



BT GROUP PLC

Q4 2014/15 RESULTS CONFERENCE CALL TRANSCRIPT

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Company speakers:	Sir Mike Rake	Chairman
	Gavin Patterson	Chief Executive
	Tony Chanmugam	Group Finance Director
	John Petter	CEO BT Consumer
	Joe Garner	CEO Openreach
	Graham Sutherland	CEO BT Business

Sir Mike Rake

Slide 3: Good morning everybody and welcome to our full year results presentation.

Slide 4: I think we have delivered another strong performance this year with good growth in profit and cash flow and the board is actually really pleased with the progress the company has made this year, both in terms of financial performance but also the major milestones that have been achieved. We have agreed the pension valuation, we have secured more top sports content and we have announced the acquisition of EE. The most significant overall investment we have made over the last several years has been in fibre broadband. This investment is transforming the UK and has been a real success story for both the country and BT. Our superfast network is now available to more than three quarters of the country. We're expanding into rural areas and are working with government to take fibre coverage to 95% of the country.

We have been able to commit to this investment by exercising strong financial and operational discipline. We are on budget and ahead of schedule. This is a multiyear programme and it will still be a number of years before Openreach recovers its costs. Being part of a larger group gave Openreach the confidence in future demand to start this significant investment at a time when the UK was in the depths of recession. We will continue to invest as we announced in January. We will be upgrading broadband speeds from superfast to ultrafast, but we can only do this if we have the right investment and regulatory environment.

There have been suggestions that Openreach should be separated from the rest of BT. This is short-sighted and would be highly disruptive for the UK market. It would stifle investment in both networks and service, and it would risk the UK being left behind, destabilising what is a buoyant internet economy. It is absolutely critical that we continue with the current structure which has stimulated investment and competition with consumers benefiting from high speeds and low prices. The UK now has the highest coverage of fibre broadband of any of the major European countries and well above the European average of 62%.

And Ofcom itself has found Britain to have the lowest broadband prices amongst the major western economies. We welcome Ofcom's review into digital communications and we will be making these points very clearly. This review provides a great opportunity to modernise the regulatory regime to make sure the industry can rise to the needs to the customers and drive economic growth and support social progress for the whole country. Ofcom needs to remove regulation where competition is effective, and make long term commitments so that communication providers can invest with confidence. And we continue to push for a more level regulatory playing field within the European Union and across the world so that we can compete more effectively.

Slide 5: Another major investment that we announced this year is our proposed acquisition of EE. I'm pleased that our shareholders voted overwhelmingly in favour of the deal last week. Combining EE with BT will allow us to secure and accelerate our mobile strategy, offering new and innovative services for UK consumers and businesses, and delivering value for customers and shareholders. We've continued to invest in customer service and we are seeing the benefits. We're providing our services faster and repairing them quicker when they go wrong. But there's still much to do and this will remain a priority.

In the UK we're one of the largest investors in research and development. Globally we continue to invest in our networks to support large multinational companies. We've also invested in our people. They contribute in many ways and I'm proud that we have a strong volunteering ethos throughout the company. More than one in four BT people volunteered this year, giving a combined 53,000 days of their time and helping almost 4,000 charities in total. And we raised more than £80m for good causes.

Slide 6: And importantly, of course, we have also looked to reward our shareholders. The board is recommending a final dividend of 8.5p, this gives a full year dividend of 12.4p, up 14%. This growth rate is towards the top end of our guided range, reflecting the strong cash we generated this year. We're very confident in our plans and our future cash flow growth, and as such we're maintaining our guidance for 10 to 15 percent growth for dividend per share for next year, and we will continue to pay a progressive dividend beyond that.

This year we've spent £320m on our share buyback and we will continue to buy back shares this coming year, again spending around £300m to help offset the dilution from employee share options.

In summary, it's been a very important year for BT. Our results show that our investments are delivering for the business, we will continue to invest to grow the company and deliver for our customers, communities and our shareholders. And I'll now hand over to Tony who'll take you through the financials, before Gavin goes through the lines of business and an update on our strategy. Thank you.

Tony Chanmugam

Slide 7: Thanks Mike and good morning everyone.

Slide 8: Our results for the year were in line with or ahead of the outlook that we announced at the start of the year. We made further progress with our cost transformation and there's more to come. We've delivered strong growth in profit and cash flow, and as a result of the strong performance our free cash flow outlook for next year has increased.

Slide 9: So first of all slide nine. This shows how the full year results compared with the outlook we gave. Underlying revenue excluding transit declined 0.4% which is in line with our outlook of 'broadly level with 13/14'. On EBITDA we said at the start of the year that we expect it to be between £6.2bn and £6.3bn and we came in towards the upper end of that range. Normalised free cash flow of £2.83bn has materially exceeded our outlook of 'above £2.6bn', and I'll explain shortly some of the moving parts. Lastly as Mike said, our dividend came in towards the top end of our 10% to 15% outlook. So it's a good set of numbers right the way across the board.

Slide 10: Moving on now to a brief overview of the Q4 results on slide 10. Underlying revenue excluding transit was down 1.3%. This mainly reflects decline in UK public sector revenues in Global Services, which more than offset the benefit of circa £30m from ladder pricing revenues which Wholesale recognised in Q4. EBITDA was up 7%, our best performance in a number of quarters, as ladder revenues and the benefits of our cost transformation programmes offset the pressure on the top line.

Underlying operating costs excluding transit reduced by 6%. This compares well with the 3% decline last quarter. Below EBITDA we continue to see the benefits of our focus in recent years on debt reduction. This has led to lower interest charges which contributed to an 11% increase in our EPS. Normalised free cash flow was down £79m, this was mainly driven by a higher cash capex and working capital movements which offset the growth in EBITDA. Net

debt is now £1.9bn lower than a year ago, reflecting both the cash generation of the business, and the £1bn share placing we did in February.

Slide 11: Slide 11 gives a breakdown of specific items. Excluding pension interest and tax, the overall charge in the year was £235m, and this was broadly in line with consensus. But within that there were a number of moving parts. Firstly we recognised a net credit of around £50m from various regulatory rulings and decisions. These all relate to previous years and include a £128m benefit from ladder pricing following the Supreme Court judgment in July in our favour and commercial negotiations also with the mobile operators.

We also sold a large property in London. This was an old international exchange which we no longer need and which we sold to a property developer, making a profit of £67m. This was partly offset by a £45m increase to onerous lease provisions. Our total restructuring costs came in at £315m for the year. This was higher than our plans at the start of the year, mainly because our restructuring programme was more successful than we anticipated, with more people taking leaver packages, particularly in quarter 4. This helped our cost base a bit in the year and will have a bigger impact next year.

The main elements of our group wide restructuring programme have come to an end, and we don't expect to recognise any restructuring costs through specific items next year. But our cost transformation programmes will continue and we expect to incur around £100m of leaver costs in 15/16, however we'll be now taking this through EBITDA, and absorbing it in our guidance, as I will show shortly.

Slide 12: Turning to slide 12, looking at our revenue trend over the last five years, we've made strong progress towards our goal of delivering sustainable and profitable revenue growth. This has been driven by the investments we've been making, particularly in fibre and sport.

Slide 13: Slide 13 shows a walk from last year's revenue to this [year]. Regulation in Wholesale and Openreach continue to be a significant pressure on our business. As we flagged at the start of the year, we'd expected to see declines in UK public sector revenue this year due to fewer milestones, the ending of two local government contracts, and lower government spending in general.

