



BT GROUP PLC

Q4 2013/14 RESULTS PRESENTATION TRANSCRIPT

8 May 2014

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| Company speakers: | Sir Michael Rake | Chairman |
| | Gavin Patterson | Chief Executive |
| | Tony Chanmugam | Group Finance Director |
| | Luis Alvarez | CEO BT Global Services |
| | John Petter | CEO BT Consumer |
| | Joe Garner | CEO Openreach |
| | Clive Selley | CEO TSO |

Voiceover

Slide 1: Ladies and gentlemen, welcome to the BT Centre Auditorium and to BT's results presentation. Can 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, would you please leave the auditorium by the two fire exits at the front of the room.

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

Sir Michael Rake

Slide 3: Good morning, everyone, and welcome. This has been an important year for BT. A year in which we've continued to invest in the long-term sustainability of our business and have seen those investments deliver for us.

Our fibre network now passes more than 19m premises, around two-thirds of the UK. Our rollout is 21 months ahead of target, on budget and now expanding rapidly into rural areas. It is the only significant private sector investment that has been carried out during the economic downturn of the last several years. It is hugely important for the UK economy and will give the country a distinct competitive advantage.

Thanks to our investment, the UK now has the highest coverage of fibre broadband of Europe's five largest countries. Of the G8 countries, only Japan has faster broadband speeds. BT is completely committed to this investment, which supports one of the most competitive markets in the world. We are making it open to all, with high levels of transparency around costs and returns.

This year we also successfully launched BT Sport. We are pleased with the take up and the impact it's had on business - both directly and indirectly. BT Global Services has continued to expand in the emerging markets. This has helped cement our leadership position for serving the world's largest companies.

We've made some important organisational changes too. We separated BT Retail into Business and Consumer, which will allow a stronger market focus in each of these areas. And of course, Gavin took over as chief executive after Ian was stolen by the government to be Minister of State for Trade and Investment.

Ian did a tremendous job in transforming BT. Gavin is a very fitting successor and leads a strong and exceptional team. I have every confidence that BT will make yet further progress under his leadership.

There have been some other changes to the Board as well. After six years, Patricia Hewitt retired in March and I would like to thank her for the advice and service she gave during her time on the board and as our Senior Independent Director.

But I am delighted also to welcome two new members to the Board. Warren East, who many of you will know from his time as CEO of ARM, joined in February. Iain Conn, who is Chief Executive, Downstream, at BP, will be joining shortly and they both bring a wealth of experience.

You can see the benefit of our investments in the results for the year. We met or exceeded the financial targets we set. We have grown earnings per share and cash by 7%. And we reversed the decline in our revenue, making good progress towards our goal of delivering sustainable, profitable revenue growth.

We will continue to invest. There is still much more to do on fibre and we are excited about our prospects as Gavin will discuss shortly in mobility. We will improve our customer service, which has not been good enough. And we will continue to drive our cost transformation programmes, where there is still plenty of opportunity.

Our performance this year also reflects the hard work and commitment of our people. Our engineers for example, have done a tremendous job, working tirelessly around the clock to fix faults caused by the widespread flooding.

I'm also proud and pleased that our people give back in so many other ways. They volunteered more than 46,000 days of their time, helping over thirteen hundred charities across the world. In total, we raised over £85m for good causes.

Slide 4: I'm also delighted that our employees have been able to share in the good performance of the Company. 17,000 of them benefited from share-option plans last year and many more will benefit again this coming year. A significant reward for much appreciated hard work.

And, of course, it's important that our shareholder returns are strong, and they are. The Board is recommending a final dividend of 7.5p; up 15%. This gives a full-year dividend of 10.9p, also up 15%. This growth rate is at the top end of our guided range, reflecting the strong cash we generated this year.

We are confident in our plans and our future cash flow growth and, as such, planned to align with the period covered by our financial guidance, we are extending our 10% to 15% dividend growth target to cover the 2015/2016 financial year.

We are also extending our £300m share buyback for a further year.

In summary, our results show that our investments are delivering for the business, our revenues trends have improved and our cash generation is strong. We will continue to invest, so that over the long term we deliver for our customers, communities and our shareholders.

And I'll now hand over to Tony, who will take you through the financials before Gavin goes through the lines of business. Thank you.

Tony Chanmugam

Slide 6: Thanks Mike, and good morning, everyone. Overall, this was a good set of numbers. The results for the year were in line with or ahead of the outlook that we announced at the start of the year and above the market expectations. They show that we are making progress towards our goal of sustainable, profitable revenue growth.

With Q4 underlying revenue excluding transit up 1.2%, our investments are delivering and more than offset the regulatory pressures on our business. Cost transformation continues to be a major

part of our strategy, contributing to 2% growth in EBITDA and 3% growth in free cash flow this quarter.

Slide 7: So first of all, slide 7. This shows how the full-year results compare with the outlook we've given earlier.

Growth in underlying revenue ex transit of 0.5% compares to a 3.1% decline last year, comfortably meeting the outlook of an improved revenue trend.

On EBITDA, we said at the start of the year that we expected to be between £6bn and £6.1bn and we came in slightly above the upper end of that range.

And lastly, normalised free cash flow of £2.45bn has materially exceeded our outlook of around £2.3bn, although part of this reflects a one-off and I'll explain that shortly.

So a good set of numbers right the way across the board.

Slide 8: Moving on now to a brief overview of the Q4 results on slide 8.

Underlying revenue excluding transit was up 1.2%. This is an improvement compared with recent quarters, reflecting a strong quarter for Consumer and solid results from both Global Services and Openreach. These offset a challenging quarter for Wholesale and BT Business, which had a strong prior year comparator.

EBITDA was up 2%, as the benefits of our cost-transformation programmes offset our investment in BT Sport and the continued regulatory headwinds. Our investment in BT Sport was around £130m in the quarter. Excluding this, and the non-cash increase in our pensions operating charge, underlying operating costs excluding transit reduced by 5%. This compares well with the 2% decline last quarter.

Below EBITDA, we continue to see the benefits of our focus in recent years on more efficient capital expenditure and debt reduction. These have led to lower depreciation and interest charges, which drove a 10% increase in our EPS.

Normalised free cash flow was up 3% to just over £1.3bn. We're still focused on reducing our net debt and it's now three-quarters of a billion pounds lower than a year ago.

Slide 9: Turning to slide 9. Looking at the trend in our underlying revenue excluding transit over the past eight quarters, the improvement is clear. This has been driven by the investments we've been making, particularly in fibre and in Sport. It also reflects the stronger performance from Global Services.

As we flagged last quarter, Q3 this year was flattered by some contract milestone revenues. But, even adjusting for that, you can see we've made steady progress.

Slide 10: Looking now at slide 10, this shows a walk from last year to this year for external revenue excluding transit. Regulation continues to be the largest pressure on our revenues, and I'll say more on this shortly.

Underlying revenue for BT Business was down 1% this year as the legacy enterprises such as payphones and directories continue to decline. However, this was an improvement on the 2% reduction last year.

Wholesale's revenue continue to be impacted by declining calls and lines revenue, as well as the migration of broadband to LLU.

Managed solutions revenue in the second half of the year was also affected by the previously terminated Post Office contract that we mentioned last quarter.

Outside of the high-growth regions, underlying Global Services' revenue was lower this year, partly reflecting declines in the UK public sector. This was partly offset by our higher growth regions of Asia Pacific, Middle East and Africa and South America, where our investments have helped us to see double-digit growth.

Consumer had strong revenue growth, driven by higher broadband and TV revenues, reflecting the benefit of BT Sport.

Excluding the impact of regulation, Openreach has seen strong growth, driven by increasing demand for fibre and ethernet. This largely offsets the regulatory impact.

