BT GROUP PLC

Q1 2013 RESULTS CONFERENCE CALL TRANSCRIPT

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	Tony Chanmugam	Group Finance Director
	Jeff Kelly	CEO BT Global Services
	Gavin Patterson	CEO BT Retail
	Liv Garfield	CEO Openreach
	Nigel Stagg	CEO BT Wholesale
	Catherine Nash	Group Director, Investor Relations

Catherine Nash

Slide 1: Thanks and welcome, everyone. It's Catherine Nash here from BT IR. On our call today we have Ian Livingston, Chief Executive, and Tony Chanmugam, Group Finance Director. Ian's going to touch on the headline results and then go through the lines of business. Tony will then go through the financials in more detail and then we'll hand over to you at the end of the session for questions. In the room with us today we also have the CEOs of all our lines of business.

Slide 2: Before we start I'd just like to draw your attention to the usual caution on forward-looking statements. Please see this slide that accompanies today's call and our latest Annual Report & Form 20-F, for examples of the factors that could cause actual results to differ from any forward-looking statements we may make. Both the slide and the Annual Report can be found on our website.

I'll now hand over to Ian.

Ian Livingston

Slide 3: Thank you Catherine and good morning to everyone. Thank you very much for coming on the call. I'll go straight into our overall results if you'd like to turn to slide four.

Slide 4: Overall Group results, revenue was down 6%. However, on an underlying basis, and to be clear underlying is excluding any M&A activity, exchange movements, specific items, excluding that and excluding transit it was down 3.2%. This clearly reflects, on one side lower revenue from Global Services, but actually a good improvement in Retail, Wholesale and Openreach's trends. And actually, excluding Global Services, down about 1.2% on an underlying ex-transit basis, which is progress.

EBITDA continues to be solid, up 2% in the quarter. Normalised free cash flow, as we've said quarter after quarter, it is volatile but clearly this number was a bit lower than you'd expected. And there's really some unusual factors in that, and Tony will talk through what's happened and with a reversal some of these items come in later.

Slide 5: So from that probably best to go to the individual lines of business on slide five, Global Services. Global Services revenue was down 9% headline basis, down 6% excluding transit. If you look on the right-hand side I think you see the key movements. And over half of the underlying ex-transit revenue decline came from tough conditions in Continental Europe and the financial services sector and we do show that in the numbers. And I don't think that's a huge surprise. Certainly the market has not got better. It's got worse, I think, recently and we saw, for instance, double-digit declines in Spain even in constant currency. And in addition to that with the currency movements it's significant declines.

Underlying operating costs I think have started to go in the right direction. They're down 6%, and I'd stress that's excluding foreign exchange, so we'd be down more than that including foreign exchange. And that's meant that the underlying EBITDA is down 8%. However, actually a big part of that was the fact we had more leavers cost charge to the P&L this year than last year in this quarter and leaver costs have been volatile. And as you know, remember those of you who've been around a while, that we used to show ex-leavers as a key measure. And actually ex-leavers, we're down 3% in Global Services and we're still committed to growth in EBITDA of Global Services for the year as a whole.

So I think just to put it in context, it is a tough market. But with the right cost programme, and I think there's a lot more to be done there, we still believe Global Services can grow its EBITDA.

Cash flow, we said that cash flow would be lower this year and it was down in the quarter. Some of the things that we thought would happen, and we can talk in more detail of them, Tony will do, that there was lower contract-related receipts, some delays in debtor receipts and timing of supplier payments. We did say in Q4 that you would expect Q1 and Q2 to be lower due to working capital in Global Services, so a lot of that we expected.

In terms of the order intake, order intake was £1.1bn. We had a good Q4, this is obviously a weaker Q1. Again it's the same story we said in Q4, which is the absence of the very large deals. We're doing lots of deals with lots of people. We had good deals, for instance, with Tesco, with Caixa Economica in Brazil, with Rolls-Royce, really good deals. But we didn't have -- for instance this time last year we had Lancashire County Council which is £400m. That being said, £1.1bn is lower and I think does reflect the fact that people are holding off and deals are more difficult, but that's very much something we raised at Q4.

<u>Slide 6:</u> Now turning to slide six. I thought it was useful just to put it in context because Global Services, whilst being tough conditions just now, it's come a long way over the last few years and you see that in the chart to the left in terms of EBITDA and free cash flow growth. And just if I look at the key things that we are focusing on in Global Services, I think we've seen a huge improvement in the risk profile of the contracts we do. The management is substantially better in them and the profile is really much less [risky]. This is not the business of a number of years ago.

We've also seen customer service improving in Global Services, and that's important and is actually important for the overall contracts. We're providing customers with what they want. It doesn't mean we never have any problems, but again a huge improvement is recognised by external industry analysts as well.

We've also spent time and effort and money in enhancing our product range, particularly globalising it, making sure we have a consistent product range, well explained, and I think that's going to put us in a good position going forward, as is our investment in faster-growing economies. We're still seeing strong growth, for instance, in places like Asia which we started in, and investment this year is going to be focused on the Middle East and Africa. But we expect to grow, to add about £0.5bn of revenue in the medium term from these fast-growing economies. So that's good.

What isn't so good is the macroeconomic environment, unquestionably worse than we'd have thought a while back. It is a bit worse in Continental Europe, Southern Europe in particular. But if you just look overall, external industry analysts, people like Ovum, are saying they're seeing the lowest level of contract volume in a decade.

Now in that environment we can sit there and moan about it or we can do something about it and we'd prefer to go for the do-something-about-it route. And clearly we've got to do a lot more in cost transformation in that environment. I think this was an improved quarter in cost transformation. I think I said at the tail-end of last year we probably hadn't done as much in Global Services as we want to do. And I think the economic environment has just meant we've got to do more and we've got to improve our processes, improve our service to reduce our cost base. And that is going to be the key area of focus.

What we're not going to rely upon is a sudden upturn in European markets. I think that would be unrealistic. What we will look to is really focusing on efficiency and effectiveness to deliver the sort of Global Services business we expect in the future. But as I said, this is a very, very, very different business from the one of a number of years ago.

<u>Slide 7:</u> Now turning to our Retail business, revenue down 3%. Actually on an underlying basis, because it is affected actually by FX, because we've got a conferencing business and also Ireland, it's a bit better than that. But actually excluding trade sales, which is something I'll talk about in BT Business, I mentioned this last quarter, actually decline was 1%. And that's a pretty good performance. And I think we see that in our Consumer business, revenue down 2%. But if you look at the chart on the right, that's a continuation I think of the improvement we saw first of all in Q4 in terms of year-on-year performance.