This accounted for most of the decline within Global Services. The termination of the Post Office contract within Wholesale has been a headwind throughout the year but will have no further impact from quarter 1 onwards. These three disclosed headwinds account for most of the pressures on our top line in the year. Offsetting these declines, Consumer delivered strong revenue growth, driven by higher broadband and TV revenue, reflecting the benefit of BT Sport. Excluding the impact of regulation, Openreach has also seen strong growth driven by increased demand for both fibre and Ethernet.

Slide 14: As you can see on slide 14, we continue to deliver on our cost transformation programme. Operating costs in total were down £600m, a 5% reduction. Underlying operating costs, excluding transit and sports rights have reduced by 4%. The restructuring programme I referred to previously was one of the key enablers in reducing our gross labour costs by 4% in the year, despite the impact of insourcing around 2,000 jobs during the course of last year.

Slide 15: Moving onto slide 15, I'd like to give you some examples of our transformation activity over the year. We've continued to be successful in improving the effectiveness of our contact centres, partly by improving the effectiveness of our processes and partly through rationalisation to create critical mass within each centre. In fact we still have over 100 centres which are sub scale. I believe we'll be able to generate around £70m of savings next year in this area. It's worth noting that we continue to invest in improving customer service and we've created 500 new jobs in this area this year.

Next, we have a major programme for improving sales effectiveness across the business. This is targeted at reducing the level of support staff, refocusing and incentivising sales teams on higher margin activities and replicating top quartile performance across the sales base.

We would expect £45m of future benefit from this programme, some of which will be reinvested in increasing sales resource. Lastly, on a number of occasions I've given you an update on our travel and subsistence. By continuing to take a forensic approach in this area, we've been able to reduce our cost base from £102m to £87m this year, a saving of £15m, and with more to come next.

So these are just a few examples. We have a lot more opportunities for cost savings over the next few years.

Slide 16: Our success in cost transformation and margin improvement can be seen clearly on slide 16. This shows our EBITDA performance over the last five years. While underlying revenue excluding transit was broadly flat this year, cost transformation has allowed us to grow EBITDA by 3%. EBITDA was £50m above consensus and reflects both an improved trading performance as well as the benefit around £30m of ladder pricing.

Slide 17: This EBITDA growth has contributed to very strong cash flow. You can see this on slide 17. This year, it's nearly £400m higher than last year. And three quarters of a billion higher than four years ago.

Slide 18: Slide 18 shows the drivers of this year's free cash flow growth. Cash flow is up £380m year on year of which £155m was due to growth in EBITDA. A further £246m was driven by favourable movement in working capital and Other, partly reflecting both the timing of sports right payments as well as lower ordinary pension payments. We also benefited from lower tax and interest payments. These positive effects offset the higher cash capex due to the timing of receiving the BDUK grant funding. This is only received after each network milestone is completed and therefore it's going to be variable in timing.

Slide 19: Turning now to debt on slide 19. Net debt is down £1.9bn in the year. This reflects both the strong cash generation of the business and the £1bn equity placing as part of the financing for the EE transaction. At March 2015 the group had cash and current investment balances of £3.9bn. We also have committed undrawn facilities of over £5bn, which include a committed acquisition facility for the EE transaction. As I've said before we'll continue to target a BBB+ rating.

Slide 20: Now, moving onto the pension on slide 20. In January we announced the result of the triennial valuation. We agreed a 16-year payment plan with £2bn being paid over the first three years of which we've already paid £1.5bn. We'll pay in £250m in each of 15/16 and 16/17. The IAS 19 deficit was £6.1bn net of tax compared with £5.6bn the year before. The increase in the deficit principally reflects the fall in the real discount rate, partly offset by higher investment returns and also the deficit payment we made in March. However, since the year end the deficit has improved to around £5.3bn as at the 30th April reflecting the payment we made in April and reduced liabilities due to an increase in the real discount rate.

Lastly there are three quick things for your models. Because of the fall in the discount rate for 15/16, the pension operating charge will increase by around £20m next year. The net pension interest expense in specific items will reduce from £292m to around £225m. And lastly due to the timing of payments and to reflect the latest funding agreement, the cash ordinary contributions will be around £90m higher next year.

Slide 21: Moving on to outlook. I'm going to walk you through our EBITDA and then cash flow for next year as there are a number of moving parts. So starting with EBITDA on slide 21. Firstly we'll have a lower benefit from ladder pricing. All ladder pricing will cease from end of June, so in 15/16 we expect to recognise only half of what we recognised this year. And as I mentioned, the pension operating charge will increase next year by around £20m. This is not a cash item.

This year we had another £29m benefit from selling redundant copper from our core network but we don't expect any further benefit from this next year. And finally there will also be the £100m impact from leaver costs coming above the line. These four effects will have a combined impact of around £170m on our EBITDA. And this summer we'll also be launching our Champions League coverage for which we'll have launch costs and begin expensing the right. However, offsetting these headwinds we expect to benefit from the acceleration of our cost transformation programmes, which have been helped by the extra restructuring we did in 14/15.

We also expect our investments to drive revenue growth, which will support our EBITDA performance. Excluding the £170m, this would imply that the EBITDA growth will be in the 3% range. Overall we expect to deliver modest EBITDA growth for 15/16 versus 14/15.

Slide 22: Next, let me walk through next year's free cash flow outlook on slide 22. We'll have the same impact from ladder pricing, copper sales and leavers as I just mentioned. Our ordinary pension contributions will be around £90m higher, however interest payments will be lower due to lower net debt. Overall the after tax impact of these effects combined is a headwind of around £170m. Offsetting this will be a net improvement in the other elements of cash flow, principally from trading. So overall we expect our cash next year to be around £2.8bn. While we were previously guiding for growth, this was off a much lower base. Overall our expectation for cash in 15/16 has gone up materially. It's also worth noting that consensus for 15/16 cash flow is around £2.7bn. So the new outlook we've got now would imply an upgrade of around 4%.

Slide 23: Finally slide 23 summarises our overall outlook and note that this is for standalone BT, excluding EE. It's worth saying that even if we start consolidating EE before the year end, we'll also report performance against outlook on this basis, so you'll have like for like performance.

I've spoken about EBITDA and cash flow. On revenue, our goal is to drive sustainable, profitable revenue growth and we continue to expect growth in underlying revenue excluding transit in 15/16. Gavin will update you on the investments we're making to achieve that goal.

Gavin Patterson

Slide 24: Good morning. As usual I'm going to take you through the lines of business performance line by line, but given it's the full year I also want to give you an update on how we're doing against our strategic priorities, but overall I wanted to give you some highlights for the year to start with.

Slide 25: It has been a ground-breaking year for BT, there's no question about that. We've delivered on the numbers, particularly the free cash flow. And it's this strong financial discipline that has allowed us to make us the investment decisions that are giving us the platform for growth. In particular there are three I'd like to call out.

The planned acquisition of EE is clearly going to be transformational for the group, and subject to getting merger control clearance which we're confident it will do, it will allow us to create the leading converged UK communications player. Secondly the new Premier League rights that we acquired earlier in the year. We're very happy with the outcome there, we were financially disciplined in terms of what we went for, and that gives us clarity going forward. And then finally our vision for the next generation of broadband, the ultrafast broadband vision that we set out earlier in the year.

This has allowed us to really set a roadmap to meet the demand for broadband, not just over the next couple of years, but over the next decade.

So that's the highlights of the year. In terms of the lines of business performance, the overall takeaway is EBITDA growth in each line of business driven by strong cost transformation performance and giving us that platform for growth.

