

AGM Speech – 27 July 2005
Peter Erskine, CEO

Thank you David, and good morning ladies and gentlemen. I'd also like to thank you all for making the effort to attend today's meeting - I'm delighted to see so many of you. I will briefly present your company's performance over the last year, and set out our plans for the future.

Before we take our tour of the business, I'd like to take a moment to thank my executive team.

My thanks are due in particular to your Chief Financial Officer David Finch, and to the CEOs of all the businesses, namely Rudi Gröger, Matthew Key, Danuta Gray and Pete Richardson.

Their hard work and dedication has resulted in an outstanding set of results in the last financial year.

So now let's look at the year's many highlights.

The first thing to say is that all our businesses have performed, and continue to perform, ahead of the market.

I'm delighted to be able to report that your company's pre-tax profit more than trebled, from £95 million to £309 million. We also saw a significant increase in operating profit and EBITDA, the base measure of our earnings.

For the second year running, we grew total revenue by more than £1 billion. It now stands at nearly £6.7 billion.

It was also a record year for customer additions. We acquired three and quarter million new customers, bringing us to a total of 24 million at the end of March - and the momentum has continued in the first quarter of the new financial year with the company announcing a further 646,000 customers gained during April, May and June - taking us close to 25 million customers overall.

Most of the additions over the last year, two million in fact, were in Germany, where we now have well over eight million customers. This makes O2 Germany the fastest growing operator in its market, and probably in mainland Europe.

In the UK, around a quarter of the population are O2 customers and one in three text messages are sent over our network. The turnover of O2 UK has risen to £4 billion, putting our relatively new company ahead in revenue terms of many established names such as Pearson, BSkyB, Guinness and Cable & Wireless.

Our joint ventures, Tesco in the UK and Tchibo in Germany are also performing strongly and already have over a million customers between them.

Mobile phone usage in Ireland is already more than 50% higher than in our other territories. Despite this, our Irish business continued to grow strongly - increasing subscriber numbers and turnover, whilst significantly improving customer satisfaction.

During the last year we also completed the rollout of the O2 Airwave network to all 51 police forces throughout the UK and only last week we were awarded the contract to

supply our service to all the Ambulance Trusts in England. When the system is installed, patients will benefit from reliable voice and data services that will improve care delivery by paramedics at incident scenes and help to improve ambulance response times. We hope this will be followed shortly by similar orders from the Scottish and Welsh Ambulance Trusts and indeed the nationwide fire and rescue service. We already have some 150,000 users of this secure network and are contributing to increased public safety within communities the length and breadth of the country. With 78 other Public Safety related organisations - such as the Highways Agency and Ministry of Defence - already signed up to the service, the potential number of UK users is now well in excess of a quarter of a million.

Data is another success story. Data is all the non-voice services such as texting, and more sophisticated services that customers can access, such as email, games, internet surfing and music. It is a significant part of your business, and three years ago we set ourselves the target that it should account for 25% of revenue by 2005. We've exceeded that target, and now data alone accounts for almost £1.5 billion per annum in revenue.

Although still early days, we have seen a strong start to the current financial year in all our businesses. We have continued to add new customers in the UK and Germany and have increased the base by 15% year on year. Revenues have increased across the board, and the underlying voice and data growth trends in all three mobile businesses are strong. As mentioned by David, we are also seeing encouraging progress in our drive to get churn down in the UK. Overall, we are now increasingly confident that we will achieve all our year-end growth and margin targets.

Looking forward, all our markets are increasingly competitive, particularly in the UK.

Today, around 75 percent of the population in the UK has a mobile phone. As David has indicated, it's a mature market with a high level of customer 'churn'. In such a market, it makes sense to expend equal if not more effort on keeping our existing customers happy as on attracting new additions for revenue growth.

So we listen to what our customers want. And that boils down to three things:

- Firstly, excellent service - great products, network quality and customer service
- the second is - value for money and more rewards for staying with O2
- and lastly more face-to-face contact.

In response to these needs, we are opening a new customer service centre in Glasgow and are taking on 2,000 more customer-facing and shop staff. This means that some 80% of our staff are now customer facing.

To improve efficiency, we are in the process of implementing one of Europe's largest Customer Relationship Management and billing system deployments.

This has allowed us to introduce new O2 loyalty programmes, designed to reward and retain existing customers. I'm sure you will have seen some of our advertising campaigns. Although it's still early days, we are pleased to report that large numbers of both pre- and post-pay customers have already signed up to the programmes, and we are seeing the first signs of churn starting to reduce.

Another area we're focusing on in the UK is increasing the proportion of our business done through our own O2 stores and online. Selling through our direct channels gives us much more control over the customer experience than when we sell through a third party like Carphone Warehouse or Phones 4 U. In the last quarter, more than half of our connections were acquired through our direct channels. This is set to increase, as we expand our network of high street shops from around 260 O2 shops today to more than 300 over the course of this year.

Overall, despite competitive pressures, revenue in the UK is on an upward curve. And we shouldn't lose sight of the fact that we continue to grow ahead of the competition. This year we have forecast the UK business will continue to grow its service revenue by mid single digits whilst maintaining the margin - and we are on course to achieve this.

Now to O2 Germany.

