CN Welcome everyone. My name is Catherine Nash and I am the IR Director for BT.

On the call today we have Ian Livingston, Chief Executive, and Tony Chanmugam, Group Finance Director. They will give a presentation on the results and the pension news we announced today and then we will hand over to you for questions.

In the room with us today we also have the Chief Executives of our operating lines of business.

Before we start I would just like to draw your attention to the usual disclaimer on forward looking statements. Please see this slide on our latest Annual Report and Form 20F for examples of the factors that can cause actual results to differ from the forward looking statements we may make. Both the slide and the Annual Report can be found on our website.

Now I would like to hand over to Ian, please go ahead.

IL Thank you Catherine and good morning to all of you. Thank you for joining the call.

As Catherine said I will cover the basic results and also the pension and Tony will go through the financials and the cost side of things in more detail.

Turning to the overall results performance, I think it’s very much a continuation of the same trends of steady progress. We have seen revenue down 4% on a headline basis, underlying down 5%.
Now the gap between reported and underlying is actually a bit narrower than it has been for a number of quarters and that reflects an ongoing position where we now have acquisitions not in the numbers and also because foreign exchange differences are also narrowing. Actually next quarter that gap may turn around the other way and we will continue to report the reported earnings and underlying.

In terms of EBITDA, adjusted EBITDA, up 11%. Excluding Global Services, that is a 2% increase, so you can see from that that most of the substantial increase came from the year on year impact on Global Services returning to increasing profitability.

In terms of cost which obviously is a key metric in terms of delivering bottom-line profitability. We saw underlying costs down £645 million in the quarter. That is 13% and we have now done £1.577 billion worth of cost reduction in the year to date with still a quarter to go.

Earnings per share up 53%. Reported earnings per share actually up 188% and free cash flow, I think this is a number that is probably quite a bit different from some of your estimates, that came in at £305 million inflow and that is up £337 million on this time last year when of course we had a small net cash outflow.

Net debt at £10.1 billion. That is down almost £1 billion year on year. It is slightly higher than last quarter because we made the payment of £525 million into the Pension Scheme at the end of Q3.

We have also, and Tony will talk about it, improved guidance for the remainder of the year and Tony will go through that in a bit more detail.

Now turning to individual lines of business; first of all starting with Global Services. Revenue down 3%. Underlying revenue down 5% and that compares with down 8% the previous quarter so an improvement there in the trends. Probably more importantly is the underlying operating costs down 11% and that continues the trends that we said to you we would see where we went from + 6% increase in operating costs, + 1%, -8%, now – 11% and that has driven the sequential improvement in EBITDA as well as the year on year improvement in EBITDA and we have seen EBITDA grow from £32 to £62 to £95 to £123 million as outlined on the chart on the right hand side.

Also we are doing well in the marketplace. Order intake of £1.6 billion and that compares with £1.4 billion in each of the previous two quarters, particularly well in the Financial Services sector and our trading stations business which is doing very
well. We had big wins with Commerzbank and Nomura to name but two and now 65,000 traders around the world use a BT turret and if your traders aren’t using them ask them why they are not getting the best service and the best quality turret around. Certainly a lot of banks are feeling that way.

Outside the banking sector we have also done well particularly in the oil sector, I would probably highlight. We renewed our deal with ENI, Italy’s largest company, for another two years and also we signed a new deal with Sasol the South African company for a major network and security services outsourcing contract, so some good wins in there and some reasonable momentum.

I should also add that we also appointed Jeff Kelly as CEO which I think is an important step in the next stage. Jeff is with us today. Hanif came in and he has stabilised the business. Jeff with 25 years of very strong experience in this sector and particularly in managed complex large contracts, I think will really allow Global Services to go to the next stage and I am sure you will meet with Jeff over the next few months and hear from him about some of the plans to take Global Services forward.

Now turning to Retail. In our Retail business, revenue down 5%. Now that is split, consumer was down 4% which is a bit of an improvement on the previous quarter when it was down 6%. Business continues to be down 8% and although the SME market is tough, frankly we should be doing a bit better albeit in a tough market. We are sort of tracking the market rather than beating the market and I think we would certainly like to see an improvement there.

However, net operating costs are down 9%. That is, I believe, the sixth year of cost reductions in Retail. The reason for drawing your attention to that is, it shows how long you can do these things for and we are still going pretty strong on the cost reduction programme. Obviously in the rest of the businesses we are much more nascent in terms of that.

All of that led to EBITDA very much in line with guidance. We talked about mid-single digits, delivered 7% in the quarter so very much in line with what we said.

Some operational stuff on Retail, 42% share of broadband net adds in the quarter. That is 102,000 which is the highest number for a little while and actually was the best of any company that has reported in the marketplace and I think that is the first time for a significant amount of time that we have been the highest individual company. That allowed us to increase our lead as the largest, the nations favourite provider of broadband services. Over 5 million are now Retail customers.
The chart on the right is quite interesting because it shows consumer ARPU and I remember in 2005 having discussions with people when they said are you ever going to be able to raise your ARPU again and as you can see, since then we have absolutely done that. We may have less customers in our Retail business because of course we are being attacked by many competitors, it is a very very competitive market and of course we would like to do better. However, we are selling more services to these customers and you can absolutely see that in the chart. Part of these services of course is increasingly going to be TV services. We are very pleased to see that the BBC Trust has given provisional approval for Project Canvas. We hope that will be added to by a favourable decision regarding Sky wholesaling their services as we wholesale to Sky and we see TV as being a real opportunity for us in our consumer business.