Slide 26: So as usual I'll start with Global Services. At a headline level, revenues on an underlying basis ex transit are down 6%. I think it's fair to say the public sector headwinds that we called out at the beginning of the year were stronger than we anticipated and they weren't fully offset by the growth in Asia, the Middle East and Africa. Which is up 9%, very healthy, but not enough to compensate. In terms of the EBITDA performance, that's strong, up 13% ex FX and that reflects a really strong performance in terms of our cost transformation, which is up in terms of delivery 10% year on year.

From a cash perspective, cash flow was £349m for the year, that's down, but it reflects £120m in terms of the payments that we called out this time last year and early receipt in Q4. So that was the main component of the £150m pound difference from this time last year. And in terms of order intake, a pretty strong year overall, down

marginally overall at 7%, but the mix was stronger in terms of new and growth within that. There were fewer renewals, so we're pretty pleased with that overall. And some pretty big deals in the last quarter, including a pretty big deal with Dixons Carphone for the whole of their UK network. Another deal with Kimberly Clark around cloud computing, and of course the recently announced ABB deal to give them the network coverage across over 100 countries across the world.

Slide 27: So moving on to BT Business. The takeaway here is continued EBITDA growth driven by strong cost discipline. In terms of revenues, the trends are pretty similar to previous quarters, revenues ex transit are down 1% on an underlying basis and this trend in the market of customers moving away from traditional voice to VOIP is continuing and you can see that in the voice numbers down 9% year on year. But we're seeing the other side of the equation on data and networking revenues are up 5% and fibre, in particular adds, are up 58% year on year.

EBITDA is up 6% across the year, again this is due to strong cost discipline across the business, with underlying costs down 4%. Cash flow was strong overall up 9% across the year and the order intake was pretty good as well. So it's broadly level across the year at £2.1 billion, and some strong deals to announce in Q4, particularly a deal with Primark and one with Shaw Trust in the charitable sector.

Slide 28: Moving onto Consumer. The takeaway here is Consumer is continuing to deliver top and bottom line growth and this is the fifth consecutive quarter that we've been able to do that. Revenues are up 3% in the quarter, driven by a particularly strong performance on broadband and TV, behind our investments in BT Sport as was mentioned earlier. Coupled with strong cost transformation, this means that EBITDA for the year is up 24% but probably more importantly it's up versus two years ago which was the year before the BT Sport investment – we're up 7% versus two years ago. So I think that demonstrates that investment in sport has worked for us and it has driven the top and bottom line.

In terms of cash flow, a very strong cash flow performance in the consumer business, up 72% year on year. That's in spite of making the UEFA deposit for Champions League which obviously comes in this year. Driven by the strong EBITDA performance, but I think it demonstrates the consumer business is more than capable of paying for its own investment in terms of mobility and rights to fund its business model.

Operationally you can still see the benefit of sport, line losses 61,000 within the quarter in line with Q3, and a very strong performance in terms of broadband with share at almost 50% of the market, just shy of that within the quarter, number one in terms of market net adds for the seventh consecutive quarter. And a real standout performance on fibre, a record quarter on fibre in the business, 266,000 fibre adds, the majority of them taking our higher priced options, so we're seeing the mix get a little richer in that area. And it is worth noting that 39% of our customer base are broadband customer base are on fibre, so it's really becoming much more of a mass market product.

Slide 29: Moving onto BT Wholesale and the summary here is we can see the headwinds easing even if you take out the impact of the ladder pricing. So a top line underlying revenues were up 3%, if you back out that impact of ladder pricing that Tony talked about earlier, we can see that the underlying picture is improving, it's around three to four percent down year on year – an improvement on the previous few quarters.

We're continuing to see growth in IP services up 25% year on year. And that is the real growth engine for wholesale moving forward. Underlying operating costs are down 2%, SG&A in particular is worth calling out, that's down 28% in BT Wholesale, which leaves us with EBITDA up 14% in the quarter, again reflecting the impact of ladder pricing. The order intake is good, again across the year, I think it's very strong. We had a big re-sign within the quarter, so if you look at the year as a whole the order book is roughly what it was 12 months ago. So we're pretty pleased with that progress.

Slide 30: And then finally Openreach. And in summary, the real standout performance here is the fibre performance. Within the operating and the financial metrics is a very stable performance. Revenues are flat, if you take out the effect of regulation, that would be up 3% year on year. Fibre in itself is up 43% year on year. At a cost level, our costs are down 2%, that reflects the efficiencies we're driving through the business, but it also takes

account of the two and a half thousand extra engineers that we've hired over the last 12 months to meet the demand.

It also reflects of course the impact of smaller benefits from redundant copper that Tony talked about earlier. In terms of EBITDA, that leads us up 1% within the year. Looking at the operating metrics, it was as I say a terrific quarter in terms of fibre. 455,000 fibre adds within the quarter, which obviously is a record for us, that's up 31% year on year. The physical line base in total was very strong, both within the quarter but importantly across the year as a whole, 215,000 physical lines added to the network across the year, which from what we can see is a record and reflects the growth in new housing. And we're also seeing growth on the business side behind Ethernet and Ethernet sites increasing across the year as a whole.

Slide 31: So that was a whistle-stop tour through the lines of business performance. I want to move on and talk more about the strategic priorities we have across the business. This is a slide I talked about last year and I refer to in most of our presentations. It sets out our strategy on one slide. I'm going to talk about the five growth areas in more detail but I wanted to start with an update on service.

Slide 32: As I made the point this time last year, getting to superior customer service is a key priority for us across the business. And we recognise we're not there today, but we're absolutely determined to get there. In terms of RST which is the key metric we use to define how much progress we're making on service, there's been a significant improvement across the board in all lines of business in the last 12 months and across the group it improved 4.7 percentage points, that's over three times what it did last year.

And you can see the benefit coming through in a number of the operating metrics as well. Of course we've hired more people to work on the business, to be able to serve customers in a more timely way both in terms of engineers and contact centre advisors. We're much faster at bringing products to our customers so we've seen the speed of delivery improve significantly in Global Services. Complaints are down both in business and consumer, and as I mentioned earlier, [Openreach] met every single one of its 60 service standards that were defined as part of the Fixed Access Market Review.

We're not satisfied with that, we're going to be continuing to focus on this going forward and we're beginning to see the investments we've been putting down in the last year begin to bear fruit. And they focus on five key areas. First of all acting on insight, and this is things like journey analytics where we can track customers as they go through the business, regardless of where they touch the organisation, so that if something is going wrong we can make an intervention earlier in the process.

Keeping customers connected so we've been proactively investing in proactive repairs across the network to ensure there are fewer faults. We've been investing in systems and tools, things like Engineer.com where as a customer you can track where your engineer is so you can anticipate their arrival, but also investments in the consumer side where customers can track their order on our system. Improving our working end to end, and it's important I think to mention supporting our people as well. We've put a lot of investment into training and new operating models to get better single point accountability and ownership for the customer issue and we're beginning to see that coming through in the operating metrics, particularly one contact resolution which is up significantly across the board.

Slide 33: One thing we talk about with service is service and cost transformation for us work hand in hand, it's not a compromise between the two. And there's one thing I want to do, just give you a quick demonstration of that is this, which is a cabinet in case you didn't recognise it. On the left hand side our legacy cabinet, and on the right hand side our next generation cabinet. And it won't be a huge surprise to you to realise the one on the right hand side has fewer faults and typically 35,000 faults are going to be saved this year on this type of cabinet alone. But it's easier to install, there are fewer components and of course it's something that costs less at the same time but it will mean service is better at the same time. And this is a perfect example of the sort of thing we look for across the business so that you combine service and cost transformation at the same time.

