

BT GROUP PLC

Q4 2012/13 RESULTS PRESENTATION TRANSCRIPT - PART 2

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Cost Transformation - Tony Chanmugam, Group Finance Director

Slide 2: Welcome back. Liv has asked me to make certain that you are aware and you've had a look at her vehicles outside the building. These vehicles represent great strides that we've made in relation to cost transformation and how we've reduced the cost base of our vehicles and, if you want to ask the details from her, she's available and ready to answer any questions.

So, cost transformation. It's been the major, major foundation for what we have done, over the course of the last four years. We've focused on the cost base to give us the oxygen to be able to allow us to improve customer service and invest in the future of the business.

Slide 3: And in the space of that last four years we have taken out £4.7bn of cost, that's, effectively 25% of our cost base and we've done that by starting off by taking out, and you probably know the story, a lot of low hanging fruits. You know, you didn't need to be a rocket scientist to understand when you've got a single overseas supplier charging three lines of business different rates for the same service, coming out of the same location. You know, you don't need to be a rocket scientist to fix that. But what we have done is, we've evolved to do things in a much more forensic fashion across BT, looking at processes and process re-engineering and we are just starting on that journey now and we have plenty more opportunity to continue on that.

Slide 4: Why do I feel that? Well, if you have a look at our cost base, £14.9 billion capital cost and current cost, effectively one third of that is labour-related cost and I know our processes are disjointed. I know we've got opportunities re-engineer and I know it's across all the lines of business, differing levels, but across all the lines of business. You then look at your cost of sales and what we pay our other licenced operators for network-type charges, I know that our services aren't managed in the best way possible. We have got opportunities. Opportunities in terms of procurement, opportunities in term of re-engineering our networks, but it is and there are opportunities. I could work down the cost base, area by area, and you'll see I'll give specific examples of what we have available to us, but the key is the journey hasn't stopped. The key is there are plenty more opportunities for us to do this in a forensic fashion, over the course of the next three years.

Slide 5: More substantiation for that. 2008/9 we did some benchmarking with Mercer and we were viewed as fourth quartile. We've worked well across the cost transformation journey and in 2010/11 when the exercise was done, we were in the second quartile. We've taken further costs out, based on my assessment for us to get into the top of the first quartile and to look at opportunities that we've got in each area. So, for example, it might be viewed as we are best practice in customer care and sales, but we are well away, in terms of our marketing costs, our

network operations. To get to best practice, to get to quartile 1, there's probably, in each area, there's probably another £1bn. But, and this is the but, even in areas where we are viewed as green [first quartile], sales and customer care, I know that there are plenty of opportunities because being champions and number 1 in our sector, or number 2 in our sector in the top quartile, is not a great benchmark because the industry is not efficient in some of these areas. We have opportunity, real opportunity, in those areas. And so I believe that in the course of the next few years we can get to best practice industry wide, and there is plenty of opportunity.

Slide 6: So, let me go through some of those opportunities. What I'm trying to do is have consistency. We've got six key areas, if you look in the right hand side, it gives you the scale of that opportunity, over the course of 12/13, what we've just done, 13/14 coming up, 14/15 coming up. I'm not going to go through each area separately, but I'm going to talk to you generically and then give you an example. The process reengineering is about understanding and looking, from an end-to-end perspective, understanding the process from start to finish, understanding the volumetrics that drives the activities within that process, taking out the cost of failure, improving the quality of what's offered, which will improve the customer experience. Now, I've talked about, over the last year, what we did on Broadband T2R [Trouble to Resolve], basically, the broadband repair process across the business. I don't intend to go through that again, but the savings are, roughly speaking, about 30% of the cost base, virtually all delivered now, and it'll continue to do so. But in terms of new opportunities, if I look at Global Services, and T2R on there, so basically the repair process within Global Services, there are plenty of opportunities. Why do I say that? Well, if I looked at where we do that work, we do some of that work, we've give some of that work to third parties. We shouldn't give that work to third parties, it's part and parcel of the key IPR of this business. We will do that work, and we will do it cheaper, and we will do it more efficiently.

If I then look at, say, where have we got the work located within our service centres, it is in a fragmented fashion, without critical mass and we can rationalise that and we can put the centres into where you have got critical mass. Having centres with 20-30 people in it makes no sense at all. If you look at the way that the fault reports comes in, and the way the products are designed, it's not designed in a standardised fashion. You've got a lot of bespoke work. And bespoke means, it doesn't means bad from a customer perspective because that's why we are in the top right hand corner, as far as Gartner's concerned, but what it does mean is that we are providing services in an inefficient and an ineffective fashion. So the services won't necessarily be better, but they will be more efficient, because we do what we do well. If we do all of those things, I think we can get, roughly speaking, a level of 30% of the cost base, for starters, for starters, and there will be opportunities moving forward from that.

Slide 7: The second area. If I look at the organisational structure, now Ian talked about what's happening in relation to the dissolution of BT Operate. To just give you an idea of the scale, BT Operate was £1.6bn in cost, just over, had c.16,000 people, three quarters of which were BT staff, direct and indirect, 4,000, one quarter, third-party staff. Now the way that that organisation has been dissolved and re-engineered to be merged into the customer facing lines of business, such as Wholesale and Global Services and Openreach, Engineering work force in Openreach, Customer Services within Global Services and in Wholesale. And then re-engineered within the Operate division has been re-engineered into BTID to create TSO which Ian talked about earlier. What that's meant is, you take out the overlaps, you improve the process within the business, and you take out the duplicative functions] you had and the management structure supporting that business. You'll see the savings that we've indicated there is £100 million or so plus, simply in relation to the Operate-Design merger. There are further savings in relation to the other areas I talked about.

Slide 8: We have a number of initiatives that run through the group. Initiatives that may affect all the lines of business, or initiatives that may affect a group activity. I've talked about what we've done, in terms of travel and subsistence, you know, whereby we took out, roughly speaking, 10% of the cost base, just over 10%, to get down to just north of £100 million, we did that last year. But we still have opportunities. We sell services, as part of our Conferencing division, that we don't use as effectively as we should do. So, for example, the heaviest train line usage in the UK we

have is Newcastle to London. We don't have conferencing facilities in Newcastle, shame on us because we should do. We can do that, we can reduce the cost of what's incurred. We can do things more, we can do things much better by in terms of how we buy our services where we use Trainline a lot. The long and the short of it all is, on T&S, without simply doing an across the board cut, we can take out another 10% of our costs this financial year, and 10% is significant, it's £10 million or so, and I'm happy to sort of feedback to you on progress on some of these areas in my presentations quarter by quarter.

If I look at supply chain activities, you know, the supply chain that we've got is reasonable, but it's not best practice. We've not invested in the right way, in terms of systems. So what it means is we've got inefficient processes in there. If we do the right thing here, I think we can get 20% savings, 20% savings by taking out the failure, by consolidating things like buffer stock, by re-using stock, better systems will get us better output, I'm very confident about that.

Slide 9: Each line of business has savings and plans associated with that. This is just an example from Openreach. Liv will talk through in more detail on fault reduction, but I'll just pick up maybe one or two of the other areas. In Fleet, by re-tuning the engines of our vehicle fleet, we think we can, you know, using some new techniques, we think we can save 10% on fuel usage and, by the way, we'll also reduce our CO2 emissions by 20%. This will save us £4 million, and we'll do that very, very quickly. If I look at what we are doing in terms of network planning, we have c.700 people doing network planning. By looking again at how we do the processes, by changing the way that the shifts work, instead of having 3 and 4 day shifts moving to 5 day shifts, we think we'll take over 20% of people will be saved and we'll then re-utilise those people to do work that's been done elsewhere, outside BT, not all, but certainly some of them. So it's a real opportunity to improve the processes and then re-use the people and save money by re-using them as well.

Slide 10: In terms of our procurement, if I look historically at what we've done, we've done pretty well. But as each year progresses new contracts come into play, and we'll manage the strategic suppliers in that same fashion. So opportunities will come as contracts expire, but, and this is the but, there are a number of things that we don't do as efficiently as we should do. We spend about £700 million a year, with 10,000 plus tail suppliers. These are small suppliers with relatively small sums of money. We can consolidate that more effectively, we can rationalise what we can do and we can get better savings from that, as well as taking out items of unnecessary spend, real opportunities.

Slide 11: Ian talked about insourcing, and in the course of this year, we've insourced 4,000 jobs into the company and the principles underneath insourcing are very straightforward. In the first instance we think we can do those services better. In the second instance, we think we can save money by doing those services and producing a better product as a result of that. And thirdly, we are reutilising labour that's been feed up from our process activities. It make sense to do so.

Some examples. So, we've created new call centres in Sandwell, South Tyneside, Accrington and Belfast, by taking work away from third party suppliers, bringing those jobs in that instance, back into the UK, making more efficiency savings, maybe the blended cost might have moved up, but the efficiency has meant we've been able to make a net saving overall and the customer experience is better. In terms of facilities management, we've brought back in 1500 people into the company, and we brought that back in by acquiring Monteray, which was our service provider. We are going to take double digit savings out of that contract, and we've already started to do so. We are also paying the lower paid staff, instead of paying the minimum wage, we are paying them living wage. So, effectively what that means is, better quality service, staff being paid the right sum of money for the jobs that they are doing, and we are saving money. It makes sense.

Slide 12: The key point though is, on all of this, we've taken out £4.7 billion over four years. Hopefully, by giving you a feel for what's available out there, you'll get a feel for, we can do some more of this. There are plenty more opportunities, and I genuinely believe, if we discharge our actions well, we can make further savings of materiality.

Thanks very much. I'm going to ask Clive Selly now to join us. After Clive has finished, both of us will take questions. Clive.

BT Technology Service & Operations - Clive Selley, CEO

Slide 13: Thank you. Right, good morning everybody. My name is Clive Selley, I'm the Chief Executive of BT Technology Service and Operations, that's the new division of BT that's been created by bringing together BT Innovate & Design and BT Operate.

Slide 14: In this section of the business update, what I'd like to do is summarise for you what it is that this TSO division does within BT, talk about the achievements that the two divisions, individually, contributed over the past four years and then talk about what the challenge areas, the big objectives are for us, against our key priorities of customer service delivery, cost transformation and investing for the future.

Slide 15: So if I start then by just describing who we are, what we do and where we are, right? So TSO created 1st of January this year, the mandate is as follows: to architect, design, build and run the networks, the core networks of BT here in the UK and across the world; to design, develop, deliver, run the IT platforms of the company, again, across all of the lines of business of BT, and we are also accountable for all the technical elements of the major managed service contract delivery as well. So, where are we and how many of us? Well, we are very co-located in a number of large Global Development Centres, a number of those are in the UK, but we have new Centres, or relatively new Centres, in both India and Malaysia that are now growing fast. So in those particular locations, Bangalore and Kuala Lumpur, we are rapidly attracting high calibre local talent, and I'm very pleased with the results, actually, we're displacing third party resource in a ratio of about 2:1 consistently now, in those Centres. We have Global Operations Centres on four continent where, of course, what we are doing is managing the networks that underpin Global Service Delivery, again, for every one of the market facing units. And our research headquarters here in the UK, at Adastral Park, where we carry out the core of our research function. We have a very large extensive IPR catalogue and increasingly, our research model is a collaborative one. So doing ever more research with industry partners, the likes of Ciena, the likes of Intel, but there are many others, and also with leading technical universities. So we work collaboratively with MIT in the US, with Tsinghua in China, with Cambridge University here in the UK.

Slide 16: So a quick summary then of progress over the last four years, again, by our three big priority areas. On Customer Service, a number of achievements, but very key for me is this business of enabling customer self-service as the volume of transactions into this company grows. And we do this in two ways. Firstly, via very large scale industrial business to business gateways, where we trade with business customers and the CP community and also through customer segment specific portals, so the consumer, for SMEs, the wholesale customers, etc. . And just to give you a feel, those business to business gateways, or the biggest of them in Openreach are now transacting about 6 million transactions every day, every day. And then, at the other end of the spectrum, in the Consumer business, about 30% now of sales orders are placed on line through BT.com.

If I move to cost transformation, the two divisions, BT Operate, BT Innovate and Design together have delivered in excess of £1 billion of cash saving over the period, and that's been achieved through process reengineering, through large scale network rationalisation which, to date, has very much been focused on rationalising the global network estate and through these techniques, we are very pleased to have reduced our energy consumption for four years, four years year on year, and I do believe no other European Telco has done that and we have plans to keep that trajectory maintained going forward.

Investing in the future, a lot of work over this period on fibre broadband, the different orientations of fibre broadband. Similarly, on Ethernet we have engineered the UK broadband network with the right quality of service mechanisms to support multi casting of linear TV channels. So we are ready in the network to support the big TV propositions that Gavin has spoken to the world about

yesterday, and we've also increasingly been working with Global Services and Wholesale to engineer vertical solutions. So solutions that are more specific to the pharmaceutical industry, the banking industry, the supply chain industry, to make our proposition richer and beyond the level of just Telco connectivity.

Slide 17: So I want to take a look forward now. What does this next period present to us, in terms of opportunity and challenge? And let's start with customer service. In the core network platforms that support the core products, be it telephony, be it broadband, be it private circuits, over the period of 4 years, we have consistently reduced network fault rates, which of course, leads to service upset for customers and cost for our business and we've done the same, if you like, in reverse, with systems reliability, moving the reliability of our IT systems up inch by inch, to get a better and more consistent service out to customers. The plan, simply, is to do more of that, to keep the trajectories moving. So in the network space, very specific projects around improving the power estate that underpin our network, improving our spares arrangements so that when we get outages, we just fix them quicker, working with the network vendors to fix very specific faults in vendor equipment that leads to outages. And a similar story on systems reliability, where the engineering now is focused on how, when you get an individual component failure, do you keep the stack operating for customers and, of course, that's ever more important because of our 24 by 7 trading through gateways and through portals.

Slide 18: Right. Our fibre broadband products have been very well received by customers and the technology road map continues to support ever better fibre based broadband customer propositions. You will know that, on FTTC, we worked very collaboratively across the industry to get the UK band plan changed and that led to the doubling of speeds on our fibre platform. We're now at production trial status on vectoring, so that next evolutionary step on fibre to the cabinet is well advanced and that promises to take headline speeds above the 100Mbps level and we are right at the heart of industry wide collaboration, collaborating on standardisation and the preparation of vendor kit to support further evolutions in fibre to the cabinet space, or fibre to the DP space, in the case of the G.fast protocol. So there's a whole load of evolutionary steps in the fibre world driven by technology evolution that will raise the level of service to our customers in that field.

Slide 19: Let me move now to cost transformation and some of the opportunities and the challenges in that area. So with rapid growth of fibre broadband, and also a real change in the way customers are driving traffic, you know, the inexorable rise of video, what we see in the network and what we project forward for our network, is a very significant rise in total traffic across the core. So rising to 5.1 terabits we predict, over a five year period. So this presents a great challenge to us because it's about, technologically and commercially, how do you meet that demand and yet, not increase the cost base in the network. And our approach to that is fundamentally twofold. One is to reengineer the architecture of our broadband network. So we're going to simplify it, particularly in the market free area and also to introduce new technologies that simply deliver lower unit cost and incremental bandwidth. And just to point out a few of the techniques, we are introducing what is known as the multi service edge. This is about bringing the broadband network edge much closer to customers, so at about 1,000 nodes, rather than the 20 nodes that we have today in our network. This reduces cost, it also improves service reliability because it spreads the load over more nodes so there are fewer significant scale outages. We are also very advanced in the delivery of next generation transmission systems, the technology called dense wavelength division multiplexing. We just deployed and commissioned the first swathe of these new systems, and they deliver 100Mbps services through the core of our network. And to contextualise that, that's replacing systems that deliver 10Mbps. So it's Moore's law, and in this case, it's a times 10 capability. We are also refreshing our IP core routers and also investing heavily in content caching, because one of the ways that you deal with massively increasing amounts of video traffic is to cache it in your network, close to customers, so that video traffic is not moving across the entire core network for every instance of a customer ask. We are also removing, because we are re-architecting in our core sites, the electronics in the broadband network. So it's a combination of techniques, a technology refresh, leveraging Moore's law and some very fundamental re-architecting that will enable us to move the cost of bandwidth provision

down, in line with this very rapid increase in demand and it's that that's crucial to underpinning, you know, our promises around unlimited broadband for our UK customers.

Slide 20: This is another huge cost transformation opportunity for us. I think we've a decent track record over the last three years, with respect to the Global Network. We have three big packet networks, two of them as a consequence of acquisitions, so the Infonet Network, the Radianz Network, and then our core global IP Network. Over the period, and this all completes this year, we'll have moved from 3 networks to 1, as we migrate customers to our target MPLS network, and concentrate our global investment on that one core global network.