Business revenue down 6%. Two-thirds of that is from what I mentioned, the IT hardware sales. This is something we decided to withdraw from Q2 last year, very, very low margin. It's not a business we felt particularly that we should be in. And it accounts, as I said, for two-thirds of that decline. We've got one more quarter of it and then in Q3 and Q4 we're no longer anniversarying it. And that's one of the reasons that we would expect to see a better second half in our Retail business in terms of overall revenue trends.

Retail continues to deliver on operating costs. Net operating costs down 6% and this has now been going seven years plus. And that's the reason we're able to grow our EBITDA 7% and that's a good financial performance.

<u>Slide 8:</u> Looking at some of the operational metrics, on slide eight in our Consumer business, Consumer ARPU was up 6%. The vast majority of that comes from greater broadband sales and of course a lot of that being fibre just now. We got back to 50% share of broadband net adds, which we've had for most quarters in the last few years. Did 85,000 out of 170,000 broadband adds. And I will say something about the volume in the market later when we talk about Openreach.

Fibre's going really well, very pleased. Net adds over 150,000. Now over 700,000 fibre customers.

BT Vision as well, and I think contrasting with some other announcements recently, net adds are 21,000 in BT Vision. YouView is going to launch as a bundled service in the autumn. But YouView's one of a number of things that we'll be doing over the course of the next year, and that's something I've said for a number of quarters. But BT Vision is continuing to show solid growth.

Obviously one of the things that we'll be doing over the course of the next year or just over a year is Premier League rights. Really nothing particularly to add from a few weeks ago when we announced it. You know the 38 games, the 18 first picks we've got. And we've done, part of what we need to do, paid the deposit which is affecting the cash flow number and also just going through the process you have to go through of negotiating the long-form contract with FAPL [Football Association Premier League]. So we're doing all of that and whilst doing the preparations and setting up the channel, but there's nothing to add from a few weeks ago and I think we will tend to say a lot more nearer the event rather than doing that well in advance.

One thing that's worth mentioning when we're talking about things like fibre is the demand for bandwidth in the marketplace. And we're seeing a huge demand for bandwidth. And wi-fi hotspots are an important part of that. We actually rebranded BT Openzone and BT Fon to BT Wi-fi this year to create a far more unified proposition. Over 4m wi-fi hotspots. And I think this is a big number. The minutes actually used on these hotspots are up 80% year-on-year at 1.7bn minutes.

And I think that shows the value of that asset, but also the way that people with smartphones and tablets are looking to fixed line bandwidth to deliver what they need.

Slide 9: Now turning over to Wholesale. Wholesale underlying revenue down 2%. That's pretty consistent. We've been there or thereabouts for a number of quarters and really the same basic reasons for it. Net operating costs down 1%. That's an improvement basically because the impact of network migration costs are a lot lower and that was the thing that was keeping the cost base up despite the revenue decline. And that's actually led to significant improvement in the EBITDA performance and I think that's something we indicated you would look to see towards the end of the year. We said that about a year ago and that's the case.

Order intake, £500m. Some very big orders for the mobile companies, for Ethernet circuits, and that contributes a lot.

And also something which we've mentioned before, and I probably should explain why we mention it, IP Exchange minutes up 90%. Now today it's reasonably small revenue but growing at a very fast rate, but we actually believe our IP Exchange, we've invested in this, we've invested both in the UK but increasingly we're investing globally. We've created a very good base for exchanging IP traffic and we think that's going to be a very big opportunity for us, worth many hundreds of millions of pounds in revenue to the Group over the course of the medium term. So it's the reason we mention it and I probably was remiss in not saying earlier. But I think it's one of the areas of growth for us.

Slide 10: Now turning over to another, Openreach. Revenue in Openreach was flat, which given that impact of regulatory price reductions, which we told you about, which was circa £40m, that's a pretty reasonable performance. I think it shows the growth in Ethernet and fibre. Net operating costs were down 2%. Now that's despite increased repair activity, and that's carried on into this quarter. We've seen repair demand up by 40% in a number of weeks in the quarter really because we've had the dreadful weather, the wettest, I think, May and June for 100 years. So that's meant we've been doing a lot more repairs. And despite all of that, EBITDA up 3%.

On the operational side of things, the first time for a while, a reduction in physical lines. Now in part that is due to the normal seasonality referred to, students closing down lines, going back from university, that sort of thing. It's always a weaker quarter. But there was also another reason, which is related to repair. We did divert resource from provision into repair so it did have an impact in terms of the overall physical lines, and also actually impacted the broadband net adds, although probably to a slightly lesser extent.

That being said, I think probably, despite the seasonality and despite that impact, probably broadband growth is a bit weaker. It's still remarkably strong given the environment, but I think that's probably a little bit weaker than it has been in the [last] quarter, but these things can move around, no question about it.

Slide 11: Turning over to the next slide, fibre rollout. It was a really good quarter in terms of delivery of fibre. Over 2m premises delivered in the quarter. We've now, as we speak today, now passed over 11m premises. c.750,000 now connected and c.170,000 connected in Q1. So these are all really good numbers.

And we've got a lot more to go on fibre. It's not just about the commercial rollout we talked about. Actually there's a lot of innovations around speed and reach, innovations that will help lift up some of the slower speeds on fibre but also increase the reach that you can do with fibre-to-the-cabinet products and also things that can be done to deliver higher speeds from copper fibre mix.

Now I won't go into a lot of detail, but just to say that actually those innovations, I think, will make the ongoing fibre story and capability, I think, get better as time goes on. And also a number of them will help us in BDUK. BDUK obviously is the government's program to deliver fibre to what's called the final third. There was a national framework [agreement] and basically ourselves and Fujitsu have signed up to that.

Since April 1, i.e. since the start of the financial year, we are delighted to have won four contracts. Lancashire and Rutland we've mentioned before. Also, in the course of the last week/10 days, North Yorkshire and Wales. Wales is the largest contract to date. It's a £425m contract. Obviously BT only puts in a portion of that, the rest is provided by the government. But that's going to deliver fibre-based services to 96% of premises in Wales and it shows, I think, what can be done in terms of working together with local government, national government and European government.

And we see that in the projects already in delivery. In Northern Ireland we've got over 90% coverage. There's a double-digit take-up already in Northern Ireland. And it's not that many years ago we signed the Northern Ireland deal and I think it shows we've gone from signature to actually delivery and customers using it on a very large scale in a very short space of time. And we're seeing exactly the same in Cornwall. Already over 40% coverage in Cornwall and it's not been that long ago since we signed the contract.

In contrast to some other people who've been involved in trying to provide fibre capability who certainly talked a lot about what they can do, we're delivering it and it can be seen. The Cornwall project won project of the year from the World Communications Awards. So at least people outside the UK appreciate some of what's been done. But I think it’s pretty good news on BDUK. Lots more to still to be done, working together with Europe and on the ground. But some good things there.

