



BT GROUP PLC

Q4 2015/16 RESULTS AND CAPITAL MARKETS DAY CONFERENCE CALL TRANSCRIPT

5 May 2016

Agenda

Section	Speaker	Page
Welcome	Damien Maltarp Group Director Investor Relations	1
Introduction	Sir Michael Rake Chairman	2
Results	Tony Chanmugam Group Finance Director	3
Strategy & Outlook	Gavin Patterson Chief Executive	10
Q&A session 1		19
Cost Transformation & EE Integration	Tony Chanmugam Shahzad Saleem Rikky Okker Howard Watson Andy Wells Group Finance Director MD Cost Transformation Director Cost Transformation CEO TSO Director Cost Transformation	35
Technology, Service & Operations	Howard Watson CEO TSO	45
Openreach	Clive Selley CEO Openreach	50
Wholesale & Ventures	Gerry McQuade CEO Wholesale and Ventures	57
Q&A session 2		61
Consumer	John Petter CEO Consumer	70
EE	Marc Allera CEO EE	77
Global Services	Luis Alvarez CEO Global Services	83
Business & Public Sector	Graham Sutherland CEO Business and Public Sector	90
Q&A session 3		95
Closing Remarks	Gavin Patterson Chief Executive	107

WELCOME

Damien Maltarp

Good morning, everyone. Thank you for joining us today either in the room or on the webcast. Before we start, I would just draw your attention to the usual forward-looking statement. And in terms of our agenda today we've got hopefully quite a full and interesting day. We'll start off with our Q4 results, and then Gavin will talk about our strategy and our outlook. We then have presentations from Tony and the team

around cost transformation and the integration of the EE, and then you'll hear from each of the CEOs of our lines of business.

During the breaks, during lunch, do have a look at the demonstrations outside, and also during the lunch break there will be an opportunity to meet some of the new CEOs on the Operating Committee perhaps with a slightly different twist.

But with that I'll hand over to our Chairman, Sir Michael Rake.

INTRODUCTION

Sir Michael Rake

Good morning, everyone, and thank you very much for joining us today. This, as you know, has been a landmark year for BT in many ways. In January, we completed our acquisition of EE, the UK's leading mobile operator, and we are delighted with how the integration process is going and how the business has been doing since, and indeed before, it joined BT. This is a transformational deal for us. It means we have the best mobile network and the largest superfast broadband network in the United Kingdom.

Our financial performance has also been strong this year. We have delivered our best revenue performance for more than seven years, and this is being driven by the investments we have been making in the business, whether that's our investments in Champions League, BT Mobile, or new security services to protect organisations against the growing risk of cyber attacks.

Our most important investment has been in fibre broadband. This year Openreach achieved the milestone of bringing our network to more than 25 million premises. That means we have helped bring fibre broadband to 90% of the UK, and this has been one of the fastest deployments of fibre broadband anywhere in the world. Rollout has been on budget and ahead of schedule. The UK now has the highest fibre broadband availability of major European countries. It has some of the lowest prices, and it has the largest internet economy of the G20 countries.

Openreach's investment in fibre has been key to this progress. It was a bold investment, started at a time when many said that there would be little demand and at a time when there was no other private investment taking place of this scale. But being part of the wider group has given Openreach the confidence and ability to invest at scale and pace. It has also given Openreach access to some of the world's leading research facilities which are shaping the way broadband networks are evolving.

But while our investment in fibre has been a success for the UK, we have not done as well on providing a customer experience that matches their rising expectations. This is an area that the Board is very focused on and we recognise there is a lot more that we need to do, and will do, as Gavin will go through later.

Some have suggested that structurally separating out Openreach would increase investment in the network and in service. This is simply not the case. Separation would result in a riskier business with less investment, not more. We want to invest further and to do so at pace. We stand ready to deliver the minimum broadband speeds needed for every home to enjoy the most popular Internet services. We want to expand the reach of fibre broadband beyond the government's current target of 95%. And we want to take the UK from a superfast nation to an ultrafast one.

But in order to do this we need regulatory support and the right policy framework to make sure we can earn an appropriate return for our shareholders.

