BT'S FOURTH QUARTER AND FULL YEAR FINANCIAL RESULTS: 17 MAY 2007

Chairman – Sir Christopher Bland

Good morning and welcome to BT's results presentation for our fourth quarter and for the full year.

Firstly and in my case lastly or at least for the last time, I must draw your attention to the cautionary statement.

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.

I joined BT a little more than six years ago and these are just some of the headlines that pre-dated my arrival. It gave me a pretty good idea of the challenges ahead.

In 2001 three themes dominated the thoughts of investors in telecoms and BT.

First the level of debt. We had debts of almost £30 billion and gearing was a huge issue.

Second, would there be any revenue growth? The traditional bread and butter of telcos, calls and lines were in secular decline, mobile businesses were the future, and we were about to demerge ours.

Third, was BT just a utility? Well it certainly had utility like characteristics. A core business that could generate steady returns and could pay sizeable dividends but our international growth strategy had failed and many regarded BT as just another boring utility, and few were willing to invest.

My check list of actions upon joining therefore reflected what needed to be done. It's been rather beautifully written by somebody with a good italic script here, actually much more faded and in so far as that reflected the strategy, the strategy was simple and crude, it was the get off our back strategy. Get the banks off our back, get the newspapers off our back, get the politicians off our back. But we did have a clear idea of what needed to be done in the short term and we were the first telco in Europe to take decisive action to tackle the gearing issue head on and all the items of that list were addressed within 12 months, and the basis for transformation, but no more than the basis, were laid then.

Transformation requires a consistent strategy, a company willing to learn from its mistakes, eager to recognise the changing needs of its customers and its investors. And it requires near faultless execution.

Two very good examples of that vision, that strategy being carried through into delivery are networked IT services and broadband.

Over the last five years networked IT services have grown at a compound annual growth rate of almost 20%. At 4.4 billion it is BTs largest single stream of revenue, exceeding those of either calls or lines. Broadband is the defining new service of the decade. Back in April 2002 who would have thought that five years on more than half of all UK adults would have a broadband connection at home. A seven-fold increase. The corresponding 75% drop in price for that service and today there are nearly 11 million DSL broadband lines in the UK and BT is now the market leader.

The benefits of transformation started to come through initially in revenue terms and are now contributing to EBITDA growth as well.

This is our fifth consecutive quarter of EBITDA growth and our ninth quarter of an improving trend, driving strong growth in earnings per share.

Having delivered 20 consecutive quarters, that's five years for those of you who don't have the math of growth, earnings per share of 22.7 pence this year has grown 16% and at a compound annual growth rate of 20% over the last five years.

I am very pleased to announce that the Board has recommended the payment of a full year dividend of 15.1 pence that's a 27% growth and moving to our planned two thirds of earnings payout ratio a year early. The final dividend will be 10 pence and as a further demonstration of our confidence not only today but also our confidence in the future.

Our operational performance over recent years generated a very strong free cash flow. We have consistently returned an increasing amount of this to shareholders in the form of dividends and share buyback. In the last five years we have distributed nearly £5 billion.

This management team remains focused on generating shareholder value and this is reflected in our distribution policy.

Having reviewed the Group's net debt and the strong cash flow generated, we have also decided to introduce a new £2.5 billion share buyback programme while continuing to invest in the business and an efficient balance sheet will further enhance shareholder value. We expect the buyback programme to be completed by 31 March 2009 and we seek to maintain a solid investment grade credit rating.

Going forward we expect to increase dividends, taking into account our earnings growth, cash generation and our ongoing investment needs.

Let's consider the three themes that dominated investors thoughts when I joined six years ago, debt, revenue growth and utility characteristics.

Back in 2001 debt was, and indeed rightly so, considered a burden. But today the balance sheets of many quoted companies are inefficient.

It's clear that BT's revenue growth will continue to be driven by new wave services and the growing needs of customers for networked IT services. BT continues to grow faster than many of its peers and is far less reliant on voice revenues.

Within the Group the regulated asset base of Openreach has attracted comparisons with those of water or electricity companies. In addition, BT's strong free cash flow and increasing dividends, combined with the share buyback programme, are exciting shareholders. Utility, it turns out, is no longer a bad word.

I take real pride in our achievements to date. There are a number of positive and long lasting legacies in place to benefit BT, the industry and the UK economy.

Regulatory certainty, financial stability, service delivery, global capability and managements ability. Regulatory certainty is the result of developing a more co-operative and open relationship with Ofcom, and that's created a business model that could well work in other countries too.

Our financial stability has seen debt reduced from nearly £30 billion to a manageable level. In 2003 the IAS 19 pension deficit reached £9 billion, as at the end of April this year, our pension scheme was in surplus.

BT's now well on the way to becoming a services company with a clear strategy and an improving service culture, generating an increasingly higher proportion of revenues and profit from new wave services.

BT is increasingly a global brand, with world class global capability, a vital ingredient in winning business around the world. And I am confident that BT's management team has the ability and the vision to achieve further success.

I am handing over a very good business to a very good successor, Mike Rake, in an orderly and well planned transition. We are even getting an increasing number of articles with positive headlines. But there are some things that won't change. Cash will remain king, customers and employees will remain the keys to unlocking real value for shareholders and for the company. And in bringing it all together I can say that it's still good to talk and today our numbers speak volumes.

Just before handing over to Hanif though, I would like to pay some valedictory thanks.

First of all, I would like to thank you. I shall miss the twice yearly theatre of cruelty that this event represents but I can always go to a good RSC production of Titus Andronicus in order to remind myself of what it was like. But I think that the journalists and analysts have covered BT, first of all, in great depth. I wish our models were half as good as yours and I think that we have had both very fair and very detailed coverage. We haven't always agreed with it, and we haven't always liked it, but I don't think we have had anything to complain about during this time from any of you. Actually there are a few things …. but I will see those afterwards.

