



## BT GROUP PLC

### Q4 2012/13 RESULTS PRESENTATION TRANSCRIPT - PART 1

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Company participants:	Sir Michael Rake	Chairman
	Ian Livingston	Chief Executive
	Tony Chanmugam	Group Finance Director
	Gavin Patterson	CEO BT Retail
	Liv Garfield	CEO Openreach

#### Voiceover

Slide 1: Good morning, ladies and gentlemen. Welcome to the BT Centre Auditorium. Could you please make sure that you have all mobile devices switched off. There are no fire alarms planned for today. And in the event of an alarm sounding, could you please leave the auditorium by the two fire exits at the front of the room.

Slide 2: Before we start we need to draw your attention to the usual disclaimer on forward-looking statements. Please see this slide and our latest annual report and Form 20-F for examples of the factors that can cause actual results to differ from any forward-looking statements we may make.

#### Sir Michael Rake

Slide 3: Good morning, everybody, and thank you very much for coming.

Slide 4: Four years ago we set out our strategy to make BT a better business with a better future. And today we're going to take some time to update you on these plans. Ian and Tony will cover the financial results and update you on our group strategy. Tony then will talk about our cost transformation progress and plans for the future. And each of the Chief Executives of our business units will take you through their businesses and future plans in some detail.

We also have a few product demonstrations which will bring to life what we're talking about today. And there will be time over lunch for you to take a look at some of these.

Slide 5: So let's look at the review of the year. Overall, as you've seen, it has been a good year. We have delivered good financial results and made progress in a number of areas. And we have again reduced our costs, with opex and capex down by over £1bn. On customer service, whilst our global operations have done well, we have not hit our targets in the UK. This was partly due to the terrible weather, which meant we had more faults in the network and more delays to customer orders, but we're working hard to improve this and the overall resilience of our networks.

We've continued to make a number of very important investments this year, including the acceleration of the rollout of our fibre network, investing in improving our TV proposition and launching yesterday BT Sport, acquiring mobile spectrum and continuing to expand in the high-growth regions overseas where Global Services operates. Our aim is to deliver good financial results while making investments for the long term. And this progress to date in this year has enabled us to continue to reward our shareholders.

Slide 6: If we look at the full year 2012/13 results, although revenue for the year was down 5% on an underlying basis, excluding low-margin transit work it was down 3%. And as you will hear later, we actually had a good performance in Q4. You will also hear later about some of the things that our lines of business are doing to improve this revenue trend.

But as well as this self-help, we need to make sure that the competitive and regulatory environment is fair, here in the UK, in the European Union and across the Atlantic. As a global business we need to have fair access to others' networks, much as they have here in the UK. And therefore, as an organisation, we will continue to push for level playing fields and lobby hard to see reductions in tariff and non-tariff barriers to trade around the world.

In terms of our profits, our cost cutting means that despite the decline in revenue we have again grown EBITDA. And this has contributed to 12% growth in our earnings per share. We delivered £2.3bn of free cash flow while at the same time investing in the business. This has allowed us to lower our net debt by over £1bn in the year. And we will continue to focus on reducing our debt going forward.

Slide 7: If we look at these results versus outlook, there have been economic challenges and tougher regulations that meant that we did not achieve the revenue expectations that we set out at the start of the year, but we did deliver an improvement in revenue trend in the second half of the year. And the efficiencies we delivered in the year meant that EBITDA and free cash flow are both in line with our outlook for the year and ahead of market expectations.

Slide 8: So what does this mean for our shareholders? The Board is recommending a final dividend of 6.5p, up 14%, giving a full-year dividend of 9.5p, which is also up 14%. This is towards the top end of our outlook of 10% to 15% growth, reflecting good financial performance this year. We remain committed to progressive, sustainable dividends. And our plan remains to grow dividend per share by 10% to 15% for the next two years.

We completed our planned share buyback of about £300m in the year which was to counteract the dilutive effect of maturing share plans. And we will purchase another £300m of shares in the next two years to deal with other share plans that mature. In this respect I'm really delighted that 20,000 of our people benefited from share plans in the year, making a gain of over £8,000 each on average.

Our people make a real difference; it is down to their hard work that we've had another solid year. Not only this, but across the world our people give back to our communities. And this year they have spent more than 40,000 days volunteering.

One of our key aims is to be a responsible and sustainable business leader. And Ian will talk later about the three goals that we have set to achieve this.

But now, I'll hand over to Tony to talk about the financial results.

Slide 9: Thanks, Mike, and good morning, everyone. I'll give an overview of the main financials and Ian will then go through the lines of business. Overall this has been a good quarter, with a better revenue trend, another good quarter of cost reduction and strong free cash flow performance

Slide 10: I'll start with the income statement on slide 10. Headline revenue was down 2% in the quarter, which includes the impact of an £81m decline in transit revenue and a £12m favourable impact from FX. Our main measure, underlying revenue excluding transit, was flat. We saw good performance from Consumer and Business in Retail, an improvement in Global Services and growth in Wholesale.

The revenue trend in the business is moving in the right direction and will continue to do so in 13/14. However, there will be a degree of quarterly volatility and I don't expect the revenue performance to be quite as good in quarter one, which will see a further impact from regulation.

We delivered another quarter of growth in EBITDA. This was up 4%, helped by a 2% decline in our underlying cost base, excluding transit. This cost reduction was despite some additional setup costs for BT Sport which we'll continue to see in the first half of 13/14.

Depreciation was down 7%, largely due to more efficient delivery of our capital investment programmes over the last few years. This contributed to operating profit growing 14%. Interest declined 14% due to a lower average cost of net debt. This led to profit before tax growing 21%, which drove a 22% increase in our adjusted EPS.

Specific items were a net charge of £58m. This included £151m of restructuring charges which I will say more on shortly, partly offset by a specific tax credit of £88m.

Slide 11: Turning to free cash flow on slide 11. Normalised free cash flow was an inflow of £1.3bn in the quarter, which was up around £400m on last year. Quarterly cash flow will tend to fluctuate, and a large part of the increase was due to the timing of working capital across the year. Our cash capex was also lower due to further efficiencies in our capital programmes.

Below normalised free cash flow, we had a £79m cash tax benefit from pension deficit payments. This brings the full-year benefit to the £560m level that we'd previously indicated.

We also spent £202m purchasing 4G mobile spectrum, which Ian will talk more about shortly.

After specific items of £147m, mainly relating to restructuring costs and Ofcom's determinations on historic Ethernet pricing, reported free cash flow was just over £1bn in the quarter.

Slide 12: Turning to the year as a whole, you may remember that this time last year I said that quarter four cash flow had benefited by around £40m from the timing of capex payments. I also said that timing of the contract-related payments in Global Services would mean that we wouldn't see the same level of working capital inflow that we saw in 11/12. In the year, working capital and other provided a £230m drag on our cash flow, which was slightly worse than we had expected. However, this was offset by us being more efficient with our capital programmes and by good growth in EBITDA. So, overall, normalised free cash flow was in line with what we said and what we would do, and slightly better than our market expectations.

Slide 13: Turning to net debt on slide 13. We reduced net debt by £1.3bn over the year. This reflects strong cash generation by the business and £560m of tax benefit. We've used this cash to invest in the business, buying 4G spectrum and launching a new restructuring programme, which incurred some cash costs in the year. We've also been able to reward our shareholders in the form of a higher dividend and a £300m share buyback. The end result is that net debt has been reduced to £7.8bn. And we will continue to reduce this in the future.

