BT GROUP PLC

Q2 2013 RESULTS PRESENTATION TRANSCRIPT

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	Gavin Patterson	CEO BT Retail
	Liv Garfield	CEO Openreach

Voiceover

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

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

****Video showing BT's role as official communications partner to London 2012****

Ian Livingston

Slide 3: Good morning. We thought we'd start off with that video for a number of reasons. One, it's a great video. Secondly, of course the Olympic Games was delivered in the quarter. And thirdly, as if you didn't need reminding, [we're] the company that really brings you the best sporting event in the world. But we'll say a little bit more about the Olympics a short while later. I suspect we should probably talk a little bit more about the financial results.

Slide 4: And the message overall is we've taken some hits, hits on regulation, hits on recession and we'll go through what the actual underlying position is because there are some one-offs in there. But the net result is as a group, EBITDA was flat. Actually it was marginally up, but we're not going to try and claim 0.1% up. EPS up 7%. PBT up 7%. Free cash flow - very much in line with expectations - we said there were going to be some timing differences in this quarter. And the interim dividend up 15%, with that reflecting our confidence in the future of the business and a reiteration of our guidance for the full year.

Slide 5: Now because there are quite a lot of one-offs I thought probably the easiest thing to do was actually show you when you subtracted and added the one-offs. And there are some things that happened last year, and I stress that we were very clear with you when the positives happened last year. We haven't suddenly discovered them; those things we said last year. And some things that happened this year. We're trying to say, well, actually what's the underlying position? We've done it for revenue and EBITDA.

So first of all on revenue, if you look, and in Q2 when you take off the effect of FX, disposals - particularly in Global Services there were disposals. And the effect of the accelerated milestone. If you remember we were very, very clear last year on the accelerated milestone that actually gave us growth in Q2 last year. And the effect of ladder pricing. Ladder pricing Tony will talk about in more detail, but it was a Court of Appeal decision that caused us to have to reflect this in the Wholesale numbers, and we had to do a catch-up from the beginning of this year.

But the net result of all of that is that revenue was down about 3.6%. Now that's not a great number, it's slightly worse from last quarter, but that's the scale of it. And I would stress, we expect these numbers to improve in the second half of the year. We think there's underlying improvements in our trading and we're seeing in a number of areas investments we're making having positive effects. And of course some of the one-offs also will not be in the second half of the year.

Slide 6: And the same story on EBITDA. When you get down to the bottom line, EBITDA improved around about 3%. And that carries very much the trend. We've been 2%, 3%-ish EBITDA growth for a number of quarters, and very consistent. And the message there, with the revenue, with the challenges, we're still able to deliver on the bottom line. We're still able to deliver and in fact over-deliver I think on the cost side of it because frankly if the environment's more difficult you've got to look to more self help, and that's absolutely what we've done, whilst continuing, and I must stress this, whilst continuing to invest very much in the future of our business.

Slide 7: And Global Services, obviously in terms of the headline, the 13% decline. Actually big items there: milestone, FX. If you look at their underlying performance, down 6%, the previous quarter 6.3%, so very similar. The economic position hasn't changed. We're seeing double-digit declines in Spain and Italy. They are difficult markets for us. But we're seeing double-digit growth in the fast-growing economies.

I am encouraged, and I would point this out, by the order intake. Order intake £1.3bn, up sequentially from the £1.1bn. Some good orders. BAT, one of our biggest orders for quite a long time. A new customer to us, taken from one of our competitors. But also renewals, for instance, with people such as Mars, our extension with the EU, Surrey County Council a good win. So we're pleased with that particular number.

Now on the one hand you've got the Global Services revenue and the revenue is difficult because the environment is difficult. The other side of it is cost because frankly in a more difficult economic environment you have to work harder. And Global Services has been working harder and underlying costs ex transit were down 9%. However, there is a lot more that can be done with Global Services, a point I've made before. And a point that Tony will talk about, some of the areas where we think there's real opportunity.

In fact, Luis Alvarez, who's our new CEO, Luis, if you want to just stand up so you all know Luis and you can all go and pin him down later if you want to ask him questions. But Luis and Tony will be working very closely together on delivering both one side I think a continuous improvement in how we're doing in a very competitive market, and we're doing okay I think in that marketplace. But also on the other side delivering some of the same efficiency gains that we've seen in other parts of our business. To deliver a simpler better-quality business, but one where the financial results for Global Services are more consistent with [its] position as global market leader, and Global Services is global market leader.

Now we did see an improvement in EBITDA of Global Services sequentially. It's down year on year but up sequentially. And obviously its cash flow is worse, but very much that's a working capital story. And you can see in the chart on your right, that's a working capital story. We show EBITDA minus Capex. And what you see for Q2, it's pretty similar over the last three years. And what's been the delta between last year and this year is working capital.

Slide 8: Now moving to our Retail business. First of all on Retail on costs really, following the point made about Global Services. The chart on the left shows cost reductions in Retail and what you see is 6%, 7% cost reductions quarter after quarter after quarter. [We've] been doing this for a long time and continue to do it and we believe there continues to be opportunities. And that is despite some very substantial investment in areas such as TV and in broadband.

Now looking at the individual parts of Retail, first of all our consumer business. Revenue down 3%, pretty similar to last quarter. It's the same story, movement away from calls and lines. As you see in the KPIs today, actually calls represent a much smaller part of our business than broadband is, and we've seen that big change happening and it's I think something that will continue. But we've seen the lowest level of line loss for five years, still losses but we've seen it.

Broadband, however, continues to go well. Roughly 50% market share for the first half of the year, 47% in the second quarter. Very pleased with the progress on Infinity. Fibre net adds of [around] 160,000 and we've now got over 875,000 fibre customers so very encouraged by that. And that's been one of the key drivers, that and the growth of broadband, in consumer ARPU, which is up £5 quarter on quarter and 6% for the year as a whole. And Vision continues to do well. You've seen the Virgin numbers. You've seen Sky adds. And you see Vision actually continues to do well against both of these competitors.

<u>Slide 10:</u> And on the subject of Vision, whilst we will give a lot more about what the proposition is, how we're going to distribute it, etc. much nearer the time that we're actually launching it, because you can understand whilst we may have a clear view of plans and what's likely to happen I think it's important that we save that nearer for the launch, what we are doing is we're building up the two key areas, content and people.

First of all on content, obviously you know the English Premiership, but we've added to that. On football, we'll be showing Serie A in Italy. We'll be showing the French First Division, which I think with the growth of people like PSG and what they're doing, that'll be very exciting. We've also [got the] Major League Soccer, so David Beckham will be there. And also Brazilian League so you'll be seeing the Chelsea and Manchester United stars of the future there. Celtic can't afford them. But we've also added in addition to football. Those leagues we've just signed up could give us the ability to show 1,000 games. So a lot of really high-quality content there.

