



A communications
revolution – that won't
cost the earth?

A *Telefónica* company

O₂

Introducing our Corporate Responsibility Report:

News in brief

Printed review

This printed review introduces how mobiles and other new forms of communication are transforming our lives, changing society and affecting the environment. Download this review at:

 www.o2.com/cr2006/downloads

Or order a copy by emailing us at:


cr@o2.com

Country-specific reviews are available for the UK, Ireland, Germany and the Czech Republic. You are now reading the review for the UK.

Get the facts online


Online report

We put all our detailed information online. This gives you the policies, practices, and performance behind all of our social and environmental commitments. Go to:

 www.o2.com/cr2006

Build your own report

You can create a personalised report online at:

 www.o2.com/cr2006/personalised

Find out more

To get all the latest corporate responsibility news, tips, interactive tools, and films, go to:

 www.o2.com/cr

Join the debate

We invite you to join the debate and tell us what you think about how mobiles and the internet are changing our lives at:

 www.o2.com/cr2006/debate

Contact us

If there is more we can do to help you, or you would like to let us know about any issues or ideas, please get in touch at:

cr@o2.com

Contents

- 1 Welcome to the debate
- 2 O2 in profile
- 4 O2 and Telefónica
- 8 Introduction from the Chief Executive Officer, O2 UK
- 9 Knowing what really matters
- 10 Future of mobiles
- 14 Customer service
- 18 Child protection
- 22 Health and mobiles
- 26 Environment and sustainability
- 30 Employee engagement
- 34 Community support
- 38 Objectives and targets
- 39 Performance data
- 40 Index

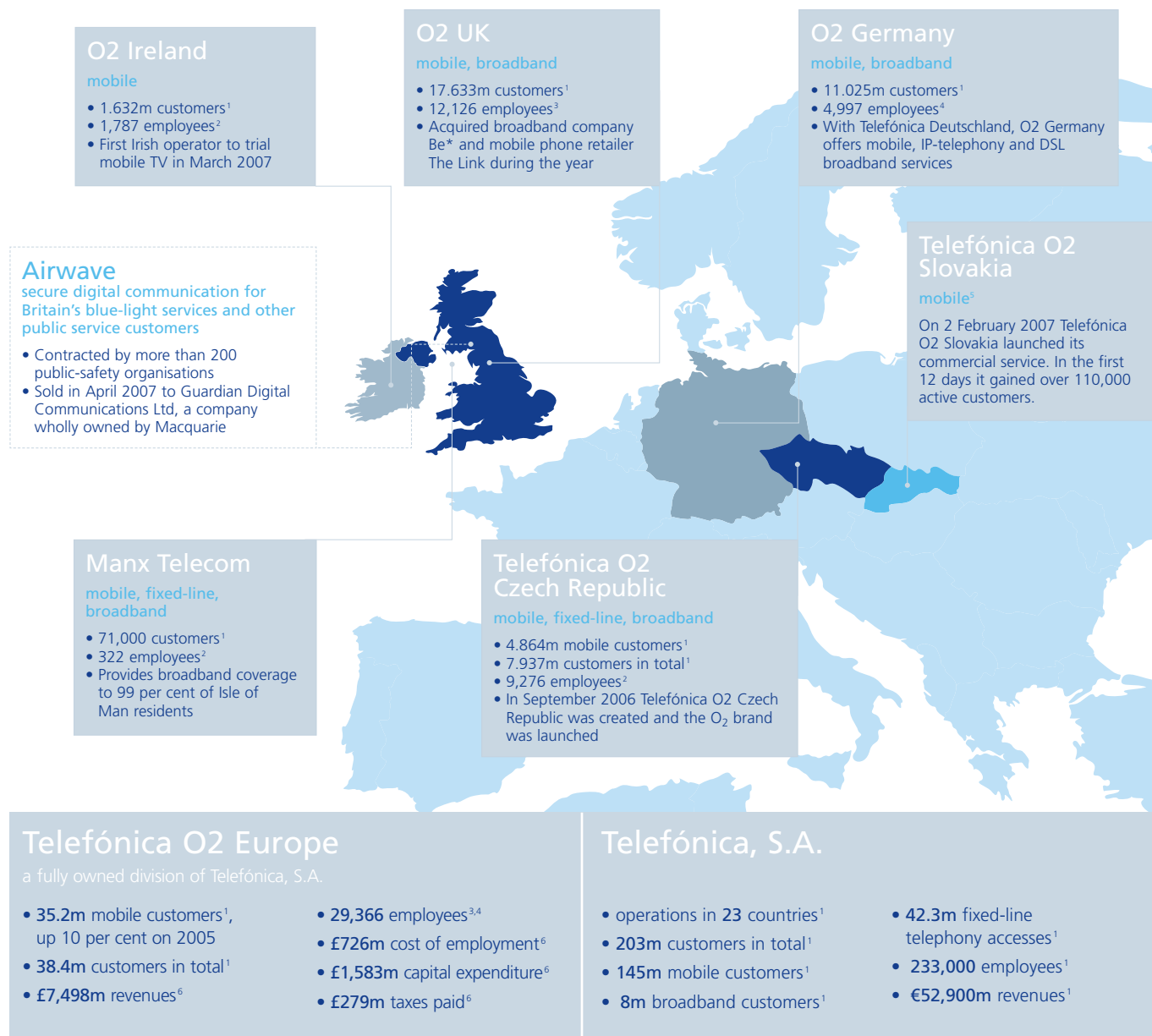
We all communicate every day. Mobiles and the internet bring us together in fast and creative ways. But how does this change our relationships, the way we live, or even the environment around us?

At O2, we want to be open and understand these changes, as well as the part we play in society. We want to stimulate debate, listen to your opinions, and be trusted to respond to your concerns. Read on to find out more.

Welcome to the debate.

Telefónica O2 Europe in profile

Our business is traditionally mobile but it is growing and changing. We now have operations in six European countries, and offer several new services.



¹ As at 31 December 2006

² People in post as at 31 December 2006

³ People in post as at 31 December 2006, excluding O2 Asia (part of O2 UK)

⁴ People in post as at 31 December 2006, excluding Telefónica Deutschland

⁵ Telefónica O2 Slovakia will be included in future Telefónica O2 Europe corporate responsibility reporting with effect from January 2007

⁶ Comprising the results of O2 UK, O2 Germany, Telefónica Deutschland, O2 Ireland, Manx Telecom, and Airwave for the 11-month period ending 31 December 2006; excluding Telefónica O2 Czech Republic – un-audited figures



For more information go online:
www.o2.com/cr2006/profile
www.o2.com/investor

Who we are

We are a pan-European telecommunications company with operations in the UK, Ireland, the Isle of Man, Germany, the Czech Republic and, most recently, Slovakia.

Our corporate brand values

Innovative

We translate technology into something easy to use and understand.

Open

We perform in a way that is clear, open and accessible. Our key strength is listening and engaging in dialogue.

Trusted

We can be trusted only if, through our actions, we deserve that trust.

Competitive

Innovation helps us to be more competitive. We set high standards and constantly strive to perform beyond expectations.

Committed

We deliver on our promises, do what we say we will do, and we acknowledge that the process of delivering is as important as the result.

Telefónica

Our commercial brand values

We are an energetic brand, full of life. In everything we do, we aim to be bold, open, clear and trusted.

O₂

The award-winning O₂ brand remains the public face of Telefónica O2 Europe's business operations.

Our strategy is to become the fastest-growing major European telecommunications company and our approach is to put our customers at the heart of everything we do.

Being part of Telefónica, S.A. allows us to build further on O2's success and we hope our customers will see the improvements of being part of a wider, global company.

What we stand for

Our vision is to grow in a sustainable way, enhancing people's lives and the progress of communities where we operate.

Our policies focus on managing environmental, social, and governance issues and risks in a structured, compliant and measurable way.

Our governance procedures are designed to enforce our commitment to corporate responsibility. The Board's Governance Committee was recently established to, among other things, allow a more insightful examination of our practices in this field.

We also want to offer our employees the best place to work, providing the right conditions, opportunities and rewards, and a culture that values ethical conduct and sustainability. This helps us behave with integrity.

Increasingly, business helps build modern society and protect the environment, and we welcome the role we can play. As part of Telefónica, we support the principles of the UN Global Compact, Millennium Development Goals, and Kyoto Protocol.

Values

To make sure we actually do the right thing, we have rooted responsible practices into our culture through our values and business principles.



For more information go online:

www.o2.com/cr2006/vision
www.o2.com/cr2006/ethics
www.o2.com/cr2006/assurance
www.o2.com/cr2006/materiality
www.o2.com/cr2006/gri

Reporting

We aim for transparency and are open to scrutiny through internal and external audit assessments of our practices and annual reporting. In 2007, country-specific reviews are available in local languages for the UK, Ireland, Germany and the Czech Republic. The performance measures in this report cover January – December 2006, unless otherwise stated. Our corporate responsibility reporting is also guided by the Global Reporting Initiative (GRI) 2006 Sustainability Reporting Guidelines and is assured by Ernst & Young LLP.