My second thanks is to the BT Board as a whole; to the non Executive Directors; and two very good Vice Chairmen and I am very grateful to them. I am particularly grateful to our wonderful Chief Executive, Ben Verwaayen. He's a real leader, who has been an inspiration to all of us at BT and his idiosyncratic use of the English language continues to astonish and please.

Hanif Lalani has segwayed into the role of Finance Director with terrific skill. Ian Livingston was a very good Finance Director, every now and again he tries to re create that role but he is well on the way to becoming a really distinguished CEO of our Retail Business and we are very lucky to have him. Paul Reynolds epitomises the vision and the innovation of the 21CN and that lays the foundations for a truly revolutionary approach to providing communications in this century. Andy Green has transformed BT Global Services which was dead in the water when he took it over into a global business generating cash and making profit. It was by no means clear that that was achievable and certainly not at the speed with élan that he has delivered to BT Global Services. François Barrault, his successor, is entirely worthy and brings a new dimension to the speaking of the English language that we've lacked since Pierre Danon left our Board. Finally, Steve Robertson, who although not on the Board has taken hold of Openreach and created it as a really vibrant and very interesting business. So thank you all very much. Hanif over to you.

<u>Group Finance Director – Hanif Lalani</u>

Thank you Sir Christopher and good morning.

An outstanding quarter 4 meant another excellent set of full year results which saw revenue rise 4% to £20.2bn, driven by strong growth in new wave revenue of 17% accounting for 36% of the total group revenue.

EBITDA of £5.6bn was 2% higher than last year with EBITDA growing in each and every quarter.

Earnings per share rose 16% to 22.7 pence giving us 20 quarters of continuous year on year growth.

We generated £1.4bn of free cash flow this financial year. This was down 16% after making additional pensions contributions of £520 million and I will cover free cash flow in more detail later in the presentation.

The full year dividend is up 27% and at 15.1 pence represents a payout ratio of two thirds achieved one year earlier than planned.

Let me look at quarter four results in more detail.

This quarter saw revenues grow by 3% or £158 million, to £5.3 billion, the 13th consecutive quarter of growth. This was mainly due to continued strong growth in new wave revenues, up 14% to £2.1 billion, more than offsetting the decline in traditional revenue, which fell 3%.

EBITDA pre leavers grew by £39 million and at 2.6% the improving trend has continued now for nine quarters.

With depreciation flat year on year at £773 million, operating profit grew by over 5% to £764 million, with the operating margin growing from 14.1% to 14.4%. Profit before tax and specific items of £632 million was £70 million or 12% up on the prior year. This partly benefiting from a £31 million net reduction in net finance costs. The effective tax rate was 24.5% and the net result was that earnings per share before specific items increased by 14% to 5.8 pence.

Let's look at the results for each line of business. Starting with Global Services. Revenue grew in the 4th quarter by 4% to £2.5 billion. New wave revenue at £2.1 billion, surpassed the £2 billion mark for the first time, showing an increase of 9% year on year. This more than offset the decline in traditional revenue which fell by 13% driven by continuing falls in dial-IP and voice related products.

This growth in revenue was offset by increases in delivery costs resulting in growth profit being broadly maintained at £754 million. During the quarter SG&A costs were reduced by 5%, as recent cost reduction initiatives began to deliver. EBITDA before leaver costs increased by £18 million to £325 million, a growth of 6% year-on-year, continuing the acceleration of the EBITDA growth we have seen in previous quarters. Operating profit, pre leavers, was down £4 million on last year at £135 million, as a result of high depreciation from the London NHS assets, which were successfully brought into use in the quarter.

As new wave revenue continues to grow, the mix effect reduces and margins will improve. The current mix in revenue reflects that we are continuing to migrate customers from traditional to new wave services, which has seen EBITDA for new wave rise by 19% and taking the EBITDA for the quarter to 13% and 11.2% for the full year. The margin improvement will be further underpinned by sustainable cost reductions which include procurement initiatives, global sourcing and also as contracts mature that will have a positive impact on margins. We are also increasing the replicability of our solutions and all these initiatives will move us towards the 15% EBITDA margin over the next few years.

Now let's focus on BT Retail. Another successful three months has seen BT Retail generate the second consecutive quarter of revenue growth. In an increasingly competitive market place, this reflects the continued success of Retail's strategy of innovative call pricing and value based propositions. This has been reflected in both the consumer and the SME market place. New wave revenue was up 28%, driven predominantly by growth in broadband offsetting the decline in traditional revenue of 6%.

Gross profit rose by 4% and a gross margin increased by one percentage point. This improvement reflects an enhanced product mix and impact of margin management initiatives. Gross SG&A costs were reduced by £55 million and re-invested in new wave services leaving SG&A costs flat year-on-year. All four units in BT Retail grew their EBITDA. EBITDA before leaver costs at £228 million was 11% higher than last year, continuing the strong growth we have seen in previous quarters, with an operating profit before leaver costs of £179 million, 7% higher than last year.

From the Retail Investor day back in December you will remember this chart which showed EBITDA contribution for the different parts of BT Retail. It's now been updated to reflect this year's current performance and BT Retail's EBITDA grew by 18% this year and the growth engines were BT Business, which grew it's EBITDA by over 40% and BT Enterprises, which grew it's EBITDA by over 30%.

So moving on to BT Wholesale. With strong growth in Broadband more than offsetting the impact of lower call volumes and lower regulatory prices, both external and internal revenue increased resulting in the total revenue for quarter being 3 per cent higher at £1.9 billion.