And now we are moving to what I think is an even bigger opportunity, which is the opportunity to rationalise network estate in the UK. And let me just illustrate what we are doing here, a couple of techniques. One is shrink older networks, as customers choose our new products that are resident, typically, on our new networks. So we are right sizing the older networks. Example here, PDH transmission. It's actually the biggest network, if you count the numbers of electronics boxes PDH network, 400,000 network elements in the UK. We are going to close 25% of those network elements in this financial year. Takes out maintenance costs, takes out a lot of energy consumption. Similar opportunities on the PSTN, going to right size it, take out some of the trunks, remove some of the remote concentrators. So it's a shrink to fit demand on those old networks. And then a bunch of networks we think we'll just close. The UK ATM network will close in the next 18 months and, as a consequence of withdrawing old broadband products, IP stream and data stream, we'll shut down hundreds and hundreds of old style broadband Muxies across the network. So very important work here to simplify our network estate, just massively reduce the amount of electronics we have to own operate and spend energy on and investing in that new technology to ensure that that which underpins Ethernet, that which underpins new broadband, particularly fibre broadband, gives us the cost point that we need to meet demand growth.

Slide 21 OK, and then, of course, there's investing for the future. Broadband, fibre broadband, right at the heart of that. Working very closely with Openreach colleagues, as I said earlier, on the G.fast standard, but there's a lot more to this than just the next evolution of that particular standard. Picture of a pub here, this is the Plough Inn, it's in Sutton, it's in Suffolk and the landlord serves a very fine pint of Adnams, but he also makes it very attractive to customers by offering them free wi-fi and that wi-fi is served by BT over an LTE backhaul to the BT network. So we are looking at niche applications for the use of LTE, both in the access and in the backhaul, we are looking at pair bonding, we are looking at signal regeneration techniques, and we have to do this as we move to addressing how we deliver superfast broadband speeds to rural communities.

Slide 22: TV - another big area of focus for us in TSO. A lot of preparation work gone into the network. So, right now, we have the ability to multicast a thousand event points in the network, 150Mbps worth of content in linear channels. All of that is being upgraded right now, it will complete this summer and then we'll have a 500Mbps capability, and this is all in support of channel growth that we may wish to leverage for our consumer proposition. Also done a lot of work, and continue to do a lot of work, on engineering for great quality of service, such that the picture quality for customers is spot on, so we are using application retransmission techniques to ensure that, where we drop packets, and IT networks always drop packets, then we retransmit and we guarantee that great picture quality to customers, and you will note please, also that all that we are doing in TV is essentially multiplatform. So we will deliver service, the kinds of services that Gavin is talking about later, over the YouView platform, over the Vision2 Platform, to customers via the Sky Satellite platform, and also to a range of digital platforms. So, Microsoft platforms, IOS platforms, Android platforms, either through streaming or through the download of an app.

Slide 23: And then, finally, IP Exchange. I'm really proud of this product because, four years ago, this was a bright idea from the labs and it was a proof of concept. And what is it? Well it's just an exchange, on one level, but it really does leverage the fact that we are in a period of big transition between IP worlds and TDM worlds, and operators have the issue of converting traffic between

the two types and in the IP world, there are a very large number of associated protocols and protocol variants. There is an opportunity for players who offer exchange capability, the ability to translate from one standard to another standard. Now that lab trial is now a £100m product. We've deployed network in support of this product, across the UK. On the back of great success in the UK, we've built nodes in Asia, Singapore, nodes in the US, starting with Miami, we are looking at the case for a Middle East node right now. Revenue is growing fast and we have early mover advantage, and we are going to maintain that through footprint development, as I've just outlined, but also through feature development, and I thought I'd just give you one example of that. HD voice transcoding. So, in this world, there are handsets that support a variety of HD voice standards, but they don't all support the same HD voice standard. So we are going to deliver a capability that's network embedded to translate between different HD voice standards, and that's a value added service that IPX customers will enjoy.

Slide 24: And finally, we are the home of the research unit of BT, based at Adastral park, but operating around the world and, of course, as a consequence of a long heritage in research, we have a very significant stock of IPR, we have about 4,500 patents. Our core purpose is to generate IPR to downstream into products and process improvements in BT, but we also sell some of this IPR, or we license some of this IPR. You won't be surprised to learn that the core of what we do is focused on network and the exploitation of network to the benefit of customers, but we are also research actively into areas that we believe will underpin growth propositions. So, increasingly, we are generating IPR in the world of TV and video, we also have some interested IPR now in the world of security. And for us in BT, when we are out with major enterprise customers, the CIOs very, very interested in how do they protect their IT estate, their customer data and we have IPR in that field that is being built into new propositions in the security arena.

Slide 25: So to summarise then, TSO is the technology division, essentially, of BT. Because we now look end-to-end, we are across the lifecycle, from architecture through design, through build, through run, we see more end to end than we did as separate divisions and, through that, we will deliver more service improvement for our customers. We continue to target our cost base, we see very significant opportunity to do that, and I hope I've given you some idea of some of the areas. We'll do it through process reengineering, we'll do it through aggressively reducing the cost of incremental bandwidth in our networks, and we'll do it through rationalising what is a very large and diverse network estate. And, of course, whether it be TV or fibre or IPX, we are very focused on underpinning significant growth opportunities for BT with the right technology oomph. As ever, and as Ian likes to remind us, there is more to do. Thank you very much.

Slide 26: Thanks Clive. We've got now 15/20 minutes of questions. So, are there any questions?

Q&A on Cost Transformation and BT Technology Service & Operations

James Britton - Nomura

Tony, you talked about a potential 30% further reduction on costs. I'm trying to understand how that reconciles with the £200m that you're going to achieve over the next two years? And then, Clive, I just wondered what your perspective was on the EC's guidelines to help reduce cost provision across European markets. Do you think this is in any way relevant to the UK, and does it improve the business case for fibre to the home on a five year, or a medium term view?

Tony Chanmugam

OK. On the cost, what I said was that we've achieved £4.7bn, 25% historically. We need to do another £1bn, in my view, to get top quartile in each of the elements of the sector. I think there are further savings above that because the sector is not the most efficient sector in the market effectively there's opportunities in areas like customer service and sales. So all I'm saying is that there are plenty of opportunities moving forward and trying to give you benchmarks in terms of individual areas.

Clive Selley

OK, so let's talk to the fibre to the home thing. I think our position on this is fairly straightforward. If rules set to change by the EU that encourages us to look at evolutions in our fibre deployment at a different pace, then we'll respond to those, if there's an economic incentive to do so. What I see technologically, though, is there's huge opportunity out there and massive industry and vendor action to provide us with a road map that gives very significantly increasing speeds, without yet moving to fibre to the premise in a big way. Our response on fibre to the premise, of course, is fibre to the premise on demand. So we have moved the dial on that one very significantly. Can I ask Liv to offer.

Liv Garfield

No, no, good answer. I guess the only two things to add to that is fibre on demand does go live across the entire estate, as Clive says, during the course of the next 12 months, so that gives you FTTP by choice, so if anybody wants it, they can have FTTP, that's new news. If you look at other European operators, they are looking at similar things to try and understand, to replicate some of those new product innovations and then if you look at what Clive is bringing out in terms of future fibre technologies, it's around, you know, G.fast almost avoids the need to put the fibre to the premise straight into everything I own, because what you have is a combination of new technology that brings you mega speeds straight to homes that need it, so in the mixed economy, other homes may be happier on FTTC. But I think, you know, as the world has continued to evolve, you've got to look at the EC recommendations on current fibre pricing and then Clive showing you a future world, 5 to 7 to 8 years down the line, in the technology term, you've got to be careful not to merge the two probably.

Steve Malcolm again

Quick question on vectoring, just sort of interested to hear your thoughts, how are your thoughts on vectoring developing. I guess we've seen DT getting approval for it in Germany, and what do you think are the implications of deploying vectoring are from an unbundler, I'd be interested to know. And secondly, just to come to that benchmarking, I think we'd all agree that the European Telco sector is not a great benchmark on pretty much anything, given their recent operation share price performance. What are the benchmarks you're looking at, you know, going forward and is there a danger that you could perhaps cut costs too far in some areas, you know, looking at the precedents across Europe with some companies.

Clive Selley

So, vectoring is arriving, you know, so we are at production trials, we are proving our production equipment. Vectoring is one of those evolutions that will now happen. Unbundlers, and what it means for unbundlers, could you say a little bit more about....

Liv Garfield

So I guess we think the Germany decision is an interesting decision. It's something that I guess, I'm sure Ofcom will be looking at, and they'll be taking that and factor that in. Our understanding is, and Ofcom's latest consultation, which comes at the end of May, they might give some statements regarding their sense around vectoring and SLU going forward. We will be reading that with interest, and obviously, we stick close to all our fibre roll out projects globally to try and make sure that we're learning and sharing ideas and thinking about with players like DT. I think it's of interest, I think it's no more no less of interest.

Tony Chanmugam

Steve, in relation to your cost question, the first part is, yes, there is a danger, there's a real danger, but and it's only a but, when we look at costs, we don't start with costs, we start with what

do we need to do to improve the service to improve the efficiency of the business, and if you start with that premise and then look at taking out the cost of failure, which is what Ian referred to, then you're focusing on customer service improvement and reducing the cost base accordingly. Second part point, and your question was really in relation to other benchmarks. And, you know, if I looked at the retail sector, for example, and looked at customer service in the retail sector, we are a number of points away from there. There are just so many opportunities and we see collectively, as a management team within our business, simply by, for example, comparing the performance of our call centres between the different lines of business, there's major, major opportunities. You know, we have things like, you know, even in our most efficient business, we have shrinkage in one of the call centres..., well several of the call centres of 40 points, and we know that there are things that we can do there. So, you know, it's not the lack of..., it's not the opportunity problem that's an issue for us. It's the ability to discharge.

Mandeep Singh - Redburn Partners

Just back to the costs point, I mean, you've taken out £4.7bn over the last few years. You talked about a billion to get the benchmark versus the Telecom sector and then, perhaps, going beyond that. Is it fair to say that, over the next few years, the opportunity to reduce cost is a fraction of what you've achieved in the last two years, give us some sort of order of magnitude?

Tony Chanmugam

What I wanted to say is that, well I gave you those numbers, that's assuming everyone stands still. Now, I should have made it clear the market moves on, people get more efficient. So that is going to be a factor on top to reflect that. In terms of further opportunities, and how quantification, what I'd say here is that you've got to understand there's a number of different dynamics. So if you're looking for simply modelling £4.7bn again for the next four years, life's not that simple because we're in a situation now where our revenue position is materially better, the cost of sales element of that will be different. But what I would say is, in terms of underlying efficiency, we've got a material, material opportunity. You know, and the opportunity in relation to the efficiency component is no smaller than it was. It's going to be a little bit more difficult, not a little bit more, much more difficult to get to because we've taken out the low hanging fruits. But the opportunity is material.

Wilton Fry - Merrill Lynch

A question for Clive. I just wondered if you could give us an update on the white spaces project where you are working with the Microsoft Consortium, obviously, that would be something you could use in the Cloud perhaps.

Clive Selley

You are talking about TV white spaces?

Wilton Fry

Yeah, correct.

Clive Selley

So, we've trialled TV white spaces, particularly interested in it in a couple of applications. One is in as a rural broadband infill technology, but also looking at its potential in kind of machine to machine applications. So, you know, it could have been on the list, had I put it on the list for the areas of research, so it's something that we are actively working on. The fact that we now have LTE spectrum does alter the way we look at it because we have an alternative wireless mechanism now, through licence spectrum.

Wilton Fry

Are they surely not complimentary, in that you can use the 2.6GHz for short distances and there's low frequency TV for rural ...

Clive Selley

Yes, they absolutely can be complimentary, but in some of the application areas that we had in mind we think LTE will be the most appropriate fit. It is an active area of research, we've run trials, you know, field trials, not lab trials. So it's still very firmly on the agenda.

Simon Weeden - Citi Group

Just on, you touched on PSTNs in the context of asset retirement and simplifying and cost reduction. So I just wondered if DT has, not in Germany, but in Eastern Europe, has just retired it's PSTN exchanges, converting customers to essentially all IP. Can you just give us some context about where that sits in your plans, in terms of timeframes, what you might be able to save as a result of that, over the long term.

Clive Selley

Yeah, OK. I think there's a few things to say on PSTN, one is that it is actually a super mature, super reliable way of offering telephony service and, over the years, we have become a lot more efficient at running it. So a priority for us is to take cost down, I've talked about shrinking the network, there's also process work to do to learn how to operate it more cost effectively. We are underpinning its future, as it becomes an ever smaller network, through to 2020 and we are actively looking at the alternatives for, you know, its successor. So actively looking at the different technological solutions to delivering cost effectively and with a great service, voice that is IP based, actively doing that.

Simon Weeden - Citi Group

[inaudible]

Clive Selley

No it doesn't mean that. It means that we are being sensibly conservative about making sure that, if there were to be any of it around in that timeframe, it is fully supported by the relevant vendors .

David Wright - Deutsche Bank

A couple of questions please. First of all, can you talk a little bit about home spot wi-fi and, obviously, you've got the whole FON agreement which gives you 5 million or so, I think, hot spots it is. How you are seeing usage across that particular part of the network developing and how do you see that evolving, in terms of the proposition to the customer? That's question 1 and then the second one is just on cost of content. Obviously, you set up production of BT Sport etc. , does that scale up quite easily? If you bought more content, it's a very little incremental cost now that you've got everything in place? Or for the next couple of quarters if you can give us some... .

Clive Selley

So let's talk about wi-fi. So wi-fi used by our customers is rising, and rising rapidly. It's rising not only in the context of its use in the home, there's a number of customers, who are BT customers, who then use our wi-fi via hot spots around the country, is increasing. And there's, I think Gavin pointed out earlier, where we get active use of our wi-fi service, particularly by people outside of their home, we get much stronger retention, and I think there's a correlation with them taking more of our products. So we see wi-fi as being very important to the bundle of services that we offer. And it will influence then how we use LTE as well, because, in a sense, we are already offering a

mobility capability, and we need to figure in the detail how the two will complement each other to build for a better mobility offering for customers in each segment. Gavin do you want...

Gavin Patterson

Wi-fi is critical to our proposition. We don't break out being home versus out of home, but I can assure you they are both growing rapidly. So it's up about 300% year on year, in quarter 4, or three times is probably a better way of putting it, not quite 300%. And I see that continuing to grow. So we've just launched a 802.11X, which gives you automatic authentication. So instead of authenticating every time you find a hot spot, if you go in once, it will just pick up the hot spot when you are out and about. That will drive usage significantly, we are very confident about that. We've seen that in the early stages, you'll continue to see us innovating on the Home Hub, I've got a little demo to show you later, of the latest Home Hub we've launched this week, which is a world first. There's more to come on that later in the year. So wi-fi is fundamental to our proposition, we've always taken a leading role. It's probably about the best wi-fi network in the UK, so it's in our own estate and then also partner in with major corporates as well, and they share retail.

Clive Selley

I mean, there is another context for wi-fi as well. Where our customers use One Voice anywhere, or SmartTalk, outside of the UK, over whoever's wi-fi, and use those voice applications supplied by BT, but over a third party wi-fi, and that's a very value rich proposition.

Tony Chanmugam

In terms of the content, we've spend, roughly speaking, about £1 billion, over the last..., and that's what your budget has gone in. Are we going to spend some more? Potentially... Are we going to spend another £1 billion? No. Is the number held within our forecast and our guidance? Absolutely.

Gavin Patterson

And if you ask, does it scale from here, yes it does. What you heard from Clive, if the network is built to carry it, and with growth factored in as well and, in terms of the studio that, hopefully, you'll get a chance to look around at some point, when we've finished building it, we took some people around the first stage of it yesterday. You'll see, it's a phenomenal studio space, it gives us huge flexibility for programme making 24/7 for the three channels that we'll be offering, but we could expand it more if we wanted to.

David Wright – Deutsche Bank

I think you gave 2016 guidance broadly, within this presentation. If we are not going to add another £1 billion of content, then you're implicitly not going to increase your bidding for Premiership rights in 2015.

Tony Chanmugam

I'm talking about the guidance up to 2015 because, effectively, what we've done, is we've given guidance on a three year timeframe, we are into year 2 of that, within that window.

James Ratzer - New Street

Yes, thank you, I'd like to slip in two quick questions. First one was just wanting to understand how to think about the impact for inflation on your cost base, I mean, £1 billion out of your total is kind of 6% or 7% of the cost which over two years at current inflation run rate, will almost

swallow that up, just wanted to understand how do you see inflation impacting your cost base. And then the second question which is looking holistically at your base, I mean, you've got 15% you said in capex, you've given guidance for that to be stable. Another 35% in POLOs and cost of sales, which I thought is hard to reduce without directly impacting sales, which leaves really personnel as the bulk. I mean, is it fair to think that cost reductions in the main, over time, still has to come from reducing head count? Thank you.

Tony Chanmugam

OK. In relation to the second part of your question, for example, if you look at POLOs if you look at how your network is configured, and if you look at how that network is utilised, you can reconfigure your network, simply in terms of putting in new nodes, taking out the long lines you've got, renegotiating the supply arrangements, we can make material inroads into the cost base in that area, I've no hesitation, no doubt associated with that. In relation to the question on inflation, when we talked about cost savings, historically, I've ignored the fact that there is inflation in there. So I've said, I'll take out £4.7bn generally, which swallows the impact of inflation. We will swallow the impact of inflation going forward as well, and when we talk about cost savings of a billion, the billion is in relation to where it is now. If inflation comes along, we'll swallow that, in terms of further efficiencies.

