

BT Group Plc

First Quarter Results

31 July 2008

Chief Executive Officer - Ian Livingston

Good morning and welcome to BT Centre for BT's Q1 Results. I particularly appreciate you coming, I know there is a lot of competition today for results, so for all the analysts, it's a busy day, so I hope it goes alright for you.

As usual the forward looking statements, safe harbour legalisation for you to read at your leisure.

But let's get onto the important thing. The Quarter 1 results. One of the things I promised you is I want to be straightforward and these results are mixed. There is actually some very good stuff. Revenue growth is very strong, particularly in Global Services, people actually wanting to buy what we sell, despite the economic conditions and the advantage of being a global company coming through. Our Retail performance, very strong, continued growth and profits, widening of the EBITDA margin.

Openreach, a very solid performance. These are the good things. Against that, of course you will have your concerns. Cashflow for the quarter isn't as good as we would have wished, despite the strong growth in profit, in revenue in Global Services, profit margins actually declined. However, remember EBITDA profit still grew double digits, which a lot of companies would like to see and of course you are going to ask Hanif a lot about the pension scheme and he'll enjoy that. So overall, taking that into a bit more detail.

Revenue growth – revenue growth is above, your expectations I think. It's up by 3%. That's particularly strong in Global Services and a global basis, we were up 33% outside the UK. Very strong performance. And it's not just the actual revenue in the quarter, it's also the order intake. We saw order intake in Global Services up 12% year-on-year in the quarter and also some strong order intake in Wholesale as well and you'll see that in the numbers going forward. EBITDA was up 1%, there is some consistency in that, we have been sort of in the 0–3% for sometime. Now that was made up of, on one hand, we had revenue growth, we also had cost savings, but what hit the EBITDA, why didn't it grow more? Actually, against last year, the biggest single element has probably been the cost of LLU - the transfer out. A number of you and we agreed when you said this would hit us, and it's costs us about £40 million in the quarter. But despite that, we still raised EBITDA and we still raised earnings per share, which is important.

Also input costs have been higher, for instance, for this year alone the direct costs of energy increase will be about £60 million, and that's despite us

actually having hedged things. So we are seeing cost increases coming through and that will affect directly and indirectly.

On working capital, after a very strong Q4, Q1 hasn't been so good and Hanif will talk a bit more about that. But, we retain and maintain a full year cashflow guidance, and it's really important to say that. Quarterly cashflow has been spiky - you've either loved it or you've hated it. I suspect it will still carry on being spiky but the full year guidance remains. Also earnings per share, 25th consecutive quarter of earnings per share growth.

There have been different issues that have affected us every quarter. People have been concerned about VoIP; they have been concerned about the competition of Broadband market; they have been concerned about LLU; they have been concerned about pension costs; but the one thing that has remained consistent about BT is we have delivered at the bottom line despite the mix changes.

Looking at the business by customer grouping, I think you see some of the things coming through - 12% growth in corporates. We are winning in that space, particularly on a global basis. BT Business also did very well, the business segment in total is up by 5%. SMEs are buying from BT and that's a very difficult market and one we are very pleased to be doing so well in and present still very substantial opportunities. Our carrier business declined by 7%. Actually, it grew outside the UK but declines that you were expecting, we were expecting in our Wholesale business, of course, have affected the overall number. And it's worth mentioning an improvement in consumer. Consumer was flat, that's a big improvement on last quarter, we said we thought that would happen and that has indeed happened and actually we are pleased with that number.

Now looking at it by lines of business. I'll talk about each of these in some detail but to give you an overall view. The Retail performance was better than expected. We've seen operating margins widen in Retail and it's a good financial performance and a consistency, round about 10% EBITDA growth we've seen for a number of quarters. Wholesale and Openreach; pretty much performed as expected. I think the environment was more difficult maybe, but overall performance was pretty much where we thought and I'll talk about that in more detail. Global Services is really a story of two lines. Really good revenue performance, really good order intake performance, but being completely frank, the margin needs to be improved and we will improve the margin.

So let's talk about Global Services. The strong revenue growth was really driven by outside of the UK - 33% growth. Some particularly strong growth in certain regions, particularly Asia-Pac. We saw strong growth in the networked IT services and MPLS, the places we want to grow and very much our future. And despite the fact that margins were weaker, double digit growth in EBITDA, which in today's environment is something that people would usually be quite happy about.

What did hold back the EBITDA margin? Well, I think there are a couple of factors. First of all, foreign exchange. The effect of foreign exchange, particularly on our Euro based costs have knocked about 40 basis points off the margin. So without foreign exchange, and we are not presenting it like this, actually we would have seen the EBITDA margins increase slightly and that's a theme for the year as a whole, as I will talk about later.

We also saw a decline in some of the higher margin UK business. We see that shift over time when we move from traditional calls and lines to other types of business, both in the UK and externally and that did impact us, but that's part of our business and things we must manage. The 15% EBITDA target does remain and I'll talk about that in a couple of slides time as to what we are going to do to hit that. Q1 order intake was also good, up 12% and the pipeline remains strong. I know everyone is looking for early indications of issues and problems, well £29 billion pipeline of potential orders is something that we are very pleased with and is actually up on the last quarter.

Here is the chart that you like to see, we show on the order intake some really good names in there. Two I would like to draw out in particular, the win with Proctor & Gamble; \$650 million win, operating in something like 80 countries for Proctor & Gamble. Now Proctor & Gamble is one of the most innovative and global companies around. They could have gone anywhere, they could have gone to Verizon, to AT&T - in fact at one point they almost did go to AT&T - but they came to BT and that actually shows our strength. Big global companies are wanting someone who can provide them with global services. Nationwide, financial services sector - not an area that most people would associate with strong business - are doing very well as a business, but want BT to partner with them to really look after their network, to rationalise it and to drive it forward. There are also a number of names on there that you might not recognise. The reason for it is that they are either based in places like Canada or India or Asia-Pac. But we are winning and adding over 100 new names outside the UK.

Now margin. We will be focussing on Global Services margin. What are we going to do to improve it. First of all, quality of contracts. A number of years ago, some of the contracts we wrote were okay but they were foundation contracts. The margin, nor the cashflow, was what it perhaps could and should have been. Now the contracts we are writing today are much better. François and the team have really put a lot of focus on that and not only are the new contracts better, both as to cashflow and as to margin, but also renewing some of these older contracts is also much better. So it's really important you start off with a quality contract. Given our base and capability, we can now afford to be a bit more bold with our customers and make sure that we get the right sort of contract.

It is also important we use replicable solutions. If you have got to bespoke every single thing you do, it's expensive, it's a bit like Lego bricks, actually we want to reuse the various components, the end thing may look a bit different but the more we can reuse it, and that of course is a key part of our 21C strategy, the better the profit margins are going to be.

