

From childhood to adulthood, in towns and in villages, at home and at work, the mobile phone contributes to the lifestyle, convenience and safety of at least 1.5 billion individuals worldwide.



Accessing

IN THE MARKETPLACE

Appropriate mobile services | Content standards | Protecting young people | Gambling | Inclusive services | Customer focus | New services | Pre-pay registration | Competition, regulation and economic impact | Ethical procurement | Industry co-operation on ethical supply chain issues

BITC AND GRI REFERENCES

MARKETPLACE

2.9, 2.22, 3.9, 3.10, 3.11, 3.12, 3.14, 3.15, 3.16, 3.17, 3.19, EC4, EC13, HR1, HR2, HR3, HR7, PA1, PA5, PR6 and PR8

O2 is a wireless communications company – but we are really all about people. The mobile phone contributes to the lifestyle, convenience and safety of at least 1.5 billion individuals worldwide.

We believe mobile services play a positive and useful role in society – and we want people from all walks of life to enjoy the benefits they offer. We do this by helping our customers keep in touch, making their lives easier and safer, engaging their imaginations and providing better experiences through our products, services and know-how.

Our products and the way they are used can pose some social challenges, however. These include:

- safeguarding vulnerable users and customers;
- providing products and services to meet the needs of disabled or excluded people;
- ensuring customer satisfaction and loyalty;
- balancing customers' privacy with public protection;
- ensuring we operate ethically and fairly.

We engage a range of groups in dialogue – from child safety organisations and charities, to disability groups, governments, regulators, the police and consumer associations. We believe that by being well informed ourselves, we can more effectively inform others and provide products and services that meet the true needs of our customers.

Appropriate mobile services

The growth of content-rich multimedia services is changing the way we communicate, with enhancements like colour screens, video streaming, picture messaging, internet browsing and TV viewing.

However, the new generation of mobile communications also has the potential to distribute material that is inappropriate for some audiences, such as pornographic or violent images, video and games, gambling and betting services.

We do not wish to play the role of moral arbiter and we respect our customers' freedom to decide how they use their mobile phone and the content they access through our network. However, we want to safeguard vulnerable people – especially children – and prevent the distribution of malicious, inappropriate or illegal content.

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EXTERNAL DIALOGUE: EXTRACT FROM A CALL TO OUR NUISANCE CALL BUREAU (NCB)

O2 NCB: Good afternoon. My name is Pat. How can I help you?

Customer: Someone keeps ringing my daughter and swearing down the phone. It is very worrying. We don't know what to do. We have the number calling her. It is xxxxxxxx.

O2 NCB: I can arrange to change her number. Alternatively, you can report this to the police who can request information on the number calling and consider prosecuting the offender.

Customer: I think I will change her number. My daughter is dyslexic. Can you find a good number for her, one she can remember?

O2 NCB: We will try our best for you, certainly.

The call was taken by P. Bodle, Nuisance Call Bureau, O2 UK

See what you can do.

IF YOU DO RECEIVE A NUISANCE CALL

- Keep calm.
- Don't give out your mobile number if asked.
- Let callers identify themselves first, if their number is not displayed on your mobile.
- Be careful not to leave your name or contact number on your mailbox greeting.
- If the phone rings again, don't say anything when you answer it.
- Don't talk to malicious callers.
- Remember malicious callers use the phone to hide behind, because most would be too frightened to say the same things to your face.

What can you do?

- Dial 100 from your O2 mobile (O2 UK only).
- Contact your Service Provider if you have a Pay Monthly mobile, or the Nuisance Call Bureau that can also be contacted directly by email at: ncb@o2.com.
- If you have a Pay & Go mobile you should either contact the Police to report that a crime has been committed or customer service who will pass your details to the Nuisance Call Bureau if further help is needed.

If you receive text 'spam' or 'scam' messages

- Forward them to short code 7726 (O2 UK only).
- The Nuisance Call Bureau will investigate it for you.

Content standards

We do not publish 18-classification content services under our own brand, but we allow commercial partners to bring these to appropriate and consenting audiences. We insist that our commercial partners ensure that these services are only available to customers who have first proved that they are 18 or older.