So overall the investments we're making are supporting our revenue growth and offsetting challenges elsewhere. But the fact that we've seen revenue growth doesn't mean we'll be letting up on cost transformation.

Slide 11: So taking a look at this year's costs on slide 11. Operating costs were down £25m. However, excluding the investment in BT Sport of around £450m and the non-cash increase in the pension operating charge, underlying operating costs excluding transit have reduced by 3% in the year.

Cost transformation continues to be an integral part of our business strategy. By reducing the cost of failure, not only do we reduce our cost base but we deliver an improved customer service. Gavin will talk in more detail about this later.

As you know, we've got a Group-wide restructuring programme in place. We expect to spend around £200m on this in 2014/2015, which represents the final part of the programme. But our cost-transformation programme is much wider than this.

We are focused on improving end-to-end processes across the Group, as well as blending a number of new initiatives, such as staff-led continuous improvement programmes to complement our existing activities. So I'd like to give you a taste of the cost-transformation opportunities we've been working on in the recent years.

Over the last five years, we've brought in 10,000 jobs back into BT. This reduces the unit cost and allows us to reuse the people that we've freed up elsewhere through efficiency improvements. We've insourced our Facilities Management 18 months ago, bringing in 2,000 jobs into BT. They're now getting a living wage rather than the minimum wage. But as efficiency has gone up, we've managed to take circa £10m out of the cost base.

In our call centres, we're bringing some of our overseas jobs back to the UK. Part of this is about deciding which jobs are best done by BT staff and which done by a 3rd party. These changes may increase the cost of our overall call centres, but will be paid through improving efficiency and will allow us to provide a better customer service.

As I mentioned last quarter, we're driving Global Services' overseas cost transformation by applying the tried-and-tested methods we've used elsewhere in the UK. We're using a forensic approach to improve process efficiency, reduce the cost of failure and optimise the network and improve our supplier value for money.

When I last spoke to you, I said we'd identified savings of well over £150m a year. In fact, it's now over £200m and we're making inroads into this and have delivered about £110m in 2013/2014, mainly in Europe and Brazil.

Slide 12: The benefits of cost transformation opportunities like this can be seen clearly on slide 12. It's allowed us to make investments, like launching BT Sport this year, while still keeping our overall EBITDA broadly flat YoY.

Starting on the left, you can see the effect of our £450m BT Sport investment on BT Consumer's EBITDA. You can also see the impact of regulation on Openreach, which has been partly offset by its strong revenue and cost performance.

Global Services' EBITDA has grown by £100m this year, compared with a £1m decline last year, as the increased focus on cost transformation pays off.

Cost transformation has also helped BT Business grow its EBITDA by £51m.

Slide 13: Turning to slide 13. But even with broadly flat EBITDA this year, our cash is up £150m, or 7%. The outflow of Working Capital this year has been largely driven by the payment of the UEFA deposit and the prepayment of sports rights.

Delivering efficiencies in our capital programmes have allowed us to invest in the future while continuing to reduce our capex year on year.

Interest payments this year are lower as we've paid down debt and due to lower average interest rate. These two effects offset the working capital outflow. We also benefitted from round about £60m of customer receipts that we'd previously expected to receive in 2014/2015. But even adjusting for these, our cash flow came in ahead of our outlook, mainly reflecting capex efficiencies

Slide 14: Turning now to debt on slide 14.

We intend to continue our policy of reducing net debt and are targeting a BBB+ credit rating over the medium term. Looking forward, out of a total gross debt of £9.5bn, £1.7bn is repayable in 2014/2015.

At 31 March 2014 the Group had cash and current investment balances of £2.5bn and available facilities of a further £1.5bn, providing us with a strong liquidity and funding position.

During the year we issued around about £1.2bn of US dollar bonds, and we will continue to review our funding options with a view to maintaining our liquidity while minimising our cost of carry.

You can see from the chart that our maturities are fairly evenly spread over the next few years, however, the average coupon on our debt maturing after 2018/2019 is relatively high. We will continue to pick up pieces of this long-term debt wherever it's feasible, but we will only refinance it early when there is a clear financial and commercial benefit to do so.

Slide 15: Turning to slide 15. This year we've been impacted by a number of pieces of regulation. This will impact us now and in the future. The overall regulatory impact for the group was £150m to £200m this year.

The Narrowband Market Review came into effect in Q4 reducing the level of fixed call termination revenue. This mainly impacts Wholesale, and will have a material impact on its revenue in the coming year.

In terms of new regulation coming out in 2014/2015, the final statement for the Fixed Access Market Review is due shortly. From the draft statement it appears that there will still be headwinds from the change in charge controls, but less so than in prior years.

On fibre margin squeeze, Ofcom's investigation into TalkTalk's complaint is ongoing, but we are confident that we are fully compliant with all regulation and competition law in this area.

On ladder pricing we're currently awaiting the Supreme Court's decision on our appeal against the previous CAT ruling on ladder pricing. If you remember, this had determined that we shouldn't have used ladder pricing for certain calls from mobile termination on our network. We have

already reflected the CAT's decision in our numbers so if our appeal is unsuccessful, there will be no further financial impact.

And lastly, in December 2012 Ofcom published determinations on the Ethernet prices we were charged from 2006 to 2011. We then appealed this, and are awaiting an outcome from the CAT. We are seeking a reduction of up to £85m in the repayments while the other parties are trying to claim a further £125m.

Slide 16: Moving on to the pension on slide 16.

The IAS 19 deficit in March 2014 was £5.6bn net of tax compared with £4.5bn the year before. The increase in the deficit during the year principally reflects asset returns being lower than expected under IAS 19. This was partly offset by the £325m deficit payment we made in Q4 and the higher real discount rates.

As you know, we believe the more informative valuation methodology is the median estimate, which is BT's best estimate. On this basis the pension scheme continues to show a surplus, which was around £0.5bn at the year end.

We'll be making the case to the trustees that since the last valuation we are a materially stronger company and, therefore, a low level of prudence is appropriate. We will continue to fund the pension but we want to ensure that the level of funding is appropriate and we want to avoid over payments.

Slide 17: The new outlook here is highlighted in green.

Our goal is to drive sustainable, profitable revenue growth. In 2014/2015, low levels of local government spend, and our focus on only pursuing business in this sector that generates economic value, is expected to impact revenue by around £100m. We therefore expect underlying revenue excluding transit to be broadly level with 2013/2014, but to grow in 2015/2016.

We continue to expect EBITDA to be between £6.2bn and £6.3bn next year with further growth in 2015/2016.

As a result of capex efficiencies we've upgraded our normalised free cash flow outlook to above £2.6bn in 2014/2015. This improvement is despite the fact that we've received £60m of cash a year early. For 2015/2016 we again expect our cash to grow.

And, as Mike has mentioned, we're extending the dividend policy and share buyback by an extra year.

Just before I hand over to Gavin, I want to let you know that on 1 April, we moved BT Conferencing from BT Business into Global Services and also BT Security from Group into Global Services. Both the conferencing and the security market offer significant opportunities amongst our global customers. So these are key parts of Global Services' growth strategy.

Given these two moves, we'll be publishing a revised set of historic numbers before we report Q1 results in July.

With that, I'll hand over to Gavin.

Gavin Patterson

Slide 18: Good morning. Thank you, Tony. What I'm going to do over the next 20, 25 minutes is a couple of things. I will walk you through performance on a line-of-business basis as usual and then I'll switch to talk a little bit more about our strategy and how we're refining it going forwards.

So the line of businesses to start with, and starting with Global Services.

Slide 19: Overall, Global Services had another good quarter. So revenues were down 4% at a top-line basis but that was all down to FX effects. On an underlying basis they were flat. Within that, you can see a couple of things.