Product mix is important; we have got to make sure that product mix focuses more on margin and not just revenue on its own. You can grow and grow profitably. Giving you just a small but important example. If we sell just Cisco kit to our end customers, we might make low single digit gross margins on it, not great. But we still pay our salesmen on that. Not probably a great idea. That conversation is going to change just now, that actually you get paid the commission if you sell it with all the services that go around it, or sell it as part of a solution, selling tin on its own is not great business. Selling a service is good business and we are going to focus on the product mix.

Also we are going to rationalise our products, because actually the cost of supporting numerous products is just expensive. Some of them are the same as other ones, some of them actually have very little customer interest. One customer here or there uses it. We've active plans which we will execute over the next couple of years, to reduce our product portfolio in Global Services by about 22% and I suspect that that number will grow over time, so close to a quarter reduction in the products. And also costs saving, you will see a number of announcements over the next few quarters as to how we have saved costs in Global Services. Some of the changes we've made, some of the rationalisations, some of the network rationalisations and how that will deliver cost savings.

Also contract execution is really critical. A badly executed contract in the first 100 days can change a so-so margin into no margin, can change a good margin into a so-so margin. And often it takes you a long time to recover that relationship with the customer. However a really well executed contract and today the contracts are really much better executed, deliver you a much better initial position and actually allows you also to build the customer and contract over time. You're not always on the back-foot. Actually having, for instance, our solutions planners, our delivery people involved in the sales process far earlier on, means we actually hit the ground running on these big contracts. We know what we are going to deliver, we know how we can deliver and we start delivering it much, much quicker. And finally, something we have talked about over time but it is particularly true, maturity of contracts; that's particularly true on the global contracts, the more mature they get, you make more money on the later part of the contract, it's very, very true and it continues to be so. Remember we are a fast growing business, so this remains somewhat of a drag, but less of a drag over time and particularly with the relevance of the new contracts.

Turning away from Global Services, to Retail. Grew revenues again. Strong profit growth, up in double digits. All parts of the... so the consumer business, enterprises and Ireland all increased their profitability, I'm glad to say, new management in Retail is having an effect, turning it round. We also saw particularly good performance in BT Business, 7% growth in revenue in BT Business. BT Business is changing itself, changing itself from calls and line business, very much into a provider of everything for a business, becoming the brand for business, you see that in the adverts, hopefully you've all seen the Gremlins advert, but the way it's raising awareness and it is coming

through in the numbers, in the revenue, the type of revenue and it's coming through in the profitability. And we have got a long, long way to go. A really big opportunity in BT Business.

And Consumer, as always gets undue amount of attention usually. But some good numbers. ARPU up £4 which is good, we are seeing the effect of more broadband customers and signing more of the value added services. Option 2 and 3, if you remember we changed the calling plans and invested quite a lot of money and quite a lot of profitability in the changing of the calling plans. For instance, the movement to Option 2 has cost us something like £9 million or £10 million this quarter, giving free evening and weekend calls to our customers. That's an investment we are prepared to make, it keeps the customers and drives capability for the future. We've seen a big growth in Option 2 and 3 over the course of the year, so up over 50%. And 300,000 BT Vision customers, Vision is progressing very well. Over 80% of new customers last quarter took a package. Now that's a big change. When we first started Vision it was 30% and it's now over 80% last quarter. It was, I think last time we talked over 70% or 60%. It's increasing and we have continued to improve the packages, so you can get free Setanta Sport now if you take up one of our bundles. So you can get, access to a huge number of games from the best football league in the world and also the English Premiership, but it's a stronger and wider proposition at a much cheaper price at point of sale than our competition. We have maintained the share of DSL and LLU net adds, 31% in the quarter, as I said before, the quarter will bounce around, it has been remarkably stable and we would expect... there has been a 35% base. We are very pleased with that and of course we got the launch of the new hub. In fact we are talking about the launch of the new hub, let's see the advert.

Running Video - New BT Hub Advert

A bit of Eastenders angst comes to our adverts, the advertising agency thought they were too happy and they had to do something about it (laughter). Hopefully they'll get back together, because BT does bring it all together of course (laughter). But the Hub continues really being, you know other people say "we're free, we're cheap etc" and it sounds increasingly hollow, but we say "we're better, we're great value" the hub looks great and you see for instance that the WiFi range has doubled. It's energy saving. Lots of good things. It continues trying to create the differential that we think we have succeeded in doing. You see that in the market share.

Now onto Wholesale. Well the trends are pretty much as expected. LLU that movement has caused a decline. You saw that for a couple of quarters and we will talk about how that will continue. We have also seen the continued year-on-year effect in transit revenues coming through. That we lost that, doesn't make a huge difference to profitability but certainly does to revenue. Against that, and you know it's good growth, we are seeing a really big growth in white label services and network managed solutions. So once our white label services are rolled out we expect to have something like 3 million households using Wholesale's white label services, supplied through a range

of well known brands in the UK. But we are a wholesaler of choice. It's good business for us, it's profitable business for us. It's something we are certainly pursuing. And we have got some good wins. Order intake in Quarter 1 was almost £500 million and £1.2 billion for the quarter. Sky being a particularly good name to get, brought onto our network from one of the competition. Good business for us and something we will certainly chase. Putting it in context, Wholesale now have over approximately one third of their revenue for the year underpinned by contracts. That may not sound like a huge amount in relation, for instance, to Global Services, but it's more than double, actually it's almost triple what it was a year ago. You see the changing mix as Wholesale addresses a number of the issues. They also address it through cost reductions – there's been a 20% reduction in SG&A and Wholesale as they meet the challenges of the new business. Wholesale is fighting back very well I think.

Openreach. The slide says continued steady performance. I think the Openreach team don't quite feel it's that way. Its overall results are pretty much as we said. Revenue and profitability around about zero - plus one, minus one - that sort of thing. But what actually has happened, is we did say last quarter, you would expect to see new household formations, new business formations slowing down. Great surprise, given the housing market, that's exactly what's happened. It's not necessarily so much the net lines but Openreach gets paid for every time it has to connect a new customer. That has slowed down a bit, that has affected. Against that Openreach have delivered and probably slightly over delivered on the numbers because they have addressed the cost base and they have become more efficient and actually better service for the customer. We were also affected early on by LLU net adds slowing, that will be good for the rest of the group over time, but we have certainly seen that. The cost efficiencies will absolutely continue but we do need a fair regulatory environment. The cost to BT of the regulatory change has been quite substantial and we do need the sort of environment that our shareholders know that if we invest more money on the ground that they have a change of earning a return, not that they are guaranteed to lose money.