In the UK, O2 was the first mobile operator to join the Internet Watch Foundation (IWF) and is a member of its Funding Council. The IWF investigates internet sites that contain potentially illegal content, primarily child pornography. All illegal material is passed to the police via the National Criminal Intelligence Service in the UK.

O2 Ireland is affiliated to the country's 'Hotline' service, operated by the Internet Service Providers Association of Ireland and supervised by the Government's Internet Advisory Board. The primary goal of the Hotline is to combat child pornography.

Feedback from stakeholders suggests that the issue of privacy may also become a subject of future concern. We believe the introduction of location-based services – which can identify the location of a mobile phone user – could be misused and infringe people's rights and safety. We support the new UK Code of Practice on Location Based Services, developed by peer operators and service providers in consultation with the Home Office and children's charities. The Code stipulates that mobile customers cannot be tracked without their explicit consent.

O2 UK has also participated in an industry initiative to develop a common STOP request for premium rate text services. This will help to reduce the receipt of unsolicited texts, commonly referred to as spam. During the last two years we have also promoted debate around the issue of privacy by jointly hosting a seminar on the subject of privacy with think-tank Demos.

Protecting young people

O2 is committed to offering appropriate content and web-enabled services to its customers. We do not market phones to under-16s and, when parents buy mobile handsets for their children, we encourage them to monitor usage carefully.

Many parents value the benefits that a mobile phone can offer their children, but they also want to be sure they are used appropriately

and responsibly. Research shows that one million children under the age of ten already own and use a mobile phone, representing one in every three children between the ages of five and nine. Ownership among 10 to 14 year olds tops 40 per cent and, across Europe, the youth market accounts for well in excess of 100 million mobile phones¹.

The protection of minors and the vulnerable is an important part of what we do.

We promote awareness by raising the issues in our industry and by engaging with charities, child safety campaigners, governments, law enforcement agencies, regulators, content producers and parental groups. We have helped to develop industry codes of practice in the UK, Ireland and Germany.

In the UK, the code of practice for the self-regulation of new forms of content on mobiles became effective in January 2005. This covers audio visual content, mobile games, chat services and internet access.

In 2004/05, O2 introduced age-verification processes in O2's stores and online, and parental control tools to restrict internet browsing. Some types of calls, such as international and premium rate calls can be barred on request, as can premium-rate adult services. Where services are classified as 18, access must be restricted.

In Germany we helped to develop 'Polly and Fred', an interactive programme, used in the German curriculum to help schoolchildren use mobiles safely, at low cost and responsibly.

In the UK we undertake school visits and we continued to support Milly's Fund, which promotes text messaging as a way for parents and children to keep in touch.

O2 Ireland does not offer adult content or chat services. The Irish Cellular Industry Association (ICIA) is testing filtering software to prevent the transfer of inappropriate camera phone images and access to offensive websites. As a member of ICIA, O2 Ireland suggested that trials are done at an industry level via the ICIA rather than by an individual mobile operator. Results are due during 2005.

O2 was instrumental in compiling the Irish cellular industry's Code of Practice, which provides for the responsible and secure use of mobile services. The Code establishes standards on issues such as parental controls, inappropriate or offensive communications,

¹Research carried out by MobileYouth in 2005

premium-rate services, internet access and user education.

In all our markets we have published, or plan to publish, child-protection guidance, giving parents and guardians practical help on issues such as handset theft, bullying, the safe use of camera phones and public forums, also called chat rooms.

O2 UK and O2 Germany, who operate public forums, are moderated to help identify inappropriate, threatening or bullying exchanges with children and we undertake to alert the relevant agencies to any complaints. In the UK, we have also been tackling bulk and nuisance calls through our dedicated Nuisance Call Bureau. We are also actively involved with national authorities to tackle fraud over our networks.

Gambling

In time we expect more and more customers will use their mobiles to access gambling services. We respect the rights of our customers to choose whether to use such services but we are committed to ensuring that children and the vulnerable are protected. In line with our commitments under the UK Code of Practice on new forms of content – published by the mobile operators in January 2004 – O2 requires commercial partners offering gambling services to ensure that their services are only available to customers who have proved that they are 18 or over.

