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Next Generation Consumer Event

Ian Livingston

Good Morning and welcome to BT Auditorium, today we are going to tell you about the Next Generation of consumer, I'm Ian Livingston, I'm the CEO BT Retail and Gavin Patterson is the MD of our Consumer Division. Now before we start as always the laws tell me you put up the slides which you can read about all the future risks etc but I'll leave that to something to do at your leisure and pleasure. Now we've heard a lot of things about what people say about BT and particularly BT's consumer division, so what do you say, prices coming down, profitability, under pressure, LLU intensifies fight for broadband, new entrants will take market share, the future is VoIP. That's what you say and you know you are right, but we will tell you today about how BT can thrive in this environment about the next generation of consumer. We will show you our range of innovative communications services we will show you how BT is not just going to compete in communication but in adjacent and new markets that don't exist today.

We will focus as we have done enhancing our margins, we will continue to deliver what we have delivered which is sustained cost transformation and we will build on our current strong financial performance and all together that means we will deliver value to our customers and of course value to our shareholders.

Now today's agenda, firstly I want to give you some background to BT Retail, then we will talk about access not just in the home but out of the home, Gavin will then talk to you about a huge new range of exciting value added services, then he will talk about how we are transforming our business, not just looking at household but looking far more at each of you as individual. Then I'll talk about cost transformation and bring it all together.

So by way of background, BT Retail accounts for about 40 per cent of the revenues of BT Group, the consumer division is 28 per cent now when you read in the press every day you would think that the consumer division represents at least 100 per cent of BT Group, well it's not, it's a substantial and an important part of the group this 28 per cent. In a few months' time we will take you through also some exciting plans in our SME sector BT business.

The great news in BT Retail is return to profit growth, for many quarters running profits were declining at 15-20 per cent per annum we've changed that, we delivered the first full quarter of profit growth for many many quarters eight per cent EBITDA growth nine per cent operating profit gross and it's not a flash in the pan we are committed to deliver profit growth for this year and continue these trends. So how are we going to do this in the future? Well we are looking to improve ARPU average revenue per user, we will continue to look for ways to improve our gross margin by selling the customer new and interesting additional services, we will deliver cost savings of between 4-500million pounds over the next three years and all this while continuing to invest in innovative new and exciting services for our customers.

We said we would defend our traditional business and grow the new, we've been doing that. The chart to the left is an interesting one, the one that came out just a few days ago, so we couldn't resist including it, it's from Ofcom and it shows that the last period they measured actually BT's share of the revenue share of calls and lines went up not something many of you would have realised so we are defending it pretty well but that traditional business is unquestionably in decline we think so you think so, what matters is a new way of business really

we will continue to defend the traditional but grow the new wave, the chart on the right shows we have been very successful in doing that but frankly it is only the start.

Now within that story of turn around we have seen our consumer business do very well it was a similar story it was in decline and now profits are growing again. It is a big business a 5 billion pound business larger than many FTSE 100 businesses in their own right. We have 14 million active customers, that is customers who take both calls and lines from us. We are the market leader in Broadband, we have 200 million customer contacts a year, whether that's by letter or by phone so we speak to our customers a lot. In the consumer business as in Retail as a whole we have improved gross margin and we've improved SG&A our customers spend roughly £250 a year with us per household and 65 almost two-thirds of the revenue we receive from them is actually contracted either in annual basis or a monthly basis. That's the shape of our consumer business today.

It's been a business that's been providing value to our customers for a long time, prices are coming down, you say it and you are right but prices have been coming down, 10 years ago if I wanted to call my parents from London to Glasgow for 20 minutes it would have cost me £1.29, 5 years ago that same call 20 minutes to Glasgow would have been great value only 34p tremendous value today it's 5.5p great value to the customers already, in fact over the last decade we calculate we saved our consumer over 1 billion pound, price deflation, great value it's not new and it's not just against our history, the UK has the cheapest calls of any G7 countries this chart shows the independent study on it something we didn't commission at all, the EU say the same the OACD say the same, we are used to hearing phrases in the press like rip-off Britain I'm sorry it's not such good headlines, but this is great value Britain. UK is cheaper than Germany, cheaper than the US, what in the UK is cheaper than the US much cheaper in Italy and way cheaper than Japan as International Herald Tribune said in telephone market Britain leads the way and many say that really not just in price but in innovation whether it's the august journal such as the Singapore Business Times or that equally august journal the Sun everybody recognises innovation particularly on a global scale, but let's turn to our consumers.

Consumers are confused and they've got every right to be confused huge number of people selling services to them often being miss sold, hard sell nuisance calls people turning up on their door steps it's a tough life for the consumer, we have alphabet soup of various initials they don't know their USB from the WiFi from the GSM from the Voice over IP from the GPRS and why should they, how many of you have got your Blackberry your mobile phone, your PDA or some other variety, your IPOD your TV and none of them talk to each other at all. It's a confusing life but when you're confused what do you do, you turn to someone you trust and customers trust BT.

We ask customers about BT and almost 60 per cent very much agreed with the statement that they trusted BT a really strong positive reaction they also said they trust us to provide communications services far more than some of the names you see mentioned day in and day out in the papers, people trust BT they should trust BT and BT will reward that trust.

We are moving away from connectivity to services sure we will provide the connectivity but it's far more than that, we going moving from a regulated business and the TSR is a key part of that to one and which things are far more liberalised. We are moving from being a Telco and concentrating in a Telco market to being a participant in other markets, some of which don't even exist today. We are moving from thinking about 24 million households to thinking about you and you and you, 60 million people in the UK. No longer is it just BT in the home it will be BT in and out of the home we go from a single standard service to all to services differentiated by with what you want. No longer is it here's a product it's going to be customer pull we've got some way to go there but we'll get there and no longer targeted at the total mass marketed but a segment of one and Gavin will talk a lot about that.

So all of that we do see ourselves as a business that is committed to access but actually not limited by access. Our job in this complex world is to make life simpler and better for consumers.

We want to be known as a company who help our customers thrive succeed improve in this complex and somewhat dangerous world. We intend to do that by providing simple to use services which talk to each other that help our customers be entertained that help them communicate with each other and help them manage their life. We will measure success by measures like ARPU, active customer, adequacy so how many customers say I would choose BT and of course profitability.

So what will we do, well to do that we will be providing Broadband services, not just in the home but out of the home, we will integrate the services with so many things which that will involve Voice over IP and you will see that we'll go through these services in a lot of detail we'll provide a whole new range of value added services that add value for our customers but also for our shareholders.

We will look at customers not products and provide different products to customer segments. We will have a radical approach to cost transformation and there will also be a new and different culture a retailing culture. BT retail of today has people come from the media sector, have people that come from the best FMCG firms in the world and there is even a few of us that are retailers we'll move at the speed of retail not at the speed of Telco. So what are our building blocks in this new world?

First of all it will start with access in and out of the home and we'll talk to you about that and of course we will continue to provide communications services but more and better and varied and integrated. We will entertain our customers, allow them to choose interactive services and television on their terms and we will help them manage their life and protect their privacy and security of them as individuals and of their assets. And we'll bring that all together with a range of devices that are well designed easy to use and enhance our customers' lives.

So first of all access in and out of the home. We already have a strong Broadband proposition we are the market leader all of our customer get on a national basis 2MB of speed so standard 2MB for all customers, we also provide to all customers a great range of services, Gavin will talk a lot about these but in the field of entertainment, protection, anti virus the lot, we'll talk in more detail about great range of basic services and for £17.99 you can get all of that with a free router and a good usage allowance. Actually today special offer for you, you can get this for £14.99. Option 2 increase the amount of download capacity, slightly more expensive Option 3 much much bigger download capacity but also comes with free wireless router and Option 4 huge capacity as much as most people could use and that's not all oh no, we will also be integrating this with Voice over IP services already available to our customers so in fact, for just £2 a month on the lower package you can get all evening and weekend calls to landlines for £2 a month the rest of it's free if you take option 3 or 4 that package is free so at £26.99 not only all the great Broadband provided by BT Yahoo but also all your evening and weekend calls and for £7 all your landline calls day or night 24 hours, great packages and we will tell you how the how the whole family can use them shortly.