You can see the progress we're making in the high-growth regions coming through, where we've got double-digit growth rates, and that offsets trends elsewhere in the business, including the one in public sector that Tony talked about earlier; then an EBITDA level up 8%, reflecting the cost-transformation programmes across the Group; really strong performance on cash. That was up significantly, up 83% in the year, up to £389m, although it did, just to reiterate, include an early payment of £60m.

And the order intake continues to be strong. So at £2.2bn, that's up 12% year on year and across the year it's up 9%.

So a good quarter for Global Services building on the trends of the last few quarters.

Slide 20: On BT Business, now this is the first time we've been reporting on BT Business as a separate line of business. It's a steady performance for the BT Business unit. The overall underlying revenues were down 2%.

The key trend we see there is the switch away from traditional calls and lines towards IP services and VoIP-based services and they don't have quite the same revenue and margin intensity, as you can imagine.

It's worth mentioning our IT Services business because it's down 7%. We referred to this earlier. It reflects a very strong comparator year on year. The underlying business, we think, is continuing to progress and you'll see that going forwards.

EBITDA up 1% within the quarter, 5% on the year; a pretty good performance there. And, as I said, in a similar way to Global Services, a strong order intake; up 12% in the quarter, up 3% across the year as a whole. So steady progress in BT Business.

Slide 21: Moving on to Consumer. Consumer had a really strong quarter. In fact I would say the best quarter for over 10 years.

Revenue was up 9%, reflecting a really strong performance on broadband and TV, up 24% year on year. It also -- you can see a stronger performance on our calls and lines business, which actually grew in the quarter 1%, which has been in a long-term decline.

In terms of the costs, as expected they're up 10%. That reflects the investment in BT Sport, which is over £130m in the quarter. That doesn't fully offset the cost-transformation programmes that are continuing to go in the Consumer business. But I'm delighted at a profit level. The EBITDA is up 5% year on year, returning to growth after two quarters of investment.

Slide 22: So a really strong performance on Consumer and if you look underneath that, if you look at the physicals that drive the business, you can see the impact of our investment in BT Sport working.

So in terms of line losses at 49,000, significantly down year on year; a very positive trend. That was our best performance for five years.

In terms of broadband, 79% share of net adds within the quarter; 170,000 adds, that's pretty impressive, up on Q3. Not quite as good as Q2 but significantly up on the running rate of around 50% pre the Sport investments.

In terms of fibre, we delivered 249,000 fibre adds in our BT-branded fibre products this quarter; again a record quarter.

And on TV, our TV adds are up 15% within the quarter, almost 25% across the year as a whole. So you can see the halo effect working across our TV business as well.

So Consumer, strong performance.

Slide 23: Moving on to Wholesale, Wholesale is going through some challenges, and we've talked about this in previous quarters, but in terms of the things we can affect, outside of regulation in particular, I think the team are doing a pretty good job.

So the underlying revenue excluding transit is down 9%, EBITDA down 6%. But if you look under that, let's talk about some of the underlying trends.

Calls and lines are down significantly. That partly reflects the impact of the Narrowband Market Review that we talked about last quarter. Managed solutions are down 6%. Again, that refers to the termination of the Post Office contract that Tony talked about in his segment. IP services continue to grow, up 38% in the quarter, and that's a very positive trend.

On costs, we continue to drive cost transformation, driving the self-help that can improve our profits. Ultimately, excluding transit, those are down 11% and that's a decent performance.

The order intake, while down year on year is still pretty healthy at £525m.

So challenging conditions for Wholesale but, within the constraints that we're able to work within, I think they are doing a reasonable job.

Slide 24: Which moves me on to the final line of business, which is BT Openreach. Strong fibre growth, you can see that in the numbers, offset by regulation.

So on a revenue basis, flat year on year. EBITDA up 2%. If you look at the revenue line, it would be growing 5% at a headline level if it wasn't for the regulatory effects of £70m at a top-line basis, which obviously feeds through to the bottom line as well.

Fibre is the real standout trend in there; up 63% year on year in terms of revenues, although Ethernet revenues are also growing.

Costs are down 3% as we see efficiencies coming through in the business. And our lines base is up as well. So the lines base across the year is at 83,000, up 6,000 in the quarter, as we continue to grow the number of customers that we serve across the UK.

The final number to call out, of course, is the fibre connections, and this is fibre connections across all customers; 347,000 fibre customers in the quarter. That's a record quarter for Openreach as well.

So good quarter for Openreach and really strong fibre numbers.

Slide 25: So I want to change tack a little bit now and talk about strategy and, just to frame the discussion, I want to remind you of the strategy we've been following for the last four years, which has served us very well.

It's built on three tenets: customer service delivery, cost transformation and investing in the future. And those three tenets we will continue to use moving forwards. They are fundamental to our business. But we felt we wanted just to refine the strategy to put a little bit more emphasis into certain aspects, particularly sustainable profitable revenue growth.

Slide 26: So this is the single slide we'll be using going forward. It pulls everything together in one place.

It starts with our purpose, which is to use the power of communications to make a better world. That purpose is a very powerful one for us because it allows us to meet the needs of all our stakeholders - shareholders, customers, our role in society and the communities we operate in. We can deliver against all those stakeholders without compromise.

In terms of the goal, our goal is about getting to a growing BT: sustainable profitable revenue growth. We're not interested in chasing one-offs, we want recurring revenues built on services. That's our core business.

If you move to the strategy segment, you'll see the three tenets that we've talked about in the past, and we continue to build on them, but we've enhanced it by building a strategy around broadening and deepening our customer relationships. What we want to do here is draw out the fact that not only is the customer critical to our strategy going forwards, but we want to prioritise our existing customers. That's where we see the biggest opportunity.

And, just to illustrate that, if you look at our Global Services business at the moment, on one hand, if you look at the top 30 customers, we've got quite a healthy share of wallet there of 25%, but if you look across the base as a whole, say the top 1,000 customers, that drops to only 8%.

So selling more of our existing portfolio to our existing customers is the priority there. And that same insight exists in every single line of business and, obviously, on the other extreme, to our Consumer business where we're trying to add broadband and fibre and TV and increasing mobility to our calls and lines customer base.

So it's the same basic tenet, focusing on increasing our share of wallet with our existing customers.

Slide 27:

Now, in order to do that you've got to make service a priority, and service has been a priority for us but customer needs are changing, they're becoming more demanding, and we must step up and step change our performance in order to respond to that.

We have made progress but, as Mike said in his opening, we haven't made the progress we want. And it's not that there aren't parts of BT that are extremely good at service. So, for example, Plusnet tends to win most of the service awards in the consumer sector and Global Services has a very good customer reputation. But it's fair to say we need to do more and we will be investing to make a difference here.

Slide 28: So I want to talk a little bit about what we've achieved so far in this section and then talk about what we're going to do in the future.

So in terms of what's been happening, over the last year our key metric, which is Right First Time, has improved year on year. So we've improved the number of occasions, the number of transactions that we interact with our customers with, we've improved that by 1.5 percentage points year on year, reversing some of the decline that we saw in the previous year.

So progress, but not as good as we hoped for across the year. There are some mitigating factors, some of them self-inflicted. We were taken by surprise by some of the demand on BT Sport. That put some pressure on our contact centres.

Another example is, of course, the extraordinary weather that we've had across the last 12 months that meant that delivering against some of the SLAs (service level agreements), particularly where it required repair the next day, if you think about the flooding and the weather and the storms, that meant for a period it was extremely challenging.

But, that said, we still need to do more and we recognise that. We've been adding extra engineers and extra people into our contact centres, particularly in the UK. We've been providing better

diagnostic capabilities into our hub so that we're able to identify what the fault is and send the right engineer or solve it over the phone.

And we can see the impact on our business. Complaints are trending down across Consumer and Business, and advocacy is up 6 percentage points year on year.