This growth flowed through to gross variable profit, which increased by 4 per cent to £946 million. Despite greater 21CN expenditure, Network and SG&A costs only increased by 2% reflecting the benefit of cost efficiency programmes. These sustainable savings were delivered by concentrating resources in value-added activities, globally sourcing where appropriate, reducing overheads in support functions and also widening the skill set of our network engineers, enabling a more flexible deployment of resource. As a result EBITDA before leaver costs increased by 5% to £496 million. Depreciation has however risen by 15% as legacy asset lives have been shortened to reflect the rollout of 21CN. This combination has resulted in an operating profit of £167 million, down 10%.

And finally, Openreach. Strong market volume growth has more than offset WLR price reductions in prior periods and increased revenue by 2% to £1.3 billion. External revenue increased by £82 million, or 67%, whilst revenue from internal channels declined by £56 million, 5%.

Operating costs increased by 6% to £838 million driven mainly by increased LLU volumes, a continued investment in service levels and the effects of inflationary pressures, all of which have been partially offset by efficiency programmes. This resulted in EBITDA before leaver costs reducing by £22 million to £487 million.

Depreciation reduced by £53 million, due to the lengthening of the economic life of copper and duct, at the start of the year. Operating profit before leavers therefore increased by 11% or £31 million, to £310 million.

From a group perspective the operational performance from all the lines of business translates into the 5th consecutive quarter of year on year EBITDA growth at 2.6%, and the 9th quarter in an improving trend.

This has of course fed through into free cash flow which was a net inflow of £1.6 billion in the 4th quarter, driven by the strong EBITDA performance, another strong working capital performance and the tax repayment from HMRC.

Capital expenditure for the quarter at £836 million, was up 6% on last year due in part to timing differences and accruals.

Looking at working capital. As I said in quarter three, due to the seasonal cycle of Wholesale billing customer year ends, our quarter four working capital experiences a strong pick up, and this quarter four was no exception. The £713 million improvement was a successful result of a continued focus on working capital right across the business including the effective clearing of aged debtors and a timely collection of new debt. The effective management of supplier payments during the year continued into quarter four.

I'd like to talk about pension and tax in a little bit more detail.

During April we paid an additional contribution of £320 million to complete our funding for the next three years to 2008/9, bringing the total amount paid in to the pension scheme to £840 million.

The IAS 19 calculation showed a pre tax deficit of under £0.4 billion that's £2.1 billion lower than the end of the last financial year. The Pension Scheme's assets have performed strongly and at the year end stood at £38.4 billion and it's worth noting that as at the end of April, under IAS 19, our scheme is in surplus.

The pension interest credit for the 2007/8 financial year will be the same as the year just completed.

Moving on to tax. The quarter four effective tax rate was similar to that of quarter three, resulting in the full year effective tax rate being 24.5%. In April we received the remaining £504 million from the tax repayment and for 2007/8 we expect a tax rate to be between 25-26% and in the medium term we expect rate which remains below the statutory tax rate. The impact of the Chancellor's budget in March means that from 2008/9 we expect a £50 million improvement in earnings each year. However, the change in capital allowances, and based on our future capital expenditure profile, means that we will pay out approximately £50 million extra per annum in cash terms for four years starting in 2008/9.

Moving on to Capital expenditure for the year.

Capex expenditure for the full year was £3.2 billion, the level we previously guided to at quarter three and we expect this level to be maintained over the coming year.

As you can see, Openreach access capital expenditure was broadly flat but legacy core network spend has come down nearly 35%, or over £200 million.

This has enabled us to increase spend in key areas of Systems and Software which is up 56%, or £350 million. This has been driven in part by higher demand for LLU and further investment to meet our commitments under the Strategic Review. In addition Global Services New Wave also saw increased investment in the MPLS global network and in Networked IT Service contracts.

Our performance to date has demonstrated our continued successful execution of a consistent strategy that has led us to 20th consecutive quarter of earnings per share growth.

The momentum we have established over recent years in growing new wave services, implementing process improvements, delivering margin management and driving cost efficiencies will enable us to continue to grow revenue, EBITDA, EPS and dividends over the coming year.

This gives us, the visibility and therefore the continued confidence to accelerate our dividend payout and to announce a new share buy back programme of £2.5 billion expected to be completed by the end of March 2009.

With that, over to you Ben.

CEO – Ben Verwaayen

Thank you very much.

So let me borrow a slide from Christopher because this slide tells you where we are today and that's interesting. You can have a perspective about what it means but we should talk now about the relevance going forwards, so we arrived here, now what?

I looked at this one, I said it many times if you look to the trends you understand where the company is going and these are important trends to look at, because they tell a story, that basically says we have options, we have choices to make. You could continue on the path that we have here and you can expect where the company will be a quarter out, two quarters out, five quarters out. Or you can take this opportunity and accelerate.

If you compare where we are you could use this slide. You compare yourselves with your traditional colleagues in the market, it's a great slide to look at so thanks to Lemans for it. But the question is, does it tell the story and I don't think it does because this is behind us, it's not the story about what's in front of us there is much more in front of us and this is why we have built a capability in our organisation and we have built a brand in the market that allows us to go forward more rapidly than anybody else in our segment.

This is new wave business, it represents today 40% of our total revenue and it's built from the components that we have discussed many, many times and about each and every of those components you have warned us from all the things that could happen. Guess what? They all happened, so thank you for warning. At the same time this is the result so we have the capability to absorb the market as it develops and to gain from that and go from strength to strength. The question is do we have the capability to accelerate from where we are today.