<u>Slide 12:</u> So, in summary, the fundamentals of this quarter are profit and EPS have grown and continue to grow, and there was a double-digit growth in EPS again. It has been a volatile quarter for cash. We did expect to be impacted by working capital but it's been impacted more, and we've talked about that and Tony will talk more about some of the specific things that have happened. It has been a good performance in BT Retail, Wholesale and Openreach. They're all moving in the right directions. You occasionally will zigzag a little bit about these things, but actually fundamentally we're pleased about our performance.

Global Services is more challenged. It's challenged by the tough market conditions which we're operating in, both in Europe and the financial services sector, which means it has to work harder and do better to offset these. That is the hand that we're dealt and that will certainly be a really key focus for us in terms of the cost reduction program to deliver the overall financial results.

So overall with that self help, we believe we're on track for the year as a whole. And that's the important thing. Quarters can be volatile but we remain committed to full-year expectations. And also we're looking forward to, with great delight, the sunny weather and to an excellent Olympics, of which BT will be a key part of.

And with that thought, can I pass you to our CFO, Tony?

Tony Chanmugam

<u>Slide 13:</u> Thanks, Ian, and good morning, everyone. I'll take you through the first-quarter financials in a bit more detail, starting with revenue on slide 14.

<u>Slide 14:</u> Headline revenue was down 6% in the quarter, which includes the impact of a £67m decline in transit revenue. There was also a £56m negative impact from FX as a result of the weaker euro and a £13m impact from disposals. Our main measure, underlying revenue excluding transit, was down 3.2%. We delivered another quarter of growth of EBITDA which was up 2%. Excluding FX and disposals, underlying EBITDA grew by 3% as we lowered our underlying cost base by 8%. Depreciation was down 2%, which contributed to operating profit growing 6%. Interest was broadly flat, leading to profit before tax growing by 8%. This drove a 10% increase in

our adjusted EPS to 5.7p, making this the 11th consecutive quarter of double-digit growth in earnings.

Slide 15: Turning to free cash flow on slide 15. Normalised free cash flow was an outflow of £124m in the quarter, which was £325m down on last year. The year-on-year decline in cash flow was partly due to Capex. Remember, we said that quarter-four Capex had benefited by around £40m of timing benefits and these reversed in quarter one. The decrease also reflects an increase in tax, due to our higher taxable profits.

But our cash flow was lower than we expected, and this was mainly driven by working capital. There are a few reasons for this. Firstly, we had around £150m of late payments. Around £100m of this was from a few of our customers in the sector who decided to pay us later than contracted. However, this cash came in right at the start of July. The remaining circa £50m relates to Global Services and reflects the current conditions in Europe. Its cash was also impacted by the timing of supplier payments, which tend to bounce around from one quarter to the next. And finally you'll remember we had to pay a deposit for the Premier League rights, which was worth around £27m.

Below normalised free cash flow, the £2bn payment into the pension scheme resulted in a tax benefit of £162m in the quarter. We expect a similar-sized benefit next quarter and for the full-year cash tax benefit from pension deficit payments to still be around £560m.

After specific items of £33m relating to the Global Services network and property rationalization cost, reported cash flow was close to zero in the quarter. Net debt of £9.1bn was up year on year, reflecting the £2bn pension payment in March, which was partly offset by our cash flow generation over the last 12 months.

Slide 16: Turning to slide 16 on cost transformation. During the quarter we cut our costs by £317m. On an underlying basis, excluding FX and disposals, costs were down 8%, with reductions across all our cost categories. We continue to focus on process transformation programs that cross the boundaries of individual lines of business, with the aim of improving the customer experience by reducing the cost of failure. On our volume lead to cash process, we have a cost base of circa £330m which we're targeting to reduce by around 20%, and of which we've already delivered annualized savings of over £35m over the last nine months.

On the more traditional areas of continued forensic cost focus, there still remains opportunities. For example, on travel and subsistence, we reduced our cost by 4% last year. This year we've focused on reducing the need to travel by using alternative ways of communicating, such as conferencing. We already use conferencing extensively and we intend to increase this even further. Together with improving the way we procure, using advanced purchasing, for example, we expect to take a further 10% out of our travel and subsistence cost base this year.

We have a small team dedicated to bringing back jobs into the Company. The aim is to reduce the cost of services provided as well as ensuring we find roles for our staff who are freed up through the efficiency programs, one of which I mentioned earlier. This year we'll bring back well over 3,000 jobs in the Company, a reasonable proportion of which will utilise existing staff.

So these are just a few examples of the types of things we're doing. We're making good progress but, as Ian says, there's still much more that we can do.

Slide 17: Turning to slide 17, there are a few more items I'd like to pick out. As you know, we announced a £300m buyback at the quarter-four results. And during quarter one we bought back 40m shares at a cost of £82m. The buyback is aimed at offsetting the dilutive impact of share option plans this year. And there are around 114m options which become exercisable from August 1 for a period of six months.

In June we issued the equivalent of £795m in US dollar bonds. This serves a number of purposes. Firstly it gives us more flexibility, and it means we're now fully funded for the £2.4bn of term debt and short-term borrowings that is repayable this financial year. Secondly, market conditions were favorable and we've been able to raise debt at an average rate of around 2%. This lowers our average cost of debt and our cost of carry. As always, we'll continue to see if there are any other opportunities in the market to better manage our debt and our interest cost.

Moving on to the pension, there's very little to say. The IAS 19 net deficit came in at £1.9bn, which is unchanged from March.

Slide 18: Turning to our outlook on slide 18, there is no change to our Group outlook for the year. On revenue, we expect underlying revenue, excluding transit, to show an improving trend relative to last year. You may remember that last year we called out around £60m of contract milestones that were recognised in quarter two rather than quarter three. Because of these we expect underlying revenue, excluding transits, to show a larger decline in the second quarter than we have seen in the first. However, we expect a material improvement in the second half of the year, partly as we anniversary the withdrawal from trade sales in Q2 last year and partly because of an improved performance.

We continue to expect EBITDA to grow this year and that normalised cash flow will be broadly level, even with the payment of the Premier League rights deposit. It's worth noting that because the last day of quarter two falls on a weekend this year, this will have an impact on when cash payment from some of our major customers come in. So largely for this reason we expect second-quarter free cash flow to be below last year before returning to growth in the second half.

Slide 19: Turning to slide 19, we continue to expect underlying revenue, excluding transit, in 2014 to show an improving trend. But when we announced the Premier League rights in June, we gave you a view of what the impact would be on our 2014 EBITDA and cash flow. Given the circa £100m impact we said we would see on EBITDA, we now expect Group EBITDA to be broadly level compared with 2013. On free cash flow, we previously said that we expected this to be above £2.4bn in 2014. After the circa £200m cash impact due to the Premier League announcement, we now expect our normalised free cash flow to be above £2.2bn. For 2015 our outlook for normalised free cash flow remains at £2.5bn.

