BT'S SECOND QUARTER RESULTS –

THURSDAY, 11 NOVEMBER 2005

Introduction

Ladies and gentlemen welcome to the BT Centre Auditorium, can you please make sure that you have all your mobile phones and pagers switched off. There are no fire alarms planned for today and in the event of an alarm sounding, would you please leave the Auditorium by way of the two fire exits at the front of the room.

First Speaker: Sir Christopher Bland: Chairman

Good morning and welcome to BT's results presentation for our second quarter and half year.

This morning I will focus on the half year results while Ben and Hanif will take you through the second quarter in more detail. But first, of all I would draw your attention to the cautionary statement which is also included in your pack.

I must remind you that during this presentation we will make various forward looking statements. Factors which could cause our actual results to differ materially from the results we currently expect are identified in detail on the screen and in your presentation pack.

In the first six months of this financial year the business delivered another set of good financial results. We have made confident progress with our continued transformation of BT.

Helped by our recent acquisitions, Group turnover increased by 5% to £9.6bn. New wave revenue growth has increasingly offset the decline in our traditional revenues.

Earnings per share before specific items, rose 13% to £9.5 pence. This was driven by a number of factors: revenue growth; cost efficiencies in traditional areas; lower interest in tax and the ongoing share buyback.

And although our EBITDA reduced, the underlying EBITDA trend is improving.

As a result, we will pay an interim dividend of 4.3 pence per share, which is 10% higher than last year.

The 5% rise in Group turnover is bolstered by a 43% increase in new wave revenue which includes turnover from acquisitions. Traditional revenue is down 3%. And on an underlying basis which excludes acquisitions, Group turnover is up 3%, driven by a 28% increase in New Wave turnover.

Earnings per share, before specific items, rose 13% to 9.5 pence. We have now delivered fourteen consecutive quarters of EPS growth and I think that is a tribute to the management team's focus on strong financial discipline.

I am pleased to report that the interim dividend we are paying is 4.3 pence a year, an increase, on year on year increase of 10%. This payment is in line with our progressive dividend policy and we have targeted a pay-out ratio of at least 60% this year.

We expect our pay-out ratio to rise to around two thirds of earnings over the coming two years.

In addition, our share buyback programme continues and we repurchased a further 55 million shares at a cost of £123m during the last six months.

Net debt was reduced by £240m year on year and we expect our debt to remain at around £8bn, in line with our guidance. All our free cashflow is thus available for payment of dividends, for share buybacks and for any M&A activities. And now to take you through the details of the quarter's numbers, I will hand you over to Hanif.

Second Speaker: Hanif Lalani: Group Finance Director

Thank you Sir Christopher, good morning.

Our second quarter set of results demonstrate continued momentum in delivering our strategy and improving trends in key financials, especially underlying EPS and EBITDA pre-leavers.

As you can see Group revenue was 5% higher at £4.8bn in the quarter with continued strong growth of new wave revenue, once again, more than offsetting the decline in traditional business.

EBITDA before specific items and leaver costs decreased by 2%. We will review EBITDA in some detail today.

Profit before taxation, leaver costs and specific items increased by 7% to £596m, helped by a £31m gain on the interest line in relation to the LG Telecom bonds which were redeemed in the quarter.

Earnings per share before specific items increased by 4% to 5.0 pence, despite higher leaver costs year on year.

And in this quarter, we have provided for specific costs for the creation of Openreach amounting to £70m.

The 5% growth in turnover was helped by our acquisitions of Infonet and Albacom last year. Underlying growth was a healthy 2.5%, with a 25% increase in new wave more than offsetting the 4% decline in traditional.

New wave revenue continues to grow and accounts for 30% of the Group's revenue significantly higher than the 22% in the second quarter of last year.

Underlying new wave revenue grew by £250m year on year to £1.3bn. The growth to 6.2m broadband connections accounts for over half that increase, and the remainder was driven by double digit growth in networked IT services.

Traditional revenue declined by 4% excluding the impact of reductions to mobile termination rates and Albacom. This was a continuation of recent trends as customers migrate, from traditional services to new wave services.

The decline in call revenues of £109m is smaller than recent quarters and this reflects the anniversary of the rebalancing in July last year and also the lower relative size of call revenue. Around half of that decline relates to market share, with the remainder being split equally between the dial-IP substitution by way of broadband and the continuation of the decline in the fixed to fixed call market.