We are committed to competitive Broadband access, we will no doubt see as LLU and bundles come around various desperate offers, £3 on Broadband or something out there, I dare say we'll see it but we'll make a commitment to our customers we will not increase our standard Broadband price for the next three years. Unlike the gas industry you can be sure if you go with BT you'll always get good value we'll also be rolling out a national proposition of 8MB Broadband so you don't have to live in London, you don't have to live in Manchester to get it, on a national basis 8MB Broadband and there's more speed to come beyond that and importantly WiFi, we'll talk a lot about WiFi it's one of our key jewels that allows us to provide not just competitive Broadband in the home but also outside so for example the Broadband package will be bundled with WiFi access as well, in the home out of the home.

Back to in the home, the hub will be the heart of the wireless home now some of you may have seen it upstairs, it's a handsome devil isn't it down there. That hub is going to be at the centre of

everything of course it will provide WiFi and let's just see what WiFi does then we can show what else it can do.

BT Advert

"Hi I'm Adam and I'm 35 I'm not so certain about anything else, I've met a girl, she's now my girlfriend well not a girl exactly she's a grown woman with two kids, I'm pretty certain they have all moved in with me I think some how, I'm back doing homework" – Go wireless with BT Broadband and you're free to use the internet anywhere in your home, "how's it going?" "Good fine", "that should help", "finished", "finished great", "still I'm learning a lot and I think it's bringing us all closer together – I found our tune", "you old romantic" – to get wireless BT Broadband from £17.99 call 0800 317 316 now.

We'll be seeing rather a lot of Adam today, that hub doesn't just WiFi enable your PC as useful as that is it provides a range of services, for instance you will have five VoIP lines with it so you and all your family can be on the phone at the same time even if like Gavin you can't stop breeding with 4 children they can all be on the phone at the same time but granted the youngest one at 3 weeks is going to struggle but hey. Far too young Gavin, so that as we comes from a very very cheap £2 month or for free so all your calls free 6 lines suddenly why bother using a mobile phone of course unless it's a Fusion and the Fusion of course will work with that hub, as will Video phone and the Video phone and the Voice will also work, we're going to give you a demonstration of that later with a high definition voice, better quality voice service for our customers, it will also interact with interactive TV, next generation TV, it will allow you game with your Xbox it will do a range of things its at the heart of your home. Also it's something that's future proof because we can send up or downloads down to give you the latest services. It's good for margins because of course we can sell new services to you, it reduces our costs because a hub is self diagnostic we can also look into your network and find out where the problem is, how many customer phone up and say it doesn't work then when we ask the question what, they not unreasonably say it. Well this site of self diagnostic will hopefully answer the eternal question of what is it.

So the hub is going to be the centre of the future Broadband home, but we go beyond the hub, we go beyond the home we go to WiFi. BT Openzone was launched a number of years and we now offer 8000 hotspots around the UK so whether you're in a Hilton Hotel, whether you're in Macdonalds, whether you're at a Welcome Break Restaurant you can take advantage of it, you can also take advantage of 30,000 hotspots globally and more and more cities are becoming wirelessly enabled. Now WiFi is taking off in it's own right 431% growth over the last year but actually it's more than it's own right it's how we can bring together various propositions because WiFi of course allows you to use your laptop so you have that chance when you are sitting in the airport to work, if you want to call your colleague we'll in fact you can just go and use communicator and you don't need to log into BT Openzone to use your communicator you can go straight in and use the service immediately a great advantage compared to other web services and once you have finished your work once you have finished your call hey you could get out your Nintendo DS and start playing with it so opportunities to work option 2 is to communicate and opportunities to play and we are expanding that later.

And now I would like to pass you to Gavin who will talk about a load of other opportunities.

Gavin Patterson

Thanks Ian at this point we would just like to take stock of where we are in the presentation what Ian has talked to you about is access our commitment to have a competitive access proposition in and out of the home but we will not be restricted, we wont be limited by our access business. What I'm going on to tell you about is how we are going to move increasingly into value added services, new services in adjacent markets and new markets and those form 3 key areas. Firstly of all communication, communication is our core business and in a voice enabled world it will continue to be our core business. Secondly I will tell you about entertainment and we will tell you

about two of the new exciting news in that area including new content deals and then finally in a segment we are calling Managed Life we will tell you about some of the services we are launching to help customers manage their life in this increasingly and connected but changing world. This all comes together with devices which we see as playing an increasingly important role in a network world.

So let's talk about communication be that talking, seeing, sharing or messaging. Now I'm going to spend most of the time talking about Voice over IP and the exciting things that it can do for our customers but I think it's worth dwelling on just for a moment traditional business because our traditional voice business is an area we have been continuing to innovate it, so hopefully you are customers for example of BT Privacy which was a service we launched this year to help protect customers against unwanted sales calls, this has been a phenomenal success for us over two million customers have signed up for this service in a matter of months. It's a fantastic example of understanding an underlying consumer need and meeting that need with a proposition and it has helped build retention for us a reduced churn.

I'd like to talk about friends and family, friends and family are our calling circle programme we have over 10 million customers on friends and family and our customers really really like it, the frustrating thing for both the customers and us that until now you have to call up or go on line to change the 10 most frequently called numbers now that is frustrating for customers but it also means cost for us so for example I think the record is held by a gentlemen who has phoned up in the last 12 months 96 times to change his top 10 frequently called numbers. Now here's the news we have just launched is an automatic system that changes those top 10 numbers to the most frequently called number automatically rather than relying on the customer to make that change, good for the customer and importantly good for us because it allows us to take cost out of the business.

Mobile costs one of the areas of great frustration for our customers is the cost of calling mobiles from a fixed line so we have got a service called call mobile, it offers 25% discount on calls from fixed to mobile, it's available for a small subscription for Option 1 but for Option 3 customers it's available as part of the call bundle so again it's an example of us innovating on proposition and building value into our call option pricing.

Then finally I would like to talk about text, now one of the great unknowns is that customers can text landlines, they can text from landlines if they got a particular type of phone but any landline can receive a call from a mobile or another fixed line phone, it's a great white space opportunity for us and one that frankly we are about to step up and increase the marketing behind, you don't actually need to have a special phone, so if your phone isn't text enabled it will convert it to a voicemail and it's an opportunity for us to include text bundles as part of our core option packages so to illustrate this a part of our marketing programme in this area, I'm going to call on Adam again to illustrate it through a piece of advertising.

BT Advert

"Anyway I'm not lying for a millionth time I do have a girlfriend" "Yeah whatever" "I have got a girlfriend", "Sure, what's her name then?", "Amy", "when are you going to see her"? Tuesday – have more fun with your home phone, text from any mobile now and BT will turn your text into a voice message. "How many times have you kissed her" "7 times" "I don't believe you", "look I told you", "so when is her birthday then", "25 December", "Christmas day", (phone rings) "Hi Jim, can't wait until tomorrow night, love Amy" – BT what will you text?.

It's another example of how we are not ignoring our traditional voice business but we are continuing to innovate on it, even though we recognise over a period of time that it will decline.

I want to move on talk about voice, Voice over IP in particular and the first point I want to make is we have a very strong offering today, we have two services, the first one I want to talk about is

Broadband Talk which is the one that Ian referred to earlier, this is a service that just allows you to plug in a conventional phone into the back of a router and route your calls over Broadband, many customers at the moment use it for a second line but it doesn't necessarily need to be a second line but what it offers to them is fantastic pricing, great value so for unlimited off peak calls it's only £2 a month and for calls at any time, unlimited anytime calls it's £7 a month, I mean these are some of the best prices you can get in the market place certainly a lot better than most of the PSTN prices a phenomenal value that you can get over Voice over IP. The other important point to note is this is available to customers who are not current BT Broadband customer so you can get it on any Broadband access network or you can get it across cable so it's an example on how we are using value added services to move beyond our own access business onto other people's access networks.