Background to the assurance process:

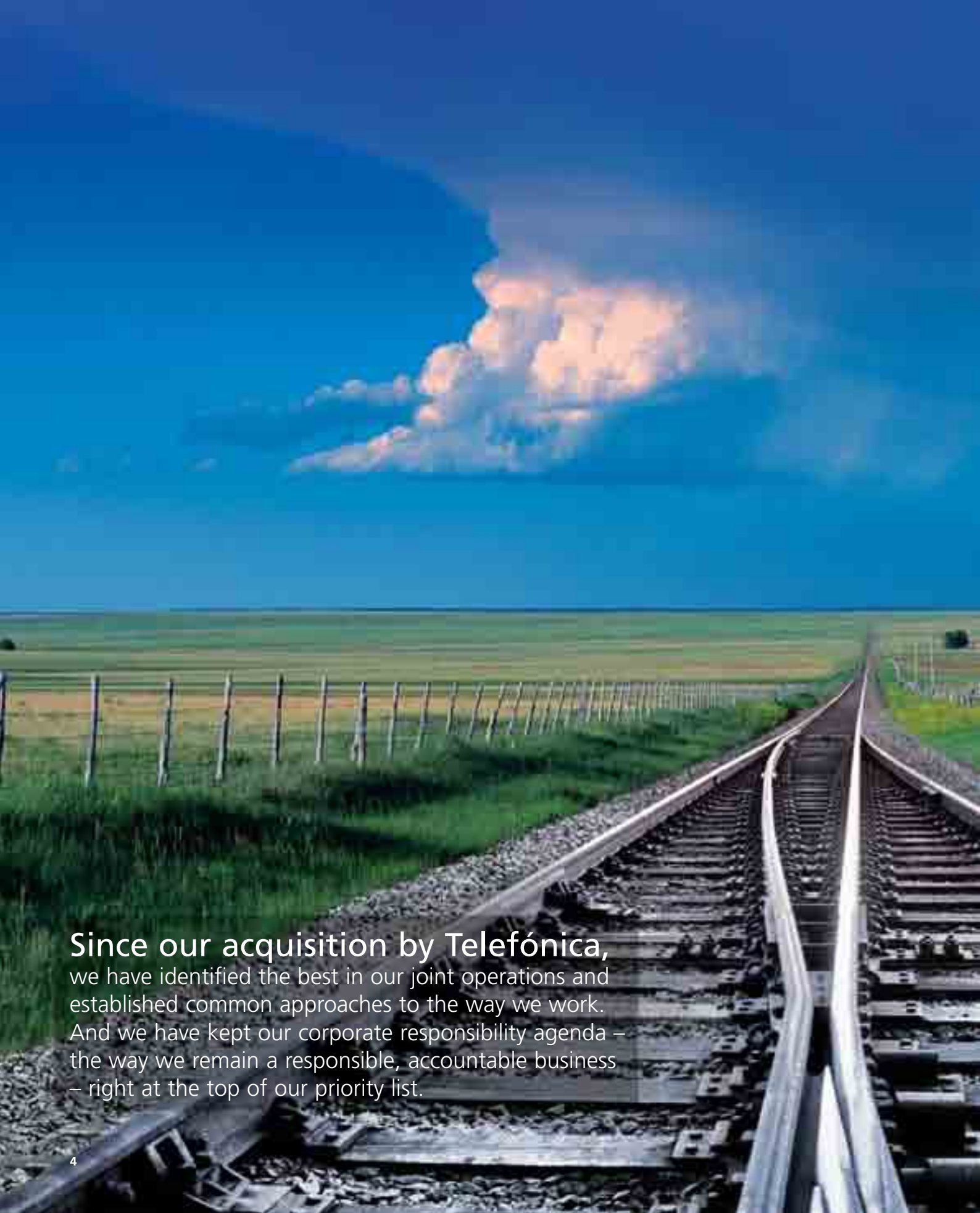
“We have reviewed the information contained in the online and printed 2006 Telefónica O2 Europe plc Corporate Responsibility Reports to provide limited assurance on the information provided. This work has involved interviewing Telefónica O2 Europe management, testing relevant management information, reviewing external media sources, and reviewing data reporting processes in six locations. Specific observations from our assurance activities are highlighted throughout this report. For our full statement and conclusions, go to: www.o2.com/cr2006”

Ernst & Young

What our assurers say:

“Corporate responsibility governance: We met with representatives of the newly formed Governance Committee and the Corporate Responsibility Forum as well as reviewing minutes of the meetings held over 2006. We found that the key corporate responsibility initiatives and issues observed through our work were presented and discussed at these meetings.”

Ernst & Young

A photograph of a railway track curving through a green field under a blue sky with a large, colorful cloud. The track is made of gravel and metal rails, leading the eye into the distance. The field is lush green, and a fence is visible on the left. The sky is a deep blue, and a large, billowing cloud with orange and pink hues is the focal point of the upper half of the image.

Since our acquisition by Telefónica,
we have identified the best in our joint operations and
established common approaches to the way we work.
And we have kept our corporate responsibility agenda –
the way we remain a responsible, accountable business
– right at the top of our priority list.

A landscape photograph showing a railway track in the foreground, curving towards the left. The track is made of gravel and metal rails. To the right of the track is a green field with a rustic wooden fence. In the background, there are rolling green hills under a clear, deep blue sky.

Joining forces with Telefónica...

...as Telefónica O2 Europe

Joining forces with Telefónica

We are continuing to integrate our businesses:

Governance: joined-up working practices across the whole Telefónica group.

Values and integrity: common ethical standards for the group.

Reputation: a group-wide system to help manage our reputation.

Reporting: group-wide data reporting practices.

Roaming: economical international calling rates for our customers.

Procurement: efficiencies in our purchasing activity for network equipment and devices.

Advocacy: a single voice in industry bodies and promoting sustainability initiatives.

Working together: Sharing information and experiences.

Telefónica's vision:

We want to enhance people's lives and the performance of businesses, as well as the progress of the communities where we operate, by delivering innovative services based on information and communication technologies.

At O2 we are:

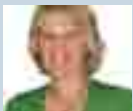
- A stand-alone brand with freedom to shape our own success.
- Committed to putting our customers at the heart of our actions.
- A business that applies standards of integrity, with a governance structure to sustain them.
- Active in the communities in which we operate.
- Determined to give employees a stimulating, rewarding, and balanced workplace, with reasons to be proud to work for O2.

With Telefónica we are:

- The third largest telecommunications company in the world, in terms of customer numbers.
- Offering customers a full range of mobile, fixed-line, broadband, and digital TV services.
- Helping the company and local economies to grow, investing €588 million in research and development.
- Working together to find the best ways to do things, and making sure our actions are responsible and ethical by applying the same business principles across the world.

What our employees say:

“The mood is good at O2. It's been seen as a positive move. I don't think people really notice a difference day to day, but see the opportunities of working within a larger group. The spirit of O2 is unchanged.”



Tracey Flashman
Head of Human
Resources Policy,
O2 UK

What more can we do?

O2 customers have already begun to feel the benefits of Telefónica's £17.7 billion acquisition of O2.

It has allowed us to do things we could not have done before, such as introducing the 'My Europe' international tariff in the UK, Germany, Ireland and the Czech Republic and launching broadband services in Germany.

Our values and commitment to corporate responsibility closely match. Now we are making sure that we work in a seamless way too. We have started to introduce common standards and management processes. We are sharing practices on key issues, such as: diversity and inclusion, supply chain ethics, child protection and digital inclusion. In 2007, we will implement a group-wide set of business principles.



For more information go online:

www.o2.com/cr2006/ethics
www.o2.com/cr2006/roaming

Corporate responsibility – Telefónica-wide

Telefónica sees corporate responsibility as a way of managing the business in close contact with stakeholders, acting as a driving force for economic, technological, and social development in the countries where it operates by:

- Embracing the needs and concerns of all stakeholders.
- Maintaining close business ties and conducting its business activities as sensitively as possible.
- Ensuring sustainable development in the countries where it operates.

Since O2 has been part of Telefónica, we have tried to ensure that, while our corporate responsibility practices may vary according to local markets, they are all based on a shared vision and set of principles.



For more information go online:

www.telefonica.com/corporateresponsibility

César Alierta, Executive Chairman, Telefónica, S.A.

“ At Telefónica we believe that corporate responsibility must also create value for our company.



So we aim to build strong relationships, to talk openly about our strategy, and to listen to many different groups in society.

Telefónica and O2 have learnt from each other in our first year together. We defined our new corporate vision and set out the business principles that govern the way we work. By adopting them across the Telefónica group we aim to build a common culture of integrity wherever we operate in the world. ”



For the full statement go online:
www.o2.com/cr2006/alierta

Peter Erskine, Chairman and Chief Executive Officer, Telefónica O2 Europe plc

“ I believe that business has a role to play in helping to address some of the challenges that face modern society.



Society and business are interdependent. By listening to and learning from people inside and outside of O2, our business is also likely to be a more sustainable one.

We've made strides during the year in developing our child protection measures and tackling our environmental responsibilities. ”



For the full statement go online:
www.o2.com/cr2006/erskine

17.6m
customers¹

12,126
employees²

55% male
45% female
gender mix

£443,909
charitable contributions³

150,966
CO₂ emissions (tonnes)⁴

72%
electricity consumption
from low-carbon or
renewable sources⁴

¹ As at 31 December 2006

² People in post as at 31 December 2006, excluding O2 Asia employees based outside the UK

³ Including O2 UK, O2 Centre and Airwave

⁴ For more information, see our performance data page 39

Matthew Key, Chief Executive Officer, O2 UK

We're adding more stores, new services, and more reasons for customers to stay loyal to O2 UK.

Our strategy is simple and effective. By making O2 the best place to work, we will turn our employees into fans. When we turn employees into fans, we're best placed to turn our customers into fans. It's a simple but powerful formula.

Trust and loyalty are paramount to creating fans. Reward schemes, fair deals, and fresh thinking are part of that effort but we try to go much further. In survey after survey, our customers and people say providing great service isn't enough. They want O2 to do everything it can to address issues like climate change, recycling, health and child protection. Just as important, they want us to help them do more too.

It's been a year of much external recognition: we've topped the most important customer satisfaction indices, won a 'Best Network' accolade, and received an award for innovation and the environment. We were also delighted to be ranked fifth among UK companies in the 'Best Big Company to Work For' league, and first among all mobile and media technology companies.