Now in order to judge that, you have to look to what the market says about us and I don't mean the financial market, I mean paying customers. So let me walk you through what paying customers say to us.

Well in the Global Services business they say to us we like what you offer and we like it to the extent that we are getting more than 200 new corporations this quarter joining the customer list of BT and you can see a whole variety of customers here. I would like to draw your attention to one of them, Anglo American because it has written behind it, "In cooperation with HP", and that's very significant because it tells you that we today have the capability to work with partners and to go to market spaces and places we couldn't go before. We have the capability to execute in a way in partnership than is more than what is printed on a brochure. These are wins that demonstrate our capability to go from relatively small to the very large, 3.4 billion orders received in this quarter makes the year to a £9.3 billion order received for Global Services.

If you look to the trend this has been our second best quarter ever, even if you include the jumpy things like a billion pound more type of orders. So there is a strong message here.

Equally strong is the message if you look to Broadband. Certainly a subject where people have seen all things coming. Our last two quarters were our best quarters ever. If you look to where we are today we have 32% market share of net adds, 34% of installed base. It tells you that we have a concept that is about delivery for our customers.

Now if you look to the market in total it is a growing market and it is still growing and guess what LLU is growing, great for Steve and his business. We are very happy with that two million. It is a good number and at the same time DSL is growing as well. It is a growing market and this quarter 800,000 extra connections we are growing strong quarter after quarter after quarter. It is relevant what we sell to our customers. It is not just high speed internet access it's a platform that enables them to do all kind of things they couldn't do in the past. They can organise their lives and the benefits of social networking, sharing information, in banking. It is doing all kinds of things that they couldn't do before it is relevant, it's affordable and it is easy to use.

Today we can tell you that we are the number one for market share and that is great to say. I think it's even more important to say we are the number one for service and quality. Not because we say so but because our customers say so and the institutions say that. So we have a very strong position based on a choice we have made early on, that Broadband is not just an access line, Broadband is a platform and look to what you can sell to that, you can sell so much more than what you could do in the past.

Now if you look to this chart it tells you two stories. People like to spend with us because they get true value so the ARPU goes up and ARPU goes up in things that really matter to people. They spend money on services they recognise and they will build from there. So you can see here that in a relatively short period of time we have one million plus home hubs in the UK. They are installed in houses, and we have access to those customers with all kinds of new services. A simple software drop allowing them to get all kinds of new services. We sign up to 2,000 people a week with the Home IT Adviser, a service that helps them to manage their own hassle, because that's what people want, get the hassle out and what they want further is to have the certainty that their life, which is on their computer, is safe. Look to the number for Digital Vault. We are moving from a dumb line to a capability, a service and we have done that, based on the conviction that we have as an organisation a differentiated customer service and capabilities. Now I said to you we will do one million VoIP customers by June of this year, we do 1.4 right now. It's great to talk about the numbers, it's better to see how those numbers translate into the 'so what' for customers, what they can do with it. One of the exciting products of course is BT Vision because it allows the TV to be something else other than what it is today. It allows the ability that you have in an interactive reality of your PC to be translated to your TV and we have been very open in how we start with BT Vision. We have been open with you that we will hand hold our customers in the first phase. To be open with you, we will ramp up, but in a managed way and we promised that we would start somewhere around this time with our marketing campaign. I think we have kept all the promises so far which is good, so let me keep the promise to show you how we start our marketing campaign.

Next BT Business. A fantastic story because today BT Business is able to allow their customer base, small business and not so small business, to focus on what they do best, their own business and enable them to communicate in an e-enabled society with everybody and everywhere based on platforms that we built for them, hassle free.

If you look to our portfolio it's not a lines and calls business anymore this is a business about e-platforms. This is a business that allows the integration of hardware and software to become available to the business markets in the UK, in an unprecedented way. What it is to have a web portal, what it is to have an e-commerce platform or whether we bring traffic to the web site of our customers it is all software enabled and it allows customers to do what they do best, their own business, hassle free. So this is a business that is transforming as we speak and you saw the financial transformation that is taking place, if you look to the products and the relevance that we have for our customer base it is a fantastic story.

Now some exciting stories from BT Wholesale and Openreach.

Let me start with Openreach. The past year was a monumental task, they had to do two things at the same time, get started as a new organisation and at the same time deliver on TSR and deliver on Customer Service to their customer base that was expecting miracles around the corner. I think if you look towards the performance that Openreach had and the way they had managed all those challenges at the same time they have done a terrific job. A TSR that has more than 99% delivery on WLR here it is. A capability to bring the service levels up, while at the same time really from scratch, re-do all your processes, here it is! The capabilities to have LLU market, the market is there. It's the choice from customers how to deal with that market and I think Openreach has delivered a great promise going forward.

One of the interesting things that happened because of the increased trust in the ability for Openreach to deliver was the opening up of the market on the wholesale level, where people would look to opportunities much more realistic and much less in a friend or foe environment.   Therefore there is a whole new market established that we call Managed Services, where on a Wholesale level whoever you are can decide the best way to go to this particular market. It could be to own certain assets as you do in the LLU environment or it could do the opposite not owning capabilities but let other people run it on a white label basis.

The performance of Openreach on one side has opened up a tremendous opportunity for Wholesale on the other side to serve a market. We have established the credibility that Wholesale customers are serious, important customers for us. Therefore I am very happy to announce today that last night we signed the biggest ever Managed Services contract for BT Wholesale with the Post Office. If you look it's an important one no just for the size of it which is very, very big but it is important for the depth of it. It allows the Post Office to differentiate itself in the market while BT Wholesale will do the heavy lifting for them and that is a good model. It's a great model and it underlines the dynamic in this market and the growth opportunities that are there for BT Wholesale.