This year we have sought to reward our shareholders by again paying a progressive dividend, as you can see on the chart. I'm pleased to be able to announce today a final dividend of 9.6p, bringing the full year dividend to 14p, which represents growth of 13%.

In terms of our dividend going forward, we remain confident in our future cash generation. We therefore expect to grow the dividend by at least 10% for each of the next two years. And we will do this at the same time as investing in our business to drive further revenue and cash flow growth in the years ahead.

With that, I'll now pass you to Tony to take you through the financial results for the year. Thank you.

RESULTS

Tony Chanmugam

Good morning, everyone. Thanks, Mike. We delivered a strong financial performance this year, with our revenue growth at the top end of our outlook range and the best in more than seven years. And our EBITDA and cash flow also showed good growth. It met outlook and it beat consensus. Our investments in EE, fibre, BT Sport, BT Mobile, and our new business products have continued to deliver strong financial returns. We made good progress in cost transformation this year, and there continues to be further opportunity for savings.

So, how does that performance stack up against our outlook? When we set our outlook last year it was on a standalone BT basis, excluding EE. So, here we've shown BT's results on exactly the same basis. As you can see, we've comfortably met our outlook on all three key measures. Our key revenue measure, underlying revenue excluding transit, was up 2%, at the top end of our outlook range. EBITDA comfortably met our outlook of modest growth, up 1%, whilst normalised free cash flow was £2.84bn against our outlook of around £2.8bn, so a strong financial performance here as well.

Now, if we move on to our reported results for the quarter and the year for the enlarged BT group, we have two months of EE results included here, and this is the largest driver behind the strong growth rate. The raised net debt figure largely reflects the debt raised and taken on as part of the EE acquisition, which I'll cover in more detail later.

This slide gives you a more detailed breakdown of our performance in the fourth quarter, showing standalone BT, EE's contribution for the two months of the quarter, and then the combined group.

For standalone BT, revenue was up 1%, and up 1.3% on an underlying ex-transit basis. This reflected growth in Consumer, Openreach, and Business. EBITDA was flat. If you remember last year we benefited from around £30m of ladder pricing in the fourth quarter. Without this our EBITDA would have been up 2%.

EBITDA in the quarter was also impacted by some other headwinds we have previously called out, such as leaver costs and our first year investment in BT Sport Europe. In terms of capitalised expenditure and normalised free cash flow, these were both broadly in line with last year for BT standalone. We're very pleased with EE's performance for the two months. It delivered a particularly strong performance in cash flow, but I would caution that much of this was timing. As I'll explain later, some of this timing related to the emergency services contract.

Having looked at the results for this year in some detail, I want to put this into wider context for you. These three charts show how we performed in the last five financial years, as our investments in our network, products and services have paid off. Our key measure of revenue, underlying revenue excluding transit, has turned around from a 3% decline three years ago to 2% growth this year, and we're also seeing consistent growth in our EBITDA and normalised free cash flow. This demonstrates what we've been saying for some time, that some of the costs that we take out of the business are reinvested to drive top line growth, while other savings flow through to the bottom line.

Our operating costs this year reflects the investments we've made for growth, in particular the launch of BT Sport. A year ago I called out a number of headwinds we would face this year in operating costs, including the launch of BT Sport Europe, a higher pension operating charge, leaver costs moving above the line, and no benefit this year from the sale of redundant copper. Excluding these, our underlying operating costs are down 2% for the year. Within this, our underlying labour costs, excluding EE, have reduced by 4% despite investing in new engineering and customer service resources and insourcing 2,300 roles into the company.

We'll speak in more detail later this morning about our cost transformation and integrating EE, but I just wanted to highlight two key numbers to you. About a year and a half ago we told you that we could still see opportunities for more than £1 billion of gross cost savings across the business. Since then we've delivered a significant proportion of these savings through our cost transformation projects, but we've also found and discovered many new opportunities.

As of today, we still have visibility of well over £1 billion of gross cost saving opportunities to be delivered over the next two years, with the majority coming this year. And this only counts for savings that we've already identified as of today, and excludes the EE integration savings. So, I'm very confident in our continued opportunities here.