You can also see Retail line revenue is down, but is almost offset entirely by the growth in WLR and interconnect in BT Wholesale.

BT Retail. Revenue of £2.1bn was 3% lower than last year excluding the impact of reductions to mobile terminations rates.

The decline in traditional revenues remained at similar levels to quarter one, but it is good to see that losses of active calling customers to Carrier Pre-select and Wholesale Line Rental operators reduced in the quarter.

New wave revenue continues to grow fuelled by an increased broadband customer base.

At gross margin level, a larger broadband base coupled with greater efficiency in running our broadband operations, help improve growth margins by one percentage point.

This combined with cost reduction in SG&A of 2% drove BT Retail EBITDA 8% higher. This is the first time in six quarters that the EBITDA in BT Retail has grown, and this drove operating profit growth of 9%, a significant improvement in recent trends.

Let's now focus on BT Wholesale. Revenue of £2.3bn increased by 3% excluding the impact of mobile termination rates. The growth continues to be driven by new wave broadband and managed services. In addition Wholesale Line Rental increased with volumes now approaching 2m lines.

Internal revenue declined by 4% to £1.3bn due to the impact of lower volumes of calls, lines and lower regulatory prices being reflected in internal charges. This was partially offset by strong growth in broadband revenues, from the internal channels.

Gross variable profit is 3% higher than last year reflecting overall volume increases and a favourable change in sales mix.

Network and SG&A costs were higher, mainly driven by two factors. Increased network activity levels and lower bad debt charges last year as a result of working capital improvements made at that time.

This has resulted in EBITDA being maintained, which coupled with lower depreciation, has resulted in an operating profit increase of 4%.

BT Global Services. Revenue for the quarter rose by 16% to £2.1bn. Corporate revenues, driven by the recent strong order book and the acquisitions of Albacom and Infonet, grew by 15%. Carrier revenue in underlying terms was flat.

You can see from this chart that new wave revenue external revenue is now greater than the traditional within Global.

EBITDA before leaver costs improved by £4m year on year which is the net impact of a round £24m growth from new wave services and acquisitions, being offset by the decline in traditional business.

Higher depreciation costs, mainly due to acquisitions, contributed to a 17% reduction in operating profit before leavers of £16m..

Turning now to the Group P&L. Group revenue increased by 5% to over £4.8bn. Each of the three lines of business increased their EBITDA. Despite this, the Group EBITDA fell by £33m to £1,385m. This was because "other EBITDA" last year benefited from both a £15m profit on the sale of properties and some internal back-billing from the newly-created OneIT organisation.

Leaver costs for the quarter were £37m which is a more normalised charge than the low level we saw last year in Q2.

Net finance costs in Q2 were £54m lower than last year. This is the result of £31m benefit in relation to the LG Telecom bonds which were redeemed and an increase in the pension Interest Credit. It is worth mentioning here that our FRS17 pension deficit is now £2.6bn net of tax, down from £3.4bn in March.

The tax rate in the year to date is 25%, a rate we consider sustainable in the medium term.

This slide shows the impact of IFRS on our numbers. As I mentioned before you can see the £15m property credit in last year's EBITDA. In addition, the other EBITDA items showed an adverse movement of £13m year on year. Our reported EBITDA therefore reduces by £59m compared with UK GAAP, but that is offset by the interest credit of £64m relating to the pension deficit. Of course, our free cashflow is unaffected by IFRS.

So what about free cashflow. Q2 showed a good performance, with the year on year decline being due entirely to no cash tax being paid this time last year.

Net debt reduced year on year to £8.1bn, £240m lower than the same time last year.

Debt and Interest. We have £4.4bn of debt maturities to come in December and February. This can be entirely funded from our short-term investments and this is worth around £80M per annum to us in reduced net interest payable.

Our net interest rate will fall from around 9.5% to 8.5% next year and below 8% in the longer term.

As I said at the start, a key focus for us is EBITDA. This graph shows the improving trend in underlying EBITDA year on year performance. Our goal is to keep this line moving in the right direction. This will be driven by profitable revenue growth, margin management and cost efficiencies.

With that, I will hand over to you Ben.

Third Speaker: Ben Verwaayen: Chief Executive

Thank you very much.

