

Report on directors' remuneration

This report has been prepared by the Remuneration Committee (the Committee) and approved by the Board. A resolution will be put to shareholders at the 2005 Annual General Meeting to invite them to consider and vote on this report.

Dear Shareholder

As you know, O2 operates in highly competitive and rapidly changing markets, but has delivered outstanding revenue and profit growth in 2004/05. Of particular note have been the announcement of our distribution policy, the restructuring of the Company and the continued strong growth of O2 Germany. This success has allowed the Committee to build on its remuneration strategy in support of the Group's strategic goals. The delivery of sustainable returns for our shareholders remains key and we continue to ensure that our performance measures for reward are closely linked to improvements in revenue growth, profitability, operational efficiency and providing a better experience for our customers.

O2 is a maturing business with a progressive and innovative business strategy; however, there are considerable challenges ahead. Whilst quarter on quarter performance improvements are encouraging, we continue to face increasingly tough competition in the UK. It is therefore critical that we maintain this momentum through the continuity of our management team, which has largely been stable since demerger.

On that basis, during 2004/05 we continued the dialogue with our shareholders regarding our remuneration strategy and policy. The feedback highlighted specific concerns which we have addressed through a revised remuneration approach which addresses the strategic objectives of the business. Reward at O2 will focus on exceptional annual operational performance, year on year progress towards longer term business growth and delivery of long-term shareholder value. We will achieve this through an increase in the annual bonus opportunity (delivered in deferred O2 shares) in addition to making performance share awards. The Performance Share Plan will be the long-term incentive scheme used in 2005/06 and beyond.

I am greatly encouraged by the active dialogue with our shareholders and have every confidence that our remuneration approach for the forthcoming financial year will link to and support the business strategy, as well as ensure the retention of our management team and continued creation of long-term shareholder value.

Patrick Lupo

Chairman of the Remuneration Committee

Remuneration Committee

Role

The Committee is responsible for determining policy on the remuneration and performance of the Chairman, executive Directors and the Senior Management Team (comprising the other members of the Executive Committee and the Company Secretary and General Counsel). It determines, within agreed terms of reference, specific remuneration packages for each of the roles above, including:

- >> service contracts;
- >> salaries;
- >> benefits;
- >> pension rights;
- >> any compensation payments; and
- >> the operation of the O2 Executive Share Portfolio.

Membership and meetings

The Committee consists of independent non-executive Directors. No member of the Committee has any personal financial interest, other than as a shareholder, in the matters to be decided by the Committee.

The Committee comprises Patrick Lupo, Stephen Hodge, and Andrew Sukawaty. During the year, Neelie Kroes, Ian Meakins and Paul Myners were members of the Committee until they ceased to be Directors on 31 August 2004, 30 March 2005 and 10 August 2004 respectively. Patrick Lupo joined the Committee on 10 August 2004 and assumed the chairmanship of the Committee from Andrew Sukawaty on 11 November 2004. The Chairman and Chief Executive Officer are invited to attend meetings of the Committee, except when their own remuneration is discussed. The Committee had eight programmed meetings during the year and also met on two further occasions.

Advisers

The Committee takes advice from both inside and outside the Group on a range of remuneration matters, to ensure that it is able to exercise informed judgement in determining a remuneration policy that supports the business, is market competitive and represents good practice.

The Committee consulted the Chief Executive Officer on matters relating to the remuneration of the other executive Directors who report to him. The Chairman and Group HR Director were consulted in relation to the remuneration of all executive Directors.

The advisers listed in the table overleaf provided services to the Committee in the year ended 31 March 2005:

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Advisers	Services provided	Other services provided to O2 plc
Deloitte & Touche LLP	Appointed by the Committee to provide independent advice on executive remuneration matters.	Audit services in relation to the O2 Pension Plan and, specialist corporation tax, VAT, and expatriate services.
New Bridge Street Consultants LLP	Independently monitor and measure the Total Shareholder Return performance of the Company.	None.
Towers Perrin	Provision of market remuneration data.	Advice on benefits policy.
Freshfields Bruckhaus Deringer	Legal advice on long-term incentives and Directors' service contracts.	Legal advice on certain corporate matters.
Lane, Clark & Peacock	Provision of data for pension accounting and disclosures and advice in respect of executive pension provision.	Actuaries for the Group.
Hewitt, Bacon and Woodrow	Pensions advice in relation to the forthcoming changes in pensions legislation.	None.

Remuneration policy

This section of the report sets out the Group's policy on executive Directors' remuneration for the year ending 31 March 2006 and, as far as possible, for subsequent years. O2 has a sufficiently flexible remuneration approach to support the changing needs of the business. Any changes in policy for subsequent years will be described in future reports on Directors' remuneration.

The Committee has adopted the following principles:

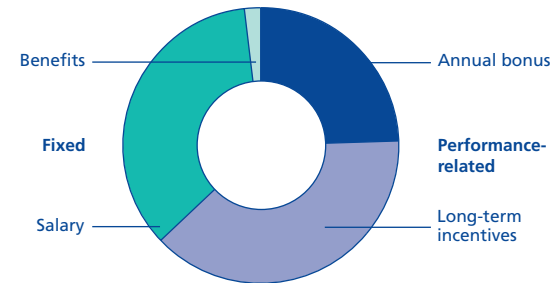
- >> the Committee sets base salaries which reflect contribution, criticality to the business and general wage levels elsewhere in the Group. Decisions are made with reference to a range around the median of the relevant market for the individual although the Company may pay more to recruit a high-calibre executive;
- >> emphasis is placed on rewarding business performance, and therefore we seek to position the total compensation packages at upper quartile for superior performance; and
- >> performance-related incentives with stretching business performance targets to drive and reward superior performance from our executives whilst at the same time aligning the interests of the leadership team with those of our shareholders.

These principles are applied to all employees to recruit, retain and motivate the highest calibre of employee throughout the business. On an annual basis the Committee reviews the relationship between the base pay of the executive Directors with the base pay of reporting levels below executive Directors' level.