We also have a PC based service, it's called BT communicator, it like many of the rivals including Skype offers free PC to PC calls okay, but that's only really half of the picture, what it also offers is fantastic rate internationally we are currently on promotion and we are less than half the rate of Skype to most international destinations and we are also significantly cheaper to all sort of other types of calls for example calls to mobile the 4 main mobile operators calls to 0845 and 0870 which customers make a great deal of calls to but don't always realise it and just as importantly calls to other landlines where we are significant cheaper than Skype and one other feature of this is that it offers a click to call functionality so it links to your address book and you can just tap a name on the address book and make a call directly to your phone it's a fantastic product but there is some more news on this.

For Christmas we are offering free calls to 30 international destinations 30 very good international destinations I might add over the Christmas period, this is a Christmas present to our customers, another example of the fantastic value you can get through our Voice over IP services.

Let me just demonstrate some of that value in a wee bit more detail, so if you look at a 10 minute call to a UK landline on Sky that's about 14p with us 5½ p a call to a mobile a whopping 83p for a 5 minute call to a Vodafone mobile with Sky it's 40p which is pretty high still but it reinforces that if you can phone somebody on a fixed line you are going to get far better value but that's a whole another topic I think and this great value is something that we are going to continue after Christmas so when we come off this promotion we'll continue to offer better rates than Skype so we will be cheaper than Skype to the 50 main international routes and only 1¼p per minute for the top 25 international routes and that's our new pricing coming in from February so I think it reinforces we are committed to offering fantastic value, marketing leading value in the Voice over IP market.

So that's where we are today on Voice over IP but it's only really about cheap calls, particularly cheap international calls the beauty of Voice over IP is that it offers so much more, it's the applications that can run on Voice over IP that I think makes it such an exciting technology and that is what we are going to get into over this next space, so at the moment what's different and what's this transformation going to be about, at the moment you make a telephone call, it's a product that sits on a line, in the next generation of Voice services it is going to be an application a service if you like that can sit on anybody's network independent of device wherever you are, it will be up to you how you want to access that service and that is what the transformation is all about.

So there are four key elements of our future Voice vision that are worth talking about, first of all it will be about a personalised network-based service so your details, your address book, your directory will all be kept centrally on the network so that you can access it wherever you are on whatever device you particularly want to, you'll have intelligent presence and what that means is you will be able to choose how you want to be communicated with, how you want to communicate with people centrally so you will set up those preferences yourself.

You will have a converged voicemail a single depository for all your voicemail so you can choose how you receive them so it's about personalisation it's about a network-based service, it's about a richer communication experience so it's not just about voice, it's about video, it's about IM it's about Instant Messenger it's about email and being able to switch seamlessly between these different forms of communication.

It's also about high definition sound, there is always a perception that Voice over IP was inferior to PSTN that's wrong that's fundamentally wrong and what I will show you in a minute is a demonstration of what high definition sounds like and how it's dramatically different than not just a PSTN call but also a mobile call. It's about utilizing the high bandwidth capability that we have through broadband, not just in the home but out and through our WiFi network, WiFi trumps 3G there's no question about that and we will have the capability to use that extra bandwidth to download big data files, big music files direct to where the customer wants to receive them and it's about devices as well you will want to be able to access this service wherever you are independent of device so it might be that you want to receive, make a phone call over a conventional phone but actually look at it over a TV screen and chat with a friend at one point or potentially over a PC, it needs to be independent of device and not constricted by any particular device. What you will also see is increasing devices and service bundled together in an overall combination an overall proposition to our customer.

So in summary it's about a rich and tailored experience to the individual in and out of the home independent of the device itself. Okay that all sounds very good but what are we going to deliver. This here sets out our road map for the next 12 months, in quarter 4 our quarter 4 05/06 January/March is a basis. The two platforms we have got at the moment Broadband Talk and Communicator they are on different platforms at the moment will converge, so you'll get a single service that you can access through the phone or through the PC, it will allow you a single sign in you'll be able to receive calls in and make calls out won't need to have a BT Blue bill which is a restriction at the moment it will be available to credit cards and E-wallets and it will have basic video, so this is the important first stage because it establishes a platform for converged communication then in quarter one we'll be launching our first high definition sound applications and devices and to get a sense of what this will sound like I'm going to ask for Adam AKA Kris Marshall to give us a demonstration.

Kris Marshall

Hi this is Kris and you are listening to me talking over a standard Broadband line using Voice technology and this is me talking to you now using a High Definition Sound Technology the quality of voice call should be much better and this is what I'd sound like if I was on the mobile.

Gavin Patterson

So I think you would agree the difference in sound quality is extraordinary and will make a real difference to many of our customers not just those hard of hearing but every single customer will see a benefit of that. So that's around quarter one, we'll see the first applications and devices that use that capability then in quarter three we get to the first really truly integrated communication service so what this will provide is things like a single identity and a single number that you will be able to carry with you throughout your life rather than switch every time you move. It will be very secure and it will mean you will not continually need to change as you move networks or move home. It will include a synchronized network based address book so instead of risking losing all your names and numbers every time you lose your mobile you will be able to store them centrally real-time, one depository for all this information. It will have intelligent presence so you will be able to choose how and what form of communication you want to have with anybody in your community and your address book and then finally just as importantly you will be able to access it through any device so it can be a conventional phone call a PC phone call or perhaps over the TV and I will demonstrate that in a minute so all this will come together next year throughout that road map will continue to be aggressive on pricing and to ensure that we have got a very strong value proposition to our customer and use bundling as much as possible to make it simple and complete for our customers as well.

So that's the service what you will increasingly see is devices play in more of a role in the communications market, I think it's fair to say that fixed line devices have been a little bit of a dead water for the last few years but what we are seeing now is them beginning to catch both in terms of design features and you'll see that in the demonstration rooms upstairs, the look and feel and aesthetic of the equipment but also in terms of the functionality that they offer and this on the left hand side here is an example of some of our dect phones that we will be launching early in the new year.

In quarter two we will be launching video phone for the 1st time now video phone is an idea which has been around for a while but it has never really taken off, often the technology has not been good the quality of picture has not been good and the pricing point is not been good. All that will change in quarter one next year, you will see the first video phones come on to the market compelling price points, great pictures and that they will initially be able to synchronize directly with any webcams over your PC but ultimately they will be interoperability with 3G networks as well so immediately you've got a network effect to tap into and then the final thing to call out on here is WiFi phones. WiFi phones are coming onto the market next year and that is the next generation of technology that we are building the hub to be able to take immediately. Now we have a very strong position in the devices market so we think we have a great opportunity to build on that we've got almost 50 per cent market share so this we believe is core to our business moving forward and the last thing to point out we'll offer both subscription and prepay capability so we are beginning to look at different payment models that better reflect the needs of our customers and offer up new proposition opportunities for us.

The final thing I want to talk about on communication is mobility. Mobility is very much part of our vision, it is critical to our vision it's not simply about being in the home it's about being out of the home at the same time. We've launched Fusion, it's very much going to plan it's a steady build up of sales and I think the news I wanted to tell you about today is we'll be launching Fusion on a Razor handset in early January, you all know how popular this handset is, I'll be interested to see what percentage of the audience actually has a Razor and this is a big step forward, because I think it begins to bring a range of handsets which we know is important to our customer into the Fusion family. We'll be increasingly bundling Fusion Broadband together in a single proposition for our customer and as I say WiFi phones come next year and an exciting range of converged services including converged voicemail becoming available later on in the year as well. So mobility continues to be an important plank of our overall communication strategy.