Secondly, when we announced the acquisition of EE in February last year we said we could see cost synergies, with a run rate of £360m per year. Following our initial operating reviews, we now believe that cost synergies will be around 10% higher, at around £400m per year. And we believe the cost of integrating EE will be around 10% lower than we had previously expected, at around £550m, rather than the £600m we had originally guided.

Now, I'd like to move on to talk about how each of our lines of business did this quarter, starting with Global Services. Underlying revenue excluding transit, was down 2%. This reflected the phasing of the public sector contracts that we've spoken about before. EBITDA was up 5% and up 1% excluding FX, with our cost transformation activities offsetting the revenue decline. We said early this year that we expected growth for the second half of the year, and we delivered that with EBITDA up 6% for the half year.

Free cash flow for the year, which is a key metric for Global Services, was up 36% due to lower capex and better working capital. The chart on the right shows EBITDA less capex, which is a proxy for cash flow that avoids the fluctuations in working capital. This shows a significant improvement over the past five years.

Order book for the year was down 4% reflecting some large contract re-signs we had in quarter four last year. However, in terms of mix we've seen an improved mix, with the majority of orders being new or contract growth, rather than simply renewals. The overall increase in new or contract growth orders this year was 8%.

Turning to Business, we had a good performance in revenue and EBITDA this quarter. Underlying revenue excluding transit was up 2%, and EBITDA was up 11%. But both of these benefited from some one-offs and some seasonal revenue, so you shouldn't expect the same level of growth going forward. However, we have a good financial base for the business. We're once again seeing strong growth in IP products, with 62% growth in IP lines offsetting around a fifth of the loss in traditional lines. Free cash flow was 6% lower, reflecting the working capital timings for the capital investments last year in fleet vehicles to support the Openreach business.

Now, on to Consumer. Quarter four revenue was up 8%, driven by a 20% increase in broadband and TV revenue, and also helped by BT Mobile, which has now reached more than 400,000 subscribers since we launched it in March last year. We're very pleased with BT Mobile's performance, and the level of take up has given us the confidence to launch mobile handsets in the coming year, which John will tell you about in more detail later on.

EBITDA was down 2%, which is lower than quarter three, which benefited from the timing of price changes. However, this reflects the launch of BT Sport Europe and our ongoing investment in customer service. This quarter our share of broadband net adds, excluding EE, was 72%. We've continued to see strong fibre take up, with 204,000 net adds this quarter, meaning 48% of our customer base now takes fibre.

The chart on the right shows our quarterly change in the number of consumer lines. This quarter we lost 18,000, bringing the total for the year to 123,000, less than half of last year's level, which is a very good result. The success of our investment in BT Sport Europe has been reflected in our TV net adds, which were up 27% this quarter, and up 88% for the year. And we can also see it in our BT Sport audience, which is up 45% for the season to date and passed 2 million peak viewers for the first time.

Now, looking at EE, we're really pleased with the strength of the EE teams that have joined us and the dynamic culture they bring to the company. EE's management continued to run the business exceedingly well in the period between us agreeing to the acquisition and the transaction actually going through. That momentum has now continued.

As EE joined BT on the 29th of January, we've included two months' performance within our numbers, and we're very pleased with the financial performance so far. On the operational side, it added 54,000 postpaid net adds, and recorded postpaid churn of 1.1%, which is in line with recent quarters. EE has continued to win awards as the UK's leading mobile operator, topping 5 out of 6 rankings in both the RootMetrics and OpenSignal test, and its network was 60% faster than the nearest competitor in the Speedtest awards.

Looking now at Wholesale. As we flagged to you previously, Wholesale had a tough comparator this quarter due to ladder pricing revenue of around £30m it recognised in Q4 last year. Excluding this, this quarter's underlying revenue and EBITDA is broadly flat, and you can see this in the EBITDA chart on the right hand side.

And now to Openreach. Revenue was up 2% for the quarter and the year despite a c.£30m impact from regulation in the quarter, bringing the total for the year to around £130m. However, the severity of the winter floods contributed to a 4% increase in operating costs this quarter, leaving EBITDA for the quarter flat.