This chart you have seen many many times. And when I opened the paper this morning and saw a memo from Bill Gates about disruptive change in his environment, I looked again to this chart. He is right there is disruptive change; in our market as well. It is changing in go to market, in business strategy and it seems that half the market is for sale today. You get people with different technologies. And where do we fit? Well, we fit right in the middle. I think this disruptive change in the market is a testimony of how our strategy is right on the mark. With a willingness to cage early into where we make our money and how we make our money. With willingness to embrace early new technologies and bring that right into the middle of what we are doing.

Let me give you three factors:-

> For many, they look to BT and they think we are a lines and calls business – well think again. Today networked IT services is larger than lines.
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> Broadband today is larger than private circuits and, in the mix of the most competitive quarter that we have seen in our Retail business, Retail has turned around its performance on EBITDA and profit and, for a very very long time, we see a profit growth.
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> What I thought I would do today is to listen to what you said before. You said to us, "Listen, you present per LOB but we would like to see what happens with the customer segments". So let's walk through how we are dealing with the different customer segments and how we are taking that disruptive change and turn it from a threat into a big opportunity for BT.

Let's start with the transformation of our composition. If you look to this chart, it gives you the story over the last three years. What you see is some important shifts. 28% of our business today is consumer business and that is down from 33%. You see that the composition here in 2005 really characterises this Company as a business to business company with a substantial consumer business truly important especially on innovation but, it also gives you a much better balance if you look forward. There are people who have written that, isn't it worrisome that Wholesale is growing? I think it is terrific that we have a Wholesale business that deals with carriers in a converged environment. It is very difficult to state Wholesale, whether it is to a mobile operator or to a fixed operator because what they buy from us is capacity and capability that will help them to provide a much better service and you see that business is growing and that is very good for BT. It stabilises - very good.

So if you see this transformation and you see the growth in our corporate market, let's now look at what we do in the corporate market.

35% of our business and more than half is new wave. Now, if you look to the spread where do we find those corporates? You can see that this again is a very good spread and it gives us depth of understanding of markets. We are no longer selling one size fits all and so the fact that we have a substantial financial services business gives us the ability to serve them with tailor-made solutions and that we have thousands of people that really understand that market as they understand the brand market, as they understand the government market. So it is not just simply good enough to look at the total size of our business, you have to segment and say okay, where do I have competence and do I have capabilities far beyond three years ago? What was required in the traditional telecom sector and what you see here is that, we are doing that right now.

Now, the other thing that is very important is to look to the spread on a geographic nature. You can see that our global business our international account is now 43% of corporate. Let me give you some numbers about this quarter. Our business in Europe grew by 15%, our business in Asia doubled, our business in the USA grew by 50% and it is in all sectors. We have now an NPLS capability in 170 countries around the world and our NPLS business grew outside the UK by 50% to more than £100m. So you can see that this is the depth of understanding where the market is going and it is more than the Telecom side and it is the solutions and capabilities side.

I think this is a great chart because this chart shows you that we are building an annuity. This is again a quarter that we have £8.2bn in 12 months rolling contracts and it tells you that , what used to be a weak quarter when Europe was on holiday, has been a very good quarter for us and it is especially a good quarter if you take the next graph and look at that. Because what this does is bring the £8.2bn in perspective and if you look to spread and we talked about sector spread and we talked about nature eof business but the size of business is also very important. Now look to this 42% of the £8.2bn. This is about things that you read about in the headlines but, this is a very nice spread from relatively small solution businesses. Less than 5, going all the way to those very big ones and you can see an even spread which means that we have very good capabilities from a risk management point of view and from a resource allocation point of view. You know about your people if you would understand the capabilities that you need in those various contracts. So I think again here if you understand the numbers behind the numbers, you must as a company be better placed to make your future steps.

Now, you have seen this one and I will repeat this chart over and over and over again. Because there is a misunderstanding I think that we need to get to grips with. If we sign long-term contracts yes, we are very conservative, yes we do not recognise contribution until we are 2½ years on our way and, by building a great pipeline of large contracts, that in itself means that we have to have a bit of patience for that money to come through in our contribution and the same as with cashflow. But the good thing here is, it's coming and while, it is coming, we are improving in the meantime our EBITDA of a new business in Global Services as you heard Hanif explain. If you look to the EBITDA line of 4 that is the composition of 24 growth that we have in our new wave products. The things we do to the markets we have described and we had a minus 20 in our traditional business there. But it is good to understand that this is the pipeline.

