BT GROUP PLC FIRST QUARTER FINANCIAL RESULTS 2005 HELD ON 28 JULY

Introduction

Ladies and gentlemen welcome to the BT Centre Auditorium. Can you please ensure 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: Ben Verwaayen, CEO BT Group

Good morning and welcome to Ian Livingston's birthday party here today and since you are here anyway let's talk about Q1.

Let's start off with the slide that you are used to, the cautionary slide about our forward looking statements and I am sure you will read this at your leisure. Talking about the slide that is familiar to you, how about this one? The slide about our strategy. You have seen it time and time again and that is exactly my intention because we are getting on with all the various aspects of our strategy. Basically, this is our agenda. This is needed to deliver results and you have seen a momentum in the business. You have seen that the trends in BT are becoming our friends and the trends are there to continue and it has delivered for us in Q1.

Now let's look to the results and headlines.

- A 5% growth on revenue,
- A 20% growth of profit before tax,
- A 25% growth of Earnings Per Share (EPS); and
- A net debt decline of 4%.

These are all trends in the right direction.

Now you will say yes well 5% is great but how do you get to 5%? Indeed it includes Albacom and Infonet and, by the way, that is why we bought those companies. But even if you look to the underlining performance it is the best performance in three years on revenue, up 3.4%. So if you look to New Wave and Traditional headline numbers are 48% growth in New Wave and Traditional down by 3% underlying 31% up for New Wave and 4% down on Traditional and that is exactly within the trends.

If you look at the trends on New Wave you see the performance quarter after quarter after quarter rose starting with a 3 on an increasing base. So, you can see we have a momentum in our New Wave business.

Now let's peel the onion down and look to the 31% and so I am excluding here Albacom and Infonet. Look to the organic growth in New Wave you see the growth on all these various elements. A 19% growth on networked IP services in a market that if I am generous is growth in by 5% or 6% of something like that and so we have taken share. 69% growth in Broadband is a very good number and it is a very strong number and it has been a very strong quarter. 28% growth in Mobility and you know Mobility is convergence and that is what we are focusing and 45% on others. Amongst others Classified and Classified is a very interesting business. I believed last time we talked about the revenues per week. Now let me give you another snippet of information. You know coloured pages, Yellow Pages and other colour pages and we have now introduced six volumes of full colour. You see here a business that is innovating in its own right and 31% is a real important number. 48% is even a better number and it translates into our Network Services Orders Received and you know that we talk about this every quarter because it is very important a bout building a base for future growth and improvements on margins. This has been a very good quarter and we always talk about the big elephants. Well, there is a big elephant here, the Ministry of Defence, at £1.5bn it is a long term contract but our other contracts. Last time we talked about the contracts between 1 and 5 million pounds and now I would like to talk about the baby elephants between 5 and 50. Very important transformational contracts for customers and you can see that the lengths of the contracts are more and more and more.

Now let's take one example off this list which you have in front of you which is quite compelling and next time you have a Stella Artois think about BT. We provide for them their global communications needs and, amongst other things we will manage for them 10,000 mobile handsets. So you can see the business we are in is expanding in depth and breadth and that this is fuelling a chart that I particularly like. Because this gives us the basis and the foundation for our future business. We have now the best ever £8.2BN 12 months rolling contracts.

This is clearly a sign of the momentum that we see in the business. In various sectors, in all the regions, this is a business that is growing.

Now we have made acquisitions. And you know to make or announce an acquisition is one thing and to make the integration work is another thing. I am very happy to report that we are doing better than our own plans and this is really helping us. If you look to product harmonisation in many cases to be honest it is a battle and it hasn't been a battle here. If you look to cost rationalisation and synergies, we are ahead of the plan and if you look at for example BT Infonet Telemark for the fourth consecutive year has crowned them the best service provider. That allows us to learn from them and copy some of their processes and systems in order to gain, not just from the volume and not just from the technology that they bring, but also from their practices.

We have identified in Infonet, eg. a hundred million of additional sales because the teams are working together.

Now let's look for example to Radianz in the financial services business as a key customer, like the Tokyo Stock Exchange, is a phenomenal achievement at a marked point in time for our business in Asia and, thanks to the Radianz corporation, we have a much better focus now on the financial services business than we have ever had before and Albacom in Italy, the pipeline has been extraordinarily strong and the integration in business has gone particularly well. So I am very pleased with the integration of our acquisitions.