Another thing that is something we don't really talk about, WiFi hotspots. We actually now have passed the threshold of 1 million WiFi hotspots. That means that you can get WiFi coverage, which of course has got much higher capacity than 3G, in many many parts of the UK. This financial year there will be over 1 billion minutes of WiFi usage through the hotspots. That is double last year, so it is an interesting area and something that we feel very much enhances our customer proposition as well as being a reasonable profit generator in its own right.

The other key thing that I would draw your attention to on Retail is we announced recently prices for our fibre products. You can get now fibre in the UK, one of the best prices around the world, for less than £20 per month. Now I think we surprised a lot of the people with the aggression on these prices and the answer is that we are going for it. We want to see a large number of people onto fibre. We think there is a range of services that we can offer and so we will be very aggressive in this marketplace.

In addition to putting that aggression into fibre, and I will talk more about the roll out plans, also we have been spending tens of millions of pounds in our backhaul network uplifting our speeds, making sure that we have got very good end to end speeds which we know are important because access is not the only thing that counts in the broadband market. It is very much the end to end experience.

Now, moving away from Retail to Wholesale; there was a revenue decline of 8%. However, that decline reflects the expected fall in MTR. Actually excluding MTR, mobile termination rates, which don't affect the profitability, it was actually 2% and that is very much in line, I think, with your expectations and previous quarters as well.
Net operating costs down 11%, also helped by MTRs in that sense. Also they continued to sign significant long-term contracts; over 2 billion signed in the last 12 months. A big contract was signed recently with O2 to consolidate its UK fixed and mobile network. They are one of the first mobile companies to move very much to IP and I think that is a trend that we may see with other companies going forward.

ADSL2+ which we are rolling out in addition to fibre we have now got availability of over 50% and we are going to carry on rolling that out.

We also introduced, in line with an Openreach product, a Wholesale NGA product.

All the cost work that was done means that EBITDA has remained flat year on year which is a pretty consistent trend over the last few quarters.

Now moving to Openreach. Revenue was down 3% very much reflecting external revenue growing as more and more customers move away from IP streams into LLU. Internal revenue down 8% and again that is a similar trend.

The other factor affecting overall revenue is the significantly lower Ethernet pricing. I talked about that before, but to give you a context, that is about £100 million per annum that is being given to industry in terms of lower prices. I know a lot of industry tend to talk about when a price of something goes up marginally but that is a very substantial price reduction.

The net operating costs are down 2%. To be honest, I think we can do a bit better than that in terms of the cost reductions and there are opportunities unquestionably in Openreach.

Now in terms of the year on year EBITDA, whilst we show 4% down that is actually against a particularly high quarter this time last year. If you look sequentially the trends look pretty reasonable and Openreach is doing what we said it would be, a solid provider of profits and it would use its efficiency to continue to deliver.

Now turning to NGA update, fibre. We will be looking to have by summer 2012 over 10 million premises passed in the UK. We would think that around a quarter of them or maybe even more would be fibre to the premise as part of that. We are moving ahead at great pace. We are making it available to around 80,000 houses a week now in terms of passing those houses so we are laying the infrastructure. We are obviously further advanced with fibre to cabinet than fibre to the home. We are doing it on where it makes sense economically but also we are working with Governmental Authorities particularly for instance the example of Northern Ireland, where we are extending fibre beyond what you would normally do
economically by a partnership with the Northern Ireland government.

In addition to that, a statement I made in the FT recently, we have been talking to Ofcom for a number of months about opening our ducts to give other people opportunity if they wish to do the sort of investment that we are doing, although we haven’t been completely bowled over by the amount of interest in this, but we would hope that everyone would follow our lead and open their ducts and make available their services to everyone. We want to see a competitive market and importantly we want to see a market in which the UK has got a real lead in fibre, so we will be encouraging everyone to follow BT’s lead, open the ducts and also make available good wholesale services.

For those of you who are interested, on the next page we have laid out the exchanges we are doing between now and the summer of this year. This is about 2½ million homes so you can look to see if your exchange is on that list so purely for personal interest.

Now, turning away from the Financial Results to the Pension Scheme. We announced today that the Trustees had concluded on the triennial funding valuation, and we have agreed that valuation with the Trustee. It has now been formally submitted to the Regulator, but I need to point out that the Regulator, whilst they have not completed their work and still have quite a lot of work to do, their initial view is that they have some substantial concerns with certain features.

I won’t be able to give you more detail, I will just put that up front, on what these are because the Regulator wants to complete their work and they wish to remain silent on the issue and of course we should respect that silence and not comment further.

However, some other things that I should point out, the valuation that was performed by the Trustees has been performed by an independent actuary, in fact two of the leading actuarial firms in the world advising them. They also had Penfida, they had Bain & Company, they had Lovells, and so they have taken a huge amount of time over this. It is in our view a very prudent estimate. To put it in context, if you looked at the returns that you would expect as determined by the global asset models that the actuarial firms produced, actually the median estimate that you would get from that would be a deficit of around £3 billion.

So when the Trustees have come up with £9 billion, what they have effectively done is they have put in £6 billion of contingency, equivalent to about 15% of the Scheme, so it does show the sort of level of prudence that they are putting in.
Also, this whole estimate does not include any benefit of the guarantee (a question I have been asked already this morning). So the State Guarantee, there is nothing in there for that and there is no reliance being placed on it.