In terms of going forwards, there are three areas that we really want to focus on.

First of all, reducing the number of faults that we get across our network. We'll be identifying the cabinets which have the highest fault rates and investing in pre-emptive repairs there. We'll be providing our engineers with better diagnostic capabilities so they're able to reduce the number of repeats that we get in that area, and again, bringing down the reasons why people might call in the first place.

The second area we want to focus on is delivering within the day. So making sure that actually when a customer phones or contacts us online we're able to solve the problem first time without any follow up. And that means reducing missed appointments, focusing on callbacks but also applying account management, a specific account manager for the most complex service enquiries.

And then, finally, it's really looking at the culture and the operating model. So really ensuring that we're investing in training and development of our people, getting the incentivisation right, but also looking at the processes that underpin some of the more complex transactions through our business. Things like home movers and new sites where we're connecting up developers who are building new houses, making sure that actually we improve those processes which tend to be the source of a disproportionate number of enquiries.

So there's a lot to do on service. We're absolutely committed as a team to making a difference here. And this is, we believe, critical in order to deliver on our customer expectations going forward.

Slide 29: Which moves me on to cost transformation. Now cost transformation has been something we've been delivering on for a number of years. Indeed, we've saved over £5bn over the last five years.

That does not mean we're going to slow down. We still see opportunities across the group as a whole, particularly on an end-to-end basis, and it doesn't mean that we're going to sacrifice service.

The way we look at cost transformation is that cost transformation goes hand in hand with service. By removing failure out of the business, we can improve service at the same time. So cost transformation will continue to be important to us.

Slide 30: It also frees up investment opportunities across the group; money and oxygen for an opportunity to grow the business.

And there are five key areas that we're focused on to grow and I'm going to talk about each of these for a couple of minutes.

Slide 31: So fibre. Fibre is the biggest investment we're making. It's a relatively young investment still. It's critical for BT but it's also critical for the country as a whole.

It's been going very well. Our average speed is now the second in the G8 set of countries. So we've gone from being the laggard to number 2 only to Japan. Speeds are up 50% year on year. And we have the widest coverage of super-fast broadband across the five big European countries. These are Ofcom data, it's not us. It's been identified as independently verified.

As we said earlier, the rollout has been going well. We've now announced that we've gone past 19m premises across the UK. That's around about two-thirds of UK premises. And we're drawing to the end of the commercial rollout at this point and we'll be increasingly building up on the rural rollout programme.

And in terms of take up, that's very healthy. So we've now got over 2.7m homes connected to the Openreach network, of which 2.1m of them are BT Consumer and Business customers.

In terms of the future, we'll continue to drive that take up. We don't see this as something that's stopping at these sorts of levels. It's clear there's real demand for it. It's ahead of where we expected it to be in that respect.

We'll also be increasing coverage. So we're rolling out now and we're gearing up on BDUK, the 44 contracts that we've won. Indeed, we've already connected 630,000 homes through BDUK. And we'll look to bid for the funds around BDUK in order to extend the coverage even further. So, at the moment, we see coverage going to the early 90% but the ambition is to go further than that. And I think the Government ambition is to get to 95% and we'll look to play a part in that.

In terms of investing in the product itself, we'll continue to invest in new technologies that improve the competitiveness, things like G.fast, FTTP-on-Demand and vectoring, things that I've talked to you about in previous quarters.

So fibre is the most important investment across the Group. It's going well but there's still more to do.

Slide 32: TV and content. This is all about driving our broadband business, particularly for consumers. So on the TV side of things, we've passed over 1m customers now. We launched a new box, a much slimmer, cheaper, faster box, in Q4. That's doing very well.

We've extended our channel lineup, adding the likes of Discovery and Disney and Sky Movies. We've got over 140 channels now, 27 of them in HD. That's going really well.

And we launched buy-to-keep movies in Q4 for the first time, which allows us to get access to blockbusters at a very, very early window, sometimes before DVD release. So it really, I think, strengthens and opens up the choices for customers.

In terms of what we're going to do going forwards, we'll continue to broaden that proposition with channel partners and distribution deals. I'm very pleased that we've signed a new shareholders' agreement on YouView and this gives us much more control over the roadmap and allows us to continue to invest in the product itself. And you'll see some of those coming through in this next quarter.

So we're launching multi-room this quarter. You'll see that in the next few weeks. There'll be a new entry level YouView box later in the year. And, of course, we'll be the first platform to have the new BBC red button services before the World Cup.

One other thing to mention on TV is that we'll be reducing the number of platforms we run. So we'll be shutting down the Mediaroom platform in Q1. Of course, we'll be giving customers the opportunity to upgrade to the YouView platform but there may be a little bit of churn that you see coming through in there.

But net-net, TV a big opportunity; particularly to drive broadband.

Slide 33: And then on content, content has been all about Sport for us. It's gone really well. We've got around 3m direct customers now, only 10 months since we launched. If you include the customers viewing over cable that looks like 5m, which is a pretty decent performance.

In terms of the proposition, we've been adding content, such as rally content and MotoGP this quarter. We've re-signed our deal for the Bundesliga.

And we've been making the channel available on other platforms, so we're launching on Chromecast from Google as well.

Looking forward, I'm delighted to say we'll be continuing to offer BT Sport free to our broadband customers on any platform for the season 2014/2015.

And we'll continue to add to the content portfolio. So from autumn, we'll be showing the new European Champions Cup in rugby, which is the successor to the Heineken Cup. There'll be over 35 live games, including the best picks from the Aviva Premiership, the first picks.

And, of course, as we've already told you about, we've got exclusive rights to show the Champions League and Europa League from 2015 onwards. And that will strengthen our proposition even further.

Slide 34: Okay, the third area I want to talk about is mobility and future voice.

Now, this we see as a great opportunity to grow going forwards. The trends are moving in our direction, be that regulation, where the level playing field is now being established between fixed and voice; be it desire to use the internet and data out and about; be it the combination of 4G and fibre. All these things mean that we're extremely well placed to take advantage in this marketplace.

Our vision is not just to have a quad play, where you link products together. Our vision is to have a seamless converged proposition that works wherever you are and creates the best possible connection. And be that for a business or a consumer, we think we've got a great offer to provide them. We've got the right brand, we've got the channels, we've got the customer base and I think we've got the right set of capabilities.

Slide 35: In terms of what our strategy is, our strategy to deliver that is an inside-out strategy. It leverages the wide range of customer relationships we've got round the whole of the UK.

It starts with our MVNO arrangements. We've got a new MVNO deal in place with EE, which is much more competitively priced, with access to all the key technologies.

We supplement that with our wi-fi network, where we provide our customers access to 5.4m wi-fi hotspots across the UK.

On top of that, we'll be building our own 4G core and we'll be looking to do some small cell deployment outside of the premise.

And, of course, the final thing is access to our own 4G spectrum, which we bought in the auction this time last year, and creating a hub that includes a wi-fi and a 4G cell; a combined router.

Put that together and we'll have a high-capacity, data-rich network that will be very cost effective. And positioned the right way, I think we can provide some really compelling services to customers who want access to the internet wherever they are with a very high-quality service.

In terms of the timeframe, it will take two years, the best part of two years to put it all together. But we'll be launching products and services throughout that period. And it starts in the next few weeks, where we'll be launching our first services with the new MVNO in the business sector later this quarter. And later this financial year, we'll be launching new services into the consumer market as well.

So mobility is a very exciting area for us and a real source of growth going forwards.

Slide 36: Okay, the last two areas I want to talk to are all about our B2B customers and it starts in the UK and UK business markets. And within this, I want to talk about the range of opportunities, right the way from SOHO customers all the way to UK corporates.

We think we're well positioned to grow in this market and this takes advantage of the strength and depth of our network in the UK, which we don't always have in all markets around the world.