We had a great quarter as I said and it's in all regions and it is in all sizes and in all sectors but, what I would like to focus on is the announcement that we made today. We told you today that we won the NHS contract for Scotland. That is on the back of our performance in England. Our performance in England year to date on the N3 contract is that we have delivered 12,000 doctors, surgeries and hospitals connected to the broadband. Reality! This is five months early and we are on track on all the recent targets on delivery and it is proof of confidence in what we have done and today we could announce that Scotland will be delighted to do that. There is no better proof of performance that the customer coming back and asking for more.

So let's now talk about BT Business because BT Business is very important to us. It is 52% of our revenues; 22% is now in new wave and therefore, it is important! But, it is also a leading indicator of what is going on in the Retail market. Now there are two things I would like to stress when we talk about voice. The first is that for a long long time we had to report market share losses and this time I can say to you that we have maintained our share which is good because it is indicative for a market which is shifting from just price on commoditised products that is going to see productivity improvements and productivity gains as a means to get value and I will explain that.

Now the second thing is that BT Business package which is very successful and 500,000 in the UK take BT Business Plan and that is under contract and that is a very very good number. If you look to broadband we had great adds but, more importantly than that, we had what is called an attachment rate. So people are not just buying from us an access line but buying additional packages and services and the attachment rate has recently grown over 100%. What you get now is what we said all along. This is not about access line in measuring the lines, look to the market share and then say how are you doing in broadband. This is now about creating an ecosystem of added value that people will buy and incorporate in the way they do their business and there is a real promise and I will come back to that in a minute.

There are two businesses I would like to focus on today as well because they do extraordinarily well. BT Classified is a £100m plus business. It grew 50% in this quarter and they have a business to take the Phonebook and add classified to that and it is a hit and it helps small businesses to communicate with their customer base in a way that wasn't available up until now and therefore you see this business going dam busters. And the same with BT Conferencing. I don't think we have ever talked about BT conferencing. Again, a business. A nice business and a very focused business of over £100m. It has grown 24% this quarter; it has a market share in Europe of 21 %; and is the leading number one provider of conferencing. Not just voice conferencing, but also converged services. It is a very very nice business and doing extraordinarily well.

So let's go back to the trend that is truly important here. That is about convergence. So you buy an access line broadband, you bring it into your small business. And now what? Do I get Internet a bit faster or do I do something with it? What you see here is examples of where we get the attachment rate really working for business. It is about security packages, we are talking about COM packages. Let me focus on one here that is truly a winner. And that is BT provides, for your PC, support management remotely. We solve your problems for £10 a month. Your PC has an IT manager and if you have a problem with your broadband, or you have a security concern, or whether you want to have something fixed… whatever …we will do it for you. Now, I have never seen anywhere in the telecom world a customer satisfaction number of 99% but we have got it here. It is truly an amazing product and it has amazing appeal in the business market.

Now let me talk about two other things about convergence in the market. The BT Business Plan will now incorporate mobiles and that is, of course, a reflection of the reality that people do not buy any more fixed. And mobile in a business environment has two separate platforms. They just want communications simple, complete and please allow, me as a business person, to get on with my business without the hassle of going to many different platforms, technologies and therefore suppliers. So BT Business plan will now incorporate mobility.

Lastly, but not least small businesses are very busy people. They are on the move always. So we came up with a plan to provide them with the capability whether it is GPRS or 3G or Openzone. Who cares? You want to communicate wherever you are but on one platform, one clear bill, one clear value proposition. There is another way of going to the business market and, instead of selling a product in a kind of isolated environment, we are for them going into the solutions business and I think this is a very promising development. It is a leading indicator, where in the broadband reality of the world, the value has shifted from pure access to the value added services market.

Let's look to the consumer business…the 28%. Now this is important for us. It is important because everyone understands what the consumer business is. Fast moving, people have choices, people have more choice in this market than in any other market in Europe. Arguably, more choice than any other market in the world and I think we are doing terrifically. Yes, we have a market on voice and lines that is today under heavy competition but that is good because what happens now is that you are going to be very innovative and you are going to look to different things. Look to what we have done on voice on BT Privacy. We got a staggering 1.8m customers signing up for a service within 6-8 weeks and this is an unprecedented success for a service in any industry…1.8m signing up! It is perceived value. We have 65% of a voice business today under contract. That means no hassle for the customers and, if you look to the broadband, the same story that you have just heard from me on the business side, is also true on the consumer side and may be even more true.