Slide 34: Okay. I want to move on and talk about the growth priorities starting with fibre, and as Mike said, this is the single most important investment we've made across the business over the last five years. And it is going well.

So we've now passed 22 million premises across the UK, that's over three quarters of the UK in total. And we're working with government to get to reach 95% of the UK, and that's making good progress both through BDUK and increasingly the SEP [Superfast Extension Programme] contracts which we're signing up.

In terms of number premises connected, there are 4.2 million Openreach premises connected, that's up 50% year on year, it's 19% of homes passed, and importantly 1.2 million of those are CP providers apart from BT Consumer, Plusnet and BT Business. And that has doubled year on year, so it's doing what we wanted it to do as an investment, it is an investment for the whole of the market, we designed this so all service providers would pick it up and sell it.

Looking ahead the G.fast trials that we talked about start in the summer, we've announced a trial in Gosforth in the North East and Cambridgeshire, in Huntingdon, and if those are successful we'll be rolling out G.fast across 16/17. We set out a vision that where we believe we can get G.fast and speeds of up to half a Gbps to the vast majority of the UK within the next ten years. And if customers want more than that we'll be offering a service that offers up to 1Gbps on a fibre to the premise on demand basis.

Slide 35: TV and content complement fibre beautifully. So what we see is customers who take BT Infinity from us and BT TV from us are twice as likely to recommend our services as those who take our copper service. So they work beautifully together. We've made good progress on BT TV over the last 12 months, we've added 52,000 customers in the last quarter, growth across the year is 14%. We added a number of new services over the last 12 months, we've added Netflix which we've bundled into our proposition.

Two new set top boxes, one with a hard drive, one without, both more responsive and with faster channel change, which is one of the key things customers look for. We added TV everywhere capability so customers can watch it on multiple devices and in multi rooms. And we were first in the market with buy to keep movies and then with box sets. So we're really innovating on the content layer as well. And of course after a lot of trying we've got Sky Sports 1 and 2 on You View, which is an important part of the overall proposition.

Slide 36: And then on the sports side of things, sport has continued to be a key driver in the consumer business. So the base has grown quarter after quarter on every single platform. We've now got 3.3 million direct customers, 5.2 million if you include the wholesale deals we have in place. The viewing figures are good and improving, so the average daily audience over the last 12 months is up 15%. Across Premier league games it's up 10%, the FA Cup has been extremely successful, viewing is up 36% year on year and in summary we've had 26 matches with over a million viewers at peak, and that was 18 this time last year.

And we're not stopping there as you know. We've got a number of new initiatives in the content arena coming through over the next few months. Particularly the exclusive right to broadcast Champions League and Europa League from the summer. And that will significantly add to the overall number of Premier League games or games featuring Premier League teams that we're able to offer on the channel as the chart can demonstrate.

We are very happy with the outcome of the Premier League auction, we've got four more games, we've gone from 38 to 42, but we got it at a very sensible price, it works out at around 6% a year inflation which is very manageable, and importantly I think we've got a much better slot to broadcast to, so the audience you can broadcast to on an evening slot on Saturday, which is the one we've got, is around twice that we can shoot for in the lunchtime slot which we've got at the moment, so we're very happy about that.

And then finally we announced an extension of our rugby deal with the Aviva Premiership rugby competition and that's been extended now till 2021, so we've got real certainty on our key sports moving forward.

Slide 37: Moving onto to mobility and future voice, and this has been in many ways probably the biggest news over the last 12 months. I want to start first of all talking about our existing organic plans and they have progressed both on the business and consumer side. So on business, we've added 4G plans to our business propositions, we're now available across all top 20 handsets in the business market, and of course we launched One Phone and then in the consumer space in the last few weeks we launched our first proposition.

It's our first step in the journey, the three SIM only propositions, you get a discount if you're a BT broadband customer and they're selling very well. Very limited marketing behind them, we've already got 50,000 customers signed up for them. There's clearly a demand for this.

But the EE acquisition is going to be the big change and we're delighted that the shareholders gave us a strong endorsement last week. We're moving onto the CMA and merger control process and we step forward into this very confident that this is a very good deal both in terms of what's in it for shareholders but also in terms of customers and competition. And we're very confident in terms of being able to get to an agreement. If it's a phase one agreement, it will pass hopefully and we'll complete by 30th September, and that is our intention. But if it goes to phase two it will be 31st March next year.

What it will give us is real capability. It will allow us to combine the best fixed network with the best mobile network, give us real scale and give us the capability to create seamless propositions that will work across fixed and mobile, and we think that's what the market really wants.

Slide 38: Moving onto UK business markets and we believe this is a real source of growth going forward, in spite of some of the difficult conditions at the moment. In terms of what we've got, we've got strength and connectivity, be that we've got around 40% share of the lines base, about 30% share of broadband, an increasing share of data and networking, that's what we've got to build from. The market is increasingly moving to VOIP and we've launched a number of VOIP products over the last 12 months. BT Cloud Phone, BT Cloud Voice and if you want mobility with it BT One Phone, all of which are really strengthening our offer to the customer.

We'll be adding bundling capability to our system this year because we see that as a key trend in this market as well. Customers are looking for integrated solutions rather than point to point propositions from us. And we'll be increasingly adding our IT services capability to that same stack, that's really important as well. That is a market where we've got 6% market share, we're increasingly moving that business towards services from hardware where the margins are better but it's fundamental to our proposition going forward.

Slide 39: And then finally in leading global companies. As you can see from the logos on the right hand side of the slide here, BT is the company that's trusted by many of the world's biggest brands to manage their networks in particular. Growth in the high growth regions that we've talked about has been good over the last 12 months, up 9% year on year. And we've been extending our existing capabilities to ensure that customers don't get a compromised service as they move and grow in these markets.

In addition we've been extending our network, adding Ethernet Connect points over the year, 10 new countries, and we've been adding 10 new IP Connect points of presence as well. On top of that we've been launching new products, particularly in the security and conferencing space, and we've also been looking at improving our proposition in the financial markets area, which is one of the verticals we're focused on, so we've got a new turret, a touch screen turret that we've launched in the last 12 months, which is very important given that one in three of the world's traders use a BT turret, and we've got to make sure those products remain competitive going forward.

So, in summary. We've delivered the outlook, we've delivered the numbers, particularly in terms of our cash flow. We've made good progress on cost transformation, we're seeing an improving picture in terms of customer service, and it is this financial strength that allows us to invest in the things that are going to drive growth in the future of the business. And in particular we believe the EE acquisition will put us in a position to create the leading UK converged communication provider, and that, we believe is a very strong platform for growth.

So I'm now going to open up for questions. I'll sit down first before I take them. Usual rules apply. If you can wait for the mic to arrive, introduce yourself and one question each please. And we will start at the back with Paul.

Q&A

Paul Sidney, Credit Suisse

You saw a material pick up in both retail and wholesale fibre adds in the quarter. I was just wondering, what's really driving this pick up, is there any change in household behaviour that's meaning that customers need higher speeds?

Gavin Patterson

I'm going to add some help from my beautiful assistants in the front row, then perhaps I'll add a comment at the end. So John, do you want to talk about the downstream part of the business first?

John Petter

Yes, what we can see is that the BDUK programme in particular is taking fibre to the rural parts of the UK and typically the copper speeds there tend to be slightly slower and the demand for our services is actually very strong in fact. So that's certainly a factor. I think also the government's advertising campaign probably had some impact in the quarter as well, that started just before Christmas. But generally this is part of an ongoing and consistent trend for consumers to want faster broadband more and more and you can see that in the bandwidth and usage trends as well.