Now, going forward, what are my priorities? Fortunately my priorities are exactly the same priorities as I set out last quarter. Three things - customer service; expanding our global platforms that's in the UK and globally; and agility. I want to say something about each of these.

First of all, customer service. We have embarked on a programme called Right First Time and that programme is all the way from the point when the customer phones up, right through to the sending of the engineer or the delivering of a service or whatever we have to do and the time period afterwards when the customers have a tendency to have a problem, ask a question or whatever. And we are really focussing on dramatically improving that Right First Time. The obvious reason of course, is it's great for customer service but also because it is really important for costs. Cost of failure is very, very expensive in any telco and we are no different. We are starting to see some of the benefits and it's going to come through some of the costs for this

year but that will only be the start. To give you some stats for instance, we have just taken a few of them, there are others. Broadband repair and help. We have seen customer dissatisfaction reduced by a third over the course of the last year. That has meant lower calls, for instance in to our Broadband helpdesk. Great stuff. Complaint volumes have reduced by a third. Again, less people to have to handle the calls, less compensation, less things we have to do. Abandoned calls, ie not answering the calls at the call centre, have halved over the course of the last year and we are going to drive them down more. Also lead times for repair and provision have reduced by a quarter. The amount of time it takes for somebody to come out and repair a line or provide it has reduced by a quarter over the course of last year. Actually, it has reduced by 50% over the course of the last 2 years. And also through our proactive work on the network and some of the changes that Steve made to the compensation schemes. Access faults down by 16% so having to send less engineers out saves us money. And all these things are good for customer satisfaction. But I want to be clear - we might be the best in the industry but we have a lot more work to do. We will do a lot more and that will be a key focus during the course of this year.

Global platforms. A lot is happening around the world including that little island somewhere in the middle of that chart, called the United Kingdom. And I want to say something about each of the various bits that we have been doing. Next generation access - we announced a couple of weeks ago that we are prepared to spend up to £1.5 billion, about £1 billion of that is incremental to our existing capital expenditure plans, some of it replaces things like existing copper plans that we have put in. We believe that could give us up to 10 million homes that would have access to fibre of some variety. Of course the majority of it and you can work out the numbers is going to be fibre to the cabinet. How much and where we have to sit down with regional authorities, with local councils, and work out how much they are prepared to support things, what they want, what government businesses want, to work out exactly the nature and topology of that. This is a nationwide thing. It is not just something that says, let's do it in London. With broadband for instance, Northern Ireland was the first province in the whole of Europe to have 100% Broadband enablement. When we went to Dublin, they really didn't like that because it was a great advert for FDI in Northern Ireland, so we think that Broadband and super-fast Broadband is something that we will deliver across the country. We have got to commence the discussions with Ofcom and, before you ask, it's only two weeks since the announcement and no, I don't have any update of the discussion on the financial framework that might go around fibre, but Ofcom have engaged with us, they are pleased to see it. The government is pleased to see it and certainly we need to be able to say to our shareholders that we have got the chance to earn a good return on what is a risky investment.

21C. Some good news on 21C. We completed 100% of our UK core and metro nodes. Now that was at I think 58% last quarter. And we said we thought we would be at 75/80% at this point. We have actually got 100% and that's really important. It supports our Ethernet rollout and will take the traffic for Ethernet. It is very important and we are pleased about that. 21C

broadband which is ADSL2 plus is available to 1 million homes. Of course search providers still have to ramp up to selling it but we think it can be available to about 10 million homes by the end of this financial year. And 21C Ethernet, a real product, is now really delivering. Probably on Ethernet because we were doing 21C we were a little bit behind some of the other providers on it. But we are catching up very rapidly and about to overtake them. And it's really helped us because we are actually winning real contracts on the back of it. We are targeting 600 nodes and we are seeing, for instance, deals with Wholesale. Over £700 million worth of deals that Wholesale has signed are underpinned by this Ethernet network and we think that will continue to be the case particularly in other parts of the business.

A company called Ribbit, you may not have heard of Ribbit before, at least before we put an announcement out, based out in California. It describes itself as Silicon Valley's first telecoms company. What it really does is, it brings together the internet and telecom services. It's got a very wide developer base, it's got great applications and actually, it's thought of very, very well. It's just in its early stages but already, for instance, there's a salesforce application, so if you can read the small print in there you will see some of that, where effectively the whole salesforce becomes enabled with communications services, so you immediately click to dial the customer, see who is calling, see all the CRM history of the customer, all integrated into software and it's what it does, it treats telecommunications like software because that's increasingly what it is. And we have always talked in a 21C platform of having this software layer. We have invested in Web21C services, actually we have won prizes in that remarkably enough in 21C services, creating software developer kits for developers around the world and they are using them. This is an add-on to it. So people tend to talk about Skype and about things like that, we do believe firmly in global applications and the ability to deliver global applications. A small example of that was what we did on PSPs. We enabled PSPs so you can make voice and video calls and send instant messaging. We had over 300,000 customers in just a few months in 100 countries. Global applications can deliver, we think this is important, not just for our corporate base, not just for our wholesale base but also in our consumer base potentially.

Agility. Agility is less open and prone to facts and figures, but it is important to me. BT as Telcos go and BT as its history goes is actually pretty nimble. BT as the best companies in other sectors go is not. The BT of the future is going to be quicker. We are going to push down more authority to people. Yes, we are going to de-layer but we are going to be quicker with our decision making, quicker with our delivery and we are also going to be quicker with the way we think about cost and act, as I said last quarter, more like a small business. It's really important that people in BT think the way small businesses do. As to costs, as to relationships with customers and as for speed and agility, these are very much a theme of how I am going to be running the business internally and these are exactly the same priorities I tell the people internally.

So I want to give you a bit more flavour for the outlook for 08/09 and be really as clear as I can be with it. Global Services, the revenue picture looks strong, we expect to see continued strong revenue growth. But we think because of the FX issues that we might see a slight decline in EBITDA margins.

In Retail we can continue expect to see solid EBITDA growth. Wholesale, Q2 and Q3 are going to look pretty much like Q1 and actually that is not unlike last Q4 but we think we will see a significant improvement in the trend in Q4 and hopefully thereafter of course. Openreach, are working very hard and we believe and have great confidence in delivering a stable performance and if you put all of these things together, and this is the most important thing I will say, is we are going to continue to deliver. We have got challenges but what do you look at, the guidance remains unchanged. Unchanged as to cashflow, unchanged as to EBITDA growth, unchanged as to EPS growth, unchanged as to dividend growth. I want to just confirm this, because I keep getting asked the question, when we say that we will increase the dividend this year, what we mean is; we will increase the dividend this year. I want to be very clear. And the Board sees dividends as absolute priority in our business. And with that I would like to pass you over to Hanif.

