BT'S FIRST QUARTER RESULTS
KEEPING AHEAD OF THE GAME
26 JULY 2007

Ben Verwayen

So good morning everybody and thanks for coming. You have seen this slide many many times but I still recommend that you at your leisure take a look at it and I guess you have seen this slide also many times. For those who really really study the slides there is a small adaptation that Phil and his team have put on it, the tag line here is slightly different because it's true it has put BT ahead of the game and it is a strategy that works both on the defence side for traditional business and on the growth side for our new wave business. It's true that we are getting in to a very good way of establishing long term relationships and we are building a global one layer IP Network that will enable all the new software services. It has also this quarter really contributed to our results you can see it here.

This is a novelty this chart, because you are used to having a chart with a green arrow up and a red arrow down and I apologise this time there is no red arrow down so you need to pay attention there is something horizontal. Maintaining traditional is a good thing, it's great to have a quarter I think it is even better to look to the trend and this is it. The trend is in the right direction and I am really really delighted to see that in defending our traditional which is a whole variety of products important to us, it is heading in the right direction. And at the same time you can see if you look to what happens in our new wave business, is that its a business that's growing in strength. If you look to how the business develops you can see that yes there are seasonal elements to it but the year over year growth is important and it's going about bigger and bigger numbers.

So you can say this is a business with a momentum. It's a momentum that is not only experienced by our customers. If you look to benchmarking which is important, you see where in the business we are recognised. I am particularly pleased to be the company of the year, in business in the community because it tells you that CSR is not just a nice to have it's not just the part to do well as a company. As a return to shareholders, it is important for your financial relationships and your service capability and experience for the customers is crucial to build relationships. This is how you build a relationship as a licence to sell in society and where it is true here in the UK it's true in other markets as well. So this is part of the fabric of who we are as a company and if you look to two of the other nice ones, you see to Business Week. They look to the hundred most important companies worldwide in tech and in the info sector and we are the only one on that list with Headquarters in the UK we are number 13 it's pretty good. And you look to the Fortune list of admired companies to be number five it's great. So this is all good and great for us, for our egos well perhaps a bit, but more important it's a reflection of what our customer base tell us. You look to TeleMark who is very much in to the details of where the businesses are and they talk about network reliability and best in class that helps people to make decisions. Think about it, the decisions made by our enterprise customers are more and more important decisions not just about a component somewhere in the purchase department. But it's about the way they conduct their own business and how we become an integral part of the fabric of those companies. So this type of recognitions in benchmarking, not opinions, are truly important.

So we are doing terrific. Why then are we going to accelerate a further change in our strategy. Well simply because there is so much more available to us and yes we are looking to put us in a different league. To put us where we can look to our customers and say we understand absolutely where you are. You want to be served at your leisure, at your time, wherever you are. So we have to create a company that is capable of dealing with real time. We understand that our customers ask for us wherever they are and that means global, please be local, because as you know global depends where you sit. Local is where you are and you need to have local capabilities and a global support system to deliver that. We want to be open, we need to be open not just open minded, but truly important it is to be open in the sense that you incorporate. That is what other people do better or faster or in a different industry, and they are capable of bringing a pipeline of ideas.

So we are going to talk about what that means for our strategy. But I remember in the first meeting I was ever here, the number one question was, what type of a culture are you going to create in BT.   We did a great job, I think, in coming from a narrowband in to a broadband reality. That was an important step to take. What we want to create is a success culture. In a success culture you are absolutely aware of what your customers want. Both in terms of customer experience and customer service it's a crucial part, it drives decisions that you take in your organisation. It is equally important to be efficient and ensure cost cutting is a part of that. But efficiency goes further than cost cutting, it's the understanding how to relate one on one what your customers want and the way you can produce and bring it to them. How you use your channels. Efficiency will give you oxygen to do all the other things as well. It is about innovation and innovation in a wider sense, it's about the willingness to learn and open your mind. Over the last six months our teams around the world scouting, have visited more than 625 start up companies, new companies in a wide variety of sectors and brought those ideas in to BT. Maybe for things we do in the coming six months and maybe for things we are doing in two years time.