Now let's look to Broadband. 666,000 is a strong performance in the quarter and it is a seasonal business as you can see from the charts. It is Q1! But I am pleased with the number and I am extraordinarily pleased to say that the whole journey to deliver Broadband Britain is now completed. We are now over 99% and yes we have 229 other exchanges in build right now but we have achieved over 99% and I am very very happy with the task that we took on three years ago. This has now been finished and we have Broadband available to the market to almost everyone and that will fuel future growth.

Now, let's look to what happened in Retail. As you know, this is a campaign driven market and last quarter we were slightly over 30 and now we are slightly under 30 and that type of fluctuations, as we have said before, will continue. We have done in absolute numbers a pretty good Q1 188,000 additions and you can see that the market is campaign driven.

Ian and team announced last week to upgrade all the BT customers up to 2MB and we have seen an immediate reaction in the numbers coming through on the market place and it tells you that this is a market that will drive not only on price, but price, speed and services. This is a very important market to develop on the hands of all of those three elements that have to come together in a very interesting environment which will give us opportunities going forward. Now one of the opportunities is about convergence and the relationship with Mobility.

As you know, we launched BT Fusion. The roll-out is in September and I am absolutely happy to share with you that simply on the announcement, that's all the publicity we have given to it. We got 15,000 people registering just by listening to the compelling story. I think this is a space to watch and we will go as we said we will go, step by step, but it is an important element in our converged strategy.

Let's take another element of the Converged Mobility Strategy. Openzone. Now what is important here is that we get this into corporate life. You take your lap-top, you go somewhere, you open it and you can work. It becomes a practice. A 400% growth in minutes tell you that it is shifting from a very few technically astute people to the mainstream and it becomes a part of people's practice in day to day business life. 30,000 hot-spots in fifteen countries tells you just put it under your arm and you can work. This business will show how convergence will step up the integration process that we have from a service perspective. Convergence is not just about technology. You could argue it's not all about technology. It is about services enabled by technology.

Now I said our strategy is our agenda. 21CN is part of our strategy as you know and today we are going to talk about realities. We started with a concept. A framework. An idea then it became a plan. Then we shared with you that the plan had got hands and feet and we had vendors selected and then we went into trials and we talked about the first goal that was handed over into exchanges. This is about 350,000 people. No trial, no lab, real life. 350,000 people that will be put over next year, the second half of next year, from the one system to the other. Now to give you a feel of what this means today, they are served by nine digital local exchanges. Tomorrow, next year they will be served by three metro-nodes and we will install stuff in 70 locations and that will serve the Cardiff area. So this is about getting real in a full end to end IP network and with a firm date, a firm programme and a delivery.

Now talk about momentum. The Telecoms Strategic Review I think has created for the industry clarity, certainty and enforceability. It is up to us to get in with the industry to deliver and I can tell you already today that I have seen a sea-change in attitudes from the industry in working together. I think it really marks a different episode in the market place. You can see the clarity and the certainty in making informed decisions in the Telecoms industry, be it on investments or be it on other areas of the business. We are working together to deliver. Those on the admin side of the house where you talk about the Board, the Board recruitment, the staffing of the Board and support of the Board in place, the extra services management team is in place. We have pulled the field engineering force together, we execute all equivalence and we are taking the IP strategies and working with the industry to deliver. I think this is an important change that will give us the basis of a much better foundation in the industry, in the UK, to make informed decisions.

Now Traditional. Again, here trends are your friends and this is fully within the trends and it is slightly better than last quarter but it is within the trends. And if you see in our strategy, it is all about getting business under contract. We have talked about the consumer business in BT Together and we have talked about every single quarter 1% up on the percentage of under contract. This quarter was 2% up , 65% of our revenues to consumers is under contract.

We haven't yet talked about what happens in the SME market yet. Well we launched BT Business Plan as a version of BT Together for the business market and I can tell you that today more than 50% of the call revenue in the SME market is under contract. We grew at 10% in quarter year on year 66%. So this is a phenomenal success to be sticky in a relationship with your customers and you know when it comes to major accounts that we sign longer, longer and longer contracts. So both in the consumer, as in the SME and as in the major business market you can see that the stickiness of the business is improving.