Group Finance Director – Hanif Lalani

Ian just finished on the outlook statement for each line of business and what we expect to see for the remainder of the year.

This slide gives you the year-on-year performance for each line of business and, not surprisingly, the trends that you see on this chart or the numbers you see on this chart are broadly in line with the trends that we have seen over the last three or four quarters. With BT Global Services and BT Retail both growing year-on-year, their revenue and their EBITDA numbers. If you look at Openreach, Openreach continue to deliver stable results both at the revenue and EBITDA level lines, again year-on-year, and BT Wholesale has been declining year-on-year at the revenue and EBITDA levels.

Now each one of these businesses as Ian said has its own challenges, has its opportunities as well to win in the market place. And for me what's important is the collective, the consolidated result for the Group and, if you look at the consolidated result for the Group, it has shown consistently a predictable and stable set of results. If you look at the revenue for the Group, it grew by 3% year-on-year for the 18th consecutive quarter. We have seen managed solutions and broadband revenue more than offset the decline in lines and calls. If you take the revenue growth and combine it with the cost efficiencies and they were £145 million in the quarter, you see EBITDA growth. EBITDA grew by 1% year-on-year for the 10th consecutive quarter. So predictable trends coming through.

If we look at the performance of each line of business what we can see is some interesting things. Firstly, Global Services, revenue at £2.1 billion was up 13% year-on-year. If we look at that revenue, 45% of that revenue is now coming from outside the UK. And if you look at that revenue from outside the

UK, what you can see is a continuation of growth. It grew by 33% and the growth in the Americas is 14%; in Europe and Latin America it's 33%; around the rest of the globe it's well over 100%. And if you look at the medium term and say, how much revenue are your long-term contracts going to generate over the medium term? Well, 50% of our revenue that we expect in the medium-term will be generated from the long-term contracts that we have already signed.

If you move on to the costs and savings, what you can see in Global Services are a number of things. We are adding more network and more MPLS nodes and so the focus has been on rationalising the network, with a view to increasing utilisation, with a view to increasing the effectiveness and that generates large sums of savings for us, not only this quarter but in future quarters and in future years.

We have also been looking at investing in new costs saving programmes which will again have an impact this year and the next year. For example, we have been looking at how to manage the end to end supply chain across the globe for our customers, and in partnership with a number of suppliers we can take inventory costs, warehousing costs off our balance sheet and we can deliver it much more effectively for our customers end-to-end. And some of that benefit you will see in future quarters and in future years.

EBITDA is up 10% in the quarter and EBITDA margin at 9.5% was 30 basis points lower than last year, but after FX is actually 10 basis points up.

If I move onto BT Retail, what you see on BT Retail is revenue going up. It's growing by 3% and this is the 5th consecutive quarter where revenue has grown year-on-year; where every market unit has improved its performance on top line year-on-year; where broadband revenue and new networked IT propositions in the marketplace are more than offsetting the decline in calls and lines. And Retail is one place where there is a huge focus on margin management. How better to package the product? How better to price the products? How better to give customers peace of mind and increased margin? And the gross margin in the business at 36.8% has actually improved by 60 basis points.

Our Right First Time measure which is about how well we deliver service to our customers. I mentioned a lot of stats, the one I like is the number of calls coming into the call centre is down 14%. Fewer agents, lower cost base, helps drive the EBITDA margin up year-on-year to 11%. And if you combine this quarter's performance with the outlook for the rest of the year, what you will see in BT Retail is the 4th successive year of EBITDA growth.

BT Wholesale follows the trend that we have established, the performance is as we expected it to be, the top line is down 12%, it's reduced as a result of a number of things. Firstly, low margin transit decline, conveyance revenues declining and broadband declining, and we all know that the broadband impact is the migration from IP stream to LLU. We all know that BT Wholesale need to look at the remainder of their costs base, the remainder of

the P&L and they need to right size the business to fit the revenues that they are generating. The focus therefore is very clear. It's again to deliver better service and take costs out. For them it's about giving many more applications, diagnostic tools, putting them at the front end so their customers can actually do it themselves and manage it themselves and improve the Wholesale margins. It is also, in some cases, being brutal with a cost base. SG&A as you can see is down 27%. At the EBITDA level we know that year-on-year it's down 14% but we know that the future service lines in BT Wholesale will be around managed networks services. It will be around Ethernet services and we know it will be around white labelling. You can see some big wins coming through which I think creates a good opportunity for the future.

Openreach revenues are down 1% year-on-year. There are two main factors driving this. The first one is external revenue is up 11%. There is a migration of volumes from internal channels to external channels on WLR and LLU. The second thing that is going through there is connection revenue is down and connection revenue is around new houses being built, connection revenue is also around communication providers saying they want new points of presence rolled out for them, and if there are fewer points of presence required, there is less connection revenue coming through. If we move towards costs and savings, I think the two things for me here are; we have invested in the Openreach business and we have invested to improve service levels. You can see those coming through. Access faults is like how the quality of your network and when that comes down 16% year-on-year, it means a healthier network, it means better service and reliability for all of the customers who use the network. If we look at service level guarantee schemes we are paying out lower sums because the quality is better, lead times are down and if we look at the operating costs in Openreach, they are down £24 million year-on-year, which means that EBITDA is up 2% year-on-year.

If I move to the Group profit and loss revenue statement, I have covered revenue, I have covered EBITDA, let me just talk you through the other lines of the P&L. Depreciation is down 3% year-on-year as a result of legacy assets being fully depreciated and as I look to the full year I expect depreciation to be down 1% year-on-year. If I look at operating profit margins, they have expanded 10 basis points in Quarter 1 on a year-on-year basis. This gives us our 6th consecutive quarter of operating profit margin expansion. Leaver costs, very high leaver costs in the quarter, the full year expectation is that it will be around the same number, £150 million that we have guided to before, but I expect that to be much more front loaded than we have done in previous years. Interest costs, finance costs are higher. Yes, we have been carrying out a share buyback. Yes, that has increased net debt, that does increase your finance costs and impact year-on-year as you can see on the slide. The effective tax rate, I think is an important fact, it's an important number for you too, 22.8% in the quarter. I expect a similar rate for the full year and, for those of you who don't follow corporation tax rates, just a reminder, that it is down from 30% to 28% in the UK and our rate is down from 24.8% to 22.8% in the quarter. This means we are driving tax efficiency in the

business as well. Earnings per share underlying 6.1 pence up 2% giving us our 25th consecutive quarter of growth.