The willingness to be on the innovation front is a key ingredient for success culture.   It also challenges the ideas of the here and now. It also gives the yes but, and much more debate which is good in order to get the robustness of your decisions.   At the same time we need to talk about the fact that you need to collaborate with others. You need to have a culture in which collaboration is a natural thing to do and yes, we need capabilities on the ground wherever we are. So global sourcing and skills where they are needed is part of the success culture. The willingness to therefore adapt and be agile and change are key ingredients of a success culture. It is important because of the last point.

If you create this environment you are much more robust as an organisation to deal with challenges. I read in one of the things that people wrote about us that BT must assume that everything goes right. Well we don't on the contrary, we assume that all the things that people advise us that can happen will happen. And you know what, if I look to what people have said about the market all the things they have identified are happening. The thing that people miss is if you create a capability to make choices, you can react – it's not necessarily that the things that will happen are bad things or bad things in the P&L. The ability to react, to create an environment to make choices gives also the opportunity to be proactive. I think that we never argued about whether LLU would happen, of course it's happening. We argued about whether it would have a devastating affect on BT Wholesale. This quarter 500,000 LLU lines last quarter 600,000, BT Wholesale's profit went up.

Competition in the market is happening, it's a very competitive market yet BT Retail's profit went up 10%. So the idea is to create choices and to continue to create choices to make sure that you have as a company the opportunity to go for the right choices.

Now customer experience. As we said crucially important, understanding where you are and I won't walk you through all of these but let me give you a few examples.

If you look to consumer business. Epitiro is an independent benchmarking company and for the 5th consecutive quarter BT Retail's Broadband Network is the best performing network in the market. That has an affect on the way that you relate with your customers. If we look to BT Home IT Advisor and you have 90% plus customer satisfaction for value added service then you know that you are on to something. It drives the next step. It's the same if you look to corporate. If you are best in class for long term relationship and remember the first chart, where in the top right corner long term relationship has been underlined, we were recognised as being best in class for that. It's truly important in the market that it is absolutely driven by long term contracts and by the renewal. You have asked many times about renewals, we are doing great, but the fact that we has understood how to do that is an ingredient for future growth.

So if you look to carrier business to deal with the fault rate and bring that down and to deliver on WLR3 on time as the corner stone of TSR. These are measurements of our commitment, hard work, really hard work and done on time are good stuff if you look to improve customer experience.

Now on costs, if you want to create the space to make choices, transformation of your cost base is equally important.   £600 million for this year is underpinned, totally underpinned, as you would expect. But lets look to some of the things you can do. Is BT Retail more prominent in its marketing. I think everybody who looks at the papers and see the television would say yes. But still you can do it more efficient and the capabilities there are tremendous.

At the same time if you look at your process, process efficiency will contribute to the cost savings for BT Retail.

If you look to Openreach, what they have done is really remarkable. The fault rate brought down and the ability to react by system automation has gone up.

If you look to what's happening in the Wholesale market and see how we can have a much better management of our support systems that will immediately contribute to the bottom line.

And in Global Services our global sourcing strategy as you can see in the numbers is really contributing.

So this is our underpinned £600 million for this year.

Now on innovation you can get a two hour presentation on what's on this chart. I will make it in to half a minute but what it is, it's a wide ecosystem of relationships. A relationship that is as diverse as you can see in this chart from Intel about a next generation of digital services just bridging the mobile and the managed broadband PCs and the digital homes. If you go back to what we do together with BMW where we do very breakthrough innovations about car to car management of communications. These are really important innovative channels that we have opened. It's not the step of inventing, it's not the …aha.…now I have a light bulb. It's about process, it's about channels, it's about presentation, it's about combinations.

Very often it's how you can get things on the market. The pipe of capabilities that's here, will absolutely make sure that we have in the future enough of the new products to go into the market. As you have innovation, hand in hand goes collaboration. We have world class partners and it's not the partnership that's on paper. It's the partnership that's working on a day to day basis and I would like to take two out of this very important list for us. That's the relationship that we have with Sony on the PSP. It's quite interesting so many playstations around and all of a sudden together with Sony we are going to enable them to be used for voice calls and video calls wherever they are. All of a sudden the tool set from just being for games becomes a communications tool set. That's a wonderful combination.