As a result of the £9 billion, what we have agreed with the Trustees is a 17 year recovery plan. The £525m we talked to you about before, that remains as expected and therefore it climbs to £583m and that number moves up by 3% per annum which is basically inflation between years 4 and 17. Of course, it must be stressed that between here and there we will have another review. We have got another review that starts in December 2011. It is a bit like painting the Forth Bridge.

Just for more detail on all of this, in terms of valuation you see there, the market assets valued at £31.2 billion. Actually since the date of that review we have seen a £3 billion increase in the asset value over the last 12 months. The key assumptions are set out on that slide. The real discount rate is equivalent to an overall real rate of return of 2½%, we’ve assumed 3% inflation. Also we have increased mortality assumptions by 2 years and that is an equivalent of about £2½ billion worth of costs in there. The £9 billion doesn’t reflect some of the changes that we think will happen as a result of the review that we completed last year in terms of changing some of the benefits and some of the likely reactions to that. We think that could be worth around about £1½ billion.

Also that is, I must stress, based on 31st December 2008. We have now of course moved on, well beyond that, and have seen a significant recovery in the marketplace.

Some other features I would like to draw your attention to is we have agreed three particular things that I would like to mention in terms of protection for the Trustees and the scheme. First of all, there is a net distribution figure. That basically means if distributions to shareholders, whether by way of share buyback or dividends, less any share issues exceed the total pension contribution over a three year period which would be about £2.4 billion, then we have to pay a one for one match into the Scheme.

Now that would imply a level of dividends well into double digits pence per share, well in excess of any of your forecasting but it does provide some protection for the Fund. As I stress, it doesn’t stop us paying them but it means that we have to put more into the scheme but it puts you well into double digits and IR can take you through that calculation.

The second thing is if we make disposals in any given 12 month period less acquisitions of over £1 billion then a third of that would go to the Pension Scheme, not unreasonable because of course our assets are the things that would generate the cash for the future. If you sell some assets then
the Pension Scheme would like some of that money in there. That is not unreasonable and I think many companies have some similar things or don’t have it set out and therefore it creates quite a bit of uncertainty. I think this is a good certainty to have.

Finally, a negative pledge, i.e. that we will not grant security to somebody else in excess of £1.5 billion outside the normal course of the business, without granting pari-passu rights to the Pension Scheme, again an understandable protection for the Pension Scheme and we do not see it having any effect on either our financing or day to day business. Apart from one bond, we do not have actually any negative pledges in just now.

Anyway, that is the overall set up. It is good news that we have got clarity with the Trustee. Obviously, it would have been good if we could have completed all the work with the external regulator by this point but given we have an obligation to announce by 31st March we felt that we should announce now given that we have done all the work with the Trustees and there is real clarity over the next 3 years of £525 million and no doubt we can then start on the process for the next triennial fairly soon.

With that I will pass you over to Tony Chanmugam.

TC

Thanks Ian and good morning everybody.

As usual I will cover the headline figures on the income statement and free cash flow and the progress we have made on cost savings.

Remember that in quarter three last year we had the first of the contract and financial review charges in relation to Global Services and to ensure that we are consistent, last year’s numbers exclude those charges.

Also last year’s numbers have been restated for changes to IFRS 2 which we talked about at Q1.

Starting with the income statement. Headline revenue for the quarter was down 4% at £5.2 billion compared with the decline of 3% in Q2 and an increase of 1% in Q1. The main contributors to this decline are the drop in revenue in our SME business, the expected mobile termination rate impact in Wholesale and being more selective on deals in Global Services.

Of course the economy continues to be challenging but we are focusing on realising the opportunities presented during this environment.
Underlying revenue was down 5% in Q3 compared with a 6% decline in Q2. The impact from our past acquisitions have now anniversaried out and the difference between headline and underlying revenues is all due to FX in the quarter.

Adjusted EBITDA, that is before the specific items and leavers, was £1,444 million for the quarter, an increase of 11% over last year. This is due largely to the big improvement in Global Services. Remember in Q3 last year, Global Services EBITDA was just £7 million.

Excluding Global Services, EBITDA for the rest Group was up 2% continuing in the positive trend that we have seen over the previous five quarters. The key driver for this improvement has been the continued delivery of cost savings.

Depreciation for the quarter was £754 million, roughly the same level as Q2, but higher than last year mainly due to higher value and shorter lives of some of our software assets.

As I said last quarter, I would expect depreciation to be around £3 billion for the full year.

Adjusted operating profit was up 19% in the quarter, largely due to the turnaround in Global Services.

Continuing down the income statement, net finance expense excluding the pension interest expense was £223 million reflecting the lower average net debt compared with the same period last year.

Adjusted profit before tax was £466 million for the quarter, up 39%, again largely due to Global Services and lower interest.

Leaver costs of £58 million were up compared with last quarter this year and quarter three last year, reflecting the faster take up of our leaver programmes and the fact that we continue to treat Global Services leaver costs as specific items, as they are part of the restructuring costs.

We are on track with our TLR reductions but I think leaver costs for the year will be slightly lower than I had previously indicated.

The pension interest expense is around £70 million per quarter this year and is a non-cash item. Based on the market conditions at 31st December 2009 we would expect the pension service charge for 2010/11 to be higher than 2009/10 with the net pension interest expense reducing and therefore partly offsetting this. The actual charge for 2010/11 will depend on the market conditions at 31st March 2010 but I will update you with the figures at Q4 as usual.