UK Business was created as a line of business for the first time this year to really take advantage of this, so that we could build propositions to meet the customers' needs and really serve them better. And it's allowed us to simplify our structure, pull all of our IT services business into one delivery unit and be able to provide some bundled IT services propositions but also sector-specific propositions in things like legal services.

We've also been launching a number of other new propositions in this area, so BT MeetMe with Dolby Voice, which we talked to you about at the half-year results. The initial demand from customers is very strong in that area.

And, of course, we've re-launched Plusnet for Business, which allows us to compete at the bottom end of the B2B customer base and focus on price-conscious customers, which exist in SOHOs in the same way they do in the consumer market.

In terms of the story going forwards, right the way across this customer base, it's all about growing our share of wallet, building on our strength in fixed voice and data, expanding into mobility and IT services and you can see from this chart we've got relatively small market shares.

And these are conversations that customers want to have with us and they want the services that are able to combine these together, particularly when we're building on IP.

Slide 37: Which brings me on to the fifth and final growth area, which is leading global companies.

Now, this is a change of focus, more of a nuance, and it builds on the investments we've been making in high-growth regions but we didn't feel that fully captured where we wanted to focus and prioritise our efforts, which is why we wanted to call out leading global companies. And if you look at the chart here, on the right-hand side, you can see why.

For the third successive year, Gartner have considered and assessed us as having the market-leading position in providing network service provision across global customers. So this is the third year on the trot we've had this position and that's what we want to build our business around.

So we'll continue to leverage the investments we've been making in high-growth regions but particularly where they're focused on global companies. We're looking to get a provider to provide over a region or across the world.

We'll continue to simplify our business, reduce the number of networks that we're working and using with customers. And, as Mike and Tony said, we're also bringing BT Conferencing and BT Security into Global Services to really realise the full opportunity of those units.

These are two particular issues that certainly I've heard, directly from CIOs and CEOs, as being very much top of mind. How do you collaborate better with units across the world? Which is exactly what BT Conferencing is focused on. And BT Security, which has a deep, high-quality set of capabilities, is an issue that, in terms of CIOs and boards around the world, that is really on their agenda and it's something that we need to really use to build our business. It's a real opportunity for us.

In terms of the future plans, this is all about share of wallet. It's all about investing in things like account management for multinational companies to ensure that we serve the top of our customer base much better, but at the same time, focusing on gross margin and cash.

Slide 38: Okay, I want to summarise now and pull all this together. So I think you've heard today we're delivering and these are a strong set of results and we see this is a great platform to grow going forwards.

In terms of our priorities, we'll be focusing on delivering superior service. We recognise there's some way to go here. We need to make a step change in our delivery. It goes hand in hand with our plans on cost transformation, because on cost transformation we're looking at simplifying our business and removing failure out of the business, which ultimately drives service.

It also provides oxygen to invest in the business and there are five key investments: Fibre, building coverage and take up; TV and content around triple-play and sport; Mobility, which is a great greenfield opportunity across all lines of business for us. We see great growth opportunity in the UK, particularly on a strengthening economy. And overseas it's all about multinational companies for us, rather than necessarily competing domestically.

All that, we believe, will give us a great platform for sustainable profitable revenue growth, allowing us to grow cash flow over the long term.

Thank you very much.

Slide 39: Okay, we're open for questions. Usual rules apply. One question each. I have the OC sitting in the front row, including Joe Garner. Joe, do you want to stand up? Joe Garner took over from Liv in February so Joe's available to take questions on Openreach.

QUESTION AND ANSWER

Carl Murdock-Smith - JPMorgan Cazenove

Maybe a chance for Joe to start, even. You mentioned G.fast. If it were something you wished to pursue in scale, how much would it cost to deploy, either at a total level or on a per-house basis? And over what time frame may that decision process become relevant?

Gavin Patterson

Well, let me give you some opening comments on this and maybe Joe, I don't know whether you want to add anything if I miss something. But G.fast is a very exciting technology. It allows us to get speeds of up to 1Gbps. It builds on VDSL. It takes the fibre closer to the premise, so effectively you get a glass transmission closer to the premise but not always all the way in.

In terms of what we're achieving, the sorts of speeds we're achieving are in pilot at the moment. So it's a couple of years before it gets expanded so it's too early to say how much it will cost per se, but we do see it playing a role within the overall estate. It's probably a couple of years away.

In terms of what needs to be achieved, I don't know whether Clive, do you want to just talk a little bit about the standards that need to be in place?

Clive Selley

So G.fast at the ITU (International Telecommunication Union) achieved consensus at the back end of 2013, in December, and we expect it to be ratified this year. And that's a prerequisite, of course, for the vendors producing the silicon. So they can only productise G.fast once the standard's been ratified, but that will happen this year. That's our strong expectation.

And then probably two years out from now, we'll get the first production units and then we'll run trials with those production units and that's when Joe will figure out the economics around the case for deploying at scale.

Joe Garner

And first of all, I'd say how pleased I am to join what is a great business at a really great time. I'm struck by how much debate there is around FTTC, FTTP, vectoring, fibre-to-the-remote-node, G.fast.

I think the point is, it's the portfolio of these technologies that enable us to work in different ways to deliver the ultimate speeds to the customers. And I think that rather than say that it's one single thing that's going to make the difference, it's the fact that we've got the whole suite of them that enables us both to do the BDUK deployment and to hit the ultimate outcome speeds that we are aiming at for our customer base. And I think the great strength is that we do have the full range to select from.

Maurice Patrick - Barclays

So on the line loss that you show a steady improvement, can you talk about how much of that's lower churn driving that improvement and how much of it's improving gross additions?

Gavin Patterson

Well, we have seen churn come down significantly on both broadband and our calls and lines business. We don't break it out, so it's several percentage points. And that's exactly what we were expecting behind the investment in BT Sport.

Given that that was such a short one you can have a second one.

Maurice Patrick - Barclays

That's very kind. As a quick follow up, perhaps one for Tony. When Liberty Global talked about a VAT issue impacting their revenue outlook for 2014, any thoughts on whether that impacts BT or any thoughts on that generally?

Tony Chanmugam

No impact on BT. Our accounting is in line with the HMRC rules. Can't comment on what other people are doing.

Andrew Lee - Goldman Sachs

Just sticking to the one question on your cost-cutting guidance, just some clarity on exactly what that is. I think you mentioned above £200m a year. Is that on an underlying basis? And I wondered if you could just give us a view on visibility, for how many years can you see forward?

Tony Chanmugam

First of all, in terms of the future, I can see plenty of opportunities; opportunities that we've got right now that will deliver returns over the next three years. And there's not a shortage in relation to that.

In terms of the absolute sums, what you see here in the cost base is a net impact, net impact after investments. So the absolute sum of reductions that we make are materially higher. You're talking close to £1bn a year that you see in reductions. But what you've then got is investment; investment such as BT Sport but also smaller investments that you don't see that we don't call out specifically.

What I remain confident on, though, is our ability to manage the cost base and deliver the long-term profitable revenue growth.

Andrew Lee - Goldman Sachs

So it's the underlying cost of the business that's going to be driving this growth but it's coming down by £200m a year.

Tony Chanmugam

The underlying cost excluding the investments will be going down materially higher than that; materially higher.

John Karidis - Oriel Securities

Sky said that they spend less on broadband marketing this quarter. So did you actually see a let up in competition because of this?

Gavin Patterson

I'll say something and then ask John to comment. I didn't notice it, to be perfectly honest. It's continued to be a very dynamic quarter, a very aggressive quarter all around.

Sky are the number 1 advertiser in the UK and that excludes all the cross promotion they get across their own channel portfolio. We're the number 3. I think our spending was down year on year a little bit in the quarter, so in terms of share of voice, certainly it was around about the number that we typically get, which is about 20% share of voice.