Net capex was up 34%, partly due to the deferral of grant funding. This was in line with our guidance that 15/16 Openreach capex would be higher than the previous year. Excluding any impact of grant funding, gross capex was up 5%, and we expect growth again in 16/17.

We added 415,000 net fibre connections, bringing the total to 5.9m homes and businesses connected, around 23% of premises passed across the country. However, the take up we've seen within BDUK areas has been even higher. When we first started rolling out fibre, our original base case was based on 20% penetration. But the market-wide demand for fibre meant earlier this year, we hit that figure and revised our take up assumption to 30% within BDUK areas. We've continued to see growing demand, and so this quarter we're revising our expectations higher again, to 33% in BDUK areas.

In BDUK contracts, if the take up is better than we expected and surpasses the 20% in our original business case, we will either give back or reinvest some of the grant funding we receive, with the vast majority expected to be reinvested to increase the reach and the quality of the network. So, since quarter four last year we've been deferring some of the grant funding we've received, and the total deferred to date is £258m, of which £229m was deferred during this financial year and £70m in quarter four.

In terms of how that's accounted for within our group capex figures for the year, the £229m we deferred during this financial year effectively increases our accrued capex by that amount. It's worth saying that

this deferral doesn't impact cash flow in the period but will be gradually phased over a number of years as we deploy the grant funding income to further expand our network.

This has contributed to a 14% increase in our capex this year, which totalled £2.65bn. Excluding the impact of the deferral and EE's two months of capex, our capex for the year is broadly flat. Within this we've seen a changing mix of spend, with material increases in fibre investment. Openreach gross capex is up 5%, but we've seen lower capex in the other lines of business due to lower BT Fleet capex and efficiencies.

We've completed the exercise of allocating the EE purchase price against goodwill and intangible assets, and therefore, taking this into account in 16/17 we expect depreciation to be around £3.6bn, reflecting a full year's depreciation of EE.

Moving on to net debt now, which is up £4.7bn in the year. This reflects a £3.5bn cash element of the consideration for EE, as well as the £2.1bn of EE net debt we took on. Consequently, interest charges for 16/17 will be higher, as we have a full year of EE's numbers. But, as we reduce our debt over the following years we expect our annual interest payments for 18/19 to be around £150m lower than in 16/17.

I'll very briefly touch on the pension. The IAS19 valuation of the pension deficit this quarter is £5.2bn net of tax, down from £6.1bn a year ago. This reflects deficit payments of £880 million made during the year.

Now, moving on to regulation, in April Ofcom published the final conclusions of its Business Connectivity Market Review. This includes the pricing to apply to Ethernet lines for the roughly three years until March 2019. We expect this to have an impact in 16/17 of between £175m and £200m on Openreach. As some of this is internal, the group impact will be significantly lower.

In addition, Ofcom has introduced minimum service levels for the provision and repair of Ethernet, similar to what we already have for copper lines. And it specified that Openreach needs to introduce a dark fibre product for providers of high-speed leased lines for businesses from October 2017. You'll be aware in February Ofcom gave its initial conclusions from its review of the UK's digital communications market. For the past five years we made our ducts and poles available to other CPs, which they could use to invest in their own networks. Ofcom have now asked Openreach to provide a digital map of the network in order to encourage take up.

With regard to Openreach, BT has proposed a new governance structure to Ofcom, and we remain in discussions with them on how we can produce a strengthened, proportional form of functional separation that's in the best interests of customers, the industry, and the investment in UK plc.

Before I give you our full year outlook, I wanted to talk you through the drivers of cash flow for the next two years. In 16/17 Consumer will be launching handsets, and making this offering to BT Mobile customers, the investment for which will impact cash flow by around £100m. As I just mentioned, we'll see increased headwinds from regulation. We didn't spend as much capex on EE's Emergency Services Network (ESN) contract this year as we'd expected to, so we'll have a bit more next year, and expect up to £300m in the year.