Our performance in Germany last year was, quite simply, outstanding. And the even better news is that, despite being the fastest-growing operator, O2 Germany still only has an 11.5% market share in the largest market in Europe - so there is plenty of opportunity for growth. Judging by our performance so far, we are confident that we will continue to make real inroads into this market.

In the last financial year, the business reported a 28% increase in service revenue, a total turnover of £2.5 billion and actually finished the year at a run rate of close to £3 billion. Looking at recent valuations of similar sized European operators, the potential upside in terms of value is clearly significant if we continue to improve the performance of our German business as we have been doing.

In Germany we have a strong brand and track record in product innovation. To give you an example, O2 Germany recently launched surf@home to take on large, established fixed Internet providers. And although it has only been on sale for a matter of weeks, we are already seeing high levels of interest in the product. It is also making waves in the business market.

Going forward, our major investment in a German 3G network will allow us to drive up longer-term margins, and enable O2 Germany to grow its business even further. This year we expect to see continuing fast growth in the customer base and revenues and the margin improving to 20 percent.

Now, turning to Ireland, I am confident that O2 Ireland will continue to maintain its edge in an increasingly competitive market.

Key to this will be the exclusive introduction of the i-mode mobile internet service later this year - providing a completely new experience for Irish consumers.

And finally, to O2 Airwave.

As mentioned earlier - with the Airwave roll-out to 51 police forces now complete and having secured the Ambulance contract, we can look forward to other growth opportunities.

And what of 3G?

Looking at 3G generally: as we've said many times, we wanted to make sure that crucial elements of the service, like network quality, functioning handsets and compelling content, were in place before we rushed into launching it. We are

approaching 3G as an evolution of our successful data services strategy, rather than a stand-alone service.

In the UK, we are on course to achieve our target of 3G coverage for half the population by summer 2005. Early take-up has been modest, as we expected. We expect it to start building up later this year and early next year.

In Germany we will have 50 per cent population coverage by the end of the year and in Ireland, we have met all regulatory requirements and are on track to launch a commercial service later this year.

Our data offer continues to grow. We are particularly excited about i-mode, the world's most popular mobile Internet service. We are launching this service exclusively in the UK and Ireland later this year and in Germany early next year. This will give us clear differentiation from the rest of the data services market.

Our peers in Spain and France have seen significant increases in revenue since introducing i-mode. We look forward to replicating their success.

Elsewhere in the business, I mentioned earlier the success of Tchibo and Tesco Mobile. Both have quietly and very effectively got on with it, and both are attracting impressive numbers of customers each month. We see no signs of that abating.

Finally, our membership of the Starnap Alliance, which provides travellers with a "home away from home" seamless voice and data service across Europe, has become operational. We're seeing tangible benefits already, with inbound minutes up 200% from our Alliance partners over the last six months. Our German customers, meanwhile, have benefited from the introduction of a competitive flat fee for roaming. We are looking at extending this elsewhere.

Before I close, I want to leave you with this thought: that O2 is more than just the sum of its parts. Which brings us to issues that generally come under the banner of Corporate Responsibility.

David has spoken about our social, community and environmental obligations. I want to talk about our employees.

The best-laid Corporate Responsibility plans are worthless without committed people to deliver them. So last year we made it a priority to communicate with employees about what 'acting responsibly' means to O2.

After all, it touches on every aspect of our operation, from the satisfaction, safety and well-being of our customers, to ethical procurement practices, to getting involved in the community.

In 2004/05 our total charitable donations reached £2.2 million. There was overwhelming support from our employees and customers for the victims of the tsunami disaster and all in all our direct contribution to this appeal amounted to

£414,000 with employees contributing £133,000. Through our Can Do Matching and Can Do Giving schemes we support employee fundraising activities by matching funds and I am delighted to report that the take up has risen by 25 per cent.

Critically, we recognise the huge importance and contribution of all of our employees and our responsibility towards them.

Responding to feedback from our regular 'Reflect' survey conducted among all employees, we have introduced a new package of benefits. Through our 'Balance' programme we are helping employees maintain a healthy work-life balance. And we're also looking at how we can improve the working environment, through everything from refurbishment of our premises to our employee assistance programme, through to the introduction of a new flexible benefits package.

I feel privileged to work with such a talented and highly-motivated team of people across all of our businesses, whose commitment to the company is clear to see. I am delighted that so many of our staff have chosen to participate in the success of O2 by taking up our all-employee Share Save scheme and am immensely proud that, in the past 12 months, we have been voted 'Best Large Company to Work For' in Ireland, in the top 5 best workplaces in Europe, and listed in the top 15 medium-sized employers in Germany.

There's much more going on in this area around the business than we can cover today. You'll find details in our Corporate Responsibility report published earlier this month, copies of which are available here today.

So, in conclusion, this is O2 in 2005.

There is plenty of opportunity to deliver further profitable growth which in turn will deliver the value to you our shareholders.

We have just announced an encouraging start to the new financial year with a good set of first quarter numbers and are now increasingly confident that we will achieve all our year end growth and margin targets.

Yes, we still have much to do - we are not at all complacent, and are focussed on building on our successes to date. You have good reason to be confident that we will take the necessary action to ensure your company's future success.

Finally, I'd like to thank you for your investment, in every way, into O2 plc.

Thank you.