So, going back to our Traditional, you have seen this chart also quarter after quarter after quarter and if you see the Traditional decline it's about calls. Now I would like to remind everybody that calls is 15% of BT's business and the calls that are in decline, half of them is reclassification within BT. You had Dial IP; you now go to Broadband - so in the negative side of the Traditional; and you are on the positive side when it comes to New Wave. The same comes with the rebalancing. On the right-hand side for you are the issues that really talk about a decline from a BT P&L perspective market share loss and a decline of the voice market and you see that is half of the story. Nothing else that we talked about last quarter or the quarter before - slightly better but the same trends. Trends are your friends.

Now innovation doesn't need to be simply in the area of New Wave. Look at our smashing success on innovation. People tell us that they dread calls during their dinner times, they dread unwanted calls. We come with a programme, a service to our customers, BT Privacy and in two weeks time we have more than 350,000 people registering, 25,000 a day now. It is one of our most successful campaigns ever and it is a testimony that if you focus on the needs of your customers you really can make a difference.

If you talk about our strategy being our agenda then an important part is costs and management of costs. It is about operational costs but also none operational costs. On operational costs, we talk about the complexity of the organisation and the technical side of the house and we talk about 21CN. Of course you talk about synergies and I know that many of the analysts are not very happy to change organisations when you bring one side of the business to another side of the business we really don't do it to make your lives more interesting. We really do it because it is good for our customers and it brings the complexity down and it bring the cost base down. So by combining Major Business and Global Services we have eliminated a huge amount of money of internal trading and the complexity that surrounds this. I think we have streamlined our account teams being much better focused than what I have ever seen before. So this has a very good pay off and I apologise for the complexity it may bring you into your space.

The same applies if you look to the field engineering force. Bringing that together is an opportunity for efficiencies and effectiveness and I am pretty sure that you will see that will deliver in a very short period of time.

Now of course we are driving our overheads down and we are trying to make our costs end-to-end being as much of a priority as growing your new revenues. Surely we are working on tax and surely we are working on interest and you wouldn't expect anything else and I think that is a good thing to do.

The most important message from this page I think is that if you look to our EBITDA. Our EBITDA is also improving. Sure if you take it on its face value today after leavers it is up 5% and before leavers it is minus 2%. The minus 2% is an improvement over the last quarter as was the last quarter an improvement on the quarter before that. Now the reason for why that is on this chart is very simple. Our margins in New Wave are improving and will continue to improve and we are holding the margin on Traditional and that is why I think that we not just have momentum in the business on the top line. We have a strategy that works on all the lines of our business and will continue to work.

In summary you see our trends and you know these trends will grow our top line and we will absolutely reduce our costs and we will absolutely be innovative and be first out of the blocks with new services. We absolutely continue to improve the margins on New Wave and BT absolutely will continue to be a converged company. That together is basically the story about BT.

Speaker 2: Hanif Lalani, Chief Financial officer (CFO)

Good morning, today I will take you through our first quarter set of results which demonstrate strong performance and continued momentum in delivering our strategy.

As you know these are the first quarterly results we are reporting under IFRS and I will explain the main areas of impact on our numbers later in the presentation.

I will also take you through the usual lines of business financials noting that these have been restated to reflect two significant organisational changes.
This provides us with an opportunity to drive synergies, improve the customer experience and also to reduce our internal trading flows by over £2bn per annum.

Let’s look at the group P&L numbers first of all.

I would like to remind you that all the numbers on this slide are on a like for like basis under IFRS.

As Ben said earlier, turnover was up nearly 5% helped by our acquisitions of Albacom and Infonet.

Underlying turnover was up 3.4%, our best performance in over three years.

EBITDA pre-leavers was down 2% year on year continuing the improving trend that we have seen in the last few quarters.

Operating profit improved just over 10% or sixty £61m helped by lower leaver costs. Our tax rate is reduced further, to 25.2%, a rate we consider sustainable in the medium term. Thus our Earnings Per Share grew by 0.9p or 25% to 4.5p this quarter.

Now let’s look at the lines of business starting with BT Retail.