And look at what we do with Oxford University. We talk about many of our big programmes and the ability to manage those large, impact-full programmes which require top notch skills, and those are very rare to find. So together with Oxford University we are going to establish a programme. We are going to make sure that we get a pipeline of talent through because it helps us in the industry in general to have that capability.   So collaboration is in a wide variety of elements.

Now contract wins in the quarter has been excellent, two billion is a good number and if you look to the list here there are two things I would like to say. First of all look to the variety of wins. I don't think that two years ago I could have aspired to tell you that we are going to be the managed service supplier for the Canadian Embassys around the globe, a hundred of them. I don't think that I could come here and say that there is Setefi, an Italian company that deals with very intelligent state of the art payment systems and BT will be their partner.

I don't think that two years ago we could have talked about managed service contracts of the volume of a TMobile or a Post Office. The world is changing, the market is changing and the focus on product is shifting to the focus on solutions. One of the business parts of BT we should talk more about our Enterprises business is doing some stellar jobs. Our BT Conferencing business is the fastest growing in the world, Xerox a great win last quarter and Google is a great name of a very recent win and you can see that on all those elements we are able to win business in a different way than we won business a couple of years ago.

So it's about your capability globally and we have done a lot in the quarter. Start of an MVNO in Italy which is very helpful for the new services that we have launched. It's about capabilities on the ground around the world and I think that one of the areas that is interesting. If you look to the rest of the world and see our position in Latin America. We have 2,000 points of presence we have over 1,000 employees there now all underpinned not by hopes and belief but by real contracts that we need those people on the ground and their capabilities because we have paying customers. It's part of the real expansion of BT based on a understanding of our customer contracts that we have in hand and the capabilities that we need to build from there.

So these are really important skill sets that you will see around the world for instance, Infonet delivery of $150 million cost saving tells you that we not only are pretty good now in making decisions around M&A and integrating them, but also delivering on the promises. You will remember that we made that promise of $150 million of cost savings and it has delivered.

Now if you look to big projects and we talked about our relationship with Oxford, think about the NHS. NHS is a big project we talked about it a lot and look where we are. Three main elements, the N3, we have now 20,000 connections on the network that was originally for 18,000 and we are ahead of schedule. We are two thirds on our way in Scotland, we have enabled the network for VoIP that will give additional benefits to the NHS. And look at Spine. Look to the sheer size of it, the numbers, 500 million messages or 30 million prescriptions or 4.5 million appointments choose and book and 400,000 people using it, it's the largest transaction database in the world, it's built, it's there, it's growing. We have had 14 software drops, all on time and in London we are making enormous progress in the roll out of capabilities.

So a large project, an important project bringing benefits being bang on time.

Let's talk about Broadband. Interesting market, lots of things to talk about all very focussed on the here and now and every quarter there is a new story in town. And you know what, if you look two quarters back then you say oh what was it again, so this is the trend. It's a trend that you will see LLU coming in so people swap from where they were non BT ADSL channels. Some of them swap from where they are to ADSL, others are slower some are more eager to go and do that. These are the numbers, 500,000 in quarter on LLU and you can see that BT Retail is doing fine. By the way 11.2 million as you can see here with year over year growth in Broadband 30%. Look how many households and look to the nature of the households that are now banging on the door and saying I want Broadband. It's different than the first adaptors, it's a different class of customer that's coming in, 11.2 million is a great number.

This also is a great number, 38% market share. Personally I like even more the gross number because that is the number of people that called or went on email or went on the Internet and said I want Broadband. Guess what, I want Broadband from BT. Of course there is churn in the market and if you have the largest installed base, you get your fair share of the churn. But 426,000 people including 50,000 home movers said; I want BT. So that's a very good indication of where we are and they are on the higher value package. I am pretty sure Ian will be keen to show you the wonderful black hub one that you see here on the chart it's much nicer if you see it in reality but here's the story.

This is all about value. Out of the people coming to BT, 58% says and I want the higher value packages. Because for me Broadband is much more than downloading it's an integral part of what we are doing in our lifestyle. I want more services I want more capabilities. We could have talked about Digital Vault which is a fantastic capability but I thought you would be more interested in seeing what's the result of that. Well this is the result, it's a big smile, because you see ARPU coming back. It is a big smile because you see the part of new wave is really, really important it becomes the driver of our ARPU growth in the future.

