduct/business ethics.

Further details of the Committee and a report of its work during the financial year are set out below.

Audit Committee Report

The composition of the Committee was reviewed at the end of the previous financial year as part of the Board's overall review of its governance committee arrangements. Further details of the members of the Committee are set out in the biographies of the Directors on pages 41 and 42.

Stephen Hodge, as Chairman of the Committee, is considered by the Board to be the audit committee financial expert and the member of the Committee with recent and relevant financial experience. He receives an additional fee of £5,000 for acting as Chairman of the Committee, which is included in the Directors' remuneration table contained in the report on directors' remuneration on page 57.

The Company Secretary and General Counsel is secretary to the Committee and minutes of meetings are circulated to all Board members. Regular attendees to Committee meetings, at the invitation of the Committee, include the Chairman, Chief Executive Officer, Chief Financial Officer, the Head of Internal Audit and representatives of the external auditors. The Committee has authority to seek any information that it requires from any employee; authority to obtain independent professional advice; and access to sufficient resources generally to carry out its activities.

As referred to earlier, the Committee undertook a review of its terms of reference following the issue of the revised Combined Code in July 2003 and reported back to the full Board. The amended terms of reference were approved by the Board in November 2003 and are available on the Company's website and, on request, from the Company Secretary and General Counsel.

The Committee met four times during the financial year. Following each meeting, the Committee members met with the external auditors in private. The Committee members have also met privately with the Head of Internal Audit.

The Committee worked to a structured programme of activities, with agenda matters focused to coincide with key events of the annual financial reporting cycle, together with standing items that the Committee is required to consider at each meeting. The Committee reviewed the following matters and reported its conclusions to the full Board:

- the financial disclosures contained in the Company's annual and interim reports to shareholders and other interested parties;
- various accounting matters, including the Company's accounting policies, raised by management and the external auditors in the context of the financial disclosures;
- the Group's risk management process, including monitoring and progress on the management of key risks identified by the Company and within the Group's operating businesses;
- the effectiveness of internal controls and measures to detect and prevent fraud;
- the annual external audit plan for the Group's auditors. This review included the audit objectives, auditor independence and objectivity policies, partner rotation, audit scope, team, timetable, deliverables and fee proposal;
- the amount and purpose of non-audit fees. As noted in last year's annual report, the Board has adopted a formal policy governing the independence of the Company's external auditors and defining those non-audit services that may be provided to the Group, including those which require the prior approval of the Committee. This was further reviewed and amended during the financial year to provide for approval by the Chairman of the Committee of contracts relating to permissible tax services up to an aggregated value of £25,000 between scheduled Committee meetings. Details of non-audit services are reviewed at each meeting of the Committee. Further details of the statutory audit and non-audit services fees are set out in note 26 of the financial statements on page 90. The policy also covers employment of former auditor employees by the Company and audit partner rotation;
- the external auditors' year-end report and the findings of their work and confirmation that all significant matters had been satisfactorily resolved;
- the performance of the external auditors, which resulted in the Committee recommending the re-appointment of PricewaterhouseCoopers LLP as auditors to the Company; and
- the internal audit plan and resources for the internal audit function. This review included detailed reports from the Head of Internal Audit on progress on matters identified in the plan, current resources of the internal audit function and updates on matters requested by the Committee.

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The Committee has reviewed the ongoing and updated process for the handling of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by employees of concerns regarding questionable accounting, auditing, employment, ethical or other matters.

The Committee received regular updates from the Company Secretary and General Counsel on corporate governance issues in the UK and US, emanating from the revised Combined Code and the Sarbanes-Oxley Act of 2002.

The Committee also received minutes of all meetings of the Disclosure Committee. Details of the remit of this Committee are provided in the internal control section of this report.

Nomination and Governance Committee.
Chairman: David Varney

The Committee comprises David Varney, David Arculus, David Chance, Paul Myners and Andrew Sukawaty. Following the conclusion of the 2004 Annual General Meeting, David Arculus will become Chairman of the Committee. The Committee is responsible for reviewing the structure, size and composition of the Board and for recommending candidates for Board membership for the approval of the Board.

In the appointment of new Directors, the Committee reviews the current balance of skills on the Board. It draws up a specification to include any specific knowledge or expertise it considers of future benefit to the Board having regard to the business throughout the Group and the overall strategy. External search agents are used during the recruitment process. The agents put forward a short list of candidates for the Committee to review before submitting its recommendation to the Board. Whilst the Chairman of the Board chairs this Committee, he is not permitted to chair meetings when the appointment of his successor is being reviewed.