Rugby Union: English Premiership, JP Morgan Asset Management 7s, also the French League, and also, as some of you may have noticed in the paper, some debate about European leagues. We have signed up with the English Premiership clubs that any European tournament they'll be part of, we will show.

So the content's building up nicely. To answer a question you're bound to ask, we've spent the large share of the money we're going to spend. We'll look at opportunities. We'll look to add. But football and rugby are the most important things overall and they're the most expensive in the marketplace.

In terms of people, a great hire as our key anchor, Jake Humphrey. So if any of you watch Formula One, if you watch the European Championship, if you watched the Olympic Games, you'll have seen him very much the star of the BBC. So delighted that Jake's joining us. But also around content [we've got] people who've got real experience in producing sports content and great sports channels. And we actually do have now about 50 people in BT Retail who have got deep experience of TV or sports. And so we actually are building it up. But these are guys who have delivered the Olympics, they've delivered top Premiership games and will bring a real creativity and experience because what we will be delivering is a high-quality channel, make no mistake.

<u>Slide 11:</u> The other areas of Retail, first of all Business. I think business is summed up down at the bottom of that chart, which actually shows an improvement in the underlying position for BT Business. We mentioned this issue of trade sales really drops out the numbers in Q2. So [we're] trying to give a better sight of what's happening in BT Business. And basically you see we've gone from being about 5% down year on year to about 1% down year on year in underlying, excluding trade sales.

We're winning in the marketplace according to Ofcom numbers. We're winning market share. Ofcom numbers are a wee bit out of date but no reason to think that's changed. We're growing well in the ICT market. So the SME market remains difficult, no question about it. But we think we're doing pretty well in it and I think the trend is in our direction as it is with the consumer market.

In our Irish business, the quintessential example of a business where the economic environment is not necessarily going entirely in our favour. But if you do the right things, you need to do them well. [Underlying] revenue up 1%. We've had some really good contract wins in Republic of Ireland, big corporates, public sector, but actually also a very big win with Sky. We will be effectively providing them with the services to allow them to aggressively grow in the communications market in Republic of Ireland.

And in Northern Ireland, which is the other part of our Irish business, we've got fibre that's available to over 90% of Northern Ireland and 100,000 people have taken it up. Now a real credit actually to the Northern Ireland Executive. Very early on they decided to invest in fibre, did it a few years ago, two and a half, three years ago, and we're seeing the benefits. And I think it's a sign for the rest of the UK what can be done both in terms of fibre delivery and also the take-up. So congratulations to them and to the Ireland team for delivering that.

<u>Slide 12:</u> And the other part of BT Retail is Enterprises, a very important part of our business. It's down slightly. That reflects on the one hand BT Directories and Redcare being slightly down, but also that our conferencing business, which has been quite a good growth engine, it didn't grow as much in the US. We saw very, very strong growth in many parts of our conferencing business, but the big weight of conferencing has been in the US and we didn't do so well. That wasn't a market issue; that was a delivery issue. And the new management team in that area I know are turning that round. So I think we'll make a lot more progress there.

But also it reflects the fact that audio conferencing as opposed to video conferencing has become very commoditised. And it's very important for our business - and it doesn't just apply for conferencing; it applies across our business - where things are commoditised you've got to look at how do you make it better. We've done that in broadband [which] I think is a good example. Everyone said cheaper, we said better.

And one of the ways we're going to do that in audio conferencing, a key way, is an exclusive agreement we've signed with Dolby. I'm really quite excited about this because what this will allow us to do is first of all take away a huge part of the extraneous noises you hear when you've got audio conferencing - people and mobiles and things like that. But also it makes the various participants sound like they're coming from different parts of the room, so it really enhances audio conferencing. And it takes it away from the only question about audio conferencing being how much per minute to actually being far more qualitative. And I think it'll make a real difference.

So we're excited about that and it's something we expect to launch in Q1 of the next financial year.

<u>Slide 13:</u> Our Wholesale business. Our Wholesale business was probably the one that can reasonably say it had the biggest impact from regulation or an unexpected impact at least. And that was the impact of ladder pricing, which I mentioned earlier. And actually excluding that we're seeing a much lower rate of decline and leveling off both in the revenue and EBITDA for our Wholesale business. You see that in the chart on the right-hand side where the black line's EBITDA, the pink line is revenue and we were seeing that leveling off.

And the reason we were seeing that leveling off was, on the one hand, improvements in cost. And I think again it's a sign of what we can do. The SG&A costs in our Wholesale business were down over 20%. Now SG&A represents quite a small proportion of Wholesale's overall cost base, [which contains] a lot of network costs and things like that. But it does show what can be done in the course of a year in terms of the change in the cost base. And that is whilst delivering much better service.

The other side to it is of course the revenue side. As much as people may wish it otherwise, the technological trends, and regulatory trends in terms of LLU, in terms of movement from traditional to Ethernet IP, they're happening and they're going to impact. So once you accept that, you say “well what can you do”? And the answer is you change your business model.

So a good example, we launched something a couple of years ago called IP Exchange. We decided to invest early on in a platform, a global platform, that allows basically the exchange of IP traffic between telecoms operators. It is growing at a great rate. It grew 90% in terms of minutes [against] last year. And it's a business that we believe can be worth many hundreds of millions of pounds to us over the next few years. It is growing very, very quickly, and the future is IP. And what we said is rather than pretending it's not, let's actually be at the core of that. And I think we've got a decent advantage in that business.

Also just the other [area of focus in the business model] is managed services and also the movement into 4G [which I’ll say more in a moment].

So order intake of around £300m in the quarter, another good order intake for the quarter.

And also something we're proud to have done, we've been working very closely with EE on the launch of their 4G service, working very hard. And we'd like to do that and will continue to work very hard with them because 4G of course needs a lot of bandwidth. We're very happy to provide that bandwidth. And as the other 4G [spectrum] options [are allocated], of course we'll be looking to work with the players in that sector to provide those services. So some opportunities as well as some challenges in our Wholesale business.

<u>Slide 14:</u> Openreach. Openreach was also hit by regulation. It's just that we expected that piece of regulation. We knew that the regulatory price changes were going to hit by about £200m over the course of the year. It's about £40m-ish this quarter. So we knew that would happen in the business and in that context I think, both the revenue and the profit performance, of broadly flat, is a good performance.

That partially was helped by net operating cost being down. Now that was despite the impact [of] a lot more repairs, over the course of the last quarter. Basically it was an incredibly wet spring and we had the wettest spell for 100 years. It meant the water table's a lot higher, which meant we had a much higher level of repairs, particularly underground repairs. That had a couple of impacts on it, some higher cost. And we will see that again next quarter as we carry on bringing down the work stack.