Total reward approach

We adopt a total reward approach which comprises a combined focus on base pay, short and long-term incentives, pension and benefit provision. We believe that total reward should encourage superior performance at all levels (Group, Operating Business and individual). The Committee considers it vital to align the interests of the leadership team with those of shareholders, by linking a significant proportion of the package to the creation of shareholder value. The chart below shows that, on the basis of achievement of "on target" bonus and long-term incentives, the balance between fixed and performance-related pay is 37:63.

Fixed vs performance-related pay



When determining total reward levels, the Committee takes account of the UK market and looks wider than simply the telecoms sector. This approach allows us to structure reward appropriately, with the right level of performance-related remuneration, rather than reflecting solely the remuneration practices adopted in our industry.

Each element of remuneration has been designed to support the overall reward strategy, in turn helping to deliver business performance success:

Reward element	Purpose	Measures/influencing factors
Base salary	Reflects position within the Company, performance and contribution to the success of the organisation.	Individual contribution and market review.
Annual incentives	Incentivises participants towards superior annual business performance and aligns employee interests with those of shareholders.	Group and Operating Business key performance indicators (KPIs).
Long-term incentives	Ensures alignment with shareholder interests and incentivises towards share price growth.	Total Shareholder Return (TSR) – compares the net return of an O2 shareholder (share price growth and assumed reinvestment of any dividends) with that of a shareholder in each of a group of comparator companies.
Benefits	An integral element of total reward reflecting competitive market provision. The main benefits are a company car or cash equivalent; healthcare for the executive and family; dental care, and a personal tax and financial planning allowance.	Market driven.
Pensions	The core benefit in maintaining standard of living after employment.	Market driven.
Total reward	The constituents of the above provide for a total reward package that has the potential to be at the upper quartile level for superior performance.	Combination of all of the above.

Elements of executive Directors' remuneration

Base salary

Base pay is reviewed (but not necessarily increased) annually by the Committee with effect from 1 June. As at 31 March 2005, the annual salaries payable to the Chief Executive Officer, Chief Financial Officer, CEO of O2 Germany and CEO of O2 UK were £675,000, £430,000, €650,000 and £420,000 respectively. The annual salaries for the Chief Executive Officer, Chief Financial Officer and CEO of O2 Germany with effect from 1 June 2005 can be found on page 58. The CEO of O2 UK resigned from the Board on 31 March 2005. His successor to this role is not an executive Director.

Annual incentives

Annual incentive arrangements are based on a balance of KPIs that the Committee considers to be key drivers of shareholder value including EBITDA and EBIT (indicators of strong financial performance); net service revenue, data ARPU and customer satisfaction targets (crucial to future growth and profitability). The Committee sets demanding targets which we believe represent results consistent with shareholder expectations. Stretch bonus targets represent superior performance.

As outlined on page 51, following dialogue with our shareholders, annual bonus opportunity will increase by half, and the resulting bonus will be delivered two-thirds in cash and one-third in deferred O2 shares.

The deferred shares will be held in trust for three years and vesting will generally depend on the executive remaining in service. No further performance condition will apply on vesting. Delivering the additional annual bonus opportunity in shares aligns our executives' interests with those of our shareholders and provides a means of retention.

The first award of deferred shares under this arrangement will be made in July 2005. This represents the transition from the Deferred Equity Incentive Plan, which included a deferred share element for retention in 2004 (see page 55) and the proposed long-term incentive arrangements in 2005 (see page 54).

For the year ended 31 March 2005 and the year ending 31 March 2006, the bonus opportunity as a percentage of base salary (including the deferred shares element) payable to the CEO and CFO is 100 per cent of salary for on-target performance and 150 per cent of salary for maximum performance. The CEOs of Operating Businesses each have an on-target and maximum bonus potential of 120 per cent of salary and 180 per cent of salary.

Bonuses are not pensionable. The Chairman does not participate in annual incentive arrangements. Details of the actual cash annual bonuses payable in respect of the year ended 31 March 2005 can be found on page 58.

Long-term incentives

The Committee believes it is important to adapt the incentive arrangements offered in future years to support the Group's fast changing business requirements. This will be achieved through the use of a flexible long-term incentive portfolio (the O2 Executive Share Portfolio) described overleaf, which the Committee actively reviews to ensure that incentives remain appropriate to the needs of the business. Other than in exceptional circumstances, executives will only be made an award under one plan in any year.

All employees of the O2 Group are eligible to participate in long-term incentives at the discretion of the Committee. The Committee determines the appropriate performance targets and reviews the extent to which they have been met. Awards and options are not pensionable.

Report on directors' remuneration continued

Share ownership

The Committee has introduced shareholding guidelines which require executive Directors to build up a shareholding of one times base salary and for the Senior Management Team to build a shareholding of 50 per cent of base salary.

Long-term incentives for 2005/06

Following consultation with shareholders, the Committee has recommended that the Performance Share Plan will be the primary form of long-term incentive for the year ending 31 March 2006. The Committee proposes to make awards of performance shares linked to the Company's TSR performance for most of our executives as it believes that TSR is the most appropriate means of aligning the interests of executives with those of shareholders.

In the case of the CEO of O2 Germany and a small number of senior O2 Germany employees, performance share awards will be made based solely on controllable EBIT margin and net service revenue growth of O2 Germany over a three-year performance period. This is due to the major growth opportunity that the German mobile market represents for O2, with clear potential to increase shareholder value. The Company intends to increase its investment in Germany and accelerate the build-out of the 3G network. These performance measures have been chosen because:

- >> service revenue is both a measure of absolute size and of growth, and can be correlated to profitability;
- >> controllable EBIT is a similar measure to underlying earnings, which is the key financial measure in determining regular dividends for our shareholders.

A stretching achievement level will be set for each measure, for which 30 per cent of the total award will vest. Below this level none of the award will vest. For achievement of the maximum performance level, which will represent superior performance and, we believe, significant shareholder value, 100 per cent of the award will vest. Both measures must be achieved at maximum for the full award to vest. The maximum vesting level under this arrangement would represent compound annual revenue growth in the region of 20 per cent in the three-year period to 2007/08 and an EBITDA margin by that time in the mid-twenties.