Remember that BT Retail now consist of our consumer and business channels, whilst our major corporate channel has moved to BT Global

Services. We also transferred the field force from BT Retail to BT Wholesale in advance of the creation of the Access Services Unit.

It is interesting to note that all three of our lines of business are of roughly equal size now in terms of turnover. This was a good quarter for BT Retail. Turnover declined by just 2% adjusted for the impact of mobile termination rate cut and New Wave turnover rose over 50%. New Wave turnover now accounts for 14% of Retail's total turnover.

In Traditional, the trends we have previously seen have continued and, in particular, dial up minutes are down 35% year on year as a result of Broadband substitution. However the trends improved further down the P&L. Gross margin at 26.6% was up 0.1% this was due to improvements in both Traditional and New Wave margins.

SG&A costs were reduced by 2% with New Wave investments more than offset by savings in traditional areas.

Operating profit at £139m, was down 6% pre-leavers, and this is a significant improvement on the trend seen in the prior year.

Moving to BT Wholesale. Turnover grew by 5% prior to the impact of mobile termination rate cut. External rose 18% while internal turnover was down 4% continuing the recent trends.

External turnover was helped by growth in Broadband and managed services as well as the growth in Wholesale Line Rental. This led to an increase in gross variable profit of 2%. Excluding leavers costs network and SG&A costs rose 3% reflecting the impact of higher volumes for Broadband in particular.

Overall this still led to an increase of operating profits of some 5% pre-leavers at £536m.

Turning to BT Global Services. This line of business now includes all of our major corporate activity including traditional areas. Turnover was up some 18% at just over £2bn. This was helped by the acquisitions of Albacom and Infonet, but even excluding acquisitions turnover still grew by some 6% an improvement on a like for like rate of growth in the prior year. EBITDA at £233m, was up 3% before leavers and this coupled with lower leaver costs helped operating profit to grow by 31% to £81m. With CAPEX down a couple of million pounds operating free cash-flow at £91m was up 13% pre-leavers on the prior year.

Now on to group capital expenditure. As you can see from this chart capital expenditure was around 3% up year on year. This was driven by investment in Global Services, in BT Retail and also in network activity relating to new areas which will support our 21CN network.

Let's now move on to free cash-flow. Year on year cash-flow was £285m down with most of that due to working capital. If you remember at the year end I told you that we have had an excellent quarter for working capital and some of our working capital has reversed in the first quarter. In addition because of the way that payment dates fall, some of our receipts came in early July rather than at the end of June. We have also paid much higher taxes this year, a more normalised level compared to the very low levels of last year. This means that net debt has crept over £8bn but is still some 4% down year on year.

Let me now take you through the impact of IFRS on our numbers. Last year's 20F showed in detail the impact of IFRS accounting for the full year ending 31st March 2005. In addition earlier this year we published the impact on the results for the year ending 31 March 2004. We have also issued a quarterly analysis of last year's impact of IFRS earlier this week. All this information is available from Investor Relations to anybody who has not already received it.

It is worth noting that for the full year 2004/05 our EPS before specific items was broadly the same under UK GAAP and IFRS. However the move to IFRS does affect our EBITDA. In the first quarter there was a £54m reduction in EBITDA due to IFRS. A similar reduction to that seen last year. That was driven by employee benefit, share based payments and lease accounting.

IFRS can make earnings more volatile. In particular, net finance costs reflecting the market movements on financial instruments. And on an annual basis the net finance cost line will also be affected by the net of the expected return on the assets and the unwind of the discount on the payment stream of future liabilities of the pension fund. There is of course no impact on our pension funding requirements.

For Q1 the EBITDA impact was offset by the lower finance costs. As a result of this there is a minimal difference at EPS level between IFRS and UK GAAP for Q1.

Finally net debt is just over £100m higher to reflect the reclassification of a small number of our properties as finance leases under IFRS.

So all in all I am very pleased to report further progress with our strategy. Once again we have had a record order book for networked IT services and, as more of these contracts mature, the profitability will continue to improve. In addition, Broadband connections have increased to 5.6 million and margins have improved as we get the benefit of economies of scale.

In Mobility we have launched BT Fusion, the world's first GSM, bluetooth handset with seamless handover which positions us well for convergence in the future.