So let's focus on what we are doing on the broadband side. You see the numbers here. These are very very good numbers in their own right and if you added up you could say; yes, you know Retail has a market share of …what is it? …27% or so but this is the story and this is the real story. It is not the pipe and it is what you do with the pipe and what you get onto the pipe. Now we are building an ecosystem, an environment in which very rapidly we bring so much added value to the Broadband proposition that it is much more than what you start with so if you see this whole environment… let's walk through some of them. Let's take BT Communicator, Voice Over Broadband. So what is happening with VoIP? Well, we have embraced it very early and I think it is an opportunity. Now let me give you an example, BT Communicator comes out very recently with an offer half a penny per minute to 30 international locations. So that means you can talk for a whole hour to your family in New Zealand for 30 pence. And the market has embraced it. The growth is 188% in our IDD traffic; we have millions of downloads and we have 62,000 customers now signing up. VoIP for BT is an instrument for growth. It is not a threat. It is an opportunity and an opportunity that we take full advantage of. It will be sold in every version of our BT broadband offers to the business market. It will be a logical extension on what we do in the consumer market.

If you look to our wireless approach, there the modems will be wireless and it will allow you to roam around the house and it will give you the opportunity to get all kinds of new services. You get your music downloads, you get your capability of broadband and it becomes endless. You get the capability to forge your lifestyle and to add to your lifestyle the things that you really want.

Now let's take two issues. The first issue here is gaming. Yes, there are people who really are desperate to have gaming to the next level which means that they can compete with everybody that they want but they want to have a safe environment. We announced two days cooperation with Nintendo to just do that. To give them the safe environment to make sure that in many many places, handheld gaming is now a natural thing to do. And if you look to those kinds of relationships, let's look to the next phase. The next phase is that BT is not only winning prices on innovations … not only getting rewards from the industry … but getting, much more importantly, real class companies on its side because they see what we are doing is absolutely at the forefront - if you look to this ecosystem. So to say with whom we work with in the industry? … it is the best of the best!

I talked about Nintendo and if you look at, for example, what we do on BT Communicator and Voice Over Broadband with Yahoo Instant Messaging, it is absolutely on the forefront. Music downloads with Sony and we had our campaign with Apple. If you look at what we are doing on TV (you have had the announcements ten days ago) and I can tell you there is so much more to tell about it that Ian and his team will organise, on 8 December, a half day session about what is in the pipeline. All kinds of new services that are coming into the consumer market.

He was kind enough to show me some of what he is going to show to you and I have to tell you that it is really exciting. This is a market that is no longer about defence. This is a market about innovation and new stuff that is coming up. Now you cannot have missed, when you entered this building, our excitement around BT Fusion. You can't have missed it … you have seen it everywhere … even the steps are now our Fusion steps so let's talk about Fusion. Maybe our sales people upstairs already have convinced you that if you sign up today, you get it guaranteed within 48 hours and you will be a happy BT customer. And some people said to me "yeah, I really want the Razr"… okay you get the Razr … okay it's coming. I can tell you there is a pipeline of new products, not just phones. PDAs and all kinds of new stuff coming from Samsung, LG, Motorola and Nokia. All coming on board now and getting an exciting new range where BT Fusion will not only go to the consumer market. It will also go in the coming 6-8 weeks to the business market and, just imagine what it can do for a busy real-estate agent if they have that capability that Fusion is promising them.

Yes, there is a shift if you look to our numbers from NV&O GSM orientation to this converged Fusion product. We put our money where our mouths are. We have said all along that is where we make our bed. That is where we will make a difference in the market and we are doing that. You can see that this is massively important for us, it is massively also important I think from an industry point of view because this will change the way that people can work and change the way people will see convergence in real terms.