We linked with the internet safety charity, Childnet International, to help us support parents who choose our services for their children and we appointed over 100 Child Protection Champions across our business. We selected 14 employees who deal directly with customers to act as 'Real Directors' and bring their talents and knowledge to the boardroom. We gave a thank-you bonus to every one of our employees for helping us gain a million new customers during the year. And we also launched our 'People Promise', which describes the O2 we want to be – a company that delivers unrivalled customer service.

As you read our Corporate Responsibility Report, I hope you'll see that we set great store by our values and show that we run the business in a way that benefits customers, those who work with us, and the communities we serve.



What our employees say:

“The 'Thanks a Million' bonus gave my team a real focus throughout the year. And it's nice to feel appreciated – £1,000 in your pay packet is a very substantial way of saying thanks for a job well done.”

Michelle Squire
Team Manager, New Business, Leeds

What the press said:



Source: Mobile magazine 26 January 2007

Knowing what really matters

To succeed as a responsible business, we need to understand the issues that concern people most.

We believe our industry makes a positive and significant contribution to society. We also know that some of our services can have a considerable impact on society and the environment. We call these 'material' issues.

To make sure we are addressing the right issues we constantly monitor the media, market research reports and the views of employees, customers, experts and opinion leaders. We have drawn up a list of key issues, based on an analysis of thousands of responses from people inside and outside the company during 2006. We assess and rate each issue against four guiding questions that help us determine the impact on our business and society, likelihood of an event and our ability to manage an issue. We want to make sure that this document and our full online report cover the issues that matter most to our stakeholders – please see the diagram below.



For more information go online:

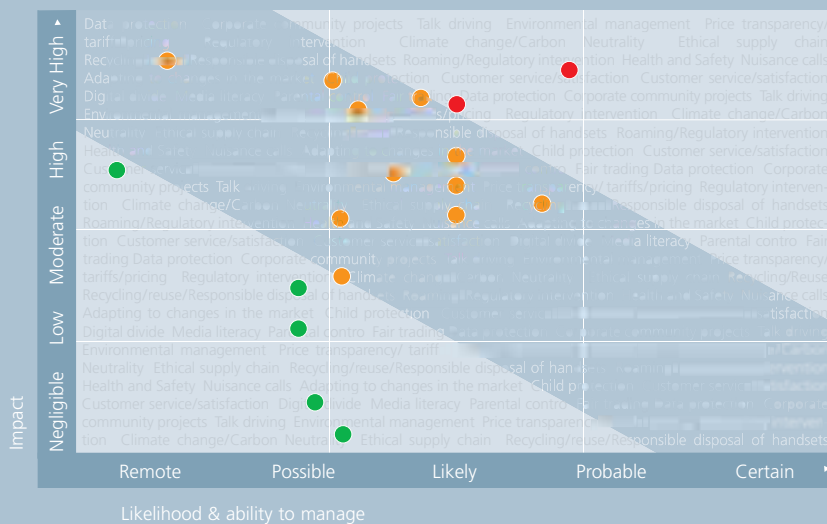
www.o2.com/cr2006/materiality
www.o2.com/cr2006/assurance

What our assurers say:

“**Materiality:** This year, the processes for determining materiality in the context of the Report have been developed further and been informed by a number of stakeholder surveys and other inputs. While progress has been made in this area, it could be further improved through maintaining a systematic record of stakeholder engagement activities.”

Ernst & Young

Process for identifying key issues



Key corporate responsibility issues

- Pricing and regulatory intervention
- Adapting to changes in the market
- Customer service and satisfaction
- Data protection
- Protection of children, inappropriate use and etiquette of mobiles
- Employee ethical behaviour
- Climate change
- Digital media literacy and digital inclusion
- Employee engagement – empowerment, motivation and retention
- Responsible disposal of handsets
- Employee relations
- Perceived health effects of mobile handsets and masts
- Environmental management
- Ethical supply chain
- Fair trading
- Safe driving and mobiles
- Health and safety
- Community investment

Guiding questions

- Q1 What are the current and/or potential financial impacts of Telefónica O2 Europe?
- Q2 Is this a significant concern among internal or external stakeholders' sustainability challenges?
- Q3 What is the societal opportunity or risk?
- Q4 What is our ability to influence or manage the issue?

Examples of information used to identify key issues

Internet sites and blogs:
 “Community is losing out to companies' mobile phone masts...”
 A letter to 'This is Local London Network'

Interviews:
 “O2 should exemplify a sustainable use of resources.”
 Employee, O2 Germany

Surveys:
 Ipsos MORI Corporate Responsibility survey of the British public.



Join the debate...

Tell us which side of the story best reflects your view. Vote online at:

www.o2.com/cr2006/debate

Future of mobiles... In 2006, sales of mobile phones topped one billion worldwide. As more people gain access to online data, young people in particular are finding ingenious new ways to network. But as faster, more complex services become available customers will still expect them to be reliable, safe and inclusive.

I am amazed by what
my mobile can do...

...I am overwhelmed
by what my
mobile can do

103%

In 2007, there were more mobiles than people in Europe, with 478.4 million mobile phones in use with a penetration of 103 per cent of the population.

European Commission

O2 customers are now regularly using mobile data services including the internet, video downloads and picture messaging.

25 billion

In 2006, O2 customers sent over 25 billion text messages.

What mobile can do

Mobile and web technologies are getting more sophisticated. Younger users especially are embracing new sources of entertainment and social networking that are converging on to a single device.

A research report on media literacy among children (Ofcom, 2006) found that around one third of 12-15 year olds have direct experience of creating ring-tones and play-lists. Around half have already, or would like to, set up their own website. The majority of adults have yet to explore functions beyond voice calls, alarm clock, camera and texting.

We want new services to benefit our customers in useful and fun ways. This year O2 UK's '50 To Watch in Mobile' competition, which picks out the most innovative rising companies in the industry, was topped by Yospace, a company that lets mobile users share their homemade video footage and web diaries via mobile.

As early as 2010, we expect all mobile handsets to carry email and web capabilities. This development has already proved invaluable to police, nurses and emergency workers, as well as to companies who need joined-up operations on the move.

We think there is an opportunity to tackle other social challenges too. Integrated 'telematics' systems may soon let us adjust home heating and lighting from afar; medical staff can remotely check how patients are responding to treatment; and sensors may link mobile phones to technology that can check and control pollution and traffic congestion.

With Europeans spending so much more of their work and leisure time online, we think developments in mobile and high-speed broadband will offer many benefits in our increasingly connected world.

Responsibilities and concerns

Fear of internet crime is on the increase, according to Get Safe Online's second annual report (2006). The report revealed that 21 per cent of people think e-crime is the type of crime they are most likely to encounter – up from 17 per cent last year – and they fear it more than mugging, car theft or burglary.



For more information go online:
www.getsafeonline.org

What more can we do?

Our customers increasingly want fun when they interact by mobile but most will only take up new applications if they can be sure they are safe and secure. Our industry is taking measures to meet these concerns as new services emerge, for example:

- Being clear about our customers' need for reliable service, network coverage and billing.
- Continuing to work with the police and other agencies to help prevent online crime.
- Making sure that new applications like location-based services are safe, especially for the vulnerable.
- Protecting people's privacy and personal data in accordance with the law.
- Contributing to the debate about the emergence of a 'big brother' society.
- Cooperating with industry, for example by limiting spam and combating web-based viruses.

What you can do:

- Set up a PIN for your mobile and your voicemail so others cannot use it.
- Think twice before accepting unsolicited mail.
- Be careful nobody overhears you giving personal data, such as your address, future plans, or bank and credit card details over the phone.

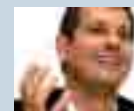


For more information go online:

www.o2.com/cr2006/safety
www.o2.com/cr2006/crime
www.o2.com/cr2006/privacy

What our employees say:

“In 2006, we extended the opening hours of our nuisance call bureau in the UK to enable our advisors to better serve customers. As a result, our response rates improved by 10 per cent.”



Adrian Gorham
Group Head of
Fraud and Security,
Telefónica O2 Europe plc

Looking forward to more possibilities

Mobile communication is transforming the way we work, live and learn. From mobile TV to cashless parking payments, even children's exam results are being improved thanks to a novel text-mentoring experiment...



O2 Cocoon



O2 Wireless Festival in Hyde Park, London

...A text-messaging service used as a revision aid at Cottesloe School in Buckinghamshire is improving exam results. Deputy Headmaster, David Stevinson, came up with the idea of a text-mentoring service where pupils could have instant access to their mentor's help and advice, and O2 offered technical and financial support. The web-based interface has proved popular and has improved motivation and exam results.

Parking payment made easier

We worked with the City of York Council and a software company to provide a cashless pay-and-display solution for easy parking and enforcement. Drivers can register by phone or online, and then pay for their parking by voice or text message to a dedicated number. The system gives drivers a text reminder to 'top up' remotely if necessary, thus avoiding penalties. Enforcement is also simpler. Parking attendants use a Blackberry 7920 from O2 to access the system online and get information about vehicles in the area.

O2 Wireless Festival

A record £100,000 worth of digital mobile 'Mobi-tickets' were sold in the first week of sale for the 2006 O2 Wireless Festival in London and Leeds, making it the highest-value mobile-ticketing event in the world.

“The overwhelming success of O2's Mobi-tickets demonstrates how mobile can truly enhance music fans' overall festival experience. Alongside the ability to stream live audio and video clips and download music tracks, delivering digital tickets direct to handsets is another example of O2 placing music in the hands of its customers.”

Nigel Dean
Head of Sales, Interactive Products, O2 UK

“O2's experience was a great help in setting the service up. The scheme has had a great response from students, parents, teachers and governors.”

David Stevinson
Deputy Headmaster, Cottesloe School



Join the debate...

Tell us which side of the story best reflects your view. Vote online at:

www.o2.com/cr2006/debate

Customer service... Customers are at the heart of everything we do. We want to turn our customers into fans by delivering the best customer experience we can. In a world of intense competition, we know we have to deliver our promises consistently, or our customers will vote with their feet.