The Committee will determine the level of vesting from this incentive, and will set, review and measure each of the targets (and performance against the targets) to satisfy itself that any payout is a genuine reflection of underlying financial performance over the period. At the time of vesting, the Committee will explain the rationale for any payout.

O2 Executive Share Portfolio – Summary of Plans

Performance Share Plan

Purpose: to focus performance on the creation of long-term and sustained shareholder value.

Year ended 31 March 2005

Performance shares were not awarded to executive Directors, but were made to senior managers in 2004/05.

Performance measure

- >> Vesting is subject to the Company's TSR performance against a comparator group over a fixed three-year period as set out below:

TSR ranking	% Performance Shares Vest
Below median	0%
Median	30%
Upper quartile	100%

(Vesting on a straight line basis between median and upper quartile performance.)

- >> The comparator group consists of the constituents of the FTSEurofirst 300 Telecommunications Index (formerly known as the FTSE E300 Telecoms Service Index) at the time awards are made (shown below). This index was chosen by the Committee as it closely compares the Company with its business sector.

BT Group	Tele2 B
Cable & Wireless	Telecom Ital.Mobl.
Cosmote Mobile	Telecom Italia
Deutsche Telekom (Xet)	Telecom Italia Rnc
France Telecom	Telefonica
Ote-Hellenic Telc.	Telekom Austria
Pt Telecom Sgps	Telenor
Kpn Kon	Teliasonera
Swisscom R	Vodafone Group
TDC	O2

- >> Awards will only vest to the extent that the Committee is satisfied that the Company's TSR performance is a genuine reflection of the Company's underlying financial performance over the period.

- >> There are no retesting opportunities.

Year ending 31 March 2006

Awards of performance shares will be made to executive Directors, the Senior Management Team and other senior managers at the discretion of the Committee.

The vesting schedule, performance condition and comparator group will be as set out above for executive Directors except for the CEO of O2 Germany and a small number of senior O2 Germany employees as outlined opposite.

O2 Executive Share Portfolio – Summary of Plans

Deferred Equity Incentive Plan (DEIP)

Purpose: to drive short-term business goals through the Deferred Award, and focus performance on the creation of shareholder value over the long term through the Performance Uplift award.

Year ended 31 March 2005

Executive Directors received a Deferred Award and Performance Uplift. Details of awards made to executive Directors can be found on page 60.

There are two parts to the DEIP:

Deferred Award

>> The Deferred Award is an entitlement to shares equal in value to half of the annual bonus earned in respect of the preceding financial year (i.e. 2003/04). Vesting is subject to continued employment, but no further corporate performance condition.

Performance Uplift

>> The maximum Performance Uplift is equal to twice the Deferred Award. Vesting is subject to the long-term performance of the Company.

Performance measure

>> Vesting of the Performance Uplift is subject to the Company's TSR performance against a comparator group over a fixed three-year period as set out below:

TSR ranking	% Performance Uplift vests
Below median	0%
Median	30%
Upper quintile (top 20%)	100%

(Vesting on a straight line basis between median and upper quintile performance.)

>> The comparator group for Performance Uplift awards made in 2004/05 consisted of the constituents of the FTSEurofirst 300 Telecommunications Index at the date of award (the constituents are the same as those shown on page 54 for awards made under the Performance Share Plan in 2004/05). This index was chosen by the Committee as it closely compares the Company with its business sector.

>> The Performance Uplift will only vest to the extent that the Committee is satisfied that the Company's TSR performance is a genuine reflection of the Company's underlying financial performance over the period.

>> There are no retesting opportunities.

Year ending 31 March 2006

There are no plans to operate the DEIP in the forthcoming year.

Share Option Plan

Purpose: to focus on share price growth and the creation of long-term shareholder value.

Year ended 31 March 2005

Share options were not granted under this plan.

Year ending 31 March 2006

There are currently no intentions to make any awards to executive Directors under this plan. However, the Committee will retain the flexibility to grant options in exceptional circumstances; for example, if required to secure an appointment. Should options be granted in the future, the Committee will have regard to best practice at the time on retesting and performance conditions.

Options previously granted had the following provisions:

Performance measure

>> Vesting of options is subject to the Company's TSR performance against a comparator group over a fixed three-year period as set out below:

TSR ranking	% of options exercisable
Below median	0%
Median	50%
Upper quartile (top 25%)	100%

(Vesting on a straight line basis between median and upper quartile performance.)

>> If the performance goal is not satisfied in full on the first performance test, it can be retested on two subsequent occasions, on the fourth and fifth anniversaries of grant, extending the length of the performance period at each test. The proportion of options that can be exercised will increase if the Company's TSR performance improves between the test dates.

>> The comparator group consisted of the constituents of the FTSE 100 Index at the time the options were granted.

>> The options will only become exercisable to the extent that the Committee is satisfied that the Company's TSR performance is a genuine reflection of the Company's underlying financial performance over the period.

O2 Executive Share Portfolio – Summary of Plans

Restricted Share Plan

Purpose: to encourage personal investment in the Company and act as a retention tool.

Year ended 31 March 2005

- >> Restricted shares were not awarded to executive Directors.
- >> The Company made a one-off award of restricted shares to the Chairman upon his appointment, details of which can be found on pages 57 and 60.
- >> Awards over restricted shares were made to a small number of senior managers. Restricted shares will usually vest on the third anniversary of grant, if the conditions below are met.

Performance measure

- >> In order for the restricted shares to vest in full, participants must personally build and maintain an equivalent number of O2 shares until the vesting date as well as remaining in employment with the O2 Group until this time.
- >> The awards vest on a pro rata basis if the participant builds up a lower personal investment.

Year ending 31 March 2006

There is currently no intention to make any awards to executive Directors under this plan. However, the Committee will retain the flexibility to grant awards in exceptional circumstances; for example, if required to secure an appointment.