So we are delivering for our customers and I think we can make it great commercialy. It is all about higher quality; it's about getting it simpler and faster and making sure that we are more efficient in doing that. So this could end the presentation, but it is not because what we are doing…which is to listen to what the investors tell us.

Well basically what they tell us, very balanced of course, give us more cash, increase your returns. These are the points we are looking at and I could go one by one and say, are we going to deliver. And for all of these elements I think we have a great story to tell because we agree with all those points. We are working on them and we are delivering on them and I don't think that on any of these points we have a disagreement. The question is, driven by customer service, driven by a success in the market, doing all these things here, what will it deliver. Well I think what we are going to do is deliver more. The journey that we had five years ago when we decided that we would no longer be a Narrowband company and become a Broadband company. Use that experience and now accelerate and we have decided not to be what we are today going forward, but to be something much more exciting. We are going to be a service provider with global reach and we are going to be absolutely the leading one. Our strategic initiatives that we have taken and the translation of the "so what" of this is what I would like to share with you.

First of all one of the biggest elements in the performance of a service company is time, because time is money is cost and time is an element of your service capabilities to your customers. Are you capable of delivering at the time that your customer wanted or are you organised to deliver at the time that fits you as the supplier best. The latter is the case traditionally in the telco world. In order to make the change where time is a cost element and an obstacle to an environment, where time is a differentiator and a benefit, you have to prepare your service capability to the extent that the only thing you need is the push of a button. If you need a screwdriver it will cost time, somebody physically has to go out and physically has to do things with the likelihood that something will go wrong or not. If it's the push of a button it's the drop of the software and if well tested will mean immediate satisfaction.

So can we design ourselves to an organisation that counts in days to an organisation that delivers in minutes. That is the number one task that's ahead of us and that we said yes to.

The second important thing is, are we global? Well you will have noticed something on this map. There are no dots on this map, normally companies show the globe with dots on it, in the old days there own offices, forward looking companies put their customers on the map with dots, we have no dots. Why have we no dots? Well, because we will go where our customers are, it doesn't matter we will be there. We will find the best suppliers wherever they are in the world, it doesn't matter where. We will have the global sourcing from wherever it's best placed because that's what the talent is.

As a company we will take the globe as our working space and we will follow our customers wherever they may be. Wherever they are in the new environment, we have to have capabilities to serve them on a globe that's not limited by our dots.

The third element is this one. The limitations of what you can sell can no longer be the limitations of your own innovation. If you truly, truly want to deliver value to your customers you have to accept that the value creation is made by third parties. Sometimes by your own customers, they make their own contents, they may work with you, they may compete with you with their own contents, they may work with third parties they may work with whoever they choose to.

So you have to create a capability that's truly open and we think we know how to do it and make money. More money than we can make today. We are going to build that neutral infrastructure … we call it 21C … on a global basis on top of which you will have capabilities that we can use over and over again. A traditional Telco builds products and services in a silo built on the latest technology and on the insight of the Product Manager and of the insight of whoever works with this. Those insights are great things to have but they have limitations to combine with other stuff. In a very flat environment where you re-use and re-use over and over again, you make capabilities available to everybody. It's much easier then to build from there a software environment where everybody's idea and concept can be put on top.

So the three words that I want you to remember about our future strategy that will seriously deliver advantages for us are therefore, real time or customer time, global in the real sense of global and open in the real sense of open and those things will deliver for us transformational tools that are truly important.

Using those points is as exciting a journey as the journey was between Narrowband and Broadband. It will open a whole new dimension to our capabilities to produce results. It will enable our customers, it will deliver right first time and it will enable us as a company to organise ourselves much faster, much better and much simpler. At the same time what it will do for us is look into the speed in which we serve the market and it will reduce the cost base which we have to operate. We are pretty good as a company on costs, we have done for years approximately £400 million a year on cost savings.

Last year, last fiscal year we did 500 million, safe to say this year we will do at least 100 million better and in 08/09 we should do better than that. So we have a capability to accelerate in our cost management, to take costs out of the traditional and create for ourselves the opportunities to choose. The story that we give here to you today is, there are exciting opportunities for BT ahead of us because of the choices we have made.

If you bring it all together I think we have a strategy that works and that's now refreshed, it has new elements to it. We have an execution capability as a corporation to get it and to get it fast, we have a momentum working for us and we have the confidence that we will deliver.

Thank you very much.

Sir Christopher Bland

Ok, questions and I'll go right centre left.

QUESTIONS AND ANSWERS

Question 1

Paul Howard - Cazenove
A couple of questions, firstly it seems quite an upbeat message from you Ben, when you talk a lot about acceleration and I don't want to ask you to give another profit forecast but are you sort of saying that you will be disappointed if you don't see an acceleration in revenue growth and EBITDA in the coming years?

And then in terms of relating to that, turning to the balance sheet it's probably fair to say the balance sheet is not as efficient as it could be and you have left yourself some significant headroom, perhaps you can talk about what investment opportunities you see emerging over the coming years, whether organic or inorganic in nature?

Ben Verwaayen

I think I have been upbeat for a reason and the reason is that we have great opportunities in front of us and that translates into a better capability to reduce our cost to accelerate where we think we are winning in the market and I think that you are seeing, I'm almost saying trends are your friends, but I will try to avoid that but, you have seen a direction that we have taken that gives us great confidence that we can continue the momentum that we have.

Now if I looked at the balance sheet it's a kind of funny, of course the day that you announce a £2.5 billion share buy back that's always the start of a new discussion, I fully appreciate and understand that but I think that the 2.5 billion share buy back is another point of evidence of our confidence that we have in our future.