So I've talked about communication I want to move on now and talk about entertainment. So next generation TV we've heard a lot about it but just to reinforce we will be launching next year in the autumn, so what is it. You get digital broadcast TV over the Freeview platform so that's about 30 TV stations coupled with a personal video recorder with 160G hard drive, so pretty big hard drive in fact a very big hard drive as part of it as standard and then it has Broadband capability. So what does that offer us, it offers us the power to give instant entertainment on demand, instant no delay no near pay per view windows, this is real-time pay per view things like catch-up TV catch-up on any of the programmes that you missed over the last seven days, movies on demand, real-time movies on demand and I'll tell you about the first movies deal we've signed in a minute.

TV archives, either new comedies for example all the best classic comedies both of which will be available on the service and of course music, music on demand music video on demand is very much part of our vision.

It also offers opportunity for communication and this is an example of the converged vision playing out so video telephony will be part of this service, it will either be Voice over IP services, you'll be able to do things like chat real-time with your friend over the network whilst watching maybe a football match at the same time which we know is something that the football fans like to do.

Interactive services are going to be very much part of this vision too, now interactive services will make a real difference because they take advantage of that real-time capability of the always on connection so it opens up all sorts of revenue streams to us things like viewer participation shopping, online games, community services and also things like education services as well. This last point is about flexible payment options, this is really important. In terms of the pay TV market at the moment it's dominated by subscription business and we know that at least 40 per cent of the population do not want a subscription business they are really put off with it, put off by it, it's the fundamental block to moving to digital TV. The service that we are going to be offering is a pure pay per view per use model there will be other options but you need not buy anything if you don't want to, you'll buy the set top box you plug it in and that could be the end of your commitment it might just be a great way of getting Freeview and a PVR at the same time we think it will be a lot more but there is no ongoing commitment. We know that will make a difference not only just to primary homes but also to second boxes in people's homes or second TVs and third TVs, there are 67million TVs in this country so there's a lot to switch over to digital. So it's primarily pay per view we have however, built in a conditional access capability into the box so if customers want a pay TV service we can offer it to them we've built that future proof capability into the box in the first place.

So if you saw today's papers you'll have seen that we have announced our first content partners many of them are in the edition today and the three I am going to talk about now. First of all we have announced a deal with BBC Worldwide that gives us access to not just new programming but a great back catalogue of BBC programmes secondly we have announced a deal with Paramount, Paramount offer again new movies things like Sahara, Stepford Wives which is the picture of Nicole Kidman up there but also some great classics so things like It's a Wonderful Life which is very topical I guess at this time of year and then finally we have agreed to work with Warner Music on a range of innovative music services, be that things like video on demand or ring tones, music on demand to the set top box is going to be a great revenue stream we believe so these are just the first 3 there are many more to come but I think it illustrates we are committed to launching this service and we are delivering along the milestones along the way.

BT Advert

Broadband will soon be at the centre of your living room with a new TV service that delivers amazing possibilities, instant access to 100s of films music video and classic television the TV guide quickly shows what's on programmes can be easily recorded and stored you can manage your viewing the way you want to and there's plenty of storage space to record and add a whole series to your collection the on demand sections contains 1000s of programmes including a vast film collection with new releases being added every month. The film section allows instant access to 100s of films for all the family from new releases to popular classics without visiting your video shop, films begin instantly and just like a DVD you can pause, rewind and fast forward the service will serve the community providing a platform for individuals or organisations to promote themselves or their services. There will be educational benefits too such as interactive learning that is convenient for busy adults and fun for kids, the new service also gives instant access to the BT phonebook and contacts can be added and managed through an on screen address book where you can also view your call history. "Hi quite soon you'll be able to talk to your friends face to face if you want to and the great thing is if you get an incoming call you don't have to miss a second of the film you are watching because you can always pause it, that works for live TV as well as BT's pay per view films and programmes and if you want to, you can also watch and comment on the same programme together even though you are in sitting rooms miles apart, now back to Jude Law" and all this will be delivered over BT's Broadband network and infrastructure that is already connecting millions of homes with a guaranteed quality of service even at speeds less than 2Meg but ensures your family can both be on the internet and watch next generation TV without any interruptions.

Gavin Patterson

I think there's one thing that's just worth emphasising that this is a service that is available nationwide, it's not just a regional play it's not just something that if you live in an urban area, this because it works on our Broadband network and it will work on a 2Meg connection it's something we will be offering nationwide which is unlike many of the other people who are talking about entering this space.

I want to talk about some of the other aspects of entertainment now, starting with gaming now we because of our scale and our capabilities around innovation have a very strong proposition in the gaming area. We have a great relationship with Microsoft so we've been in partners over Microsoft Xbox we're now going to be partnering with Microsoft over Xbox 360 and this is not just a marketing partnership which bundles Broadband and gaming together but it will be a service that allows you to download content over a Broadband connection and play with other Xbox 360 players over the Broadband network, be that in the same country or even abroad, with Nintendo we have an arrangement, we've got a relationship which allows Nintendo DS customers to play each other over the WiFi network and WiFi hotspots and with Sony Play Station we have again a great marketing relationship we've been going to market together and marketing Play Station services for a number of years and we are currently working with Sony on a number of exciting product development initiatives which hopefully will be ready to launch and talk about in the new year. All of these are more opportunities, more examples of how we can drive margin and drive customer satisfaction and reduce churn amongst customers.

Music is also an important part of our entertainment proposition you've seen over the summer we've had a tie-in with iTunes which was very successful for us, in fact if you look in your press packs you'll see as part of your gift today is 20 free iTunes to be downloaded, courtesy of BT and that was a partnership that worked very well at driving our access business as well.

The second thing, the middle part of this slide shows Launchcast Plus now this is a unique service that is available to BT Broadband with Yahoo customer that allows them to tailor, create a tailored music service on-line so if you haven't tried it I really recommend you try this the people who have used it, the customers that use it are phenomenal advocates of it, it's something that's really different, really unique. What you do is you get to choose the music, you vote on the music and over a period of time it learns what sort of music you like and begins to create a unique music service for you, so it's a great example of a Broadband value added service I think and that increases even further with video later this year.

Then finally in 2006 we'll be adding a subscription service to our portal and again in conjunction with Yahoo, again opportunities for margin, opportunities for retaining customers, opportunities to drive customer satisfaction.

So I've talked about communication, I've talked about entertainment the last segment I want to talk about is helping our customers manage their lives and in particular the aspects of protection, monitoring, control and storage.

So as Ian established at the start customers turn to us in this area, customers trust BT and in the areas of security and protection there is no better partner, we have all the credentials, we have all the credibility, we have all the experience you know based on the fact we've worked in this area a number of years with corporate customers and in the government space, we know what we are doing here and there are three key areas we're focusing on, me and my family, my PC and my devices and then my valuables, the content, my assets, the digital contents that I have bought. Let's talk about the people first, me and my family we'll we've been tackling this for a while and we've got some real traction in this area, so I've talked about privacy already that was a great success for us, we've taken that concept online we offer services around address, email address protection anti-spam, pop-up blockers this type of thing, we've had a number of initiatives in terms of family protection so things like parental controls as standard across the line the clean feed

initiative that we did last year which protected our customers against paedophiles online and also in the personal ID area as standard again we offered, we were first to offer anti-phishing software in the UK so protecting our customers against being ripped off by phishers and anti-spyware as standard but there is so much more we can do and this is one example of a type of service that we are going to be launching in this area.

BT Identify Protection now this comes in two areas now first of all over 100 thousand customers last year had their identity stolen online that's 45 per cent up on the previous year, this is a real issue it's one of the top five issues in the States and we know customers are prepared to pay for it so we'll in the new year be offering a two-tier service, there will be a basic service for free offering advice on how to protect yourself and recover your identity if it gets stolen but we'll also be offering a tailored service as well for a subscription payment which will take that away from the customer and manage it for them if they are in the situation when their ID is stolen, this is a great example of how we can actually drive extra revenue in a Broadband world.