Slide 14: Moving on to our liquidity position on slide 14, in the current year we have £1.5bn of debt maturing. This is fully backed up by £1.5bn of available facilities that remain undrawn. In addition, we have cash and investments on the balance sheet of £1.5bn as well at 31 March 2013. Since March we've also raised a further £400m of cash from issuing commercial paper.

While we can fund our maturing debt through our existing resources and cash generation, we will continue to look opportunistically at the debt market. We continue to target a one-notch improvement in our credit rating to BBB+ or equivalent.

Slide 15: Moving on to our costs on slide 15. We've continued to make progress in reducing our cost base. In the year we reduced our opex and capex by more than £1.3bn, contributing to a saving of £4.7bn over four years. In the year, lower transit revenue and associated costs accounted for around a fifth of the annual reduction, with the remainder reflecting the good progress we've made cutting costs across all categories. Labour costs, for example, were down 4%, reflecting better productivity in systems despite recruiting almost 1,600 engineers and insourcing around 4,000 roles.

I'll go into more detail on our cost transformation programmes and our activities across the group. But I want to talk more about the next phase of the restructuring programme I mentioned last quarter.

Slide 16: So turning to slide 16, as I explained last quarter, we're undertaking a group-wide restructuring programme to improve the efficiency and the effectiveness of the business. We incurred £204m of specific restructuring costs in the year, of which £151m were in quarter four and related to the new group-wide programme. We expect to incur a further c.£400m of specific restructuring cost for the programme, with most of this occurring in 2013/14.

We expect the benefits of restructuring to reduce our cost base by an incremental c.£200m by the end of the programme, with both opex and capex efficiencies. The benefits will increase over time, approaching the full run rate in 2014/15.

The capex benefit from the restructuring is one of the reasons we believe that the level of capex we incurred in the year will be sustainable despite the increased investment in new areas of opportunity. I'd like to give you a few examples of how the restructuring will deliver benefits to us.

By combining elements of BT Operate with BT Design to create BT Technology Service & Operations, we removed organisational overlaps and improved both the speed and quality of our processes in areas such as application support and maintenance as well as in system testing. We've also streamlined the support functions, such as finance, HR and general management.

In Global Services we removed similar organisational overlaps with BT Operate in our customer support centres. We've also continued to rationalise both our overseas property portfolio and our networks.

Within Openreach we've integrated the BT Operate field force into the core business to improve both its efficiency and effectiveness.

Slide 17: Turning to slide 17 and the impact of regulation on our Group EBITDA. In the year there was c.£120m negative impact from the WLR, LLU and ISDN30 charge controls. There was also a £30m negative impact following the Court of Appeal decision in July preventing the use of ladder pricing.

In 13/14 we're expecting a number of items to impact us. Firstly we expect another impact of around £120m relating to the WLR, LLU and ISDN30 charge controls. There will also be c.£50m to £100m negative impact from the business connectivity market review, with a further similar impact in 2014/15.

Ofcom also issued a consultation document on the wholesale narrowband market review, setting out proposals for regulating the markets for the next three-year period. A new charge control would start from 1 October 2013, which is expected to reduce our revenue from fixed call termination, with this partly offset by an increase in prices on call origination.

And lastly, we expect the fixed access market review to be published in the next few months. This will cover WLR, LLU and fibre and will set out the charge controls that will come into effect in the year 2014/15. The outlook statements cover the best estimate of the impact of regulation.

Slide 18: Looking at other items on slide 18, firstly, on the pension, we've now adopted the revised IAS19 which impacts on pension accounting. We've restated these in the middle column for reference. For the next year, the operating charge will increase by £50m to c.£450m, mainly due to the lower discount rate and higher inflation assumptions. The pension interest specific item will be around £240m. The regular BT pension scheme cash contributions will be c.£210m, similar to this year. And the pension deficit payment in March 2014 will be £325m, unchanged from the payment plan we announced previously. Finally, as we've told you before, working capital and other in 2013/14 will be impacted by BT Sport due to the timing of the rights payments.

Slide 19: Turning to slide 19 on EBITDA, Ian will take you through the overall outlook for the group shortly, but first I'd like to walk you through our outlook for EBITDA over the next three years. Looking at 13/14, EBITDA will be impacted by the £50m increase in the pension operating charge

that I just mentioned. There will also be negative impacts from regulation and from our investment in BT Sport. The upfront investment in BT Sport, which we expect to be some tens of millions in each of quarter one and quarter two, will impact our EBITDA performance in half one versus half two. However, we will see further benefit from our restructuring programme as well as from trading improvements and as well as cost transformation. This means that we expect EBITDA to be between £6bn and £6.1bn in 13/14. In other words, we're swallowing the impact of the operating charge on the pension of £50m.

In 14/15 we will again face a headwind from regulation. However, we expect BT Sport to have a positive year-on-year impact. And combined with the benefits from restructuring, trading and cost transformation, we expect our EBITDA to grow to between £6.2bn and £6.3bn in 14/15. We expect further growth in EBITDA in 15/16.

Slide 20: Looking at our financial strategy over the next three years on slide 20, you've seen this slide many times before and it remains unchanged. We'll continue to use our cash to invest in the business, reduce net debt, support the pension fund and pay progressive dividends.

Before I hand over to Ian, it's just worth mentioning that we are looking to simplify the way we report and how we show the different lines of business. This is primarily aimed at ensuring the reporting is aligned with the regulatory accounts. Additionally, it will also more accurately reflect the commercial trading of the different lines of business. We'll give you more details when the review's complete.

With that, I'll hand you over to Ian.

## **Ian Livingston**

Slide 21: Hi. Good morning. What I want to do is, first of all, to run through briefly the lines of business. It'll be much briefer than you're used to in one of these presentations because you do have the joy of each of the lines of business heads presenting in a lot more detail. I'll also talk about the pension and then go on to really talk about the market context and our strategy, and use that as an introduction to the rest of the day.

Slide 22: So, first of all, lines of business, starting with Global Services. It was an improved performance for Global Services in the quarter. We saw revenue decline about 3%. That's about half the underlying rate that it's been for the first three quarters, so clearly an improvement. Order intake was good, £2bn. That means we've done £3.9bn in the second half of the year, which is a significant improvement on the first half.

The sort of big customer wins we have I think reflects the diversity of what Global Services does. And you'll hear a lot more from Luis later about that. But companies such as Media Markt, big new contract with them; they're a very important global retailer. AstraZeneca. Rolls-Royce was a very good win for us, very pleased with that. And also our new long-term deal with Cornwall County Council. So it gives you an idea of some of the big deals we've done.

Operating costs excluding transit down 4%. Again, that's an improvement. If you look for the year as a whole we're down about 6% in operating cost compared to about 1% last year. That sort of improvement is what we need. And I think it's the sort of cost transformation that we've been doing in some of the other parts of the business, so it's a good step up.

Operating profit in the full year, not a big thing but it's a milestone reached. I think far more important is the EBITDA minus capex was up over 50% year on year. So that's an improvement. And operating cash flow, well we said to you going into the year, we knew there'd be a working capital drag; you see that in the number, positive £6m. But clearly, and that's the theme of the presentation that Luis will be making, the overall financial performance remains behind Global Services' position as a global market leader.