[Sir Christopher – Its worth pointing out that the share buyback begins tomorrow. So if you want to close out those short positions I suggest you do so.]

Question 2

Matthew Bloxham – Deutsche Bank
A couple of questions, one just on the restructuring maybe you can kind of give us a sense of how the composition of that and how much delta there is

could it go up or down and whether the kind of benefits you see coming from that are totally incremental to what's been announced before.

The second question was just on the unbundling subs, whether you can give us any idea of how many of this two million subs you've got on unbundling are fully unbundled.

Hanif (first question)

On the restructuring the £450 million incorporates a number of things, there are process costs, there are system costs in there, there are leaver costs in there, there are skills transition centre costs in there and it's our best estimate of what we think is likely to happen, so in that context I am fairly confident today. If I look at that cost I would treat it like any other investment that we are making in the business and I expect a pay back for that cash out flow and we think that we can generate and I am sure we will do better than that but we can generate a pay back within the third year. If I look at the NPV of that it's about a £1 billion worth of NPV, most of it is incremental so if I take that answer and combine it with Paul's question earlier about cost savings I think what it tells you is that I am expecting EBITDA and EPS earnings to be upgraded. I know some of you have but bearing in mind that we should move from the consensus figures.

Steve Robertson (second part)

The only significant full unbundler at the moment is Carphone Warehouse and I think probably you would be better to ask Charles Dunstan the exact number, it's a bit commercially sensitive from their point of view. What I would say however is we can see a significant acceleration in full unbundling in the course of this year and as we get in to the second and third quarters we will see several other significant players having aggressive full unbundling programmes.

Question 3

Laura Janssens - Merrill Lynch
Thank you Sir Christopher I am going to quite miss having the mickey taken out me by you in the next few quarters.

I have two questions if that's ok. First of all on the new wave, we've seen over the last few years the tremendous success you have had in growing new wave revenues, is there any sense at all and I know it's difficult that you could give us of how much EBITDA or operating profit is now being contributed by those new wave revenue streams just so we can get a sense of where to base our forecast from here.

Then secondly on the restructuring charge I wonder if I could ask which of the business units we should expect to see the EBITDA benefits coming through in. Thank you.

Hanif Lalani

On new wave I think what you will see is the fact that the order intake has been an excellent year £9.3 billion, I think that will flow through in to revenue growth in the future. At the EBITDA margin level for the whole business on new wave I think what we have seen is an improvement in EBITDA margins over the last three years and we expect that EBITDA improvement to continue. Now what we don't want to get in to is the game of guiding on every line on a P&L but the margins on new wave have improved and are getting stronger and we expect that to continue.

I think there will be an impact on every line of business to some extent, I think obviously with the creation of BT Operate and BT Design there will be an element of investment in those areas in terms of the processes and systems to enhance the quality of service and the resilience we provide, but I think if I look at all four lines of business I don't think anyone stand out compared to any other it's just a different type of investment for each line of business.

Question 4

Nick Lyall - UBS
Can I just ask on the 21CN plan so far have any savings been taken in the savings for this year the 500 million already that you would have classed in the original one billion of savings for 21CN.

Then the second thing is you talk about efficient balance sheet, could you maybe mention to us what sort of efficient net debt to EBITDA might be for BT now.

Paul Reynolds

On 21C overall I think you see it as a big investment programme so this year we are approaching sort of peak of investment both capital and Opex but the benefits are coming through as well. So most of the product launches you see coming through in the business are much more efficient product launches because they are beginning to use the re-usable capabilities that were built for 21CN. So you are seeing the cost being invested now and the cost savings coming through although they are less but over this year and next you are going to see the cost savings really accelerate as the benefits of that investment come through, so they are part of the savings yes.

Nick Lyall - UBS
In the numbers is there a reasonable amount of 21CN savings?

Paul Reynolds

We haven't separated it out but it's in there, yes.

Sir Christopher

Balance sheet Hanif

Hanif Lalani

If I look at the balance sheet, yes we are moving towards a more efficient balance sheet, a lower weighted average cost of capital and I think that it also allows us to retain some level of flexibility in to the future. I think the key thing here is we want to remain a solid investment grade credit rating and I think that that's fine, I don't look at other metrics.

Question 5

Christian Maher - Investec
Can I just ask two questions. Firstly on the M&A strategy itself, with a new Chairman coming in do we await a new strategy, if you like, or do you expect it to remain bolt on in terms of size and mainly looking at Global Services and I guess Broadband.

Then secondly, little bit cheeky but in terms of the extra cost cutting that you have announced does that in any way allow us to think about even higher than 15% margins in Global Services.

Sir Christopher

First question, I don't think a new Chairman represents a new strategy but our strategy will continue to evolve and he'll have an important part to play in that evolutionary process, he is absolutely committed to and has been involved in the decisions and are aware of the decisions that we have announced today.

Second.

Hanif Lalani

I think it is a bit cheeky but I think that we will all be happy in this room if Francois gets us to 15% in a few years time, so I think that's the key focus rather than looking at anything above that.

Question 6

Chris Fremantle – Morgan Stanley
So you are talking about gross cost cuts accelerating this year and beyond, can I ask you to go a little bit further than that and talk about your total operating costs, I mean are we talking about total operating costs actually falling over that period, that's the first question.

Then the second question, no results presentation would be complete without a word on Capex, can you restate your position on fibre roll out and whether that has evolved via the roll out in the local loop and are you still intending to cut Capex by around £500 million by the end of the decade.