OK, thanks very much. If I can now hand over to Gavin Patterson, the star of this show.

BT Retail - Gavin Patterson, CEO

Slide 27: Thank you. Right, good morning. So, for the next 30 or 40 minutes we are going to look at BT Retail.

Slide 28: In terms of what we are going to cover and, I think most of the line of business presentations will follow this sort of pattern. A quick reminder of who we are and what we do. We'll look back over the last four years and give you some sight of the progress we've made, and then we'll look at the three elements of the Group strategy, through a Retail lens. So customer service, cost transformation and then investing for the future.

Slide 29: Just to set the scene on what BT Retail is, for those of you who haven't come across it before, four Business Units: BT Consumer, BT Business, BT Enterprises and BT Ireland. The revenues are split roughly 50:50, B2B (Business to Business), B2C (Business to Consumer). I know we spend most of our time talking about B2C, but there is some very interesting B2B business in here as well, profits split roughly the same way as well. In terms of our market position, we are about 40% share of calls and lines in the consumer base; about 37%, it can be higher depending on who you look at, roughly that size in the business market; 31% share of the broadband market, including cable. Significant customer base of over 11 million, 6.7 million broadband customers, about 0.8 million TV customers. Our greatest assets, in many ways, is the brand, the very strong and trusted brand across the UK and around the world, and that was enhanced further with our sponsorship of the Olympics last year.

Slide 30: So, over the last four years. The picture is an improving one, on both the trend on revenues, where the decline in our revenues has reduced year on year and, as you heard earlier, in Q4 we were flat year on year. But the EBITDA story is one of consistent growth over that period as well and that, fundamentally, is being driven by cost transformation. So, what you've been used to seeing from us is consistent quarter on quarter reduction in our net operating costs, and we've been using that to drive our profitability. In addition to that, the underlying customer matrix is improving, and to give you a taste of that, in terms of our line loss, the rate of line loss, in both the consumer business and BT Business, is reduced by over 40% over that period. That said, we are still losing customers and so there's a real opportunity still to go for. Our ARPU in the Consumer market up 27%. We've added 2 million broadband customers, our customer base up 40% in broadband. Over 1.3 million of those are now fibre, that's growing rapidly. The TV base has roughly doubled in size, so you get a sense that, while cost transformation is really very important

to us, the underlying customer matrix which will drive revenue growth, has been moving in the right direction, which is why we've got to a point where we've been flat in quarter 4.

Slide 31: From a strategy perspective, we followed the same strategy across that period, and as I'll tell you in a minute, this is the strategy we will continue to follow in the years ahead. It's based on customer service, getting to number 1 for customer service, being known for that across the industry, investing in our people, making sure our cost base is right by removing failure out of the system, by simplifying and standardising our business model, and then using that to create a platform to grow and focusing on two areas in particular, reducing those customers losses, particularly through bundling, investing in broadband and fibre and wi-fi being examples of that and also growing into new markets. There are a number of adjacent markets that are great growth opportunities for us, mobility and IT services being two that Ian talked to earlier. Conferencing is a unit that sits within Enterprises that's got great growth opportunities, particularly in Latin America and Asia Pacific and, of course, TV.

Slide 32: Right, customer service. Progress, but could do better, I think is the summary here. If you look at the underlying matrix, be it in Consumer or Business over this period, be it Net Promoter Score, so the likelihood to recommend, be it One Contact Resolution, how many calls it takes, or how many interaction it takes to address a customer's query or fault or complaints, all three of those matrix have been proved. However, we recognise we are not yet number 1 in the category, and that's really where our ambitions lie. So we've got more to go for here. You'll see us continuing to invest going forwards. We work on a concept around how easy it is to do business with us. We recognise that is one of the key things our customers are looking for. Indeed, it is probably the customer service matrix that correlates best with revenue growth over the long term. So a lot of our investments are focused on that, and we measure that with every single interaction, across our customer service. So the sort of things we are investing in there include things like, in the IVR, voice recognition, recognising that customers hate IVRs, and so the less time you spend in it the better, and that's got a significant improvement on Net Easy when we've done that. Looking at Early Life, how can we simplify the Early Life journey, reduce the number of times that people have to call us through that. Diagnostics, you know, building diagnostic capabilities right into the premise, be that the home or the business, obviously with the customer's permission, that allows us to more accurately assess the route of a fault and so we are able to resolve it faster with fewer interactions. They are all examples of that. And then in the business space, we are half way through putting through a completely new customer management system which will allow us to more efficiently serve our customers, but also be able to serve them in a 360 degree basis, and there are great efficiency and effectiveness benefits coming through on the back of that.

Slide 33: And cost transformation is inextricably linked to customer service for us. As Tony made the point in the Q&A, our cost transformation programme, which in Retail has been going on for 7 years, so it gives you an indication of how far you can actually go with this, but it is inextricably linked with service. So it's about removing failure out of our processes, failure out of our customer service journeys and to try and make things simpler for our customers. So, in terms of some of the colour that we've been, in terms of the programmes we've been working on, Agent.com is a very good example of this. This is a new front end to our CRM in the consumer base, that takes out a lot of the complexity for the agent, it's built on the same infrastructure as BT.com, and so it gives us great economies of scale. That's one we are doing at the moment. The engineering visits are down 60%, Tony used that in his presentation, so I won't dwell on that. Automation is a significant trend for us. So we have an opportunity to increase the amount of automation that we've got in the sales journeys in particular. There's opportunities in debt, we've made great progress on debt management but we know we can push that further, in terms of debt and aged debt going forwards. And then, as I mentioned earlier, systems, particularly in the business space. A significant investment, but with a great pay off at the other end of it, and we'll see both cost and customer service improve on the back of that.

Slide 34: OK, I'm now going to go into the Business Units in more detail, starting with Consumer, and really trying to focus on the growth opportunities that each of them afford us. So to set the scene in the consumer markets, the position I think you'll know, very strong position in calls and

lines, a strong and growing position in broadband, great opportunity to grow in TV, very competitive market place, significant number of players across the UK. Demand for speed is increasing. So over this period we are talking about, the average speed, according to Ofcom, has gone up threefold and, if anything, we see that accelerating at the moment. The market is increasingly about triple play. So triple play has gone up 60% over this period and, as we talked earlier in the TSO presentation, wireless data growth particularly wi-fi, it's exponential at the moment, and that really affords great opportunities for us in smartphones and tablets in particular.

Slide 35: In terms of how we've been doing in the consumer market, as you heard Ian talk about earlier, we are flat year on year in Q4, which is the best performance in five years, a real step up there, and that is something we intend to continue moving forwards. Our strategy is fundamentally built around driving fibre. We see fibre as a fantastic enabler for our business, not just for the broadband services that hang off it but, increasingly, as we move into TV, it allows us to open up fibre, I think, to a whole new group in the market place. It's also about investing in differentiation on those core products and services around broadband. So, for example, this is the Hub 4, which we launched on Tuesday. This is dual band wi-fi, and what that means is you get less interference in the home, you get better coverage in the home. It's a world first. Handily, it will go through most letter boxes, like that, so saving on delivery charges at the same time. And so, that's just an example of how we continue to innovate on the base business. BT Cloud, which we launched a couple of weeks ago, is another example, which allows you to access your content anywhere, from any device. Be that things like photos or files, it's a free service that's part of our core proposition. So it's about innovation and keeping that product fresh and right ahead of the pack. And it's also about using Plusnet. So we've got two brands that we operate. Obviously, the BT brand is our primary brand, but we also offer Plusnet which wins awards, mostly awards on customer service, it's focused on price and quality, but also it puts a lot of reliance on self-service in particular, and that continues to do extremely well. And this combination of the two brands, BT on one hand, Plusnet really competing at the value end of things, allows us to really cover the market and fight on many fronts. The goal, our ambition in the consumer market, and I think this was made really clear this morning, is to grow both the revenues and the profits consistently over the medium term, and that's why we've been investing in things like fibre and TV.

Slide 36: But if I start looking at the core business and how that's been performing, the underlying performance has been improving, but as I said, we are still losing lines, but the rate of line loss has reduced significantly. In terms of how we have reduced that over time, bundling has been very important to us. So, at the start of the period that we're looking at we didn't have the opportunity to bundle. We got the regulatory freedom at the beginning of this period, and now it is by far the most common form of package that customers take when they buy new services from us. So 80% of our broadband base take a bundle now from us. It's also about creating a more predictable revenue stream. So increasingly customers have chosen to take unlimited packages from us, things like Anytime, which has been our unlimited geo package, extremely competitively priced in the market. We've recently added Anytime Plus, which gives you 50% off fixed and mobile calls, which has strengthened that package even further. For us, that gives a predictable revenue stream, and we find that customers use our network more when they are not counting the minutes and so I think that's got to be good for the customers as well. And then finally, I think Ian stole my line on this one, SmartTalk launched a couple of months ago, 150,000 customers downloaded it. It's an application that sits on Android phones or Apple phones, that allows you to get access to your core package for free. So if you are on Anytime calls, that means when you are out and about, in a wi-fi hot spot, if you use SmartTalk, you get free calls, simple as that. What's interesting about it as well is that it also seems to stimulate usage in the home for the fixed line. So what we have seen is that customer use their fixed line more when they've downloaded SmartTalk. It seems to create more of a network effect.

Slide 37: Looking at the core broadband business, as I said, we've added 2 million customers over this period. It had been about investing in that core product. I've talked about BT Cloud and the Home Hub. The unlimited service that we've recently launched on copper in February is doing very well for us. It addressed one of the weaknesses we had in our portfolio versus Sky and TalkTalk, and now we have a totally unlimited proposition in the copper market, and that's doing

very well, addressed one of the reasons why customers churn. Wireless is very important. Over 5 million wi-fi hot spots now. Minutes, as I said, trebled in Q4; and 4G, as we talked earlier in the presentation, in Ian's presentation, affords us a great opportunity to strengthen that proposition even further, with an inside out proposition on 4G. Plusnet, as I said, extremely successful at driving price, competing at the low end of the business, wins a lot of awards on service as well. So I think you get a sense from this, it's about being competitive on your core business in order to ensure it grows over the long term.

Slide 38: Moving on to fibre. Fibre has been a great success for us, but we still think we are right at the beginning of the potential of fibre to BT Retail. We created our own sub-brand, BT Infinity. That has allowed us, I think, to really steal a march on the market, we've strongly advertised it, we've created the segment. The product itself, we've innovated on, we've doubled the speeds in the last year. It delivers 8 times the average that you get on a copper network and, most importantly, it delivers that consistently by time of day. So, if you look at the latest Ofcom research, released in March, it demonstrates that 90% of our customers get 90% of their speed, regardless of the time of day. And if you contrast that with cable, only 35% of their customers get their headline speed in the busiest part of the day. So it's about consistency of delivery, not just simply the headline speed itself. It's competitively priced, it's an easy upgrade path for our customers and for us, as I think we've talked about earlier, lower churn, higher ARPU's, better customer satisfaction and an enabler for a whole slew of other services, particularly TV.

Slide 39: Which moves me nicely on to our TV business. So, the most important thing I want to really establish on TV is, we are not trying to build a standalone TV business in itself. We've gone into the TV business because it allows us to sell fibre, and opens up the market to fibre, to a whole new group of customers who, frankly want to buy their services from one supplier, and will only look at you if you've got a great triple play proposition, and TV is very important to it. So that's the way that we look at this business. We've been investing over the last 12 months, and I think we've got a very compelling proposition now that covers all the bases that we need. Fundamental to it is YouView. YouView is the platform that's supported by all the major broadcasters in the UK. It's Britain's free TV platform. We've added to it, what's key to it I think, is that it's got an EPG (Electronic Programme Guide) that operates both forward and back, and when you go back in the EPG, you can go right into the 'on demand' content, and that is a killer proposition for customers, and you can see it coming through in the customer satisfaction data, and you can see it coming through in the awards that YouView is winning, it's won five awards since it's been launched. We've added popular channels. So we've added them to our Vision 2 service, the existing service for customers over the last quarter, you'll see us adding them to YouView over this quarter, so it's broadcast channels, they are all familiar to you, Comedy Central, MTV, Discovery, Nat Geo, this type of channel. There's 22 of them. We are scaling the network to take more. Many of them are available in HD. We've got an exceptional VoD catalogue, very strong on first movies, kids, music in particular, box series, – got over 5,000 hours of 'on demand' content to supplement the players that the PSBs offer and, of course, sport, and I'll talk more about sport in a second. Who are we aiming for? There are two discrete groups of customers we've focused on. Freeview upgraders - there are 12 million homes in the UK that don't take Pay TV at the moment. Interestingly, Pay TV is under developed in the UK, compared with many other markets, particularly the US. It's only half the customers in the UK that take Pay TV and that's considerably less than in the US. And what YouView does, I think, is allow us a very simple upgrade path from Freeview for those customers who want a little bit more TV but don't perhaps want to be spending a lot on it. Then the second group we are interested in is the Basic Pay TV customers. There are about 6 million of these. They are taking basic TV services from Virgin or Sky, typically, £20 to £25 a month, and we offer a very good value way for customers to get much of that content for a fraction of the price, so our pricing starts at about £7.

Slide 40: Which takes me on to sport, which you might have noticed we launched yesterday. Just to remind you of why we've launched a sports channel, or a suite of sports channels. Sport is the single most important area of content to customers, in terms of 'must have' content here in the UK, and you can see that from the chart on the left hand side there. So having a strong proposition in sport is one of the factors that really influences what supplier a customer chooses

for that triple play service or, indeed, a combination of dual play. In terms of what we've done, we've created a service, I think, from rights that cover a number of sports, obviously, it's very strong on football, with 38 Premier League games, 18 of those are first picks. So that sometimes gets lost in the way people look at this. First picks mean you get the first game, you get the choice of the first game in any one weekend. This is the first time that anybody in the market has got first picks, apart from Sky. So, there've been other players who have tried to make a TV business work in sport, but none of them have had first picks, and we are the first company to have got those. We've supplemented that with the FA Cup, Europa Cup, the premier leagues from France, Germany, Italy, Brazil and the US and Australia, if you're particularly interested in that. We've got exclusive coverage of the Premiership Rugby, the Aviva Premiership Rugby in England, 69 games, so that will only be on BT Sport, with a similar package in France and, obviously, a number of English players play over there. We've added tennis to this. So we've got coverage of the Women's Tennis Association, we've got women's sport, we've added UFC, I know one or two of you in the audience are UFC fans. And we've also added, and announced yesterday Moto GP, so motorcycle racing, which will be exclusive to the channel. So the take away from that is, you know, this is a high quality set of rights, and we are going to be putting the right programming to really bring it to life. And we've invested in talent, we've invested in people who've done this before to build and run the channel. So we haven't relied on our exiting telco experts to do that, you'll be pleased to hear. But we've also invested in talent to present the shows themselves, and really develop the programming. And so, Jake and Clare are going to be two of the key people on the channel, but also Lawrence Dallaglio and a suite of other experts and pundits, both current and retired professionals. So our ambition is to make this a really high quality product that stands up very well in comparison with Sky Sports, but we want to make it different, we want to make it more inclusive, we want to make it more interactive and we want to make it more fun. One of the things that really came through, I think, in the Olympics is, people want to watch sport in a different way, they don't want it to be quite as clinical, shall I say, they want something that's a little bit more entertaining, don't always take itself so seriously. Something that's much more interactive and that's what we are trying to build with the channel.

Slide 41: How do you get it and what's the pricing? I think you probably got this from yesterday, but I'll repeat it any way. It's free. So it's free to anybody who takes the a BT broadband service, regardless of the TV platform. So if you are a BT broadband customer, today you'll get it for free. If you want to watch it on our platform, either of the two platforms we offer at the moment, you'll be able to get it for free. If you want to watch it on Sky, you'll be able to get it on Sky for free. So it will be in the EPG, you'll just be able scroll down to it, and be able to watch it for free. You'll have to contact us so we can provision it and we'll use that as an opportunity to try and switch you back to BT, but not necessarily. But you will actually be able to watch it for free on Sky as well, and that's really important. In terms of what we'll be offering there'll be 3 channels, BT Sport 1, BT Sport 2 and ESPN. ESPN will carry a lot of the American sports, which have a strong following over here. It's also worth noting that, if you don't want to take a BT broadband service, you will also be able to get access to it. It will cost £12 on SD, and £15 on HD, if you want to watch it on Sky that way.

Slide 42: How do we make money out of it, which is always the question, when you give something away for free. This tries to summarise that. If you are not a BT broadband customer, or if you are not a BT customer at the moment, this allows us to establish a new billing relationship with you because we will be doing the retailing over the satellite platform, and that is the start of a conversation that allows us to win back the line, the calls, the broadband, ultimately, generating new revenue. If you are existing BT customer, but don't take broadband from us, obviously, we'll use this as an opportunity to sell you broadband, probably fibre, ideally, it allows us to grow ARPU, reduce churn more revenue and, for existing BT broadband customers, obviously, it reduces churn, if you are an existing fibre customer, if you are not a fibre customer, we'll try and sell you fibre, you get the picture. The net of this is we will judge the success of this launch based on the results, in terms of its ability to grow top line and bottom line, for the Consumer business over the medium term. It's also worth mentioning pubs and clubs, one or two of you picked this up, I saw in notes overnight. The pubs and clubs market is a very interesting one. Obviously, pubs have been declining, the price of sports, watching sports in pubs has, we think, partially

contributed to that because it is very, very high. We've launched a package that will be significantly cheaper for publicans, on a like-for-like basis, 80% cheaper, and a number of you picked that up. So that's, I think, a way of further monetising the investment.