Capital reorganisation of the Company

As a result of the capital reorganisation which became effective on 14 March 2005, all options and awards granted over mmO2 plc shares under the Executive Share Portfolio were automatically rolled over into options and awards over an identical number of O2 plc shares. There was no change to option prices, to the number of shares under option/award, or to the length of the vesting period. Where options/awards over shares are subject to TSR, this will be measured in respect of mmO2's performance and O2's performance over the relevant period as necessary.

Legacy long-term incentives

Outstanding awards under long-term incentive arrangements originally implemented prior to the Company's demerger from BT are described on pages 62 and 63.

Pension benefits

There are pension arrangements in place in the main jurisdictions in which the O2 Group operates. Schemes vary in accordance with local market practices in each jurisdiction, and as such there are various arrangements in place for executive Directors and the Senior Management Team.

Peter Erskine and David Finch are entitled to final salary related pension benefits up to the UK statutory earnings cap. In addition, they are entitled to supplementary pension benefits in respect of earnings above the statutory earnings cap (comprising unfunded final salary related benefits in the case of Peter Erskine and funded defined contribution benefits in the case of David Finch).

These arrangements will be affected by changes to the current UK pension regime resulting from the Finance Act 2004. The Committee is currently reviewing appropriate actions to take in response to these changes and will report further next year.

Peter Erskine's pension arrangements provide for a total pension of two-thirds of final salary at age 60, inclusive of any retained benefits from his previous employment, and a widow's pension of two-thirds of his pension. The majority of his pension is provided outside the O2 Pension Plan as an unfunded benefit promise from the Company.

David Finch's pension arrangements provide for an annual accrual of 1/30 of the earnings cap within the O2 Pension Plan, subject to any restriction due to retained benefits. In addition, he is entitled to a supplementary defined contribution benefit, the level of which is determined on an annual basis. For the year to 31 March 2005 this was equal to 32.5 per cent of basic salary; 21 per cent was paid to a Funded Unapproved Retirement Benefit Scheme (FURBS) and 11.5 per cent was paid as a cash supplement.

Rudolf Gröger's pension arrangements provide for a pension at age 60 of 20 per cent of salary after the first three years of service and an annual pension accrual of 1.5 per cent of salary thereafter. The benefit is provided by the Company as an unfunded pension promise.

David McGlade received a cash allowance in lieu of pension benefits of 20 per cent of basic salary from 1 April 2004 to 31 May 2004 and 30 per cent of basic salary from 1 June 2004.

David Varney, who retired as Chairman on 28 July 2004, did not participate in any O2 plc pension arrangements. David Arculus's pension arrangements are set out on pages 57 and 59.

Life cover of four times salary is provided for David Arculus, Peter Erskine, David Finch and David McGlade, whilst he was a Director, and was provided for David Varney whilst he was Chairman.

Details of pension arrangements within O2 are set out in note 30 to the financial statements.

Contracts and notice periods

It is the Committee's general policy that executive Directors will have contracts and service agreements with similar provisions.

The service contracts and notice periods for the executive Directors are set out below:

Director	Effective date of service agreement	Notice period
P Erskine ¹	24 October 2001	12 months
D Finch ¹	19 November 2001	12 months
R Gröger ¹	1 April 2003	12 months
D McGlade ²	1 April 2003	12 months

¹Peter Erskine and David Finch are employed by mmO2 plc but have each entered into an amendment letter with effect from 14 March 2005 to reflect the implementation of the reorganisation to establish O2 plc as the holding company for the Group with effect from that date. Rudolf Gröger's contract is with O2 (Germany) Management GmbH and has been amended in similar respects.

²David McGlade left the Company on 31 March 2005.

The Company may in its discretion terminate without notice and make a payment in lieu of notice equal to the sum of 12 months' pay including the value of employers' pension contributions, benefits, and a bonus payment of not less than the previous year's bonus. This payment in lieu of notice provision does not prevent the Company from terminating as a result of breach of contract, which may enable the Company to pay a reduced amount by requiring greater mitigation.

On termination of employment within 12 months following a change of control, the Company is obliged to make a payment equal to the base salary, the value of employer pension contributions and benefits for the notice period, plus additional payments generally equal to the annual bonus potential for that year, and in respect of the loss of rights under share incentive schemes.

In the event of termination of Rudolf Gröger's employment within 12 months following a change of control of O2 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 on-target performance. This reflects German market practice for senior executives.

David Arculus, who served previously as a non-executive Director of the Company, agreed to serve as Chairman with effect from 28 July 2004 under an agreement dated 4 May 2004. His time commitment is an average of two days per week although in practice the Chairman is available at any time. The notice period required by the Company to terminate this agreement is 12 months. On a change of control, in the event that his agreement is terminated, he will be entitled to 12 months' pay in lieu of notice. This can be subject to mitigation in the event that he finds a comparable alternative role.

Chairman's remuneration

The Chairman's remuneration is determined by the Committee. Upon appointment he was entitled to an annual fee of £325,000 as Chairman, of which £28,254 is, at his request, paid into his personal pension arrangements. Following a review of the remuneration of the Chairman, it was agreed that, with effect from 1 June 2005, the annual fee payable will be £355,000. The Chairman does not participate in O2 plc annual incentive arrangements. The Chairman has agreed to invest 15 per cent of his after-tax fee in the Company's shares, to be retained until his retirement as Chairman.

The Chairman has been granted a one-time award of restricted shares the vesting of which is subject to him building a substantial personal shareholding in the Company. Details of the award can be found on page 60.

Remuneration of non-executive Directors

The fees of non-executive Directors are determined by the Chairman and executive Directors who have access to independent advice.

Each non-executive Director has agreed that a portion of their after-tax fee, equivalent to a minimum of 50 per cent and up to a maximum of 100 per cent, would be invested in shares. This arrangement was approved by the Board in 2002, but was suspended for the period 1 October 2003 to 31 December 2004. Fees are paid quarterly in arrears and the shares are allotted on the same basis. The non-executive Directors do not participate in any of O2's pension or incentive arrangements and receive no benefits.

As at 31 March 2005:

- the basic annual fee payable to the non-executive Directors was £40,000 plus an additional fee of £5,000 for membership of the Audit and Remuneration Committees, £3,000 for the Nomination and Governance Committee and an additional fee of £5,000 per annum for chairmanship of a committee; and
- the annual fee payable to the Deputy Chairman of the Company was £100,000.