Hanif Lalani

I think on operating costs I think we have to bear in mind that we have a strategy which looks at traditional and new wave so in the traditional areas there is no doubts in my mind we are reducing the cost base, we are trying to enhance the margins we are getting through them and so you would expect lower operating costs. Now on the other side which is new wave, I think it's like an investment case and I am happy to actually invest more providing there is a benefit and a financial pay back and when you look at the group level you see the net impact of those two items netting out or growing or declining, so I think looking at the group level and saying we want your operating costs to do X, Y or Z, I think it's a difficult way to guide anyone, what I do expect is traditional costs base to come down, new wave to grow providing there's clear evidence that there is a payback for it.

Ben Verwaayen

Let me first say crystal clear, yes we are going to see our Capex falling and that's what we have set, that's the model and the model we are going to do.

A separate issue is what do you do with fibre, I think we have a very dynamic, is probably the word to be used, market but when you look to the ideas around fibre there are people who think that that is the end all for everything and therefore you should bet the house on fibre and there are people saying that it's not going to be that way. I think we have been very pragmatic. We do fibre where it makes sense and in new builds and, in those areas where there is a business case that you can make, we will do that. We are just had a trial in Cardiff for 24Mb on 21C network - so with 24Mb you have a total different reality on copper. Don't expect us to go out and radically change our forecast for what fibre will do but we have an open eye to what the market will say. But the numbers are the numbers and that is probably the best thing to say.

Question 7

Christopher Nicholson - Oraca
I wondered, could you tell us how, what the head count you think BT will have in three years time?

Ben Verwaayen

Well, let me first say that I am extremely proud of what we are doing in re-skilling. We had 3,000 people in admin jobs that are now revenue generating people in the IT area so that's a fantastic capability that we have in-house. We have a strategy and we have talked about I think for years now that says we are going to reduce our head count in the traditional we are going to expand in the new areas and we will make sure that we make that transition as efficient as possible. Some of that has to do with our volunteer leavers programmes, some of that has to do with re-training, others have to do with re-skilling and global sourcing and I think that's exactly the programme that we have in place now. So if you ask me what is the head count of BT three years out I hope it's as high as possible because that means that we are growing in our new areas more even than we think we will do today.

Christopher Nicholson - Oraca
Perhaps then I can just re-phrase it slightly. If this was BT size now in three years time what do you think the head count would be?

Ben Verwaayen

Oh, that would be less because we have efficiencies and we have great efficiency as we said so without growth of course the head count would go down and you will see now our programmes but the good news is that BT is not a steady state company it's an exciting company, it's growing in many different areas so therefore the question about total head count is probably a question that you will see going up.

Question 8

John Clark – Brewin Dolphin
I am just a little bit confused as to the difference between the re-structure and associated in your setting up of BT Operate and BT the other one sorry I have forgotten. I just wanted to get a bit of flavour of sort of before and after perhaps to show what is actually going on there and also how much is cost associated with the growth of 21CN and second a question perhaps for Hanif, how does he think we ought to look at the quality of the what you might call the pension earnings that now a days appears a credit to the profit and loss account and have all boosted our earnings per share forecast to a lovely degree.

Sir Christopher

BT Operate and BT the other one, BT the other one is quite a catchy title. I think we should latch on to that.

Hanif Lalani

Let me take the pension interest credit first. As I said earlier I expect the pension interest credit to remain flat this year to next year and I think the key here is we move from UK GAAP to IFRS and when we made the transition from UK GAAP to IFRS we re-stated our whole P&L and when we did that we analysed the previous year, the current year and we said look if you look at the EPS it stays broadly the same. In fact if I remember correctly the difference was less than 0.1 pence so it is negligible. Now what's happened under the new accounting treatment is everybody's focussed on one line called the pension interest credit line, nobody ever talks about the lease cost that has gone above their EBITDA line, what about the share option costs, so everybody is focussing on the down but not on the up so I think, I would just remind everybody when we transition from UK GAAP to IFRS there was hardly a change and some areas in the accounting world you get a benefit on the P&L and there are other areas you get a movement going the other way. The benefit for us is on the pension interest line, the things that have gone against us have been above the EBITDA line. So net, net negligible difference.

Sir Christopher

But taken on its own in terms of the nut of your question, what's the quality of those earnings. You know you can work that our for yourself but as Hanif rightly said you have got to take, you can't focus only on that, if you had took that on its own you could go to the accounting profession and say what are you at. I mean I used to be Chairman of NFC and 20% of our earnings were in the so called pension credit that was non cash and yet there it was, now they have changed but you couldn't have regarded those as high quality earnings, this is a bit different. But taken on its own you would tell the accounting profession to go and think it through and plainly they would need to, but they have got to think a lot of things through not only that.

Hanif Lalani

And just to reiterate the dividend is 15.1 pence for the full year it's on the EPS number including the pension interest credit and it's a two thirds payout.

Question 9

Chris Ansell – Nomura
Sir Christopher if instead of departing you were leaving what priorities would you write on your piece of paper.

Sir Christopher

Well luckily that's for Mike Rake. He's working on his own piece of paper and you shouldn't advise your successors and you certainly shouldn't advise your current colleagues but there is plenty to do at BT. I think that both Ben and I would agree that the process of changing BT into a genuinely world-class service organisation has still to be completed. We've come a long way, we are very good in the UK particularly when compared with our competitors but we are not yet world-class as a service organisation, that is the first. There is continuing opportunity to cut costs and Precision presents that and there is a continuing opportunity to grow and innovate the business. So I think that he'll be able to work out his own list but there are plenty of things for BT going forward to do and to continue to grow in the next five years in the way it has in the last five there is no doubt in my mind. I mean BT is a really good strong company but it is not yet perfect and in a sense in those imperfections lie opportunities to grow the business to cut the costs and to make it even better.

Question 10

Steve Malcolm - Arete

Two questions – one on Openreach and one on Retail please.