I'm a fan of O2,
it values my loyalty...

...I want real
value from O2

No 1

In 2006, we were rated at the top of our industry for customer satisfaction in the UK and Germany

38.4m

mobile, fixed-line and internet customers¹

35.2m

mobile customers¹

3.13m

net new mobile customers¹

We aim to turn our customers into fans

Our market is crowded with competitors and we think this serves our customers well. We always aim to deliver the best customer experience possible, across all of our markets.

Our 'Customer Promise' charter is at the heart of our strategy, challenging us to keep delivering the best customer experience so that our customers are happier and more loyal.

We know that our 'Customer Promise' needs to be about more than just words, so we have backed it up with several bold initiatives to reward customer loyalty. These include:

- Adding to our 'Treats' and 'Rewards' campaigns with 'Fair Deal', where existing O2 UK customers are given the same handset and tariff deals as new customers.
- Offering better 'Homezone' tariffs and ADSL broadband services in Germany.
- Launching the O₂ brand experience in the Czech Republic.
- Providing new post-pay price plans in the Isle of Man.
- Launching 'My Europe' international tariffs across Europe.
- Training our employees to further improve customer service levels.



For more information go online:
www.o2.com/cr2006/satisfaction

¹ As at 31 December 2006

Responsibilities and concerns

The mobile industry must do more to improve customer satisfaction, according to a new international survey of more than 400 call centres in 42 countries. Call centres operated by phone companies and internet providers were bottom overall for customer satisfaction in the survey, conducted by technology firm Dimension Data.

What more can we do?

Customers want great products and services, reliable coverage, useful and entertaining content, and simple and clear pricing. But they also want excellent customer service from well-trained people they can actually talk to.

“Turning customers into enthusiasts of O2 begins by learning how to listen to them and know what they really want. With this knowledge in mind, we have to work to improve their experience, setting firm targets and measuring our progress towards meeting them.

This translates into increased customer loyalty and fewer customers switching from our services to others. Customer satisfaction levels are directly related to our financial results.”

Peter Erskine
Chairman and Chief Executive Officer,
Telefónica O2 Europe plc

What you can do:

- Tell us what you need. Whether you are a frequent business traveller or a student on a limited budget, we aim to have a plan to suit you.
- Let us know what we are doing right, or wrong, and we will make sure we listen and learn.
- Make sure your loyalty to O2 is rewarded.
Go to: www.blueroom.o2.co.uk

Call Customer Care:

202 for pay-monthly customers
(08702 410 202 from a landline)

4445 for pay and go customers
(08705 678 678 from a landline)



For more information go online:
www.o2.com/cr2006/yourmobile
www.o2.com/cr2006/pricing
www.o2.com/cr2006/satisfaction

Turning our customers into fans

Our strategy is to turn our customers into fans by giving them an experience that cannot be matched elsewhere. In 2006, we set our UK employees this challenge – to attract a net gain of one million new happier and more loyal customers by the end of the year...

'Best Network'

Readers of Mobile Choice Magazine

'Top of the shops'

Fone magazine, the UK's mobile phone industry weekly



1



2

1 The then First Minister Jack McConnell MSP opens O2's new customer service centre in Glasgow

2 O2's flagship store on Oxford Street, London

...We achieved this through a series of initiatives, including improved packages, tariff deals and rewards, and we made our decisions with more input from employees who have direct contact with customers. We tied our efforts to 'Thanks a Million', a scheme which rewarded employees with up to an extra £1,000.

We are here to listen

We are not only training people to do a better job for our customers, we are increasing the number of people that our customers see and hear. We opened our fourth customer service centre in Glasgow in 2006, adding 1,500 extra workers in the UK. We acquired nearly 300 additional stores from The Link, extending O2 stores to over 90 new locations. During the year we asked our employees to conduct a survey of around 1,000 customers to ask what more they would like us to do.

Fair deals

In 2006, we launched 'O2 Long Weekends', which offered pay-monthly customers free calls every Saturday, Sunday and Monday for life. In early 2007, we added 'Fair Deal' to the portfolio, giving existing customers exactly the same rewards and price plans as our new ones. We also launched a range of new international roaming tariffs that, on average, reduced the cost of receiving and making calls in over 30 European countries.

Satisfaction scores

We have done well in a series of customer satisfaction indices in 2006, but we are not complacent. As well as topping the JD Power & Associates survey in 2006, we also took first place in the UK's Customer Satisfaction Index for the second year running, but only just. In 2007 we have identified customer satisfaction as our key priority. This year we are linking performance-related pay and the 'Thanks a Million' scheme to try to make sure we further improve in customer satisfaction rankings at the end of the year.

“We've got an opportunity to truly turn our customers into fans. The key to achieving that is to continue to put customers at the centre of everything we do. That means designing products, policies and processes around the customer from the beginning.”



Cheryl Black
Customer Service
Director, O2 UK



Join the debate...

Tell us which side of the story best reflects your view. Vote online at:

www.o2.com/cr2006/debate



Child protection... Research shows that young people see their mobiles as a way of life. Many parents agree mobile phones can help keep children safe and develop their social and technological skills. But a mobile is a channel for all sorts of content – and some of it is not suitable for children and the device can be misused.



I can get hold of my
son any time...

...anyone can get hold
of my son any time

23%

In Europe, 23 per cent of children aged 8-9 and 70 per cent of 12-13 year-olds own a mobile phone.

Eurobarometer Report, 2006

What you said:

“...the actions by mobile carriers to introduce age verification for commercial, visual adult content is a proactive and welcomed change in responsibility.”

George Kidd

Chief Executive, PhonePayPlus, the UK premium rate services regulator (formerly known as ICSTIS)



For more information go online:
www.phonebrain.org

How we protect children

We respect parents' right to choose whether their child should carry a mobile phone.

We have actively participated in the industry groups developing and reviewing codes of practice for the self-regulation of content services on mobiles in the UK, Germany and Ireland.

In 2006, we partnered with the internet charity, Childnet International, to launch programmes in the UK that raise awareness of safety, mobile phones and the internet for children. These include launching a child protection film, and publishing a checklist of key questions parents should ask when buying a mobile phone for a child. We also have dedicated websites offering practical advice on all aspects of child protection, from text bullying to harmful web content.



For more information go online:

www.childnet-int.org/downloads/mobilesq.pdf
www.o2.com/cr2006/content
www.o2.com/cr2006/child/protection
www.o2.com/cr2006/marketing

We aim to help parents by providing:

- Classified adult commercial content only to those who first prove they are 18+.
- Controls that restrict the internet to child-friendly content.
- Information and advice.
- Help with nuisance calls.
- Close liaison with police.

On 6 February 2007 – Safer Internet Day – Telefónica and its O2-branded businesses signed up to the new European Union Framework to promote safer internet use among teenagers and children. The framework draws upon the main elements of the UK code of practice that we helped to develop.

What you said:

“It's so important that we support parents, who continually have to catch up with new technology, understand how their children are using it and how to help keep them safe.”

Will Gardner

Research and Policy Manager,
Childnet International

“Who should take responsibility for child protection? The short answer is both simple and obvious: we all have a responsibility. No one agency or group has a monopoly of concern.”

John Carr

Chairman of the UK's Children's Charities' Coalition on Internet Safety.

Quotes taken from the O2-sponsored Spiked-online debate: 'U TXTing 2 Me?: Young people, mobiles and social networking.'

What more can we do?

We are committed to creating a child-friendly environment on mobiles. That is why we are signatories of the 'European Framework for Safer Mobile Use by Younger Teenagers and Children', which commits us to provide advice, raise awareness and ensure proper controls are in place regarding access to inappropriate content.

We want to stop children accessing unsuitable content, or being subjected to cyber bullying, theft or inappropriate contact through chat rooms. We also work with schools and the police through our volunteering schemes to take the safety message to teachers and young people.

Our other commitments are to:

- Continue with plans to support illegal-content barring on all fixed and mobile platforms.
- Continue to implement industry codes of practice and training.
- Continue to bar lost and stolen handsets.
- Establish a group-wide policy on children and O2 products and services.
- Set up an online resource centre to help share best practice, advice and guidance tools across Telefónica O2 Europe.

What you can do:

- Visit our UK child protection website:
<http://protectourchildren.o2.co.uk>
- Watch our short film on child protection:
www.o2.com/cr/film_children_protection.asp
- Ask our employees for advice.
- Create boundaries by using parental controls:

Control web access – call **61818**

Block 18+ content – call **61018**

Keep phone location private – call **1300**

Report spam – forward it to **7726**

Stop unwanted subscription texts

– reply **STOP**



For more information go online:
www.o2.com/cr2006/child/protection

Champions for children

This year we partnered with Childnet International to produce a child protection film to increase our employees' understanding of risks to child safety. We also identified over 100 child protection champions inside O2 UK, all of whom have direct contact with customers.



Two thirds

of 8-15 year olds in the UK own a mobile phone

8 calls a week

They average 8 calls a week and 25 text messages

£10.50

Their average monthly mobile phone bill is £10.50

Ofcom study on media literacy among children, 2006

Responsible spending

In 2006, O2 worked with the UK's Personal Finance Education Group (pfeg) on an innovative project to help school children understand the cost and responsible use of mobile phones. The scheme was piloted in eight schools in East London. We aim to extend it to schools nationally using pfeg's website, from which teachers can download the tools and lesson plans.

Points of view

We staged an online debate with Spiked-online: 'U TXTing 2 Me?: Young people, mobiles and social networking'. Open to the public through the internet, it preceded a seminar of invited experts and interested parties and helped inform our policies.