Joe Garner

So the only thing I'd add to that is it's underlying consumer demand but then we're seeing increased competition among our CPs as well so there's a sort of layer on top of that and when you play those both in together, that's what's driven the acceleration in the quarter.

Paul Sidney – Credit Suisse

And just a very quick follow on, are most of the customers who are going on the higher end fibre products?

Gavin Patterson

Yes. So they are choosing the higher speed options that we offer.

James Ratzer – New Street Research

One question, probably for Tony, was just on one of the big changes that seemed to occur in the financials over the fourth quarter is the change in capitalised labour, that seemed to move up by around £100m. Can you give us guidance on what's included in the 15/16 guidance for that, are you expecting the £350m run rate for each quarter to continue for the upcoming year or does that drop back again?

Tony Chanmugam

It's worth probably reflecting on what's happened on own work capitalised. So if I look at it in terms of the overall capital spend, it's broadly flat, it's within £20m increase in the year. The own work capitalised in the year has gone up by about £148m. And when you look at that increase it's actually gone up more in the second half of the year than the first half of the year. So the important point is the level of capitalisation is broadly the same.

The mix of what is being capitalised has changed. With the increase of the level of insourcing we do, the increased amount of BDUK activity we have which is more complex, but I think the important point here is the capital costs of that work get shown, the gross costs get shown under own work capitalised. The rebate we get back from BDUK gets shown elsewhere. So effectively you've got an inflation in relation to the own work capitalised. It's also worth reflecting the Q4 numbers include an adjustment compared to Q3 which means the half year is intact but the Q4

number is slightly inflated when compared to Q3 because of that. And the other side of that entry appears on Other.

James Ratzer – New Street Research

So in summary it should fall next year?

Tony Chanmugam

Well I think it depends very much on, we're not going to give guidance on individual lines, but I think what you should reflect is the fact that the more BDUK work that we get, the more inflated that number is. The more insourcing activity we do, the bigger that number becomes. The more we do in terms of new sites and Ethernet roll out where the mix is different, the bigger that number comes.

Nick Lyall – Societe Generale

On fibre regulation please Gavin, firstly any progress on you investigating your options on the margin squeeze test after Ofcom's comments. And also with G.fast, you talked about trials starting, so any progress on G.fast regulation as well?

Gavin Patterson

We are continuing to consider our options on the margin squeeze test. We believe it is unjust as I've made the point in this venue before, we think it's wrong and it doesn't really reflect the fact that we're the challenger in the sport market trying to invest, and that this is going to really restrict that going forward, which is not a good outcome for the market, it's not I think the intended outcome that Ofcom are trying to create. So we remain very, very unhappy about it. We're considering our options, we've got a few more weeks before we would have to make an appeal, we'll take that time, and we'll announce it at the time obviously.

In terms of G.fast, the point we've made all along, it was very much part of Mike's opening, we're prepared to make these big investments as a company. The investment in superfast back in 2009 was a big call. Putting down two and a half billion pounds in the middle of what was going to be a pretty nasty recession. Nobody else was putting that sort of money down. And fast forward to today and we still haven't recovered the money, as we've made the point here many times, it's a double digit year payback and while it's been absolutely right for the business, and I think it's been great for the country as a whole, we need to ensure shareholders get a fair return as well.

And that was very much part of the principle that we agreed with Ofcom in 2009, it was the fair bet principle. That in order to encourage private investment there has to be an ability to make a fair return going forwards. So in discussing this next generation of investment with Ofcom and indeed with politicians as well, we've been reiterating that point. We need a stable regulatory environment, we need the confidence that we'll be able to make a fair return on it. But if we do get those sorts of conditions, we're prepared to go again and invest on behalf, not just of our own downstream customers, but invest in an open way, that all service providers can benefit from, and that's exactly what the country needs to stay ahead in a digital world.

We are a very digitally evolved economy, arguably the highest in the world, and that really demands an infrastructure that can keep up with that. And we believe the best way of doing that is through the model we have around functional separation today, because it allows us to make these sort of big investment decisions which I think in a structurally separated world you wouldn't.

Sunil Patel – Bank of America Merrill Lynch

Just on mobile, your slides show the launch of the launch of the MVNO, the tariffs have certainly got quite a lot of attention and your initial adds have been very strong. How do you balance that very fast start with a potential spin

down of customers on EE when they eventually look at the quadplay offering and potentially getting a much lower price on the 25 odd million customers that you're about to acquire?

John Petter

So far these adds are encouraging, but the marketing hasn't really started. And the key bit of feedback that we've taken on board from our customers is they expect to hear first from us about the best offers, and as existing customers they expect to get the best deals. And that's what we've done, give our existing customers some kind of bonus for being loyal to us.

In terms of our pricing in the market place, the price for a 4G service that contains a relatively modest amount of data is broadly very similar in terms of the tariff that EE currently offer. To our standard deal they're basically the same. So the figures are £9.99 for 250MB from EE and it's £10 for our bottom tariff for non-BT customers, so pretty much the same. I think it's quite right for us to give a discount to existing customers.

Gavin Patterson

We're alive to the issue. Clearly our approach to the market with the prospect of owning EE is going to be different from the way we would have tackled it if we hadn't. So we recognise that. But we don't set the pricing in the market, the market sets it, and we must remain competitive, and it's clear that other players are going to come into the market, be it Sky, be it Vodafone in terms of their entry into TV. And we've got to make sure that we're able to compete.

Steve Malcolm – Arete Research

Since we last spoke we had the news from Virgin that they're going to expand past 4 million homes. You and John have a lot of cable experience. Those 4 million homes are exclusively, whether they take either broadband or telephony, BT homes either on a wholesale or retail level. You're over-indexed there at a retail level. Can you share some thoughts, your thoughts on the credibility of their plan and getting to 40% within three years, how you maybe change your strategy around price and product, accelerating G.fast possibly, you're allowed to defend yourself against that incursion and generally why you think it won't have a big impact on your business.

Gavin Patterson

We do have a lot of cable experience, it's not just John and me, but of course Graham [Sutherland] has a lot of cable experience as well, and we'll be using that bringing that to bear in terms of how we defend our business against it. It is an ambitious plan. I have to admire that, there's no question about that, four million homes in five years, 40% penetration, that is bullish I would say.

But we will take it extremely, in fact we're already taking it very seriously. I think the reason I think it will be challenging is if I go back to my own experience in cable, cable built up its customer base in the nineties, franchise by franchise, when the deal was cheap phone calls versus BT, it was 25% savings versus BT, and throw in some analogue TV at the same time and they were up against an analogue satellite proposition from Sky. There was then the big clean-up of all the franchises, to consolidation into two players then one player, and then the move to upgrade with broadband in particular.

The base itself has not grown dramatically since then. It's nipped and tucked a little bit, but it hasn't had a huge change. So in terms of the day to day competitiveness of what they offer today, I think they will find it a much harder market to go in and win 40% market share, than they did in the nineties. Clearly we're going to fight hard in terms of superfast broadband and ultrafast broadband. That's where we will point our early deployments of G.fast to make sure we've got our best products there. We'll continue to upgrade on the TV front. But to make the economics work they'll need a lot of Sky customers with ARPU's of £500, £600 a year to make the economics work. So it's not just us that will be in a defensive mode.

So I think there are a number of different challenges and we're prepared for the fight. John, do you want to add any comment?

John Petter

The only point I would make is just in terms of the actual dynamics in the market today, Virgin have been pretty much consistently out competed for the last several quarters in terms of the superfast market place. And so I think that reflects the relative strength of our proposition.

Tony Chanmugam

The numbers are we've outsold them at a retail level four to one, wholesale level six to one last quarter.