John, is there anything I've missed?

John Petter

Yes, just two comments. Firstly, in quarter 4 the cost of media is typically down anyway versus previous quarters. That's just seasonality. It's typically about 17% cheaper in quarter 4.

Secondly, Sky's spend on above the line might have been down and perhaps relatively marginally versus previous periods but it was still about 100% higher than ours.

James Britton - Nomura

A quick question on mobile. Can you just clarify that the costs of the mobile launches are, indeed, included in the guidance you've given today? And can you perhaps give us some sense of what investments will be required in mobile this year? And then I do have a follow up on mobile as well.

Gavin Patterson

The question was, are the investments in mobile included in our outlook? The answer is yes for that. And in terms of the scale of the investments?

Tony Chanmugam

What I'd say here is that if you look at our outlook, another thing. We've got our base investment in mobile currently in there. If we have to make something incremental on top of that, we'll change our outlook but we'll change our outlook both in terms of revenues and profits, as well as investments. And we'll outline what we're doing, much as we did with Sport to say, this is what we're putting in. This is the consequential impact. This is the gain that we'll get from that.

James Britton - Nomura

And just a follow up on the mobile side. Is it right that you're going to struggle to be competitive on roaming costs for the enterprise segment, given you're not part of a roaming group, seems to be

the feedback that I'm getting? And does that mean that you'll be more focused on the SME segment than the large corporate segment?

Gavin Patterson

I think we'll be very competitive. I've no concerns about it. The deal with EE is a very competitive deal. We'll supplement that in time with access to our own spectrum and access to our wi-fi hotspots. We can be extremely competitive. And bear in mind, our proposition is around bundling the services together, creating fixed and mobile converged propositions. It's not about simply doing me-too vanilla-type deals. So I'm very confident we're going to be competitive.

We launched, to start with, in the SME sector but there will be deals and opportunities in major corporates as well.

Steve Malcolm – Arete Research

I'll go for one and I'll up on James' mobile questions. In consumer mobile, given your experience in things like Fusion, should we assume that when you launch you want to have the best devices available; multi-band, iPhone, Galaxy, those kinds of things? And if so -- and I guess VoLTE as well. And, if so, when do you think you can get your hands on those devices to make this launch stick with consumers?

And as a small follow up, have you looked at split contract accounting? And is that something that we should think about it as a way of maybe assuaging some of the costs, EBITDA and earnings, of launching a mobile operator - the US carriers are doing it to great effect? Thanks.

Gavin Patterson

I'll take the first half, but the split contract accounting. I'll pass that one over to my friend here.

In terms of getting access to the right handsets, yes, we want to make sure that isn't a limitation in terms of our proposition and we're confident that we can do that.

The issues with Fusion were, frankly we were the only people using, effectively, that technology at the time so there was only one manufacturer who was prepared to support us. And our propositions and the technologies we're using this time are effectively generics in that respect. In other words, they are available on a full range of handsets and so I don't think that's going to be an issue per se.

In terms of the accounting, Tony?

Tony Chanmugam

The key is the cash and how we choose to account on the P&L, in many ways, is academic. We'll follow whatever the industry does. But, for me, the management of the cash and generating the long-term cash is what we're focused on. And that's why, when we looked at the Global Services accounting, we said: Measure us on cash. Don't measure us on anything else.

Robert Grindle - Espirito Santo

On the Global Services order book, is it mostly about your entering new markets and having a good push there? Or is there any sign of life for the existing customer base, any particular product that's picking up or any particular customer segment within the total enterprise, which is picking up with the economy perhaps? Thanks.

Gavin Patterson

Luis, do you want to talk a little bit about the order book?

Luis Alvarez

I think that the results of the order intake has been quite well balanced across the business. The good thing is that we have got probably best in class in the industry in terms of longer term deals. So we have signed probably more than five or six very large deals of above six years, which is probably nothing that is happening across the industry that easily.

We have secured Syngenta, which is a great example. It's a global deal. We have extended the services we were providing to them for another seven years. We have signed a new contract Jabil, which is supporting Apple, EMC, HP manufacturing. And it's a US deal, but it's also an Asia Pac because we have a large China rollout.

And we have been able to secure a number of companies, like Rexel, where they have 1,200 sites all across Europe, one of the leading players. We have been able to secure some new pharma companies, like Almirall, which is also a European one, Indesit in Italy, Prysmian is the leading cable operator, but also in Latin America with Nutresa, which is a new multi-Latinas regional player. So I think it is well balanced.

And in terms of portfolio, it's the same thing. Some of these deals, like the one of Jabil, which is 112 sites across 25 countries. They have the network, infrastructure. They have also the interconnection of the data centres. They have the voice services on top, the conferencing services and the security wrapped around that. So it's a well balanced portfolio which de-risks and, at the same time, shows the opportunity that Gavin referred to about the growth chances we have.

Nick Delfas - Redburn Partners

Nick Delfas, Redburn. It's another question on investments, really. Virgin's marketing exactly double your top speed of 152 megabits per second. Your capital spend is actually falling every year. I think Openreach is down 8% this year. And I guess within your overall capex you've got £1bn of capitalised labour as well.

Is it realistic to wait two years for G.fast? And what's really the difference in cost between G.fast and going all the way into the home? It seems like it's a few tens of meters difference, so I'm not sure what the difference is between going to fibre-to-the-home now and waiting for a new standard G.fast?

Gavin Patterson

Well, if you look at our results, clearly there is a demand for our fibre cabinet-based services. No question about that. In terms of the take up, it's the fastest take up, certainly across Europe. We had our best ever quarter in these numbers. And it's not just across the BT branded services, there are other service providers picking it up as well, so it's clearly got demand. There's no question about that.

We can see an ability to get more speed through things like vectoring and, if we need, or, indeed, customers are looking for further speed on top of that, we can deliver fibre to the premise on demand out of any of the cabinets that are served with FTTC and that will be complete across the year as a whole.

So I think we're well placed to respond to the market and to do so in a very capital-efficient way.

In terms of the results, Virgin, I think, announced 40,000 adds in the quarter across all service providers, including BT. We added [347], wasn't it, I think, fibre adds this quarter. So the numbers, I think, make a very strong case on their own.

Nick Delfas - Redburn Partners

Am I allowed one more?

Gavin Patterson

No. Next? (laughter).

James Ratzer - New Street Research

I was wondering if I could ask some questions just about the technical capabilities of the mobile network you're going to be building out.

At the end of the two-year period when it's built, I was just trying to get an understanding of what percentage of customers' voice traffic and data traffic you think you can capture on your small cell and wi-fi network. Also, are you going to have automatic authentication onto wi-fi built into your handsets? And are you planning to do things like voice over wi-fi as well within the network? Thank you.

Gavin Patterson

Well, in terms of what we can capture, there are several studies that demonstrate the majority of certainly data usage on mobile is within the premise. I think 70% is the number that's often quoted.

And if you look at the extensive network that we have across our wi-fi base, both inside and outside the home, we'll be able to access our 4G spectrum because we're going to build into the hub a cell that's able to automatically switch over to our spectrum when you're close to it.

So we think we'll be able to get the majority of people's usage onto our network. And where we can't, they'll be able to roam seamlessly onto the arrangement we've got with EE.

So I think it's going to be pretty cost effective. It's going to allow us to do some pretty compelling propositions, we think.

In terms of the timeframe, the critical thing we've got to get right is the customer experience. And the customer experience requires that the cells are able to self organise. And that is the piece that we're developing at the moment. We've very confident that we will be able to make that work and that is the key technology step to get right.

James Ratzer - New Street Research

Will you be able to offer voice on wi-fi at all?

Gavin Patterson

Yes, it will be voice and data over the best available network, the right network that's available. We do voice over wi-fi today.