Inclusive services

By 2007 there are likely to be as many mobile phones in Western Europe as there are people. We believe it is important that mobile services are accessible to all types of customers, regardless of cost, special needs, age, knowledge and geography.

Consumer differences create what is often referred to as the 'digital divide' and we try to address each one to make sure as many people as possible can benefit from mobile communications.

For example, we offer pre-pay packages in each of our markets. This service enables customers to control the cost of using a mobile without committing to a contract or post-pay deal. In total, almost 60 per cent of our subscriber base elect to use pre-pay services.

In the UK and Germany we have introduced a service that is available at lower cost in chosen locations – usually close to a customer's home or business. We believe this service will make our services accessible to more people.

O2 can review usage and contact customers if we notice call patterns which are not typical, or appear to be excessive. In cases where we are unable to contact the customer to confirm call activity, we can impose a bar which only allows the customer to receive calls. If a call is made from the handset, the call is re-routed to O2 Customer Services which allows us to confirm recent call activity with the customer. We also offer advice on our website to customers wishing to bar any premium text adult and chat services as well as guidance on how to stop subscription-based premium messaging services.

During 2004, O2 Ireland helped connect people in remote areas to wireless broadband services, and in the Isle of Man we are modifying street junction boxes to extend fixed-line broadband coverage which is now available to around 99 per cent of homes. In all our markets we offer a variety of mobile tariffs to suit our customers' needs and lifestyles.

During the year, we unveiled exclusive plans to launch the i-mode® mobile internet service, in the UK and Ireland in 2005. In Germany we will launch a mobile internet service with the same functionality under a different brand. In both cases we are working with specialists from NTT DoCoMo to bring this easy-to-use product with its breadth of tailored internet content to market.

We examine ways making our services more inclusive, particularly to those with special needs. We have taken part in the UK Government's Digital Inclusive Panel and helped launch the UK Digital Strategy. We now comply with the General Code 15 and the Code of Practice for Service Delivery for the Disabled and Elderly in the UK and we belong to the Employers Forum for the Disabled and the Two Ticks scheme, which raises disability awareness among employers.

We already make special provisions – like invoicing in Braille, larger text size, audio options and by providing a fully accessible website, O₂ Access, for people with visual impairment. But we want to do more.

While we have moved with the trend towards more sophisticated handsets, we are aware, too, that simple phone designs may help certain customers, particularly elderly ones. The vibrate mode of mobile text messaging is also a simple but effective function for the hard of hearing.

THE MOBILE SERVICES INDUSTRY...

Employs approximately

- ... 2.8 million people across the EU (including indirect jobs generated)¹
- ... 200,000 in the UK alone²

Contributed

- ... £72.0 billion of EU GDP¹
- ... 2.2% of UK GDP²

Generated

- ... £57.0 billion per year in revenues for EU Governments¹
- ... £10.0 billion went to UK government finances²

The average industry employee contributed

- ... £116,000 in revenue in the UK²

¹ Research by Ovum in 2004 of the 15 EU Member States before expansion.

² 'The Changing Economic Impact of Mobile Phones (2004)' research report by the Centre for Economic and Business Research (CEBR) on behalf of O2.

In Ireland we launched a 'talking' mobile phone in 2004, developed through our relationship with The National Council for the Blind. This converts text messages to voice.

We are encouraged by the experiences of the more mature mobile markets in Korea and Japan and by youth research into mobile applications in the UK which suggest that, increasingly, the mobile phone is becoming a powerful, spontaneous and inclusive learning tool for young people.

For example, in time for May 2005 UK General Election we launched a special site on our O₂ Active WAP portal to tell customers, especially first-time voters, how to find their polling station or check to see if they were registered to vote.

During the year, we also began to address the potential problems associated with new mobile data services, such as bulk unsolicited messages, also known as spam.

Customer focus

Delivering the best customer experience is at the heart of everything we do and customer satisfaction scores are seen as a key measure of our success.