The Committee ensures that the performance of the Chairman, senior independent Director and other Directors is regularly reviewed.

During the financial year, the Committee met twice. It recommended to the Board those Directors who should retire by rotation and seek re-election at the 2004 Annual General Meeting and considered the leadership needs and succession plans of the Group as a whole. It also established a sub-committee of all the non-executive Directors to review the performance evaluation processes and succession plans for all Directors. The process leading to the selection of the new Chairman was conducted by an ad-hoc committee of independent Directors headed by the Deputy Chairman and advised by an independent executive search agency.

Remuneration Committee. Chairman: Andrew Sukawaty

The Committee comprises Andrew Sukawaty, Stephen Hodge, Neelie Kroes, Ian Meakins and Paul Myners. The Committee is responsible for determining the framework and broad policy for the remuneration of the Chairman, all executive Directors, the Company Secretary and General Counsel, and members of the Executive Committee, and for determining, within agreed terms of reference, specific remuneration packages for each of these, including any pension rights, any compensation payments and the implementation of executive incentive schemes. The Committee operates on the principle that members of the executive management should be provided with appropriate incentives to encourage superior performance and should, in a fair and responsible manner, be rewarded for their individual contributions to the success of the Group. The report on directors' remuneration is set out on pages 51 to 62.

The **Executive Committee**, chaired by Peter Erskine, and comprising the other executive Directors and his senior executive team, is responsible for the executive day-to-day running of the Company, the preparation and maintenance of strategic plans for the Group, and monitoring the day-to-day performance of the Group as a whole.

US corporate governance compliance

mmO_2 American Depositary Shares are traded on the New York Stock Exchange (NYSE). The Company is required to comply with those provisions of the Sarbanes-Oxley Act of 2002 implemented by the Securities and Exchange Commission as applicable to foreign issuers.

Under the NYSE rules, listed foreign issuers, like mmO_2, must disclose any significant ways in which their corporate governance practices differ from those followed by US domestic companies under NYSE listing standards. There are no significant differences in the corporate governance practices followed by mmO_2 as compared to those followed by US domestic companies under the NYSE listing standards, except that mmO_2 follows the recommendations in the revised Combined Code with respect to membership of its Nomination and Governance Committee which permits membership of this Committee to be composed of a majority of independent non-executive Directors. The NYSE listing standards require that the Nomination Committee be composed entirely of independent Directors.

Internal control
Responsibility

The Board has overall responsibility for the Group's systems of internal control and risk management and for reviewing the effectiveness of those systems. Such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives; any system can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board sets the policy on Internal Control and Risk Management that is implemented by management. This policy is in accordance with the Turnbull Guidance "Internal Control: Guidance for Directors on the Combined Code".

Internal Control compliance, Risk Management and Internal Audit are the responsibility of separate functions within the Company but they operate holistically to deliver an effective internal control system.

In the case of joint ventures and associated undertakings, where the Group does not have operating responsibility, our policy is to influence and encourage our own high standards of Internal Control and Risk Management and to offer practical advice wherever appropriate.

Control environment

As referred to earlier in this report, the Audit Committee, on behalf of the Board, considers the effectiveness of the operation of internal control procedures in the Group during the financial year. It reviews reports from the Executive Committee and from both the internal and external auditors, keeping under review the scope and results of the audit and the cost effectiveness, independence and objectivity of the auditors and reports its conclusions to the Board. The Group's internal auditors carry out regular assessments of the quality of the Internal Control and Risk Management process as part of their cyclical risk-based audit approach. The Internal Control and Risk Management policies were reviewed during the year, and the Internal Control policy was updated.

Risk management

The Group has a detailed ongoing risk management process for identifying, evaluating and managing the significant risks faced by the Company.

Risk assessment and evaluation take place as an integral part of the Group's annual strategic planning cycle and this includes the consideration of major business risks by senior management.