Slide 23: On the Retail business, Retail revenue was flat. Again, that's a significant improvement. That's the best performance for 18 quarters. Consumer was flat, Business was flat, again both very good performances. Net operating cost down 1%. That's not quite the reduction you're used to seeing in Retail that it's been doing for seven years, but two facts behind that. One is the improved revenue performance, so obviously you've got cost of sales going with that. But secondly as well, and Tony mentioned it, some of the upfront investment we're making in sport.

Broadband numbers very good, 48% broadband market share, 136,000 adds in the quarter. And another record quarter for fibre, 211,000 adds on fibre. 40,000 BT TV net adds. That means our TV adds in the quarter were more than twice Sky and Virgin combined. So even before the launch of the sports proposition, we saw good improvement there.

Slide 24: On Wholesale, a good quarter as well. The critical number I think is 2%. 2% improvement in underlying revenue excluding transit, 2% improvement in profit [EBITDA]. That is a big improvement on where Wholesale was just 18 months ago. And I think we've seen, despite a business that still remains challenged by changes in regulation, changes in technology, it is remodelling itself. And you see that in its order intake. £2bn order intake in the full year.

Now it renewed its contracts with all its major mobile operating partners. Now of course if you sign, for instance, a 10-year deal with O2, as we did in the quarter, you don't tend to sign that every quarter. So that's a big number, that £2bn. But it does, I think, reflect a successful new strategy. More about that later.

Slide 25: Openreach. Openreach I think had the toughest quarter. Regulatory price changes taking £50m off the quarter, best part of £200m off the top and bottom line for that this year. However, growth in ethernet and fibre, operating costs down despite recruiting more engineers, and that's some of the efficiency programmes coming through, and some quarterly fluctuations. Good increase in physical lines. Earlier in the year we saw the line numbers actually not increasing in the way that they had done. And the reason for that was because actually we had an increase in provision work stack. That's largely gone, and you see actually a better underlying position.

So copper lines are growing for the year. Again, the death of the copper line is clearly not happening; quite the opposite. And fibre, very good news on fibre. 270,000 premises connected, over 15m rolled out, 1.5m in total connected. More than half of that happened in the last year in terms of the 1.5m connected. So some really good numbers on fibre and a lot more to do.

So that's the lines of business. As I said we'll go through in more depth later.

Slide 26: On the pension, I know a number of you were speculating about IAS 19. The £4.5bn deficit was a couple of hundred million pounds more than the previous quarter. Now this is a story of, on one hand, the lowest ever real discount rate. And that is what the accountants use for calculating IAS 19 and I've said to you before my view of that particular accounting standard, but it's the one we've got. And it has to be put in context. We've got the highest ever asset value, £41.3bn. We've had very good returns in the year, twice the number that we had expected in the plan, 12% returns. However, that discount rate is the thing that impacts the overall net result.

Slide 27: Another way of looking at this, not IAS 19 and it's not the actuarial methodology, but just saying look at the returns that you'd expect from the assets you hold. Now those returns are published by independent actuaries as to what returns you could expect from different asset classes. If you apply them to assets we hold, you get a surplus of £1bn. Now I should stress the trustees in the scheme wouldn't use that method because they go and put a lot of contingency over and above that. But that effectively is the economic expectation.

To put it in context, and particularly for those of you on the buy side when you think of your own funds' returns, in order for the scheme to break even it will require a real return of about 2%, a bit less, but around about 2%. And that puts it in context. The government, I think, recognises a number of the issues around the quantitative easing and what it's doing to interest rates, and

there's been a number of announcements come out from both the government and the Pension Regulator recently, suggesting they recognise they have to look at this, I think, in a slightly more flexible way. We'll see how these turn out, but it's something obviously we're keeping an eye on.

Slide 28: So before I go onto our three-year plan, our strategy, etc., just a summary. Really much as Tony and Mike said, good progress. We're delivering what we said we would, growth in profits, growth in dividends and we are making the investments at the same time. But a phrase I've used before and a phrase you're going to hear again, there is of course more to do. And we're going to talk about some of that more to do.

Slide 29: But before we do, it's worth looking back and saying okay, what did we say three years ago? And let's be clear, we didn't hit the revenue target we set out. Why didn't we hit it? The economy was worse than we thought it was. Regulation was tougher and we didn't execute as well as we would like to have done in places. So we didn't quite get there. However, there is encouragement. Q4 was certainly encouraging.

EBITDA, we beat that number quite considerably. We said we'd grow; we grew 5%. Cash flow, if you take adjusted, take normalised, take whichever number you want, we beat it by some considerable margin. And we said dividends would be progressive, and they've averaged 11% growth over the last three years which I think under anyone's book is pretty progressive.

Slide 30: So that's what we have done. What are we aiming to do? Well, on revenue we've just kept the previous guidance which is that this year should be better than last year in terms of the trend. More importantly in terms of EBITDA, Tony's taken you through the EBITDA walk. We're of course impacted by the restatement for the new IAS 19 that's come out. But fundamentally the improvement in the business is paying for our investment. And then, as you start to see some of the benefits of that coming through, you start to see good growth in EBITDA.

Even more important, and I've always felt this is a key number, which is normalised free cash flow, we said we'll hold it this year at around about £2.3bn. But you'll see significant growth in the following year, £2.6bn, and growth the year after this. We believe BT as a company can provide long-term sustainable cash flow growth. We've said that before, we'll say it again; it is the fundamental nature of what we are doing.

And to recognise that, dividends. We increased the dividend by 14% this year and we retain a range over the next two years of 10% to 15% growth. At the end of that period it will still be a very well covered and very safe dividend. And, as Mike said, we still aim for progressive dividends.

Slide 31: So that's about us. What about our markets? And I think one of the key factors on markets, every one you look at, is demand. With the exception of calls, actually demand's increasing. People are using more data, whether it be smartphones, whether it be cloud computing, whether it be video-on-demand services, they're using a lot more data. And that plays to the strength of fixed networks. It's one of the reasons we're seeing an increase in fixed lines because people need fixed lines for that sort of data. And I think that's a real opportunity for us.

Also that growth is not just in UK, it's not just in Europe, but it's particularly strong in the fast-growing regions. And for us as an industry the issue is actually therefore not volume; it's pricing. We will sell more. The question is what the price of it will be.

Slide 32: And on the subject of pricing, well, this is one of these good news/bad news slides. The bad news is, if you're an investor, that the UK is probably the most competitive market in the Western world. The good news is it already is. And these are Ofcom charts. These are not our charts. In fact, all the things we'll show you will be, in terms of market charts, are external charts. And what it shows is the UK is the cheapest market for landlines, for fixed line voice calls. It's the cheapest market for broadband and it's the cheapest market for superfast broadband, much cheaper than our big comparators. Noticeably how much cheaper it is than the US, I don't think there's anything that is cheaper than the US; it is in telecoms.

So we're already in the position that UK is. And if you're going to see any sort of price convergence, that obviously is better for us. What is interesting, if you look at this for Pay TV you get a very different answer. The UK actually is one of the most expensive markets in certainly among the big Western European states, or at least it was. Perhaps it might change due to recent announcements.