Slide 43: OK, that's Consumer. I'm going to now talk about BT Business and to start with frame the market itself, similar sort of pattern to Consumer, very strong on the fixed voice and data side of things, but with great opportunity to grow in mobile and IT services. The markets themselves are very fragmented, but I think the most important thing for me is that the conversation that you have with the buyer in these markets is such that they want to have a conversation across all three of these different segments. So there's a great cross selling opportunity for us. Our goal here, again, to be market leader for service, more to do in that area. Defend that core customer base and then grow into IT services and mobility and the importance on the services side of things is we are not really interested in just re-selling hardware. Our focus, primarily, is to sell services on the back of our network, and that is the area we are particularly interested in growing.

Slide 44: A quick reprise on what's been happening on the core business, similar sort of pattern to Consumer, in many ways. Line losses have been reducing. This is the, I would say, the part of BT's market which is probably the most sensitive to the economy, particularly employment. So we've been holding share even though our market, our line loss has been reduced, the market has been reducing as well. We've also been able to retain the number of minutes per line per day with each customer. So we've been holding our position reasonably strong, key to that has been bundling, investing in broadband and leveraging the fibre investment in particular.

Slide 45: Looking at the IT services opportunity, performance in IT services has been a wee bit mixed over this period, so we've tended to go up one year, down the next, but the last 12 months, it's been really solid and we've got 10% increase in revenues year on year, and with a good trajectory going forwards. Just to give you some sense of the components and the units that operate in the IT services market for us, there are probably two groups in particular, BT Engage IT focuses on HP and Microsoft specialisations; Cisco, the Cisco specialisation is handled through BT iNet; BT Business Direct is a volume way of distributing particularly hardware and some services to the smaller end of the market. So those three units sit within BT Business. Then within Enterprises, there are two vertically oriented IT services business. So, Expedite, Expedite provides point of sale solutions for retailers. We aim to sell networks on the back of that. And BT Tikit, Tikit is a business we bought a couple of months ago. It provides software solutions for professional services firms, particularly lawyers and accountants and, again, the goal for us there is to sell networks and cloud-based services on the back of that software-based sale. Making it a number of investments and developing our capabilities in this area over the last 12 months, particularly investing in cloud-based capabilities, both in terms of Infrastructure-as-a-Service, but also engineering capability in order to maintain the services going forwards, and they are offering huge growth opportunities in a very encouraging pipeline for us, looking ahead.

Slide 46: And mobility is the other growth area for us. We think we are well placed to take advantage of mobility. We've got a decent mobility business already, one that's growing with over 250,000 customers in it. What we find is our brand plays well in the mobile space. Customers expect us to have a mobile offering and, indeed, when they buy from us, they tend to buy all their products from us, as you can see, 85% of our mobile customers take fixed line services from us at the same time. We are investing a lot in R&D in this area, in developing new products and services that take advantage of fixed and mobile convergence. So I'm not going to tell you much about that today. You've seen a little bit of the commentary from Ian in terms of where we see the potential here and where we see the technology moving in this space, but what you'll see, over the next 12 months, is us moving to this area increasingly because it is a great place where technology is moving in our favour, regulation is moving in our favour and customers want to buy these types of services from us. So more colour in future presentations, but expect us to make moves in this area.

Slide 47: Then, before I wrap up, I wanted to spend a little bit of time on BT Enterprises and BT Ireland. Enterprises to start with, this is the division within Retail where we house the more

entrepreneurially orientated businesses, the ones that really focus on a particular market, or a particular vertical, and really leverage the wider BT by giving a little more specific focus around a particular service. Many of them you'll be familiar with I think. There are a mixture of business that are, what we describe as heritage businesses, Payphones might be an example of that, but there are also some great growth businesses in here, like Wi-fi, BT Fleet is worth a mention, this is a nice gift from Tony. BT Fleet is the fastest growing part of the BT Group, isn't it Tony? It's growing 30% year on year, it services our own fleet, but it also services the fleet for many customers, many other customers such as the AA, Thames Water and Lancashire County Council is the deal we've just done. So it's a really interesting business and one with good growth potential, we think, leveraging capability that we are developing for ourselves, but being able to share that with customers as well.

Slide 48: Conferencing is probably the most interesting, however, because it's half the revenues and it's the most dynamic business in the Enterprises unit and worth spending a little bit of time on. It's over £300m of revenues, it supplies conferencing services, audio web and video to customers, not just in the UK, but around the world. It's actually headquartered in Boston. I think the most interesting thing, looking forwards, we've got here is, that the market itself has been changing rapidly, there's been a lot of price pressure, a lot of commoditisation in the conferencing market. Our approach, however, is to develop a way of differentiating ourselves through quality, as well as being competitive on price. We signed a long term partnership with Dolby, and you're going to have a chance to experience this outside over lunch, in one of the demos. What this does is gives a much better quality experience, sound quality experience for the conference call, but it also gives you an ability to improve the spatial positioning within the call itself. Or to put it another way, you get more of a sense of who in the room is speaking, and that you can remove the background noise that goes on in a conference call so the crying babies, the barking dogs, the sounds of the train, can all be removed from the call itself. So I really encourage you to try it in the phone booths that are out there in the reception area and, if you like it, get your CIO to buy it. It launches this summer, but we've got a lot of interest already from, particularly, the major multinationals who see this as a fantastic way of adding real value and making that conference call far more effective.

Slide 49: And then, Ireland is the final unit within Retail. BT Ireland is one management team operating in two different markets, in two different business situations. In the North, it's a mini-BT, we operate every single part of the value chain. In the South, in the Republic of Ireland, we are focused as the challenger to Eircom, the incumbent, we are focused on government, wholesale, major corporates. The business has done pretty well over the last few years. I mean, the Ireland economy, particularly in the Republic, has been very poor, and yet we've been consistently growing top and bottom line. The three driving factors, I think, in Northern Ireland we are pioneering on fibre, so we've got 90% coverage of fibre in Northern Ireland and now, over 50% of the retail customer base are on fibre. So we are getting some really interesting learnings of how fibre will develop as a proposition going forwards. And then we are winning a lot of major network, IT services deals and pure network deals, and a couple of these are examples here. In Northern Ireland, we've got NI Direct, so we provide a contract for all their IT services. In the South, we are Sky's partner, as they are competing against cable and Eircom, in the Republic of Ireland. So, we are not arguing all the time, let me put it that way. So net net, this is a business which is growing both top and bottom line and we see great prospects for it going forwards.

Slide 50: So, in summary, our strategy has worked very well over the last four years and we'll continue to focus on it going forwards. You'll see us putting more emphasis on revenue led profit growth, rather than simply cost transformation, but I'll underscore the point that Tony made, there's still cost efficiencies to come out of the Retail Business, going forwards, we believe. Customer service has improved, but frankly, we've stalled in the last 12 months and we need to step up if we're really going to deliver on our goal of being number 1 in this category, and you'll see us invest to do that. Fibre is fundamental to our growth plan in all the units, particularly in Consumer. TV is a way of selling more fibre for us, it's a way of opening up a market place, and you'll see us invest with that in mind, not just on the basic TV services but you've seen with sport, we are prepared to take big bets to achieve that. But hopefully, you've also concluded from this

morning Consumer isn't just the one unit that's going to grow in Retail, there are growth opportunities across the board, across mobility, across IT services and also in Enterprises with the likes of Conferencing.

Slide 51: So thank you very much and we are open for questions.

Q&A on BT Retail

Guy Peddy - Macquarie

Just a quick one, one thing I'm just slightly trying to understand is you've highlighted 18 million non-sports watching TV customers that you are targeting, but then you are targeting them with a sports product. So, how do you reconcile those two? Secondly, and this all comes down to the same area, do you risk, do you think, losing YouView being over consumed by the BT Sport push, and people forget about YouView as a product because of the fact that you are now going hell for leather on sports, and how do you manage that? And thirdly, a small one if I can be cheeky, 25% of your Consumer revenues are still voice, do you think that that will be where some of your competitors actually focus their response to your discounting broadband. Thank you.

Gavin Patterson

Well, I'll try and answer all of those, if I can remember them. So, on voice, voice is very much part of the bundle. I think what you've, hopefully, you've seen today, is we intend to continue to innovate to make voice, not just good value for money, but actually, we are bringing new functionality. So we've talked about SmartTalk, earlier in Clive's presentation he talked about HD voice, and you'll see us begin to bring other innovation into voice services. So I think, we don't want to commoditise voice, we believe there's a future in voice, it's clearly moving increasingly to an application, rather than simply minutes on a network. So ensuring that the functionality reflects that is very important. In terms of YouView being swamped by BT Sport, no, I don't think it will. I mean, we are very confident in YouView, I mean, the early customer satisfaction data on it is really strong. We've got a clear road map going forwards in how to develop it, and to ensure that the functionality remains competitive. We want to ensure that the non-sport content on the platform is strong. So we'll continue to make sure we enable that. Of course, YouView is an open platform so the bigger it gets the more other players will come on to the network and want to retail on it themselves, and I think that adds to its attractiveness. So sport I think will help, I think it will give it a push, but YouView is strong enough in its own right. And then the availability of sport and who we are targeting and what the opportunity is. The way we look at it is this: there are, I think, 5 million people watching sport in the UK, we think that's about half of the opportunity. There are another 5 million people who want to watch premium sport, but feel squeezed by the prices that exist at the moment. I mean, it's very expensive to get sport. You have to go through basic to get there, so you're well into £50/£60 a month, and that's very, very expensive to people. So I think it will prove to be another reason why YouView is attractive, and BT YouView in particular is attractive to customers because they've been squeezed out of the market, and they want to watch more sport that they can't afford on other platforms.

Ian Livingston

Just on that point, to add to that, football's had a real focus and there's a lot of sports customers who may not be, football may not be their key sport. So that, you know, rugby I don't think has had the same treatment, in terms of really making it the hero, and we think for English rugby and the way it's approaching communities, there's a huge opportunity there. Women's sport, Moto GP hasn't had, you know, so there are a number of sports and I've been amazed by the number of UFC fans that have written to me recently, I'm delighted. I think this also gives us a real opportunity. The Olympics showed, actually, how many sports fans there really could be. And I think there's a lot of opportunity there.

Nick Lyall - UBS

Could I ask, on the latest price rises, how has that been received by consumers, and is there at point at which you think people are starting to scream in terms of prices rising too high? And then secondly, when do you think you are going to get the boxes sort out between the two box options, between YouView and Vision? When can we see just one unified box instead?

Gavin Patterson

On pricing, look, I think the key to us being able to increase price is about increasing value and it's about adding services so that customers get more for their money. So, looking at any one part of the business and saying, you know, you're going to get 5%/10% price rise soon, and I think it's forget that, that's not going to happen. Customers are too savvy for that, there's plenty of opportunity for them to really use, particularly, the internet to be able to compare different providers in the market. So our focus is trying to ensure that, wherever we have to take a price increase, that we are offering more to the customer as part of that rise, and when we increased the price of our voice services in January, part of that was increasing the functionality through providing SmartTalk as an application at the same time. I mean, that's the sort of example, I think, we are going to focus on moving forwards. There isn't great room for pricing now. I think it really has to be value driven. On the boxes, look, by 1 July, our YouView box will have a fully integrated EPG with both linear and non-linear content, pay and non-pay content. So it will be completely compatible, it will be our focus going forwards. We've got to make sure our existing customer base who have got the existing Vision boxes have the same sort of functionality, and we don't leave them behind, but we've taken the decision to invest in YouView, and the road map for YouView going forwards is very strong. So then it's a question of getting Sky Sports 1 & 2 on YouView and that's still part of the negotiation. .

John Karidis - Oriel

On this issue, please Gavin, I mean given what you said about the YouView box, given the problems you have selling Sky Sports 1 & 2 over YouView when it's able to have linear TV, and given that you also can retail over the Sky satellite network, why is it that you need to be able yourselves to retail Sky Sports 1 & 2? And then, secondly...

Ian Livingston

I think, given that there's so many questions, we'll just take your one question, apologies should have done that earlier.

John Karidis - Oriel

I just want some financials on Tikit, that's all.

Gavin Patterson

OK. In terms of offering customers Sky Sports 1 & 2, look, I don't think it's a critical part of our strategy, you know, our strategy is about fibre fundamentally, and we recognise that there are a group of customers that want to buy the services from one provider. So we've got to have strong TV offer on the one hand. At the same time, we recognise there are a group of customers who are very committed to Sky TV. So, in the proposition with BT Sport, we've made it available on the Sky platform. We've given it a very competitive price point, I think you'll agree, and we've backed that up with very strong dual play propositions that allow them to access sport on a satellite platform, but keep their network with us. And that's fundamental to the strategy. I would like to be able to retail Sky Sports 1 & 2 on YouView ...

Ian Livingston

And 3 & 4.

Gavin Patterson

And 3 & 4, but we'll start with 1 & 2. We feel we are being discriminated against because Sky have that agreement in place with Virgin and with TalkTalk. I don't understand why they don't want to have that agreement with us on YouView.

Ian Livingston

Tikit was a public company, the financials are there, we paid some tens of millions of pounds for it.

Maurice Patrick - Barclays Capital

Just wondering your thoughts in terms of the extent to which sports will dominate the advertising marketing over the next 6 to 12 months, and therefore, your thoughts, in terms of how it links into your desire to wholesale to others.

Gavin Patterson

I mean, clearly, there's going to be a lot of money spent on advertising. We are making sure this is going to have sufficient awareness, so that customers can see what a great deal it is and I would be very surprised if Sky didn't try and combat that by increasing their advertising spend, and they are big spenders already, as you know, they spend four times as much as we do. So, I think it will dominate, but the point I was trying to make earlier is I think we have competitive propositions across a number of fronts. So fibre, I think we've got a very strong proposition, wi-fi, we've got a very strong proposition, our core copper products, the new Hub, there are a number of areas we can fight it and I think if we try and make it all about sport, I think we are going to miss out on great opportunities elsewhere.

Andrew Lee - Goldman Sachs

Just a question on the pricing environment really. How critical is a supportive, stable or growing pricing environment in broadband and fibre to your growth targets?

Gavin Patterson

We don't rely on getting more than inflation as price rises every year. You know, the real opportunity for growth is to grow volume and, I think hopefully, you've seen today, that there are big markets adjacent to our core business we can grow into. So, you know, we want to get a bigger share of the wallet, be it in the home or the business, from our customers and I think the product road map we've got across the board, really allows us to do that. So, the more volume we can drive, the more sustainable that revenue is over the long term. Pricing is a short-term hit, it tends to evaporate away relatively quickly as, frankly, you get a one-time hit from it.

Andrew Lee - Goldman Sachs

So it's inflation as a minimum?

Ian Livingston

No, it's not inflation as a minimum, some prices are going up, some going down, but what is happening with the customers, is also they are upgrading. And that's really important, as broadband becomes core to people's lives more and more, they upgrade. So they get a lot more value for their money, but the ARPU may go up, and that's the story.

Stuart Gordon - Berenberg

First of all, I'd like to say it's very good Ian joined you on stage given that you mentioned the Australian football, and the women's football, but not the Scottish Premier League, but ...

Gavin Patterson

Believe, I'll be receiving that later as well!

Stuart Gordon - Berenberg

In terms of content spend from here, I mean, you've got things like the Champions League, which is likely to come up by the end of the year, is there anything that you think is a must have or something that you just think we should really go for that because, I mean, it's the crown jewel of European Football, you are clearly banking a lot on the football content, as well as all the other content. But is there anything that really is a must have, that you would spend more than perhaps we're sitting here thinking just now?

Gavin Patterson

Look, we are not going to give you our content strategy on a plate, to be perfectly honest. We are very happy with the rights we've got. We know we can put together a fantastic suite of channels and I think you've got a sense it's not just about Premier League football, it's a whole suite of sports that we've got. But we will look at opportunities as and when they come up, and if they can create value for us, if they can open up new groups of customers, maybe we'll be interested, but I don't sit there and think there's something in the market we must have at any cost. It has to be value for us.

Steve Malcolm - Arete

Can you give us a sense of what you think your broadband market share is in cabled areas at the moment, and a quick follow up on content, where are you on the Heineken Cup rights for the English clubs, is there in any sense of a resolution on that?

Gavin Patterson

What's our share? I might have to come back to you, I don't know that off the top of my head. We look across the market as a whole. In terms of the Heineken Cup rights, look, as you know, we've done an exclusive deal with England, so that any competition that the English clubs take part of in Europe, we have the rights to show that. The Heineken Cup has one more season to run. We'll see how it gets resolved in the next 12 months. We are very sure of our position, our relationship with the Premiership Rugby is very strong and so there's not any real news to share with you, Steve.