Next, specific items before tax totalling £130 million were charged in the quarter, all of which relate to this restructuring of
Global Services and include a payment of £127 million to our associate Tech Mahindra arising from the renegotiation of our supply contracts. This payment is also reflected as a specific item in our share of associate profits in the quarter.

The net P&L tax charge for the quarter is £31 million. If you exclude the tax impact for specific items this represents an effective tax rate on profit before specific items of around 22% which we expect to be the effective tax rate for the full year. This gives a reported profit for the period of £178 million.

Reported EPS was 2.3p for the quarter compared with 0.8p for the prior year which was impacted by the contract and financial review charges in Global Services. Adjusted EPS was 4.6p for the quarter, up 53%.

Let’s now turn to the free cash flow. Free cash flow before the pension deficit payment was an inflow of £305 million significantly better than the £32 million outflow last year and I will take you through what has contributed to the improvement.

Leavers and specific items, I have already covered. Net interest payments were £314 million for the quarter, remember that Q3 is usually high in terms of interest due to the timing of our coupon payments. We still expect cash interest for the full year to be around £940 million.

We paid out cash tax in the quarter of £44 million. This is significantly lower than last year, which included the payments on account that were refunded in Q1. I would expect a small cash tax outflow in the next quarter as well. As I said last time we expect cash tax for the full year to be an inflow of £350 million as a result of the tax repayments and rebates that we received in the first half.

On capex there was a net cash outflow of £548 million in the quarter, substantially down on the prior year. This is primarily down to the controls that we have put in place and also reflects some timing impacts. As a result of this timing impact, Q4 capex is going to be higher than the quarterly run rate that we have seen so far this year.

Our capital expenditure for the full year will be around £2.5 billion which is a slight reduction on the previous guidance. On our current plans a level of around £2.6 billion is sustainable on a longer term basis. The £45 million outflow due to working capital and other is primarily driven by the payment in respect of the PPC dispute that we talked about last time.

We continue to focus on improving our working capital through good commercial practice. Consequently our debtor days have improved in every line of business. Overall I would expect our full year free cash flow to be around £1.7 billion.
Net debt of £10.1 billion is after making our first pension deficit payment of £525 million, but still shows a near £1 billion improvement over last year.

Our net debt for the full year will be below £10 billion. This is broadly where most of you are already. Some of you will remember that we bought out the other owners of Albacom in Italy in 2004 and this month we have paid £60 million by way of final deferred consideration to these former shareholders. This amount is included in the net debt estimate for the full year.

Let us turn to operating cash flow by line of business. As I have said before, the operating cash flow by business can oscillate quarter by quarter. Overall all the lines of business have improved but specifically I would like to highlight Global Services where year to date cash outflows have roughly halved from £1,126 million to £584 million. This shows the sort of improvement that we would expect to make for the full year rather than the £31 million in the quarter.

The total underlying cost savings year to date are £1,577 million, of which £645 million have been delivered in the third quarter. This is a 13% decline compared with the 12% decline in Q2 and an 8% decline in Q1. We said that we would deliver savings of at least £1.5 billion this year so you see that we have already actioned and achieved our base level.

I expect further savings in Q4, albeit at a lower level as capex in Q4 will be higher than last year, and opex savings will be broadly at the similar level to Q3.

This will give an EBITDA of around £5.7 billion which is slightly ahead of the market.

We continue to make progress on the management of our total labour cost and there has been an 18% reduction in the quarter. In the quarter we also delivered an additional £80 million of annualised supplier savings.

There is still more to do. For example, we need to rationalise our property portfolio given we have fewer staff than we had 18 months ago and I will update you on progress on this in the next quarter.

Let us turn to recapping on the outlook. Revenue decline is still in the range of 3 to 4%. Capex has reduced from £2.6 billion to around £2.5 billion. We are now giving guidance on EBITDA at around £5.7 billion and have improved the cash outflow from at least £1.6 billion to around £1.7 billion. Debt will be around £10 billion and the full year dividend will be up by 5%.

I would maybe like to reflect a little bit from a year on in the job. When I stood in front of you for the first time a year ago, I said there were four key areas that I wanted to focus on. I said I
wanted to show you an absolute reduction in the level of costs. Well we have saved nearly £1.6 billion in the first nine months of the year. However, there is still plenty of opportunity for further savings.

The second aim was to focus on generating cash. We have upped our original estimate to around £1.7 billion from over £1 billion and although we have had the benefit of one offs in tax there has been a real underlying improvement from operations.

Thirdly I talked about increased transparency and better understanding of what we do from a financial perspective. We have done this with operating cash flow by line of business which I hope you have found helpful. I know you always want more but hopefully you will agree that there has been some improvement.

Lastly, I talked about delivery and predictability, about doing what we said we would. Hopefully you will have seen this over the last three quarters but I know we have to keep delivering. We have done all of this while making bold steps in investing in the business for the benefit of our stakeholders. It has been a fascinating twelve months but still lots more to do.

Thanks for listening and over to questions.

**Question and Answer Session**

**Petri Allas**  
Redburn  
Good morning and thank you for taking the question and well done for the good operational results.

Just a couple of questions first, probably predictably, on the pension. What do you see the process going forward in dealing with the regulatory uncertainty, and any precedents that you would refer to which might indicate how long it will take?