We have also made great progress on integrating our acquisitions which will deliver synergies going forward. This will help us drive and deliver our cost savings of £300m-£400m per annum.

Our transformation continues apace and we are building on the momentum. Thank you very much.

Questions And Answers

Q1: Firstly, of the networking capital move, can you actually quantify for us how much was the sort of roll-over from last quarter and how much do you expect to get back next quarter? And secondly, it is more of a question for Andy than anyone else. In terms of the software in the London contract for the NHS, is there a danger that you as a systems integrator are thrown out along with your software vendor effectively?

A1: Hanif: On working capital I think the key thing to note is that we have initiatives in place every year to drive working capital in the right direction. Those initiatives for us kick in at Q2 and progress in to Q3 and Q4. So you will see a one-off benefit arising this year form the initiatives that we start this year, last year we started initiatives at a different phase and at a different time scale and that is why you kind of see fluctuations on a quarterly basis.

A small proportion of this swing that you have seen, and I do mean a small proportion, was a reversal from Q4 to Q1 but there was an even bigger fluctuation in a timing sense from Q1 to Q2. So I think that I am confident that working capital will reverse itself out as we go on throughout the year.

A2: Andy: We have had some delays with the IDX software in London and personally I am confident that IDX is the right solution. I think clinicians in London are always convinced when they go and visit the solution in the US that it is the right one although it has taken longer to Anglo size it than we would have hoped. I expect to get through that and even if we didn't I wouldn't expect us to lose the contract. We could of course lose the contract but I think it would be unlikely in view of the fact that you know we have been first out of the stock in the pack across the UK.

Q2: On the Wholesale Line Rental sign ups in the quarter. Was that a full quarter effect on wholesale line rental? Or did people anticipate the price reductions do you think or was that towards the end of the quarter? Should we actually anticipate the run-rate actually rising into next quarter for example?

A1: Paul: The whole DSL settlement and the way we are working with the industry will see WLR LLU being big parts of our portfolio. So WLR is growing strongly in this quarter and, given the price change, it makes it an attractive product.

Questioner: Let's put it another way. In the first four weeks of the quarter, have you seen a much stronger trend?

A2: Paul: We will wait and see what we get at the end of next quarter.

Questioner: ON DSL as well. You mentioned fluctuations on the Retail and fluctuations in the additions because of campaigning. Should we expect a fluctuation in the marketing budget as well into the second quarter for Retail?

A: Ian: Not particularly. We did, and we were very clear at Q4 2004, say that we had a particularly good campaign. I mean we try, as with all successful campaigns, to repeat the second time round and it wasn't quite as successful. So that isn't really a big shock and so we will go and do something else, but not particularly marketing spend driven. We will continue to spend on this, on BT Privacy, and I think we will keep all the usual costs under control. So we hope to have more of these marketing campaigns that hit the target again and you will see it fluctuating around the place and hopefully upwards.

Q: Ben, when I look at Telecoms around the world I see two trends and if you look at the world's most highly penetrated broadband market, Korea. The Korean Telecoms companies, both fixed line and mobile are now buying content companies. So they are kind of moving up the value chain from pipes to content. If you look to hardware people like Nokia and Ericsson are doing the same and are trying to move from hardware to software. In order for me to understand what you are going to do with your 21CN network and what type of telco you will be in five years time, could you just describe your content strategy? In other words, do you see BT in five years time as a seller of pipes, or as a content company, or a software company or at least moving towards that direction?

A: Ben: Well I think I have said many many times that BT making soap operas probably isn't a great idea. So you have to be careful when you are talking about content and what you mean by content because people think that is the production of content. I think that it is clear that what will deliver our services to our customers is more than just pipes. I mean we were, and in many people's perceptions is, still a lines and calls business. If you look at what we deliver to business, we deliver productivity tools and what we will deliver to consumers is lifestyle tools and that will include services, that will include applications and therefore will include content, but there are various ways to deal with that. I think that you will very much see us much more as the provider of the platform and the services related to that than particularly as the producer of the content itself.

Q: Two questions. First on the acquisitions. You said they were going much better than you had hoped when they were made four or five months ago. I think at the time you flagged about half of a penny of earnings dilution this year and an increase from year 3 onwards. Have you changed your minds on that and should we expect less dilution and more appreciation earlier. Secondly, on the unforecastable other EBITDA which seems quite sharply negative in the quarter. Can you explain why that is and what we should expect for the rest of the year from that line of things?