Ian Livingston

Yeah, I mean, just on cable areas, they are also LLU areas, denser areas, so our market share is quite a lot lower, so there will be more opportunity in these areas.

Gavin Patterson

One last thing to share with you between now and lunch, obviously, we've broken a new ad in the last 24 hours, hopefully, you've had a chance to see it, but if you haven't, you are going to now. Rather than me introduce it, I'm going to be delighted to introduce, hopefully, Jake Humphrey who is going to front our Premier League coverage, to come in and talk about why he's so involved.

Jake Humphrey

Hi Gavin, nice to see you again, you're going to see some bad acting from me in just a couple of moments. Nice to see you all this afternoon and, by the way, congratulations [Gavin], because this morning, after the big launch yesterday, I was sitting on the sofa bleary eyed, cuddling my seven year old daughter, and there you appear on BBC Breakfast looking 21 years old. Right, so, BT Sport, obviously you've been told an awful lot about why BT decided to do this and what their plans are for the channel and the way it's going to support their business. So I thought I'd share with you a couple of my thoughts, really, about why I decided to get involved in the channel. And, you know, last year I had a fantastic year. I was the BBC's lead reporter out at the European Football Championships. I covered their entire Formula 1 season and was one of the hosts of the Olympic Games as well. And it was only really a few days before the Olympic Games started that we had a really serious conversation about me leaving the BBC to join BT and, you know, it was a huge year to be a BBC Sport presenter, but it was always going to be something of a leap of faith to walk away and join BT as they get into something which they hadn't covered before, which was going to be live sport and their new sport channels. So you can imagine my 68 year old dad who's spent his entire life working as a charity worker in Norfolk. When I said I'm leaving the BBC, Dad, to join BT to cover their football, his jaw dropped and I think yesterday a lot of other people's jaws dropped because this is so exciting, this is so new, it's so big, and the reason why I decided to get involved, I said to BT, look I'm going to do this, absolutely, but it needs to be done properly, it has to be a long term plan, it has to be credible and most of all, it has to be big. This has to really make an impact.

And I think, you know, the big things which you know about are the 38 Premier League games. The big story there is the 18 first pick matches, we are the first people ever to have those apart from Sky. But then it's all the other things that have been bolted on to that as well. One thing that's thoroughly impressed me about BT is that every single step along the way of this new sport venture, they've made the right decision. So, where do we have the studio, we are the first people to go to the Olympic Park and to be involved in iCITY, and to really make a difference there. Everyone talks about the legacy, I think our new studio there is the first genuine concrete example of an Olympic legacy. The names that we decided to sign up, Michael Owen, the man who was talked about more than anybody else this season about retiring from the game. BT are the first people to get him. Rio Ferdinand, a man who has captained this country, he's going to be involved with making programmes for us. Lawrence Dallaglio, a man who has captained this country, he's going to be involved in our rugby coverage, we're the home of club rugby in the UK. We get Clare Balding, the most celebrated presenter from last year, to come across and join us to do this programme that she's going to be hosting each week on the channel. Everything is about size and scale and, most of all, quality. And I think the one thing that I walked away with yesterday was this real feeling that a lot of people turned up yesterday on the Olympic Park, slightly apprehensive, and a little bit sceptical about BT's new ambitious plans. And every single one of them walked away saying, wow, these guys are serious. And I think the coverage in the papers that you've all woken up to this morning is testament to that.

So, it's only the start of the journey. There are plenty more exciting times to come regarding BT Sport 1, 2 and, of course, ESPN as well. I look forward to you all getting it for free via your BT broadband. And, you know, even if you've only got the copper stuff, as you know, they're investing in that as well, so everybody is being looked after. But really exciting times, I'm delighted to be involved, and I think that now I'm going to hand over to the bad acting, just close your eyes when I'm involved and enjoy Gareth Bale all the other big stars that we've signed up, but I think, if anything sells this new channel, it's this advert because it's the biggest names in the game, and it's warm and it's inclusive and it's fun, and that's the biggest thing about this channel. I want people to tune and think, am I watching the BBC or am I watching BT Sport here. I want it to be a really warm, friendly and inclusive place, and we'll do that. But we'll also make sure that we are the people at the cutting edge. You know, the come back from one of our rivals yesterday was that we are using sport as a gimmick to sell other products. Well, actually, if they really think about it, what they'll realise is that sport on television and the other product which is broadband, are exactly the same thing now the two have completely aligned. The future of broadcasting in this country is going to be using the networks and the systems of BT – from the 5 million wi-fi spots to

their incredible Infinity broadband, that's the future and here is the future of BT Sport, I'll let you have a look.

[BT Sport advert being shown]

BT Wholesale - Nigel Stagg, CEO

Slide 52: Good afternoon ladies and gentlemen. I know how much you've been looking forward to this slot. I must say, when Gavin wheeled on Jake earlier on, I was a bit concerned about the early impact of this presentation. So I must say, I am relieved and delighted to be joined by Clare Balding [jokingly gestures to Liv Garfield], who is going to be talking about Openreach later on. Ladies and gentlemen my name is Nigel Stagg, I run BT Wholesale.

Slide 53: Today I want to talk to you about the business, give you a little more colour than you've had in recent times on the Wholesale business. I want to just remind you how we fit into the group, and into our industry, talk through our strategic priorities and give you some sense of where we are trying to take the business into the future.

Slide 54: So let me start with sort of a top level characterisation of the business, some of which you will already know. Last year the Wholesale business reported revenues of £3.6bn, about 11% of that revenue is actually transit revenue. We have around about 2,200 employees directly engaged in the Wholesale business, and you'll see from the chart here that the ratio of SG&A expense to revenue is pretty tight, about 3%. It's what you'd expect from a wholesale business. But that ratio undercalls the level of labour cost that's embedded in our cost of sales lines because many of these people in our teams are involved in customer service delivery and particularly contract delivery. Last year we reported EBITDA of just under £1.2bn. Now, together with Openreach and BT Retail Ireland, and some parts of Global Services, we form the 'small w' wholesaling capability of BT Group and we happen to be the biggest in Europe, as Ian indicated earlier on. Now the fundamental distinction between Openreach and BT Wholesale is this. In Great Britain BT Wholesale's role is to provide managed or end-to-end solutions for service providers and carriers. Openreach, by way of contrast, have a very full portfolio of access and backhaul products. We buy access and backhaul products from Openreach on regulated terms, but we integrate them with our own network platforms and capability to provide end-to-end or managed solutions for our customers.

Slide 55: Now I want to give you a little bit more colour about that by explaining our business model. So just take to the left hand side of the value chain, for a start off. As I said, a significant proportion of Wholesale's operating costs are driven by product input cost from Openreach, other parts of the company and third parties. Now, the key thing is, as we move across the value chain, is to understand how our capacity to create incremental value from downstream from Openreach works. It has its origin in three fundamental areas. The first is the competitiveness and footprint of our core platforms, and this is true of our copper broadband platforms, where we have significant coverage domestically, as you know. This is the case with our IP Voice platforms, which have massive capacity to scale. It's certainly the case with our Ethernet footprint, which now in Great Britain has 1,100 nodes set to grow further and quicker and so on. And this is critical because our proximity to our customers' customers is materially influential on the input costs that we can achieve on the likes of Openreach shorter tails combined with our key assets, in overall more competitive propositions.

Secondly, we have deep domain expertise in BT Wholesale and across the group, in the areas in which we've traditionally competed, but increasingly also in the areas in which we are diversifying or investing for further growth, and I'll give you some more colour on that later on. But the fact that our scale enables us to aggregate volume, to keep our unit costs competitive actually is the key defining competitive advantage of BT's Wholesale business today. Last year alone we installed more than 2,000 mobile Ethernet circuits, that's factor of 4 or 5 times our nearest competition. We handled well over 7bn IPX minutes, we provided 7,000 ethernet circuits, and so on and so on and so on. So when customers really need to deliver..., a supplier that delivers in scale, we can do that like no one else in the UK.

Our customer propositions break down into two fundamental parts, the first is a managed service business, this could include full network and IT outsourcing, but also can include our customer service management, field based services, and so forth. And it's true to say that traditionally, it's been our larger clients who've consumed this service from us, but it's increasingly relevant to our smaller customers in the [indirect] channel, who are themselves making buy or build decisions about their futures. The second key aspect of the proposition set is our standard product range, Ethernet, broadband and so forth, where we are very accomplished. The fact that managed service revenues in the business are about a third of our total revenue in the year that's just finished, which is up from a quarter a year earlier.

Slide 56: I just want to explain our customer segmentation because at the highest level, we run our business through four main customer segments. Broadly speaking, our post transit revenues have their origins at about 40% of our revenue from the mobile sector, just under 40% from the fixed operator segment, about 5% of our media and broadcast business and about roughly just a fifth of our revenues from the indirect channel.

Now, clearly, the needs of each of these segments and therefore, our propositions, are completely different. In the mobile sector, for example, we provide a very significant proportion of their total backhaul requirements, any mobile traffic back from the radio stations to their core network and so forth, and now we are central to many of the investment plans of the mobile operators to upgrade their networks to support the features and capacity that 4G requires. In the fixed network operator segment, our clients range from TalkTalk, who obviously have their own strategic networking assets, but continue to buy from us to complete their off-net footprint, to the likes of KCOM, who as many of you will know have elected to completely outsource their network and their future road map to BT Wholesale. We actually have a very long established media and broadcast business within BT Wholesale too, which amongst other things, manages all of the UK's freeview programming, but also serves broadcasters and significant media companies around the world with high quality broadcast capacity, both by fibre and satellite. Now this fourth segment, the indirect channel, is quite diverse group of clients. Overall, we have about 1,400 customers, as Ian indicated, the vast majority of those customers by number are obviously in the indirect channel. These range from ISPs to value added resellers, to other resellers, for example. We have seen very strong growth in the indirect channel despite it being an extraordinarily competitive environment. Our market shares have grown very quickly, and our revenue growth is at 10% or so year over year, in that space. We have more work to do in terms of channel support, and in terms particularly of customer service improvement to continue to grow market share, that's rich with opportunity for us.

Slide 57: Now turning to our general environment, I've used the term market environment, but it's slightly broader than that. We have a challenging environment strategically, there's no question about that. But actually, around us in direct adjacencies there are significant meaningful opportunities for growth, and I think the key factors that represent a gravitational pull on the business, and have done for some while, are well understood. Clearly, the fact that many of our biggest B2C customers traditionally continue to roll out their own unbundled networks, and elect to source services from Openreach rather than BT Wholesale, produces a significant impact on margin that we need to contend with. I think it's so much so that, over the last year, we lost about 160,000 broadband circuits to that context. Similarly, the purchase of one of our very biggest customers by another one of our very biggest customers, with the express intent of moving their network away from ours, will also produce more challenge into the future environment, although I have to say, the early signs are that there is still plenty of scope for us to continue to work together in a meaningful and scale way.

What may not be quite as evident to you though is, as we reposition ourselves to give customers the benefit of IP technologies, the margin mix will shift within the business, that's something we need to factor in to our future plans, and are already experiencing, which is why cost transformation is such a critical part of the overall mix strategically going forward. And I just want to talk about our strategic framework.

Slide 58: I think the strategy is very simple and very clear. It's a strategy which we've been executing on for about 18 months, in fact it's good execution against this strategy that has

produced underlying growth in Q4, for the first time in a very long time, and my objective is to maintain our status as the wholesaler of choice, simple as that. We have a very strong traditional TDM portfolio, which we are progressively re-positioning to support IP, and give our customers the full benefit of IP going forward, whether that's in voice, data, or multimedia. Secondly, we are stepping up the emphasis we place strategically on the resale of our capability through the [indirect] channel, but also increasingly to support our bigger customers who, particularly in the mobile sector, want to diversify into more fixed services. Thirdly, we aim to continue to grow our managed service business, as a proportion of our total revenues and in absolute terms and we want to help our customers take out capex intensity and complexity from their business using our know-how and strategic assets. Now our growth plans are underpinned by very robust end-to-end cost transformation strategy, I'll give you more colour on this later on, but it is critical to help us cope both with the unit cost movement, as we metamorphosise the business and don't fall into the same trap that many operators have in the transition from TDM margins to IP, but increasingly also to create the oxygen for further investment in capability to propel us forward to increase our growth chances. Critically, motivated both by service quality and efficiency, we have to drive massive improve in our customer service delivery. There are aspects of our service delivery today which I would describe as outstanding, they are outstandingly good. But, frankly, particularly at the low end of the business, the volume end of the business, we have much work to do to really impress our customers.

Slide 59: And I want to talk a little bit about our performance over the recent past. And, certainly, over the last six quarters or so, I think it's evident that the financial performance of the business is starting to respond to the application of the strategic framework that I talked to you about. Despite the optics of the longer run historic trends in the business, it is not true to conclude that Wholesale have been passive in contending with a very challenging set of market dynamics. We have continued to invest in some of our longer term projects, MEAS, IPX, managed services and so forth and in their own right these things have driven massive growth, just been masked by the context. However, I do think that the focus of the management team is now bringing to the execution of this broader agenda of structured end-to-end cost savings, the relentless pursuit of unit cost reduction, of innovation and of winning more business, is starting to make a difference to our overall performance and I just want to give you one or two proof points about that.

Slide 60: This chart shows the rolling 12 month order intake in BT Wholesale, over the last couple of years and, as I indicated, we've had a fairly solid order intake profile over the last 12 months or so. Before we get too romantic about this, which is a tendency of mine, I need to remind you clearly, that this is an amalgam of contract re-signs, it includes long term contracts, as well as a lot of sort of day to day block and tackling. The critical thing to understand is that it does not revolve purely around one or two big managed services deals. There are a lot, about 5,000 in fact, smaller deals that we have closed during the course of the year to produce this effect. Now we are making improvements in the book-to-build cycle within the business, but the intrinsic of this do not necessarily, sort of correlate to the outlook for next year. However, £2bn of order intake is progress.

Slide 61: Now I want to talk about customer service delivery. As I indicated earlier that we've had mixed success in really achieving our goal of leadership, in terms of customer service. Our customers want simple, consistent, reliable service. Now our strategy to support our products is to invest more in self service capability and to integrate our operating systems into those of our customers, whether that be at the network operations level or simply in terms of order and fault management processes and billing. We are making solid progress with that, and we will continue to push that forward because it's essential to liberate some of the unit cost gains that we aspire to. In the more complex area of the portfolio, we are investing in process re-engineering, as Tony indicated, and we are also making sure that our customers have deeper integrated access to our systems.

When you look around the place, there's still, despite all of the improvements in efficiency and so forth, that we've made over the last few years, end-to-end across the group the costs that we generate by handling Wholesale driven demand are still very, very significant. The people

intensity, the direct failure, the consequential failure, they are all very significant and have the innate capacity to contribute significantly to the ongoing outlook of the business.

Slide 62: And the improvements we have made have contributed, from a service perspective and, indeed, last year we reduced the direct Wholesale SG&A by about 17% year over year. There's more scope to do, but given the scale of the SG&A bill in Wholesale as a business unit, we can't solve the margin challenges of our business prospectively, unless we manage this end-to-end, and I think Clive gave some excellent examples earlier on, as did Tony, about the areas in which we are collaborating across the internal value chain, and externally, to see that systematically, our quality goes up and our unit costs come down. This is the thing that's fundamentally driven the improvement in the gradient of performance of the Wholesale business over the last couple of years.

Slide 63: And, lastly, I want to talk about growth. This isn't an exhaustive list of areas in which we are diversifying or intending to create more momentum. Clive talked about IPX earlier, so I don't want to go through that completely again, but there are a couple of things I want to draw out. We have several hundred customers across the planet already signed up to IPX, including tier 1 carriers. This is going to be a very material growth opportunity for us in the future and it's true to say, as Clive indicated, that we have a secret source here that will enable us to differentiate, win share, create further growth. So it's a critical area going forward. But I want to just concentrate on two or three other areas to give you some more colour about the scale of the opportunity that surrounds us in the Wholesale layout. The first is hosted communications. So we will be launching a portfolio of hosted communication services in the summer. For the last couple of years we've had a kind of half pregnant capability, this is fundamentally enabled by our own intellectual property and assets. We will start with SIP trunking, we will move on to IP Centrix hosted contact centre, inbound services and so forth, targeting mainly the [indirect] channel, but also, increasingly, the mobile and fixed operators who want to diversify. This is a big market but very fragmented and we intend to position ourselves to be number 1.

I also want to talk to you about Ethernet. Ethernet, as Liv will indicate in her presentation, sorry, Claire will indicate in her presentation, is growing domestically. Year over year we increased our share of the Ethernet market in BT Wholesale very substantially, our overall growth is significant and we intend to continue with that trajectory. We are rolling out more PoPs to make us more competitive, we are adding different pricing mechanisms, we are getting cheaper through a variety of different access technologies. We are in a good position with Ethernet, and we intend to drive this further for more share.

The other example I want to give is mobile. Over the next couple of years the mobile operators are going to go through an intense period of investment, clearly, to support the upgrading of their own networks to support 4G. We are busy 4G enabling our own networks, to make sure that the mobile operators have a road map to help them in terms of future capacity to handle the data growth, have a range of offload technologies available to them through us, including small cells and so forth, and I am comfortable with the position that we exit the year, in terms of our ongoing relationship with all of the mobile operators.