Now let me move onto free cashflow. Again I reiterate that free cashflow guidance for the full year is unchanged. It is £1.4 billion. That is at a similar level to last year less £100 million for the fibre announcement. Yes, if you look at the chart there are a number of lines we can talk to. We can talk to the interest lines and say that there's a higher interest costs because we have raised new debt, the coupons fall in different quarters, I could talk about the tax benefit from last year, but ultimately it's the working capital line that really drives the year-on-year difference. As Ian mentioned, part of that difference is driven by the fact that we had an excellent Quarter 4, but it's only a small part of that difference. The other is that we need better execution on billing and collections. And I think you will see that coming through very strongly in the second half of the year. We need to ensure, and I spoke to you about this, that we reprofile many of our large contracts and we need to re-profile them because all of the cash falls into Q4 and, by re-profiling them, I can give you a much smoother profile across the quarters. But it is very difficult sitting down with a big customer and saying can I change your milestones, your deliverables and can I get a much smoother profile quarter by quarter and, by the way, can I do it within the next 10 days? It takes time, it takes credibility and therefore what you will see, not in these coming quarters but over the medium term, a much smoother profile as we work through those contracts to create more stability. As you heard in the Global Services section, we have signed a large proportion of contracts in the quarter. 65% of the order intake was outside the UK. So we are investing in some of those new contracts and that affects working capital in the short-term.

If I look at Quarter 2, I expect there to be a working capital outflow as well in Quarter 2. And if I look at H2, I expect H2 to be much stronger and it will reverse our most of the impact of H1, leaving us with a small outflow for the full year. This is no different in terms of profile to last year. It is no different to the fact that we collected well over £1 billion in Q4 last year. So for me, the timing issue, better focus on execution in the short-term and also reminding you all that we are re-profiling some of our large contracts for the medium term to give us a smoother profile in future years. Net free cashflow expectations for the full year remain at £1.4 billion.

If we look at cost impacts this year and cost savings for the full year. What is very clear is that there are a lot of pressures through inflation onto our cost base. More so through energy, through fuel than many of the other lines that we have on the P&L. Even after hedging, the full year increase in our cost base as a result of energy will be £60 million. And as that unwinds you can imagine that there will be another increase the following year. So what's clear is that there will be pressures on certain items in the cost base and we need to deal with that and address that very aggressively and the way I intend to do that is to accelerate our cost savings, so that we are achieving £800 million worth of cost savings this year. Now with £145 million achieved in Quarter 1 the numbers for the remainder of the year will obviously be much larger. The programmes are in place, you can see them here, partly about driving costs of

failure out of the business, they are partly about procuring much more smartly through the supply chain. They are partly about removing duplication and streamlining our overhead structures to be much more agile. And to be honest, they are partly about each line of business delivering better end-to-end processes and services for their customers.

So bearing in mind the cost base what I now wanted to do was to shift onto the balance sheet. And I know that everyone wants to talk about liquidity and pensions. The first point on pensions to make is that we have always said that IAS19 is a very volatile number - quarter in, quarter out. The trends are probably more important because it gives you a general direction of travel. If you look at the last two quarters and say, what's happened between the end of the year and the end of June to go from a surplus to a deficit of £0.8 billion pre-tax and £0.6 billion post-tax. It's very simple. There are two main factors that affect it. The spot rate of inflation and the AA bond rate. The AA bond rate went down and the spot rate of inflation went up 40 basis points. For every 25 basis points increase in inflation, it increases the deficit number by £1.2 billion. So really the movement from last quarter to this quarter is driven by AA bond rate and inflation. If you compare that with the funding valuation, the funding valuation does not use spot rates. The funding valuation looks at the life of a pension scheme and therefore uses much more smoother inflation numbers which are much more long-term and it uses not the AA bond rate, it uses a discount factor which looks at long-term return on assets. So what you tend to find on a funding valuation is a much smoother progression, not spot rate. The movement last quarter to this quarter I don't believe will feed through into a funding valuation because we have used spot rates and that is the volatility under IAS19.

As I look toward the next quarter, the next triennial that's in December 2008, there are no payments required into the pension scheme until December 2009. Before we get to the start of the conversation on funding valuation, I need to ensure that, for BT, we have a pension scheme that is both sustainable and modernised. And we have seen lots of other FTSE companies do that over the last few years in their triennial and we will be doing the same.

The second thing I'm worried about, and I'm working hard on, is ensuring that there are no trapped surpluses in the pension scheme. Again it takes a view of the longer term and not the shorter term and if we look at the level of prudence that we have in the funding valuation you can understand why I am worried about trapped surpluses.

With regards to liquidity, I think the liquidity we have, is not an issue for the company and what we have done is we've seen a good demand for BT debt in the marketplace and wherever there has been an opportunity and there have been attractive rates in the marketplace, we have taken advantage of it and really there is nothing more to say other than that.

Let me close by going back to the outlook statement. Just to reiterate what Ian said earlier, we do expect revenue, we do expect EBITDA, earnings per

share, dividends per share all to grow. We said our capital expenditure would be £3.1 billion and we've increased that to £3.2 billion, £100 million for fibre. I've just reiterated only a few seconds ago that our free cashflow will be £1.4 billion, that we will expect to grow dividends, that the Board is committed to dividends and that the Board does understand and talks and listens to shareholders. With that we will go over to Q&A... Ian.

QUESTIONS AND ANSWERS

Question 1

Lawrence Sugarman – Dresdner

Firstly on the Global Services, could you comment on why you believe there has been such a sharp move over from traditional revenue streams now. And secondly on the Global Services business, obviously there have been quite a few acquisitions, in the past you have sort of played down the impact of those on the on-going margin, is that still something that you are happy to do? In the future given that you have, for example, bought a business like Ribbit, does that change the situation a bit on the Global Services picture.

Ian

In a second, I'll ask maybe Francois to talk about the changing mix. In terms of the acquisitions I think we'll still play it down. Because we have got to manage these things and I don't think we have ever come up to you and said, well the issue is that we have bought things at lower operating margins and some of them have been particularly, because they have been more asset light and I think it's important that whilst I know we have a focus on the EBITDA margin actually what is even more important is going to be EBITDA minus all the cash you spend. And I would certainly take a shape of a business that is somewhat less capital intensive at 15% EBITDA margin maybe over one that has 15, 16, 17% EBITDA margins with a lot higher capital intensity. So we will be looking at that bottom line, we are not making a big things about the acquisitions even if some of them would actually be dilutive to margin particularly in the early times. After the early times it become a bit difficult to separate them out because the more they get integrated into Global Services. But Francois do you want to talk about the changing mix?