Following a review of the remuneration of the non-executive Directors, it was agreed that with effect from 1 April 2005 the annual fees payable to the non-executive Directors will be as follows:

- the basic annual fee payable will be £50,000 plus an additional fee of £7,500 for membership of the Audit and Remuneration Committees, £3,750 for the Nomination and Governance Committee and an additional fee of £7,500 per annum for chairmanship of a committee; and
- the annual fee payable to the Deputy Chairman of the Company remains unchanged.

Each non-executive Director has a letter of appointment with O2 plc covering, amongst other items, their terms of appointment and expected time commitment, together with a general statement of their role and duties. Non-executive Directors are appointed initially for three years unless otherwise terminated earlier by and at the discretion of either party upon one month's written notice. Non-executive Directors are typically expected to serve two three-year terms subject to satisfactory performance and re-election by shareholders.

Changes to the Board

As previously reported, David Varney retired as Chairman at the conclusion of the Company's AGM on 28 July 2004. No compensation for loss of office was paid to David Varney on his retirement. David Arculus has served as Chairman with effect from that date.

David McGlade stepped down from the Board on 31 March 2005. No compensation for loss of office was paid.

Patrick Lupo was appointed as a non-executive Director on 10 August 2004. Rudolph Lamprecht and Kathleen O'Donovan were appointed as non-executive Directors on 30 March 2005. Paul Myners, Neelie Kroes and Ian Meakins resigned as non-executive Directors on 10 August 2004, 31 August 2004 and 30 March 2005 respectively.

Report on directors' remuneration *continued*

Directors' remuneration (excluding pension arrangements) for the year ended 31 March 2005

	Salary and fees		Annual bonus		Benefits excluding pensions ¹		Total 2005 ²	Total 2004 ³	Salary/fees as at 1 June 2005
	2005 £	2004 £	2005 £	2004 £	2005 £	2004 £			
Current directors									
D Arculus	280,847⁴	48,000	–	–	16,787	–	297,634	48,000	355,000
P Erskine ⁵	665,833	607,500	568,404	564,200	35,241	40,602	1,269,478	1,212,302	725,000
D Finch	425,000	395,833	430,000	364,000	28,222	24,705	883,222	784,538 ⁶	460,000
R Gröger ⁷	439,992	399,211	534,847	499,896	25,146	20,543	999,985	919,650	473,134
D McGlade	414,167	372,500	391,980	462,000	24,162	100,047	830,309	934,547	–
D Chance	48,000	48,000	–	–	–	–	48,000	48,000	61,250
S Hodge	66,667⁸	55,000	–	–	–	–	66,667	55,000	100,000
R Lamprecht ⁹	–	–	–	–	–	–	–	–	50,000
P Lupo ¹⁰	30,856	–	–	–	–	–	30,856	–	65,000
K O'Donovan ⁹	–	–	–	–	–	–	–	–	57,500
A Sukawaty	87,000¹¹	100,000	–	–	–	–	87,000	100,000	61,250
Former directors									
D Varney ¹²	113,844	350,000	–	–	42,911¹³	36,125	156,755	386,125	–
N Kroes ¹⁴	20,833	50,000	–	–	–	–	20,833	50,000	–
I Meakins ¹⁵	50,000	50,000	–	–	–	–	50,000	50,000	–
P Myners ¹⁶	17,290	48,000	–	–	–	–	17,290	48,000	–

¹Benefits include car provision or cash allowance, healthcare, financial planning, dental care, home security and life cover.

²Certain Directors received pension supplements for the year ended 31 March 2005. Details of these payments can be found on page 59 below the pensions table.

³Total aggregate remuneration for 2004 excludes long-term incentive gains which were included in the report for the year ended 31 March 2004.

⁴Includes aggregate fees earned as a non-executive Director and Chairman designate for the period 1 April 2004 to 28 July 2004.

⁵Highest paid Director.

⁶Excludes £146,717 gains from long-term incentives which were included in the report for the year ended 31 March 2004.

⁷Rudolf Gröger's remuneration has been converted from Euro to Sterling at an exchange rate of £1 = €1.45836.

⁸Appointed as Deputy Chairman of the Company on 1 January 2005.

⁹Appointed on 30 March 2005.

¹⁰Appointed on 10 August 2004.

¹¹Andrew Sukawaty stepped down as Deputy Chairman of the Company on 31 December 2004 but remains on the Board.

¹²Retired at the conclusion of the Company's AGM on 28 July 2004.

¹³In addition to the benefits listed in Note 1, David Varney received a payment for outstanding holiday entitlement.

¹⁴Resigned from the Board on 31 August 2004.

¹⁵Resigned from the Board on 30 March 2005.

¹⁶Resigned from the Board on 10 August 2004.

Aggregate remuneration paid to the Senior Management Team

The aggregate remuneration of the Senior Management Team for services in all capacities during the 2005 financial year was £2.6 million. In addition, loans outstanding to senior officers of the Company as at 31 March 2005 were £119,643.

Pensions

The table below includes the information required in relation to defined benefit schemes under the UKLA Listing Rules and Schedule 7A of the Companies Act 1985.

	Total accrued pension ¹		Transfer value ^{2,3}		Real increase in accrued pension during year		Increase in accrued pension during year (including inflation)		Transfer value of real increase in accrued benefit (less Directors' contributions) ^{2,3}		Increase in transfer value less Directors' contributions £000	Directors' contributions £000
	At 31 March 2005 £000	At 31 March 2004 £000	At 31 March 2005 £000	At 31 March 2004 £000	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 £000		
Peter Erskine												
O2 Pension Plan	41	37	490	407	3	3	4	4	25	20	68	15
Unfunded Plan	246	203	4,161	3,124	36	39	43	43	606	598	1,037	–
Total	287	240	4,651	3,531	39	42	47	47	631	618	1,105	15
David Finch	12	9	114	72	3	3	3	4	31	27	42	–
Rudolf Gröger ⁴	93	69	2,281	1,540	23	35	24	35	545	744	741	–

¹The accrued annual pension represents the maximum defined benefit liability for O2. The amounts will be reduced by any retained benefits from previous employment.