But this one is also important, because it shows how we are making progress on a step by step basis. This is not a story that will unfold in one or two quarters this is a story that is built to stay. Therefore it is important to build stone by stone to make sure that you do the right steps that you verify the right steps and then you can move on to the other one. I am very pleased with this package, it's a breakthrough package. I'm not as eloquent on it as Ian is, he can really make you run to the phone and go and order but I think £1 a week to get more than 220 games of football is pretty good deal. If you look to the whole set of other sports that you can get with it this is a very very good deal. I expect that BT Vision will build from here to the next great deal will come on board. Then you get from where TV was to where TV will be, which means we basically focus on inter-activity.

Now BT Business. To be honest for a long period of time for the small business market, the subject to discuss was price, that was it. So the flyer in the door is the next supplier. That's changed dramatically and you can see that it's changed dramatically in these numbers. But you can also see it in the so what of what we do. It's much more about the convergence between IT and communications, you can see that our attraction in the market has improved dramatically. We are very very confident that what we bring to the market place is so much more than price, that this is a market to really pay attention to. That's what we have said to the public at large, pay attention to this and they did, watch this.

Video of business advert played

And the awareness has been risen quite dramatically on the back of these ads, so if I bring this together I think this is a company with momentum, you have seen how we are performing, you have seen how we have done on revenues and EBITDA, the twenty first time that we can announce an earnings per share growth, as I said last time, this is now a habit. It's very good to have the continual momentum of the business and at the same time it's a business that is willing to be challenged by itself by opening it's mind, being truly global in what we do and doing it in real time… Hanif?

Group Finance Director – Hanif Lalani

Ben has just demonstrated the continuing positive trends in the business. This reflects the outcome of a winning strategy and consistent execution. So let's look at the outcome in a little bit more detail through the P&L.

Group Revenue of just over £5 billion rose by £169 million or 3.5%, it was driven by an 11% rise in new wave revenues whilst traditional revenues were maintained year on year. Overall group operating costs increased by 3% as a result of additional and deliberate investment in service both in Openreach and in BT Retail as well as servicing of networked IT contracts. Therefore, EBITDA at £1.4 billion grew almost 3% giving us our 6th consecutive quarter of year on year growth.

Depreciation and amortisation increased by £6 million resulting in group operating profit before leaver costs rising 5% to £716 million. Operating profit margins rose 0.2%. That's 0.2 percentage points to 14.2%.

Leaver costs, before specific items were £8 million, £16 million lower than last year, partly due to timing. Net finance costs were £55 million, an increase of £9 million on last year primarily due to the increase in average net debt. First quarter profit before tax rose 6% to £650 million.

Tax of £161 million is £10 million higher, with the effective tax rate of 24.8%. Profit for the quarter of £489 million gives to a rise of 5% in earnings per share of 5.9 pence, or 6 pence, on a pre-leaver basis and that gives us our 21st consecutive quarter of year on year growth.

Reported capital expenditure increased year on year to just over £900 million. This unusually high number reflects the phasing in 21CN spend in BT Wholesale, primarily for exchange preparation, as well as the expansion of the global MPLS network to service growing customer demand and to deliver a broad reach on on-net capabilities. In addition to that we purchased some enterprise wide perpetual software licences. This is a one off expenditure. Therefore, I continue to expect the full year capital expenditure to be within our target of £3.2 billion this year.

Let's move on to the lines of business. Firstly BT Global Services.

Revenue grew by 5% to £2.3 billion with new wave revenue rising by £163 million, an increase of 10%. MPLS revenues rose by 25% to £145 million reflecting our investment in global reach and our customers demand for secure, fast and reliable data management services. However, traditional revenues declined 12% as customer migration to new wave services continued. Gross profit grew by £15 million to £643 million, while SG&A costs increased by £4 million. Therefore, EBITDA before leaver costs increased year on year by 5% or £11 million to £239 million.

The depreciation charge increased by £16 million to £164 million, primarily due to assets on major contracts being brought into service as milestones are achieved. Operating profit before leaver costs fell £5 million from the previous year to £75 million.

One of the key medium term targets is Global Services' margin improvement. These charts give you a clear insight into the impact of revenue mix and cost reduction and the role they have to play in reaching our target of 15% margin. You will recall that last year traditional revenue fell by 9%, while EBITDA dropped 16%.