Now, another market which is truly important to us is the carrier market. Of course the question you always get when you talk about CPS and WLR and all the others is one of a loss. At the same time, it is a big gain. Look to the numbers here. BT Wholesale had a 63% increase in its new wave revenue in the quarter. It is 12% growth. It is a very important business and it is a sticky business. Once you have got it, it is very difficult for people just to leave you the next day. So what happens, and I am pretty sure that we will talk about market movements and what happens with LLU and the other things. You know that we have two incentives around LLU, the first incentive is that we have a settlement and we need to get on with life and we are getting on with life and we will talk about that in a second and we want to go as fast as we can to the 1.5m because then we get the commercial freedom that we really want. So that is a great incentive. The other incentive is that, it is good for our business and, if you can see here, I think that we have created a broadband reality, a broadband market which is 99.8%. Other than the BBC who invites everybody to call in for a programme to make life difficult for me …should they ask! Yes, I'll live but please give me also broadband. For the vast majority, this is a solved issue now. We have broadband now. Remember the charter we had last time that said first availability and then, oh yes, what about speed? It is now 2mb and we are on trial on 8mb and not just on targeted areas nationwide. It is free next year… 8mb next year… that is what we will deliver. That gives a platform for a whole new innovation of new stuff now. That means a fantastic base to getting on with the real opportunity and that is to create the added value combinations that we want in the market. 8MB will be coming and look to those numbers that we have here. These are really impressive numbers . Every single day, seven days a week, 6,800 new lines coming into broadband. This is an unstoppable market and it is absolutely for BT from a carrier position, from a good position and from a retail position, an extremely important development.

Now, how important is 21CN? How is 21CN going? It is going extremely well. We are training our people and 5,000 got trained. We will do the stuff in Cardiff as we said we would and you will see a lot of the trials here. One of the things that is truly important is to get enough into box per box and if you put all those boxes in line, that Matt has so cleverly developed, it will also work. But, not only on a box per box - you can see it here in fourth quarter this year. We will have all IP calls using exactly the same IP configuration as we have in the 21CN and what is more important, we have from our suppliers the products on time. So I think the testing we are doing now is absolutely robust and you may have seen yesterday Deutsche Telecom making an announcement about further capex. I think we have said all along what we have done. We have taken the development, brought it to us as quickly as we can and changed it from a threat into an opportunity. 21CN for us is a massive opportunity and I think the market in total is also getting on board. We are in full consultation about the migration and we expect in Q4 to have an agreement in the market about the migration and I think that is excellent news for BT, and for Britain.

Now, about regulation. Let's get on with life and let's do it quickly. Openreach is up and running. The team is in place and we have taken on board what we need to do and I think that everybody has seen that, every step we have had to take, has been taken early and I think what it will do is, it will generate a confidence in the market that Openreach will deliver what it said it would. As important, is the deregulation agenda because this is not a one-sided thing. This is about focussing your regulation but then do it strict and absolutely to the point. On the other hand, deliver the deregulation and I have to give credit to Ofcom. If you look to this, this is a serious serious step forward on all levels of deregulation. It is consultation. That is the process we have to go through, and if you look to where we are here, its delivering on both fronts and I am very confident that, if we look 12 months from now back to what the settlement has delivered, it will be good for the industry as such and it will also be very good for BT.

Now let's go back to this chart. As I said in the beginning we have taken things on, early hands on, and if we need to cannibalise ourselves that is what we will do and we will change the nature of our business and we will do it rapidly. We also understand what we need to do here. This is a trend. It is a positive trend. We need to ensure that we are going to deliver on these trends as well. So what we need to do has two phases. The first phase is the short –term. It is about costs. The second half-year cost savings will be larger than first half-year cost savings and we have concrete plans on all these points. Let's take a few of them. If you look to centralised billing the opportunity is £120m in the coming three years to go from multiple platforms to one that will deliver a much better service to customers and a cost saving. Now, if you go through the list, all of that is not cost saving just to use a knife and cut, but to do things smarter and therefore better and also deliver on the customer satisfaction side. The cost savings we are doing is to take new technology, take new business models, and implement them rapidly and therefore take your legacy and put it out of business. If you look to overhead, for example, it is about cost savings, agencies and consultancies and accommodation but at the same time it is also a cost saving to look to everyone's favourite subject … reduce headquarters and I think it is a good thing. If you bring the intelligence closer to the market…and you bring the intelligence closer to the businesses… and you have seen what we are doing with Conferencing … and you see what we are doing with BT Classified …if you give that freedom there, you must at the same time make yourself, as an organisation, more agile. That is what we are going to do and we have said that we will do that at least by the end of the decade. Every year we will take £300-400m and cut it out. What you have to do on top of that is to take your products and bring them to the higher margin. We have said that you will have to do it as quickly as you can. So, maturing the global services portfolio; bringing the same capabilities, as I just said, in BT business IT services and solutions business; making sure that you take your ARPU and that you focus on ARPU and you focus on the products that will give you additional value. If you add to a better margin profile and the cost savings, and you add to that 21CN, you will see that is strangely our absolute belief that the trends are our friends when it comes to the EBITDA.