Slide 20: With that, we'd be happy to take your questions.

QUESTION AND ANSWER

Andrew Lee - Goldman Sachs

Good morning everyone. A question on Global Services then a second question. Firstly on Global Services, the domestic trading environment, how's the competitive intensity here at the moment? Have you seen any shift in the competitive pressure from Cable & Wireless on the bigger contracts or from the rest of your competitors in SME?

And then the second question was on the fact that Ofcom highlighted they will reserve spectrum for a fourth national wholesaler. I just thought I'd give you the opportunity to say you're still not interested in owning a mobile network or to see if there's any change there? Thank you.

Ian Livingston

The answer to the second one, yes, I can confirm there's no change there. And there probably will be 13 questions that will now drop off the list.

In terms of domestic, I assume when you say domestic, you mean domestic UK, because of course we've got domestic businesses in a lot of countries. In terms of that competitive intensity, I'll see if Jeff wants to add anything, but it remains a competitive market. We've had some good wins which we're pleased with. I think same in the SME business. We've done well in what's been a difficult marketplace. But maybe, Jeff, do you want to talk about the corporate side and if Gavin wants to add anything on SMEs.

Jeff Kelly

I would say it's about the same intensity as we've seen in the past. I wouldn't say we see Cable & Wireless being any more aggressive on our existing accounts. We're both very aggressive on accounts that we both own, but I wouldn't say it's any more intense.

Gavin Patterson

Maybe just to add on the SME space, I think we're seeing the market contract as a number of customers are looking to consolidate their estate, for want of a better word. Where we're operating we are actually growing market share.

Nick Delfas - Morgan Stanley

So two questions. First of all on H2 revenue recovery, I calculate roughly your IT hardware points will give you a following wind of 60 basis points compared to the first half. But given that one shouldn't expect any change in the European economic environment, maybe you could say a little bit more about where you expect the rest of the recovery to come. I calculate you need to get to about flat revenues in H2 to reach your revenue guidance.

And secondly, what else can you tell us about Global Services to reassure us? If you look at EBITDA minus capex versus cash flow we're starting to see a gap opening up again in the quarter and also as you said at full year, in the year. What reassurance can you give that that's not a problem of profit recognition? Thanks.

Ian Livingston

I'll let Tony add on that in just in a second, but yes, we had I think it was about a £20m hit in Q1 from that point about what was going on with the trade sales, and that will drop out. It's a bit less in Q2 but will drop out in Q3 and Q4. And also of course we've got the anniversarying, if you recall - I think from recollection Q2 last year actually revenue was up because of the £60m stage payment we had that we've highlighted numerous times. So no great surprise there.

And I think also it's the build up of the investments. As we add more fibre, as we improve on Vision and the other actions we're taking are the reasons we expect to see a materially better position overall in revenue in the second half.

In terms of Global Services, I’ll pass that to Tony. We said there would be working capital movements this year and that's why we expect lower cash flow. But I think Tony can give you some reassurance on some of the key numbers that show this is a very different and, in many ways, expected issue on cash flow but that it’s also different from the fact that we have a more difficult economic environment. Tony?

Tony Chanmugam

Nick, the first thing is the working capital's going to bounce around quarter on quarter. That's always going to happen based on things like supplier payments, contract payments, etc. If I looked at the previous two years, we had positive working capital. You can't have positive working capital every single year. This year we're into the situation, as we indicated previously, where we'll have negative working capital.

In terms of your concern, putting it bluntly what you're saying is: are we deferring costs on the balance sheet to improve profitability. If I look at the quarter four to quarter one movements, there is no movement in terms of deferred cost. If I look at the quarter one movement to quarter one last year, we've actually got about £150m reduction in deferred costs. So effectively the balance sheet is materially stronger than the same time last year. And if I took it back a further year you'll see similar sorts of reductions. So this is not a situation where you've got an overhang on the balance sheet that could lead to potential issues.

Robert Grindle - Deutsche Bank

Yes, Good morning. As you flagged in the presentation, you've been very successful in winning a large number of BDUK contracts. Is the capex and EBITDA associated with these fully in the new guidance and was it accretive to free cash flow over the next couple of years?

And then secondly, the UK government appears to have made some progress in re-contracting some its business, or at least shortlisting suppliers. Is there any change in your expectation due to all of that? It seems very impenetrable. And when would the process have an impact, if any at all? Thanks.

Ian Livingston

I'll ask Jeff to talk about the UK government. On BDUK, given these are long-term investments when we're spending the money, it will not be accretive to free cash flow, when we stop spending it it will be. The expectations in terms of cash flow and profitability include the BDUK bids we've got. The comment I made before about BDUK, we talked about the £2.5bn that we were spending. We contained that within the overall guidance of about £2.6bn of capex.

If we hadn't been involved in BDUK, when we finished two-thirds of the UK, that number would drop quite materially. Because we're doing BDUK it is less likely to do so and so it'll carry on for some more years. Probably if we won all of the BDUK bids, it's around about £1bn of our money. And providing it over a three-year period or something isn't that different to the sort of rate of expenditure. If anything it's a shade less than what we're spending on fibre at the moment.

It may change the profile of exactly what we do but it's contained within the numbers. It will just mean that as we look to some outer years that we've got a lot more fibre in the UK, which gives us some really good EBITDA opportunities because once you've spent the capital, the EBITDA's there. And I think you see both in the results in Ireland, for instance, where our EBITDA has grown and also in Openreach, where we’re starting to see some of the impact of that coming through. But no, within the overall forecast we can manage that very nicely.

On UK government renegotiation, Jeff, anything?

Jeff Kelly

I think just a general comment that our revenues are stable year over year in our government business. If you're referencing PSN, I think we've been very robust and proactive with the Cabinet Office. I think we're positioned very well. In March we were successful in eight of twelve lots there which positions us well in our core business. It is yet to be seen on those contracts, but even in our existing contracts, as we do in most of these, we gain PSN compliance agreements and then move our customers closer to PSN requirements. So net-net it shouldn't change drastically. We normally compete in this market previously and will continue to do so.

Paul Sidney - Credit Suisse

Just two quick questions please. Could you remind us in Global Services the number of large contracts that'll be renegotiated in the next three years? I think you've given us this information in the past. And maybe just big picture and give us the potential impact of those renegotiations, perhaps both in the revenue and the cost side.

And just a second question, could you just give us a bit more information on the adverse impact from the weather in the quarter? Have you seen a lot of pent-up demand coming through for broadband and the line trend reversing in the quarter so far? Thank you.