But also it had an impact on our provision volumes because basically we diverted resources that otherwise we'd have done on provision over to repair. So it meant that we did less provisions than we otherwise would have done. And that I think is probably a key if not the key reason that the physical lines came down by 38,000. Actually they were up in September and they've been up again in October as we start to unwind some of the impact of that.

And despite all of that, 174,000 broadband net adds. A good number. And it is interesting to reflect, if you look at the chart on the right-hand side, this shows over the last decade the overall position for cable against the BT network in terms of broadband. And if you went a decade ago about two-thirds of all broadband was provided by cable. Today it's down to about 20%. So clearly having an open competitive network and the quality and range we've got is a good impact. And you see there's been a really big change in the market dynamics there and we continue to see strong growth on our broadband network. And of course the move to fibre will help.

<u>Slide 15:</u> And on that very subject, delighted, over 12m homes now passed. We've been adding very consistently around about 100,000 homes a week over the last quarter and that's the fastest roll-out programme I believe anywhere in the world. We originally said, if you recall, when we did the fibre programme, that we expected to pass two-thirds of the UK by the end of 2015. And I know there was a number of you, I'm sure nobody in this room, who said it would cost a heck of a lot more and it would take a lot longer. It's within budget, decently within budget, and also we're

now saying it's going to happen at least 18 months earlier. So I know it's a very unusual thing, a telecoms project that's both in budget and ahead of time, but that's one of these.

And we're also very pleased about the performance with it. And one of the reasons we're accelerating it is, A, because it's industrialised and we actually can do it, but B, we're also very pleased with what we're seeing.

So we've got now close to 1m customers actually connected, and that's good. And actually if you look at, for instance, the early first five phases, we're well above 10% [penetration] in terms of the roll-out in these first five phases. And these phases have been around for a couple of years. So we seem to be doing a little bit better than the original plan for fibre, so that's encouraging. But it's still early days, but I'd like to have encouraging rather than un-encouraging stuff. And so that's the commercial rollout to two-thirds of the UK.

The other bit is BDUK that ideally will take us to over 90% of the UK. We've done well on the bids. We've won five bids to date. We won Surrey and North Yorkshire in the quarter. Actually with North Yorkshire we won it and we had state aid clearance for it so the next day an engineer started doing stuff. And the first customers will be connected within six months of the contract being signed. That's what we mean by an industrialised process that delivers, very much in contrast if you look at what happens with some other structures that have been done in South Yorkshire. Really delivering very, very quickly for customers. So encouraging overall on fibre.

<u>Slide 16:</u> And I did say I'd come back to the Olympics. London 2012 was a success. It was a big success not just for the UK but we've got to say for BT. We provided the communications at 94 venues. All through the lead-up to the Olympics we met or beat all contractual milestones, and I tell you there were some very, very tough ones. We didn't have a single severity one incident throughout the whole Games, which was quite remarkable and great credit to our people.

And it was the most connected Games. We provided the most connected Games. There was seven times the bandwidth used in London than in Beijing. In just four years an increase of seven times. There were more Tweets in a day in London than there was in the whole period in Beijing. So it was highly connected. It wasn't just around the stadium. There was the most dense application of WiFi anywhere in the world and that meant you could be watching high-def streaming TV, 25 Mbps in the Olympic stadium. And it shows what can be done.

And I think we found that it was very successful for us in a number of ways. First of all, we were the most recognised Olympic partner. There's a Nielsen tracking survey of these things and BT was recognised as the leading partner, and that's good because some huge names go with that as well. So it's good in terms of brand perception.

Secondly, I think particularly among our big customers, it changed some perceptions of BT. One of the comments we heard from a lot of our big customers, both Wholesale and also actually Global Services customers was “actually I didn't realise BT could do this sort of thing”. I think it changed some of the perceptions. And that's something we've got to make sure we follow up with. If we change perception, I think we change perception of what we can do for these customers and the strength and width of the relationship with them.

And finally, and really importantly, internally. Now you won't see this in a number this quarter or next quarter, but we actually showed what we could do as a team. We delivered things that previously were thought undeliverable. And the efficiency and the effectiveness with which we work, the empowerment of our people and what we delivered, are lessons we are going to take from the Olympics and very much put into the rest of our business.

And the people who have led the various elements of the Olympics, they're going to be doing other things in our business to take these learnings. For instance, the new Head of BT Conferencing headed our delivery for the Olympics. And I think it shows, using that experience and expertise into our business. So lots of very, very good stuff with the Olympics.

Slide 17: So in summary, the bottom line is despite recession, despite regulation, we delivered at the bottom line, and that's what we try and do. Cost efficiencies I think were better than you thought, offsetting slightly weaker revenue. We continue to invest in the future of our business and it's absolutely critical that we do so, and we think it gives real opportunity. And we are pleased at the investments we're making so far and the results we're seeing.

Overall, in most of the lines of business actually, despite the environment, we're pretty pleased with progress. It's tougher for Global Services. It's not doing badly in terms of its revenue in a difficult marketplace, but clearly it's got a lot more to do in that environment. And even more importantly there is a lot more we can do in Global Services. So it was a solid quarter overall and we feel we continue to make progress.

Thank you. Tony.

Tony Chanmugam

Slide 18: Thanks, Ian. Good morning, everyone. I'll take you through the second-quarter financials in a bit more detail.

Slide 19: As Ian mentioned earlier, regulation and in particular the Court decision on ladder pricing has had an impact on the results in the quarter. Given ladder pricing is quite complicated I wanted to set out what's happened and explain the impact on our numbers in the quarter.

Ladder pricing links the termination fees we charge mobile operators to the retail prices that they charge their customers for calls to, for example, 0845 numbers. So if they charge higher retail prices, the termination charge goes up as well. In August 2011 the CAT ruled in favour of ladder pricing. However, this was overruled by the Court of Appeal in July 2012. We'll be seeking leave to appeal this decision, supported by a number of other fixed line operators. In the meantime we're not recognising any benefit from ladder pricing and have had to make adjustments to our numbers accordingly.

We've been recognising revenue and EBITDA from ladder pricing since 2011 so we've had to reverse what we recognised in 2011 and 2012 this quarter. This and the associated cash which has been repaid have been treated as specific items. We've also reversed the revenue and EBITDA we recognised in Q1 in our Q2 results, which has distorted the trend. For the year as a whole, we'd expected to generate around £110m of revenue and around £60m of EBITDA and cash - headwinds that we will look to absorb by doing the necessary things that we need to do in terms of cost cutting.