Slide 33: But it's not just price. Also the UK is in a pretty good position in terms of speed. This wasn't true three years ago. But the fibre rollout programme has made a difference. This is a chart by Ookla, who measure these things, particularly used by the FCC actually in the States, the UK is now second in G8 in terms of speed. And if I showed you the chart over time you'd have seen the UK just increasing at a very quick rate, really reflecting the fact we've got the fastest fibre rollout programme in the world. So we hope that will carry on improving.

And also it's not just speed. It's not just price. Also the UK is a very internet-intense country. I think a lot of that is fueled actually by the success of deregulation, success of the competition in the UK. But the UK ranks very highly. Look how it does. And that's a chart by BCG. So the UK is in a good position in that sense.

Slide 34: And our position, not just within the UK but in other markets, we sit in the fixed telecoms market, challenged on price, we've got volume demand. But convergence is happening. And we think we will show you we've got real opportunities in other markets that we've got a very low market share in. So on Pay TV, a low market share today, although, as you've said earlier, growing at quite a pace. IT services, low market share. And mobility, we think we have real opportunities there. We'll say something about all of these.

Slide 35: Our strategy, how does it fit in within that market context? Well, this is the same strategy chart you saw three years ago, not because I can't be bothered to put up a different chart; this remains our strategy. It ain't changed. It's the right strategy. It starts with customer service deliver. The reason why it starts with that and with process improvement is, A, of course, customers like better service. That is absolutely true. But B, cost of failure or getting it wrong for the customer is the major driver of our cost base. And if we can remove cost of failure, then we can improve our cost base, one of the key drivers. And it's why we target, and I'll talk about it shortly, Right First Time. Very important for us.

But that leads on to cost transformation. The cost transformation that we've done frees up investment to invest in the future. And I'll talk about how we're doing on each of these things and how we're driving that better business, the better base, to also investing in our future and how that future investment is going. And then the lines of business, we'll talk in more detail about what it means to them.

Slide 36: So customer service delivery. This chart on the right-hand side as you look at it shows Right First Time improvements. And we saw over, until this year, very good improvements in Right First Time, i.e. we were taking failures out the system, cutting our costs and doing better. We didn't do so well this year. We actually did quite well up until June. We saw improvements and then the weather struck and it was the worst rainfall in England ever. It was a bit better than that in Scotland and Northern Ireland, Wales, but worst in England ever. And it affected us. And I think also it affected us for too long. We needed to learn some lessons about how we respond and do these things across our business, not just engineering, but call centres and the like. But we will learn these lessons.

And interestingly, already for this month that we've just had, our Right First Time actually we've pulled back more than half of the decline last year. So we are seeing improvements. But that's actually in the main UK consumer and SME businesses. Actually we've got some very good stats elsewhere. So in Global Services, recognised as being a market leader in terms of service, and it's improved its service and does very well in that and has been recognised with customers. It's not perfect yet. Nowhere in our business is perfect, but a good improvement.

Also it's worth calling out Plusnet. Plusnet keeps on winning awards, broadbandchoices, uSwitch, things like that, for overall value and customer service. So we do have some really good spots in the business. But also we're a lot better than we were a number of years ago, just not as good as we could be, not as good as we should be.

Slide 37: On cost transformation, well, we've achieved £4.7bn net reduction in cost. If we weren't investing in our business, in fibre, in TV, in Asia, etc., etc., that number would be bigger. But that's a conscious decision to invest in the long-term future of the business. And that improvement in our cost base absolutely gives us a better position to compete in the marketplace, whether it's Global Services, whether Consumer, to announce things like we did yesterday [BT Sport]. But also we recognise, and Tony will take you through a separate presentation on it, the more opportunities ahead, take you through some granularity of some of the areas we see some real opportunities in.

Slide 38: Now looking at where this cost transformation and the investment that it effectively allows, where it's coming from. First area on the strategy chart is driving broadband-based consumer services. I think the chart is interesting on the right-hand side. We have continually grown our overall market share. Whether you include cable or don't include cable, we've seen continued strong growth. And I think that compares very favourably with a number of other European incumbents. And I think the way we've reinvented our proposition in broadband despite the very intense competition from TalkTalk and from Sky, these are big companies with big brands, and we've done pretty well in the marketplace.

TV, over 800,000 customers. And it's growing fast. It's seen double-digit growth over the course of the last year. So we're seeing good progress there.

And wi-fi hotspots, 5m wi-fi hotspots. We did 13.5bn, roughly, minutes of wi-fi last year. Now the last year I was in Retail, I remember being overjoyed because we did 5m in a week. It seems sweet now. 5m to 13bn over the course of five years, an immense change, and it really does highlight the increased use in data and why people, like yourselves, any time you can, look for wi-fi.

But there's also other areas, other growth opportunities. We're in the early days of fibre broadband. We may have record quarter after record quarter in terms of growth, but we're still in the early days. We've covered just over half the UK. We can do a lot more and we think we can sell a lot more. And there is that relationship between TV and fibre and a number of other services.

So you'll see more coming on TV to support that, and Gavin will talk a lot more about that. And also on wireless services, it isn't just wi-fi, it's 4G. And we'll say something about 4G and some of the things we think it can do.

Worth also mentioning SmartTalk. If any of you are BT customers, hopefully most of you are BT customers, and you've got an iPhone or you've got an Android phone, you should really download SmartTalk. Save you a fortune, particularly when you're travelling abroad. Call home, also saves you a fortune calling 0800 numbers. 150,000 downloads. Got great reviews online. It's an example of how we can make our proposition just richer.

Slide 39: SME sector. We said we wanted to be the brand for business. The reason we said that was, A, there is no brand for business. There's no go-to place. But also the chart on the right-hand side, we may have a 37% share of fixed voice and data, and there's different measurements, it could be 40% on some measurements, but we've got good share. But we've got a very low share of voice and IT services. And we're growing that share, we're growing in both the places. Whilst we're holding our position in fixed voice, we're growing our other share.

So it's been a difficult SME market. But actually we managed to show we were stable last quarter, which is a good result. And I think we've seen a continued improvement in our SME customer base.

Opportunity really to grow in adjacent markets. We also think a big opportunity with Infinity for Business. It's a product that's very, very suitable for businesses, provides high bandwidth, really at very good prices, allows them to do a lot. And on mobility, we'll say something about that in a second, but also IT services, double-digit growth last quarter. We are really growing. I think it took us a while just to get the formula quite right, but I think very encouraged by performance over the last quarter.

Slide 40: Global Services. We said we want to be a global leader. Well, on one hand we are, so strategic thing succeeded. And that's recognised by the industry. It's recognised by the chart I think you'll have seen before, which is the Gartner chart. Gartner are, I think, the analysts that most IT directors look to. And top right, at the top, BT Global Services. So you see what we've achieved.

The challenge for us is not, do we have the customer base, not do we have the product range, not are we growing in high-growth regions, because actually the answer to that is all of it. It's making sure we have the financial performance and efficiency to match that position as a global leader. And that's very much the aim. And Luis will talk you through that.

Slide 41: Wholesale. We are the wholesaler of choice, it's what we're trying to be. We're the largest wholesaler in Europe. Strong customer base, over 1,400 CP customers. As I said earlier, the wholesale market's been changing. Probably of all of our markets, it has had to withstand the biggest change in terms of technology, in terms of regulation, in terms of change of customer base. But it's invested, invested in areas such as ethernet. It's invested in the capability of managed services and you see that in the contracts, and also in mobility and supporting mobile networks as they roll out because they all look for fibre lines and for IP.