The risk management process comprises the following key elements:

- Group operating companies and key functions in the business carry out risk assessments, using workshop techniques, to determine the nature and extent of risks facing the Company;
- the Executive Committee undertakes a formal Group-wide risk review every six months, which is reviewed by the Board. Risk management is a formal item at each Executive Committee meeting;
- registers are produced which detail significant risks and indicate likelihood, impact, and the level of controls, together with mitigating actions;
- the profile of the significant risks from the registers is summarised and tracked using a consolidated risk map;
- senior management is accountable and responsible for managing risks within the Group, supported by dedicated risk managers. These risk managers assist in embedding risk management within the business culture via risk forums, team meetings, training sessions and the Company's intranet;
- the Internal Audit function also promotes effective risk management in the business operations; and
- a fast track process for identifying and responding to evolving risks and significant changes to existing risks so that they are reported to an appropriate level of management and corrective action is taken.

Assurance

The Audit Committee receives a summary six-monthly report from the Chief Executive Officer on the effectiveness of the Company's internal controls which is based on senior management reports on their area of responsibility. This includes:

- the Group risk registers, risk maps and dashboards; and
- the Group Corporate Governance Certificates authorised by the Chief Executive Officer and Chief Financial Officer.

Disclosure

The Company has a **Disclosure Committee** which considers the materiality of information and the respective disclosure obligations in releases made to regulatory bodies. This Committee assists the Chief Executive Officer and Chief Financial Officer to evaluate the effectiveness of the Group's disclosure controls and procedures in order to ensure that material information relating to the Group is made known to them.

Annual assessment

The Board has reviewed the nature, extent and development of the significant risks to the business. The Group's current key risks are summarised in risk factors on pages 39 and 40.

On behalf of the Board, the Audit Committee has reviewed regularly the effectiveness of the system of internal controls and reported its findings to the Board.

The Chief Executive Officer and Chief Financial Officer have concluded, after evaluating the effectiveness of the Group's disclosure controls and procedures within the past 90 days, that mmO_2's disclosure controls and procedures are effective in ensuring that material information relating to the Company is made known to them by others within the Group. The procedures provide reasonable assurance that problems are identified on a timely basis and dealt with accordingly.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of the most recent evaluation.

These processes have been in place for the whole of the financial year and have continued up to the date on which this document was approved.

Business principles

To reinforce our commitment to achieve best practice in our standards of business ethics and corporate governance, mmO_2 has a set of Business Principles covering the whole Group including its Directors and senior financial officers, which have been endorsed by the Chairman. There have been no waivers or changes to these Business Principles during the year. A copy of the statement is available on the Company's website. These high-level principles are supported by a confidential helpline and e-mail facility, which are

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available to employees who want to report incidents and for those who have questions regarding the application of the principles. The Company also continues to require its business partners and suppliers to apply these principles when dealing with mmO_2.

Corporate responsibility

The Board takes regular account of significant social, environmental and ethical issues that affect the Group. This includes risks and opportunities that relate to our people, our supply chain, our customers, the environment and society around us.

The management of these issues are covered in the corporate responsibility section of this report, on pages 19 and 20, which contains information in accordance with the Disclosure Guidelines on Social Responsibility, issued by the Association of British Insurers.

We are also producing a separate externally verified Corporate Responsibility report, which will be available in July 2004. Copies of the report can be obtained from the Company's website or, on request, from the Company Secretary and General Counsel.

Investor relations

The Company is committed to ongoing development of open and effective communications with shareholders. The Chief Executive Officer and the Chief Financial Officer regularly meet with institutional shareholders and analysts and the Company's Annual General Meeting is used as an opportunity to communicate with private investors and encourage their participation. All substantial issues, including the adoption of the annual report and financial statements, are proposed at the Annual General Meeting on separate resolutions. At last year's Annual General Meeting the number of proxy votes received for or against each resolution, together with the number of proxy abstentions, were indicated after the vote had been dealt with on a show of hands. In accordance with evolving best practice, all of the resolutions being proposed at the Company's 2004 Annual General Meeting will be conducted by way of a poll. The poll results will be notified to the UK Listing Authority and published on the Company's website following verification by the Company's share registrar. It is intended that the Chairmen of the Audit, Nomination and Governance, and Remuneration Committees will be available to answer questions at the Annual General Meeting.

The Company's website provides financial and other business information about the Group. It contains an archive of past announcements and annual reports, share price information and a calendar of events as well as information on mmO_2's approach to corporate responsibility and the Company's Business Principles.

Going concern

The Directors have reviewed the Group's liquid resources and borrowing facilities, and the Group's budget and cash flow forecast for the year to 31 March 2005, and outline projections for the subsequent year. On the basis of this review, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors adopt the going-concern basis in the preparation of the financial statements.