So there isn't a shortage of opportunity around us, this is about execution and we are starting to earn our spurs in terms of execution credentials.

Slide 64: Let me just try and summarise for you what I've been trying to convey. The first thing to say is, it is, and will remain, a challenging environment, there's no question about that. The regulatory outlook, the consolidation in the industry, the technology translation and so forth, all make it challenging, but we have improved the underlying performance in the business, and there's no question about that. We have much work to do on service to impress our customers, in its own right, but also as way of unlocking a lot of the downstream cost saving potential that exists end-to-end across the organisation and we are surrounded by growth opportunities, many of which we are taking advantage of today. Overall, the market conditions aren't going to ease up, but then again, nor are we. Thank you.

Openreach - Liv Garfield, CEO

Slide 65: Gavin felt the need to show a TV star, Nigel had to resort to good British humour, I have no need. So for those of you who went through in the course of lunch to see the vans, you know that I am the true glamour part of this business. So I appreciate those who did go outside. For the uninitiated, it is too late. They had to go back to do some cabling this afternoon, so the moment has gone, but I'm sure that if you discuss it with anybody who went, they'll tell you it was the highlight of their week, and certainly potentially, the highlight of their working career to date.

Slide 66: So these are the messages that I'm going to cover off, and we'll just get straight into it, and I will pick up the vans again during the course of the presentation.

Slide 67: So two things to bring out when you are thinking about Openreach, there's two assets that I think we have. We have this fantastic asset which is the Network. It started as a copper network. Since then, we've invested heavily in the Ethernet Network, we've got the best UK Ethernet Network, and we're proud of that, as my previous friend said earlier. We've also got our amazing fibre network, and it couldn't be possible to do a presentation today, without talking a little bit about that later. But, actually, that's not be main asset that we have. Potentially the main asset that we have is our people and the reason we are so good at rolling out fibre is because we have these fantastic engineers, who've loyally been with us for years, who've got amazing skills around our Network and that's how we can roll out so much quicker than other comparable countries and other comparable telcos like ourselves, is the asset that is in our people and the experience that they bring.

Slide 68: In terms of progress over the last four years, there's three things that I think are of note, on this slide, I'm sure you'll find more, but the three I would call your attention to. One is the pink, I guess, if you look at the top, you will see that Ethernet has almost by stealth, has gone from 10% to 17% of our total revenue over the course of the last couple of years, that's, I guess, one thing to note. Down here you'll see progressive EBITDA growth, obviously, I put on the slide how the world might have been if the world of regulation had not been there, and that's the kind of little dotted boxes over the top, but it is there, it's accepted. We'll have to make sure that for the announced changes that are still to come, we'll need to fall in line with those and make sure that we drive efficiencies to deliver against that, that's fine and understood, and we have plans to do that. And then, if you have another look at the top, you'll see capex. So you almost can see that, during the course of the last few years, we've been investing heavily in fibre, at the same time as making sure we work at capex, being massively more efficient in the other areas, to be able to deliver flat capex lines, at the same time as adding new what's been a £300 to £400 million worth of spend on fibre.

Slide 69 If you also look back over the last four years, I guess, it's [fibre] one of our biggest achievements, and you'll see on the last two it's accelerated dramatically. So we've passed 10 million homes in the last two years. If you look at our most recent results for this quarter, it's been on average 120,000 homes per week, that won't be true every single week. For example, one of those weeks we did 400,000 homes. So it's not a straight thing that happens every single week. We have some weeks when, you know, we have one of those fantastic moments, either a spine goes in, or lots of cabs get agreed with lots of Local Authorities, all in one joy, maybe there's no power issues of any sort on a particular roll out, and you just end up with a great week. But there's other weeks when it's not like that. So please don't ever view it as being linear, you can't expect it to be the same every quarter. We are very confident that, this time next year, we'll have done our two thirds rollout, that will be 19 million homes passed. We are very confident with all the deals we've signed thus far on BDUK. We have the right resource in place. We've got our people ready and rearing to go, we've recruited new people, as Ian mentioned earlier, to make sure that we've got that resource ready. So we remain supremely confident that everything is fine so far, but it will end up where a profile changes a little bit, as we head into more complex areas to reach, in terms of how many homes per quarter or per week. The other thing to bring out is the fact that we've got more experience, so yes, we've got more experience with rolling out fibre, we've also got more experience of working with our various customers around how they sell the product. We've done a

better job with Local Authorities of co-selling it in places. We've done a much better job of working out, again, with our communications providers, which are the types of customers that truly want fibre. It's a premium product, let's remember, it's aimed at the 20% of the population, in our current case, and it's making sure we go to those areas, and as such, you'll see that we've doubled the speed of profile, in terms of reaching penetration, in the last couple of cohorts, which is fantastic.

Slide 70: In terms of market trends, because that's the context against which the future clearly is driven, and there's three trends that I think have evolved over the course of a period of time, that are pleasing towards us, and that we need to maximise the opportunities that come from those. The first is that people want data. They want it, they are almost indifferent of whether it's by device or at home, but they are going to want access to data, they want to be able to use it, they want to be able to interact in a different way, and that's true by any definition of the consumer, home worker or a large business, and we need to make sure that we make it as easy as possible for any one of the communications providers, whether it's an MNO, or whether it's Sky, TalkTalk or Retail, to be able to access back onto our network as easy as possible, to be able to keep providing that data at a good price point, with as much coverage as possible. And that's one trend that is clearly here to stay.

Another trend is around the fact that we see the world of mobile as complementary, and not substitutional. I can recall the last one of these events that we did three years ago, and it was one of the big discussions of the day, with 3G coming, with 4G down the line after that, you know, we've got to be there in time to make sure that it is changing the market a little bit, in terms of what people think is good speed. And I think we are seeing that anything that happens on mobile is absolutely complementary, not substitutional.

And the third trend that we've seen during the course of the last while, is due to the fact that data is popular, due to the fact that we almost see broadband now as a utility, then if that's the case, we absolutely need the fixed line and, I guess, the renaissance of the fixed line is probably the biggest joy for me, because doing my job, that's something that we can continue to see as being something of a trend looking forward. We believe that the top graph has got a chance of staying positive in the short term, certainly when we look at the trends, that continue to come that way.

Slide 71: Regulation. So you've asked a couple of questions about this earlier and this, I guess would be kind of the overview of my sense and, all we can take is the latest information that we have from the EC. We can expect to analyse it against where we are taking our plans, where others in similar circumstances to ourselves are taking their plans in Europe. What it highlights is that we are not just in the bottom half of the current recommendation of €8 to €10, we are in the bottom, bottom, bottom part of that. So €8.28 is the price of LLU today, if you use the current exchange rate which is not just within the €8 to €10, I think if you look at some of the factors over the last couple of years that weren't included in the last set of charge controls, for example, the weather has changed significantly in terms of world trends. If you look at the fact that broadband is used on many more lines than it was the last time Ofcom analysed the data for the broadband surcharge, that people need different types of line characteristics to use broadband than they do for fixed voice. So there are a number of things like that that we believe will be strong arguments as to why the LLU price has some opportunity for increase, as much as I know there is a perception that there's also opportunity for continued pressure on pricing. So I think we believe we are right at the low end and it's a discussion now as to what we want to do on service within the industry, and as to how the next round of that charge control plays out.

In terms of fibre, we are also at the very bottom end, we priced for take up. So, you know, we are uber proud of our product, but we are only proud of it because we've got customers that like it. We are most proud of the fact there's 1.5 million customers loving it, that's the bit that we're proud of, not the fact that we happen to have some very nice new cables in the ground, that's kind of pleasant, but it doesn't really feed anything for us. So I think that's the key thing, we're continuing to price for take up. We think that we are very good value already. I think if you compare it to anybody else in Europe, that is the evidence, and I think that will be respected in the next round of the charge control reviews, as is the fact that we are only part of the way through

our rollout. The fact that we still have a significant chunk to go has still got to be reflected in the risk profile that's analysed in that charge control.

Slide 72: Customer service, at the end of the day, that's what we are, we are a customer service organisation and we've had a bit of a mixed year I guess. In terms of the last year, we had some fantastic highs, our best ever service in Openreach in Q1 last year. Unfortunately, we then followed that up with some trickier lows it's fair to say, and what this brings to light just in simple terms, is the business has changed, in terms of the amount of engineering activities that we do every single week, it's dramatically different. So as you can see, it's a 45 cent increase between 2009/10, and where we are today. And that's because of fibre partly, so obviously, you've got an entirely new product there. It's also due to the fact we've had the fixed line renaissance. It's also due to increased faults. It's a combination of those three that is driving up the requirement for us in terms of engineering visits. If you look at the amount of days till we've arrived at an appointment, which is a key metric, but I guess, if you speak to any of my external customers, it's how many days for a new customer to get a line and today, it's 7.2, if you wanted to look at today's stat – and it's been well under the 13 days, which is regulated agreement, since early February. And, at the same time, we did have a tricky patch last year when it was above, and you can see that on the chart. So I think it's the case that we had a bad moment, fully recovered, been good for the last while, and I'll talk in a second about looking forward.

In terms of faults fixed and SLAs, that's our purest measure to show how we are doing. Again, you can see that steep drop last year when we just weren't fixing enough faults in time. So I think that we are on the cusp of this right now, I think that's a pretty good performance based on the fact that also a lot of people changed in the industry during that period of time. As I said, the fault volumes have increased, we've also got the broadband surcharge, and there are more MPF customers, they come with a much tighter 24 hour quicker fix than WLR and nevertheless, we are within touching distance of historic averages when, in all honestly, the world was a little bit of a different place, if you were in Openreach.

Slide 73: In terms of looking forwards, from a customer service perspective, providing really good standard levels of service is where we are now, it's absolutely where we will continue to be but then there's the opportunity to monetise the premium service, and that's what you will see us do later in the year. Certainly business customers would desire the opportunity to pay for something that's a little bit more special for their customer, whether it's a much narrower appointment window, so a couple of hours at a set time of the day, rather than the half day slot, whether it's almost like one of those "I'm a Celebrity, get me out here" moments, where you say, I've got a fault and I didn't buy the right care level, but now I need help, that kind of sense of fix time. You know, whatever it is in that kind of discussion point, there are a number of products that we are in discussion with Industry about. We will be launching premium services during the course of this year and we think that they will have some niche take up, particularly in the business market, but potentially also with some of the new consumer propositions that might be attractive as well, to some of the consumer communications providers.

Slide 74: Cost transformation. Tony gave us almost his coaching on stage earlier. I don't think anyone is in any doubt that this has been the life blood of part of our success over the last couple of years. It's absolutely got to be the life blood of any future success we are going to have, as an organisation, and I've listed out a number of things here. I'm going to try and bring to life just five of the ones that I think are of most interest. I'm not going to talk vans, but I am going to talk everything else that is glamour in Openreach. So one of them, is clearly around making sure that we have the most, I guess, enabling tools possible for our engineers. They can get real time access, they can also work in a much more nimble fashion, we can monitor their movements much closer because we'll be able to then reschedule some on different jobs, and that's hopefully, some of the things that you saw from the tools demo upstairs. Some of the really clever stuff that we've been able to create in the tool space, using things like big data, is to be able to almost to get the engineer, in what could be a 500 metre long piece of cable, to within 25 metres access to see where we believe the fault to be. So rather than spending an entire day trying to track and locate across 500 metres, you would get something that's 90%-92% accurate to within 25 metres. So you trust it, you start there, it's like a treasure map. You start there, you then have to dig a bit

to the left or a bit to the right but the reality is you are being given a starting point that is factual, that is insightful, that's the kind of thing that we'll see on the smart phones that are in trial now. That's kind of a new world for us, to be able to use a piece of data that previously you could have found, but wouldn't have worked to the same extent, suddenly put together in that one sense. That's one example of how we are going to be able save costs going forwards.

Another one is the T&C's for 2,000 new engineers, and you know, there's a number of changes that have been introduced to those T&C's, but one that I think is quite insightful is that the 60 minutes at the start of the day, when the engineer travels to the first job, that's on the engineer's time, that's no longer on the company time. That clearly gains us up to 60 minutes every single day for 2,000 people, that's an example of how things are changing as we begin to introduce new engineers to the new terms. That is a massive opportunity for us to make sure that we do our longer travel job at the start of the day, giving us a chance to make sure from then on, we'll be on reduced travel time, bringing the engineer back to their local home, it's much better for them to end somewhere near to them at the end of the day as well.

If we look short term out, Tony stole my fleet efficiency one earlier, in terms of the 10% average there, so I'll talk about systems optimisation. We are upgrading 60 systems in the next year. Those 60 systems, all of which will yield cost saving benefits for us, some of which are around allocations, some is around scheduling, some is around making sure that we reduce the missed appointments element, which comes, of course, with SLGs and customer upset. There are many advantages to many of those savings and if you think about it, when you've got well over 20,000 people out and about every single day, any individual efficiency that saves minutes of travel time, or minutes of waiting for systems to move can be a significant cost saving. In the medium term, I think looking at exchange-based workers is going to be a quite exciting one for us. In the world of self-install fibre, which is coming this year, that's an opportunity then, as to how do you manage, how do you bundle up, self-install jobs which are cabinet work, and be able to locate them in maybe a slightly different manner than you would if it was an in home install. One of the things we'll look at there is the terms and the roles of the exchange-based workers, and how we get the exchange-based workers to be able to do cab work as well as exchanges, again, reduce the travel time, and helping us be more cost efficient. So there's no lack of desire, there's no lack of ambition, and there's certainly some good ideas as well.

Slide 75: Fibre, so in terms of fibre future. Self-install fibre is one of the biggest pieces of news for the year. It's been scale trialled for this summer with a number of the big CPs. It will then, depending on that, it will go live hopefully sometime in the autumn, depending on the learnings that we take out of that scale trial and so we'll share more with you, I guess, during the course of the year. The rest of the fibre journey is around increase in coverage, and it's around increase in speed. We remain massively excited about what we have working the labs now, as Clive mentioned earlier, as opportunities, it's going to come down to choice. At the moment, as it still stands if you have fibre-to-the-cabinet (FTTC) speeds, so on a median of 60, you are already loving the product. To some extent, you are probably unlikely to pay for fibre on demand (FOD) tomorrow, unless you are a small business or you are literally a speed monkey that really has some fantastic uploads of photos or of graphics. It's unlikely beyond that that you'll be needing anything else other than FTTC right now. But we've got ourselves ready to make sure that we are 100% ready to achieve that, and that's what vectoring does, that's what G.fast does, that's what FOD does, is give us the portfolio option that, as and when we need more, it's ready, it's deployable, it's ready to go, and it becomes the choice of the individual. In terms of how far, how quick, then it's over 90% in the next 3 to 4 years. The reason we are vague is it kind of depends on the contracts that we are signing. We have won 21 of the BDUK bids, there are 20 still to bid for. It depends on their time windows, their locations, exactly where they would like to prioritise, factored in to what the profile looks like, which is why it's 3 to 4 years, if it follows those.

Slide 76: So this is the question I normally get asked, and I thought we'd get a slide to try and answer this. So, if you walk through the maths, where does the maths take us in 3 to 4 years? And what you see here is it could take us from £100m - £150m of GEA revenue today, through to the numbers you're seeing here, £350m - £450m. In terms of capex, right now, we are spending £300m - £400m each year. It would drop to a few tens of millions, there will always be some ongoing capex like there is in copper, so there's going to be some ongoing spend on fibre, partly

as continued investment in the technology and partly because, you know, some cabs will end up where we get to levels that mean we decide to put another cab in the local area, we're putting new line cards in, things like that – which mean constant investment.

This obviously is predicated – all of the fibre scenarios are predicated – on the right environment, the right regulatory environment, because if we are going to be continuing to do less attractive areas post the two thirds completion this time next year, it is important it remains relevant for us to continue that deployment.

Slide 77: And it's not just fibre. So other questions we normally answer are just fibre in the world of Openreach but it's not just fibre. Actually, Ethernet is as exciting, if not more exciting, half the time. So I don't get any sense of how we come on that journey and where we are going next, it's a big thing for us as a team. And also, I think, it will be incongruous to have today and not mention TV. TV is, for TalkTalk, Sky and Retail, right at the heart of the proposition. That gives us opportunities. It gives opportunities from the network perspective as to whether it's a premium product, as to whether it's the premium network of fibre, or as to whether it's in-home opportunities where there are any TV qualified engineers, all of those are revenue opportunities for us to work with our communications providers. And, of course, there are the mobile players that Nigel talked about, that's a big revenue stream for myself and for Nigel, and making sure that we've got the right network infrastructure for them to be able to offload any traffic they so desire at the right locations, is another fantastic opportunity. So, by this, you should imagine, a pole or a cabinet where we've added a bit of infrastructure onto the pole or the cabinet that we have now to be able to easily enable MNO offload, and that's something that will be attractive for them to be able move network traffic off theirs straight on the backhaul provided by ourselves.