And on the subject of IP, IP Exchange, Nigel will talk about that in a bit more depth later. But it's another example of where we spent money. About three or four years ago, we said we can see a future opportunity. It's a £100m plus business today and it's growing at a very fast rate.

Slide 42: The final area in terms of what we do is being the best network provider and a key area of that is of course fibre. The fastest rollout in the world, it's been a very successful 18 months ahead of schedule in terms of delivering to two-thirds of the UK. We should do that by spring 2014 and we think that there is a possibility, the capability of getting to more than 90% of the UK in the next three to four years.

As Liv will talk about, we are certainly not finished on speed. We think there's many new things coming on speed. But also take-up is very encouraging. There's a chart on the right-hand side that shows the different phases and actually what you see is two things in that chart. One is how we don't seem to have reached the top of an S-curve yet. We seem to be increasing at a pretty linear rate in terms of take-up of the different phases. But also that the new phases seem to be doing better than the previous phases as we're learning more about how we bring it together, how we market it and also how we identify the areas with good take-up.

So we are encouraged. And we know a number of years ago this was a risky investment and a particularly risky investment at the depths of a recession. But so far so good and it's one of these odd investments that seems to be under budget, ahead of time. And demand we're very pleased about. So that's good.

Slide 43: But the other bit of network is actually about mobility and offering that and we spent slightly over £200m on 4G spectrum. We acquired a lot of spectrum for that. We are pleased with the outcome of the auction. And we think this presents opportunities for us, for consumers, for businesses, and also machine-to-machine and as I said combining it together with our wi-fi estate and a fixed mobile proposition.

Slide 44: It is very much an inside-out network and that makes us different from other providers. Mobile network operators are doing outside-in and that's great and that's fine. But people tend to use their device for more high intensity downloads when they're on the pause, when they're

indoors. And we think that presents a great opportunity to combine wi-fi, to combine 4G and give basically the best connection when you're sitting down, when you're in your home, when you're in your business, when you're in a train station, when you're in the airport, real opportunity there.

Slide 45: We will give some urban capacity where it's needed. But also we think we can use it as an opportunity for areas that can't get fibre. Clive will talk about that later. We've been trialling out a little village in Suffolk just to see what they can get and Clive Selley will talk about his experiences down in the pub, who are very pleased about the wi-fi coverage. What that man does for our business.

One thing I want to be really clear and just reiterate. We are not in the business of building another macro network. That's not what we think we should do. We think there's quite a few of them already. We are in the business of using our indoor capability, of the connective nature, of the fact that we've got our own backhaul effectively coming from people's homes and offices, to connect people indoors. When they're outdoors they can roam on someone else's network. That's why we commenced an ITT to look at who would be our best partner for that.

So it's early days. We've got a lot of other things going on, but we're carrying that on. We're doing trials just now and I think over time we'll give you some more details about some of our plans on 4G.

Slide 46: I talked about what we were doing. The thing I haven't covered and I really haven't talked to you very much about before, though it is contained in our Annual Report over a number of years, is how we do things because that's really important. And it's important for a few reasons. One is, it's good to do good. We believe it's important to be a constructive and positive member of the societies in which we operate.

But it's also important for other reasons. It's important to our customers. A very large number of the big contracts actually want to know they're dealing with a sustainable and responsible partner. It's important to our consumer customers and small businesses because they want to know they're dealing with a good and ethical company.

It's also important to our people. One of the things that determines engagement, a really important thing, is actually people want to feel they work for a company that makes a positive difference. And we think we do. And we set what we call our North Star Goals, three really big targets for the future and they are things that only BT can do.

And the first of these very obviously is we think it will change the UK if we can connect the UK with fibre. So we've got a target to, before the end of this decade and we hope to do it well before the end of this decade, to connect more than nine out of ten homes, to make fibre available to them. That I think is really important. It will allow the growth of the health service, home education. It will connect people of all ages and all social strata in a way they've never been connected before. Only BT can do that, and perhaps only BT is prepared to do that would be more appropriate.

The second goal is about carbon. Just now BT roughly saves its customers as much carbon as it uses and we do use a lot of carbon, if you think you pick up your phone and it's actually always connected, we've got big datacentres. But by virtualised datacentres, the provision for instance of conferencing facilities, and Gavin will talk about our audio and video conferencing facilities, we save our customers a lot of carbon. And we've got new things that we think we can do that can save our customers even more.

So our aim is not to be carbon neutral. We're sort of just about there. It's actually to be net good and that's why we call it net good, actually to save our customers three times as much carbon as we use. And that move in carbon also has been very important for us. A, it's a great thing to sell our customers. B, actually we're receiving quite a lot of money because we've cut our electricity consumption ourselves, because there's two bits to that equation. Use less carbon ourselves and on the other side, save our customers more. Good for the environment, good for our business.

And the final goal again reflects the fact that only BT can do this, is that we want to raise £1bn over the next decade, using our people and our networks and our capabilities. A good example, for instance, is BT MyDonate. It's a site we set up to take donations. We do not charge the charities for doing that as opposed to some of the other companies where the charities have to pay for it. So we save the charities a lot of money. It may cost us a few million pounds a year to run but we can save charities a multiple of that.

Also our people volunteering for telethons, I think we had 9,000 people who volunteered for recent telethons, so it's great the way that they always beam to the top of the BT Tower and all the people who are answering the phones. We set up all of that; our people volunteer to do that. Disasters Emergency Committee website, we do that as well. So around the world, our people and our networks and our capabilities are brought to raising a lot of money for good causes and that's our aim. So what we do and how we do it are really important to the DNA of BT.

Slide 47: I mentioned that engagement of our people was a really important part of that and I want to say something about our people. We recognise that BT is in transformation and it's absolutely vital that our people come together and actually are increasingly powering that transformation. There's a number of things we are doing to help that.

I think BT has changed a lot over the last few years. But we've re-launched a set of values that frankly are a lot more relevant to our people, very simple and they are up at the top.

Customer, we've got to be really focused on the customer.

As a team, we actually do a lot better as a team. BT has a reputation that it still has some problems being a little bit siloed in places. Working together as a team really can improve that.

Honesty, hopefully you see it in our presentations because we try and have the same values externally and internally. We actually say, we call it out when we haven't done very well. We try and say to you where we think we can improve. That's what we're trying to do in the business day after day after day. As I say to my team, it's their job to tell me how they can improve. It's my job to tell them how well they've done, not the other way around. And that, throughout our business we have to be really clear about, about that. Any business that thinks it's perfect can't improve and honesty is really important.

Change is also really important. It is vital that every part of BT, every person feels that they are responsible for making things a bit better, for changing their things for the better and actually having pride in BT and having pride in the difference we make.

And that's our set of values. And to help people live these values, but also help them deliver the sort of company we're trying to be with a better future, there are a number of things we're doing.

First of all, increasing skills. We're setting up what we call the BT Academy, really taking our learnings -- and we don't mind taking learnings from other places -- from the professional service firms who are really excellent at creating a common set of training, a common set of terminology so actually people understand things exactly the same way. And that will be core, so we deliver better training in leadership, in skills and in accredited learning and also that our people feel that part of their promotion path is actually to be tutors and lecturers in these academies as well.