We want to improve our performance continuously. We research the effectiveness of our communication, the public's perception of our brand, the service levels of our shops, online portal and customer care units, customer satisfaction in our products and services, and the quality of our network. From October 2004 to March 2005, O2 UK had the best call success rate of all UK operators. We believe this is a clear and independent indicator that enhanced customer focus is improving our performance.

The biggest challenge for our industry is to persuade customers not to migrate from one network provider to another. In common with all operators, we face this problem of 'churn'. For this reason, we focus our strategy on the whole customer experience and work to build customer loyalty.

We continue to develop a culture of 'customer-centricity' and we support this with Group-wide training and development. During the year, our customer base grew by 16 per cent to 24 million and about 34 per cent of our customer base are now using non-text mobile data services.

O2 UK launched the 30-day Challenge to encourage employees to think about initiatives that can improve our business. Among the resulting ideas, we now offer customers replacement products rather than cash on returned goods.

In the UK, we have announced plans to open more O2 stores. We are also introducing a more attractive range of services, better support, pricing deals and new ways to reward customer loyalty. One of these is to give back our Pay & Go® customers 10 per cent of their spend on topping up their phones every three months.

Not all our initiatives go to plan, so we try to move quickly to correct any mistakes. During the year, we experienced a teething problem with a large IT project to consolidate nine billing platforms onto one O2 system. A small number of customers, less than one per cent of the UK base, were affected by the problem in which they were not billed for some calls.

We quickly resolved the problem and, as a goodwill gesture, gave affected customers a 25 per cent discount on their next bill. In the UK we also launched several projects, including instant call back to customers with queries to help improve efficiency.

O2 applies checks to bills and the processes are regularly audited by an independent third party and overseen by the industry regulator. O2's billing accuracy is within industry standards and we have an approval under the regulator's monitoring scheme. The British Approvals Board for Telecommunications (BABT) has renewed O2's accreditation.

New services

Following our successful joint venture in the UK with Tesco, Tesco Mobile, we announced a similar joint venture in Germany with Tchibo.

This allows pre-pay customers to call both landlines and all mobile networks for a flat-rate of €0.35 per minute at any time, day or night. In the UK we introduced free calls for O2 contract customers, making helplines such as Childline, the Bullying Line and Crimestoppers free.

Our high-speed 3G network was launched in Germany during 2004 and in the UK in early 2005. In partnership with NTL Broadcast and Nokia, O2 has begun TV trials in the Oxford area using the DVB-H broadcast transmission standard – specially designed for handheld reception, low battery power consumption and robust reception. Our aim is to study how people choose to access TV shows, music videos, news and sport while on the move.

Pre-pay registration

There have been some calls for registering all new mobile phone users. We have expressed our reservations to government on the proposed introduction of a national 3G handset registration scheme.

We believe that a mandatory registration requirement would be a barrier to social inclusion of mobile communications moreover, in the absence of a national identity card system and with the number of operational issues associated with such a scheme, it may fail to address the root causes of the problem.

Although uneasy about compulsory registration, we believe it is right to support measures designed to protect the public. In the UK we already encourage voluntary registration. Ireland already has one of the highest levels of voluntary registration in Europe.

DR. IRWIN S CHEN, VICE PRESIDENT AND GENERAL MANAGER NETWORKING AND COMMUNICATIONS BG, BENQ CORPORATION

“With the co-operation of leading operators like O2, we also recognise the importance of understanding and influencing labour conditions in the supply chain and labour management, and we have now established our own Ethical Policy that will encourage positive supply chain labour practices. This will continue to be our company policy for the welfare of the society and human beings.”

O2'S RESPONSE:

In 2004/05 we carried out our first ethical supplier audits. The response from suppliers such as BenQ has been encouraging and we aim to increase our activity in this area to include a greater number of suppliers in our audit activity.

Free customer calls (number) through O2 UK's network to community helplines (April 04-April 05):

Childline	68,447
Crimestoppers	12,445
The Line	191
Priority Line	352
Bullying Line	686
Get Connected	1,222



Competition, regulation and economic impact

The price of mobile services and the complexity of tariffs remain a cause of concern in some places. The European Commission is continuing to investigate mobile operators' international roaming charges.