CEO BT Global Services - Francois Barrault

Yes absolutely, we had a decline faster than expected in traditional, but the margin was high but the UK was flat but we had a decline of about 17%, so what we are doing right now is to incentivise high margins products. And we expect to see the trends to reverse and increase in the next two/three quarters. I am confident on that one. The main reason is that many of our customers moved from traditional calls to VoIP and we are at the same time

increasing our service attachment on the products we sell, so I am confident in the future that this trend will be reversed and improved.

Question 2

Paul Howard – Cazenove

A couple of questions, firstly on Global Services revenue growth, I've only done this sort of on the back of an envelope, but if you strip out the sort of non-UK growth it looks like the UK is basically flat, is that a change in trend, is it harder to get revenue growth from Global Service in the UK at the moment, what's happening there? And then secondly on Retail, I wonder how much you can say that the Retail strong performance reflects lower import prices from Wholesale and as, or should we, when Wholesale starts to improve should that lead to higher or better performance from the Group or will we see a slow down at Retail at the same time, just trying to think of the transfer price in there?

Ian

Okay the second one first, I can remember that. From my recollection there is actually close to no cost reductions, a little bit on Broadband but actually compared to history it's actually quite a small number in that sense. The big hurt to Wholesale has come from the transfer in LLU prices going over, so from a Group point of view that's not driving Retail, Retail's performance is managing its product mix and some of its other costs of sales have improved and in terms of the GS I think it's a slight acceleration, I don't know if Francois wants to add anything, not a dramatic change of trend but we do see our Global business as the most important growth engine for us, we have seen that for a long time that is why we focused on it. And the UK market is reasonably tough because a lot of our customers are actually globalising themselves. We probably wished we had done a bit better in the UK, I would say that, but it's not a dramatic change of trend but probably a slight acceleration. Francois anything to add?

Francois

Yes I think two different agenda in the UK, we are looking at improving the margin, getting high margins, driving the costs down. When you look at the UK revenue it is flat and outperforming some of the competition so it's a deepening of the market we are in and also the sectors we have different strategy - clearly in the UK, improve the margin, drive the cost down, outperform the market revenue.

Ian

Hanif anything you want to add to that?

Hanif

Yes, I think there is one important factor to bear in mind and it's something that we have spoken about in the past which is when you look at corporates in the UK, around two thirds of them have already moved to an IPVPN network at some stage and there is still a third of them who are going to go on that journey so they are going to stop buying private circuits, lines and calls and actually move onto an IPVPN, so if you look at the product mix what you can see is a growth of 37% on MPLS and an increase in managed solutions so there is a move from do it yourself, pull it together network moving to an IP network and that means that you retain the customer, you get probably a longer term contract and longer term commitment but the margin mix is impacted in a quarter and it's a trend that we have seen but obviously customers will choose when they want to migrate from a do it yourself environment into an IP environment and I think that that is really one of the logical reasons as to what is happening in the product mix.

Question 3

Ottavio Adorisio – SG Securities

I will start from the personnel cost, personnel cost has gone up by £70 million. In the press release you say that is partially due to new acquisitions, partially to salary inflation. Could you just give the breakdown between the two and also I have seen that leaver costs have been increased, could you just tell us how much cost pay to get rid of pay employee or any to basically invest in this head count reduction that you are actually planning to do this year of £150 million. The second one is on the pension deficit, on the pension...

Ian

It's only one part the second one I hope.

Ottavio Adorisio

Yes, the pension deficit is pretty straightforward. You basically say that the AA bond yields have basically played against you for this quarter, but they have been very supportive for the last 3 years, at least for the IAS19 pension deficit, could you just quantify the impact by the fact that the AA bond yields have gone up by 16 basis points. The impact on your pension deficit; the positive one and could you tell us the rate that was used on the last actual review for discounted liabilities?

Ian

I think with some of these we might let Investor Relations give you all the details unless Hanif's memory is particularly strong but we will see how well he does. Just before I pass over to him, on the leaver costs, it's an important thing that we have brought forward the leaver costs, we don't expect leaver costs to be dramatically different from last year overall, but we have brought

them forward and hopefully that gives us some of the savings quicker in the year, so there is a timing difference rather than a total amount and a lot of people did leave in the quarter, on the other hand the quarter we did have some increases to people joining for other reasons but... Hanif.

Hanif

I think there are two things and if I look at the taking your questions in order; if I look at the payroll base and say if you strip out FX and you strip out acquisitions, how much has your wage bill gone up, it's actually several million, so there is a lot of efficiency in there that is offsetting wage inflation. The second thing to bear in mind is that leaver costs varies by the type of person and mix, but on average we have always said that our leaver costs will be somewhere between £45-60,000 a person depending on the mix of the individual. And our intent is very clear, it is to reduce the cost per individual as dramatically as we can in that process. In terms of pension the AA bond rate did go down and I think for every 25 basis point change the impact on liabilities is £1.2 billion and the second point I think was what was the discount factor used in the funding valuation last time, it was 2.5% and I think it's a really interesting point, because if you look at the investment arm Hermes, they have been generating 7% real for the last 22 years. And if you look at the discount rate used in the scheme for calculating the funding valuation we use 2.5% real. Now the other thing that's happened over the last 3 to 4 years is the equity mix has changed. 4 years ago our equities would have been low 60% today it's much more around 40% so you have a different asset mix as well to bear in mind. But the key thing is the level of prudence built into the schemes, raises the question of trapped surpluses for me, 2.5 compared to 7 is a lot of prudence, now we could argue that given the change in asset mix 7 is wrong as future returns, let's make it 5. It's still a big difference between 2.5 and 5%. So I think that is why I think most FD's are looking at trapped surpluses because of the assumptions and I think I have answered all of your other questions in that process.

Ian

Well done Hanif, middle anyone from the middle?

Question 4

Andrew Beale – Arete

Just a question, as you rollout MSANs, I guess almost by definition you move to a MPF based wholesale product, I guess can you just update us on how quickly that MSANs rollout is going to happen and what your sort of thinking at this point is on whether you would use the savings that you have from that to invest in market share or, you know, just to take the margin in the medium term?

Ian

Well in terms of the savings you know if we have got a lower base then we have that option and we will see, you know the whole 21C programme was about reducing the cost of the network, investing in it but reducing the overall costs, as well as flexibility, as well as giving us new revenue opportunities. I think pretty much like anything else you try and mix how aggressive you are in the market and something like Ethernet I think we have taken the savings from the new Ethernet product and put it into market and we've seen the success in Wholesale, other products we might have a different outlook on but maybe Sally do you want to talk about the MSANs and the relationship with MPF.