Ian Livingston

In this quarter that we're now in, pent-up demand?

Paul Sidney - Credit Suisse

Yes, indeed. Have you seen -

Ian Livingston

I'm not going to give [information] for the three weeks of Q2 we're now in.

In terms of Global Services contracts, as we said, there's less than the normal of the existing contracts, of the very largest contracts, coming up for renewal. That's about renewal dates. But you've got to add on top of that is we may decide to try and renegotiate some of these earlier. I think we would look in a couple of places to do that and at the same time to lengthen them as well. So I think whilst we don't have a huge number of contracts absolutely end, what we were actually trying to do, I know with a couple of the large contracts, proactively extend them well before, because a lot of these things they take a couple of years to change over. So it's a good time to negotiate earlier.

But we are comparatively light in contracts that end over the next couple of years and then it comes up a little bit more in a year after that. But we'll probably do a bit more in terms of that in terms of bringing things forward. And that may alter the mix between renewals and existing. If we don't renew them the contract volume will be lower than if we do renew them, but the mix will be towards, more towards new ones. And we'll try and give you that idea as the numbers come through quarter by quarter. Thanks very much.

Nick Lyall - UBS

Yes, morning. It was two questions please. Firstly on the Global Services costs that you mentioned, is that enough to actually start to increase margins slightly or is this just enough to contain the weaker revenue outlook do you think?

And then secondly, on the overall Group cash flows you've maintained the £2.3bn for the year. Is there any change in the working capital assumptions within the overall £2.3bn guidance please? Thanks.

Ian Livingston

I don't think we gave you working capital assumptions in the £2.3bn guidance so, no, there's no change in terms of us not giving you guidance within that. I think we gave you the overall number.

Nick Lyall - UBS

What I was trying to get to - I was just trying to get to whether that £2.3bn was more risky because if there was no change, if you see what I mean, without knowing what the actual number is.

Ian Livingston

No, no. As we said, there'd be challenges in working capital in Global Services. We said that was a movement, but I don't think we've commented on the rest of the business.

On Global Services and EBITDA, yes, margins will increase in Global Services, -- margins will increase de facto. If we are saying that the EBITDA will increase and obviously there's revenue pressures, we need one heck of a turn round in revenue for the margins not to be increasing in Global Services. So I think you can take from that EBITDA margins are expected to increase. Long term of course it's about creating a business that generates the sort of free cash flow a market leader should do. But we will have fluctuations annually and that's why we highlighted in Q4 that we'd expect the working capital to be an outflow and therefore bring the free cash flow down for this year. Thanks very much.

Carl Murdock-Smith - JP Morgan Cazenove

Hi, it's mostly a question for Gavin, I suppose, just on the mix between Infinity packages. I was just wondering what proportion of Infinity net adds you're seeing taking the 80Mbps products. Thanks.

Ian Livingston

I'll pass that to Gavin then.

Gavin Patterson

The majority take the higher tier. So I don't know whether we've given any - I'm getting a shake of the head from my IR friends. So it is the majority.

Carl Murdock-Smith - JP Morgan Cazenove

Okay, thanks. Given that that was such a concise answer, I'll ask a second. Just on YouView offerings, obviously TalkTalk are launching their offering tomorrow. When you do come to launching the bundles in the autumn, are you minded to at the same time also launch YouView within Plusnet bundles?

Gavin Patterson

I don't expect Plusnet to launch in the autumn, but I do expect YouView to be available over Plusnet, over the Plusnet network in the next 12 months, I'll say that.

James Britton - Nomura

I've got two questions, please. Firstly on regulation, how do you interpret the EU statement on NGN and broadband costing methodologies? Should we assume a flat or increasing unbundling prices in the future?

And does it make sense for you to do fibre any differently if you're guaranteed full cost recovery on these investments?

And then secondly, can you just perhaps give us some colour on any lumpiness in revenues or costs associated with the Olympics for Q2?

And would you be able to strip out some Olympics-related cost to improve Openreach margins in the second half? Thanks.

Ian Livingston

Alright, thanks for that. In terms of lumpiness, and there is some additional costs to do with the Olympics. It shouldn't be dramatically material, but there will be some additional costs we've got incurred and I think some focus on there. And certainly -- but it won't be enormous, but it will be, we will be able to notice it.

In terms of regulation, I think the thing about, if I understand your question right, the EU announcement on regulation was actually -- we were really encouraged about it because what it did is it very much brought it into line with what the UK position is. And I think that's a big movement from where the EU started, which they started in a very different place and now they've come up and said actually what we'll look at is cost orientation, non-discrimination, equal access, which is the UK model.

And the reason they came up with that I believe is because the UK is succeeding. And whilst clearly it wouldn't be mentioned in the UK like this, Europe looked around Europe and decided the UK model works really well in terms of delivering to customers what's required, and encouraging investment. And that's exactly what's happened. So I think it really -- we were very pleased with it. I don't know, Liv, is there's anything you want to add to that?

Liv Garfield

The only thing I guess, you asked specifically about cost orientation so I guess, as we've said previously, if it was a wholly cost-oriented model prices could go up or could stay the same. The interesting thing I think that came out of the EU [is that there] wasn't a guarantee [that] cost orientation would be fully recovered; it was a direction of travel. So I think you should just view it's our previous commercial case and it's now got strong support across Europe.

Ian Livingston

And was there another question, James, to it?

James Britton - Nomura

No.

Ian Livingston

I think that was it; we've done it.

James Britton - Nomura

On the Olympics side I guess I was just wondering whether or not costs will fall out after the Olympics and actually you'll see Openreach margins having a lift towards the end of the year.

Ian Livingston

No, Liv will resume her normal cost reduction plans, her reasonable reduction plans, but no, you won't see an impact in Openreach in that term. So I think actually [it] might be you'll see a bit less things like advertising and marketing, and things like that. It's not going to be an Openreach thing.

Liv Garfield

We've been delivering this for two years so it's an ongoing delivery.

Ian Livingston

Yes. Believe me, if the circuits aren't in now we are a little bit in trouble given the first Olympic thing starts today and women's football I think in Cardiff, Hampden and somewhere else. Sorry?

Nigel Stagg

Coventry.

Ian Livingston

Coventry apparently as well.

Simon Weedon - Citigroup

Just one question if I may and that is on the impact of the MTR cuts during the quarter. Could you give us a view or a rough number for the impact on the cost base of the latest set of MTR reductions and whether or not you think in due course you'll be obliged to pass some or all of that on? Thanks.

Ian Livingston

I'll ask Gavin about passing on. I think we are looking to use it to -- we've up to now passed the costs straight on. I think now we'll look more and more to put it in the packages to really encourage people to make more calls from the fixed line to the mobile and I think that's the way. We do give a number, of course, for ex-transit and MTRs, and within that we give the MTR number, and that, it's a big number in the quarter. But Gavin, do you want to talk about passing them on and the outstandingly keen prices you have?