In Q1 traditional revenues declined 12%, but improved cost efficiencies meant that the reduction in traditional EBITDA was held to 5%. At the same time new wave revenues rose 10% and the EBITDA on these services increased by 12%. Maturing contracts, cost reduction and a greater proportion of revenue from repeatable value added services will enable Global to meet the targeted of margins of 15% in the medium term. Whilst margins were flat in Q1, I do expect to see margin expansion in the second half of this year as the benefits of cost reduction programmes flow through.

Let's move on to BT Retail. This quarter revenue of £2.1 billion was broadly flat reflecting a decline in traditional revenue of 5% and growth in new wave of 16%. Cost of sales were reduced by 2.4% driving a gross margin improvement of 1.4 percentage points and boosting gross profit by £27 million to £587 million. Increased marketing with the rollout of BT Vision and the promotion of the BT Together packages in tandem with investment in services meant that SG&A costs rose by £11 million to £389 million. Therefore, EBITDA of £198 million was 9% higher than last year giving us our 8th successive quarter of EBITDA growth year on year. Finally, operating profit of £156 million was 10% higher than last year.

BT Wholesale. First quarter revenue grew by 1% to £1.9 billion with external revenue maintained at around £1.0 billion and internal revenue growing by 2% or £17 million. Strong growth in Broadband revenue from internal channels more than offset the impact of lower call volumes and lower regulatory prices.

Gross variable profit decreased by 1% to £916 million. Network and SG&A costs were reduced by 4% as costs relating to the roll out of 21CN were more than offset by cost savings made through network efficiencies. The combination of revenue growth and lower costs meant that EBITDA rose by 2%. This coupled with flat depreciation resulted in a 4% increase in operating profit.

Finally Openreach. Revenue in the first quarter was £1.3 billion, an increase of 4%. External revenue increased by £81 million, or 62% due to volume growth primarily in local loop unbundling. Sales to other lines of BT declined by 3% to £1.1 billion, reflecting a volume shift from internal to external channels.

Operating costs increased by £52 million to £839 million due to increased investment in service and systems maintenance in support of our undertakings agreed as part of the strategic telecoms review. EBITDA of £471 million remained almost unchanged. Depreciation and amortisation costs of £181 million has increased by 3% due to higher capital investment in prior periods. Therefore, operating profit was £7 million lower at £290 million.

With a good strong performance from all lines of business I was keen to show this chart again. It shows that we have added a 6th quarter of positive EBITDA growth year on year and 10 quarters of an improving trend.

Free cash flow. EBITDA of £1.4 billion was £55 million better than last year driven by an improved operational performance in all lines of business and lower leaver costs. Net interest rose by £9 million as net debt increased to £8.6 billion. During the quarter we issued three tranches of bonds amounting to £1.5 billion and at the same time £665 million of debt matured and was repaid. We also accounted for the receipt of £504 million in relation to the full and final settlement of the open tax years up to 2004/5 agreed with HMRC last year.

Capital expenditure for the quarter amounted to £819 million in cash terms, £17 million higher than last year.

Pension deficiency contributions of £320 million being the final payment until the next triennial valuation in December 2008 was also made.

Working capital and other was £365 million higher than last year. As you know, our cash collections are becoming increasingly seasonal as shown on this next chart.

We remain confident in delivering our full year free cash flow. You can see that a very high proportion of our cash flow is generated in Q4 and Q1 is often an outflow of cash. This is becoming a more pronounced trend and is due to several factors:

- seasonality of the billing and collection cycles for our UK carrier business which is growing;

- the increasing proportion of our revenue which is contract based in the corporate sector; and

- the timing of payments and receipts around the end of every quarter affects this trend.

Finally, let me have a quick look at Pensions. We are now reporting a £2 billion surplus under IAS19 - a significant turnaround from just one year ago. This positions us well for the next triennial review with the Trustees in December 2008.

We have made good progress to date in many areas, but there is a lot more to come. We have confidence in our capabilities and that is reflected in our passion to become a more open, global real-time services company. This will ensure we go on meeting the needs of our customers, helping them thrive and deliver for our shareholders through continued growth in revenue. EBITDA, EPS and Dividends throughout the current financial year.

Thank you.

