Chairman's statement

- Strong financial performance
- First dividend earlier than planned
- Capital reorganisation approved
- New company name – O2 plc
- In shape for next phase of development

I would like to welcome you to this, the first annual report since our change of name to O2 plc and my first since I was appointed Chairman of your Company.

In 2004/05, all of O2's businesses performed well and the Group delivered another year of strong revenue and profit growth, with turnover from continuing operations up more than 18 per cent and underlying earnings per share 63 per cent ahead of last year. Since our demerger from BT in November 2001, there has been a transformation in the Group's operational and financial performance. We have been delighted, as a result, to be able to establish a policy of sustainable dividends earlier than originally expected. The Group has produced both earnings growth and a positive cash flow. We believe strongly that shareholders should benefit directly from this and, accordingly, we are very pleased to be able to propose an inaugural final dividend of 2.25 pence per share.

The payment of a dividend for 2004/05 and our new policy of sustainable dividends reflect our confidence in the Company's future prospects, and our commitment to deliver returns for shareholders.

As you will know, a capital reorganisation, announced in November 2004, was required to enable us to make the dividend payment. I am pleased that shareholders overwhelmingly approved the Company's proposals at an Extraordinary General Meeting, following Court approval of the Scheme of Arrangement. The Scheme became effective on 14 March 2005 when dealings in new O2 plc shares began on the London Stock Exchange.

We also recognised that, as a legacy of the demerger from BT, the former mmO2 share register included a large number of very small shareholders. The cost of servicing such a large number of shareholders was significant and was set to rise further with the payment of dividends. Therefore, shareholders had the option of electing to receive, in exchange for their existing shares in mmO2 plc, either new shares in O2 plc or a cash consideration. In the event, some 833,000 holders, owning up to 1,000 shares each, received the cash alternative. This has allowed the Company to secure a long-term reduction in the costs of servicing its shareholders, whilst remaining one of the ten most widely held public companies in the UK with more than nine out of ten shareholders being retail investors.

As part of the reorganisation proposals, mmO2's American Depositary Receipts were delisted from the New York Stock Exchange. There is no intention to seek a US listing for O2 shares. In view of the disproportionate costs arising from continued registration with the US SEC, we intend also to deregister from the SEC.

Board changes

I joined the Company as a non-executive Director in April 2003 and became Chairman of mmO2 plc at the conclusion of the Company's Annual General Meeting in July 2004, when David Varney stood down. I would like to thank David Varney for handing over the Company in such good shape. Having successfully led the Company since demerger, David has now taken up the new and challenging position of executive chairman of HM Revenue & Customs.

There have been other important changes in the Board over the past year.

David McGlade, CEO of O2 UK, stepped down from the Board and left the Company at the end of the financial year in March 2005. He has returned to America to become CEO of Intelsat. David led the turnaround in O2 UK's performance since demerger, and the successful establishment of the O_2 brand in the UK. He has been succeeded as CEO of O2 UK by the former UK Chief Financial Officer, Matthew Key, who has also been appointed to the Executive Committee of O2 plc.

During the year, the Board was further strengthened with the appointment of Patrick Lupo, Kathleen O'Donovan and Rudolf Lamprecht as non-executive Directors. Previously chief executive and then executive chairman of DHL Worldwide Express, Patrick brings with him a wealth of experience in international sales, service and distribution. Kathleen has joined the Audit Committee reflecting her expertise in the capital and financial markets, having been Chief Financial Officer at Invensys plc and chair of the audit committee of the Court of the Bank of England. She also brings relevant experience from a number of non-executive directorships, which includes the music recording and publishing group, EMI. Rudolf's deep understanding of sales, marketing and customer segmentation as a Board member at Siemens AG, as well as his knowledge of the German market, mean that all three will make a major contribution to our strategy of focusing on improving the customer experience and organic growth as we continue to drive the Company forward.

Three non-executive Directors – Paul Myners, Neelie Kroes and Ian Meakins – stepped down from the Board. Paul Myners decided to become chairman of Marks & Spencer, Neelie Kroes left following her nomination by the Dutch Government as its new EU Commissioner, and Ian Meakins wished to devote himself to his new role as chief executive officer of Alliance UniChem. I would like to thank Paul, Neelie and Ian, all of whom have contributed to the successful establishment of O2 as a FTSE 100 company with a strong balance sheet and a powerful O_2 brand.