Watching the internet

We started blocking illegal content based on the Internet Watch Foundation's database of child abuse images. Currently the block is only available on our i-mode® mobile internet

platform, but a programme is under way to extend this to all O2 UK mobile platforms.

Safety in numbers

We have published handy customer cards listing child-protection services and contact numbers. These are distributed through our stores to parents, teachers and others – or you can download them online.

Extending our support

Our Nuisance Call Bureau offers help to parents and young people – or other customers – who feel they are being bullied or threatened or are receiving anonymous abusive calls. We have extended our operating hours this year to 8.30am–7.00pm (weekdays only), and responded to about 20,000 calls with advice on what to do next – please see our advice online.



For more information go online:

www.pfeg.com
www.spiked-online.com
<http://protectourchildren.o2.co.uk>
www.o2.co.uk/help/nuisancecalls

What our employees said:

“The child protection film was very informative. I would like to get involved in child protection, to raise awareness of the issues involved with using mobile phones. Maybe O2 could have specialist staff visiting schools, giving interactive talks to primary and secondary school children?”

Richard Harrop
 Assistant Branch Manager,
 Folkestone O2 UK retail store

“We are very satisfied with our commercial content rules now. Our suppliers are monitored and there are sanctions in place to encourage compliance.”

Jonny Shipp
 Head of Content Standards, O2 UK


¹'i-mode' and the 'i-mode' logo are trade marks or registered trade marks of NTT DoCoMo Inc. in Japan and other countries. i-mode is the world's most widely-used mobile internet service, with 44m users in Japan and 3m users in Europe, across nine network operators including France, Spain, Greece, Germany and Belgium



Join the debate...

Tell us which side of the story best reflects your view. Vote online at:

www.o2.com/cr2006/debate

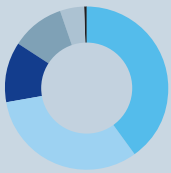


Health and mobiles... Scientific research has found no conclusive evidence to date of a health risk from using mobile phones or from mobile phone antennas. However, some people worry that mobile equipment exposes them to risk. We take people's concerns seriously. We study the facts, publish them, and help to fund more independent research.

I can get mobile reception
almost anywhere...

...I'm concerned about
mobile phone masts
being everywhere

Total number of cell sites in 2006



■ O2 Germany	13,387
■ O2 UK	10,858
■ Telefónica O2 Czech Republic	3,985
■ Airwave	3,500
■ O2 Ireland	1,610
■ Manx Telecom	48

Reporting the facts

We want to report the facts as they stand today on mobile technology and health. The safety of our customers, employees, and wider society is paramount.

In line with regulation, we operate enough masts to provide wide coverage and reduce the incidence of 'dropped' calls. We make sure that we do so safely and well within strict international radio frequency exposure guidelines, and we follow best practice in mast siting.

There is no convincing evidence to date of a health risk from using mobile phones or from mobile phone antennas.

However, the UK's Stewart Report in 2000 called for more research and we continue to support that. We co-fund a range of peer-reviewed independent scientific studies. We also publish information about safe emissions, the industry's own rules on building networks,

current scientific thinking, and the specific absorption rates (SARs) of individual phone models – a measure of the amount of radio wave energy absorbed by a person's body using a mobile.

In Ireland, the Government appointed an Expert Group to consider all relevant research on the health effects of electromagnetic fields. They concluded that: "no adverse short or long-term health effects have been found from exposure to the radiofrequency (RF) signals produced by mobile phones and base station transmitters".

We have co-funded the Mobile Telecommunications Health Research (MTHR) programme and re-confirmed our next funding commitment. In 2006, some of the 13 countries carrying out research under the INTERPHONE project, coordinated by the International Agency for Research on Cancer (IARC), reported their findings. To date these studies have reported no increased risk of glioma and meningioma tumours for less than 10 years of mobile phone use. For longer-term use, they recommend more research. The studies also found no substantial risk of acoustic neuroma in the first decade of use, but the possibility of some effect after longer periods remains open.

Tips for safe driving

- Never use a hand-held mobile phone or device while driving.
- Never send text or multimedia messages while driving.
- If you are a hands-free user, pull over to take a call.
- Keep conversations short and stress free.
- Set up voicemail to take your messages.

For more tips and information on using your mobile phone responsibly while on the move, and for an explanation of the laws and penalties you could incur, see our 'Tips for Safer Driving' at: www.o2.com/cr/safe_driving.asp

What more can we do?

We have a commitment to help fund independent research into the health effects of mobile phone use. A long-term 'cohort' study across Europe is proposed as the top priority for phase two of the MTHR programme. This is expected to involve 250,000 people in the UK, Finland, Sweden and Denmark, and it is hoped that actual customer call data will be used to track any link between mobile phones and ill health over time.

We are also determined to continue to employ best practice in building our infrastructure network, including:

- Continuous improvement in public communication and consultation.
- Compliance with exposure guidelines.
- Increased mast sharing where possible.

We also believe that mobile telephony can bring health benefits, for example by offering new ways for health professionals to treat a range of illnesses remotely and more efficiently.

What you can do:

- Find out about the research and get advice on health and mobile phones at: www.o2.com/health
- You can get information on the health debate from:
The Department of Health – www.dh.gov.uk
Mobile Telecommunications and Health Research in the UK – www.mthr.org.uk
World Health Organization – www.who.int/peh-emf/en/
The Health Protection Agency – www.hpa.org.uk/radiation
- Consider the UK Government's advice that children and people under 16 should use mobile phones for essential purposes only and keep calls short.
- A national database giving details and locations of mobile phone base stations can be found at: www.ofcom.org.uk



For more information go online:
www.o2.com/cr2006/health

First European Commission Consultation

Following a new public consultation on mobile phones and health, the European Commission's Scientific Committee for Emerging and Newly Identified Health Risks (SCENIHR) has published an updated report in 2007. Telefónica O2 Europe, through GSM Europe, was one of the respondents to the public consultation.



1



2

1 A paramedic using the Airwave service
2 The Airwave service enables transmission of medical data from ambulances to hospitals

Health monitoring

We extended our sponsored trials of mobile handsets to provide remote data monitoring for cystic fibrosis sufferers. During the year we began to work with patients who have chronic obstructive pulmonary disease (COPD).

Our studies, run by Oxford-based partner T+ Medical, highlight the mobile phone's potential for patients and doctors to manage conditions remotely and efficiently.

Protection for workers

In the UK we have implemented the International Commission on Non-Ionizing Radiation Protection's (ICNIRP) occupational guidelines to protect people working near antennas from possible exposure to radio frequency. The guidelines require us to protect all workers from potential over-exposure by increasing the distance between the workers and the antennas by using barriers, clear signposting and providing information.

Safety for mobile health workers

Mobile communications can mean the difference between life and death for emergency and public safety workers. The police, ambulance and fire and rescue services, as well as around 200 other public safety organisations, can use Airwave's resilient mobile network even in rural and remote areas. The service helps to keep mobile and lone workers safe and in constant contact with colleagues. It can also transmit vital life-saving medical data to hospitals and rescue services during emergencies.¹

¹ Airwave was sold in April 2007 to Guardian Digital Communications Ltd, a company wholly owned by Macquarie

“Electromagnetic hypersensitivity (EHS) is characterized by a variety of non-specific symptoms that differ from individual to individual. The symptoms are certainly real and can vary widely in their severity. Whatever its cause, EHS can be a disabling problem for the affected individual. EHS has no clear diagnostic criteria and there is no scientific basis to link EHS symptoms to EMF (electromagnetic field) exposure.”

WHO Factsheet No.296 December 2005



For more information go online:
www.who.int/mediacentre/factsheets
www.ec.europa.eu/health/index_en.htm



Join the debate...

Tell us which side of the story best reflects your view. Vote online at:

www.o2.com/cr2006/debate

Environment and sustainability...

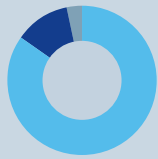
As our network grows, so too does our energy use and our carbon footprint. We are helping to tackle climate change by concentrating on energy reduction and efficiency, buying more renewable energy and low-carbon technologies, and offsetting emissions.

A photograph of a row of brick houses at night. Many windows are lit up, creating a warm glow. Several cars are parked along the street in front of the houses. The sky is dark blue.

I switch off to
save energy...

...but I can't switch
off everything!

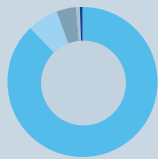
Group-wide total electricity consumption, 2006^{1,2}



■ Network 623.558 gigawatt hours (GWh)
 ■ Offices and call centres 88.821 GWh
 ■ Retail stores 22.698 GWh

Total 735.077 GWh

Group-wide total CO₂ emissions^{1,2}



■ Electricity 87.8% ■ Road transport 7.8%
 ■ Gas 4.1% ■ Refrigerant gas 0.2%
 ■ Fuel oil 0.1%

Total emissions 397,785 (tonnes)

1 Excluding fixed-line network of Telefónica O2 Czech Republic
 2 See our performance data on page 39

Our environmental objectives

We concentrate mainly on energy efficiency and reduction. Even though it is a harder route than purely investing in schemes that offset our impacts, it is ultimately a more sustainable solution to achieving a low-carbon future.

In 2006:

- Manx Telecom and Airwave were certified as being carbon neutral.
- O2 Germany reduced its carbon footprint by 40 per cent.
- O2 UK sourced 72 per cent of its electricity consumption from low-carbon or renewable sources.

During 2006 and early 2007, we have also established new energy agreements in the UK, Germany and Ireland to increase the proportion of renewable energy we buy.

Our group-wide operations remained registered to the voluntary international environmental management standard ISO 14001¹.

In 2006, across O2's operations, we collected 303,615 redundant mobile handsets for recycling or re-use through consumer return schemes².

We encourage our employees to get involved in our environmental initiatives, such as switching off computer monitors and segregating office waste.