Steve Malcolm – Arete Research

You've got a meaningful base of fibre customers now. What the churn profile of fibre customers versus copper customers? I guess one of the defences you have is the more fibre customers [the less easy it is for Virgin Media].

Gavin Patterson

It's true, we don't declare it, but it is significantly lower for a fibre customer than it is a copper customer. Significantly lower.

Stephen Howard - HSBC

Another question on regulation. We've obviously heard some interesting ideas from some of your rivals about structural separation of late and to my mind pretty much how to shut down UK network investment for 3-5 years. But do you feel that some of your rivals have stolen the agenda here? I just invite you to use this platform to lay out what Ofcom's review should actually focus on, what it should be looking at in terms of de-regulation, and whether for instance given this vibrant infrastructure based competitive market that you've just been discussing, should you be regulated when you're competing down the same street as Virgin Media and their 200Mbps+ fibre based platforms?

Gavin Patterson

I think Mike has some strong views he'd like to share.

Sir Mike Rake

In a mild way. I think firstly this is a very complex area and we are very, very convinced of what we've done, why we've done it, the benefits to the country, the benefits to competition, and the benefits to our shareholders. And we believe that's a very, very strong proposition. It is complex and we are paying a lot of attention to the noise that's in the system that is there, and we can't ignore that noise because you always have the risk of political reaction to this. And therefore I think we think a lot of the statements have been made are ill-informed, short-sighted and self-serving, in fact probably not self-serving, they don't quite realise that. So we need to engage in this debate very strongly, we're very much engaged in simplifying the reasons why we invested, the benefits to the country, the benefits to competition and we'll continue to do that, because the arguments are very strong indeed as to what we've done for the reasons I mentioned and Gavin has mentioned in his presentation.

So we're confident about what we're doing and why we're doing it, the implications, we're very engaged, not just as it were at the technical level, but we're also engaged at the political level to ensure there's a clear understanding of what this is about and we continue to invest. And we mustn't forget, in terms of competition for the UK, the low productivity we're facing, the problem with the domination of London, actually the roll out of what we're doing with superfast broadband is critical. And in a way we're also very concerned that we must make these

investments, because it's a political issue that people aren't getting it quickly enough and fast enough, and there's only so fast we can go. And we've done a lot already.

So we've got to work on these issues to make sure the total proposition is seen as something that's very important for the country as well as for our shareholders. I think we're very, very alert to that. And on Ofcom I would say two things. Compared with some other regulators I have dealt with, Ofcom is very professional, we've had a very good relationship with Ofcom, we don't always agree with them, they don't always agree with us, but it's been a sensible relationship with Ofcom. Therefore we continue to make the arguments with them, we expect them to live up to the commitments they made to us in 2009, and we expect that to go on in a constructive and sensible way and we'll be engaged there in making these points very strongly and we have no reason to believe that our arguments would fail.

Gavin Patterson

You make your points very well Mike. It should be remembered that Ofcom deserve a lot of credit for where we've got to today. We've got the highest coverage in Europe, lowest prices, both at a wholesale and at a retail level. We've got the widest coverage, and we've gone from being the laggard to the leader across Europe, based on Ofcom's own figures. So I think the case is, the model is working, "don't break it" would be our argument.

If you go back to 2009 and look at the choice we faced as a board back then, if we'd been a structurally separated business and we'd been making the decision for Openreach, the investment decision would be based on a 20 year payback. I just don't honestly think we'd have made the call in those conditions. What you benefit from, if you have the functionally separated model, is you can take investment, if you regulate it properly, you can take investment and look at it across the whole, and that means an investment that would not have got out of the blocks otherwise has something a degree of reasonableness about it and as we said it's double-digit [years pay back] and it's just about doable, and it's proving to be the right thing to do.

So the case is very strong, and indeed the case for full structural separation is at best unproven, and certainly the one example that has gone that far [New Zealand] has not been a runaway success.

Stephen Howard – HSBC

But you've got a wish list beyond this?

Gavin Patterson

I think to your point and there is a case, and it's in the brief from Ofcom, which is they should be looking at ways of reducing regulation. The point you make around Virgin being a very credible competitor, that feels confident that it can extend its network in the UK and make a three billion pound investment, does not suggest a market that is somehow being starved of competition.

Sir Mike Rake

I think it's worth making the point too that we are ten years or so in, there are 179 undertakings, the market is dramatically more competitive, just look at the unbundled lines, what 7 million or something compared with a 1.5 million target. Look at the things we've had to do, we had one hand tied behind our backs effectively for several years, including not being able to bundle, not being able to get access to Sky Sports content, so a number of things we've had to really fight through in order to create a much more competitive environment for everybody. Which has required a lot of courage and investment from us to do that, and we've got to make those arguments. And I hope that Ofcom will stand back as they've said and look at the 179 undertakings, and say actually how can we simplify this in everyone's interest today, because so much has changed since ten years ago. And frankly to Ofcom's credit, much stronger and to the benefit of UK Plc than they would have expected ten years ago.

Gavin Patterson

Very good. Let's move on, we'll go to John and then Barry.

John Karidis - Stifel

A number question, probably for Tony, I'm trying to understand what the main constituents of the £180m regulatory headwind for Openreach were in FY15? And how that total number is likely to change in FY16?

Tony Chanmugam

I think in generic terms we'll expect to see materially less regulation in Openreach next year. Why don't we give you the breakdown after the results, we can give you the analysis of that £180m in terms of what we've already declared.

John Karidis - Stifel

Do you mind adding something more to the word 'material' so we can understand a bit more what that means?

Tony Chanmugam

It will be less than half that. Roughly speaking it will be about a third of that, roughly.

Thibault de Coincy – Raymond James

Two question from my side, first one on cost savings. If I remember well you previously identified a further £1bn of cost savings, so could you update us on what has been achieved so far and what left to expect in the future? And then second on capex, looking at other telecom companies, we've seen an increase in capex in order to support and accelerate fibre growth. So my question is, should we expect a similar move from BT in the future?

Tony Chanmugam

Yeah, sure. So first of all in terms of cost transformation, we gave a guidance saying there'd be over a billion pounds, there'll still be over a billion pounds despite what we've done this year. So I expect to see material savings both next year and the year after. In relation to the capital guidance, what I'm saying now is no different to what I said last quarter. If you look at the run rate of where we are in terms of capital, broadly speaking that run rate will stay the same. It might oscillate a bit year on year, if we choose to, for example accelerate what we do in G.fast, some may come down. But it will even itself out if I look over the period, over the next five/six years.

The key, though, is that if we want to accelerate something it might get up a little bit more in that particular year, or two years.

Jerry Dellis – Jefferies

Question on revenue trends please. The underlying revenue trend at group level was a little bit softer in the second half of last year, but you're confidently guiding for a return to growth this year. How rapidly do you expect to return to growth through the quarters, and what do you think will be the main drivers playing through in the course of next year?

Gavin Patterson

The key drivers are going to be the Champions League launch in Consumer, our organic plans in mobile - both of which are going to be positive effects going forward. And then headwinds will reduce year on year so I've talked for example about the public sector, the change in buying in the public sector, and that year on year we believe is going to be less, for example; and regulation, the impact of regulation going forward - so it's the combination of

the two. In terms of the timing we don't give quarter by quarter guidance on it but clearly we need the trend to improve.

Michael Bishop - RBC

Following on from that slightly, when you consider the raft of price increases we've seen from your competitors, it feels like they almost lapped you now. A lot of those price increases are focused on TV. Your proposition looks very good value and you're adding more value to the bundle with mobile. How much of your revenue guidance assumes further price inflation across the bundle, and leading on from that, do you think there's scope to potentially increase TV pricing outside of the Champions League proposition?