Gavin Patterson

We've passed them on to date, as Ian says, and going forward I think the lower MTRs give us the scope to introduce more innovative propositions, particularly on unlimited-type packages or cap-type packages. So I'm not going to announce it today, but that's the sort of direction we're looking at going forward.

Michael Bishop - Barclays Capital

Hi, Good morning. Just two questions please. Firstly on TV, it seems like you have two solutions coming up, obviously YouView and the new Vision 2.0 box. So I was just keen to get your thoughts around how will you decide which ones to promote and when, and into which customer base?

And then I guess another question on Retail, following up from Carl's. Just on the fibre gross adds, VMED yesterday were trying to essentially imply that most of your fibre gross adds were just upsell as opposed to new Retail subs. So I'd like to get your thoughts on that given the strong adds in the quarter. Thanks.

Ian Livingston

I think you just, in the answer to the second question I think you almost asked and answered it yourself, which is, look, I know VMED in their presentations do like to talk about how well they are doing and how people providing it through the BT network aren't doing well. Look at the net numbers. We can debate about how much we are adding in the Market 3 areas, which is we are doing well. Where we've got fibre we see much higher growth. And it's a comment I've made a number of times, we've got much higher broadband growth where we've got fibre than where we don't.

And the net result, as you say, we've added 85,000 broadband customers. I think VMED lost net 10,000 off-net/on-net customers. So, to be honest, they're not really the discussion point in terms of market growth, as has been the case for a number of quarters. I don't think it's going to change that Sky and BT have accounted for over 100% of the market. And let Sky come out with their numbers, but certainly that's been the position for a number of quarters. And I think that's where the intensity of the battle is and the rest of the market have been net contributors to there and we're fighting very hard in the marketplace. But Gavin, want to add anything?

Gavin Patterson

Just a comment on the two platforms, YouView and Vision 2.0. Of course the Vision 2.0 portal will feature within our YouView proposition and ultimately the two will completely converge into a single proposition later next year. The key for us is getting IP channels, linear channels, available on YouView and we are working with the venture to make sure that's part of the proposition next year. And I think that's the point they all come together.

Jerry Dellis - Jefferies

Yes, Good morning. Two questions please. Firstly on Global Services, I think you've got quite a lot of capital invested in large businesses in Southern Europe, particularly in Italy. Given that the Southern European outlook could be depressed for quite a long time, I wondered if you could talk about the rationale for keeping capital tied up here. Is there scope perhaps to reinvest in higher growth markets or is there a strong business reason for maintain that Southern European presence?

And then the second question is just to do with the second-half revenue outlook. Given that I guess things look a little bit harder at the H1 stage, is hitting your guidance now I guess putting more pressure on Retail perhaps to deliver in the second half than was previously the case? Thank you.

Ian Livingston

I can tell you as I look round the table when you said put more pressure on Retail, the guys -- Wholesale, Global Services and Openreach immediately smiled and pointed to Gavin. So, no, they all have lots of pressure on them to deliver. That's not going to change.

Look, the economic conditions do make it more difficult; there's no question about that. I think whilst we didn't expect any massive upturn, I think we didn't expect Europe to be effectively lurching from crisis to crisis. That's not good for decision making. Decision making is the key thing, for instance, for large contracts. And people are frankly just taking a “let's not do anything for the meantime” approach, particularly whether it's about technology refreshes, large transformation things, people are just uncertain and that's not good for the economy.

In terms of the capital, there's two reasons why the answer to your question is no, we are not going to withdraw capital. One is that we make money there. It might be a more difficult market, but we’ve got to step up and do better, but we make money. And also the customers. A lot of this is about servicing global customers and if you look at somewhere like, for instance, Fiat in Italy, they are doing really well on a global basis. South America is growing very strongly for them and we have a number of these very large global customers that we do service from these markets.

And economies turn down for a little time, but we are not in this market for three months or six months or a couple of years; we are in there very much for the long term. So, no, what we've got to do is, and this is true across Global Services’ business, is effectively do the sort of transformation we've done in some of the other parts of the business because of the environment we're in.

And yes, of course our investment will be focused more on the fast-growing economies. That does make sense. That absolutely makes sense. And the nature of our businesses across Europe isn't particularly capital intensive. We're not putting in massive amounts of new network and things like that. We've got networks there. We are operating them. If we see something that's going to give us a much better result we are prepared to put in some additional funds, but they're not hugely capital intensive in the scheme of things.

Steve Malcolm - Arete

Yes, morning guys. I'll go for a couple. First on the Infinity uptake, can you just give me an idea of how much, what the contribution from improved provisioning was, and what the contribution from increased demand was in picking up from 100,000 to 150,000 in the quarter?

And then secondly on BDUK, it looks like you've had pretty good success there. I know you've always said in the past you don't expect to win all the contracts; I'm sure you won't. But is one of the potential upshots of a weak economy that you are seeing a little less competition in some of these tenders and you may win a few of them than you'd originally anticipated or are you very much where you thought you'd be at this stage? Thank you.

Ian Livingston

I think on the tenders, to be honest, I don't think it's the economy. I think there's been a number of people who made bold statements and we're left now with Fujitsu and BT. And if you look back, if I had a pound for every time I hear that there's someone who's going to transform the UK environment for fibre through massive investment and then never turns up when it comes to buying their round. People just don't follow through because they realise when they look at it actually this is quite difficult. It's a long-term investment. To actually industrialise this takes a long time. And we started this in 2008 and it took us a year to plan it, a year to test it and a year to industrialise it.

And where people are from a standing start makes it very difficult. A lot of people think it's the physical putting in of the fibre, which is difficult enough. It's the systems particularly that go round it, getting the base of wholesale customers and selling to a wide range of people. And that's something that we're expert in. So we are very pleased with how we've done so far. We are competing very hard for these contracts. I still don't believe we'll win all of them, but I believe where we win we'll do a really good job. And I think the proof of the pudding is just how well we are doing.

In terms of the up-tick in Infinity net adds, actually it's quite an opposite. We've actually had provision resource move into repair. So actually it would have been a bit better had that not happened.

We came out of Q4, just generally, this isn't just for Infinity, because it applies all across our business - with our repair books in really good shape, our provision lead times in really good shape. And what's happened during the course of this quarter, and particularly in May/June and even now, is we've had a huge number of repairs demand because of very, very wet weather and also quite a lot of wind as well. And we just had to divert resources. So we've actually got a bigger backlog on provision coming out of this quarter than we started.