In the UK, employee-led environmental initiative 'O2 Blue and Green' was launched in 2006, giving employees the opportunity to suggest ways to help make our business more sustainable.

The progress we made in meeting our 2006 environmental targets is published at the back of this document and more extensively online.



For more information go online:
www.o2.com/cr2006/environment
www.o2.com/cr2006/management
www.o2.com/cr2006/progress

¹ Excluding O2 Ireland retail operations and Telefónica Deutschland

² This number does not include redundant handsets recovered by other methods, for example trade-ins

Responsibilities and concerns

We believe communications technology has an important role to play in helping governments reach their carbon reduction targets. It is estimated that:

- Replacing 25 per cent of business travel in the EU by video conferencing would save 22.3 million tonnes of CO₂.
- If 50 per cent of EU workers replaced one meeting with one audio conference a year, it would save 2.2 million tonnes of CO₂.
- 100 million people receiving online phone bills would save 109,100 tonnes of CO₂.

ICT & Cutting Carbon, Ovum business information 2006

What more can we do?

Communications technology presents some real opportunities to protect the environment and contribute to our society. We are looking at ideas that could:

- Monitor and manage energy-using appliances in the home remotely.
- Further reduce travel needs – through increased use of video conferences, mobile and home working.
- Cut paper use through increased paperless billing and mobile electronic ticketing.
- Directly support environmental initiatives – we are currently working in partnership with Cambridge University to trial CO₂ sensors in mobile phones.
- Develop new services that benefit the environment, including O2 UK's new SIM card-only 'Energy Saver' tariff.

What you can do:

- Consider keeping your existing phone for longer.
- Always recycle redundant mobile phones.
- Unplug your mobile charger when your battery is full. It would cut around 95 per cent of the charger's energy use.
- Consider home working or remote working instead of travel.

You can either bring your old mobile phone into any O2 shop for recycling, or post it to: **Freepost Fonebak**



For more information go online:
www.o2.com/cr2006/environment
www.o2.com/cr2006/energy
www.o2.com/cr2006/handset/recycling

Going green with O2

We know many of our customers love having the latest handset. But every new phone has an environmental cost and that is why we are offering a new SIM card-only 'Energy Saver' option, which aims to reduce electronic waste and the cost of packaging and transport in the mobile phone's life-cycle...

1



1 O2's award-winning 'Letterbox' packaging
2 Prime Minister Tony Blair lends his support to the 'We're In This Together' campaign



242,345
handsets recycled through
consumer return schemes
in the UK



2

...The initiative is part of the Climate Group's 'We're In This Together' campaign, which aims to galvanise leading UK businesses to provide customers with more choice of green products.

The 'Energy Saver' option eliminates the need for new handsets when customers buy or renew an O2 contract, includes e-billing, and offers the option of £100 free airtime or £95 free airtime plus a £10 donation to the Energy Saving Trust.

“We need to empower individuals to make the right choices and schemes like the 'We're In This Together Campaign' and actions like yours will help us to move towards a low-carbon society.”

Ian Pearson
Minister of State for Climate Change
and Environment

Letterbox award

In 2006, we won the Grand Prix at the inaugural Green Awards for our new 'Letterbox' packaging. The initiative, trialled initially with one Nokia handset, reduces packaging for

handset upgrades by removing phone chargers. It allows packages to be posted through customers' letterboxes, removing the need for courier deliveries and significantly reducing transport and delivery emissions.

We also include a recycling bag in the 'Letterbox' packaging, so that O2 customers can recycle their redundant mobile phones. The trial of the first Nokia handset was so successful that we are looking to expand the initiative during 2007.

New and used mobile phones

Mobile phone refurbishment and reuse is preferable to recycling, as it extends the life of the product. The GSM Association report on the Mobile Phone Partnership Initiative shows how we are working together to ensure that the environmental, social and economic benefits of new and used mobile phones can be delivered sustainably.

Support for renewables

Future Energy Solutions carried out a feasibility study to secure a long-term power purchase agreement for renewable (wind) energy to O2 UK. The objective was to approach and identify registered UK electricity suppliers capable of providing O2 with more green energy by 2008, to help with our environmental goal of reducing our carbon footprint by sourcing more renewable and low-carbon electricity.

“Climate change has in the last year become one of the most urgent political and business issues. I think it is fair to say the move to a low-carbon economy will represent some of the biggest challenges and opportunities faced by businesses since the Industrial Revolution.”

Tom Delay,
Chief Executive Officer, Carbon Trust



For more information go online:
www.together.com/about
www.gsmworld.com/using/health/mobile_lifecycles.shtml



Join the debate...

Tell us which side of the story best reflects your view. Vote online at:

www.o2.com/cr2006/debate

Employee engagement... We call our way of working 'Can Do' and aim for high levels of performance. We want people to feel rewarded, stimulated, inspired and listened to. That means supporting their skills and wellbeing, and giving them information, time and energy to get the best out of life, at work and at home.

I'm always challenged
and rewarded at work...

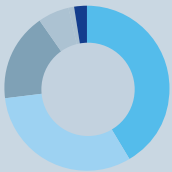
...it feels like
I'm always at work

Gender split across O2



■ Male 60% ■ Female 40%

Employee numbers across O2¹



■ UK 12,984
 ■ The Czech Republic 9,276
 ■ Germany 4,997
 ■ Ireland 1,787
 ■ Isle of Man 322

¹ People in post as at 31 December 2006

Working well together

In 2006, we set out to be an employer of choice and to develop our reputation as 'a great place to work'.

During the year, our businesses in the UK, Germany and Ireland were recognised in several 'Best Place to Work' surveys, and we have added further awards in 2007.

We want people who work here to be proud of how we do things. Everyone is encouraged to speak up and to put customers at the heart of their actions. Our regular employee engagement survey, 'Reflect O2', helps us check that our business strategy is well understood and we use the findings to set new targets.

Our employee assistance programmes in the UK, Ireland and Germany offer services like counselling, legal and financial advice and stress management, but we try to go even further.

We support employees in managing their wellbeing and work-life balance. During the year, these included programmes to encourage fitness, stop smoking, improve posture at work and giving nutritional advice.

We are also focused on providing a culture where everyone feels valued, respected and included, for example by respecting religious differences and practices. We help managers to plan employees' work around religious festivals and other personal needs.



For more information go online:

www.o2.com/cr2006/workplace

www.o2.com/cr2006/equality

www.o2.com/cr2006/balance

89%

of O2 employees are proud to work for O2

82%

would recommend O2 to their friends and family as a great place to work

What our employees say:

“We need to operate in a way that growth and profit aren't gained at the expense of the environment, employees, customers or suppliers. That also helps O2 to retain happy and motivated staff.”

Patrick Randell
Technology, O2 UK

What more can we do?

- Continue to listen to local feedback from employees so that our initiatives closely reflect their needs.
- Continue to find ways to provide greater flexibility and choice for our employees.
- Make sure we integrate Reflect O2 action plans into the way we work.
- Monitor our employee policies more closely in terms of age, gender, ethnicity and disability.

What our assurers say:

“**Stakeholder engagement:** We saw evidence that a range of stakeholder engagement activities had taken place through the year at various levels in the organisation. Of particular note was the work done to canvass the opinions of employees in the development of the 'People Promise' charter.”

Ernst & Young

What you can do:

- Consider how you can implement these initiatives in your own workplace.
- Tell your employer what more can be done to improve your work environment.
- Let your manager know through your development plan where your skills need improving or refreshing.



For more information go online:

www.o2.com/cr2006/employment

Thanks a Million

To show appreciation for the hard work involved in meeting the targets of our 'Customer Promise', we launched the 'Thanks a Million' scheme. It successfully challenged our employees to work together for a net increase of one million new customers...

1



1 Ann Pickering, Head of HR Customer Service Rewards and Michele Squire, New Business Manager, as our most improved pedometer user
2 'Real Director' John Greenhalgh



2



First

in Mobile
(Sunday Times Best Place to Work league)



Fifth

best place to work

...To recognise this outstanding achievement, full-time employees received an extra £1,000 in March 2007. The scheme has been extended in 2007 with a new challenge – to remain number one in UK customer satisfaction ratings at the year-end. In 2006, all employees also received an extra day's holiday to recognise our achievements in customer satisfaction ratings.

Independent recognition

In 2006, O2 UK was named among 30 great places to work by the Great Place to Work Institute®. In 2007, it was named one of the top employers in the UK and ranked fifth in The Sunday Times 2007 Best Big Companies to Work For league – the highest ranking ever for a mobile operator. We also received a two-star accreditation denoting an 'outstanding' company and gained first place in the 'Best for Wellbeing' category and a short-listing as 'Best for Giving Something Back'. O2's Pension Plan also won two prestigious awards in 2006: at the Professional Pensions Awards and the Pension Management Awards.

Involving our people

In the UK in 2006 we launched 'Real Directors', an initiative that directly involves employees in high-level decisions. We selected 14 'Real Directors' from 130 applicants and they now devote around 25 per cent of their time to bringing a 'grassroots' view to the business. They have regular and direct access to the Board and special training and development opportunities.

O2 UK has a central Employee Forum and supporting forums across the business. They work closely with decision-makers to ensure our employees' feedback is fully considered on initiatives that affect employees.

Steps for wellbeing

As part of our wellbeing services, we launched an online pedometer service to enable employees to track the number of steps they take each day: over 600 people joined the scheme in 2006. In spring 2007, we offered an online 'health coach', to help people assess their lifestyles and health, completely confidentially.

People Strategy

In the UK, our 'People Strategy' is to make O2 a place where happier people perform at their best and are more loyal. In 2006, we launched the People Promise, which includes:

- A warm welcome.
- Part of something special.
- A great place to work.
- The opportunity to get on.
- Trusted to do a good job.
- Managing with a human touch.
- Thanks for a job well done.