Secondly on the Tech Mahindra issue, what sort of forward looking margin impact would you have and in which division from the improved supplier contracts?

Thank you very much.

**IL**  
Okay thanks Petri. I will answer the pension one and I will pass Tech Mahindra to Tony.

In terms of the pension process, to a degree we are actually in new territory but if and when the Pension Regulator actually finishes their review, of course they may decide that once they have finished the review that they are happy enough with the way that things are. If they don’t then they would then go to the Trustees and say to them what they think should be changed.
Assuming the Trustees, who have considered this at great length, are still of the same view that they had been, then it would go to an independent tribunal. That has a whole load of appeals processes. This could be a very, very long process.

I do believe that some of these that have started in 2005 are still going so I don’t know how long it would actually take if it would ever reach there but it certainly looks to me like it could be quite a long process. There has certainly been nothing done so far in a situation where the Trustees and the Company agrees, because any intervention up until now has only ever been where the Trustees are in disagreement with the company and the Trustees backed by two leading firms of actuaries and a whole load of other advisors. The Trustees have considered this at great depth so we will have to see over time exactly what the Regulator decides to do if anything and whether that actually gets overtaken by the next triennial review.

That is where we are and we have just got to carry on the business and I know the Trustees feel very strongly in the prudency of what they have done. Certainly they have a level of prudency far greater than what the company would have expected but we have agreed to it because we understand the nature of their job.

Tech Mahindra Tony, if I can pass to you.

TC

About twelve months ago I said we were going to look at all our suppliers and look at renegotiating terms with all our suppliers. We focused very heavily with our major Indian suppliers. Tech Mahindra is one of those suppliers.

I am not going to give detail about the specifics in relation to the commercial negotiations with them but needless to say it makes commercial sense for us to do what we have done. I am not going to give any more detail on margins other than that.

IL

And Tech Mahindra have also made some statements on their results and I think together that is all we would want to say about commercial negotiations.

Next question please.

Nick Delfas
Morgan Stanley

Just a quick follow up on pensions. What is your attitude to making any kind of pre-payments? Obviously you are saying that a median estimate deficit would be £3 billion. Is that something that you would think about pre-paying under any circumstances?
Secondly, just a follow up on Tech Mahindra. I think you made a payment or you are making a payment to them, just to clarify whether that was already in the Global Services results that you have released this quarter.

IL

Again I will take pensions and pass over to Tony on the Tech.

I think if it made sense we might look at maybe accelerating the first three years, but I think it is unlikely unless something dramatic changed that we would go beyond that. It might make some financial sense because you get early tax relief and if we are sitting on excess cash to accelerate some of the payments, but as I said I don’t think we would go beyond the first three years in that. The key reason for that, is given the performance of the markets and given what we think is a median view of where it is going to go we wouldn’t want to put in lots and lots of money and then find that the problem is that we have got the money in the Pension Scheme when it actually isn’t needed. So I think we will mix that issue of caution and looking at economic benefit.

And Tech.

TC

Tech Mahindra is in the free cash flow guidance of £1.7 billion, so the payments we made is included in that guidance.

In terms of the cash flow numbers quoted for Global Services, because it is treated as a specific item it is not incorporated in the line of business cash flows.

IL

Next question please.

Ottavio Adorisio

SG Securities

A couple of questions on your pension position.

The first one is you refer to a median estimate of the pension deficit, I was just wondering what the rate of return you assume on the pension assets and what is the basis for it.

Secondly you also refer to the State Guarantee that you referred to, could you tell us if it applies only if BT is insolvent.

Thirdly you refer to the concerns with the Pension Regulator but I understand that you cannot comment at this point in time. My question is just to see if their concern is on the calculation of the deficit or on the recovery plan?

IL

On the third point I will repeat what I said which is I cannot comment.
On the median estimate that assumes a rate of about 3.3% as opposed to funding which is 2.5% so 3.3% real return, I don't think is hugely aggressive.

In terms of the State Government Guarantee, yes only applies if BT becomes insolvent but if one was at any time to rely upon the Government Guarantee it does have an impact because if you are Trustee for instance you could consider a very different view about the level of prudence you need if you have got the backup. The only reason that you need prudence ultimately is because the sponsor might not be available to make up any shortfalls. If you have got a Government Guarantee then that can change things quite dramatically but it does not assume any benefit of that.

Next question please.

Robert Grindle
Deutsche Bank

Just on corporate telco expenditure. Any sign yet that corporates are spending more given a supposed economic recovery?

IL

I will ask Jeff to comment any more on that, whether corporates are spending, where we are seeing corporates looking up.

We are seeing some effect on kit expenditure but I think there is also some real global variation but we are seeing, I think, some orders coming.

Jeff anything that you would want to comment on?

JK

I would say it is a blend; there is conservative optimism so I think given the economic recovery you will see that. A lot of times in the conditions that we have been in, the pursuit of costs savings and turning fixed costs into flexible actually leans into service companies like ours.

I think, given that the economy can recover, I see corporations trying to solve big problems which would be something that would lean into our capabilities and where we could help.

IL

Certainly I think we see areas like Asia-Pac doing a lot better than maybe Western Europe and that frankly is not new news to anyone.

Thanks very much.

Next question.