²The transfer values have been calculated on the basis of actuarial advice. The transfer values of the Inland Revenue approved benefits have been calculated in accordance with Actuarial Guidance Note GN11 using the assumptions adopted by the O2 Pension Plan Actuary.

The unapproved element of pension benefits has been valued using assumptions appropriate to the FRS17 accounting standard, which are consistent with GN11 principles. The increase in transfer values has been caused by each executive Director's increase in salary and length of service.

³These figures represent liabilities of the Company and the O2 Pension Plan, not sums paid or due to the individual.

⁴The figures in £ sterling have been converted from Euros at an exchange rate of €1:£0.6803 as at 31 March 2005 and €1:£0.6943 as at 31 March 2004.

For the year ended 31 March 2005, David Arculus received employer's contributions of £16,482 (£28,254 per annum) into his personal pension arrangements. For the year ended 31 March 2005, in respect of David Finch, £89,250 (£83,125 for the year ended 31 March 2004) was paid to a defined contribution Funded Unapproved Retirement Benefit Scheme (FURBS) and £48,875 (£45,521 for the year ended 31 March 2004) was paid as a cash supplement. For the year ended 31 March 2005, David McGlade received a cash allowance of £117,833 (£74,500 for the year ended 31 March 2004) in lieu of pension benefits.

Directors' interests in the shares of the Company

Beneficial interests

The beneficial interests of the Directors and their immediate families in ordinary shares of 0.1p each in the Company as at 31 March 2005 as set out in the table below.

	As at 31 March 2005	As at 1 April 2004
David Arculus	338,281 ^{1,2}	24,078
Peter Erskine	965,910 ^{1,2}	537,027
David Finch	1,028,768	812,816
Rudolf Gröger	63,944	–
David McGlade	670,986	335,496
David Chance	15,029	15,029
Stephen Hodge	91,914	91,914
Rudolf Lamprecht	–	–
Patrick Lupo	73,048	–
Kathleen O'Donovan	–	–
Andrew Sukawaty	83,576	83,576

¹Since 31 March 2005 Peter Erskine and David Finch have each acquired 208 additional ordinary shares under the terms of the O2 Share Ownership Plan. There have been no other changes in the Directors' beneficial and non-beneficial interests in share capital, including options to subscribe for shares, or in the debentures of the Company and its subsidiaries between 31 March 2005 and 10 May 2005.

²Includes shares held by trustee of the O2 Share Ownership Plan.

The Senior Management Team beneficially own less than 1 per cent of the Company's outstanding ordinary shares.

Report on directors' remuneration *continued*

Performance Share Plan

The table below shows the number of performance shares which remained outstanding to executive Directors as at 31 March 2005.

	Date of award	Number at 1 April 2004	Granted during the year ended 31 March 2005	Vested	Lapsed	Number at 31 March 2005	Vesting date
Peter Erskine	31/07/03	1,403,773	–	–	–	1,403,773	31/07/06
David Finch	31/07/03	905,660	–	–	–	905,660	31/07/06
Rudolf Gröger	31/07/03	859,245	–	–	–	859,245	31/07/06
David McGlade	31/07/03	815,094	–	–	(815,094) ¹	–	–

¹David McGlade left the Company on 31 March 2005 and his award over performance shares lapsed in full.

A summary of the performance condition can be found on page 54.

Deferred Equity Incentive Plan

The table below shows the number of deferred equity shares awarded to executive Directors during the year ended 31 March 2005.

	Date of award	Number at 1 April 2004	Granted during the year ended 31 March 2005			Vested	Lapsed	Number at 31 March 2005	Vesting date
			Number of Deferred Award Shares	Number of Performance Uplift shares	Total number of shares				
Peter Erskine	29/07/04	–	329,941	659,883	989,824	–	–	989,824	29/07/07
David Finch	29/07/04	–	212,865	425,730	638,595	–	–	638,595	29/07/07
Rudolf Gröger	29/07/04	–	282,105	564,210	846,315	–	–	846,315	29/07/07
David McGlade	29/07/04	–	270,175	540,350	810,525	–	(810,525) ¹	–	–

¹David McGlade left the Company on 31 March 2005 and his award over deferred equity shares lapsed in full.

A summary of the performance condition can be found on page 55.

Restricted Share Plan

The table below shows the number of restricted shares which remained outstanding to Directors during the year ended 31 March 2005.

	Date of award	Market price on date of award	Number at 1 April 2004	Awarded during the year ended 31 March 2005	Vested	Lapsed	Number at 31 March 2005	Vesting/Lapse date	Price on date of vesting
David Arculus ¹	29/07/04	85.5p	–	292,397	–	–	292,397	29/07/07	–
Peter Erskine ²	23/11/01	–	575,815	–	(575,815)	–	–	23/11/04	115.50p
David Finch ^{2,3}	23/11/01	–	201,536	–	(201,536)	–	–	23/11/04	116.25p
Rudolf Gröger ²	23/11/01	–	156,592	–	–	(156,592)	–	23/11/04	–
David McGlade ^{2,4,5}	23/11/01	–	38,579	–	(33,549)	(5,030)	–	23/11/04	\$21.61

¹David Arculus was granted a restricted share award over 292,397 shares (with a market value of 85.5p at the time of grant) with effect from 29 July 2004. This represents an amendment to the original award terms involving a reduction in the number of shares under award and the removal of a corporate performance condition to which the original award was subject. The restricted share award will vest on 29 July 2007 provided Mr Arculus builds up a personal shareholding of 350,877 shares by 28 July 2005 and remains with the Company until the vesting date.

²Restricted share awards were granted on terms that they will only vest on the third anniversary of grant, if a significant personal shareholding in the Company equal to the number of shares under award is built within 18 months of grant and retained until the vesting date as well as remaining in employment with the Group. The awards vest on a pro-rata basis if the participant builds up a lower personal investment.