Guy Peddy - Macquarie Research

Building on James' questions, I just wanted to understand this mobile network. Are you the only people that are trying to build a network like this? Or is there any evidence of people putting together these multiple technologies? And is one of the reasons why it's going to take two years because you are going it alone a little bit? Or, again, is this proven technology how you amalgamate all these things together?

Gavin Patterson

Well, in terms of whether we're leading edge or not, I'm going to ask Clive to talk about this a little bit in a moment. But if you look at the way 4G and LTE is being rolled out, it's largely been by incumbents. And they're following an outside-in rollout. So it's about creating a network, a macro network, planning sites to extend that, to ensure you've got, indeed, more coverage but getting on to fixed network as quickly as possible.

Our build is the other way round. They recognise that they will ultimately have to do this, particularly around small cells. So it is going to be something that I think many are doing. Indeed, others are doing it already now and that might be something that Clive wants just to talk to.

Clive Selley

So small cells themselves are not a new thing. Femtocells exist. You can buy them for 3G. They've been used to provide coverage where coverage from a macro network was not possible in the past. So small cells themselves are not a new idea.

What we have to crack are a few technical challenges, one of which is that we envisage dense deployment of small cells. So if you imagine a street of houses, we would like to have femtocells in many of them.

We've got to organise the cells, inside the cell the technology's got to be able to adapt to the proximity of other cells in order that they don't interfere. So that's the technical problem that we have to crack. And we're working with the key vendors, including the chipset vendors, to solve that issue.

And what I would say is that we're getting very full attention from the vendors, because they see small cells as being much more important in a 4G world than in a 3G world. So there is a lot of R&D going on in the vendor community.

So it might be that we are early as adopters, but we are absolutely riding the wave of their investment in much more advanced small-cell technology, because that's what 4G will ultimately demand, and not just from us.

Jerry Dellis - Jefferies

Just a question on Consumer retail, if I may, please. Obviously BT Sport seems to have delivered a halving, more or less, in Consumer line loss.

Going forwards, as we think about your guidance, do you assume that Consumer line loss trends continue to improve? And, if so, where would that improvement necessarily come from? Or are you more focused on now pricing up the existing base with no particular view on expanding retail market share?

Gavin Patterson

Well, in terms of the performance, line losses, certainly if you look quarter on quarter, it's better than half. I'd say it's a two-thirds reduction year on year. So we're pleased with that.

In terms of growing the Consumer business, and we've talked about this in the past, we see the potential to grow RGUs, increase the share of wallet that we get from our customers. And so that is where our focus will be. It doesn't mean there won't be the opportunity to increase pricing but we won't be as dependent on increasing pricing going forwards.

Barry Zeitoune - Berenberg

Just a quick question on TalkTalk and Sky's announcement of rolling out a limited number of homes with fibre. I was just wondering if you could give us an assessment of the greater risk of a greater rollout from those two competitors, and whether you think that's a real risk, or it's simply lobbying Ofcom. Thank you.

Gavin Patterson

Well, it's clearly an interesting announcement. It's a joint venture. They talk about it being a pilot. And, hopefully, if they choose to expand the pilot they'll be offering it up on a wholesale basis, which, of course, all our networks are.

It's a very challenging business case. I think they recognise that. Even in York, we've got 89% fibre coverage; a significant amount of it is FTTP. Cable, I think, has certainly 25%, that order of magnitude, maybe more, coverage in York.

So being able to make the business case work and getting the right adoption, I think, will be challenging. But we appreciate competition. We value competition. We're certainly not concerned about it in that respect. And we look forward to seeing the results in the market.

Barry Zeitoune - Berenberg

Sorry, just as a follow up, does that mean you don't really see the business case for a greater rollout?

Gavin Patterson

I think it's probably something you should ask them rather than us.

Paul Sidney - Credit Suisse

Just a quick question on use of cash. I think you've stated in the past that BBB+ is consistent with getting to reported net debt of around £6bn. I was just wondering is that still the case? And once you hit BBB+, how should we think about use of cash? Thank you.

Sir Michael Rake

I think we said previously that we do want to hit BBB+. We think it's a good discipline to move towards. I think if you take all of our debt and our pension fund and all of those issues, we need to be 2 times EBITDA on debt. And that [means net debt] probably begins with a 5 [billion], something like that. I think that's conservative and sensible in my view.

I think we've previously said the use of our cash should be in a series of issues. We want to invest for the future, which Gavin's talked about. We want to ensure that our pension deficit is dealt with. We want to reduce our debt. And we want to make sure we've got a sustainable growth in dividends for our shareholders. And we want to balance those issues. And that's how we want to use our cash.

And that's why, as Tony said, we've got such a strong focus on cash delivery. Whether it's about accounting for rollout, or whether it's about Global Services, we want to make sure we deliver that and can achieve all of those objectives, which we've actually been successively doing for the last four years and really trying to focus on that execution of that part of the business.

Stephen Howard - HSBC

It's been a couple of years since Vodafone acquired Cable & Wireless and I was wondering if you could just summarise what you felt their impact had been over that time. And, in particular,

whether or not you have been surprised by either their aggression or their lack of aggression to date. Thanks.

Gavin Patterson

Well, I'll probably just say a few comments and maybe -- I don't know whether, Luis, you want to add anything that I miss.

Clearly Vodafone are, I think, beginning to utilise the Cable & Wireless investment now. I think, from what I can see, they've had to invest a wee bit more than they thought they would originally. But they see the benefits and they see the opportunities around fixed-to-mobile convergence. So we do bump into them in the marketplace. And we compete, I think, particularly in the corporate sector and even into our SME business that Graham runs.

So we are seeing them, I think, a little bit more active in the marketplace.

I think, from our perspective, we're very well placed to compete in terms of our fixed network. We think we've got a stronger proposition. Increasingly, as we add mobility-type services on top of that, I think we'll be able to offer the full gamut that allows us to actually increase the number of opportunities we can go for.

Is there anything you want to add, Luis?

Luis Alvarez

Yes, I think that in terms of competing globally, clearly our proposition is much stronger. And most of the customers that we work with, they do need global presence and so on, so it means that they require the capability to integrate their fixed services with mobile services and a global landscape.

When you look to the UK and the corporate sector, we see that they are competing. I think that the investments we have been making in terms of having an integrated set of services from the voice to the data piece to the IT services I think is providing us a unique proposition. That is also linked to vertical expertise. That, I think, is an area where they should invest a lot to catch up with where we are.

Stephen Howard - HSBC

But have they pressed you on price or breadth of proposition?

Luis Alvarez

Not really.

Stephen Howard - HSBC

Neither. Thanks.

Barry Zeitoune - Berenberg

Just a quick question on TalkTalk's recent price increase. It seems to be quite material and Plusnet this time hasn't followed suit. Are you seeing an opportunity for Plusnet to be more aggressive at the lower end of the market?

And I was wondering whether you could maybe just give us some stats on how Plusnet is doing and how it's contributing to your net adds? Thanks.

Gavin Patterson

John, do you want to talk about Plusnet?

John Petter

Sure. And the revenues for Plusnet are up 17% in the year, so Plusnet's had a strong performance in the year for Consumer.

In terms of Plusnet's future plans for pricing, we don't generally pre-announce our pricing plans and I'm not going to this time. But I think you're right that TalkTalk's second price increase in six months will clearly have left some of their customers scratching their heads as to have they bought a value brand or not.

Gavin Patterson

I think with Plusnet, and I referred to it in my presentation, Plusnet is much broader than simply a consumer brand. Being able to create a business that is very lean and profitable but able to attract value and price-focused customers in the business market is also an opportunity for us and you'll see us continuing to focus on that.

Barry Zeitoune - Berenberg

Is Plusnet actually growing subscribers more quickly than TalkTalk?