On Openreach my understanding is that we have got a regulatory review coming up in the next 12 months in which the current price cap will move to an actually regulated price. Could you just talk us through what you think the implications are for that on the cost of copper, LLU and WLR and whether that has any bearing on your VDSL plans and the possibility of sticking some VDSL network build into the regulated asset base going forward.

And second on Retail can you just, Ian, give us an idea of what you plan to do with your coming wholesale price reductions. Will you pass it on to consumers, will you use a bit of it to fund TV or will you just try and book a little bit more profit. Thank you.

Sir Christopher

All of the above – Steve and Ian

Steve Robertson

I think the regulatory price review which I think Ofcom are targeting to have completed by April next year is a big opportunity for us actually, because at the moment everything is done product by product on a completely adhoc basis and it is very important for Openreach to be sure of the regulatory framework within which it is going to operate. We are at the very early stages of that, very early stages of discussions with Ofcom but clearly that's going to be something that is critical for the future of Openreach but what I should say is that we are very aligned with Ofcom in terms of the need to provide a stable environment for the market that's emerging. Now in terms of the regulatory asset base the future of VDSL in terms of is it going to go in to cabinets or not, it's still an open question. You know we are in the process of trialling that technology just now but it is not something that we have got a conclusion on yet.

Steve Malcolm - Arete
Is it fair to say that some of the more imaginative financing schemes are going to be, you know you couldn't do any of that until you have got the regulatory side sorted out in Openreach which is going to take at least 12 months.

Steve Robertson

Well I'm not sure about the imaginative finance schemes but maybe if you have got some ideas you can have a chat with me later.

Ian Livingston

Price reduction are well and I think the interesting thing with Broadband is actually we have managed to keep the ARPU for new customers connected and it's higher today than it was a while back. Where we have tended to re-invest our money and obviously with the announcement on the slight reductions in

Wholesale prices coming a little while ago, we have had a chance to plan for that and you will see it in terms of adding more and more value into the packages, so for instance Option 3 is now unlimited Broadband use. We will also do some targeted promotions and you'll see a pound or two off some of the prices but we have actually done a lot of that and really what we are going to be focussing on is putting more and more value in to the quality of our offers and that's stuff that our competitors can't match.

<u>Question 11</u>

Hannes Wittig – JP Morgan
Two questions, one is on the buy back that you have announced the generous buy back whether that has been pre-cleared with the pensions regulator and whether there is any risk that it might not get cleared or slimmed down or whatever.

Secondly the Openreach debate obviously apart from financing debates it has also been around whether it might be spun off and in the past you have not been happy with that concept, so I just wondered why you were given that we have equivalence why philosophically why one wouldn't want to spin it off.

<u>Sir Christopher</u>

First question the pension regulator does not yet run our business, I don't think he would like to and the answer is it hasn't been cleared. Given that we think our pension surplus at the end of April was around about £1 billion we don't anticipate any violent kick back from any source.

On the second we have not closed the door and will continue to examine all the options in relation to Openreach but what you generously described as a generous buy back of 2.5 billion we are able to do without going through any kind of exercise on Openreach and in passing it might be worth quoting the Financial Times who said it's odd that banks would lend more and more favourably secured on a part of BT's business than on the whole. Well, the answer is under certain circumstances that's not impossible but within what we think is a prudent amount to use for share buy back which is half a billion more than the consensus thought we were going to do we didn't have to go down that re-structuring route. But we will continue to look at Openreach, we will continue to look at the implications of regulation on Openreach and an earlier questioner pointed out there is an inter relationship there and no doors are shut.

Last question at the back.

Ben Verwaayen

Before we do that Christopher, before you go to the last question there is somebody else who want to say a few things, perhaps we can do that now.

[Video]

Anthony Bolton

Christopher I am delighted to be able to take part in this your last results meeting. Our paths first crossed when you were Chairman of London Weekend Television and you invited me to a dinner at the South Bank offices and that was the first time I met you and also Greg Dyke and we talked about London Weekend Television, we were big shareholders at the time. Later on in 1994 the company was taken over from Granada and I remember you were slightly upset some of the shareholders sold out without consulting you which certainly wasn't the case as regards Fidelity. You then went on after that to NFC where we were shareholders and also then a distinguished period when I had much less contact with you at the BBC.

We also used to meet at this time I remember well on the touchline at Pilgrim School in Winchester where both our sons were at the time. Now my approach to investment is a contrarian one and I like to do what people don't expect and go against the herd and I would say that your move to Chair BT in May 2001 was certainly a contrarian and brave one at the time. The company had nearly £30 billion of debt we'd had big pre-tax losses of over billion pounds negative cash flow and a falling share price.

The first thing you did was to come in to oversee a £6 billion rights issue and I remember you coming in and I still have my notes of the meeting in May 2001 where you explained the reasons and you wanted to put the past behind BT and move on to a new future and I remember you even had some reservations about the sale of Cellnet as it was then or O2 as it now but this was a condition that was agreed to before your arrival and therefore you couldn't change it. Since then you have brought in Ben and a new Finance Director and I remember a very important dinner that in my view that you hosted with Ben where in September 2003 he went through the new strategy for BT with some of the shareholders and talked about different things including what's now called 21CN.

Now the situation today has been completely transformed, £30 billion of debt is £8 billion and you are thinking about returning cash to shareholders, a billion losses is now £2.5 billion in profits and the share price has been rising strongly for over 18 months and I think my only regret is that I didn't buy more shares after that key dinner in 2003.

Christopher congratulations on what you have achieved at BT and my very best wishes for your future.

[End of video]

Sir Christopher

Thank you very much.