Slide 20: Let's now move on to the income statement. Headline revenue was down 9% in the quarter. This includes a £79m decline in transit revenue and a £74m negative impact from FX. Our main revenue trend measure, which is underlying revenue excluding transit, was down 5.5%. 1.9% of the decline relates to ladder pricing and the prior-year accelerated contract milestones which we've already talked about. Excluding these, the 3.6% decline reflects the tough conditions in Europe and the financial services sector, the regulatory price reductions impacting Openreach and the decline in calls and lines revenue [that have] been a feature for some time.

EBITDA was broadly flat this quarter. However, excluding FX and disposals, underlying EBITDA grew by over 1% or by 3% adjusting for ladder pricing and the prior-year contract milestones. This was driven by a 10% decline in our underlying cost base, which I'll say more on shortly. Depreciation was down 4%, partly reflecting some additional depreciation we recognised in the prior year, but also due to lower capex in recent years compared with historic levels. Operating profit grew by 4%. And with interest down 3%, profit before tax was up 7%. This drove a 7% increase in our adjusted EPS to 6p.

Slide 21: Let me now turn to specific items. There are a number of specific items in the quarter which came to a net credit after tax of £95m. The largest of these were ladder pricing, which I've already talked about, and a £121m profit on disposal of a 14.1% interest in Tech Mahindra. Tax was a credit of around £100m, largely due to the impact on our deferred tax balances from the change in the corporation tax rate next year.

Slide 22: Let me now turn to free cash flow. Normalised free cash flow was an inflow of £316m in the quarter, £247m down on last year. With EBITDA, capex and interest all broadly flat, the decline in cash flow was partly due to higher tax, which reflects the higher profits, but mainly due to working capital, which as you know tends to fluctuate by quarter. As I mentioned last quarter, because the last day of Q2 fell on a weekend, this has had an impact on when cash payments from some of our major customers came in. We also saw a working capital outflow in Global Services largely due to the timing of contract-related receipts.

Below normalised free cash flow, the £2bn payment into the pension scheme we made in March resulted in a tax benefit of £162m in the quarter. This was the same as the benefit in Q1 and we expect a similar benefit next quarter. Free cash flow was an inflow of £478m or £388m after specific items.

Slide 23: Let me move on to debt. We ended the quarter with just over £9bn of net debt. This was after free cash flow of £388m and £157m of proceeds from the disposal of our stake in Tech Mahindra. Around 114m shares under our all-employee share schemes matured during the quarter, and this resulted in £81m of exercise proceeds being received. This was broadly offset by the £72m we spent on our buyback programme. Finally, we paid last year's final dividend in the quarter, which totaled £444m and means that overall the net debt position declined by around £100m in the quarter. It's worth remembering that while net debt is higher than a year ago, this reflects the £2bn we paid into the pension in March.

Slide 24: Turning to cost transformation, during the quarter we reduced our total cost by £435m, taking total savings to around £750m for the first half. On an underlying basis costs were down 10% in the quarter. Part of this reflects the cost associated with the accelerated contract milestones in Q2 last year. Excluding these, our underlying costs were down 9%, a slightly better performance than in Q1.

I think it's worth remembering that as a business we're in different stages of the cost evolution cycle. Within Retail, we're six/seven years into the process. Within GS we're just starting that process in earnest. I'll talk more about the GS position in the next slide. But right now the key is can we continue to make the cost savings that we've delivered to date and in my view the answer is an emphatic yes.

The reason why I think it's an emphatic yes is there are opportunities. So I can give you some examples. So I talked last quarter about travel and subsistence. We spend £115m a year, just in excess of that. Last quarter I said we'll save about 10%. And we'll save that money by buying more efficiently, being more disciplined in terms of what we do and by using our own capabilities, such as conferencing, better. I talked previously about a 10% reduction. Well that reduction will be now circa 12%, 12.5%. So we'll take well over £12m, £13m out of that cost base.

If I then look in terms of the some of things that we're doing in terms of insourcing, for example. Now we insource, and it's fundamental to all our cost transformation programmes. We start off by improving the customer experience, reducing the cost of failure and reducing the unit cost as a result.

So if I look at insourcing over the last two and a half years we've brought in over 6,000 jobs into the company. Now the reason we bring those jobs back in is we improve the quality of the service, we make some savings and we reinvest those savings to improve the quality of the service. It's a cycle. Over the last quarter we've brought in about 1,500 people into facilities management and the net result of that will be [that] we'll make double-digit savings on that. You may ask is it a core activity? Not necessarily. But if we can make savings, reduce the unit cost and then put it out to tender later on, we'll do that. The reality though is we're going to make the savings and improve the quality.

And finally, opportunities to do cross-BT-wide programmes. We've got about half a dozen of these. I talked last year about Trouble to Resolve [which we've implemented] across the majority of the business, excluding Global Services. We have over 7,000 people in that process. We thought we could make savings of circa 25%. It was a three-year programme. We're two years into that programme. We're well on the way of actually delivering slightly more than we thought we would do. And we will have the benefits of that programme in the next financial year and the flow-through into the following year. We've got half a dozen programmes like that.

<u>Slide 25:</u> Let me now turn to Global Services. Global Services last year saved 1% on the cost base. Putting it bluntly, that was not a good enough performance. We're seeing that now manifesting itself in relation to the pressures that we're having on the revenue. Now this year we've upped that. Ian talked about 6% reduction. That's a good performance, but it's the start of what we need to do.

Now Luis and I are joined at the hip. I'm not certain how ideal he thinks that is, but we are joined at the hip. And it's down to us now to reduce that cost base further while continuing to invest in the business and grow our business in the emerging economies.

I think there are opportunities here. I talked about Group-wide programmes. I talked about Trouble to Resolve. We haven't implemented that in Global Services. We are in the process of implementing it. The cost base is well in excess of £300m. We should be able to make the same levels of savings. And the commitment to you is over the course of the next few quarters I'll talk to you about what we're doing about that. And the answer about this is it's a we; it's what Luis is doing and I'm there to help from a Group perspective to help Luis deliver the numbers.

The second piece really is opportunities by using consistent methodology. If I look at the way we do things within Global Services in LatAm, in Asia Pacific, in Europe, in the States, for example on things like inventory management, we do it slightly differently. By taking a consistent approach, you bring in economies of scale, you replicate best practice and you can do things more efficiently, which leads to the third type of opportunity that we've got, which is about shared service centres.

Look at, for example, the contract management capability. The contract management capability at the low-end of the business, so the low-end contract management, doing things like moves and shifts, traditionally has been undertaken, a lot of it, within the contracts. And we've also outsourced some of that activity. Well it's key and it's important and we've started the process of actually making certain that activity is undertaken within BT, within a shared service center so you can replicate best practice and improve the quality of what you deliver from a customer perspective. And that hinges on everything we do within the company.