CEO BT Wholesale - Sally Davis

Hi we are rolling out our MSANs to deliver our Broadband and our Ethernet services, we are covering around a million homes today with Broadband and we are going to be building that to about 10 million homes by the end of this financial year. We have already got about 106 nodes of, for Ethernet growing to 600 by the end of the year, so that's the MSAN rollout. For Broadband specifically no it doesn't necessarily mean that we will be consuming MPF in fact our Broadband products today actually works on SMPF. As we rollout the whole suite of Smart Broadband Services including voice and converged voice then we will move to some MPF consumption but today our Broadband products are actually on SMPF.

Question 5

Mark James – Collins Stewart

On cash collection in the working capital swing, can you attribute, however crudely, the £960 million working capital swing, can you split that between the two areas you mentioned; ie good cash collection in Q4 and perhaps the need for better execution on billing and collection in the current and future quarters. Are you able to split the £960?

Ian

I'll pass to Hanif but of course it is subjective, if we were £300 million better than let's say you were expecting in Q4, you can only collect the money once, well we can try and collect it more than once but it doesn't always work. So a fair chunk of that has to relate to that, now some elements of that we expected as probably for all of us, we have factored a bit more in but Hanif?

Hanif

I think the way to look at it is that there are some seasonal effects that will always happen like bonuses will always be paid in the same month every year, so when you kind of exclude those structural items away from the trend what you then get left with is the variance, I am very keen on the variance it's

a £300 million variance year-on-year, how much of that is attributable to the different factors, there are four factors there, I think as a rough rule of thumb I would say if you take 25% for each and that probably gives you a feel for each of the items.

Mark James – Collins Stewart

A quick follow-on, as you attempt to smooth the negotiations with customer is there a cost to that?

Hanif

There are interesting dialogues both ways which is why I have said that you need to have credibility going into the conversations, in terms of delivery. But also I think you have to bear in mind that many of our customers requirements have changed dramatically from 3/4 years ago, given what is happening today to them, where they are in the competitive marketplace, so I think we are trying to avoid costs without a doubt and in some cases, we might actually gain, the key thing is it takes a while to get onto the same page and agree what those milestones are going to be and revise them.

Ian

It's quite easy to smooth it by saying instead of paying in Q4 pay Q1, 2 and 3 the next year and I think they wouldn't be too unhappy about that notion so I think we have obviously got to smooth it in our direction rather than against, which is a challenge. At the back, hand well up, how are you doing?

Question 6

John Clarke – Brewin Dolphin

I'm very well Ian thank you very much. First of all very glad to hear about the priorities for the dividend particularly over share buybacks. Secondly could you explain the... two things, firstly why foreign exchange is a bad thing at the moment for Global Services and secondly you subtly got in the point that you had completed 100% which is quite a key part of 21CN and that was ahead of expectations. Could that have quite a, could that bring forward a cost reduction programme in quite a big way?

Ian

Regretfully no, but what it can do is give us more revenue opportunities, that's the big thing because it helps support the Ethernet rollout. In terms of FX the reason it's bad is that we actually have quite a lot of Euro denominated costs and the translation of the Euro denominated costs reduced the overall margin. So whilst the... it's net it's good for revenue and net somewhat good for profit, it's not as good for profit as it is for overall revenue percentage terms and therefore it just squeezes the overall margin.

John Clarke – Brewin Dolphin

Asks further question which is inaudible.

Ian

Well of course it will probably unwind for a more fundamental reason that the Euro can't keep on going in one direction over time. I think, yes, as the margin widens in Continental Europe that's one factor and also we have got to look at where exactly we are in carrier costs and one of the things we may find in actually as you see the cost base change and actually you look and see where it makes sense that I should provide some of the services and whether in Euro denominated areas or in fact outside Euro zone may become better because the relative productivity per pound of currency or whatever the currency maybe will change. I don't know Francois if you want to add anything to that?

Francois

I think this will smooth at the end of the year because we are comparing year-on-year. And we grew part of the growth was part of the FX but the impact on it was less than... Hanif has mentioned that if we compare FX the EBITDA margin grew 10 basis points so we think the FX will be half I think on Quarter 4, and we all hope that the Euro will keep quiet for a while.

Ian

In the middle and then somebody on this side as well.

Question 7

Stephen Howard – HSBC

I have got about three questions if I can, firstly if you were to strip out, not only FX but inorganic factors, what would the top line have grown at and you can quote that at me pre or post polo as you see fit. Secondly in terms of the business segment, although 5% growth is good, it does seem to have experienced a slow down versus the previous two quarters, is this telling us anything about the macro environment at the moment, it could be a leading indicator. And thirdly, unfortunately I was away for your historic fibre announcement, for which I apologise, but I had one question relating to that. When I discussed that with you guys in the past, one of the things you have told me is a significant factor in you're not moving towards a fibre upgrade more rapidly has been the presence of substantial competitors in the pay TV arena. I noticed listening to the call, obviously, that you are referring to the ability of the new platform to do multiple HDTV. So what I'm wondering here has changed to make you decide that the programme now makes sense, I mean after all there are still very big competitors in this space, does this mean that you are expecting Sky to wholesale the platform to distribute their content, does it mean that you are expecting the Ofcom pay TV review to offer

you substantial concessions and get you better access to the content directory.

Ian

I'm running out of memory, so I think I'll have to stop you there. Right ex-acquisitions, small decline in the ex-acquisitions. I think when you talk, how about excluding acquisitions, well let exclude as well, sorry ex-acquisitions, ex-FX, you have got to probably exclude the big pull down in transit revenue which is sort of a big one-off and when you do that and add back that in it sort of offsets a fair chunk of it, but so that's that. On BT Business, the business segment that we report is BT Business plus also some bit of enterprises business, one of the... it's a little bit of a slow down, although I think many businesses are like that, but one of the key reasons for that are BT Expedite Business which sell to retailers had a very good year last year. Less surprisingly it's not had quite as good year this year and actually we have seen a small revenue decline and that's pulled it down a little bit. So I mean no big thing, certainly BT Business continues to grow as a unit at a very strong rate both top and bottom line. The fibre announcement it still applies that the rather prickly even just so much the existence of pay TV , DDT existing but certainly we believe we are a wholesale, we are opening up our networks for convergence and we would fully expect other networks or capabilities to be opened up in the same way because I don't understand how you can have convergence if it can only come from one direction, so absolutely we would want to see Sky wholesale its services, if I remember right Sky expects us to wholesale ours. And I think they have announced some fairly strong broadband numbers on the back of that and on the back of their very strong one, there might even be a lawyer who would say dominant position in pay TV so it needs to be a two way street and that also applies to other networks, you know, we are a wholesaler of choice, we are prepared to, we think, if it's good for the UK, it's good for diversity of competition and it makes everyone more competitive but everybody in the UK has to play the same game and, we should argue everybody else in other countries, we are the only incumbent who can honestly say hand on heart, give us the same regulatory environment in every country that we are the challenger, every 169 countries we are the challenger in, most other people say, we'll make it different here than it is actually in the Caribbean or wherever to take an example; so what we are asking for is a two way street, it seems reasonable to me.