Slide 78: The key messages. We've got a track record of consistency regarding delivery, and that certainly remains the plan. It's in spite of regulatory constraints and clearly, we'll have to keep making sure that we work closely with Ofcom to lobby hard on what we believe are the fair points regarding pricing going forwards. There will be a continued efficiency drive, firstly because we've got a whole chunk of unregulated products, so we need to make sure we are as competitive as possible with that. We've also got a predetermined price cut for the coming couple of years, we need to make sure that we are still making good margins out of those, having swallowed those price cuts and to get ourselves ready for the future. We'd like to get ourselves ready so we've got the opportunities to invest and to do that, we clearly have to make sure we've freed up the cash to be able to provide those investments. The fixed line renaissance continues and, certainly, it's driven by broadband. So while broadband continues, and while population growth continues in the UK, another driver of broadband, another driver of the fixed line renaissance, that's all positive as a trend for ourselves. And fibre is on track, to budget, and I'm confident that we can do over 90% in the next 3 to 4 years. Brill, myself 'Clare', and Nigel are now ready for questions.

Q&A on BT Wholesale and Openreach

Paul Sidney – Credit Suisse

Just one quick question, how can Openreach, going forward, incentivise the likes of Sky and TalkTalk to start selling the products more aggressively? i.e. the fibre products and can you introduce discounts for certain volumes, for example, just really how you think about the next few years and how you can incentivise it.

Liv Garfield

Well there are scale discounts in place now and, certainly, two of the big three CPs have signed up for their scale discounts. So I think it depends on what they want to spend their cash on at the time. So, I completely agree that you would expect to get a scale discount, if you are going to be a scale player out there, and that's how it's set up now. The doors remain open to continue to discuss those things, and I think it's already a really good value product already, it's the main strategic intent to price it as good value on the basis that it's then affordable for all to come in on.

Paul Sidney – Credit Suisse

...and self-install?

Liv Garfield

So, the two other things that have always been said that people wanted, we've delivered. One of which was self-install, that is being delivered this year. That was always something the external CPs needed to launch fibre at scale, that goes live this year. And the second thing was volume discount for scale, and again, that's been live for the last year.

Nick Lyall – UBS

Could I ask Liv on the volume numbers, you talk about fixed line renaissance, how does that affect your thinking as you go to a WLA review, in terms of increased volumes and the potential for even lower prices?

Liv Garfield

Clearly it would be factor that would be played into it. There's also a whole heap of factors the other way. What we'll probably find is that there'll be a bit more volume, in terms copper net adds than assumed a couple of years ago, and also there are a chunk more costs that weren't picked up in the last round related to repair volumes, related to weather conditions, climate for the future, related to the fact that broadband surcharge got totally ignored in the last charge control. So I think there are some more negatives that I don't believe were factored in last time, and there are positives that weren't factored in last time.

Nick Delfas – Morgan Stanley

I just wanted to clarify what are the extra costs, what is the broadband surcharge, and will the pension be reopened as an issue to be factored into your costs as well?

Liv Garfield

Pension is Ian's favourite so I know he'll want to answer that one.

Ian Livingston

On pensions, we'll continue to make the point and, we think it came to the wrong answer last time. But it could be one of many points we'll be making over the asset value, and the points Liv made about EU prices, and some of the guidance. So we think it's a very different environment from the last time we had this review.

Nick Delfas – Morgan Stanley

What's the broadband surcharge?

Liv Garfield

The broadband surcharge. So when you analyse how somebody uses their line, in previous times it was for fixed voice. Ofcom were looking at previous data, they would have been looking at it just on the basis of what did the customer complain about, when did the faults get raised, and it wouldn't have had the broadband element factored in. In order to use broadband over your line, clearly, it's got to be more stable, it's got to make sure that a slight bit of crackle that you might be fine with for a phone call, will immediately interrupt your broadband service, you will not be fine

when you want to watch TV. So there is an increased element of faulting as a result of broadband surcharge.

Nick Delfas – Morgan Stanley

And if could just ask one follow up. Tony mentioned there will be a change in reporting regarding regulated and non-regulated, is that going to affect Openreach, what's the thinking behind that?

Ian Livingston

Well, I'll talk to that.

Probably one of the biggest effects will be actually in Wholesale, and it doesn't affect what is done in each of the parts of the business. It's really aligning it more with the regulatory accounts, just in terms of the allocation between certain things. And also, frankly, the fact we are simplifying the business, in a number of ways, we are taking out internal trades, and things like that. So the biggest differential will probably be to Nigel's part of the business and then there'll be some small other changes around the place.

James Ratzler – Newstreet Research

Wholesale had a very strong fourth quarter, in terms of revenue, how much of that would be down to what one might say is a one off contract booking, or is that now a sustainable return to growth at the top line?

Nigel Stagg

I think it's partly seasonal. Q4 is typically influenced by one off revenues, and then there were one off events associated with contract signings, that occurred in Q4 as well. So it's not all underlying performance, but the underlying performance over the previous quarters, you know, indicate consistence in terms of the trend.

James Ratzler – Newstreet Research

Can you quantify how much the contract helped?

Nigel Stagg

No, sorry.

James Ratzler – Newstreet Research

Just on your regulatory vision, you do place quite a bit of faith in the European model that Neelie Kroes is espousing, we've had some vocal opposition from BEREC I mean. Ofcom historically has looked at regulation on the return of capital point of view. Are you suggesting that the approach that Ofcom had historically could be abandoned?

Liv Garfield

No, I think what I'm saying is that, all NRAs have been given quite a bit of guidance, they must accord the utmost respect to whatever comes out of the EU. So, for many measures on our Wholesale pricing for fibre, we think that we are good value. And whether you want to take the new EC recommendations, we think we are good value. If you want to take cost orientation, we're good value. If you want, in a number of different ways we think that our fibre pricing is fair.

Ian Livingston

On any measure, a converging Europe has got to be, in relative terms, good news for us. That was the point. And Neelie Kroes' recommendations actually adopted many principles from Ofcom. So I think Ofcom were in many ways very pleased with a lot of what Neelie Kroes had to say, because that wasn't where they started, but it recognised that, actually, the UK fibre model has been really successful, simple as that.

Wilton Fry – BoAML

You've talked about small cell deployment in presentations today. How much of that is going to be LTE embedded in the next variant of Home Hub, and how much will be picocells strapped to the telegraph poles?

Liv Garfield

We're right at the outset so we couldn't give you predictions or that level of quantification. Constant conversations with customers, Nigel's also discussing with his, so all options, it will depend often on demand.

Simon Weeden - Citi Group

So you're giving away £1 billion worth of content, not straight away, I accept, but I think the plan is you get more broadband customers and you get more TV customers and a lot of that could happen between now and mid-August, which gives you about three months to get them all connected. But the question is how do you do it? And do you have the capacity? Should we expect a bit of a slowdown in coverage expansion whilst you devote more resource to connections, to what extent is Openreach involved in switching on the set top boxes and getting into engineer-installed YouView boxes?

Liv Garfield

So, as you know, I spend no money on content, I'm broke after the £2.5 billion on fibre. So, we are involved and, Gavin has awarded the contract to ourselves and one other in terms of the in-home work for TV connections and in terms of getting ourselves ready, we've got all of our customers now forecasting three months out for all of their products. And we've taken those forecasts from the various CPs, and factored and resourced to manage everyone's current predictions. We've had moments in the past when somebody has suddenly done something totally different in the market place, and changed that to the tune of 45% in a single one off. That I'm not geared for, but on everything I've currently been given as a prediction, I'm very confident that the engineers are lined up and ready to deliver, I don't anticipate it being a slowdown, impact or anything else.

Andrew Lee – Goldman Sachs

It's just another question on the fibre demand from your competitors and ultimately, their customers. I mean, either your competitors aren't pushing you or all the customers aren't demanding, but the take up of fibre outside of BT has been pretty slow. So what changes that status quo, and drives the demand for fibre outside your base. Is it self-install, is it the TV acceleration from competitors like TalkTalk over the next year, and what's the timing of that acceleration in demand, basically, what's supporting your view that you put in one of the slides that you have 4-5 million fibre Openreach users in 3 to 4 years?

Liv Garfield

That view of 4 to 5 million Openreach users is based on a 20% take up model, that's all it assumes. So it's no different to what we've ever discussed before. That's what we perceived will

be the kind of take up, so we've assumed that. And I can't comment on Gavin, Jeremy or Dido's plans, that's for them, any that they've shared with me remains confidential rather than anything else, so you need to talk with them. I do believe, if you look internationally, that self-install has helped with some markets, I guess it is only live in one or two, but it has helped in the markets it's been in and I think TV definitely helps the market it sits in if you look internationally to these trends, but we'll have to wait and see what everyone is doing.

Ian Livingston

And the other thing is, we've got 1.5 million customers today, we added half a million in the last six months, and if we are adding half a million in the last six months, and we are expanding the base, as a phrase 'do the maths'. You don't actually need to see our increase in the pace of take up in order to get that. You know, 3 or 4 years of half a million in half a year...

Tony Chanmugam

20,000 customers from outside Retail in quarter 1, 59,000 customers outside Retail quarter 4, a trebling.

Liv Garfield

Yeah.

Ian Livingston

And I think the thing that will cause them to do so is customers are demanding it, you can see all the numbers, that will be their call.

Steve Malcolm – Arete

I was going to make that point, and sort of come back to regional assumptions on fibre because, you've talked about the 'S' curve and clearly volumes are rising, 270,000 in this quarter. I mean, the original 20% assumption on any sort of 'S' curve, does that not make it a little bit conservative in 3 or 4 years' time? And you've got unit costs down, which you mentioned as well, you've taken your capex from £2.6bn to £2.4bn, could you give us a sense of the original multi-year payback, you've talked about double digits, where you think you are today, and whether you think 20% is a little bit conservative on a ramp in volumes we are seeing now?

Ian Livingston

It's going well, would be what we'd say. In the case, as I said, we've had early double digit years. We targeted costs reductions, we are achieving that, and the take up seems to be being done, but we don't know where the top of that 'S' curve is, maybe it's a long way off. If it is, as I said, do your maths, and actually 20% looks conservative but it could be that we may find that in some of the earlier things that, when you reach a certain percentage it doesn't grow any more. At the moment, do I feel a lot more comfortable about choosing 20%, yes, clearly, particularly, on some of the areas where speeds have been low, it's very attractive. But at the present moment, it looks an achievable assumption. When we first started, there were lots of people telling us it's completely unachievable. We don't particularly want to go from unachievable to achievable in one shot, we just don't know where the top of that 'S' curve is. At the moment, it looks pretty reasonable, but that's all.

Steve Malcolm – Arete

Does it remain your plan?

Ian Livingston

That's still the plan, that's absolutely still the plan. But a degree of confidence, a feeling there's less downside to it, it's certainly stronger now than it was, that's what I'd say. OK. We've run out of time, thank you. Now the next stage, and in fact the last presentation, apart from the conclusion, Luis Alvarez at Global Services, Luis.

BT Global Services - Luis Alvarez, CEO

Slide 80: Thank you Ian. My name is Luis Alvarez and I run BT Global Services, and I think that I better do this well because, over the break, you told me that I have no career as an actor. So... by the way it [the Challenge Cup video played earlier] says Bobby Barcelona and I'm a Real Madrid fan, in case there is any doubt about that.

Slide 81: So, well, I will try to share with you a little bit about Global Services and the things that we have been doing in the last years. But probably, more importantly, what we do for our customers and the challenges and the opportunities that we have.

Slide 82: If I look to what we have been doing in the last year, probably the best summary would be that we have been working in terms of consolidating what we have coming from acquisitions, coming from large contracts, and in fact, what we have delivered is the leadership position in the market. So we have a better business than we had four years ago. However, we have not delivered yet the financial performance that we can, and I think that, as Ian mentioned before, and you all know that is one of the biggest opportunities that we have.

In this sense, we have been able to keep acquiring good customers around the globe. We have quite a solid customer base, we have been improving the way we manage our contract. Just for you to know around 30% of our revenue is coming from the top 20 contracts. So if you see the numbers around the total revenue, it's an amazing opportunity to make higher the share of wallet, in the rest of the customers. We have enhanced our portfolio, so we have better products in the market, that are well recognised by our customers and by the analysts, and something that is also quite important for us, the expansion of high growth regions has provided a much better landscape and infrastructure to prepare for growth, and we are doing that both supporting our global customers who are expanding in those regions, as well as working with the near emerging multinationals that are coming from that. Even in the UK we do have still a good opportunity to increase our market share in many of the products and services we have.

Slide 83: And the beauty of this is that the work we have been doing has got, not only the recognition by our customers by giving us more business, but also by many of the analysts of the industry. I think that you have here a couple of examples, you can read the reports from Ovum also. But I think that the most interesting thing for us is the achievement of this leading position is helping us to open new conversations with customers. You can see, even having a double digit market share on the large deals in the three main regions that are referred to by ISG, that was the former GPI, that is providing us also the opportunity to grow because it's quite still a fragmented market.

Slide 84: And interestingly, we have more to do. Why? Because it's quite obvious. Right. I think that if you have seen the numbers, we have been able to secure a good strong order intake in the second half of the year, around £4bn, and considering the tough economic conditions, considering the pressure on government budgets, what is happening in European countries, also in the financial services sector, and probably many of you recognise that in your companies, who have probably half the number of seats in the trading rooms now compared to five years ago. But, interestingly, in that market, we have been able to keep winning. It's true that the deals in the market are shorter, are a little bit smaller, because they are more diverse, so they split, for example, the pure IT for the software development the development for the telecommunications or the network IT services. But it's also true that it's given us a good landscape to continue to grow our business in that area. The second thing is quite obvious that this economic conditions, especially, as I said the pressure on Europe and the financial services sector, has made that have

pressures on the revenues, that have also translated in pressures in the margins, right, and the way to balance that pressure on the margins is, clearly, to accelerate our cost transformation. And in 11/12 we have done 1% of cost transformation; this year that we have closed we have been in the range of 6% , and we should continue to doing that in an accelerated way, as you have heard from most of us today. The third thing that is quite important is, in order to do that, we need to continue to have the programmes that we have to improve our cost base, keeping, continue to win in the market, in order to continue to deliver EBITDA. Having been able to have an EBITDA minus capex of £100m, well, clearly it's much better when you have also the view of the cash flow. Well, to be honest, and I was discussing this morning with my team, to be running a business of seven billion that generates £6m of free cash flow is just an opportunity [inaudible]. And, clearly, we better do it.. I think that, for us as a team, this is somehow what we are planning is to respond to the market by seizing the opportunities that we have, managing the margins, and ensuring that we have our cost base much better managed in order to deliver the returns, and the cash flow that we can achieve.

Slide 85: Interestingly, some of you ask, well, could you give us a view also of how do you see the market. And we see basically two main trends. One is what is in the agenda of the CIOs and the CEOs that are our customers, which is mainly about flexibility, being able to manage the challenges they see in the customers, and also balance the new investment in new regions. I was discussing with the CIO of Nestlé, who is now opening a new manufacturing centre in Rio, that is one of the examples of people managing to enter into new markets, and balancing that and connecting that to the rest of the globe. The other area where it's clear that the technology is in our favour, is that most of the companies continue to need to connect, and to have global networks. They need to open the collaboration. They need also to ensure that they manage the data, the information they have in their hands in a much better way, the whole big data and they want to have flexible costs. They have what we call the Cloud services, and we want to talk about that a little bit later. And finally, you know about the whole security and risk management is very high on the agenda of our customers. So I would say that the overall is quite a fragmented market, it's a demand that is growing and what we do has become a strategic in the agenda of our customers rather than just operational on a day to day basis.

Slide 86: So what is the response, the answer of the industry, in general, to this model? Well, I think that the model of the industry is saying, well, there has to be a very strong, resilient, efficient network, that is able to provide that connectivity to offices, to manufacturing centres, to research centres across the globe in a seamless way. And this network could be either built, as we have just hear Liv say as we are doing in the UK, or it could be done by partnership, when you interconnect with people. So you own and run the big highway across the globe, but then the last mile, the small roads, is in partnership with local suppliers and players in the market who have a consumer market in their business, consumer business in that market and then they can really manage that in a much better way. And then you have around the network a number of services in order to allow your customers to concentrate and to focus more on the core business.

So you would say, well, if everybody is able to do this, why do your customers buy from you? Well, I think talking to all our customers, we have identified four major areas why they buy from us. The first one is because, not only do we have global assets and people, but also we have what we call 'Glo-cal' presence. So we do have people in Brazil attending our global customers and our Brazilian customers, in Italy, of course, in the UK, or in Singapore, and we are able to leverage the knowledge and the capabilities by having service centres around the globe and by having also the ability to interconnect and to move the people to support our customers on a global basis.

The second key differentiator is that our expertise, our relationship with our customers is based on understanding how they use the technology for their industries. So if we work with a bank, we understand which kind of banking they do. If it's wholesale, if it is purely retail. If we work with an oil and gas company, we understand if they are now in the downstream, or if they are in upstream, and what are the different requirements they need. And we do the same thing all across a number of industries where we are clearly different in the market from our competitors.

The third one, although it's a technology business and the infrastructure is absolutely critical, the skills and the knowledge of our teams is essential to continue to provide our services to our

customers. We have around 4,000 professionals across the globe working with our customers in order to make this happen.