<u>CEO – Ben Verwaayen</u>

Thank you Hanif. Questions.

QUESTIONS AND ANSWERS

<u>Question 1</u>

Matthew Bloxham – Deutsche Bank

A couple of questions. One on the revenue growth for the quarter and for the rest of this year, can you give us any sense of how much the acquisitions you've made are contributing to the growth in revenue and profitability.

Then the second question on the stabilisation of the traditional revenues can you give us a sense of whether you think that's something you can sustain, I guess when you look at some of the promotions you've got in the market now with the call packages, prices coming down, broadband pricing coming down whether you think you can stabilise that, or is it just a kind of short term blip in the trend?

Thanks.

<u>Hanif</u>

Acquisitions, let me give you a feel for it, if you look at the amount of EBITDA the acquisitions create in terms of year on year growth, it's less than £2 million in the quarter and most of that is coming through Dabs. So if you look at the 1.4 billion of EBITDA in the quarter and look at the acquisitions on a year on year basis of less than 2 million you can see that I don't consider that to be a significant factor.

Matthew Bloxham

I mean there are a couple more that have only just come in, I guess like PlusNet, this is the first quarter. If someone wants Global Services - will they make a more significant affect for the rest of the year?

Hanif

I think even if I was to strip out all of the acquisitions right on the trend, the EBITDA trend chart would be exactly the same that you have seen today so I think it is driven by our performance in our organic business through management of margins through cost reduction, through selling value added services, that trend doesn't change you get a little bit more through the acquisitions but not significant.

Ben

Right then, on the traditional you have seen the second chart that I showed you about the trend, that's the most important one and the trend is going that way and if you're under the zero line, that way is a good way to go, so I would take that as a good guidance.

Question 2

Paul Howard – JP Morgan Cazenove

Can I ask some questions around broadband, clearly the market share story is excellent but the revenue growth is slowing quite sharply from last year and just trying to get a feeling for Ian's outlook on that picture and then in terms of the broader market for broadband I suppose I am struggling to understand the net additions that everyone is reporting. If I take BT Retail, Sky, Carphone and Tiscali we have got about 133% of the net additions that you have reported for the market as a whole. Either someone's lost about 150,000 in the quarter which is a big number for anyone to lose given who is left, or there is a timing difference between the numbers you are reporting and the numbers that other people are reporting.

Ben

Let me take the last first. I am sure you don't want us to go and deal with the numbers that other people give, that's the beauty of your job … you are going to talk to all of those people that we do not have the privilege to talk to in depth, so.
Paul Howard, Cazenove

I suppose if you could say whether it's timing or whether you think there is someone that is losing a lot?

Ben

I don't think that we should comment about other people's numbers, our numbers are the numbers and we are pretty pleased with it.

Ian

In terms of broadband growth Paul, we grew I think revenue grew 8 million, quarter on quarter. We had some quarters last year where the growth was 6 million, another one was the 7 million and then it moved up I think with slightly with PlusNet, but that's pretty decent quarter on quarter growth. We are seeing that ARPU on new customer acquisitions is staying up very nicely, 58% of customers choose Option 2 and 3 and we feel very much we put more value in to our packages but I think that's going to be very much our focus and we expect to continue to see revenue growth coming out of broadband and of course value added services that go with it.

Question 3

Hannes Wittig – JP Morgan Cazenove

I just have a few questions, one question regarding clarification of recent comments by Sir Christopher on the subject of VDSL and I just want to see what you were currently thinking in terms of the scope of a potential VDSL role out in the UK and how you would be thinking about timing and whether you have any indications from OFCOM how that would be regulated.

Ben

Let me translate what you are asking for is fibre to the home?

Hannes Wittig

No VDSL.

Ben

I don't think that we have any change in our strategy around VDSL nor with fibre by the way, two questions in one as a bonus.

I don't think it will be regulated, I think that what you will see is that the market will look to services and not just to technologies as we always said. We have a very pragmatic view on the world, we do what is necessary to serve the market if there is an economic case to be made and so it is almost very selective from basis and very selective between brackets. If you look to the vast amount of fibre already in the network I don't think that people understand that there is 9 million kilometres of fibre in the BT Network, the same with VDSL. If there is a market if we can define the market and we will see but it's a pragmatic approach.