Question 8

Chris Freemantle – Morgan Stanley

Just two questions on Global Services; the first is I can understand why you know all companies trumpet their contract wins and not their contract losses, one of your competitors talked about a big win for Tesco, of the Tesco contract, recently, can I ask you... sorry they also said at the time that part of the reason for winning that contract was because they had a good fixed to mobile convergence product offering that they could add into that. So the

question is; how do you feel you're positioned for those convergence offerings fixed and mobile in the enterprise space. The second is on the margin target and obviously you have reiterated the 15% margin target. If you are so confident that you can achieve that, why can you not give a time horizon when you think that will be achieved.

Ian

Alright on the second one, aiming for 2 years might be 3, that's the aim. In terms of Tesco win, we have won lots and lots and lots of contracts, very, very big contracts from lots of people. I think it is remarkable that it can be said that BT has actually not a leader in convergence solutions. The Corporate Fusion product and that's had wins around the world, so I know, I think with the Tesco's contract it was an amalgamation of O2 and C&W and we had a bit of that business and we probably would have like more of it but we didn't win it but you know, occasionally you will lose a contract and occasionally in fact more than occasionally we will win a number of them, that happens. You know, it was, we were getting these questions about Vanco a few years ago about losing a contract against Vanco and people said isn't your model wrong. Maybe it wasn't, but hey, we have got competition in the UK and some good competition and that's absolutely fine by me.

Question 9

Michael Kovacocy – Daiwa

Two questions, one on Wholesale, I see an improving trend in Q4, how much of that is due simply to more favourable year-on-year comparisons and how much of that is due to actually re-clawing some of the lost revenue that we have seen over the past year and second question is on broadband and fibre rollout and you spoke a lot about rationalisation, directed towards Global Services, will we see any rationalisation in terms of local exchanges in the UK as part of the fibre rollout picture over the next couple of years.

Ian

Okay I'll let Sally talk about Wholesale. In terms of exchanges, not immediately, I think it's something over time that we will look at to see that it's certainly not in the immediate plan. I mean we are doing a few rationalisations of... for those of you that live in South Kensington, you will probably see that fairly soon, rationalisations of exchanges, hopefully you won't notice it other than see it in the road-works but the, so we are doing a bit but we don't... as we stand today the fibre rollout plan is not assuming major exchange rationalisation. Over time as we have a fibre network we might see actually the way that we bring together traffic changes quite dramatically, I think that will require a more substantial move over to fibre and then we will continue to look and it might be that 6,000 exchanges is actually entirely the wrong answer, but that's not initially. Sally do you want to talk about Wholesale.

Sally

Thanks I think how we would characterise our performances that we have actually stabilised our declines and, in fact, if you look at the year-on-year comparisons in fact the reverse is true. This time last year we had the highest ever transit revenue in Wholesale's history or at least certainly for the last few years and indeed the broadband numbers really were not really beginning to bite then, they didn't start to bite until Q2 so actually it's almost the reverse and so our belief is that we have actually stabilised that decline and as we said earlier we expect these trends to be... the Q2 and Q3 numbers to be broadly similar and we are now positioning with our 27% growth in managed network services the longer term contact base that we are now building to significantly see some better trends by the end of the year. Thanks.

Ian

One of there and then one in the middle and Petri down there.

Question 10

Darren Ward – Liberum Capital

Questions about UK Retail Broadband pricing, as you look at the market now you see it's slowing down. Yet you have got the cost of copper review ongoing so those two things maybe offsetting each other, how do you see the price risk over the next 12 month at the retail level for broadband?

Ian

Up or down?

Darren Ward – Liberum Capital

Yes do you see it up or down and by how much really.

Ian

Gavin do you want to announce your prices for next year (laughter).

Chief Executive Officer BT Retail – Gavin Patterson

Sure, I mean we are pretty comfortable with the price points we have got at the moment. You will see us continue to promote during different periods of the year and to... along with particular marketing campaigns but we don't see necessarily a long term decline in the fundamental price points that we offer customers. Our strategy has always been to be at the value end of the market, the value for money end, so we have higher prices, we can sustain them and they are based on adding additional services not just offering a really no frills product.

Ian

There's one in the middle and then one in the and then Petri down there and I think we will probably call it a day then.

Question 11

Graeme Pearson – Lehman

Just a couple, on the access line losses, which continue to accelerate I think you are down about 6.5% year-on-year now in Retail, I guess the questions is what's the best and worse case scenario for access line losses over the next couple of years and second, what's your latest thinking on the Wimax opportunity?

Ian

On access line losses the... we will have some impact if as one or two competitors start to offer lines and of course more broadband, there will be less lines. I don't think particularly we've seen a dramatic worsening of the trend and in fact if you look at active customers there has actually been an improvement in the trend that we've had that wasn't the best trend. Wimax, well Wimax option actually comes to fruition which is being held back by the mobile operators just now, we will certainly be interested, at a price, we think that there is possibilities not so much as a fixed line replacement but more to complement effectively because in our view Wimax to be WiFi on steroids and we have got over a million minutes a day already on a WiFi network which shows the success of WiFi and things like iPhones, one of the first things that O2 did was come to us and say can our customers access your WiFi network, so it's been very useful both on the broadband proposition but also actually as a Wholesale offering as well and there is no regulatory requirement for us to wholesale it but we are a wholesaler of choice. So WiFi's been good and Wimax again, we'll wholesale it if there is a price at which we can win it and the market continues to develop certainly it looks like, look what's happened in the US and places like Pakistan and other places there certainly is a lot more movement on Wimax than perhaps there was 6 months ago.

Question 12

Petri Allas – Redburn

A couple of questions if I may, the first one just to give clarity to your cash flow guidance of £1.4 billion. To what extent... what sort of cash tax does that assume and secondly, how M&A and disposals might be included or not included in that guidance. And the second question around Global Services, this morning me and my spreadsheet were quite surprised by the sequential decline in the margin, I'm wondering if there would be any accounting or otherwise issues that help explain that and then therefore give more hope for the future, thanks.

Ian

Global Services margins sequentially Q4 is always the best margin quarter. It's always been the case, so you will have a big movement quarterly that is why we tend to talk about year-on-year. M&A will be excluded, M&A spend or received for M&A and cash tax?

Hanif

It's going to be under £300 million for the full year

Ian

Okay with that, sorry if we are a few questions outstanding but thank you very much and have an excellent holiday for those of you who haven't yet been on holiday.