And, finally, one of our differentiators, is the economies of scale that we generate by the strength we have in the UK, so that we can leverage that to provide services across the globe. A couple of examples, what we have been doing in Hull, as well as what we have been doing in financial services, as I will refer to later. So this is the way we differentiate and why our customers buy from us. The interesting thing is that you can talk about the individual components of our services, our customers, around the portfolio we have.

Slides 87: So the core of what we do for our customers is just the traditional data network. So we connect customers, so we make sure that it appears that everybody who is working around the new car in Fiat, when they develop the Fiat Cinquecento, they appear to be in the same room, and they appear to be in the same room, being in Brazil, in Poland, in Turin, or in Asia Pac. And at the end of the day, it's bringing to reality, what Thomas Friedman called 'The World is Flat', which I'm sure you have read. And it's making sure that customers like Fiat, and the first day I worked with them, they had 80 different suppliers around the globe, and now we work with them to have one unique network.

We have been working here in the UK on N3, creating a network of 51,000 connections providing to the network of hospital and practitioners, the ability to access to all the Spine, systems and information. Also, we have been able to build things like the branch network of Nationwide (700 locations here in the UK), and examples like global networks as the one we have announced with Rolls Royce which I think has around 160 locations worldwide.

This is the data network. So what is happening on the networks today? Well they are the base so that you add on top of this incremental services.

Slide 88: The most basic one is traditional voice. So we call people, now this is becoming more into IP and more into a collaboration. We have announced the agreement with Manchester City Council to move them from regional voice into IP. We have been working with Philips around the globe - we have 150 telepresence, high definition video sites around the globe, where we could provide the services. Or we have been doing things like we've done with Tommy Hilfiger, creating what they call the virtual dressing room. So they have five different rooms around the globe, connected in high definition, and they share the tools and they can try the textiles in the different places, so they work together and they shorten the cycle of the new developments.

Slide 89: A second thing that is on top of the network is related to the capability of compute, being able to provide computing capability, computing power to people in a way that they can use, not only the network, but also the traditional data centres. Clarins is a good example (I'm sure some of you are customers of them, as I am), where we do provide not only the network, but also the IT services so they can really focus on having much better cosmetic products every single day. Another good example of using Cloud services is Schenker, the logistics company. We provide for them 60,000 emails on the exchange platform so that they can rely on us to provide our service for their own use.

Slide 90: The third thing that we have on the network has to do with how our customers are better able to serve better their own customers, and that traditionally was called the contact centre environment, where people call on the phone, and someone was answering that. This has clearly evolved and now what we have announced this year was the ability to provide to one single agent the capability to understand the messages that are coming from email, the calls that that person is receiving, but also new social media, like Facebook or Twitter feedback.

And this is allowing to have a unique new relationship with customers. We have done that on the Cloud so that the customers pay per use, rather than having to make significant investment, and we have signed deals with Emirates, where we have a contact centre here in Manchester and another one in Abu Dhabi. We have been doing things for DWP, which is the largest contact centre with 30,000 seats, or with Tesco, which is the most recent one, which is 1,800 Cloud agents that are using these services.

Slide 91: The fourth thing which is absolutely critical these days is around security. I was this year in Davos, and it was in almost all the conversations. Cyber security, cyber-attacks, you have seen what has happened quite recently, I think it was 3 or 4 weeks ago, the tweet account of Associated Press, someone did a beautiful phishing, they took the account and they published that there were two bombs in the White House, Obama injured, right? And I do recommend you look in the Internet and see the drop of the Stock Exchange in New York.

This can happen. We've been with a number of companies that are really, really under threat and what we have experienced in London, in London 2012, there were more than 200 million malicious attempts to connect to the website during the Olympics period. And if you don't have the tools and if you don't know that this is happening, well, you'd better act quickly. In Turkey now it is mandatory to have once a year an intrusion test, as part of the banking regulations. We have been working with the Ministry of Defence in the UK and, of course, we have been first one to get the IL3 certification.

So many of our customers say, well you know what, I not only want that you are able to provide me the individual products, but most of them they do buy from us a combination of them. In reality, they want that we manage the services for them, to different levels, but we have customers like Novartis. Novartis has been traditionally a customer of ours, we have been working with them, and this year we signed an extension of the contract because they have acquired Alcon and they say well, help us to do the integration of this very quickly so that we can really create and provide more services faster to the market.

Or we have just announced here in the UK Cornwall, which is a ten year engagement, what is a large and complex contract that we are going to be able to provide services to the citizens. And this is exactly the kind of things we are building. And we are building this for a number of segments of customers.

Slide 93: Corporate customers, like the ones we have mentioned, like Unilever, public sector companies, both in the UK and globally. We run NATO, we run the European Union, and interestingly, we support and work together, as Nigel said, with some companies in the telecoms sector. But as you can see, and it's probably the most important thing on this slide, is a well balanced structure of customers, which gives us a lot of confidence on our ability to make much better profits over time, and to be able to provide more services.

Slide 94: The second thing is that with these customers, we work around industry expertise. So we are creating specific assets that are making us unique in the market. So what we have been doing on health - 900,000 people connecting every single day to use the services. Or in the financial services industry and the information industry. I'm sure you are all users of BT Radianz. More than 15,000 connections around the globe where you have information, transactions, and the access to different stock exchanges, different bits of information. This week we have announced that we been incorporated Bovespa to that Cloud for financial services.

Slide 95: And the third thing on the way we provide our services is on a geographical basis. As I said at the beginning, we are 'glocal', and we are 'glocal' because we are extremely strong in the UK, where we have challenges, because the traditional calls and lines business that was on the traditional voice is moving more into a digital environment, onto the IP, so we need to tackle that, and to manage that. But, at the same time, we do have opportunities to make the UK a market where we can really start seeing some improvements. We do have in Europe a very strong presence in some countries, we are struggling clearly, in Spain and Italy with some of the issues that we see because there is less money available to invest in the kind of services we provide. At the same time most of these companies are investing abroad, so we are benefiting from that in countries like Brazil or Colombia or China. And also, of course, in the US, where we do have still an opportunity to continue to grow, basically working with companies that are multinational based in the US, that are able to provide services around.

Slide 96: Interestingly, with this to some extent, we are just linking into the strategy. A strategy that, for us, is absolutely top priority to improve the services we provide. Why? Because happy customers buy more, right? Absolutely no doubt. And in our industry it is absolutely essential. It doesn't work if you have 98% of availability, right? You need to work with your customers to define extremely well the service level agreements and the level of service they need.

You also need to ensure that you keep doing the cost transformation and, at the end of the day, that we keep investing around the areas that today are the reason why our customers buy from us. And this should then support us to deliver the financial performance that today we are not delivering yet, as much as we would like.

Slide 97: So, if we look to customer service, we are making service a differentiator in the market. We are not yet there, we have made some improvement, but there's a huge opportunity. By making more and more investments and working together with better tools across the piece, and you have heard that

Slide 98: We also have a very strong plan in terms of cost transformation. I think that we have mentioned several times today, our ability to consolidate some of the networks that we have, and this is providing our customers a better service, at the same time a lower cost base for us. When you open a new node in Vietnam, you reduce your cost base to have long lines there, and then you can provide better services there. You aggregate the demand and, for example, when our customers they want to operate in Colombia, rather than buying two or three lines here or there, we aggregate the 700 lines we have there, and we are able to get better prices for that, and we need to continue to do that in order to improve our cost base.

Or the improvement in processes. We have no doubt that the lead to cash that Tony mentioned before, we have reduced 30% the cycle time, and as you know well, shorter cycle time means that we are going to get the bill in sooner, but it also means that your cost base is lower and, at the same time, your customers are going to be happier. And the way we are managing contracts with shared services, that is providing us again new synergies.

Slide 99: So I think that there is a huge cost transformation programme in order to leverage the potential that we have. But it's also the investment part where we see opportunities in the market, opportunities that are related, as I said, with high-growth markets, where we really believe that both our global customers and the regional customers, like HSBC or Zuellig Pharma, are becoming the new multinationals. We have signed this year a contract with Nutresa from Colombia, which is one of the largest food companies now in Latin America.

It's also clearly an area of opportunity - our industry expertise. And I mentioned before health, I mentioned financial services, but what we have been doing on the logistics environment by creating BT Trace, working together with TNT, or the Life Sciences cloud that we are building, are two big opportunities that could give us again, a different shape in the market. We keep doing that with our professional services people. We plan to move from around 2½ products per customer to 5 products per customer, and that is going to increase the share of wallet as I said at the beginning.

And finally, no doubt, that we can continue to benefit from the economy of scale that we have in some of the UK operations and services, things that we learn here, that we can translate to other places. So, for example, we have a proposition in the UK that is called Lighting Up the High Street. Now we have just signed with Desigual, the brand you probably know, a project in China to implement 100 shops using the same kind of common retail-in-a box that is going to provide this service to those customers.

Slide 100: So I think this is, overall, a glance of where we are in Global Services, and what are we doing in order to grab the opportunities of the market. I think that, as a summary, why we are planning to be successful.

Well, we are becoming a better business, we are building a better business, based in three basic things. First, by getting better and closer to our customers, understanding better what they do, and building on that leadership that is recognised by the industry, and using the existing capabilities on our customers to sell them more, and that is clearly the increase in the share of wallet. We also have a big opportunity to make sure that we understand where they are investing and would benefit from those investments they are doing, and we also provide them services so that they can concentrate on their core business.

The second key element of why we are making this a successful story is I think that there is something in the industry that is absolutely critical. It's not only understanding your revenue, and not only understanding your bottom line, looking to your cost base, I think how you make your margins is critical. And the way we have learned to manage our contracts in the last years is, I think, a unique tool to make this happen.

We need to do a lot more right? We are not best in class and we need to be. There is clear an opportunity of managing better the relationship with our customers, the way we deliver service, how we have still a lot of costs of failure that is damaging our P&L. But we do think that we will have a big opportunity on that, and we keep linking that to the improvement of the network infrastructure, as well as our ability to work better with our suppliers and clients, and we have used some examples before.

And the final one, is speeding up the cost transformation. The way we operate, the way we organise, simplifying our back office functions, simplifying our end-to-end model, removing bureaucracy that we have been creating in some moments, and making sure that, at the end of the day, we are able to deliver a better service for our customers. And this is the reason why we are planning to match the leadership that we have, as a recognised player in the market, with a financial performance that we can deliver. So if I use something, a sporting expression that I learned yesterday from my son, who is now studying here in London, it is just all about pulling our socks up. Thank you.

Slide 101:

Q&A on BT Global Services

Maurice Patrick - Barclays

A question around capex inside GS, and the extent to which how much is discretionary, success-based, how much you have to spend just on maintenance. And then the split perhaps around network and IT in terms of how much you spend on capex. Thank you.

Luis Alvarez

I think the overall capex is probably around 50% on customer capex and 50% on the rest. However, it's difficult to make that equation because, clearly, we benefit also from a number of investments that we share across the group. So I think that is rough idea of the investment.

Tony Chanmugam

Can I just add to that because I don't think there's a hard and fast dividing line. The reason I say that is, if you look at CPE and if you look at Network, where does it split? Sometimes you need to have CPE to make maximum advantage of the Network, and vice versa. Also what do you buy, what do you lease. I think you really ought to be fixated with the GS cash flow, and not the component parts of it.

John Karidis - Oriel

It's very difficult to benchmark BT Global Services. What is a reasonable free cash flow number, given your £7 billion revenue line?

Luis Alvarez

Well I think that, and probably Tony can also respond to that one, but I think that you are right, that it's difficult to have a pure benchmark in the industry, because we have a diversity of services and so on. I don't know Tony if you want...

Tony Chanmugam

There's a lot of speculation on the industry benchmark, they tend to talk about 8%, 9%, 10%, 11%, 12%. You know we are on a journey and what we know right now zero is not the right answer, £200m is not the right answer. And so, you know, we won't give any targets but what we do know is that we are well short of where a benchmark is and we've got, in the course of the next couple of years, plenty of opportunity to increase the number.

John Karidis - Oriel

Sorry, that's a free cash flow percentage, you've quoted?

Tony Chanmugam

Yes.

Carl Murdock-Smith - JP Morgan Cazenove

Just in terms of either cash flow or margin, just in terms of the revenue split that you've given by region, I'd be interested in terms of your profitability split. Obviously, given the fact that you do benefit in the UK from the other legs of the business, but any colour you could give on that?

Tony Chanmugam

Carl you know, you've asked that question of me a number of times before, in a number of different ways. Let me be blunt.

Carl Murdock-Smith - JP Morgan Cazenove

I'll keep on trying till I get an answer.

Tony Chanmugam

No we won't give that detail.

Luis Alvarez

But even the revenue profile by region in the kind of business we run, it's not like when you have individual operations in countries that are running only with customers in countries doing business there, right? Because in reality, some of our contracts are global and you provide the services across the globe, and it's more about where you generate the billing. So it's very difficult to have a split, a pure split on a geographical basis also.

David Molony - Ovum

Can I ask two questions, one on Cloud and one on verticals. On the cloud services side, you gave us some great examples of I suppose tactical buying of Cloud services by different customers. But I wonder if you could tell us, what's been the impact across your major customer base, as a whole. You know, how many of your top 100, your top 200 customers are looking at buying cloud services, within a managed service contract that they have with you now. What are they spending, how is that affecting the equation, in terms of your outlook on revenues from those managed service contracts. And on the vertical side again, you know, some nice examples of some of the new vertical solutions you have, I think you mentioned Trace, Retail and other examples in logistics and so on. Overall, though, looking at your anchor vertical sectors, so financial services, in particular obviously there's been focus on that. Do you think that's changed? I mean, fundamentally, is that going to change what are the key vertical for you? Is financial services going to come back to be the sort of pillar sector that it was for you?

Luis Alvarez

OK, so I think in terms of cloud services, it's going to be the first. As you have seen, there are a number of cloud services, so services that I provided from the network. If you talk now about voice services provided by the network, there is an increased demand for that. We have now 140,000 ports providing services to customers, and we do have conversations on large contracts. So I think that there is a trend of using more the network as the support of the voice.

When you look to contact centres, well no doubt that, most of the customers, when we are planning to open a new market, they want to have the flexibility, they prefer the model of the cloud and the example I used with Tesco is a good one. We have signed a contract with HSBC to provide this service across 60 countries, which is another good example of that. And the cloud used in terms of BT Cloud Compute, I think this is still in the industry a little bit, I would say, blurred. Why? Because for example, customers that say "I have my private cloud." Well, we have private clouds for a good number of customers. We have Mapei in Italy which is another one that we have signed whereas GS we do have the hosting capabilities, we have the network, we have the security, well, is that a cloud? It's a private cloud because, to some extent they use that around the globe. What we are building for BAT, for British American Tobacco, is also a cloud, a private cloud. But the usage, the extensive usage of cloud services in the computer arena is just still for testing purposes and so on.

And when you look to the verticals, in fact, this is one of the first applications of having cloud services. The BT Radianz is the best cloud for financial services. We have just connected a number of new exchanges: ISX, we have the Swiss Stock Exchange also connected there. So we keep connecting people around the globe to the cloud.

And in terms of the opportunities and new areas, well it's clear that the pharma industry, as I mentioned before, Schrödinger who has announced I think yesterday or the day before, they have an application called Seurat, that is now in our cloud, that is being used by scientists to shorten the drug cycle. Why? Because they have the information faster in a place that they can shift, right, just as an example. After Accelerrys also has put HEOS, which is another application in the same pharma cloud, as examples.

Tony Chanmugam

Any more questions? OK. Thank you very much. I think Ian would like to close up.

Closing remarks - Ian Livingston, Chief Executive

Slide 102: A few thank yous. First of all, thank you to all of you, thank you for staying through the marathon. We try and do this only every three years, so it's like two hours a year. We intentionally try to take you through to understand better each of the parts of our business. Actually, before I

close up, I should add a few other thank yous. I want to thank the IR team, I think, they've done a great job, the slides are clear, hopefully, comprehensible, I think the organisation of today - thank you to them and thank you to all the presenters.

Slide 103: Just to finish up, as I said, we've tried to take you through each of the individual parts of the business and understand they each have an opportunity, they each have challenges. But they each are following the same strategy, which is actually starting at customer service, leading to cost transformation, and have real opportunities for growth.

And it's these investments we are making today, and that we can make today, that are providing those opportunities, and they are right across our business. Once upon a time there was a discussion about an engine of growth within BT. There are a number of engines of growth, and each of the businesses have their own engines within it. Hopefully, you see it's the same strategy. We are not about to change it, it's about execution. It remains about execution, and that is what we intend to do. We have delivered up to now, but we've got a lot more to do.

Slide 104: And you wouldn't expect me not to have this as the concluding slide. I think I've had it in most quarters, and that's the truth of it. Mike started off talking about a better business with a better future. That's the strategy. Progress made, but a lot more to do. That's where we are in.

Thank you again for all of your time, we have as you leave, a goody bag. It has a number of things, some of them not unrelated to BT Sport, but includes also a nuisance phone, which blocks nuisance calls. The IR team have ordered five, but thank you very much for all your time, thank you for all your questions, or almost all your questions, and have a really excellent weekend, thanks very much.