To help the 'People Promise' come alive, employees make commitments through 'The Promise Bank':

“I will set time aside each month to improve my knowledge of O2 products, services and the market.”



Victoria Hooper
Employee Experience Manager,
O2 UK



Join the debate...

Tell us which side of the story best reflects your view. Vote online at:

www.o2.com/cr2006/debate

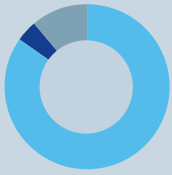


Community support... We want to contribute to the development and sustainability of our society. We are clear about why we do this. The closer we get to communities, the better we can understand people's concerns. We want our projects to be really useful to local people, our employees, and to O2.

I'm pleased O2 supports
my community...

...there is so much more
we can do to support
our communities

O2 community investment, 2006



- Total cash donations £1,642,424 (84%)
- Total value of in-kind donations £85,748 (4%)
- Total time in paid hours of volunteering £226,260 (12%) (measured in paid hours at the value of £20 per person)



In the community

Our community investment programme, 'Can Do in the Community', enables employees to show their strong community spirit by helping people and the environments in which they live and work.

We try to make it easy. We run 'Can Do Giving' schemes through payroll, and 'Can Do Matching' to support fundraising initiatives, and we encourage local volunteering.

We concentrate on areas that are relevant to our services: youth, education, health and environment. O2 Ireland focuses specifically on diversity.

Each operating business manages its own programme. This helps us involve our employees in schemes that are close to their own and our customers' hearts.

It is important that we measure our efforts. We keep track of contributions through the London Benchmarking Group (LBG) and stay in touch with key partners by grant monitoring, which shows us clearly how we benefit others and how we can improve. In 2006, we worked with Weston Spirit and Child Victims of Crime in the UK; the German Children and Youth Foundation; Irish Autism Action; The Rehabilitation Centre for Handicapped Children in the Czech Republic; and the Mighty Oak Hospice Appeal in the Isle of Man.



For more information go online:
www.o2.com/cr2006/community
www.o2.com/cr2006/charity

What our employees say

“Supporting our community helps customers make a choice. Many want a supplier that meets their needs but also their moral and social choices.”

Kerry Dalby,
O2 UK, 2006

“We need to protect the O2 brand by behaving responsibly. But it's important that we also set an example to employees and customers in the wider community.”

Katarina Smelhausova,
Telefónica O2 Czech Republic, 2006

What more can we do?

- Encourage more employees to give their time through volunteering.
- Continue to monitor programmes through the LBG community investment standard.
- Assess our charity partnerships through independent analysis so that we better understand how our community investment can evolve, improve and support mutual goals.
- Work with Telefónica to share ideas and see what community initiatives we can expand across O2 or encourage Telefónica to adopt.

What you can do:

Consider how you can contribute to your community.

- Community groups and charities can view our website to find out if they qualify for help through our community investment programme.
www.o2.com/cr/community_investment.asp
- Employees can volunteer to work in schools or on environmental projects, donate funds through payroll or, in the UK and Ireland, donate the small change in their salaries to a chosen charity. Each business has major programmes that we encourage employees to support.

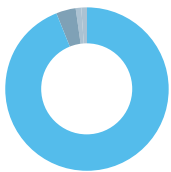


For more information go online:
www.o2.com/cr2006/charity

It's your community

We have launched a new community fund with the Conservation Foundation – 'It's Your Community'. The scheme offers awards of up to £1,000 to enable groups and individuals across the UK to make improvements where they live...

O2 UK – community investment by category (per cent), 2006



■ Education and young people 94%
■ Environment 4%
■ Other 2%

1



2



1 The Bijoy Youth Group in Wapping clean graffiti with funding from 'It's Your Community'

2 Slough-based employees take to the water to raise money for the O2 Life Line Challenge

3 Simon Weston receives a £270,000 cheque from Matthew Key at a presentation event held at the House of Commons

4 O2 mentors and their mentees at Preston Brook

3



4

...Since launching the programme, we have had 800 applicants and made over 70 awards. We will encourage our employees to get actively involved in 2007 when our five main sites choose their own projects and charity partners under the 'It's Your Community' banner.



For more information go online:
www.o2.com/cr/community_fund.asp

Weston Spirit

We celebrated our three-year partnership with Weston Spirit with a final push to raise £250,000 for young people. The 'O2 Life Line Challenge' complemented our wellbeing initiatives, featuring a sponsored cycling marathon, a five-a-side football tournament, and a series of summer 'Chill' parties at our main offices. Together we raised £270,000 by March 2007 for the charity, co-founded by Simon Weston OBE, whose experiences in and after the Falklands War inspired him to work with young people who lack confidence and self-esteem.

Just ask me

Just Ask Me (JAM) is a peer support project that brings together Weston Spirit, O2 UK employees and mobile phone services to help young people's personal development in a sustainable way. In 2006, more than 120 volunteers worked in schools in Bury, Glasgow, Merseyside, Leeds and Slough. Over three years, more than 300 O2 mentors have coached and supported sixth-formers, who in turn helped around 1,000 younger pupils.

Children and mobiles

We have partnered with the internet safety charity Childnet International to launch a programme of education for parents on avoiding risk from mobile phones. In the UK, we continue to support 'Teach UR Mum 2 TXT' to help parents keep in touch with their children via text messages. Our employees also partner with Her Majesty's Prison Service in the schools-based programme 'Prison Me – No Way!' to demonstrate to young people why they should steer clear of crime and how to stay safe.

“It is donations such as O2's 'It's Your Community' grant that allow us to ensure children living in deprived areas have access to activities they wouldn't normally be able to do.”

Emma Bull
Sneinton Play Centre, Nottingham

Objectives and targets

Progress against previously set objectives and targets

Key

ACHIEVED



IN PROGRESS



NOT ACHIEVED



Group-wide performance

Issue	Objectives	Targets	Dates	Status
Management				
Management and governance	Continuously improve O2's corporate responsibility performance as part of Telefónica.	Align O2's corporate responsibility activities with those of Telefónica.	Dec 06	ACHIEVED
Business principles	Ensure O2's employees behave ethically at all times in their dealing with each other, suppliers, customers and the general public.	Achieve 85 per cent completion rate for business principles training across O2 where an online facility is available.	Dec 06	NOT ACHIEVED
Marketplace				
External dialogue	Improve management awareness about social, environmental and ethical issues by analysing stakeholder engagement information.	Implement a system to record stakeholder engagement and establish regular management reporting on issues raised through dialogue.	Dec 06 Target will be revised	IN PROGRESS
Environment and sustainability				
Environmental management	Minimise our negative impact on the environment.	Maintain accreditation to ISO 14001. Manage continual reductions in energy use in buildings. Develop a carbon neutral strategy for the group.	Dec 07	IN PROGRESS
Workplace				
Health and wellbeing	Increase our employees' awareness of health and wellbeing and promote O2 as an employer of choice.	This target has been revised, see 'workplace' target below.		IN PROGRESS
Community				
Community – employee engagement	Empower and support O2 employees to be active and contribute to local communities.	Raise employee awareness of O2's community activities to reach 75 per cent.	Dec 08	IN PROGRESS

Group-wide future targets

Management				
Business principles	Ensure O2's employees behave ethically at all times in their dealing with each other, suppliers, customers and the general public.	Achieve 85 per cent completion rate for business principles training in the UK and the Isle of Man, and 75 per cent in Germany and Ireland, where systems and procedures are being implemented. Establish the online training facility in the Czech Republic and Slovakia.	Dec 07	
Marketplace				
Protecting the vulnerable	We are committed to educating our customers about how to keep children and other vulnerable groups safe.	Establish a group policy on responsible marketing to children, to be communicated in each market by December 2007. Compliance with the policy to be achieved by December 2008.	Dec 07	
Ethical supply chain	We seek to interact with our suppliers, and industry at large, and to promote corporate responsibility into our supply chain.	Work with procurement teams across Telefónica O2 Europe to align ethical supply chain policies and to implement common industry-developed tools and processes.	Dec 07	
Health				
Electromagnetic fields and health and safety	Health and safety of our customers, employees and the wider public is at the top of our agenda; and we aim to provide information and advice on the alleged health risks of mobile communications and contribute to the debate.	Ensure that Telefónica O2 Europe meets the requirements of the EU Directive 2004/40/EC 'on the minimum health and safety requirements regarding exposure of workers to the risks arising from physical agents (electromagnetic fields)' in advance of the required legislative time frame.	Dec 07	
Environment and sustainability				
Carbon emissions	Make efforts to reduce O2's impact on the environment and to help tackle climate change.	Cut carbon emissions in each operating business by 20 per cent against the 2006 baseline.	Dec 20	
Workplace				
Employee engagement	Engage and involve all employees to find out how they feel about working for O2 and make improvements together for the overall success of our people and company.	Achieve 75 points in the Reflect O2 – employee engagement overall index – for Telefónica O2 Europe and implement associated action plans.	Dec 07	
		Maintain high ranking (top 10) in each market through external 'best place to work' surveys by 2009.	Dec 09	
Community				
Employee engagement	Empower and support Telefónica O2 Europe employees to be active and contribute to local communities.	Raise employee awareness of O2's community investment activities to reach 75 per cent.	Dec 08	