Now I would like to leave you with three messages.

first, it is no surprise that we are the number one telco in innovation. It is our strategy and, we are delivering on our strategy;

we are building a global brand and we are becoming a household name, incorporated all around the globe and that will deliver for us a tremendous important building block in building BT into a converged company; and

lastly, we are delivering growth where it matters. We are delivering revenues, we are delivering EPS and we will deliver dividends.

Question And Answers

Sir Christopher, if I can perhaps squeeze in two questions if that would be all right?

The first one is in relation to the EBITDA special item. Can you just run through that again and remind us was that in the special item last time? The second question is in terms of building a global brand, can you just be a bit clearer about that? I presume it is for a specific and is there an associated significant marketing cost that we should be aware of in order to do that.

Hanif first and then Ben.

The EBITDA special item that we are talking about is £15m on top of the sales. It was in last year's Q2 Press Release announcement and under UK GAAP. It wouldn't have gone under EBITDA but moving to IFRS moves it under EBITDA.

Okay, on our global brand you are right. It is about corporate and we don't win the brand recognition by way of advertising, you win it by performance. So there is no cost related other than the performance.

On the savings item of the £400m you mentioned at the end Ben, could you just describe to us in the first half what proportion of that savings have you done already so that we could work out what the acceleration is for the second half and also, with the new products coming out in particular in Retail, do you expect that benefit to be offset by acquisition costs or is it going to be net benefit coming through to the P&L?

The first half was £177M so it gives you a number to work with.

Hanif second question.

Sorry Nick what was the second one again?

I think that the key thing to look at is we expect the trend to continue and I can't make a forward looking statement about how it will flow through but I think the trend will continue from what you have seen.

The 31% growth in networked IT services is of course very impressive. Can you say a bit more about why you are achieving that? I don't want to bring on a sales pitch here - is it because of keen pricing; or is it because of global extension; or where is that coming from? You must be taking market share from someone.

You already have Andy.

Some of that comes from the acquisitions. Clearly so that is the gross number, but the growth that is coming, which is very substantial, is hugely driven outside the UK and it is driven by what is happening to your business and everyone else's business. People are taking part in the global economy like never before. We are absolutely out there, building the world's broadest and richest global IP platform and as a result of that, you know we are in a sweet spot in the market place and I firmly expect that to continue over a period of time. You know every business we talk to is wondering what their China strategy is and what their India strategy is and how should they consolidate their data centres and how do they move their information more effectively for their customers … suppliers … these are the issues that global IP is about and I think it is going to continue.

So sustainable as far as you can see?

I expect it to be.

Can I just ask two questions more on the consumer side. Firstly, how do you see Sky's entry into unbundling and please clarify that you have no ambition to own any content yourself? Secondly, on the broadband and your share of that, and I know it comes up all the time, do you see it as acceptable in the longer term to take that kind of share quarter by quarter?

Let's first of all talk about Sky. Sky purchased a company that is a company and if you look at the footprint of that company 80% of their footprint is in cable. It is a company that is today a bit more in business than in consumer business, but that will change over time. Their 80% footprint will be there. So, if Sky takes customers, that is great news for us because those customers will come from cable and go on to our network. Yes, Sky is coming to the market and you have got Carphone Warehouse making announcements and you get very good brands coming to the market and I think it is great news and it is today a market that has hundreds of players. You go to the market where you get the big guys in. That is a good thing because I hope to have shown to you that it is not about the access line but it is around what you can do down the access line. Now I think that what we will do, you will see value added services will be much more important to the business than the access line itself. So 27% or 30% market share in the short -term an indication of how your campaigns are doing, and is very much driven on how much marketing money you put in quarter by quarter but what we have built is a system or a balance where we can sell so much more even if somebody else has made the exercise.

Ian: I feel we see our real strength in bringing services and content to the customer rather than the creation of content and we see that in the next generation of television that we can do that in terms of overall market share. Of course I would like it to be higher and if it was 99% I would rather wish it was higher but I think you always wish that. What we will have, and it is critical, is a national proposition that we will be offering on a nationwide basis that will not only be very attractive access proposition but a range of services. It will come with some certain things that you only get with BT broadband … you get first with BT broadband … we think we can do a lot in the market place but it is a very competitive market place, we know that, but you will find that BT is playing a very active and pro active role in it.