³The personal shareholding requirement for David Finch was equal to one-third of the shares under award at 23 November 2001.

⁴The restricted share award granted to David McGlade on 23 November 2001 was in the form of ADSs (one mmO2 ADS equalled 10 ordinary shares).

⁵The dollar-sterling exchange rate on the date of vesting was £1 = \$1.8688.

Share Option Plan

The table below shows the number of executive share options which remained outstanding to Directors during the year ended 31 March 2005. Vesting is subject to the satisfaction of corporate performance criteria as detailed on page 55.

	Grant date	Number at 1 April 2004	Options granted during the year ended 31 March 2005	Exercised	Lapsed	Number at 31 March 2005	Option price	Price on date of exercise	Period exercisable
Peter Erskine	23 Nov 01 ¹	1,724,137	–	–	–	1,724,137	87p	–	23 Nov 04- 22 Nov 11
	25 Jul 02 ²	3,554,347	–	–	–	3,554,347	46p	–	25 Jul 05- 24 Jul 12
David Finch	23 Nov 01 ¹	1,206,896	–	–	–	1,206,896	87p	–	23 Nov 04- 22 Nov 11
	25 Jul 02 ²	2,445,652	–	–	–	2,445,652	46p	–	25 Jul 05- 24 Jul 12
Rudolf Gröger	23 Nov 01 ¹	625,168	–	(462,624)	–	162,544	87p	123p	23 Nov 04- 22 Nov 11
	25 Jul 02 ²	1,763,373	–	–	–	1,763,373	46p	–	25 Jul 05- 24 Jul 12
David McGlade	23 Nov 01 ^{1,3}	122,059	–	(90,323)	(31,736)	–	\$11.873	126p	–
	25 Jul 02 ^{2,4}	2,184,782	–	–	–	2,184,782	46p	–	25 Jul 05- 31 Mar 06
David Varney	23 Nov 01 ^{1,5}	1,724,137	–	(1,275,860)	–	448,277	87p	114p	23 Nov 04- 28 Jul 05
	25 Jul 02 ^{2,5}	3,260,869	–	–	–	3,260,869	46p	–	25 Jul 05- 18 Oct 05

¹For options granted in the year ended 31 March 2002 (ie. 23 November 2001), the first performance test took place in November 2004. TSR performance from 19 November 2001 (the start of the performance period) to 18 November 2004 placed the Company at 31st position within the comparator group and resulted in 74 per cent of share options becoming exercisable. Performance will be tested in respect of the unexercisable portion of the option on 18 November 2005. Should the remaining portion of the option not be exercisable at that time, a final retest will occur on 18 November 2006. In the case of David McGlade who resigned from the Board on 31 March 2005, the balance of his option outstanding lapsed in full.

²For options granted in the year ended 31 March 2003 (i.e. 25 July 2002), the first performance test is expected to be July 2005. TSR performance from 18 July 2002 (the start of the performance period) to 31 March 2005 placed the Company at first position within the comparator group.

³The options granted to David McGlade on 23 November 2001 were in the form of ADSs (one mmO2 ADS equalled 10 ordinary shares). The value realisable from shares acquired on exercise is the difference between the price on the date of exercise and the option price. David McGlade converted his option over ADSs to ordinary shares on exercise and made a gain of £576,622. The sterling-dollar exchange rate on 7 March 2005 was £1 = \$1.9114.

⁴On resigning as a Director of O2 plc on 31 March 2005, the Committee permitted David McGlade to retain his options for the maximum periods referred to in the final column above. The exercisability of these options is dependent on the applicable performance targets being met.

⁵On retiring as Chairman of the Company on 28 July 2004, the Committee permitted David Varney to retain his options for the maximum periods referred to in the final column above. The exercisability of these options is dependent on the applicable performance targets being met.

Report on directors' remuneration *continued*

Sharesave

The table below shows the sharesave options over ordinary shares in the Company held by Directors during the year ended 31 March 2005.

	Grant date	Number at 1 April 2004	Granted	Exercised	Lapsed	Number at 31 March 2005	Exercise price	Price on date of exercise	Period exercisable
Peter Erskine	21 Dec 2001	12,978	–	(12,978)	–	–	73.2p	123.5p	14 Feb 2005- 13 Aug 2005
	17 Dec 2004	–	18,040	–	–	18,040	91.6p	–	1 Feb 2010- 31 Jul 2010
David Finch	21 Dec 2001	12,978	–	(12,978)	–	–	73.2p	123.5p	14 Feb 2005- 13 Aug 2005
	17 Dec 2004	–	10,343	–	–	10,343	91.6p	–	1 Feb 2008- 31 Jul 2008
David McGlade ¹	20 Dec 2002	21,477	–	–	(21,477)	–	44p	–	–
David Varney ²	21 Dec 2001	12,978	–	–	(12,978)	–	73.2p	–	–

¹David McGlade resigned from the Board on 31 March 2005 and his sharesave options lapsed in full.

²David Varney resigned from the Board on 28 July 2004 and his sharesave options lapsed in full.

Legacy long-term incentives

Peter Erskine had the following O2 shares under award from BT Legacy Share Awards. Following demerger, these awards were adjusted to relate solely to O2 shares, and any performance measure has been translated into a measure of O2 performance from demerger to the end of the performance period.

Name	Plan	Year of award	Number of O2 shares 1 April 2004	Vested	Lapsed	Number at 31 March 2005	Price on date of vesting	Vesting date
Peter Erskine	BT Executive Share Plan	1999 ¹	144,198	–	(144,198)	–	–	2004
Peter Erskine	BT Deferred Bonus Plan	2001 ²	127,656	(127,656)	–	–	88.25p	2004

¹The performance period for the 1999 BT Executive Share Plan ended on 31 March 2004. The TSR performance condition was not met and as a result the award over 144,198 shares lapsed in May 2004.

²The vesting of shares awarded under the BT Deferred Bonus Plan was subject only to continued employment with the Company.

Legacy Option Plan

Subsisting options over BT shares granted under BT executive share option plans have been replaced with options over O2 shares, granted under the O2 Legacy Option Plan, for those participants now employed by O2. The replacement options were granted on the same terms and are exercisable between the same dates as the options for which they were exchanged.