Andrew Sukawaty, who has made an outstanding contribution as senior independent Director and Deputy Chairman since the demerger, has elected to stand down from these roles owing to an increase in other business commitments. He remains a key non-executive Director and shareholders will continue to benefit from his close involvement in the business. Stephen Hodge was appointed Deputy Chairman and senior independent Director, and joined the Nomination and Governance Committee. Patrick Lupo became Chairman of the Remuneration Committee in place of Andrew Sukawaty, who remained a member of that committee.

Corporate Responsibility

We take seriously our responsibility to the communities in which we operate. We strongly believe that companies who respond to the needs of the communities in which they work, and of the wider world, are more likely to succeed on a sustainable basis. I am pleased that our efforts in these areas were recognised last year. O2 was the top scoring mobile phone operator in the Dow Jones Sustainability Indexes. We were included in the FTSE4Good, the Business in the Community Corporate Responsibility (CR) Index and the Top 100 Global Sustainability Reporters list.

Under our Can Do in the Community programme, we have successfully developed a number of community projects across our territories, while measures to support employee fund-raising and giving to charity through payroll have been launched. In total we contributed £1.7 million in charitable donations across the Group, of which over £600,000 came from UK-based companies, and a further £500,000 to the Tsunami appeal. Most importantly, our employees continued to give their time and imagination to a wide range of fund-raising schemes.

At O2 we are sensitive to public concerns over issues such as health and the use of mobile phones, the siting of masts, and the protection of the vulnerable. To help parents and others make informed choices, we have introduced measures such as age verification, parental controls, filters and barring. In addition, we help fund on-going research and are committed to effective, responsible communications, producing leaflets on subjects ranging from health issues to advice to parents on personal safety, bullying and internet grooming. All of this information is available in our retail outlets and online. A separate Corporate Responsibility report will be published in July 2005.

The excellent performance of our individual businesses also won independent recognition in the form of a number of important awards. I am particularly proud that O2 was voted "Best Large Company to Work For" in Ireland and placed in the top 15 medium-sized employers in Germany. One of our key objectives at O2 is to improve the day-to-day working lives of our employees and to ensure that work is an environment that they enjoy. We are in the process of introducing Balance – a new flexible approach to employee benefits designed to help with the management of work/life choices. It would allow, for example, our staff to substitute extra payments for life insurance or additional child-care vouchers for unwanted holiday time.

Looking ahead

We are financially strong and have built a powerful, iconic O_2 brand. Revenue is growing fast, the Company has modest debt and, with a strong management team led by Peter Erskine, our CEO, we have so far outperformed most City expectations. O2 is in a good position. Taking the Company forward to the next phase of its development and further strengthening its position in Germany, the United Kingdom and Ireland will be challenging but achievable.

I believe that Germany represents the most significant new opportunity for O2 and it is for this reason that the Board has authorised a substantial extra capital investment into our German business. Its performance has substantially exceeded our expectations and the impressive momentum and growth in revenue and profitability that O2 Germany has achieved over recent years is continuing apace.

Improving customer satisfaction and reducing churn are the greatest challenges that the mobile industry faces. Ownership of mobile phones is now so widespread, and the degree of competitiveness so intense, that we must change our emphasis from striving to acquire new customers towards retaining those we already have. I am determined that O2 will take a lead in these areas. We will focus on gaining a closer understanding of our customers' needs and behaviour, to find the best way in which we can reward their loyalty. We will work even harder to differentiate our business by delivering intuitive, easy-to-use and fairly priced products and services – particularly in the data field – that our customers value highly, based on proven technology. And we will continue to ensure that we work to make a difference to the communities in which we operate, building a sustainable business for the future.

We aim to grow the dividend towards our medium-term target pay-out ratio of 50 per cent of underlying earnings, reflecting our confidence in the Company's ability to continue to grow revenue, earnings and cash flow, and our commitment to deliver attractive returns to shareholders.

David Arculus
Chairman