Hannes Wittig

So you are not ruling much in and your are not ruling much out at this point.

Ben

What I rule out is a kind of carpeting for the sake of carpeting and a kind of taking Capex and then hope and see and pray, I don't think that's a great strategy.

Question 4

Lawrence Sugarman - DKW

Hanif, can you just give a little bit more information on the tax outlook, obviously came in slightly below the full year guidance, is there anything you can add looking out from now.

Hanif

I think the team are going a fantastic job, if I was looking at your models I think 25%, which was the lower end of the range I gave you last time is a good thing to use for this year and for next year. Don't forget there is a 2% drop in corporation tax next year so I think 25% for this year and 25% for next year is a good number to go with.

Question 5

Graham Ruck – Merill Lynch

Just wondering if you think there is further opportunities for broadband consolidation in the UK and in particularly do you think that retail market share is more important for you going forward than you have in the past.

Ben

We value every market, I am delighted with the managed service contract that we win in Wholesale it is truly a change in the landscape. I think they are very important, it is a very diverse market, you have very different business models -infrastructure based, reseller based, you have people going with LLU, with IP Stream you have people going in to package deals so there are a wide variety of markets that you can see. It is an important market because we are on our way of course to have a broadband platform on which you get all those new great and important services. Ian anything to add to that?

Ian

I think that we would expect in terms of retail market share the thing that wasn't shown on the chart earlier was actually Cable and one of the big changes from a number of years ago is actually and we miss all of this when we actually talk about LLU or whatever, is we are seeing a far greater proportion of the UK base going from cable to some sort of BT network whether it's LLU, IP Stream or Retail. So five years ago or so, 60% of all broadband was actually with Cable for which BT basically got no money. Today that percentage is a fraction of that and I don't obviously know Virgin's numbers but I think we would expect to see continued very strong growth of people on BT network and I think that is the important thing for us, we want to play at every bit of that value chain but the more we can get some money for (whether hopefully it's Retail) but the more we can get some money for, is good for our shareholders.

Question 6

Stephen Howard – HSBC

I just had a question about the regulatory outlook with regard to unbundling, do you see any prospect for OFCOM requiring a naked form of DSL unbundling as it were and if so, what do you think the implications of that might be, what terms might accompany it and what concessions might you exact in return for a toughening of the unbundling environment.

Ben

There are two things that I would like to say first of all, if you start a negotiation, you never start a negotiation in public, if there is a negotiation, I don't think so. I think the market is doing fine, the market is not looking for more regulation the market is looking for execution and I think that I am pretty comfortable that people have a wide variety of choices now to be made. One of the things that WLR3 delivery did was to make a kind of hallmark statement to the market how serious we have taken all of this and we have delivered and I think the market is in a total different space to two or three years ago when this was probably the way to go forward, I don't think the answer is more regulation.

Stephen Howard

So if one of your competitors were to go to OFCOM and suggest that this was the logical next stage there would be a fairly powerful and decisive response from you guys that it's just not necessary.

Ben

If somebody would feel the need to do that you get a very sensible normal conversation, we are no longer in fist fighting, so this would just be a normal conversation I think there are very different ways. There is already a lot of discussion about what's needed, where we are going and you know this is an evolution; a part we will see. There are more ways to deal with an issue than just run to the regulator as this market has been addicted to doing for a long time and if people want to run to the regulator, be my guest, that's fine. Ok.

Question 7

Steve Malcolm, Arete Research

I just want to get a couple of numbers straight, well one in particular on broadband churn. Looking at the gross installs of 426K in a quarter, it looks like your churn is running sort of high 20% is that right ,and in that context should we think of vision as kind of much a churn reduction tool going forward, and where do you think you can take that churn and are there any other tools at your disposal to get that churn down and I guess, broadly speaking, what are you going to target in churn as the market matures over the next year or two.