But we're multi-skilling our people. Convergence means people have to be trained in more and more things. So there's a lot of work and effort going into multi-skilling and giving our people the tools to do that as well.

We're investing in new jobs. We've taken people from the armed forces, new apprentices, in-sourcing as well. We insourced 4,000 jobs last year. We recruited 3,000 people. As a business we are changing the mix of what we do.

And empowering our people and making them feel that they can improve and change. I mentioned that earlier and it's really important. One of the things we run, as an example of that, is My Customer Challenge Cup. About 700 teams compete from all around the world, come up with their ideas how they can save BT money, how they can improve customer service, how they can help grow the business. And it's a very effective thing.

And this year's cup is in Monte Carlo, and the final is held between ten teams this year in Monte Carlo. And we, every year when we launch this we have a short film that shows what we do to encourage people to participate. And we thought, given it features all the members of our Operating Committee the best way to introduce the next section was maybe to show you this film. So can you run the VT.

(Video playing)

Damien Maltarp's suggestion. It's certainly a different way of introducing the rest of the day.

Slide 48: So my last slide before we do. Look, in summary, our plans are based on the assumption that there'll continue to be pricing challenges, that the economic challenges particularly in Europe will continue to be there, that there isn't suddenly some massive growth. But they also recognise that we've got a lot more to do, in customer service, in cost transformation and also in investing to support our future.

We think we have real growth potential. Growth in revenue, growth in profit, growth in cash flow and of course growth in dividends. Our strategy today is delivering. It's the same strategy and we know we've got a lot more to do. And there is a lot more we can deliver now and we're in a better position to do it.

With that, I'd be delighted to take questions and answers. There will be also a chance for questions and answers after each of the sessions later. So you may want to save some of the more detailed ones for lines of business till then. But as usual, if you put up your hand, say who you are and where you're from and a microphone will be running its way to you.

## **QUESTION AND ANSWER**

### **Nick Lyall - UBS**

Could I ask two questions? Firstly, on the pension. You mentioned potential remedies or investigations at least by government and regulator. Could you tell us what remedies you would prefer to any problem on discount rates and liabilities for your actuarial review please for June 2014, so what your submission would be to that, any debate?

And secondly, what assumptions do you make really on BT Sport costs and revenue in the guidance, if you could tell us. You mentioned pricing as well at the end there. What do you assume in terms of fight-back from Sky in particular?

### **Ian Livingston**

On pensions, and I don't know if Mike will want to add anything, we would say the important thing is to recognise that we have a market that has been dislocated by what's happened on quantitative easing. I understand the reason for quantitative easing, but I don't think that there is anyone who thinks that gilts prices today represent a reality.

And it's interesting that the Chairman of the Pensions Regulator has for instance, warned trustees against 'reckless prudence', which was a lovely phrase.

So our submission is there should be a recognition of the fact that gilts and bond yields aren't a sensible way and you should look at a sensible asset mix. And that would be really important

whether it is infrastructure or other things to really give the mixture. So we'll see what happens. It's a long way away, but I think there's a recognition from a number of schemes this is an issue. Mike?

### **Sir Michael Rake**

I think that's right. I think there's a total disconnect right now between interest rates and inflation in simple terms. And I think the objectives set for the Pensions Regulator were too narrow in terms of the Pension Protection Fund. I think the government realises that and hopefully taking a broader view of this will not damage industry which is the risk of what the current narrow interpretation has.

### **Ian Livingston**

On the sports, it's easy to try and paint this, because it's convenient as a nice media story, as BT against Sky. As I said in the presentation, we think there's a real opportunity to widen the market. I think you can probably guess that if our price is free today, the chances of us having a further price cut would be limited.

We think there are a lot of people who want sport, who want more choice today - and I'll ask Gavin if he wants to add anything in a second - but there can be a lot more because penetration in the UK is just over half of households have Pay TV. I think less than half of them actually take sport and that is low by a number of international standards. So we think there's a real opportunity to provide sport and other entertainment to people who don't want to spend £70 a month and aren't spending £70 a month. And we think there is an opportunity but it's around the broadband. And critical to our business plan is saying it's not about a standalone TV channel. It's about the totality of the communication proposition.

Gavin?

### **Gavin Patterson**

The only thing I'd add, Nick, to answer your question on retaliation from Sky, I'm sure they will have a go back. They're bound to, we respect that. But this is a battle that's on many fronts. It's not just about TV; it's not just about sport.

We think we've got a very strong proposition in fibre. I'm sure you would have noticed earlier in the week we launched the latest hub that brought new innovation there with dual band, improved wireless connectivity in the home. And you'll see us doing interesting things in 4G as well. So I think the battle is on many fronts. I think the net-net is we feel we're well positioned to really compete.

### **Mandeep Singh - Redburn Partners**

I just had a question on the restructuring charges. You're talking about £400m, the bulk of which will be taken in the current or the upcoming financial year. Is that a cumulative restructuring cost over the three-year period or can we expect a similar £300m, £400m ongoing every year for the next few years?

### **Tony Chanmugam**

Yes, the £400m is just for mainly 13/14. You get benefits of [around] £200m a year. We have no further plans for any further restructuring in terms of where our guidance is at the moment.

### **Steve Malcolm - Arete Research**

A couple, one on regulation. Just looking at your waterfall chart, Tony, you're assuming a similar impact in 14/15. Do we assume that you're expecting a continuing 3% or 4% decline in copper prices or if you could just add some colour on what your expectations are for the cost of copper within the guidance that you've given, that would be very helpful.

And secondly, just on the announcement yesterday obviously there are no wholesale deals there. Was there ever any intention to wholesale or were Virgin and Sky simply asking for too much money? Might that change in the future? Can you give us a little colour on how you came to this decision and how you might think about it going forward?

### **Ian Livingston**

I'll get Tony to talk about regulation in a second. First of all, on a wholesale deal, we've gone, we've been very open to the concept of wholesale. And I think Sky have had more a, shall we say a philosophical issue, with the concept of wholesale. We've of course been a wholesaler for a long time and we have no problem with it. I think as I said to you, and when people have asked, there are a number of different scenarios we ran.

I've got to say with Virgin I think they have far less of a philosophical problem at all. I think it may just be about price and discussions continue. We'll have to see where they go. It may well be with various other players who want to consider buying our service wholesale that they have to see the quality of it because I think they don't realise just how strong it is going to be. I think they got an idea of it yesterday, but perhaps we have to launch it.

But as I say we have scenarios that have no wholesale. We also have scenarios that have wholesale. We know what it's worth and what the price is and we have no philosophical problem about wholesaling.

On regulation, Tony?

### **Tony Chanmugam**

I think we've made our estimates associated with what we think is going to happen. Over this, the next two years we've given our guidance in line with that. I think that's all I can say.

### **Stuart Gordon - Berenberg**

I was just wondering whether you could provide some colour on churn within the broadband base, both in terms of directional perhaps around about where you are just now. And is the goal to get down to the sort of Sky levels of low teens in terms of churn as one of the levers that you're looking to use?

### **Ian Livingston**

I'll ask Gavin to say something about direction. I think in general terms we tend to think the best that to do is actually give net adds numbers because churn is one of those things where people have different definitions - when someone moves house whether it's churn or not. And I think you may find, if you looked in-depth at different companies, you would find a certain lack of comparability in the churn numbers. So the thing that shouldn't be argument is how many customers you added and that's the one we tend to go for.