My PC and my devices again we've been doing stuff in this area already in a virus protection from emails protecting your PC but we are going to take it a step further. Security forever needs to be upgraded you've got a great service at the moment but to stay ahead in this area we need to continue to invest. So in quarter four we are providing a new simpler all in one proposition for our customers which will have a state of the art security system the sort of thing that you typically pay for £40-£50 a year coupled with a very simple dashboard that plugs all these security services together in one simple service to the customer and it's auto update so you don't have to rely on the customer ensuring that the thing is updated frequently it will automatically update to ensure you are protected in the best possible way at all times.

Finally digital assets and other forms of assets, again another area we've got some experience in and we've got some relationships in with our customer. Online we offer unlimited photo storage in the outside world outside of the online world through Redcare we've been protecting people's homes for a number of years, what a fantastic business in home security through our BT Redcare brand and then recently we've just launched something very similar to protect people's cars BT Trackit that allows you to track your car wherever it is across the country. I think there's more we can be doing particularly in terms of protecting people's digital assets the things they have bought in an online world. So consumers are increasingly concerned about things like the music they've bought their photos that type of thing and if they are storing it on their hard drives particularly if it's their laptop, it's a hell of a risk to lose it all. So what we'll be launching is a digital vault, BT digital vault is an opportunity for you to store all that online content on the network and back it up automatically so you don't have to worry about continually backing up it will back up automatically every night. So you'll always protect that valuable content, initially it's available through the PC but our vision in this area is you'll be able to access it regardless of where you are in line with the vision that we have around communication and that you'll be able to share it between devices, again a great area that I think we can drive incremental margin for our business front.

We're also looking at opportunities around in home and remote monitoring being able to keep an eye on your assets and the people that really matter to you and similarly in the device and utility market, how can we use our Broadband network to track utilities for example rather than sending people out every time to look at meters so again another rich area which we can drive additional for the business end.

The final thing I want to talk about is support because in this networked Broadband world it's increasingly complex for our customers and we're here to make it simple for them. So support in a networked world is something we know that our customers are turning to us to provide. Again we've got some great experience in this space. In the business market we've recently launched a premium technical support for our SME customers at £10 a month plus VAT it has been fantastically successful for us. We are signing up over 3000 business customers a month for it and it's all over the telephone line, in the consumer space we've been testing a similar idea and we know it works, something we will be rolling out in quarter four, customers prefer it over the

telephone they ideally don't want you to have to visit every time they want it there and then and that's what the power of the phone offers and coupled with the remote diagnostics that we've built into the hub it allows us to go into the customer's home network and understand what's happening on a device by device basis so it's efficient cost effective care in a way that the customer really wants it, so there's just two examples of how we are seeing support as an opportunity for margin and to build customer satisfaction.

So I've talked about communication, I've talked about entertainment, I've talked about life management services, I've talked about devices, it's an awful lot to put together for customer, how are we going to present this to them how are we going to market this to them and build in a way that makes sense and it's all about thinking about customers more away from simply households into individuals, 24 million households 60 million individuals.

The first thing to recognise is data is the key to this and we have bags of it we might not have done much with it historically but that's all changing now. Our ability to see how our customers are moving online to see what type of phone calls they're making in a way that's totally compliant in case you are concerned gives us great access into really making sure that we can tailor that proposition and tailor that marketing so that it's relevant and cost effective to that group of customers so one example, we can identify the 8 per cent of customers in this country that are part of 40 per cent of calling circles so that gives us great leverage at understanding how to launch products into the market place and ensure that they are communicated through the customer base as a whole, it also illustrates how we can identify the most valuable customers in our customer base and ensure that they are treated especially well.

We will also have for example great information on moving more customers phone us when they move than anybody else another opportunity of pointing the customer life cycle that provides an opportunity to provide a superior and enhanced service.

I think the other aspect of this is actually how do you manage this data, how do you use in a way. I've talked about us marketing to individuals, the other thing we are doing in this area is we are building a single customer and product database so that we have the capability to tailor what we are doing through any particular individual at any time, so that coupled with demographics of segmentation which I'll introduce in a minute, history of their customer experience with us, how they like to pay, the likelihood to have debt gives us a really rich picture of every customer and with that rich picture we can prompt and push services and propositions to the customer that are relevant at any one time, so it just illustrates that data is the key to be able to efficiently market these services to our customers in a complex world.

The last thing I wanted to talk about is segmentation Ian talked about it in his set-up about how we are transforming the business, no longer thinking about it as a mass market business although we are a mass market business, trying to increasingly think about it as segmented business marketing one-to-one. Segmentation is something we've been using for about 18 months now, we have a segmentation map of our customers that is eight key segments, these are just two to illustrate two of the segments but it's really just gives you some colour that actually we're trying to tailor off propositions much more to the needs of specific audiences and coupled with data that gives us a great capability to ensure that we're not, we're creating relevant propositions for our customer base, so this just illustrates two of the segments in our segmentation, left hand side are BT Loyalists as we call them, they are customers who have been with us shall we say several 10s of years have got very limited high tech aspirations and need a lot of hand holding but they are very loyal to us and they spend £250 a year with us. The connective families on the right hand side attentive communication and entertainment needs, high service expectations not simply about price for them its about value but look at the white space for us, they are only spending £240 a year with us on average and they spend typically £1200, so it gives you an illustration we can, we know where the value is we know where the needs are, it's about tailoring the proposition to fill that opportunity.

To pull all this together I'm going to ask for Adam to illustrate how we'll talk about these products and services to our customers.

BT Advert

Something said we only use 10 per cent of our brain power in any given time what a waste, but it's the same with our internet connections which we barely use to the maximum capabilities but BT is now trying to address this imbalance as more and more households sign up to Broadband BT have created new products and services to help us use our Broadband connections to their full potential. Pioneering new ways to enjoy your communication and entertainment in an ever changing world and how are BT going to make this vision a reality well in large parts thanks to this the home hub, now it's best to think of this as the brains of the operation and it will allow BT's vision of a Broadband enabled world of communications to become a reality. It works as a wireless integrated router which co-ordinates all the technology demos which you are about to see. It updates itself automatically when new services become available and most importantly it allows multiple Broadband services over a single Broadband line.

Just got an email from my mate in Australia now don't get me wrong emails are great but they only tell half a story, you just can't beat a good old chat but international calls can be a bit expensive and you always feel a bit rushed but BT has an answer. With BT's communicator with Yahoo Messenger you can talk to people across the world through your PC. Thanks to BT's new VoIP technology you can chat for free so you can have a good old chin wag and catch up on some important issues like a ball by ball re-enactment of our recent Ashes victory.

You know what it's like living in a busy household you want to use the phone only to find that someone else is on it and you constantly find yourself shouting have you finished on the phone yet. Well BT has the answer with BT Broadband talk you now get a second line through your BT Broadband connection, it's just another way in which VoIP can be used to save you time and money.

Well the shirt is like a sort of pink, purple colour and the tie is like a sort of purple, pink colour but it's got orange in it and it's squiggles and well if you could see it, hang on, sometimes it's really hard to describe something in just words well BT has the answer the BT Video phone which we'll launch next year, you'll be able to not only hear the person you are speaking to but see them as well and it's yet just another VoIP based service which is likely to aid better communication and hopefully better dress sense.

See which one do you reckon, this one? Christmas paper one or this one?

Isn't it funny how much we rely on our mobile phones these days, it holds all our numbers and it rarely leaves our side, it can cost quite a lot to run especially when you use it from home when you could be using your landline well BT has an answer, new BT Fusion phone is an intelligent phone it knows when you're home and charges you landline rates by using your Broadband line to save you money, it can also detect when you're out and then works like a mobile, it's genius.