<u>Slide 26:</u> Let me now turn to liquidity and pensions. Just touching on our liquidity and pensions, we repaid debt of around £300m during the quarter and have £2bn of borrowings repayable in the second half of this year. Given we have cash and committed facilities of around about £3.1bn these repayments are well covered by a strong liquidity position. We will continue to look at refinancing opportunities in the bond market that make commercial sense.

In terms of the pension, the IAS19 deficit was £4bn or £3.1bn net of tax, at the end of this quarter. This may have been slightly higher than some of you were expecting. The increase from March is mainly due to a lower discount rate which increased liabilities. Market expectations for RPI came down during the quarter which helped, but the assumption for the long-term difference between RPI and CPI declined and this has impacted the value of our liabilities. Look, as you know, the IAS19 measure does move around, but it has no impact on the cash that we actually pay out.

Slide 27: In relation to our outlook for the Group, we've highlighted where we've updated the outlook. In the first half of the year underlying revenue excluding transit declined by 4.4%. We expect the second half to show an improvement on this trend, helped by a better trading performance. However, for the year as a whole, given the impact of ladder pricing and the tougher conditions facing Global Services, we don't expect to see an improving trend.

In terms of EBITDA, as I've said, we're facing a circa £60m headwind from ladder pricing. In addition the tough economic conditions mean that Global Services won't grow its EBITDA this year. Despite this we still expect to grow EBITDA overall this year which means our cost transformation programmes will absorb and cover the headwinds. No change to guidance.

In terms of free cash flow, we continue to expect normalised free cash flow to be broadly level with last year. It's worth making the point that this is despite the payment of a £22m Premier League rights deposit and a circa £60m impact from ladder pricing. No change to guidance. There's no change to our outlook for 2014 and 2015, and our financial strategy in terms of our use of cash also remains exactly the same. No changes for 2014 or 2015; it's as is.

We'll continue to invest in the business to drive future profitable growth at the same time as reducing our net debt, supporting the pension fund and paying progressive dividends.

Slide 28: And on the subject of dividends our outlook is to grow dividends by 10% to 15% per annum for the next three years. We're today declaring an interim dividend of 3p. This represents 15% growth, at the top of the range, reflecting the confidence we have in the future of our business.

Slide 29: Thanks for listening. We'll be happy to take questions.

QUESTION AND ANSWER

Paul Sidney - Credit Suisse

I was just wondering if you think physical Openreach lines can continue to increase going forward especially as 4G gains traction? Clearly there's been some good underlying growth over the last couple of years.

And just a slight add-on to that, what do you think has been driving the underlying growth in the last couple of years? Thank you.

Ian Livingston

I'm going to ask Liv to give some comments, but I think the answer is yes. I think if you asked the mobile companies they wouldn't see 4G as being a natural alternative instead of having a fixed line. Look, we recognise in terms of calls that the calls market is declining. That won't change, but as people are using bandwidth more and more intensively, actually it puts a premium on fixed lines in a way that I think probably people wouldn't have anticipated a number of years ago.

Everyone said look at Telekom Austria, therefore 3G is going to mean that noone's going to need a fixed line. But the reason that people are signing up for fixed lines is one, I think bandwidth. And bandwidth is a lot, lot cheaper on fixed lines. And secondly, we will in the long term have household growth in the UK. Projections for growth of population in the UK remain strong. I think people expect it to be 70m in a decade, 15 years, and that contrasts with a lot of Continental Europe. So I think there are some geo-demographic factors as well as being some technical factors. But Liv, anything you want to add to that?

Liv Garfield

Yes. There were 26,000 lines up over the last 12 months. Obviously we've not been able to get near, anywhere near as much of the provision activity during the summer. The wettest summer in 100 years is not my friend. So I think if you look at September and October, as Ian said, we've had good performance. We predict that to continue during the course of the next few months. So yes, I think it remains strong.

When I talk to all of my customers I don't get a sense that people are worried about the substitution impact of 4G. I think people want speed now everywhere and that is becoming the dynamic. And that means that you want it in your house, which means you want a fixed line, and you certainly probably want it on the move which means I'm sure we'll get more excited about on-the-move technology as well.

James Britton - Nomura

Can I just ask for an update on YouView? Can you give us an update on demand and the stability of the platform that you've seen to date?

And then secondly, perhaps I can just ask if you are still looking closely at mobile spectrum in the UK, and if so, why?

Ian Livingston

I'll get Gavin to talk about YouView in a second, albeit we've been selling it for I think about a week just now so at risk of extrapolation, performance is good so far.

I'll answer that question are we still looking at mobile spectrum. It does go back to this “are you still beating your wife” question. We don't have ambitions to be a national mobile operator. If there's some bits of spectrum that could help out our proposition then fine and that's what we will look to do. But I don't think top of my agenda is trying to become a fifth operator in the UK. I don't think that's top of my list of agenda items.

Gavin, do you want to talk about YouView?

Gavin Patterson

Not really much to add I think. Six days, not a whole week in fact. So it's I think too early to draw any conclusions and the marketing breaks in the next couple of weeks, our marketing of the YouView box. But we're quietly confident that it'll be well received. Certainly the independent people who look at these sorts of things, the likes of What HiFi for example, think the box is very good. So it's winning a number of awards. We'll see what happens in the market.

Simon Weeden - Citigroup

I'd like to ask on, it's a slightly technical question on the changes you mentioned in the pension deficit. You knew that was coming didn't you.

Ian Livingston

Tony's looking forward to it.

Simon Weeden - Citigroup

The impact of the narrowing of the discount or the difference between CPI and RPI. You've obviously taken some benefit at the last triennial from moving down to CPI. Does this come back at the next triennial as being a slight adjustment back in the other direction or are we just in CPI land now and CPI's just going to be a bit higher? I'm trying to understand what the ramifications of that are.

Ian Livingston

Okay. I think, as you know, that actually people are looking at the constituents of RPI. So there has been a narrowing in the gap and actually the Bank of England were predicting a much higher differential than we were and now that's come in a bit.

But actually what's interesting is with the re-looking at the constituents of RPI I think what you're going to see is a reduction in RPI rather than it being that CPI starts to [rise]. So if you understand what I mean, the two things don't effectively come together. What you get is you get the RPI number moving towards the CPI. And given that still a chunk of our pension scheme inflates at RPI, actually that's good news. So it's not bad that there's a narrowing because about a third of our scheme is still RPI related. So I'd be quite comfortable if that's the outcome.

IAS19 will however bounce around. I've said it God knows how many years now that it will do. AA corporate bond rate is an important factor. With quantitative easing just now I don't think anybody thinks that that represents a long-term sustainable sensible rate, but you've got to use the numbers that are in the marketplace. And I think we've not made too big a thing when the deficit at IAS19 goes down and we're not making too big a thing when it goes up because it doesn't affect the long term in terms of what we do in the pension.