A: Hanif: I think the key thing is that we have told you that there will be a dilution on the acquisitions. The difficulty is when you start integrating them, you kind of start running the business the way you want to run the business and the way you want customers to be serviced. To try and break everything down and say how much of this is due to this acquisition and therefore how does it impact is kind of very very difficult. But what we can say is that the synergies we identified, whether they were cost reduction or revenue growth, are coming through and we are hitting the milestones that we expected to hit. In fact we are ahead in terms of the milestone achievements. So in that way we are ahead in terms of executing and integrating those businesses and we told you that they would have a diluting impact. I am not going back checking each and every line on acquisitions to say how does it look on a stand-alone basis.

Underlying EBITDA I think exactly for the same reason if you look at underlying EBITDA you can see that this quarter was a slow down in the rate of loss, better than last quarter and the previous quarter and I think that the trend will continue in that direction.

Questioner: If you look to the lines of business to my mind they all looked pretty good other than minus 42…I expected…God knows what the number is, but why was that and what do we expect for the rest of the year?

A: Hanif: On other EBITDA there are two main drivers. The first one we shared with you last quarter which is around the simplification of how we transferred charges within the group where we said we have reduced the number of flows. We have simplified it and that made a one off impact in the last quarter. The second area is in our OneIT business unit where we are transforming it dramatically over the next 6-9 months and we have been through that transformation over the last quarter and so what you will see is that the simplification of trading continuing across every quarter. With the transformation costs in IT lasting a couple of quarters but then going back to a normalised level of group overheads and so that is the trend you should see.

Q: Would you mind updating us on the capex outlook for the next year or two and slow slightly following on from an earlier question do you have any comments and have you seen any changes in competitor's behaviour since the announcement of your arrangements with Ofcom?

A: Ben: First of all with capex we have said there is an envelope. We stay within the envelope for our business and of course we add to that, the acquisitions. So the £3bn is 3.1 and that is it and we will stay in the envelope. That is very simple.

Yes, I can say yes we have seen a change in the behaviour within the industry and, as I said, I think that we had a very difficult year of discussions getting to the settlement. Now we have the settlement I think the market is changing and it is much more co-operative about getting things done that everybody wants to have and we have to deliver and I can see a massive change in the way we communicate much more pro-active and I think that will lead to better informed investment decisions for all parties including BT.

Q: I wonder if you would mind helping me understand what is going on in terms of the Broadband revenue progression. If I look at the sequential increase in Broadband revenues this quarter it is about £20m whereas in the previous quarter it was about £40m and the previous quarter it was about £50m. I wonder if you could explain what is going on this quarter, which means that the sequential number has actually come down. Is there anything funny going on? The second point is just on a point of detail. I wonder if you could give us the split of early leaver costs the £102m for last year by way of the new divisional structure - if you wouldn't mind?

A: Andy: On the leaver costs, we will do that offline. If this is okay. In terms of how the Broadband revenues work, I think the key thing to bear in mind is that as connections increase every quarter you get a multiplying effect. You get the connection fees coming through and you get the full quarter's rental coming through. So the connections made in Q1 will have a full quarter's rental in Q2 and you will have the connections on top for Q2 and you will have half the rental value for connections coming through in Q2. So what you see is a bigger growth as you go along in that progression and, as Ben covered earlier in the presentation, it is a very seasonal effect to Q1 and Q2 Broadband additions are slower than the Q3 and Q4 additions. So if you look at the revenue trends you will see those trends exactly flowing through in the same fashion and in the same way.

Q: Can I come back on the capex question and just ask what you are planning to commit to 21CN over the next couple of quarters?

A: Paul: Well I am not going to give a specific 21CN spend Tony. You have seen the numbers are very steady and constant move to New Wave capex away from Traditional and that has been maintained through the period we have just reported. What I can say is that plans for Cardiff and the build. We are already well underway with the work on that. In terms of preparation of sites and putting in fibre and so forth and we will be putting in the heavyweight kit towards the second half of this year and early next year in preparation for the trial. But I am not going to put a number on the amount for that.