Ian

For the 426, your maths are about right but actually that includes about 50,000 as Ben said of home movers and they appear in both numbers so you move from one to the other so probably the right number to look at in terms of real people churning off is about 370ish in terms of gross addition so churning in the early 20s rather than the late 20s. That's a bit higher than it was but it's the market that has become incredibly competitive and isn't a huge shock to us obviously with a lot of the competitors pushing forward. We have the benefit of having a high base and obviously if you have a zero base then your churn is going to be somewhat lower than if you have 3.8 million customers. That's going to be a feature going on and we have got to work that much harder and it's why I point out just now the proportion we have got of new customers coming in to our base. In terms of Vision, the answer is yes and yes, frankly we see Vision as something that will be attractive in it's own right, less than a £1 a week is a great great price tag, and obviously you would be more interested in the Scottish Premier League which, for just £3 per week, you can get the best league in the world and English premiership, so there is a lot of packages and a lot of people who currently don't pay for TV who would like to have some more additions. It's one of many things that we think both act as a churn reducer but also as an enquiry right, the sales people will tell you are absolutely delighted with Vision because they think it's going to be something that will really help them in terms of the overall package.

Steve Malcolm

So stuck in a low 20s high 20s churn environment?

Ian

I think there is a lot of people wanting to get customers at the moment I don't see a major kick down any time soon in churn which means we are going to have to continue to work very hard.

Ben

But low 20s not high 20s as you said.

Question 8

Richard Barker – Credit Suisse

I quick one on M&A Ben if I may. Just wanted to know whether you would share a little bit more about what your focus is in 2008. Obviously you have been fairly active I guess over the last couple of years but I think specifically you have talked I guess in the past about feeling that you needed to extend your reach in terms of networking, continental Europe in particular I just wondered if that was still on the agenda, maybe you could shed a little bit more light in general on your priorities.

Ben

Well I have always gone to great pains to say that we do not have an M&A strategy, I think I have shared that with this audience a few times. We have a strategy as a company and we are basically saying if we can speed the existing strategy up by adding something that makes it better or faster than if we do it ourselves we are more than happy to look at it. But it's not a strategy as a stand alone strategy and I think the indication of what we have done in the past is a great indication to look to the future. It's driven by opportunity and looking to where it makes sense, we are picky and I make no apologies for that, we are very picky and we have so far integrated all our acquisitions ahead of our internal schedule which is important and as I have shown today driven the cost down as you would expect and we have delivered from that and it has served us well, so I don't see a great urgency to change that strategy.

Richard Barker – Credit Suisse

No particular common geography.

Ben

No.

Question 9

Michael Armitage – CSY Securities

Ben you mentioned a contract with Google, I wonder if you could expand on what the scope of that contract is and how you see their ambitions to get in to the carrier business?

Ian

We provide conferencing services for Google as actually we do for Yahoo as we do for Coke and as we do for Pepsi. Not many companies can talk about these sorts of people, as we do for Intel as it happens. We renewed an extended agreement with Google and actually what we are seeing in this world and Microsoft and Vodafone are two great examples of it. Our competitor is often our customers is often our supplier is often our partner and that's fine and, I think, about being a grown up company is actually recognition that you are going to have to play with all these fields and Google you know are going to be all of these things.

Question 10

Simon Weeden – Goldman Sachs

A couple of very quick ones, one is has the pension surplus net of tax moved materially since the end of the quarter and the second is it seemed that the overall ADSL net additions including LLU was a little bit lighter this quarter. While I appreciate it can be a quieter quarter, is that a sign that we are perhaps starting to see a slight slow down in the rate of penetration growth in the UK or is there plenty more customers to come in the market as a whole?

Ian

Answer to the first question broadly the same. Answer to the second question is that it is always a slow quarter and I think that what we will see is a pick up as we go through the year.

Question 11

John Clarke - Brewin Dolphin

Global Services margins you talk about the illusive 15% seems to sort of get closer quarter by quarter but somehow the margins don't seem to get closer to 15% quarter by quarter can you give us any steer on that?

Hanif

John, I think I mentioned there are three factors that get us there, one is maturing of contracts, the second one is cost reduction and the third one is repeatability of solutions. Now I can't do anything about time so the contracts will mature as time goes by, what we can do is manage our cost reduction programmes which are on track which will deliver us margin expansion in the second half of the year that we can all talk about. So I think you will see signs in the second half of the year and will remain on target to get to the 15%.

François

One thing to mention is our new wave revenue grew up by 10% EBITDA 12% so we are very confident that we will achieve those milestones and all the team is working hard all over the place to make this happen.

Ben

Thank you very much, have a great summer and see you next time.