Paul Howard
Cazenove

A couple of questions, just one more on the pension. The new agreement with the Trustees today, you said back in May that you were at an advanced stage of the agreement.
Were the new elements agreed recently to try and get the Regulator to approve things or are these essentially what was agreed last May?

Then secondly just on fibre, clearly a lot of politics emerging regarding fibre and duct access. What do you think about the prospect of multiple operators deploying multiple fibre? I guess it just feels that it would be better for more of a wholesale environment rather than duplicated investment. Do you see scope for a new wholesale agreement with either Carphone or Sky or preferably both?

We were at an advanced stage. Certainly the Trustees carefully considered some of the discussions they were having with the Regulator and the valuation. They decided, frankly, to be even more prudent than they had in mind earlier. I think to make it very, very clear that they were going above and beyond in terms of a prudent valuation so it is a bit higher than we had been talking about going all the way back. So that certainly has been the case.

In terms of duct access, well I think we will let the market decide. I think as probably you and quite a few other people know, it is quite difficult to justify economically fibre full stop and I struggle a little bit to understand that there is going to be a huge desire to fibre the country in places that BT could struggle to make it work. We do have a wholesale product that is both very good and also very aggressively priced.

Many of the countries around the world where you have alternative fibre infrastructures have been where actually there is no wholesale offering. It is up to companies to decide. Do they wish to make multi billion pound investments or do they wish to utilise the fibre that we are rolling out anyway? That is going to be their decision. I suspect you would be best asking Sky what they want to do. I think they have said publicly that they would prefer to rely on BT's infrastructure. You will have to ask Carphone Warehouse what they want to do or maybe somebody else. So I think we have got to see.

I dare say that you will have some examples of people laying fibre and certainly we would look forward to the opportunity to both; take advantage of other people opening their ducts as a potential next government, potentially not, let's see, suggested. We would absolutely take advantage of the opportunity that might present and also to see that as people, if they lay fibre, somewhere that we didn't see as economic, then we would absolutely look to sell off that service and provide it directly to our customers.
What we want to see is an open and competitive market. I just hope and trust that everyone else involved in this also wishes to see an open and competitive market.

PH I guess Carphone have made it pretty clear that they are not happy with the wholesale product as it is today. How much negotiation is possible on this?

IL The wholesale product that it is today has changed dramatically from the one six months ago. It provides pricing; I think they have actually said it is not a pricing issue particularly. What it does, is that it gives a huge amount of control to the customer in terms of the Communication Provider as to what they want to do and we think it is a very very good product and actually many many of the CPs that we deal with are really delighted with it. So you have got to balance that but maybe I will ask Steve.

Steve, do you want to add anything more to that?

SR We are at the stage of early deployment, and the key thing for us is to get the infrastructure out there, gain experience in the market and it is very clear that we have got to have the right product, the right price with the right service. At the end of the day that is what is going to make our deployment successful. We are in discussion with all of our major customers on an ongoing basis and this is a product that is going to evolve. So far we are very pleased with progress. We are in discussion with Carphone and Sky and our other customers about where we take the product next.

The key thing for me is let’s get out, let’s test the market and make sure that what we deliver is a great service end to end for users because that is what is going to be critical for everyone.

IL I think obviously the product is already evolved, as Steve said will evolve, but also the thing that I think we would resist is things that actually stop the customer having a choice. What is very important to us is have an infrastructure that the customer can choose to go from one supplier to another and certainly we would resist anyone who comes up with ideas for the product that effectively try and stop the customer having a choice. It is a strange world where the ex incumbent is the one who is trying to fight for free and open customer choice.

With that I will pass over to the next question.

Damien Maltarp Credit Suisse Just on fibre, I guess the guidance you have given in terms of the capex is for homes passed. Can you give us a bit more visibility on what the cost per home to connect would be?
Relating to that, what do you think fibre means in terms of your residential line loss trends? Have we turned the corner now, should we see line loss trends continuing to improve?

Just maybe a final quick one on the pension. I guess you don’t need to do the funding valuation before 31st December 2011 or at least for the next triennial review. Would it actually make sense to bring that forward, could you do that, would that help at all?

On the last one, it is always an option open to us. We enjoyed the last one so much that maybe it is worth doing again sooner but I will consider that in due course. I think it does take such a long time actually in all seriousness. It is awkward to bring it forward but it is a possibility. If we weren’t happy with it or any potential outcome we might look and say well, particularly if the markets have moved, do you take another valuation at that point and just reset things.

It is not high on the list of things I would prefer to be doing but it is a possibility.

Cost per home really, in terms of getting the actual connection, varies. In part, customers may pay for a connection, in part it is sort of one of the subscriber acquisition costs that we have very much in the same way as when we roll out things like Vision etc. It is very much included in our overall costs, you shouldn’t expect big increases as a result of that. It is certainly north of £100 per customer.

If you look and see what we have published, we have said £1½ billion, we have said 10 million homes so it is £150 but that is in terms of just capex.

So there will be an extra cost in terms of getting actually to the customer themselves but we have assumed in our forecast a fairly certain level of customer connection which you will understand I will not tell you what percentage.

The line loss - I assume you are referring to retail line loss here. I will let Gavin talk about where I think we are and how we are doing on that etc.

There is a marginal improvement quarter on quarter but I wouldn’t call it necessarily a success yet. I think fibre will help that trend but so will our investments with the roll out of ADSL2+ which we are obviously rolling out at the moment and that is having an impact on the market and you can see that in our broadband numbers, as will some of the competitive bundling offers that are beginning to hit the market around about now. Obviously the deregulation of the narrowband market that we attained last quarter, when that gets translated
into offers, I think you will see us providing some very competitive bundles and I think that will begin to address the overall decline.