A little unknown truth, not only are we better than the Aussies at Cricket but we are also better than them at slaying vampires and saving the world and how is all this possible, well with BT Broadband I can now connect my Xbox 360 to my mate's Xbox in Australia and not only that I'm also now able to download music access film trailers and chat on line all through my Xbox 360 from BT Broadband.

Come on. Okay it's Saturday and you're ready for a quiet night in front of the telly only to find there is nothing unless of course you are into DIY, well BT has an answer next year BT will launch a revolutionary new TV over Broadband service, next generation TV uses a single set top box to deliver your favourite digital channels as well as current hit movies and classics, music videos and TV programmes, all instantly available whenever you want to watch and lots of programmes you might have missed from the week before. It also has a built in personal video

recorder which allows you to record up to 80 hours of programmes from over 30 digital TV channels and what's more there's no monthly contract. Ahh Love Actually I hear they have a really handsome young guy in it.

So that's how BT envisages making all this possible with minimal disruption and minimal change you'll be able to take advantage of BT's Broadband enabled future where communication and entertainment collide with dramatic consequences this isn't years away it's coming to a home near you soon.

Ian Livingston

Thank you Adam I think you see he brought it all together, shows you the real range of services and how we can make life simpler and better for our customers. It also shows you that if you have paid for an actor for four days for an advert how well you could use them for free for other things which leads me but seamlessly, I bet you're thinking this is great, this is super vision for the future I want it and you'll get it but can we make money out of it. I think we've shown about our financial discipline or ability to generate margin but what about cost.

Well we are setting up a goal of delivering 400-500 million pounds of cost saving over a three year process, three year time scale and it's not going to be just from the usual T&S renegotiating contracts all that sort of stuff but there will be some of that really is going to be focussed on improving the customer service because if we get the customer experience right then hey customers don't wake up every morning and think what shall I think today, I think I want to talk to someone in BT but yet 1.4 million customers a week do just that and they do it because they don't understand the bill or they do it like this gentleman that Gavin mentioned who has 99 times contacted us, we've had three more this week to change his friends and family number. It's not great for our cost base and it's not great for the customer so we are targeting these 30- 40 per cent reduction in our call volume in our contact centres.

Leaving our contact centres free to actually handle things like sales calls and service calls and things like that all this great added value margin stuff. We also want to grow our on-line services, already today you can go online and be able to analyse your bills so you'll see which numbers are being called most often and who's called them and things like that, great fun in the family isn't it but actually not enough people are using the service so we are going to provide more functionality to encourage people to use it so we can stop sending the paper bill, make it a better service to them and hey because we are into saving the world as well saves some trees, in fact not only will we save the trees and not doing the postage and printing stuff but we are telling all our customers that we will plant a tree in their name if they move over to BT online billing services.

It's also about increasing automatic payment, today only 35 per cent of our customers actually pay automatically direct debit something like that, we intend to move that up to 70 per cent easier for them easier for us and more cost efficient. These are just some of the ways we will achieve the cost transformation around improving our systems our process and making life simpler and better for our customers

So we're in the home straight you'll be pleased to hear.

Today only a small proportion of our revenue is from these services, access still represents over half of our revenues and traditional calls a bit less than half additional costs will remain important, access will remain important but about a third of our revenue we are targeting to come from new services in five years' time, that's a big change but I think you've seen just a few of the services that are coming because in fact we present a road map that largely lasts over the course of 2006. Lots more I'm sure in 2007/2008.

Now there's been a lot of talk hasn't there about things like Voice combined with Mobile but we do that it's called BT Fusion there's even been some talk I believe about triple play recently but we

do that we've got Broadband, people are even starting to talk about Quad Play with TV you've seen BT's next generation service. Now if we want to beat Triple Play and Quad Play we could announce today Quin Play we can even announce Multi Play as none of us know how to spell whatever it is but actually it's not about Multi Play or Quad Play or Quin Play or Tri Play or whatever play it's about making our customers' lives simpler and better what's in it for the customer is the question always has to be asked first and last.

We believe we have the ways to make our customers' lives simpler and better you've seen the access in and out of the home, you've seen the way we can help you communicate be more advanced and better in richer ways than ever before, you've seen the start of BT's entertainment offering providing our customers with real interactive entertainment options and the way we can help our customers manage their lives better and more securely and all of that brought together by a range of exciting and well designed devices and all that we've backed up by the BT brand which we think is a really valuable asset. We've got the technology, some of it we've produced ourselves but a lot of it is by working with partners and we have the relationship with our customers, there's millions and millions of customers who look to BT both in the business and consumer space.

So the next generation consumer and the next generation business, you've seen we've delivered a strong performance already we want to hold back talking to you until we've showed actually we can do this on the bottom line. You've seen how we intend to make our customers' lives simpler and better yes there's a range of products and a range of options but we'll present them in a simple way for our customers. You've seen the innovation I think you believe the financial discipline and if we do all of that we'll provide not only outstanding value for our customers but also outstanding value for our shareholders.

So with that I'd be delighted to take questions and answers, if that when you've got the microphone you can give your name and which organisation you are coming from that would be tremendously helpful and I'd like to say also at the end of the session upstairs you can look at some of the demonstrations of the products and services we've talked about there will be some food and drink so look forward to seeing you upstairs as well.

First of all go down here Sandra and if you could hand the microphone to somebody over there.

Audience

Thanks Ian, Cyrus Maywalla from Westhall Capital just a quick question on your content business model you said about a third of your revenues would come from new services some of that will be from partners, what is your business model for contents, so for example when you show BBC film or something what percentage of revenues would you take or would you base it on advertising is it like a Docoma model where you take 9 per cent of revenues.

Ian Livingston

You wouldn't be hugely shocked that I tell you I want to split the revenue with BBC but I think one of the important things to understand, interactive TV services, the next generation TV, actually video on demand is only one bit of it I think in a margin sense you're not going to be the largest I think actually the future of our services very much more using a very extensive world library that people will use and want to use but actually then interactive services that enhance the broadcast experience so allow you to participate in quiz shows online, you know how much for instance people spend voting for on the X-Factor and things like that or be able to use it to participate in other programmes, votes on in game betting a whole range of services, some of which don't exist today and so I think VoIP is almost the base and a very good and important base but a lot of the revenue in the future will come from enhancing the whole Broadcast experience through interactivity.

Will you excuse me if I don't give you the split of the deals I think the partners in here would come up on stage and kill me.

Audience

Thank you it's Simon Wheedon from Goldman Sachs, you've talked a lot about the future of Fusion and I just wondered if your market learning so far has helped in formulating your plans what you're seeing at the moment in terms of what it is that attracts customers to the offering, what is it that deters them what can you improve to get better traction and basically how are you doing?

Ian Livingston

We are doing fine we said it would start slowly and we're very happy at how's going so far we've got some interesting feedback from customers for instance 53% of customers tell us they get better quality, reception and range as a result of having Fusion in their home so that's pretty stunning but of course Fusion is only the start and we said that the next generation of Fusion is coming as well, we've got the next phone which I think is an even sexier phone and we'll have new and WiFi based models that will be able to do more still so we've learnt quite a lot for a start we've learnt that it works really well which is pretty important, no one else in the world has learnt that yet. Creating a truly converged device and conversion is a lot more than sending one bill as people I think still has to learn, creating a truly converged device is something that's quite tough and we've actually done it and now that gives a really good base for going forward.

Audience

It's Kevin Sure of City Group, I believe there's something in the order about five million Freeview customers in the UK today I just wondered what plans BT has for a some kind of amnesty for maybe your new TV offering and I wondered whether you had any idea of how many of those are already DSL customers and those that give you upside selling opportunities too.