Performance data

Year-on-year performance data from 2003 to 2006

	2003/04	Years ending 31 Mar 2004/05	10 months ended 31 Jan 2005/06	11 months ended 31 Dec 2006 ^{3,10}
Financial (£ million)				
Total customer numbers (million)	20.7	24	28.1 ⁹	38.4 ^{1,4}
Revenues	5,694 ⁶	6,575 ⁷	6,161 ^{7,8}	7,498 ⁷
EBITDA (earnings before interest, tax, depreciation, amortisation and exceptional items)	1,367 ⁶	1,760 ⁷	1,584 ^{7,8}	1,878 ⁷
Pre-tax profit	95 ⁶	500 ⁷	205 ^{7,8}	612 ⁷
Total operating costs	-5,536 ⁶	-6,042 ⁷	-5,966 ^{7,8}	-6,862 ⁷
Capital expenditure	1,113 ⁶	1,415 ⁷	1,200 ⁷	1,583 ⁷
Cost of employment	548	621	581	726
	2003/04	2004/05	2005/06	2006
	Apr-Mar	Apr-Mar	Apr-Mar	Jan-Dec ⁴
Environment and sustainability²				
Number of cell sites	19,581	25,548	27,635	33,388
Number of mobile phones collected for recycling (excluding trade-ins)	111,262	22,948	335,777	303,615
CO ₂ emissions from our direct operations (network, buildings, transport) (tonnes)	122,836	238,170	291,200	397,785 ¹¹
CO ₂ emissions per SIM card/customer (kg) ⁵	not measured	9.6	9.9	9.9
Proportion of energy from renewable sources (%)	not available	16.5	38	41
Amount of general waste (million kg)	2.7	2.8	1.5	2.1
Proportion of waste recycled for offices and call centres (%)	14	48	34	53
Workplace				
Total number of employees (full-time equivalent)	12,905	14,914	16,205	27,464
Proportion of women in the workforce (%)	47	43	42	40
Proportion of women represented in senior management (%)	25	25	23	20
Ethnic representation of workforce (UK only) (%)	11	13	12	12
Proportion of employees that are proud working for O2 (%)	85	81	86	89
Proportion of part-time employees of workforce (%)	13	15	17	13
Number of reported accidents	169	257	201	290
Number of lost days due to accidents at work (not including the date of the incident)	557	487	477	2,731
Community investment (£ million)				
Total cash contributions to charities and charitable causes	1.7	2.2	1.9	1.6

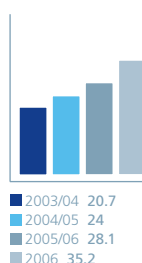
What our assurers say:

“Data specific observation: We have observed significant variation at a business level in the methodologies applied to the collection, aggregation and extrapolation of environmental data, and to a lesser extent other non-financial data. There is significant scope for improvement in the processes used for gathering environmental data. Our conclusions have been shared with the Telefónica O2 Europe plc Governance Committee and we understand that they are committed to take action to improve data gathering.”

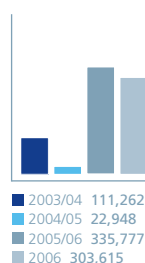
Ernst & Young

- ¹ Includes fixed telecommunications operations in the Czech Republic
- ² Different estimations and extrapolation methods have been used across the group where actual data was not available. As these processes improve and become more consistent changes will occur to this data please see www.o2.com/cr
- ³ Includes Telefónica Deutschland
- ⁴ Includes for the first time Telefónica O2 Czech Republic
- ⁵ Excludes fixed-line operations
- ⁶ UK GAAP (UK Accounting Standard)
- ⁷ IFRS (International Financial Reporting Standards)
- ⁸ Restated for the change in accounting policies on acquisition by Telefónica, S.A.
- ⁹ As at 31 March 2006
- ¹⁰ Excludes Telefónica O2 Czech Republic
- ¹¹ Excludes fixed-line network of Telefónica O2 Czech Republic

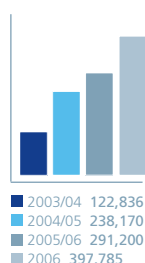
Customer numbers (mobile, million)



Number of mobile phones collected for recycling (excluding trade-ins)



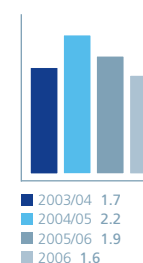
CO₂ emissions (tonnes)



CO₂ emissions per SIM card/customer (kg)



Cash contributions to charities and charitable causes (£ million)



Index

Subject	Printed review page number	Get the facts online
A-Z index	–	www.o2.com/cr2006/a-z
Accessibility	–	www.o2.com/cr2006/accessibility
Adult content	18-21	www.o2.com/cr2006/content
Advertising	–	www.o2.com/cr2006/compliance
Assurance	3	www.o2.com/cr2006/assurance
Bribery and corruption	–	www.o2.com/cr2006/corruption
Bullying	18-21	www.o2.com/cr2006/child/protection
Business principles and ethics	6	www.o2.com/cr2006/principles
Call monitoring	–	www.o2.com/cr2006/privacy
Carbon footprint	26-29	www.o2.com/cr2006/carbon
Chairman and CEO statements	7-8	www.o2.com/cr2006/erskine www.o2.com/cr2006/alierta
Child protection	18-21	www.o2.com/cr2006/child/protection
Climate change	26-29	www.o2.com/cr2006/environment www.o2.com/cr2006/carbon
Community investment	34-37	www.o2.com/cr2006/community
Compliance	3	www.o2.com/cr2006/compliance
Contact us	IFC	www.o2.com/cr2006/contact
Content standards	18-21	www.o2.com/cr2006/content
Crime prevention	12	www.o2.com/cr2006/crime
Culture	30-33	www.o2.com/cr2006/culture
Customer service	14-17	www.o2.com/cr2006/yourmobile www.o2.com/cr2006/satisfaction
Data retention and protection	–	www.o2.com/cr2006/privacy
Diversity and inclusion	32	www.o2.com/cr2006/diversity
Downloads	–	www.o2.com/cr2006/downloads
Employee engagement	30-33	www.o2.com/cr2006/engagement
Employment	30-33	www.o2.com/cr2006/employment
Energy consumption	26-29	www.o2.com/cr2006/energy
Environmental management	26-29	www.o2.com/cr2006/management
Equal opportunities	30-33	www.o2.com/cr2006/equality
External dialogue	9	www.o2.com/cr2006/dialogue
Gambling	–	www.o2.com/cr2006/gambling
Global Reporting Initiative	–	www.o2.com/cr2006/gri
Governance and ethics	3	www.o2.com/cr2006/ethics
Grievance procedures	–	www.o2.com/cr2006/grievance
Health	22-25	www.o2.com/cr2006/health
Health and safety	–	www.o2.com/cr2006/health/safety
Health monitoring – mobile	22-25	www.o2.com/cr2006/health/monitoring
Human rights	–	www.o2.com/cr2006/discrimination

Subject	Printed review page number	Get the facts online
Identity theft	–	www.o2.com/cr2006/fraud
Inclusive services	–	www.o2.com/cr2006/inclusive/services
Landscape and biodiversity	–	www.o2.com/cr2006/biodiversity
LBG – London Benchmarking Model	36	www.o2.com/cr2006/community
Local pollution risk	–	www.o2.com/cr2006/pollution
Marketing standards	–	www.o2.com/cr2006/marketing www.o2.com/cr2006/compliance
Mast siting	24	www.o2.com/cr2006/health www.o2.com/cr2006/waves
Mobile scams and viruses	–	www.o2.com/cr2006/scams
Nuisance call bureau	21	www.o2.com/cr2006/child/protection
Objectives and targets	38	www.o2.com/cr2006/targets www.o2.com/cr2006/progress
Ozone-depleting gases	–	www.o2.com/cr2006/ozone
Pay and benefits	–	www.o2.com/cr2006/pay
Performance data	39	
Political contributions	–	www.o2.com/cr2006/ethics
Pricing	14-17	www.o2.com/cr2006/pricing
Privacy	–	www.o2.com/cr2006/privacy
Radio frequency waves	22-25	www.o2.com/cr2006/waves
Recruitment and retention	–	www.o2.com/cr2006/recruitment
Recycling – handsets	28	www.o2.com/cr2006/handset/recycling
Regulation	–	www.o2.com/cr2006/compliance
Roaming	–	www.o2.com/cr2006/roaming
Report – archive	–	www.o2.com/cr2006/archive
Report – introduction	IFC	www.o2.com/cr2006/about
Report – materiality	9	www.o2.com/cr2006/materiality
Risk management	–	www.o2.com/cr2006/risk
Satisfaction and loyalty	14-17	www.o2.com/cr2006/satisfaction
Supply chain	–	www.o2.com/cr2006/suppliers
Telefónica, S.A.	6	www.o2.com/cr2006/alierta www.telefonica.es/corporateresponsibility
Theft – handset	–	www.o2.com/cr2006/handset/theft
Trade unions	–	www.o2.com/cr2006/unions
Training and development	–	www.o2.com/cr2006/training
Travel and transport	–	www.o2.com/cr2006/travel
Vision and values	3	www.o2.com/cr2006/vision
Waste and recycling	26-29	www.o2.com/cr2006/waste/recycling
Water consumption	–	www.o2.com/cr2006/water
Wellbeing at work	30-33	www.o2.com/cr2006/balance
Work–life balance	30-33	www.o2.com/cr2006/balance
IFC – Inside front cover		

Have your say

O2's aim is to provide safe, memorable and affordable mobile communications to our customers – and to bring mobile communications' many benefits to society as a whole. We value everyone's views and feedback on our operations. To share your ideas and comments, please contact:

Corporate Responsibility – general enquiries

Telefónica O2 Europe plc
Corporate Responsibility
Legal and Corporate Affairs
Wellington Street
Slough, Berkshire
SL1 1YP
UK

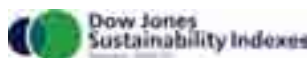
Email: cr@o2.com
Telephone: +44 (0)113 272 2000

Registered no. 5310128

Production information

The print production of this report is carbon neutral and has been verified by Climate Care. This publication is printed on Millennium FSC which is produced using a minimum of 50% FSC (Forestry Stewardship Council) certified pulp.

Fenner Paper Company Limited is an accredited FSC chain of custody supplier.



Telefónica, S.A. is a member of the two indices above