Steve Malcolm - Arete

On that point, Ian, can you just give us an idea of where you think you can get to in maximum provisioning capability? I guess it's going to take some time for fibre to meet DSL volumes and what you can deliver because it's a self-install, but where are you on the journey at the moment in terms of reaching maximum?

Ian Livingston

We are recruiting more, I think importantly we are recruiting more staff. We have recruited more staff already to help do that. And that's something we would look to do more of and we're getting more efficient at it. But Liv, do you want to talk about that?

Liv Garfield

So self-install specifically we're working on trials with industry at the moment and that will look to go live next summer. And then the summer after the industry ambition shared between us all would be to have a single CPE. So that's kind of like the time windows on that part. And certainly for some customers I think the self-install is potentially a big volume opportunity gain. I think for all my large-scale customers combined CPE has got to be an ambition because of course it makes it more attractive financially across the market. So that's the time windows for those product developments.

I think in terms of demand, demand has followed a steady curve of growth over the last while. I think that will continue. There's more footprint coming out. There's more ambition across the market. There's more customers wanting the product. And there's really good speeds. So the actual speeds are fantastic. So the demand will continue and we'll make sure that we are resourced in line to manage that demand. And let's hope the good weather stays because this is the best chance of that, is less of the monsoon season and more of the sunny season. So this is very good news for us all.

Steve Malcolm - Arete

Liv, while I've got you, just on that, on this provisioning stuff, on the Openreach cost base was the 2% reduction we saw in the quarter a normal number given all the weather stuff and the repairs you had to do? Is that what we expect for the rest of the year?

Liv Garfield

So I guess couldn't give you individual guidance by quarter for the rest of the year because no mystic ball in terms of what will happen. But I think we did a good job to cope with the weather extra and deliver those financials and I think we've set ourselves up with some good savings in the early part of the year, some of which will flow through.

James Ratzer - New Street Research

I had two questions please. The first one was just regarding the overall pricing environment in the UK and there's a bit of debate about whether the market pricing is inflationary or not at the moment. Clearly you are pushing up line rental pricing, but other parts of the bundle there seems to be promotions on. You hinted at maybe tweaks around how fixed-to-mobile calling is included in the bundle. So it will be interesting to get your feel on whether blended pricing across the base can start to potentially go up from here.

And secondly, now Infinity is becoming quite a meaningful part of your customer base, be interested to get some thoughts about quantifying the impact of that on revenue growth. You were mentioning quite a high percentage of customers are taking the higher tier. Roughly in pounds sterling how much of an upgrade are you seeing those customers increase their spend by on Infinity? How much of the net adds are coming as new customers? It would just be helpful to try and quantify the impact of Infinity on the top line please. Thank you.

Ian Livingston

Alright, lots of questions there. I'm probably not going to give you the exact dynamics on Infinity. I think we play that close to hand. Except a couple of points I would say about it is that whilst we are pricing Infinity effectively at the same price as Option 2 and 3 broadband, we are seeing a good spin up from people going from Option 1 broadband to Option 2 or 3 Infinity, effectively the top two tiers of Infinity.

And all the way through we're seeing actually, despite pricing it effectively at a consistent level, we do get a good ARPU increase. And it contributes a very large part to offsetting the extra cost of Infinity and that's before you start look at the buy-in cost. That's before you start looking at churn and other opportunities to sell more. So it's a good economic model for our Retail business as it looks just now.

I'll ask Gavin to comment about the detailed price environment, but it is really important to say that the UK has among the cheapest prices of any Western country for telecoms. And that reflects the competition and regularly in surveys pricing is 30% lower than the US and Germany, Spain, Italy, France etc., and I think that maintains. And we've certainly put in a price freeze this year on key things as well as having taken down, for instance, our fixed-to-mobile calls. But, Gavin, do you want to talk?

Gavin Patterson

Not much to add, Ian. I think it is a very competitive marketplace. I think customers are, they're searching for value and we've got to make sure we are continuing to deliver that. So I don't see huge scope for price rises, and I think we will remain extremely competitive, particularly on bundles and promotions going forward. So I'd say that's probably as much as I'm prepared to share.

Ian Livingston

Okay, next question please.

James Ratzer - New Street Research

Ian, can I try one follow up on that Infinity point, you were saying seeing in ARPU an increase there? Is that, say, more than £5 a month you are seeing as an ARPU increase or is it below that level?

Ian Livingston

I'm saying I'm not going to give you that exact number. What I've said, it contributes a very large part to offsetting the increased costs of Infinity in terms of fibre. And that's as much as you're going to get at the moment in terms of an exact number.

Darren Ward - Echelon Research

Yes, Good morning. It's just a question about the Ethernet and wholesale lease lines issue that you flag in this morning's release. Assuming that you can't get the drafts overturned and that the determination is in line with the drafts, you've got to repay £145m. Could you just tell me who those parties are that will be receiving that and over what kind of timescale it is you'll have to be paying it out?

And I also notice that you say it will be a specific item. Over what period of time has that overcharge built up, if you like, and could we please get the information to strip it out of the historics?

Ian Livingston

It's not an overcharge; it's actually an oddity in the way the regulation was drafted and I think actually it was quite unintentional in the way Ofcom drafted things that they ended up with this issue. I think it was very unexpected. So it's been over the last about three years or so since Ethernet prices were agreed with Ofcom. And bear in mind, Ethernet prices were agreed with Ofcom, but they had some cost orientation regulations that I think had some unexpected consequences. I think unexpected frankly to Ofcom; certainly unexpected to us.

And it will impact anyone who's bought Ethernet. And I'm not going to go through what our exact sales are to various people on Ethernet.

Darren Ward - Echelon Research

Is it other industry players, Ian, or is it end customers?

Ian Livingston

Yes, it's other industry players.

Darren Ward - Echelon Research

And just maybe the timescale of the repayment?

Ian Livingston

I think we'd have to pay it pretty quickly. Once the decision is made I think it's a reasonably short period. Tony? Yes, it's a reasonably short period so it would be in this year.

Stephen Howard - HSBC

Two sets of questions please. Firstly, and just following on from the earlier question about the latest regulatory developments from the European Commission. Presumably this gives you a lot more visibility on the Infinity business case and I guess it would help you address some of the calls made by one of your major wholesale customers that your fibre product should be price regulated from about 2015 onwards. So I'd just like your observations on that.

And secondly, your results statement trumpets a series of Global Services contract wins including I note additional branches of Caixa Economica Federal, the Brazilian development bank. Just if you could help me understand why this is a core competency for BT and why you are the right person to be providing additional connectivity to extra branches of a Brazilian development bank? Thanks.