We co-operate with regulators openly and do our best to deal with any issues they raise. To ensure that customers can compare our tariffs with those of other operators we publish our prices and tariffs both online and in our shops. Simpler pricing and clear and cheaper roaming tariffs are also the aim of those operators who have joined us in the Starmap® Alliance of European operators.

The regulator in Ireland found O2 Ireland to jointly dominate the market with another operator. Since the finding was made, a third operator has increased its market share to around nine per cent and we believe that another operator is due to launch. Hence, we believe that the competitive dynamics of the Irish market will continue to change significantly.

Research commissioned by O2 suggests that our industry will continue to create wealth and employment in its markets. The mobile phone sector's contribution to UK GDP and government finances are set to more than double over the next 10 years. The research predicts that the sector will be an important source of further employment, with around 56,000 new jobs being created in the market by 2013.

Ethical procurement

O2 operates its networks in Western Europe and has its headquarters in the UK. Our supply chain involves big and small companies from across the world. We spend more than £2.2 billion each year to procure the products and services we need – from network equipment, mobile phones and software to office stationery and professional and contracting services.

Unless negotiated otherwise, we aim to pay our creditors promptly within 30 working days of the invoice date, if the invoice is timely and

complete. The Group had 35 days' (2004: 34 days') purchases outstanding at 31 March 2005, based on the average daily amount invoiced by suppliers during the year.

We want our products and services to be desirable and competitively priced. We aim to award business solely on merit, without favouritism, and look to secure products and services at the best available terms. Ethical and environmental standards are an important part of this equation.

In 2003/04 we set out to devise procurement policies that would help us engage with our suppliers to take into account the social and environmental impacts of their operations. We have developed ethical and environmental procurement policies which clearly express what we expect of our direct suppliers and of companies further down the supply chain. These policies, including labour practices and environmental protection, are communicated on a procurement website www.o2.com/cr. In all of our contracts we aim to refer directly to O2's Business Principles.

Our ethical procurement policy is based on the Ethical Trading Initiative Base Code, the standards of the United Nations Universal Declaration of Human Rights and the International Labour Organisation conventions. We look for assurance that suppliers are not relying on forced labour, do not use child workers, pay living wages, offer acceptable working hours and safe and healthy working conditions, using no harsh or inhumane practices.

We use the ISO 14001 Environmental Standard to benchmark the environmental performance of our suppliers.

Both for our ethical and environmental procurement policies, we have developed self-assessment questionnaires to understand the potential ethical risks in our suppliers' operations. In 2004/05 we issued self-assessment questionnaires to more than 20 of our key suppliers. We also carried out five ethical audits of our existing and potential

handset and network manufacturers in South-East Asia and Eastern Europe. As a direct result of these visits, one of the companies has since developed their own ethical procurement policy.

Although we want to make sure high standards apply as far down our supply chain as possible, we rarely have the resources to carry out checks beyond the first tier of suppliers. We encourage our principal suppliers to spread best practice to the companies they buy from.

Our approach is to engage with suppliers to improve their practices and to meet recognised standards. In October 2004 we were short-listed in the category 'Best Contribution to CSR' in the Chartered Institute of Purchasing and Supplier Annual Awards, which recognises best practice and innovation in procurement. In the coming year we plan to further increase the awareness within our procurement teams. We also intend to carry out further supplier audits of our main suppliers.

Industry co-operation on ethical supply chain issues

GeSI, the Global e-Sustainability Initiative, is a joint initiative by the United Nations Environmental Programme (UNEP), the International Telecommunications Union (ITU) and the information and communications industry. GeSI aims to address social, environmental and ethical issues within the sector. O2 co-chairs its supply chain working group.

In 2005 the group hosted a stakeholder forum of non-governmental organisations, investors and industry representatives to help guide work towards achieving a common framework for managing ethical supply chain issues. Our active involvement in GeSI is key to our ethical procurement approach. By working with others in the industry there is greater opportunity to improve our supply chains and to establish a common approach to supplier assessments and auditing.

We look for assurance that suppliers are not relying on forced labour, do not use child workers, pay living wages, offer acceptable working hours and safe and healthy working conditions, using no inhumane practices.