There is no doubt about it; it is a very, very competitive marketplace.

IL

And Gavin resisted mentioning our most recent offer of three months free 24 x 7 calls which is certainly one I would recommend you sign up to.

GP

He is my best salesman.

IL

Next question please.

Nick Lyall

UBS

Again on fibre, could I just ask, the regulation is pretty positive in your favour at the moment. Is it worth thinking about moving or do you think about moving a lot more aggressively on the fibre roll out now?

Secondly on wage costs, in the Pension Review, you have mentioned 3% wage inflation. Obviously that is long term but could you give us an update on March 2011 and say whether you expect another wage freeze for example or should we be pencilling in something like that 3% wage inflation that year as well?

IL

Well the pension assumption basically assumes that wages increase in line with inflation and you will excuse me Nick if I don’t do our wage negotiations with you now and a few hundred analysts. I would prefer to speak to our people about wages.

In terms of the aggressiveness of the roll out of fibre, we are doing 80,000 houses in terms of passing them a week at the moment. 80,000 a week, 4 million by the end of this year. That is pretty aggressive as it goes. I think there is a limit to how much quicker you can do that. We have already moved this project ahead by six months. We have increased the numbers. We will go as fast as we actually can. We are creating the headroom to do that. I don’t quite see a characterisation of regulation as being quite favourable.

Actually the UK has the most pro-competitive regulation around and many other companies in many other countries are saying that they will only lay fibre if they have a monopoly. Well BT is not saying that and I think the service providers, most of them are actually very pleased we are not and it is very important for us and I think the UK that lots of people utilise this fibre to offer it to lots of customers because in order to make this successful, fundamentally, we need a big base taking it.
Thanks Nick.

Next question please.

**Morten Singleton**
**Collins Stewart**

Good morning gentlemen, three quick questions if I may.

Firstly on pension, I appreciate you can’t comment on the Pension Regulator’s concerns but in doing your research on what the Regulator might allow through, have you come across any examples that you could point us to of where they have previously allowed such a long term recovery plan, 17 years here and previously you were saying BT doing recovery plans of 5 to 10 years scale?

**IL**
On the pension, I think the recent guidance certainly gives a lot of flexibility regarding payment stream so I can’t really comment further than that. You will have to ask the Regulator but there is certainly a lot of flexibility in the guidance.

The next one sorry.

**MS**
The next one was maybe semantics, but what can the Pension Regulator actually do to enforce a change in the agreement with the Trustees or is it more a case of potential for them to encourage the Trustees to think again about particular aspects?

**IL**
Well as I said earlier, it is a case of if after they have completed their review and to be honest we don’t know when that may be, they are still of the view that they have an area of concern then they would speak to the Trustees. If the Trustees are still of the opinion (and the Trustees I have to stress have considered this at great length) and are still happy with where they are and, by the way, if the Trustees change anything, they would have to consult the company again. It would then go to a Determination Panel if the Regulator wished to do that and that would be an independent Determination Panel not involving anyone who is from the Regulator. The results of that could then be appealed. I think they can then be re-appealed and maybe appealed one more time after that so I don’t think that this is a short process and really has no precedent.

I am actually not aware of any Determination Panel that has actually completed this exercise but maybe there is some and certainly not in this sort of instance where the Trustees and the Company are agreed. In fact I am not aware of any cases actually being taken to a Determination Panel where the Trustees have been in agreement. I must stress that the Trustees are backed and supported by a lot of independent firms.
MS One final quick question on operations. The nature of your deals with mobile operators on WiFi, I can imagine they are building up their utilisation of your network infrastructure at the moment. Can you tell us whether the nature of your agreements with the mobile operators is one which scales with use or are they on very much all you can eat packages for access?

IL No I can’t. Well I could but I won’t.

What is interesting about our WiFi network is we continue to upgrade it; it is the sheer capacity of it. In terms of its data capacity it is a multiple of mobile networks today and we are going to carry on increasing that capacity and increasing the capability. One of the side things of rolling out fibre is that you just carry on increasing that. So whilst on the one hand we are absolutely helping the mobile operators with their capacity at a wholesale level by rolling out backhaul products that provide far more capacity, I think everyone recognises that it is cheaper carrying very high volumes of data over other types of network. The mobile companies are quite rightly trying to effectively mix and match that sort of thing.

A million WiFi hotspots does create quite a lot of capability but this is not about making calls over WiFi particularly, this is about high data usage and people have a tendency to do that when they are standing still, they are wanting to download a piece of music, they want to watch a film or something. You wouldn’t really want to do that given the cost over a mobile phone or in fact a lot of the iPlayer aps you wouldn’t want to do that necessary over a 2½ or 3G network you would probably want to do it over WiFi ideally.

Thank you. Next question.

Steve Malcolm Evolution I am going to go for three fibre IPTV questions please.

First of all just a question on copper versus fibre. I guess we should assume that the ADSL2+ roll out maps the fibre roll out. Can you give us an idea of what the average service uplift from an ADSL2+ to a fibre home is on your plans?

Secondly you have been in the press talking about retailing Sky Sports and other premium channels should Ofcom rule in your favour next month. Can you give us an idea of how you plan to show this? Is it over fibre or are you planning DTT as well?