Gavin Patterson

I think on pricing we need to be cautious going forward. Accelerating pricing too far ahead of inflation is not a great place to be. Our model is increasingly focused on growing RGUs per customer as opposed to depending on pricing. So there is some pricing in the plan going forwards but we want to ensure that our products are competitively priced and I'd rather see the growth come out of RGUs. Anything you want to add John?

John Petter

I'd like to sign you up first of all! And then second I would say that in terms of our prospects for TV, as Gavin said, a relatively small proportion of our customer base are currently subscribed to the TV service that we have today, so there are big opportunities in volume. Having said that it's extremely good value, and cheap actually, and as the service gets better and better as you saw in the chart there through the innovations we've launched, I think there is a chance to grow the ARPU as well. So there are opportunities in both directions, but first it's about volume.

Simon Weeden - Citi

My question is on BDUK and how the income receipts from them are reflected in the accounts. And also if you could comment, I believe if you trigger certain market share thresholds in the subsidised areas, in stages you become liable to rebate some of the subsidy. I wondered how much that could be, when you might start to see that happen, how it would be reflected in the accounts and where it's triggered I guess.

Tony Chanmugam

So where we are now Simon is that we've got an estimate in the accounts in relation to the level of take up that we take. We're constantly reviewing that and when we review it next time around it may well be that we need to make a change. But we have a provision in the accounts associated with what we think the likely take up is going to be. So effectively we're providing. If the take up materially exceeds that, we'll need to make a provision associated with that. I don't expect, from where we are now, this is not a number like hundreds of millions of pounds. If we need to do something it may be tens of millions of pounds.

The contra to that remember is the take up will be in excess of what we're expecting, which will benefit us in terms of revenue, cash and EBITDA. In relation to where we show this sum, this rebate, it's not shown underneath the traditional expenditure heading and where it's incurred, which is under our labour costs. We show it as a single item, I think it's under other operating income – it effectively gets netted through the capex.

Simon Weeden - Citi

So if the receipts are being netted through the capex, presumably if you have to pay the provision that therefore presumably gets netted out of capex.

Tony Chanmugam

It will do. That's where the provision is held. But, as I said, the key to remember is the take up will have increased – so if the take up has increased, our revenue is up, our EBITDA is up and our cash is up.

Gavin Patterson

It's fair to say it doesn't necessarily come back in form of a rebate. It can be in some examples - Cornwall is an example of this - it can be invested back into the network. And so they don't necessarily want the money back, they might want the money reinvested to extend or upgrade.

Tony Chanmugam

But the net impact is you'll still see that number appearing in the capex number.

Laurence Sugarman - UBS

Can you give a bit of detail in terms of cash tax going forward, it looks like it was a bit lower than we might have expected and what the drivers going forward relative to the P&L charge will be?

Tony Chanmugam

Sure, the overall profit will be increasing, the overall rate of tax is going to be moving downwards slightly. What we've got though is we would expect that number to drift up slightly from where we ended up this year.

Andrew Lee – Goldman Sachs

Following on from Paul's question at the start of the Q&A and talking about the strong KPIs you've had in retail and he was saying about the usage element. I was wondering, could you talk about the UK consumer environment in general, if you're seeing that as a tailwind to your business, if we're seeing any further signs of consumers maybe allocating more of their discretionary income into telcos. And then just secondly in terms of competition we saw quite a lot of promotional pricing activity at the back end of last calendar year and see if you could update us on any changes following Sky's Premier League auction activity and their subsequent price rise.

John Petter

In terms of the tail wind I would not want to overstate that. Clearly there are more people who have got jobs at the moment and economy's doing relatively well. Having said that the growth is very hard fought for and the market place is extremely competitive and I don't really expect that to change. So I think the one other point of context I would give is it's true that our services are increasingly vital to customers' lives and they expect to be connected for more of the time, and the standards they have for the speed of that connection continue to rise too and their usage continues to increase very markedly too, so that's very true of broadband.

But in terms of the growth area for us, in some ways on top of that, is around TV. And the proposition that we offer taps very much into the growth segment in TV and that's people who are coming across from Freeview, from free to air, seeking to pay not £50/60/70 a month, they're seeking to pay a few pounds more for much more choice, and that's what we offer.

Gavin Patterson

And in terms of the promotional activity, it's pretty strong still isn't it?

John Petter

It's very strong. The stance that we take is very rational and driven by consumer insight and for us it's about sustainability. We don't see the same behaviour from all of our competitors, so one of them (who shall remain nameless) is giving away 32-inch colour TVs to people that sign up at the moment. I would strongly advise you not to take their offer, however - because our products are far better.

Maurice Patrick - Barclays

A question on the long-term penetration of fibre potential. So fibre net adds continue to exceed our but also your expectations, but you've in the past talked about the split of fibre adds coming from new areas but also the growth you're seeing coming from some of the older areas. So what is the penetration like now in some of the early fibre areas deployed? And where do you think fibre penetration could be in five years? Could we be in ten million homes in five years' time?

Tony Chanmugam

I think it's, a couple of points. The first is, if you look at where we are now on areas such as Northern Ireland and in terms of Cornwall where we really started rolling out 2009/10, we reached penetration levels of about 25%. And that's 25% in total - we've got I think 1,600 exchanges over 20%, so the levels of take up is materially better. And we're at 19%, so we're almost at the business case level we set when we set up this investment. And I think it's an indication that we will exceed where we said on that business case.

But the piece to remember though is we're going to have to upgrade the network and we're going to have to spend money on G fast. Which wasn't in that original business case.

Gavin Patterson

There's clearly more demand for it than we envisaged in 2009. It's easy to look at the 20% number and think that seems fairly conservative, but it was against the benchmarks in terms of what we could look at around the world and the time to market. It was a reasonably challenging assumption. We're clearly going to get beyond that, there's no question about that.

The thing I referenced in my presentation was that 39% of our BT Consumer base now has fibre, so that gives you a measure that if all service providers get behind this and it becomes the standard product, I think it could go a lot further.

Tony Chanmugam

Gavin, it's worth re-emphasising that when you look back historically there was a concern that we were going to spend a lot more money on capital because we were rolling out BDUK. This company in 2007/8 and 2008/9 was spending £3.2 billion. We're spending around about £2.3 billion or so now, and we've covered the fibre investment. So that's why I'm very confident we can cover the G.fast investment in relation to what we do moving forward.

James Britton - Nomura

A question on the broadband experience for the consumer. I think Ofcom recently released research that suggested that actually broadband speed is not important for the broadband experience at speeds above 10Mbps today. I think they're looking to expand the range of KPIs as well on broadband experience. I just wanted to get your latest view on how important speed is as a driver of the purchasing decision and also how you're able to differentiate, if at all, on the other key bottlenecks they've cited, in-home equipment, interconnection with content providers and so on.

John Petter

Just to take that point. I think there's no one consumer, they all have different habits and preferences. If you're someone who's very into online gaming speed probably matters more to you than someone for whom that's not true. But it's very much the case that more than one factor can affect customers' experience and I would call out the upload speed in particular, in terms of being something that is increasingly important to consumers given the changes in habit that we're seeing.

The other points are things like jitter, packet loss, the overall quality of experience. The marketing claims that we see from our competitors are very much just in terms of those top line speeds, but I think you're quite right in saying it's the overall experience that really counts. And that's what we're massively focused on optimising and getting right for our customers. And so we're taking a basket of measures and the service that we offer is significantly better.