Ian Livingston

We'll I'll pass over to Gavin to talk in a bit more detail, I think you should not think about 24 million households for TV but actually there's close to 70 million TVs in the UK and we see a large number of customers coming from people who have chosen not to paid for subscription a bit the way that the mobile phone market boomed when you switched from postpay to prepay as an option, we think that's a real opportunity but also in a second bed TV and for instance with the conditional access that will also provide opportunities but Gavin.

Gavin Patterson

The only thing I would add is this we know customers phone us expecting TV services, until recently we were selling over 100,000 Sky subscriptions a year so we know we have the capability to sell and we have sold Freeview in the past so we do have data on Freeview usage within our customer base and it's a very interesting idea I think that you suggest and one we've had as well which is using that data to upgrade customers in the future to a, you know next generation TV services is something we would certainly look at.

Audience

Hi it's Laura Mills from Merrill Lynch with the new high quality Voice over IP product do you think it's going to get harder to justify charging your Broadband customers for a PSTN line, can you just update us on your view on naked DSL and just a point of clarity on the 300 – 400 million of cost cutting I assume that's within the overall BT group target rather than extra and can I just clarify that is that cost saving on top of any costs you might save due to price changes with wholesale?

Ian Livingston

The answer is yes it's on top of anything from down to wholesale price changes, yes it's part of the group overall plan, what was the first question again?

Audience

Naked DSL

Ian Livingston

Naked DSL look actually I think the more and more it's being provided into our customers in terms on what the line can do actually encourages people to have the line, I think when it's only for Broadband, now it can be Broadband and whole load of other services you know instead of giving you one line it gives you six lines effectively I think we'll encourage them. With the issue of naked DSL is that the copper has to be paid for and the current price of Broadband the copper isn't paid for you so you can package it up in a Broadband price or put it separately but some where the copper has to be paid for so I don't see that changing dramatically in the immediate future, there wouldn't be a huge saving from say okay you can get PSTN phone so I'm not expecting a huge change to naked DSL.

Audience

Hello it's Will, Global Execution on content we noted the rumour that BT might be buying ITV the other day, that's probably no more than rumours but it does raise the question of does BT believe it needs to own content to survive in the Broadband world. I just wanted to put that to you.

Ian Livingston

We'll I was actually thinking of buying BBC because our children's closer, now I haven't heard that rumour and I missed that, we didn't buy it yesterday did we? I think our great position is actually bringing great content so for instance we've got the guys from Warner here we've got the guys from Paramount, we've got the guys from BBC and actually bringing that great content to the customer and helping enhancing it, I think that's our key position itself provider of great services, we're not a film producer and I don't think it's at the top of our list to come to we're a retailer and we'll retail really really well that's our aim.

Audience

Thanks very much it's Christian Marr, Investec. Can I ask two questions which are sort of connected really to deals happening in the sector and what you think of them beyond sort of good competition etc but how do you perceive the threat from BSkyB buying Easynet that's the first question and the second one on the basis that the NTL Virgin Mobile transaction goes through it does spice up at least the branding opportunities from a rival, I know the cable sector has been on it's back for a few years but they do have the potential I think to be quite a major threat and I wonder how you perceive those two deals really.

Ian Livingston

Well I think they represent one of the many competitions let's be honest the Virgin brand is a much better brand than NTL absolutely I think it does enhance you are absolutely right I don't think it brings a huge amount else because I'm not sure that four million prepay customers being added to five million households that buy this double or triple play is quite an obvious mix but typically given these prepay customers tend to be the young you know tend to be teenagers so there's a brand advantage and that's for sure NTL will obviously have it's work cut out just now just integrating NTL and then integrating NTL and Telewest and then, so I think they're going to have their hands full but it's a better brand, but brand is one bit of a very very large cake. Terms of Sky, Sky do have a great TV service I think they are going to find some interesting challenges running a network, I think particular what they've brought is a very good, Easynet is a very good business Broadband provider but that's what it is, it is a business Broadband provider and that's our very different case so of course it's more competition and people doing more things but life would be dull if we didn't have that and as you know there's I think nine to ten people who have announced their plans to have to take 20% market share in order to establish an economic LLU proposition now some of you are analysts apparently here and I think the chances of ten of them plus us taking 20 per cent market share each is probably unlikely so I think we are going to see some casualties in the sector but it's unquestionably going to heat up as we opened up with there's more competition I said you're right and there is absolutely.

Audience

Back to you on the point you make doesn't that just mean you are going to get more severe cuts to unbundled prices.

Ian Livingston

What do you mean the prices they are offering on the market.

Audience

We no, maybe the wholesale price

Ian Livingston

I think the wholesale price for unbundling is already the cheapest in Europe I don't think the agreement with Ofcom was meant to be that's the price until next week either up or down so no I think the value is the cheapest in Europe but you still A have to have a good proposition but B I think our big advantage is nationwide. We are nationwide we are a nationwide advertiser a lot of the other companies you mentioned are also nationwide advertisers but they'll have a local proposition.

Audience

Thanks Ian it's Paul Howdy a few questions firstly at the start you talk about ARPU trends improving just to clarify that are you talking about compared with active customers or do you include the old definition of primary lines and it's benefiting from the loss of customers on a wholesale line rental secondly on DSL speeds I think you're offering your TV service over 2MB per second assuming that won't be enough high definition TV what are your thoughts about how that will develop and then finally I've asked you this before any more thoughts on needing a high street presence to market the services.

Ian Livingston

As always in these three part questions I'm trying to remember all of them the definition is the same definition we've used which is for ARPU which is people can take a primary lines so identify them as a household but we expect to see the trends improving and they haven't over the last few years and we've already started to see the trend starting to turn in terms of the 8MB service, I mean I'll pass over to Gavin to talk HDTV a little bit more 2MB service will be, is better the broadcast quality today, it is not an operate HDTV certainly at today's compression technologies but of course we've got 8MB plus coming in the future so I mean if you look 3 years ago people said that copper won't be able to handle Broadband and then it wasn't able to handle TV, it will be able to handle HDTV but we are some distance away from it.

Gavin Patterson

The only other thing I would add is to what Ian is saying is that the box is ready for HDTV so it has been designed into the box and just to emphasise that the way that technology is changing in this space, a few years you needed 8M just to get a regular typical TV picture into the home and now we are getting a fantastic picture at a lot less than 2M you know 1.2 1.3M so the technology in Kodak is changing so quickly that by the time it say mass markets proposition I would expect that to be a lot less than 8M.

Ian Livingston

We've got many High Street presences if you go into Comet you'll see our advertising we are suite to a number of the High Street retail in the terms of having us as part of the proposition I think you'll see us being more prominent in public places in terms of our presence. At the present moment I don't think running a retailer is exactly what we want to be doing we prefer to work with retailers so that's our view at the moment.

Audience

Hannes Riddick, I won't ask you about the football today so another question is regarding proprietary ... sustainable long term advantages you might have from your current innovation my perception is that these are all great products but of course they can be replicated by other players in the market, could you single out maybe a couple of the areas where you think you will have a genuine lasting advantage from your current product innovative.

Ian Livingston

Well I was going to add some stuff but I think first and foremost brand, too much is made of technical innovation I was in consumer electronics for 11 years and I tell you it wasn't sometimes the most technical innovator but it was the best packaged. I mean iPods are a case in point you know it's well designed but the technology wasn't revolutionary so I think we've got to get away from the product idea of Telco where everything is about technology. We've got some great technology we've got some great integration technology and we've got a lot of stuff that's first in the world. Most things in life eventually are repeatable by anyone I mean I don't think there is an invention that someone else hasn't done at some point but I think our brand and our customers and our ability to bring it together is our differentiation but.