Christopher Nicholson - ORACA

Also on the pension. Can you just remind us what your expectations are in terms of cash flow topping up the pension for the rest of this year and next year please?

Ian Livingston

We said it would be about £300m a year, £295m I think it is. Originally said £325m, but it was a bit lower when we finalised the pension scheme so that's settled for the next couple of years.

Carl Murdock-Smith - JP Morgan Cazenove

Two questions probably mostly to Gavin. But in terms...

Ian Livingston

We'll decide.

Carl Murdock-Smith - JP Morgan Cazenove

Sorry Ian. In terms of the consumer environment you're seeing, like other operators who report churn you've seen pretty consistent churn reduction over the last few quarters. I was wondering if that's something you're seeing in BT Retail as well?

And also last quarter you said you didn't see huge scope for price increases. I just wondered if anything's changed regarding your view of the competitive environment in the market, given the price increases that are now coming through in January?

Ian Livingston

So Liv, I don't if there's anything you want to say to that. Gavin?

Gavin Patterson

In terms of room for pricing increases, it's pretty much the same as we said. I think there is some scope for it. You've seen us announce a price rise in January and that's being received okay in the marketplace.

Then on churn, yes we are seeing churn come down quarter on quarter. We don't report it, it's not one of our KPIs, but I can tell you it is reducing quarter on quarter.

Ian Livingston

I think when people look at pricing there's a tendency to, partially because the newspapers report it, [focus on] the stuff that goes up. I think if you look at it like for like, broadband pricing has come down. Now because people are taking higher levels you do get the ARPU staying up, or even or actually increasing the ARPU. But customers are unquestionably getting a better deal. They're probably paying a bit more for their line but the total package is very attractive to the customer. The UK remains a competitive market but, as I said, there's some line price increasing but broadband's coming the other way.

Maurice Patrick - Barclays Capital

Just a question about visibility of revenue growth, or revenues inside Global Services. When you look ahead for the next 12 months in Global Services, how much is contracted that you know about, how much is uncontracted but likely, and how much is discretionary, so we get a sense of how confident we can be and how that's going to trend over the coming 12 months?

Ian Livingston

I'll see if Luis or Tony wants to add anything. We do obviously have quite a bit of visibility but you still have a big number that can vary. And I think we have been encouraged by the movement I think in the contracts between quarter one and quarter two. But where you get to struggle sometimes is some of the discretionary bits at the end, where there are the change management in orders, change control in orders, sort of come down and that becomes a variability. But I don't know, Luis or Tony, if you have anything to add. Luis?

Luis Alvarez

Yes, I think that one of the things we are looking at is in terms of underlying performance of the revenue coming forward. And for example, most of the deals that we have signed in this quarter, the £1.3bn, do increase that [run rate] to balance some of the pressure on prices. So I think it will be something we will keep looking at very closely.

Tony Chanmugam

Just maybe to help, the profile of the revenue streams, if you look at the business, you've got big contract revenues and you've got product revenues. The big contract revenues, the general algorithm on this is that at the start of the year you should be able to pick up around about 85% of that revenue stream. The rest of it then tends to move in terms of change control which Ian talks of. The further into the year you get, the greater certainty.

The concern always is: A, the level of change control and, B, the level of hardware equipment sales that will tend to vary as customers' budgets change. So you have that degree. Now generally speaking we try and keep the profitability on the change control activities in line with the profitability of the base contract because we're not a supplier looking to exploit the customer, unlike some of the other competition who will do that.

The second piece is on the product revenues. They will tend to vary based very much on the demand cycle and where you are so it's not a straightforward algorithm because of the mix of the business that we've got.

Andrew Lee - Goldman Sachs

Just some questions around fibre. I wonder if you could talk about the acceleration in fibre net adds you've seen in terms of run rate today as the provision problems have come down in Openreach?

Just secondly, the fibre demand from your competitors that you're seeing: I wonder how that's surprised you either positively or negatively and how you expect that to trend over the next six to 12 months?

Ian Livingston

I may ask Liv to comment about the fibre demand among her other customers, which I think she would describe them as, rather than competitors. But the last two weeks in fibre have been two record weeks for fibre adds, which is encouraging. We're seeing some impact of getting some more people in to help on fibre, but not a particular dramatic improvement in the provision backlog actually, that's not really been the driver. But Liv, do you want to say a bit more about demand outside Retail?

Liv Garfield

Yes, categorically customers, not competitors. It did make me smile; I was thinking gosh. We see it consistently ticking up I guess so we see that as we do more cabinets, as there is more of the country that is then enabled, of course we're going to see more people becoming connected. So you can normally follow some sense of take-up demand following how roll-out goes.

As Ian mentioned earlier in his presentation, we see that it takes a while in terms of phases. So you have an initial rush and then it slows a little bit on the cab and then gradually it ticks up. So the first five phases now being north of 10% is good news. Best two weeks, as Ian said. And I think I can't comment on my customers' strategies for what they're going to place orders on on fibre going forward, but I suppose it's good to have all the big players in the market on board. It's good to have people actively marketing out there. That's a positive for us. And it's good to see that we get really positive feedback from customers using the service. That is another very positive indication we think towards it being a continued good product going forward.

Andrew Lee - Goldman Sachs

Can you give us just an idea as to the absolute scale of fibre demand from your customers?

Liv Garfield

No, I can't, not without being told off by them. So no, that's for them to share.

Ian Livingston

In terms of weekly, what we are seeing is whilst Retail continues to do better is then you see more coming from the others. So Retail accounted for the vast, vast proportion of demand in the early days when you had smaller CPs and some other bigger CPs testing it. Now you are seeing orders in the many thousands a week from the bigger CPs, and I think that's a trend that will continue and it reflects actually customer demand. I think that's what they're seeing. There were some people who said there was no demand and I think probably that's being shown not to be entirely accurate.

John Karidis - Oriel Securities

Actually I have a related question to this. You've said in the past a number of times that the payback on your multibillion fibre investment is very long. Frankly Retail, as you've just said, is the one that tends to sell fibre much more aggressively than any of the other majors. Nevertheless you have the confidence to allow BT Retail to increase the Infinity prices starting January. Is it possible just to talk around what gives you the confidence to do something like this?

And then secondly, I know, Liv, you said you can't talk about your customers, but just to know from an Openreach perspective whether you're going to charge the sticker price or the lower price if people have committed to a certain volume of lines in the future. Have there been big customers that have committed to minimum volumes and therefore they're likely to pay you a lower price per line per month?