There are no performance conditions relating to the vesting of these options other than continued employment with the O2 Group. This reflects the terms of the underlying BT Option plan. The legacy options will be satisfied using new issue shares, and options granted under this plan do not count towards the dilution limits established for O2 share option plans. No further options will be granted under this plan.

The table below shows options over BT shares held by David Varney and David McGlade prior to demerger.

	Grant date	Number at 1 April 2004	Exercised	Lapsed	Number at 31 March 2005	Option price	Price on date of exercise	Date exercisable
David McGlade ¹	1 October 2000	113,440	(113,440)	–	–	\$23.243	126p	1 Oct 2001-30 Sept 2006
David Varney	22 June 2001	491,272	(491,272)	–	–	101.7p	114p	2004-28 July 2005

¹David McGlade's legacy options were awarded in the form of ADSs (one mmO2 ADS equalled 10 ordinary shares) and on exercise the ADSs were converted into ordinary shares. David McGlade made a gain of £48,893. The sterling-dollar exchange rate on 7 March 2005 was £1 = \$1.9114.

Share price

The closing market price of the Company's shares at 31 March 2005 was 119.25p and the range from 1 April 2004 to that date was 84.25p to 131.25p.

Non-beneficial interests

At 31 March 2005, all executive Directors had a non-beneficial interest in 956,316 O2 plc ordinary shares held in trust by Hill Samuel Offshore Trust Company Limited as trustee of the O2 Restricted Share Plan, O2 Performance Share Plan and O2 Deferred Equity Incentive Plan.

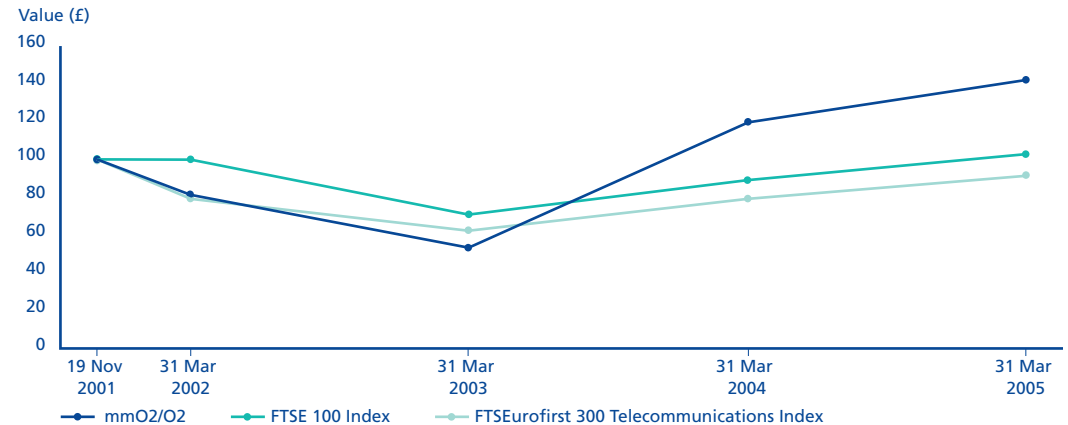
Performance graph

The performance graph illustrates the Company's TSR performance for the period from 19 November 2001 (when the Company was first listed following its demerger from BT) to 31 March 2005, compared to the FTSE 100 Index and the FTSEurofirst 300 Telecommunications Index. The FTSE 100 Index was selected by the Committee because it is recognised as an externally valid and robust comparator group of UK-based companies of similar size to the Company in terms of market capitalisation. The FTSEurofirst 300 Telecommunications Index was chosen because it more closely compares the Company within its sector. The graph relates to mmO2 plc's performance prior to 14 March 2005, and O2 plc's performance thereafter.

The graph shows the growth in value of £100 invested on 19 November 2001 (including the reinvestment of dividends). It does not relate to the Company's TSR performance as reflected in O2 long-term incentives.

Total shareholder return against the FTSE 100 Index and FTSEurofirst 300 Telecommunications Index

Source: Thomson Financial



Report on directors' remuneration *continued*

All-employee share schemes

The Committee believes that it is in the interests of all employees across the business to be given the opportunity to own O2 shares, and wishes to encourage this by taking advantage of favourable tax treatment where available for employees.

Executive Directors are eligible to participate in the Group's all-employee share schemes on the same terms as other employees. Details of their interests can be found on page 62. There are no performance conditions attached to the schemes and both operate within specific tax legislation:

- >> the O2 Sharesave Plan, under which the Directors can grant options to all employees across the business to acquire shares at an exercise price set at a discount of up to 20 per cent to the market value of a share at the time of invitation; and
- >> the O2 Share Ownership Plan, under which UK employees can acquire O2 shares on tax-favoured terms.

Policy on outside appointments

It is the Group's policy to support executive Directors and senior managers taking external directorships or similar roles where it is beneficial for both the individual concerned and the Group and does not detract from their responsibilities to the Group. The number of such appointments must not exceed two, only one of which may be with a FTSE 100 company. Appointments relating to executive Directors and Executive Committee members require the prior approval of the Board. Appointments relating to other senior executives require the prior approval of the Chairman. The Company permits the executive Director or senior executive concerned to retain any fees earned from such a position provided they are at a reasonable level. Peter Erskine is a member of the University of Reading Business School Advisory Board. David McGlade, who left the Board on 31 March 2005, is a non-executive Director of a US-based company called PureMatrix. None of the executive Directors received fees in respect of these external directorships.

Compliance

This report complies with the Directors' Remuneration Report Regulations 2002 (the Regulations). The Regulations require the Group's auditors to report to shareholders on the auditable part of the report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The auditable sections of the report are the tables relating to Directors' remuneration, Directors' pensions and Directors' interests in share schemes on pages 60 to 63 and the accompanying footnotes. The Company's compliance with the Combined Code is set out in the Report on corporate governance.

By Order of the Board

Patrick Lupo

Chairman of the Remuneration Committee

17 May 2005