Gavin Patterson

Yes. I don't know the number off the top of my head, do you, Tony?

Tony Chanmugam

The guidance we've given is that Plusnet is around about 20% of our net adds or within that range. We gave that about 15 months ago. And what I'd say is it's coming in somewhat less than that 20% but certainly above the TalkTalk number.

James Ratzer - New Street Research

I'm surprised you haven't had a question on BT Sport yet, so I'll have a go. Tony, you made some comments I saw on an interview this morning that you've had some discussions with Sky but have struggled to reach a potential price point on it, a wholesale agreement.

And if I look at your broadband net adds, to what extent do you feel actually the offering you've got at the moment is good enough to help continue to drive growth in your broadband business? Or do you really feel you do need to push on and get extra content to try to accelerate growth further?

Gavin Patterson

In terms of BT Sport, we're very happy with the performance over the last 10 months. It's performed really well. To be able to get around 5m customers in 10 months and to have the impact on our Consumer business that it's had, the impact on the way people look at us and perceive us as a brand is, I think, quite a remarkable achievement in that period.

In terms of the series of rights that we've got, we think we've got a really good set of rights, particularly as you add rugby and Champions League football going forwards. So we will continue to strengthen the proposition and build on the programming, building on the interactive nature of the programming going forwards.

We are a willing wholesaler. We've demonstrated that. We've got a wholesale deal in place with Virgin, a wholesale deal in place with Setanta in Ireland. We wouldn't preclude doing one with Sky but there's a price that they think it's worth, there's a price that we think it's worth and there's a gap at the moment.

In the meantime, we'll continue drive our strategy because we still see there's growth and we can see the impact it's having on the business and we'll be financially disciplined about any additional rights that we add over and above that. Nick?

Nick Delfas - Redburn Partners

Just coming back to value concepts that John mentioned, within BT's own brand you've obviously put through a big price increase on line rental and also started to charge for 1571, so that's a 15% increase, I think, in line rental altogether.

Gavin Patterson

3.5%. Check your numbers.

Nick Delfas - Redburn Partners

Which one, for line rental?

Gavin Patterson

For line rental.

Nick Delfas - Redburn Partners

Plus voicemail, which used to be free.

Gavin Patterson

That's a different thing. You were saying 15% for line rental.

Nick Delfas - Redburn Partners

Yes. So the line rental including voicemail has gone up 15%. But how many people are now opting out? And is that going to have a meaningful impact? Presumably on day one 100% of people had it. How many people are leaving voicemail right now?

Gavin Patterson

Well, we don't break out the voicemail numbers in our KPIs. I think you get plenty of detail from our business. What I would say is, if you look at the performance of the Consumer business, if you look at the reduction in churn, you look at the reduction in line losses, you look at the share of broadband net adds, you can see the business is performing very well. So that's your answer. Robert?

Robert Grindle - Espirito Santo

Just looking at the Openreach net adds, very low number compared to the last three years, actually. Is any of that due to the weather or did that all wash out by the end of the quarter?

Gavin Patterson

Joe, do you want to just talk about the physical adds?

Joe Garner

Yes, I think -- so we did go through a fairly exceptional period, which I think overall was well handled. But I think it is fair to say there was an impact on the net adds that certainly pushed things back a bit and may have reduced the overall number somewhat.

Gavin Patterson

Across the year, of course, 83,000, which was consistent with last year. Yes, John?

John Karidis - Oriel Securities

On a three- to five-year view how should we think about trends in depreciation and capex and depreciation relative to capex?

Tony Chanmugam

The capex number will trend down slightly but not going to be material. You're not going to get the £3.2bn to £2.4bn reduction. In terms of depreciation by default some of that will follow but the lives of the asset base is changing and their lives are somewhat shorter.

So I see a slight trending down in terms of capex, a slight trending down in terms of depreciation.

John Karidis - Oriel Securities

Would you say the trending down in depreciation is slightly faster than the capex trending down?

Tony Chanmugam

No, not necessarily.

Maurice Patrick - Barclays

Just a question on the long-term fibre penetration. I think you said it was 14% penetration of fibre at the moment within Openreach. I think you talked before about a 20%-type figure. Do we still think that's where it stops or can you talk about where you think it could be now?

Gavin Patterson

Look, we're not going to be setting goals in terms of fibre penetration. We're pleased with 14%. If you look at any international comparison, that's a good number. And if you look at some of the parts of the rollout that have been in place the longest we're over 20%. So Cornwall, where I was a couple of weeks ago, that was celebrating 20% adoption and that's got 90%-plus coverage now.

So I think there is the potential to go further, but we're not guiding in terms of how that is and we'll continue to make sure that performing today and executing today is the priority.

Tony Chanmugam

It's just worth adding we've gone from 9% last year to 14% this year.

Carl Murdock-Smith - JPMorgan Cazenove

Just in terms of the development of the entry level YouView box, up to now you've been very firm in terms of monetisation of TV, requiring TV customers to actually pay you additional ARPU. I was just wondering if the development of a cheaper box does change your mindset slightly and whether you would consider monetisation just through a longer contract period in terms of giving someone a free box, a free cheaper box.

John Petter

Two points on that. Firstly we're not about to pronounce our pricing for something that's being launched in several months' time.

This does strengthen the overall economics, that's true. The service is already extremely cheap, though, at just £5 a month and I think our view is that a service that is completely free and that has a completely zero commitment from the customer is typically not valued by them either. And so if you go on to eBay you'll find lots of TalkTalk boxes. (laughter)

Gavin Patterson

Okay, let's move on quickly. Steve?

Steve Malcolm - Arete Research

On the regulatory side you didn't mention the Court of Appeal's decision to ask the [Competition Appeals Tribunal] to go back and look at the decision on the wholesale must offer decision.

After the original [Competition Appeals Tribunal] decision, Ofcom put in place an interim agreement, which excluded YouView. Do you think, in light of the Court of Appeal's decision, that it's possible that the interim agreement may change, that Ofcom may be differently minded in terms of whether it includes YouView in the interim solution, which would solve some of your wholesaling issues with Sky, I guess?

Gavin Patterson

We have made an application to the CAT along those lines, that the CAT have to consider it as an interim issue, and we've made that application a couple of weeks ago. So possibly yes, but we shall see.

Last question. Guy, it has to be you.

Guy Peddy - Macquarie Research

Not sure how to take that! I'm with you being a Liverpool fan.

Gavin Patterson

I know, that's why I chose you, no other reason!

Guy Peddy - Macquarie Research

Just a small thing on how you're pitching your numbers going forward. We're selling a picture here of potentially growing revenues, growing EBITDA, decline in capex. That's a very contrarian trend to the rest of a global industry to be able to deliver all three of those simultaneously.

So I'm just intrigued as to why actually do you think capex can go down, given that everything we talk about is incremental investment? Why do we not think that capex could continue to go up to actually support the revenue growth and the EBITDA improvement over time?

Gavin Patterson

We're clearly focused on cash. That's the most important number for us. In terms of the savings that we see or the ability to save money in capex, there are efficiencies we can see already. We're coming towards the end of the commercial rollout on fibre, although we will be investing with BDUK, so there will be some potential savings there.

In terms of how we're building our network, we're finding new ways of creating a more efficient network. So if we had more time I'm sure Clive would regale you with a new network orientation that he's put in place on broadband, which has significantly reduced the capex requirements as we go forward on broadband; delivering a better service for a much better unit price.

So there are ways to improve. We don't necessarily have to increase capex to grow the business. If we needed to, we'd be prepared to because the key number for us is free cash flow over the long term. Tony?

Tony Chanmugam

Just one thing to add to that, the opening net ratio. Our opening capex-to-revenue ratio is slightly higher than the industry norm.

Gavin Patterson

Very good. Thank you very much.