Ian Livingston

I think we try and make it a rule, it's not fair I think on other CPs who are also quoted to say, because if I say yes to the second question you'll go 'which one is it?' or 'which two is it?.' That's not fair and I just wouldn't tell you. We respect their commercial confidentiality. So we do have a price if you want to make a commitment and a different price if you don't. And that's the situation. Some will take up one offer; some will take up the other offer.

In terms of the overall upgrades of speed and value, I think we feel very confident in the value of Infinity. Gavin, do you want to answer that fully?

Gavin Patterson

Absolutely. As Ian says, over the last six months we've doubled the speed that we offer through Infinity and that's given us another kick in demand. And just to clarify, we're not putting up our prices on fibre on January 1. You'll still get the same great value if you haven't got it already. I can take your name afterwards and sign you up. So no, the demand continues. We're not seeing it top off yet even in those early cohorts of exchanges that have been around for a few years. So I think this one's going to run for a bit yet.

Michael Williams - Exane BNP Paribas

Firstly I'd like an update really on progress with regard to multicast on both the Vision and YouView platforms and how you see those platforms converging over time.

And secondly I just wondered what the next steps were with regard to the CAT ruling on WMO.

Ian Livingston

On the second one we're going to have to see. I think we feel that the decision made on the WMO was a very poor decision. Ofcom happen to think that as well. So you can be assured we are looking hard with our QC about what the best route is regarding appeal and the grounds for appeal because we just think it was a very poor decision.

As much as, however, and it's got to be remembered with all these things and all the various decisions - there's been a couple of things that have come out - one decision that says quite clearly that the Pay TV market is not working. They might not have known the remedy for films, but they knew it wasn't working in totality. And secondly that no-one's debated the dominance of the leading pay TV operator and the right of Ofcom to intervene in the marketplace. And the losing of the WMO was on a very strange basis and I think came as a surprise to everybody [as to what] exactly the basis that the discussion was. So that's the position on that.

In terms of multicast and convergence, Gavin, do you want to talk about?

Gavin Patterson

We're beta-testing multicasting on the Vision platform at the moment and if that goes as well as we expect it to we should start offering linear channels after Christmas I expect. On YouView all I will tell you is it's in the plan. We expect it next year and if that delivers on time I would expect that to be our primary platform as we move forward. So I see these beginning to converge next year.

Will Draper - Espirito Santo

Couple of things, one on capex and one on fibre. Capex was down quite a long way in Q2 and when you look at that I can see you're continuing to spend on fibre within Openreach, but other lines of businesses were quite heavily down, Global Services and Wholesale particularly. Why is that and what can we read into that for the full year in terms of the capex split?

And then on fibre you alluded to Retail ARPU being up £5 helped by fibre. Can you put some colour around that? What happens when you connect a home to Infinity to usage, behaviors, spending and ARPU, if you can say anything on that? Thank you.

Ian Livingston

Okay. On fibre we did say in the press release that on Global Services this time last year we brought some assets into use. It was actually related to the milestone and that impacted capex. I think the net answer on capex, you shouldn't read anything terribly much into it. We are investing where we can. We've done a big roll-out on Wholesale in terms of 21C, the ADSL2+. We'll continue to do that where it makes sense. And basically we will invest for the future. I don't know, Tony, if there's anything you want to add.

Tony Chanmugam

Yes, the quarterly capex numbers are going to vary by line of business. If you look and see in terms of where we are and levels of variance you're talking about from a business as a whole, the run rate would take you between £2.4bn and £2.5bn. Our guidance is around £2.6bn. You're not a million miles away. It's going to move by line of business on a quarterly basis.

Ian Livingston

I think what it probably shows is quarterly reporting is an overrated activity. Just on Retail and fibre, the ARPU on new fibre customers is a number of pounds higher than it is on other customers. So we do see a kick up. There is quite a bit higher usage. Now you've got to be a bit careful with the stats about higher usage because to some extent you get pre-selection. The customers who are more inclined to use it more will be more inclined to take fibre as well as of course if they are taking fibre then you see better usage. But certainly as people move over to fibre you do see usage increase. Gavin, is there any more colour you want to add?

Gavin Patterson

The only other thing I would say is 80% [*correction: more than half*] of customers who are taking fibre are taking the top tier. So you see we're able to up-sell to the top tier pricing bracket. And the churn is several points lower. We don't publish our churn numbers but I think I'm safe telling you that.

James Ratzer - New Street Research

I'm particularly interested in the discussion you had about the cost base, in particular on Global Services, where I think you gave a pretty emphatic and positive message on what you're trying to do there. Can you help us try to quantify that? Your core business margins have gone up substantially in the last five years. What kind of margin improvement can we think about in GS?

And does that mean that on the core business that the six-year cost reduction programme you talked about in Retail, is that now beginning to slow or is there still a lot more you can do on costs in the core business?

Then a quick factual question. You've disclosed the costs of Premier League and rugby rights. All the other football rights you've bought, how much is that in aggregate per annum as a cost for those rights?

Ian Livingston

As a factual answer we're not going to disclose that, but it's a lot less than the other two, a lot less.

In terms of Global Services and the quantification, I don't think we will give you, and I don't know if Tony wants to add any colour, at this point the quantum. I think it's best that we actually do it and deliver it, and show you. And what we'll try and do is give you the colour as we deliver it. But I think Tony can give you a sense of the number of areas we think we can do.

The point we were making in Retail was actually quite the opposite from what you said, which is, “well, you've done it for seven years therefore it'll stop”. If you saw that chart it was remarkable in its consistency of a roughly 6% decline. Now of course there will be in Retail a higher level of investment going into sport which will make the numbers look a bit different. But that underlying cost saving in the business effectively frees up, not just money, but also people and systems resources to invest in these other areas which is critical and ongoing, and it's true for Openreach, it's true for Wholesale.

So as a business we believe, as Tony said, we have a lot more we can do on our overall cost base. And Global Services, as Tony said, it was [down] 1% last year and Retail was 6%. The delta between these two numbers in an £8bn business is a big number. And I think that sets some of the objectives we have to look at in the medium term for Global Services. But Tony, I don't know if there's anything you want to add to that?

Tony Chanmugam

Yes, just a couple of points. The point on Retail is that, without wanting to have a debate with Gavin about what his budgets are for next year, there will be cost reductions in Retail next year. That's a fact and there are opportunities moving forward.

In terms of Global Services, I think it's worth highlighting we have made progress on the business. We’ve made a swing of circa £600m of cash, between £500m and £600m of cash over the space of three to four years. So that's a good point. We know the base point is not good enough. We know that the level of focus on this has not been good enough and the way that we've discharged has not been good enough. So there's a level of opportunity there that we can deliver on.

I’m not going to give a specific target associated with it. Does it mean that we don't have a target? Yes, we do. We have a one-year target; we have a three-year target. Luis and I are joined up on that. We've committed to Ian to deliver on that and you will see that progress year on year. But we're not going to give individual targets.