Firstly, on the Pensions. So the accounting deficit is around £800M and I think the number from memory was around £300M for the last year, does that £800M incorporate any significant shifts in your assumptions, i.e. life expectancy?

No, it doesn't. Triennial evaluation is due at the end of 2005. The results will be published in April/May and those will be up-to-date valuations and in particular on life expectancy we have a sufficient critical mass to use our own experience and I am glad to know this …that men over 60 are living longer and that will be incorporated and so our assumptions will be sensible in the middle of the road and they have to be agreed.

We did a triennial valuation every 3 years and we do update the life expectancy and so those are utilised national statistics and that happens every 10 years - for us, we do it every 3 years.

The second question was the ICT line I think excluding acquisitions grew by %10, are you still confident that this is a line that will grow by double digits?

Yes we absolutely see this being a line that will grow and particularly outside of the UK I think there is a tremendous opportunity.

On the Pensions Deficit it is worth reminding ourselves that 3 years ago in March 2002 the deficit was above £6BN and it is now below £3BN on an IFRS basis. That isn't the basis that we use for funding valuation but it is a directional indication of where the deficit will be.

I didn't see Ben in your presentation anything about systems integration and I wanted to ask a bit about what the strategy is there? I am finding it very difficult to find that out. I am wondering what the growth has been and I know you don't split that out any more but I am just interested to find out how that fits into the networked IT services strategy as we stand today.

We are a specialist in the systems integration area around those services that surround our global IT platform. Those convergent areas between IT and communications but we are also a prime contractor. So you see us both in the lead winning contracts like Hertz where the IT outsourcing part is provided for us by HP but we are in the prime position as the systems integrator and as a major contributor - so you see us playing a full role. The issue for us is that we are running a separate systems integration business which is no longer, in our view, appropriate as convergence happens. And as we focus ourselves down more and more on the sectors that Ben was talking about, we are moving to an environment where we are putting specialist propositions into the finance sectors and the local government sectors. They have significant systems integration components but we are managing our business by the profitability of those customer sectors and so we are not separating systems integration from the rest of our business. But I think you can see from the types of contracts that are being won, that it still remains viable.

Would you be able to comment on the sort of contribution to growth?

I don't think it makes any sense to do that. We can't split it out and we have taken the decision that we are a convergence player and that systems integration and IP are sold together and so splitting it out under traditional methods is something that we have changed.

Just a couple of questions on the business market. You clearly are doing quite well in market share and you seem to be doing quite well about converged products but the revenue is still declining and would suggest that the business market is declining as a whole. When do you think that can be turned around? Or is there an economic impact there? Then a second question on tax. You talk about tax being sustainable at the current rate in the medium-term part of the tax benefit is coming from surplus cash being reinvested quite tax efficiently. Do you still feel that 25% tax rate is consistent with much lower gross cash balances, if you like?

Ian and then Hanif.

On BT business I don't think it is an economic thing at all Paul. What is happening is our customers are getting better and better value. You are right, we have held our market share which I am pleased about but not as pleased as I will be when we increase our market share. What we have to do however, is sell more and more to our business customers and that is very much the reason why Ben talked a lot about IT service manager. That is a good example in that sector in the same way that Andy has done in his sector but I think even more so because of BT's reputation we can become the IT partner in those sectors so our market is shrinking. If you decide our market is about calls and lines, that is why you see a decline but if you look at our market as a far bigger market, it is about convergence and it is about mobility and systems and there is a big opportunity, that is the market we want to play in.

On tax the simple answer is Paul, yes. We knew the short term investments would be required for their maturities and it just shows you how much harder we are working and managing it in the medium term, so yes.

Two questions. The first is on broadband penetration. Can you give us an idea what you think penetration is in unbundled areas and in none-unbundled areas? The second is on the dividend - I mean you have talked about a bigger pay-out ratio and yet your dividend increase in the first half lagged the earnings growth. We know you are talking about lower debt, lower interest costs in the second half and we see the same sort of earnings growth … should we see an acceleration in the dividend growth for the full year?

Paul.

As regards penetration in bundled and unbundled. Unbundling is growing faster in the metropolitan areas like London, city centres and so on and broadband up-take has always been greater in those parts of the country. So you are seeing 20% penetration in London but all rising fast and so unbundled areas have higher broadband penetration.