Finally just a question on broadband. Your net adds were obviously very good this quarter but the retail revenues are still falling fractionally. Can you give us an idea on the
mix? Should we assume that most of the growth is coming from Plusnet or is it thin down that you are seeing in the existing base?

IL

Well on the broadband net adds. Most of it is not coming from Plusnet although Plusnet is doing well.

The net revenues have come down a bit. I think we are being quite aggressive in the market, upfront offers and things like that so that does have some impact in it but the net adds are pretty good. But Plusnet is doing well and I think it is good for us to have alternative.

In terms of an uplift between ADSL and fibre. I think fibre to the cabinet, you can look for maybe about two and a half to three times, the sort of speed. It is not a completely linear thing that you would get from ADSL2+ but the average in ADSL2+ is going to be about 10Mb and fibre is up to 40Mb but there will be some people on a bit less. Critically, is the upstream speed. People tend to look just at downstream but our fibre product for instance is offering 10Mb upstream which is both a multiple of Virgin but also a multiple of what you can get in ADSL2+. I think increasingly, that may well be the sort of longest pull in, the 10Mb, for people because more and more applications are interactive so I think you will see people requiring greater upstream speed than today.

SM

Given that Ian, do you expect to sell many of the light offering, the 20 gig allowance and £20 per month because it seems to me that people who would want to take fibre would probably go for unlimited and go for £25?

IL

We will leave that to the great British public to decide as to what they want to do. We are giving people the offer. There are some people who just want quick speed but aren’t that regular users of internet but when they do it they just want to have as much speed as they can get. Other people have a different view.

SM

It was on pay TV and plans for broadcasting, whether it is over fibre, copper or whether it is over DTT, how are you planning to do that?

GP

We will do it over all three; copper, DTT and fibre and it depends on the availability of the content.

SM

And what about availability of the spectrum, will you try and buy spectrum should you get a favourable review or will you buy it ahead of any appeal to the CAT, something like that?
GP I think we will cross that bridge when we come to it. I think we have got plenty of different options in front of us for the near term.

IL We can take two more questions so penultimate question please.

Robin Bienenstock
Bernstein Just a question about Global Services. I guess what I am wondering is given the changes in the management I am wondering if you can tell me whether there is a strategic review going on for Global Services and whether I should expect a change in your strategy going forward in that business?

IL No, this is particularly about execution and delivering better and Jeff can really drive, we won’t say we will never change anything. I am sure over time Jeff will say actually I want to focus on this and less focus on something else but this is not and I will ask Jeff to make any further comments. He is nodding as we speak.

JK I think the way to term that is there has been a lot of focus and effort here on stabilising the business. You have seen that over the last three or four quarters. We are not out of the turnaround so we are always looking at options that are available to us to come out of the turnaround and I think the most exciting thing is, as Ian said before, let us make the services all it can be. We are always reviewing options, but we are not through the turnaround. We are going to be focused on that and that is my early thirty day assessment.

IL Yes it is about delivery and I am sure we will change some things in the future but it is about delivery today.

Robin your other question.

RB No I didn’t have another question.

IL Oh that is great thank you very much.

Final question.

Karen Egan
RBS A couple of questions please. On capex can you provide a little bit more detail on the capex savings in Q3 and without giving guidance for next year necessarily give an indication of the sustainability of those kind of savings.

The second question is a specific one on the pension assumptions. Point 7 in your pensions note mentions that you assume an investment outperformance of 0.5% in the
first year and 0.3% over the recovery plan; could you just talk us through the rationale for that assumption?

I will talk about that and pass you to Tony to finish off on the capex.

Basically this is in terms of the recovery plan. This is quite normal and is something we had last time although there is no, what we call the true up, true down mechanism this time. Basically, recognising the very high degree of prudence in the forecast; what the Trustees have assumed in the paying off plan that the [inaudible] will do a bit better, not as well as the median estimates but a bit better in that and that is what we call the investment outperformance and so that is the assumption in there. Over time that will adjust as we find the real results. Put that in context, since the review there has been a 10% increase in asset value of £3 billion which is well, well in excess of any of those numbers, so that just puts that in context.

Tony, capex.

In terms of long term sustainable, I said earlier on that £2.6 billion is long-term sustainable and for all our plans and what we have got in the hopper and I still believe that that is the case. Nothing has changed associated with that.

What we have done though, is we have said we will reduce the guidance for this year down from £2.6 to £2.5 and that is primarily geared to timing type issues.

In terms of Q3 and savings we have done on that, in the main, it has come from better efficiency, improving our processes because about, roughly speaking, just under 1/3 of our capex is as a result of work that we do within our engineering function for example within Openreach. We have procured more effectively and more efficiently and we have got year on year c.£240/250 million worth of annualised savings that we have identified to date.

Thirdly what we have done is become more effective in terms of identifying what the key hurdle rates are. We are not going to do investments that take a long pay back period or have adverse cash flows, material adverse cash flows in the early years. So it is being more effective and more efficient in the things that we do.

Thank you Tony and thank you to everyone.

Hopefully you see another quarter in which we have delivered what we said we would do. We know you have a lot of pension questions but it shouldn’t obscure the fact that this has been good delivery, we have upped the outlook again and we will talk to you in Q4 and tell you more about the many other
opportunities that we have got to carry on driving this business forward.

So thank you very much.

[End of call]