Lawrence Sugarman - Liberum Capital

Firstly, you've made an increase in the legal provision. I don't know if you can give any colour around that and just whether that relates to potential issues on regulation.

Secondly on the Global Services performance from a revenue perspective, is there any particular difference in terms of success on potential new contracts between performance in the UK and in emerging markets or are you experiencing any change in momentum over the last couple of quarters in either marketplace?

Ian Livingston

I'll ask Luis to talk in a second about momentum between the fast-growing economies and the UK. The UK has had obviously some government issues although we've had some good wins with a lot of UK corporates so we're feeling really reasonably happy.

And the legal thing, no, it's got nothing to do with regulation and it is something that goes right back to 1990. It's a very, very long-tail thing and we've just reassessed the potential costs associated with it. So not a regulation thing.

Luis Alvarez

I think that in terms of the dynamics of the market, the main element has to do with some of the issues that are happening in some of the European economies where you can see some governments delaying some decisions or reducing some of their budgets. You also see clearly in the financial services industry a degree, and probably you all know pretty well, consolidation of a number of trading rooms or bidding rooms and consolidation of several entities across the whole industry. So I think that those elements are headwinds for us.

On the other hand, signing British American Tobacco is a great example of a leading British company with worldwide around 1,000 connections in 40 countries. We have also Surrey [County Council] here in the UK. But also we have been able to expand the business, double-digit growth in Asia Pac and in Latin America where clearly many of the European companies are looking to these markets to expand their operations and they are either closing down or reducing their investments in their home markets. And this is where our growth is coming from on the revenue front.

Ian Livingston

And I think I'd add to that it's interesting that the order value we've seen this year in these fast-growing economies has been in the early teens in terms of the proportion that have been in these economies, and that's a far higher proportion than actually our revenue. We said these are markets where we thought we could effectively double our business over the medium term and I think the order book would tend to suggest that looks right.

David Wright - Deutsche Bank

I just wondered since the acquisition of Cable & Wireless Worldwide by Vodafone have you seen any change in the propositions that are out there? Are they any better? Are they more competitive?

And when that decision was made, did that change your strategic thinking at all on whether you need mobile? I guess this perhaps follows a little to James's question but when they did that deal did that make you stop and think maybe we do need to have a mobile proposition a little better than we currently have?

Ian Livingston

I'm tempted to say no and no, but I suspect you want a little bit more colour than that. I think in the marketplace I'm not seeing any impact. We've had some good wins in certain sectors, particularly in the retail sector, against Cable & Wireless so quite pleased with that.

We've got access to mobility. We haven't found in the big corporate customers at the moment that they are seeing that a mobile proposition is critical to their decision about network. It seems to be a different decision. And not least because we're talking here about global customers and the biggest mobile company in the world can still only provide their own network solution in a tiny proportion of the 170 countries we cover in terms of our fixed network. So, no.

If there's a customer who has particular fixed-mobile convergence or workforce-type management and machine-to-machine [requirements], then there are solutions we've got and we have MVNO arrangements to provide these solutions. So we're continuing to do that and I think there will be a growing convergence over time.

In the SME market it is different and we've said for a long time, that people will buy IT, mobile, broadband, fixed all in one package. So I think that's the market actually funnily enough, not the consumer and not the big corporates, where you're seeing that biggest convergence. And that's why we treated that as a market where we were going to really focus our mobile efforts. And we do it with an MVNO and that's fine; we're happy with that.

Stephen Malcolm - Arete Research

Can I just ask a couple of questions on the fibre roll-out and the early completion of that although I guess spring could mean mid-August in BT language.

Ian Livingston

No, check your diary again. It means 22 June at the latest. You've never captured this notion of when seasons start and finish. I think it's the Scottish background; you've never got the hang of spring have you.

Stephen Malcolm - Arete Research

It must be. I'll have a reminder in my phone for June 22 and I'll give you a call. You've done it within the budget and you've done it without seemingly decreasing your capex elsewhere, which implies you found savings to fund it. Is that the case or is it just doing the fibre roll-out cheaper than you thought you would?

Also can you elaborate on how you've got there? Is it just more fibre-to-the-curb rather than fibre-to-the-premise that's allowed you to get there that much quicker?

And then when you look out beyond 22 June 2014 you've got about 18 months where you would have thought you'd be deploying fibre to another 10%, 15% of the country, how do we think about the opportunities that creates in deploying capital in going to other parts of the country and your capital spend beyond that point? Thanks.

Ian Livingston

So the answer is, yes, we found savings elsewhere but, yes, we’ve found savings in the programme. We're comfortably within the £2.5bn that some people thought that we would overspend by billions. We're comfortably within it and we will continue to look for greater savings in that.

We are doing more FTTC than we expected but on the other hand we've already upgraded the speed to 80Mbps, which we didn't have in the plan, and we're offering the fibre-to-the-premise on-demand product so we're doing a lot more.

In terms of going beyond the spring date, I thought that your question might be when does spring start, not when does it finish. We're effectively clearing the decks for BDUK to the extent we can. So what you're going to see is instead of finishing at two-thirds, we're just going to carry on. Now we said that if BDUK went to plan in terms of we won the awards and what was available, we got state aid clearance, all that stuff, that we could deliver to in excess of 90% of the UK [in] 2017. So what you'll see is a continuation of the cost, but covering a much larger part of the country.

Now when you get to 2017 the question is what happens then and the answer is, well, the fibre programme probably largely stops or slows down dramatically and that does create a bit more headroom in the capex.

But one of the things is that we are continuing to drive capex savings. And whilst we've been doing some big programmes - I mentioned earlier the roll-out of ADSL, we've been doing network investment in GS, particularly where we were spending ridiculous amounts on network which we should be doing ourselves, and we've been happy to do that - but we think there's still quite a lot of ability to drive future savings in our capex.

Stephen Malcolm - Arete Research

So implicitly are you assuming there that you'll win more BDUK share than you would have done maybe 12 months ago because of the greater efficiency you have in bidding for this stuff?

Ian Livingston

I think we feel that our ability to deliver it and deliver it at a really good price should give us an advantage. I don't know what anyone else is going to bid but we've won every one so far. We've repeatedly said we don't expect to win all of them but so far so good. And the thing is, the more we win and the better we deliver, as we are doing in Cornwall and Northern Ireland, in Yorkshire and a whole load of places, I think the more it puts us in a strong position. But who knows? Someone might decide that they're going to try and compete with us. But we've been investing a lot in doing this on an industrialised scale.

Okay, any last questions from anyone? Okay, thank you very much indeed. Thanks for your time. We look forward to seeing you in six months and speaking to you in three months. Cheers.