A: Andy: Okay, I just wanted to highlight that in the longer term what we have said is that there should be a billion pounds worth of cash cost savings of which £500m is capex and so longer term you will see a reduction in capex and it is £500m.

Q: I just had a question relating to Global Services EBITDA performance in the first quarter and I wonder if Andy could may be shed a bit of light on why EBITDA has been relatively small and when he should expect, given that we have some acquisitions, we have contracts maturing and cost efficiencies coming through and so I am just surprised not to see that reflected in the numbers.

A: Andy: You know the new Global Services has within it the traditional business that used to be in Retail but the underlying trends are exactly the same in that we are seeing the same level of growth in the EBITDA of the old Global Services and a decline in the EBITDA of the traditional business that came in from Retail plus the synergies on top. Over time again we would expect that to move forward but you have got all of those effects and the underlying trend is unchanged and in Q1, always as you know, is not as strong as Q4.

Q: Ben I have got three questions one of which is just a factual. Okay, when you talk about 99% coverage can you just be explicit again? Is that population coverage or geographical coverage?

A: Alison: Over 99% is exchanges i.e. people living in an area that is enabled and that will continue to 99.7%; maybe more as we go through the rest of the year, particularly if we deliver things like the Scottish contract enabling exchanges up there and so on. Then we have the reach issue on top of that. So in terms of getting population coverage, it would be 99.7% times the 99%.

Question: So it is population. Then the other two questions. Is it not possible that with the NHS contract, given what the Government's budget looks like going forward, they will put pressure on the value of that contract and are you seeing indications of that? It seems a logical thing for them to be doing and there are indications behind the NHS that is already happening. The second question is that, given that parts of your business are experiencing price deflation and presumably parts of the business are also experiencing price inflation, how should I treat your top-line nominal growth number? Should I deduct what I think might be underlying inflation of 2.5% or is the real number higher than the nominal number? Could you just give us some indication on that please?

A: Ben: I would say a theoretical model that Hanif will take care of. Let me say a few words about NHS before I ask Hanif to comment further. I am very much on top of what is happening with the NHS. Andy and I have very regular face to face contacts with our customer and it is a massive important project for us. It is a very important customer and I can tell you that I detect nothing different in the relationship with the NHS as a customer as I see with other major contracts. You talk about a 5-7 year contract. You can't write in detail every single step you are going to do in 5-7 year contract. So your interactions with your customers and sometimes you will have a happier day than another day because you know you have to discuss difficult items. They have to make decisions and we have to make decisions. Let's say overall I feel very comfortable that this is a contract that we have world-class people working on, that understands the business and understands what needs to be done and we have a customer that is very well informed and that is equally important because you need to have a well-informed customer.

A: Andy: The customer is a good customer and fights hard on value and so continuing pressure on unit prices is as you would expect with any customer. But I would say the trend is completely in the opposite direction otherwise and clearly is going to be bigger than was ever thought of. So you know we are already on the N3 contract far ahead of any connections we were expecting at this stage. We are already discussing whether the private sector should be connected to N3 and those sorts of things. We have got PATS contracts coming through on top of the original contracts so in terms of the sort of functionality things in the NHS and the NHS's huge budget, how much are they going to spend within IT to gain efficiencies. I see nothing other than what we expected. It is a massive market that will need to be more and more intensively networked and intensively IT focused and I suspect they will find more valuable things they want to do and hopefully we will be able to service some of those needs.

A: Hanif: If you look at the individual services that we sell, you get into a very complex model in your mind. So I will simplify. If you look at traditional, you could argue that traditional predominately is a deflationary market and if you look at New Wave you could argue that it is very inflationary. If you look at the net of that you get to the underlying rate of growth. So the rough and ready answer is that the underlying rate of growth is kind of a good way of looking at it which, for this quarter, was 3.4% and was the highest we have seen for the last 3 years and so I am kind of generalising there without going into the detail.

Q: I understand your previous thoughts on growth in Global Services was around 10%-11% year. Given the sort of rate of growth you are experiencing in IT, do you feel that you could exceed that in any strong significant manner? Also, are we likely to see much expansion in the margins of the division given the rate of growth you are experiencing during the course of this year.