Gavin Patterson

To envisage a couple of points the cost of requiring and retaining customers are a significant aspect of this market place, particularly the subscription side of things we have the customers now so if we can innovate and meet their needs we're in a far better position than somebody who is trying build their business from scratch this is a scale business, there's no question about that and then to illustrate the point that Ian was talking about around proposition I'd used the example of BT Privacy. BT Privacy two million customers plus in a matter of weeks and a couple of months use components that had been out there for a long time, it used Telephone Preference Scheme Registration it used caller ID and put them together in a compelling proposition that found it's time, it's all about timing, we addressed a customer need at a particular point in time and we were right on the money and I think that's what it's about, it's not about technology it's about better understanding of customer need.

Audience

Thanks Gareth Jenkins, I'll take advantage of the lack of Chairman and ask a three part question if I may. Can I just ask on mobile TV what your plans are for BT Livetime on the retail front when you plan to launch that? Secondly I was intrigued by your sort of share of the ARPU by customer segmentation, from experience do you find that people tend to adopt usage profiles at the elderly as they get old or do they take their own usage profiles with them i.e. you'll see a decline in your market share as people age and last question 1.4 million calls in to weekly you're expecting to reduce it to 30-40% can you quantify where the calls are coming from so is it mostly Broadband at the moment is it on Voice calls, how are you going to lower those basically.

Ian

Yes we can quantify but it's a very very long list I'd love to tell you there is a single silver bullet but what we will have is we'll take the different reasons why people call so billing for example a lot of people call about billing so we'll do something about that we mentioned friends and family that was a cause, better online help yes there's a lot of calls that come about Broadband set-up helps so there's a whole very large range of things there's not one silver bullet on that. The on Livetime which is the wholesale offering we haven't yet got plans to put it into mobile phones but we are kind of looking, I've seen the live time demonstration it's very impressive on E4 and Channel 4 and I know there's one mobile company who's taking that up to test, we'll see how it goes and maybe it's one of the many mobile services we may well incorporate into future mobile devices and what was the other?

Audience

Usage

Gavin Patterson

The question was do people keep the same usage profile, share of work profile as they grow older, some do some don't it's not a black and white case to be perfectly frank with you I think you do see as people grow older they do tend to keep a lot of their habits but I think it's up to companies like us to better anticipate their unmet needs and provide propositions that meet those needs as they change and their needs changing in the market place so the needs of the 15-18 year olds are not the same as a need of a 35 year old and it's simply about using the data capability that we've got which frankly should be second to none, coupled with segmentation and understanding at a fundamental level what people unmet needs are to better tailor propositions to people's life stage.

Audience

Jonathon Dan my question is, is the difference between primary lines connected and active customer's, is that a good predication of unbundled lines going forward.

Ian Livingston

No it's a good predication of current WLR but WLR line won't necessarily be an unbundled line at all in fact about half the country they won't be unbundling or it depends on what number you believe with the number of exchanges being unbundled and even within unbundled exchanges a lot of them will not actually be fully unbundled and a lot of them won't be unbundled at all so I guess no.

Audience

Thank you Pierre one on mobility and signal cost cutting. On mobility can you tell us what you expect as a cost difference between your dual mode with feature PSM and the GSM phone when you launch your dual mode handset in one years' time and still on mobility what's the time when we will have the convergence between the mobile handset and home environment, I mean access to the address book or voicemail. Then on cost cutting can you just tell us behind this 450 million pounds cost cutting there's only contact centre efforts can you be more specific on all the sources of cost cutting behind this quite thick.

Ian Livingston

Okay I'll do the cost cutting I mean the first question but BT Fusion is what you describe I think as the converged mobile phone if that exactly is all the things you describe as you have a single address now there will be I guess more convergence and in terms of prices of future WiFi phone a year down the line no I can't tell you and even if I could I wouldn't at this point. In terms of cost cutting yes frankly I could give you a list, I've got a very long list marketing efficiencies IT operational efficiencies you know the next year attempt 14 million from one 10 million from the other accommodation reduction 2.8 million billing programmes significant amount which part of that is in the call centres travel subsistence 3.1 million net centricities improvements for the consumer 3.6 million we could go down a very very long list so call centres are just one part of it and the lists comes to the aforementioned number and I would rather hope that we don't stop there.

Audience

Morton Singleton, I'll restrict myself to three questions if I may. Okay well two questions one of which is in two parts then..

Ian Livingston

The answer will only be in one though.

Audience

Okay the first question then what portion of your national coverage of 2MB Broadband actually receive the full 2MB rather than up to 2MB and associated with that therefore for your IP TV proposition does the consumer have to have the BT retail Broadband proposition or can it be any retail Broadband proposition and the second or third question relates to the fact that what you

have announced today in terms of IP TV for me is almost a stepping stone in terms of the pending revolution in television, if you look at PCCW in Hong Kong or Comcast in the US who I think announced fairly recently that one billion downloads video on demand ultimately TV is going to be very much an interactive hall video on demand activity which means basically the whole traffic goes over the Telco network, if you was to do that then I think you'd need to be announcing the sort of investments that Dutch Telecom, France Telecom looking at in terms of fibre to the kerb or beefing up the capacity somewhere can you just give us some flavour of where you are in your decision making in that process, thanks.

Ian Livingston

I think you've just a number of very very huge leaps and a lot of the things that have been talked about are your providing services to a few big cities, what we are talking about is a national proposition I also don't buy the fact that people are going to give up mass market viewing broadcast, I think broadcast is still going to retain a very significant part of people's lives and expectations, if you asked two years ago what we would be doing about fibre to the kerb to provide the home, that's a wholesale decision but that's being as a group board member you would have said well probably to get TV we'd have to do that but we don't so in the end we say to get 8M out we'd probably have to do that, well you don't I think we could carry on chasing this for a long time and we shouldn't assume that fibre to the home is going to be the ultimate out turn. The UK has the widest availability of Broadband and the widest availability of 2M Broadband will be 80% plus and growing, it continues to expand, we'll have 2M available so that's what we think will happen.

Okay I'll take 2 more questions, one at the back there and the final one over there as I'm sure you can talk to us when we break.

Audience

Thank you it's Mickle Geratty. Couple of questions on the blue phone BT Fusion and the WiFi phones I see here you are introducing them in autumn 06 is that a delay in respect of the original spring 06, I'm talking about the WiFi enabled phone and if it is a delay why and why actually not doing it today?

Ian Livingston

Well because converged WiFi phones, maybe you are going to tell me that somebody has got a converged WiFi phone

Audience

There are more of those than the blue phones.

Ian

I mean Steve do you want to talk about that.

Steve

You are right that there is WiFi in phones but they are predominantly at the top end of the market what we are talking about here is consumer to get a real mass market proposition with strength also a number of the security features that we spent a lot of time building in to the Fusion phone we would want integrated in, it's easy just to get pure WiFi but actually to get the feature functionality and the price point we are working hard to a make sure we are there and we are there very fast.

Audience

Has there been a delay from the original, I think I may remember incorrectly spring 06 as a time frame for the launch of WiFi phones.

Steve

What you've seen on the slide is by that date, whether we'd come out here and tell you exactly what date it would come out on is a different question so watch this space we are right at the forefront, the fact that there is now well over 25 handset a lot of which have been through the work we have done with a lot of the manufacturers so watch this space and watch for that date to hit the market.

Audience

Thanks you didn't mention personalisation as one thing that you would be able to differentiate on, you obviously you work with wholesale a business I think called IMS that gives potentially third parties access to some of the customer's information as well. I was just wondering do you see Ofcom sort of forcing wholesale to provide that sort of information to third parties and if data privacy is an opportunity for you to restrict that and therefore differentiate yourself that way as well.

Ian Livingston

Those customers there is no issue about asking wholesale to give access to the customers, the problem is they are not Wholesale's customer they are Retail's customers and there's no question about sharing information with third parties no suggestion at all so that makes an easy answer personalisation and what we know about customers is the important bit.

Anyway with that thank you very much there's some really interesting stuff to see have a drink on us and see you in the future.

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