Ian Livingston

In answer to the second one, because we've got quite a deep capability in Brazil and we've got great expertise in VSAT [Very Small Apperture Terminal] technology, - if you want to particularly understand why. We also do the Brazilian Post Office so the customers in Brazil certainly recognise our core competency. Brazil's a different market from others because of the way the fixed-line network [is] and the sheer size. It's a big country, you know. And that's why we can provide that as well as we've got great expertise in financial services sector and it's also bringing that expertise and knowledge to national players as well as international players.

Jeff, anything I should be adding to the sales pitch?

Jeff Kelly

Yes, I actually would add to that. I think if anything we are probably too quiet about our assets and technology down there. I think we're doing well in the market, as Ian suggested. We won our largest transaction last year with the Post Office down there. But I am hearing from some of the industry analysts that we are not as aggressive letting our customers know our asset base down there so we're going to work on that.

Ian Livingston

And you referred to the Infinity business case, I'm not quite sure if you meant the fibre business case. Can I just be clear because of course they are two different things?

Stephen Howard - HSBC

I beg your pardon. It is to the fibre investment case that I was referring. Just I think we discussed this at the last results. There was an interesting interview in the press in which one of your competitors suggested you should be price regulated.

Ian Livingston

Look, it doesn't affect our business case because basically what the EU said - what we expected, [was to] follow the UK model. When we've been asked about price regulation in fibre, if anything you can maybe look at the prices going up. It's a very long-term investment and we are driving this for volume. And I think you'll have to ask the person who may have said it to clarify exactly what they said, which might have been a slight misquote. But either way I think Ofcom's been pretty clear [that] they didn't see any need for revisiting that issue of regulation. And given that the UK enjoys one of the cheapest fibre prices anywhere in the West, actually I think we're in a pretty good shape on this one. Thanks.

Guy Peddy - Macquarie Capital

Yes, good morning all. Just a couple of quick questions. Firstly on Infinity, Virgin Media managed to outsell you three times on high speed broadband in the quarter and I was just wondering is there anything that's underlying that? Is it just a question that you haven't marketed your product to as many customers? And I'm thinking now that your customer base or your number of lines that are covered by Infinity are broadly similar to Virgin Media's footprint.

And secondly, on Global Services, it's had two years of being operating cash flow positive; we are now going to go operating cash flow negative. I know that's not new, but given the outlook for revenues is probably under more stress than originally perceived, do we think actually that it could be operating cash flow negative for another two to three years because you have to make these investments in geographies that you previously hadn't been occupied in? Thank you.

Ian Livingston

That's certainly not our intent or expectation. Look, if we look at our Retail business, its revenues have declined and its profits and cash flow have increased. We said to people that we knew this was going to be a difficult year because of the way the working capital was moving. We saw that in advance and we said that the following year it would improve and that still remains our expectation. And the investments we're talking about in these new, fast-growing economies, we actually either have made or are making most of them in the current financial year so that's really not the issue. And we haven't actually said it would be cash flow negative this year either.

So I think there's a presumption in the question. What's happening in Global Services from a working capital point of view is as we expected overlaid with I think the economics are worse. And that's made the importance of self-help even more in Global Services, and that's exactly what we're working on.

In terms of the somewhat bizarre question about the outselling by Virgin, I think they had a forced migration of their customers up to higher speeds. I would be delighted to be ‘outsold’ by a company who lost 10,000 broadband customers in a quarter that we gained 85,000 and we gained 150,000 Infinity fibre customers.

It's a remarkable question really. Our performance on any metric in terms of how we are doing on Infinity, and actually fibre generally is a multiple better than Virgin have done. And we're really pleased with the performance so long may we be ‘outsold’. I can't even say how many times we've added more net adds because when they're a negative we're a positive you can't really do the maths. But I don't really call that being outsold. So strange question, but thank you for it. And next, last question.

Stuart Gordon - Berenberg Bank

A couple for you. On revenue guidance for next year, I'm assuming that this includes the revenue that you expect to get in from the football rights in the second half. And clearly to hit guidance for this year we are looking at flat revenue for the second half of this year. I'm just curious. Are you baking in continued worries about the economy when you're suggesting an improvement in the trend for next year or are you expecting quite a significant step change in the revenue trend next year?

Secondly, can you cut the cost transformation slide a slightly different way and comment on what was the cost-cutting magnitude ex the cost associated with lost revenues?

And last one, and this is really for Ian, I know that you share my passion for Scottish football. I just wondered if you'd any interest in helping out the current situation by bidding for either the new Rangers football rights or, if Sky walk away, the full Scottish football rights? Thanks.

Ian Livingston

On the last one, I thought for a horrible moment you were going to ask me if we were going to bid for Rangers.

Stuart Gordon - Berenberg Bank

Please do.

Ian Livingston

I'd like to confirm whilst we traditionally never confirm or deny acquisition rumors, that is one I am only too happy to deny. But I'll do a whip round, people have some pocket money here, and see what they can do.

Stuart Gordon - Berenberg Bank

If you charged £10 for everyone that asked more than one question, we'd probably have enough.

Ian Livingston

Or indeed asked one question. On Scottish football, I have to say in terms of Scottish football rights, I am completely uninvolved. I'm the last person to ask because I am not at all involved in any bidding for, or any thought about, Scottish football for the reason that I'm actually on the Board of Celtic. So I defer to and leave that very much with Gavin and his team. I don't get involved. I can honestly answer and say I have no idea and long may it remain that way.

I'll ask Tony to answer about cost cutting in a second.

You'll have to calculate your analysis as to what exactly that means in revenue in the second half of the year, but when we then said improving trend, improving trend does not exclude positive. It can also mean positive in the year after and so that's not altered. And we think football rights is only just one bit of it. I talked about IP Exchange, for instance, before. We've got the building up of fibre because actually we've only just got to 11m. By the time we speak to you next year that will be a lot higher and we'll have had that base to sell into. So there's a lot of good things happening in that area.

And if you look, excluding the Global Services, that improving trend is coming through in our businesses. It's hard work in this environment, but actually the hard work is paying off.

But Tony, do you want to talk about, as a final thing, costs and cutting it a different way?

Tony Chanmugam

Yes, sure. If you actually look at the slide, what we try and do is subdivide the components. So if you look at the element £123m, which relates to transit and POLOs. Two components. Transit, which is a straight flow through. The rest of that box relates to movements in the margins associated with the revenue streams and you've got some pluses, you've got some minuses, the margin mix changes. The other £124m is really outside the revenue streams. So effectively you've got transit flow through, mixes in changes in the margins, captured in the £123m. The other £124m is straight base cost savings.

Ian Livingston

Thank you very much and thank you everyone for the call. For those of you who are going off on summer holidays, have a really good one. For those of you who are staying here and going to be enjoying the Olympics, we hope it's a great show and we'll speak to you in a few months' time. Thank you very much everyone.