In terms of directionally, in terms of how people who have got triple play and who use things like wi-fi, Gavin, do you want to add anything?

### **Gavin Patterson**

Yes, it won't come as any surprise to you the more they use the products, the lower the churn. To give you some examples, Infinity churn is several points lower than copper churn, even looking at cohorts that we've acquired at the same time. So that's how we track it as we recognise that Infinity is a much younger product.

It's the same with wi-fi. Customers who use our wi-fi outside of the home have several points lower churn than those that don't. So it's about, I think driving penetration and driving usage of our products and ensuring people get better value, as good value as possible.

### **Guy Peddy - Macquarie**

Just two very quick questions. Firstly on the 2014/15 free cash flow uplift you're targeting, obviously there's the EBITDA driver of that that you're looking at. Is the other part the working capital unwind of BT Sport that's going to be a drag next year that is the driver - a more positive driver the following year?

And secondly, if we look across what's happened in some of the European markets when there's been this competition on TV and broadband, certain operators have gone for a more aggressive bundling of mobile, i.e. more of a consumer voice mobile product rather than just essentially a wi-fi product. Do you fear that as a competitive response that what you might do is actually engage some of your competitors to go more aggressive in mobile? And then how would you actually compete with that if mainstream mobile became a central part to broadband bundles?

### **Ian Livingston**

Well, the mainstream mobile companies have been trying that for quite some time with not a stunning degree of success. Vodafone withdrew from the markets trying to sell broadband. O2 have just sold their base, which is a shame because they were a good contributor to market share adds. So it's not been an outstanding success.

There are packages, if you put things together and certainly Spain's a good example. But what they did in Spain in my understanding is they took €20 off their price of the package. That made it more attractive. But they could've taken it off anything. The Spanish numbers that you see up on the chart, you know in Spain it's an expensive market.

But I think the UK is already in a good place. We think there are opportunities with mobile, fixed-mobile convergence and things such as SmartTalk. We think there are real opportunities in some of these areas. But I think it's unproven that it's a must-have package in the same way that we think TV, broadband, calls, lines tend to go together. But we have that opportunity probably in a way that no-one else does actually because neither Sky nor TalkTalk participated in the auction. They might team up with somebody, no question about that and see what happens. So we'll keep an eye on the market. We will launch our converged offerings as I said over time. But I think probably TV is the main area.

In terms of 14/15, I'll ask Tony if he wants to add anything but I would say you shouldn't think of it as a bounce-back in working capital. We won't have the same drag in 14/15 that we have in 13/14 because we have to pay upfront for a big chunk of the Sport - and we did mention before that the cash flow impact of Sport we talked was more in 13/14 than 14/15 but Tony?

### **Tony Chanmugam**

We've got a £300m uplift in our cash position. We've said our EBITDA will go up c.£200m or so. You've got a movement in terms of cash that will help in relation to tax and interest payments combined because of the way our debt's profiling and the fact that we're reducing our debt. And there will be some impact in relation to Sport that Ian talked about. But primarily driven by EBITDA growth.

## **John Karidis - Oriel Securities**

Firstly, what would be your counterarguments to TalkTalk's charge that maybe BT is engaged in margin squeeze?

And more generally, do you worry that in fibre you're maybe being too successful too quickly and therefore Ofcom might be tempted to look closer at the price you charge for wholesale access to fibre?

## **Ian Livingston**

Well, I think a simple answer on margin squeeze is, no, we're not. It's a bit disappointing, sad actually in some ways, that a company that's set up supposedly on the back of low priced broadband is now trying to go to Ofcom to get other people to raise their prices because we know the wholesale price of our fibre offering compares - and you guys are analysts - very favourably to the rest of Europe. We know it's a double-digit year return. We know that TalkTalk et al have been rather hesitant -- no, actually wrong word, not put any of their own money into it because they obviously don't like the fact they can't make a very quick buck on it. So no, we don't think it's much of a margin squeeze.

Are we being too successful? That's a charge we'll have to cope with. And I think Ofcom continue to recognise that there are other alternatives. They've been pretty clear up till now on this issue. And if we had cost-orientated obligations, in our view the price would go up in terms of the wholesale price. I think Ofcom and the government are pretty delighted with the progress in fibre and the rest of Europe actually now is looking at it and saying the UK model looks a better model and that's why the EU came out with some proposals that very much resemble the whole UK model.

Mike, anything?

## **Sir Michael Rake**

No, that's it.

## **Andrew Lee - Goldman Sachs**

Just a couple of questions on TV and mobile. I wondered if you could talk us through how you're going to judge the success of your TV strategy announced yesterday?

And secondly, there seemed to be a nuance there, trying to drive demand for fibre across the broader marketplace. I wondered if you could talk about how you think that could play out.

And then in mobile, following on from previous questions, you say convergence is happening, I just wondered if you could give your thoughts on the quad-play benefit to BT. Do you think this will entail over time building a scale mobile business? And just within that, I know you said you didn't want to build a new network but do you think in that instance it would be better to own a network than to just be an MVNO?

## **Ian Livingston**

I think on the second one, having bought the spectrum we've got options on what we do. We said we didn't want to build another network but we certainly think we can provide huge capacity indoors and that's what we'll do. And exactly how we will drive it and which customer segment and propositions, I think we'll wait and see.

The way we'll judge our TV strategy is, very simply, are we growing the top and bottom line in our consumer business? That's what success looks like.

**Carl-Murdock Smith - JPMorgan Cazenove**

Yesterday you made some headline price cuts for new customers on the low-end copper and Infinity broadband packs. I was just wondering, at the moment what percentage of your customers currently take those bottom-end packs? And also what's the actual price cuts, in your opinion, once promotional activity and special offers are taken into account as well?

And then secondly, just on the £400m of specific items, I was wondering if you could provide us a bit more colour on the kind of buckets of spend within that? Thanks.

**Ian Livingston**

I'll ask Tony to talk about the specifics. All our offers are special. This is just another one, but, Gavin, do you want to talk about the outstanding value we offer.

**Gavin Patterson**

Indeed. I'm reluctant to give you the specific mix. I will say in both cases, both in copper and fibre because we re-launched the whole of the copper portfolio in February with a totally unlimited service, the majority point, at of sale, have taken the higher tier.

**Ian Livingston**

Tony?

**Tony Chanmugam**

Yes, it's primarily three key components, people costs, property costs and network costs. And the people costs should be taken in the context of -- we'll talk more about it in the cost transformation. We're making our processes more efficient. We're freeing people up. As we free people up, we try and reutilise them with our insourcing. When we cannot reutilise them with insourcing we give them options in terms of how they may want to leave the business.

**Carl-Murdock Smith - JPMorgan Cazenove**

Just following up on Gavin's point, so just in terms of the headline price cut yesterday, after the special offers -- all of your offers are special, what do you think the underlying price cut is because obviously the headline numbers may be different.

**Ian Livingston**

I think to be clear we have different offers already. And sometimes we go between a number of months free, sometimes we go for a discount. And so I think it's an eye-catching offer, but I think you probably shouldn't exaggerate the change it represents from some of our existing offers.

**Gavin Patterson**

I think that's a very good way to put it.

**Ian Livingston**

It is clear and straightforward.