A: Ben: When we started 3 years ago we started these forecasts and projections. Then you go through the happy moment when you can show the trends and you are no longer in the business of making forecasts. So we are not in the business of making forecasts. We are getting results we give you as a forecast and trends are our friends and we will leave it as that. I am very happy with the growth that I see in Global Services and they are doing a magnificent job in entering new territories, new areas and new sectors of the business and I think that the numbers will be the story there.

Q: Two questions. Firstly on Broadband, can you give us an idea of Broadband ARPU or unit revenue and what the trends are there between the consumer and the business and also how it is split between connectivity and services on top of that? Then in the press release you are talking about TV over DSL, can you give us an idea how you think the business model will develop in that respect in terms of revenue and costs?

A: Ian: In terms of ARPU in the Retail numbers we show the numbers for Broadband so you can get a feel for the ARPU. I think it is fair to say that the vast majority of connectivity today, I mean everybody talks about the value-add services, they are coming and you know for instance in business has been very successful in some value-added services. Things like IT Service Manager which is a service that we offer to businesses for £10 a month; you are effectively your own offline IT Manager which is going very successfully. But let's not kid ourselves. These are small relations and they will grow. We think we have got a number of interesting things coming but I don't think anybody around the world is gaining great amounts of revenue from value-added services. In the consumer sector you will see things like video on demand services; Fusion, you could argue is a value-added service for Broadband so you will see it growing in the mix but today its connectivity.

Questioner: On the TV over DSL, how do you think that model will develop?

A: Ian: First of all, as we have said and it is worth repeating because people forget these things, what we are not going to do is delivering broadcast TV over DSL. What we would be offering our customers is an enhancement to broadcast TV offering interactive services, offering video on demand, catch up TV and things like that. We know exactly how to market that, and you will forgive us if we don't say what that is, but I think what you will see is a big growth in interactive services because the real thing that Broadband gives you isn't a better broadcast service. It doesn't. What it gives you is a better return path and I think it will be the services that don't exist today that will be delivered increasingly by a one to one relationship between the customer and the companies that will utilise the return path and broadcasting capability. That is going to be very interesting but it is a very recent market. The launch proposition will come nearer the launch.

Q: Three questions on the EBITDA numbers. Okay, could you give us an update on your thinking for leavers for the full year? It was quite a lower number in Q1. Secondly, if you could give us a bit of parity on how much is the slow down in the EBITDA decline was as a result of the acquisitions and how much of it was the underlying business? Then lastly Ben, I think you mentioned the traditional margins are holding. Did you mean with or without termination rates? Just so that we can have a go at working out what New Wave margins are doing.

A: Andy: Let me start with leaver costs. The first thing here is that to be very clear we are adopting an agile resourcing strategy. Which means that we have two areas of New Wave that are growing. We have got network IT services that is growing and we have got Broadband that is growing. We know that 21CN has to be rolled out and we know in our traditional business we continue to strip out cost savings. And when you strip out cost savings, that reduces the number of people you need in the traditional areas. So we are always saying to ourselves is have they got the skills? Can we reskill and redeploy them? Where appropriate, we actually reskill and redeploy people to work on ICT and the 21CN roll-out and on Broadband and, where we can't make that match happen because of geography and other things, we then adopt leaver costs. So all in all I would expect leaver costs to be slightly lower than the level we saw last year.

In terms of acquisitions, as I said earlier, you know we brought the acquisitions to integrate them as a business. I don't sit there tracking the acquisitions performance individually but what we do is, we would track the performance of Global Services and the way Global Services want to run their business and to service their customers. So the best figures I have is what we have told you at the time of acquisition. In terms of with or without mobile termination rates, or in terms of margin percentages, I think it's without mobile termination rates.

Q: Just a quick question on wholesale line rental if I can. Can you quantify how many of the sort of 400,000 or so losses to Wholesale line rental were actually new carrier pre-select subscribers or homes versus existing.

A: Ian: It is about fifty fifty. That may change. I mean someone asked earlier about WLR affected by the Ofcom changes and I think actually not because more and more people are offering WLR and you have seen the big people come in. What they do with their customer base will affect that percentage.

A: Ben: I would like to remind everybody that LLU and Wholesale Line Rental are very important products and we are very happy to serve the market with them.