It's worth saying that some of the firms very much stress straightforward download speed. The thing they don't talk about is contention at peak times, and for cable networks in particular they do contend at peak times very much. The point you make in terms of equipment in home is also true, and that's why the BT Home Hub contains the latest format of wi-fi and smart technology to move between channels to give customers the best experience and to protect against wi-fi interference. And it's the combination of all these things that give you the best experience in total.

Gavin Patterson

But it is clear, to John's point, the headline speed on a cable network drops in peak times 35%, that's Ofcom's own conclusion. So customers feel that.

The one thing I would add to it is we have to build a network that is relevant to how demand is growing in the future. We're very competitive at the moment but we're also conscious of the fact that history shows that bandwidth demand grows consistently 30 or 40 percent a year, year after year, which is why we're putting the investment into G.fast and Fibre to the Premise on Demand.

James Britton - Nomura

Can I ask a follow up for Tony actually. On working capital is there any reason why structurally you should be in a negative working capital position for the medium term or should we expect this year's £220m drag to drop away at some point?

Tony Chanmugam

There's no reason why we should continue to be on a negative, it's going to bounce around year on year. If I look at overall where we are, if I look at cash capex or the working capital or the other movements, actually it's helped to contribute to the cash flow growth we've had this year.

Nick Delfas - Redburn

Just a few number checks really. Obviously on revenues there's a slight miss against consensus, but EBITDA was a bit better. And you've got ladder pricing for £30m, you've got the capitalisation that we already talked about for about a hundred. You've also got more specific items and historically leaver costs were taken into EBITDA in 2012, I'm not sure when they went back out again. And you've got some copper sales as well. So if you add all that together it's somewhere in excess of £200m just for Q4 versus where consensus was.

And then on another number, if you look at...

Gavin Patterson

Don't worry, we will answer that question, even though it wasn't a question.

Nick Delfas - Redburn

And if I also look at the investments of two and a half billion in fibre, if I take that off the Openreach capex for the last five or six years which has been roughly flat, that would imply you should be earning two and a half billion pounds of EBITDA off a regulated utility with only about £500m of capex. So that seems a very high return for an SMP utility.

Tony Chanmugam

Well, sorry, I didn't understand the first part in terms of the question, but in terms of the statement you made and the accuracy of the statement you made, some points.

So, in the first instance, the level of copper rebate we got in 14/15 in terms of recoveries was materially less than 13/14. The key point I think to understand is that the consensus number, like for like, we beat consensus by £50m, ladder pricing was £30m, so roughly speaking one percent of the beat in the quarter was down to trading. So I don't see any issues in terms of that.

In terms of the leaver costs, the leaver cost payments we've made in relation to the original guidance has been around £100m higher. The reason it's been £100m higher is we've let more people leave the company. The overall labour costs in the company are 4% less than they were last year. And what that means is the throughput we will get into this year allows us to be in a position to make an underlying growth of 3% after taking into account the fact that now we're going to be putting leaver costs above the line.

From an analyst perspective, what you've got here is 4% beat for next year in terms of our outlook. Just to be clear, for 25 quarters we've met or delivered or exceeded the outlook numbers in relation to our EBITDA. So you've got a 4% uplift in terms of cash growth. And we're also putting in £100m or so above the line from below the line, which therefore should filter through into your numbers.

Nick Delfas - Redburn

Could I follow up on the leaver costs, because certainly in FY12 the leaver costs went back above the line, so when did they go below the line again?

Tony Chanmugam

The leaver costs have been classified as part of the restructuring programme since we announced the programme, which was going back a couple of years. The key point here is, a number of you have said as far as leaver costs are concerned, show them clearly, you might as well take it above the line and therefore you don't get involved in the discussions we're having now about what's below and what's above.

We're taking it above the line, effectively it means an upgrade in numbers because you should have had your leaver costs in your specific items, I presume.

Nick Delfas - Redburn

And in terms of Openreach, so underlying capex ex-fibre is only £500/600m?

Tony Chanmugam

I think what you've got is, you're going to have a mix of capital expenditure in a number of different categories over the years, so you'll have an influx in relation to what's regulated, but the question between what's regulated

and what's not regulated is going to vary as regulation rules change in time. I think the key is if you look at the overall investment, and the overall drivers of the investment, we will be spending more money on Openreach capital, both in terms of BDUK and outside BDUK.

David Molony - Ovum

What are the current numbers for One Phone and Cloud Phone?

Gavin Patterson

We don't give specifics, but I don't know whether Graham you'd like to give a bit of colour on the demand?

Graham Sutherland

Yeah, we obviously don't disclose specific numbers but we're pretty encouraged on all the new propositions we've launched over the last six months. It's still relatively early days but we're seeing quite sizeable demand, and actually across a wider segmentation than we thought when we rolled out some of these products, so we're definitely seeing encouraging signs, we have a much wider and broader portfolio than we had 12 months ago. So we're looking forward to driving that forward over the next 12 months. So quite a positive start.

Robert Grindle – Deutsche Bank

It's on pricing again. It's a circle back to a previous question. There's a lot of uncertainty about convergence, and whether there will be a convergence discount - you're already offering one to your customers, TalkTalk has followed suit with theirs. There's a lot of uncertainty, but on a fixed line side it sounds like you're cautious on tariffs. So is that what's baked into Tony's guidance on the growth – if we saw you raise line rental, for example, would that be a better outcome than a cautious statement would suggest?

Gavin Patterson

All I can say is we need to remain competitive in the market place. We're very conscious of that. We're also conscious of the political environment and the fact that inflation is very low. And we've been able to raise prices and at the same time improve the amount of value we've offered customers over the last number of years and that is a formula that works for us. I think this isn't the time to necessarily break away from that.

We don't give guidance in terms of how much pricing we've baked into the outlook. But as I say, the key driver for us is RGU growth, that's where we want to drive, it's volume fundamentally.

Tony Chanmugam

I think it's fair to say we have baked in a degree of price inflation but obviously we're not going to declare what that is.

Robert Grindle – Deutsche Bank

Like what we've seen in the last year for example?

Gavin Patterson

You might say that, I couldn't possibly comment.

Tony Chanmugam

The level of price inflation that we put in, if you look at retail in terms of the lines, what we put in is not materially different to what any of our competition has put in.

Robert Grindle – Deutsche Bank

Since I've got the mic, individually you might not care, or you might have lots of care actually about who wins the election tomorrow, but as a corporate, could you divide the political parties according to whoever's in charge?

Gavin Patterson

I can't resist giving you this one, Mike.

Sir Mike Rake

I'll give you the CBI view and tonight might be an interesting night. So if we look at it one way, so we've got one party who doesn't like Europe and one party who doesn't like business so it feels like a great time. On balance, business thinks it can manage more the Europe issue than the 'don't like business' issue, but I think the CBI have been saying for the last 18 months the biggest risk to our recovery in all seriousness which is that it's a low wage, low productivity recovery which requires much more investment in order to improve productivity for a sustainable increase in wages requires an environment that gives that. And the biggest risk has been political uncertainty and that's what we're seeing. So I think business is very concerned. Markets seem very stable right now, but we're very concerned about the uncertainty of the outcome of today actually.

Gavin Patterson

And if I could add in terms of the BT perspective on it, we're neutral. We've got a good relationship with the Conservatives, and the investment we've made in BDUK and the progress we've made in BDUK, I think has demonstrated that. But we've also got a good relationship with the Labour front bench as well and there are a number of ideas that they're proposing that I think would be very good for the country as a whole. So we're absolutely neutral, we're happy to work with anybody.

And on that note, thank you very much.