**James Ratzer - New Street Research**

Two questions please. The first one was just with regards to your future cost transformation. It'd be interesting to understand how the mix of that is changing towards -- is it changing more towards Global Services than we've seen in the past? Or is the bulk of the cost reduction still in the kind of business ex Global Services?

And second question is I was wondering if I could push you a bit more on your thought on the fixed access review that is coming up and I [assume] some of the slides coming later you talk about the EUR 8 to EUR10 recommendation from the European Union on copper pricing. Is that aligned with your thinking of what you're planning for?

And you mentioned fibre being as part of this review. Are you expecting any change to the way fibre is currently regulated as part of this charge control '14 to '17. Thank you.

### **Ian Livingston**

No, we're not expecting a change. I think it'd be pretty dumb of us to tell you what we had in mind about the potential outcome for the next set of reviews. I think what's been quite clear is the UK is low by European standards and I think some other places in Europe are saying well, actually we should start looking at inflation and prices going up.

But I won't talk about what's incorporated in our plans and contingencies we've got. But we'll be arguing very strongly I think to reflect the fact that, particularly given more difficult weather conditions and things like that, as to why there's actually a need to recognise that in inflation.

In terms of cost transformation, we've said on quite regular basis that some parts of our business were, shall we say, more evolved in terms of cost transformation, been at it for longer. I think in this particular restructuring probably the two areas that will have the biggest change are going to be in TSO, which Clive Selley will talk about. We've brought together our old Operations division together with BT Innovate and Design and we think that will present some real opportunities. And in the network that backs it up, it's actually not just about people, it's about network and simplifying it.

But also we've also said that Global Services need to have a cost base consistent with the global leader. So you'll see that. So I think that'll be the two areas. But as the heads of all the individual business units will tell you, they don't feel that their cost transformation programme has finished yet. That I can absolutely assure you about. But Tony?

### **Tony Chanmugam**

The costs will be cut in all the areas of the business.

### **Ian Livingston**

As you see he's not a method actor.

### **Maurice Patrick - Barclays**

The question relate to the longer term penetration of fibre. You showed a slide showing the phasing of fibre uptake through different phases, where you saw that ending up, how quickly and the rate at which your competitors or potential customers on a wholesale basis will be forced to push it as well. So, your thoughts on that please?

### **Ian Livingston**

I think one of the things affecting the overall take-up rate, and I'll ask Liv if she wants to add to that, actually will be how enthusiastically we all decide to push fibre. BT Retail has done well in fibre. Why? Because actually we've advertised it very heavily. We've created a brand name, we

put real weight and focus behind it. Some of the others haven't although they're selling a lot more. The smaller players have actually done that and they're very pleased with it. So I think that will impact it.

We are pleased with what we've seen to date. We don't know when the S-curve will happen, but we feel a lot more confident that we will hit the 20% that we've set out for the first five years, yes, and Liv, I think is going to talk a little bit about some illustrations around that. But it's still too early to call it other than to say, so far so good. But, Liv?

### **Liv Garfield**

The one extra stat that I might mention is a while back, it was 90% of new net adds to Retail. If you look at the most recent times, it's 75%. So we are seeing the external customers begin to take more and more fibre as the quarters evolve.

### **Paul Sidney - Credit Suisse**

Looking at the long term, assuming your line loss slows, would BT view that as more of an opportunity to put prices up or to push on the eventual goal of getting line growth?

And secondly, just a quick one. Is there any data you can give us on the revenue per line uplift when a customer moves from copper to fibre now that you've -- obviously you've got a lot of traction in the fibre product? Thank you.

### **Ian Livingston**

There is a good uplift as they move, both in what they take -- I won't give you the exact figures because obviously at the moment it may be a bit sensitive. But there's a very good uplift because they actually tend to trade up. They do but they also take more services and as Gavin said they churn less. So all of these are good things and the very simple reason that Retail push fibre is actually they make money from it. It's really -- it's not, I appreciate it's complex for some other companies but it's pretty straightforward for us. We sell more because we make money doing that, where we're doing that.

In terms of price changes for lines, the UK for lines and calls a very good place overall. What we will do is continue to offer really good value. I think in particular also to try and put more and more services within overall bundles. So for instance, we mentioned SmartTalk before. I think calls to mobile as mobile termination rates are coming down, I think that presents a real opportunity to put more in. So actually you can increase the value to the customer, but also increase the value to you. And I think that's the direction we're trying to push in.

### **Giasone Salati - Espirito Santo**

I'm a media analyst so you'll be patient if I step the wrong way. Have you discussed your price position announced yesterday with the Premier League? And do you think they will be pleased with seeing the premium product given away for free?

Secondly, looking on a price comparison directly with Sky, because BT broadband tends to be more expensive, the triple packages don't end up being £10, £12 cheaper on BT. So it would be quite easy for Sky to give free broadband if you want and retaliate back just by upping the content price by £2 or £3.

### **Ian Livingston**

I think probably we could do it too.

Look clearly you've been reading the Sky press release. It's just taken longer for them to get it out than expected. We're giving Sport back to the fans. I think the governing bodies would be delighted with that and FAPL were there. The rugby clubs have been really, really supportive of it. What's there not to like - this is free for customers. It's not low quality. It's very, very, very high quality and so I think that's great.

Sky has been mailing people with free 12 months, free broadband for quite a while and upping your Pay TV price. That's been their model. So I'm not quite sure the sort of what's new. But Gavin, do you want to add anything?

### **Gavin Patterson**

No, I think you've put it quite concisely. Whatever way you look at it, we're very confident that you're going to get better value from the propositions we offer. I think it's important to know, yes, we have triple play offers and we think those will provide a considerable saving of several hundred pounds per year against Sky.

But our strategy isn't just about trying to convert people to triple play now. It recognises that many customers are committed to Sky TV and so we've created a proposition that allows them to keep their Sky TV and save money by getting BT Sport for free. All we're asking for them to do is to switch their broadband. And in that situation, there's no doubt about it, they will save money. They even save money on the Sky chart that they've been circulating, so it's very helpful in that respect.

### **Ian Livingston**

I think they make it clear on the issue. And then the last one and we will break and you'll have a chance later.

### **Lawrence Sugarman - Liberum Capital**

You've given guidance on capex for next couple of years and obviously capex came in below expectations on the efficiency levels. I think in previous results discussions, you've given confidence about the longer term outlook. I know that some of your guidance which was actually set out for three years. Could you perhaps give a little bit more colour in terms of how things could look directionally at least beyond 2015 on capex?

### **Ian Livingston**

Well, I think the big change in capex is not about volume of what we're doing. Actually we're doing more than ever. It's just that we're doing it better and we expect that trend to continue. Do more, invest more in our business, but just do it better.

As you look in the long term, I think one of the big changes may be as we finish the fibre rollout programme that certainly takes the cost away from us. So as we stand at the moment we don't see anything that could cause our overall capex expenditure to go up. I would think it would tend to go in the other direction. But, Tony?

### **Tony Chanmugam**

Nothing to add.

### **Ian Livingston**

That's it. So thank you and we want to return about quarter to eleven. We have a rip-roaring programme then, we'll hear again from Tony, lots of chances for Q&As. All the sessions, I think have some very interesting things in. So if you can come back promptly, that will be tremendous. And thank you for listening and thank you for your time.