In addition, we'll have around £100m of integration capex relating to the EE acquisition that has to be accounted for under trading cash flow. This is part and parcel of the total integration budget. However, we'll see improved trading and obviously we'll have a full year of EE's cash flow, so consequently we expect cash flow for 16/17 to be between £3.1bn and £3.2bn. Adjusting for the consumer handset investment and integration capex this represents an upgrade in the underlying cash flow of around 5%.

Moving on to 17/18 cash flow, the ESN capex will be around £200m lower than the previous year. In addition we'll see the payback on the mobile handset investment, and a continued improvement in trading, resulting in increased cash flow of more than £3.6bn. This also includes £100m of integration capex, and represents an underlying upgrade of around £150m.

So, to finish, I'd like to show you our full year outlook for 16/17 and 17/18. Our confidence in our strategy and the investments we're making in our business mean we expect growth in underlying revenue excluding transit, in both 16/17 and 17/18. In 16/17, adjusted EBITDA is expected to be around £7.9bn after the net investment of around £100m in launching handset offerings to BT Mobile customers, with growth in 17/18 as our investments start to pay back.

And, as I've just explained, the cash generation from our investments mean we expect normalised free cash flow for 16/17 to be between £3.1bn and £3.2bn, rising to above £3.6bn in 17/18 after around a further £100m of integration capex. The strength of our cash flows allows us to commit to growing our dividend per share by at least 10% for the next two years.

Finally, over the past few years we made buybacks of around £300m each year to offset the dilution from employee share schemes. In the coming year the scheme maturing is smaller, so for 16/17 we plan to buy back around £200m of shares. Taking into account our shareholder returns, other uses of cash, and our prudent financial policy, we believe our optimal net debt level is between £7bn and £9bn.

I'll now hand you to Gavin to take you through our strategy and outlook.

STRATEGY & OUTLOOK

Gavin Patterson

Thank you, Tony, and good morning and welcome to The Grange. I'm so pleased that you got the invitation and came here and didn't go to BT Centre, which is one of the things we were concerned about!

Over the next half an hour or so I'm going to spend my time talking about how we're going to evolve our strategy over the next few years. I'm going to focus on three things in particular: our strength and where we see our source of competitive advantage, where we see the growth opportunities, and ultimately how we're going to create value across the business.

But before I do that, I thought it would be worth just taking stock for a moment and look at how the business has developed over the last three years since we did the last Capital Markets Day. And the business has changed quite dramatically. There's a significant change to the revenue. We were declining 3% a year three years ago. It's now a growing business. We've taken over £3bn out of costs across the business as a whole, and we've used this to fund investments across the whole of the group.

We've brought fibre to another 10m homes, taking the total to 25m in terms of the coverage across the UK. We successfully launched BT Sport, which now has over 5m customers across the UK. And of course we've got back into mobile, initially behind the successful launch of BT Mobile, but now with the acquisition of EE we've got a very strong business that really positions us extremely well for the future. So, net/net we've got a business that's generating 23% more free cash flow than it was three years ago.

The theme of today, and indeed the focus of our strategy is about seizing the opportunity of convergence. We see this as the most important way of driving long term, sustainable, profitable revenue growth, which is the goal of the business. We feel we've got a fantastic position to create the UK's leading converged operator.

But it's not just about the network, it's about the people and it's about using customer experience to create a competitive advantage. There will be further cost transformation, as Tony outlined, and we'll touch on that more through the day. And it's that cost transformation that will fund the dividend growth that we've talked about, that will reduce our debt, that will ensure that the pension is fully funded, but ultimately it will also create the room to invest to continue to grow over the next few years.

Now, this is the strategy we've been following for the last few years. I'm sure it's etched on your minds, and it is one we've talked about at every set of results. In many ways it's served us very well. It's been

based on three tenets: customer experience or customer service, cross transformation and investing for growth. And we'll talk more about those in a minute. But in terms of those growth areas I think we've made a significant amount of progress.

Fibre, which is the first of those, as I said now covers 25m premises across the UK, that's 85% of the UK, or 90% if the Virgin footprint is included, can get access to superfast broadband now.

There are 5.9m homes and businesses connected to our network. That's a take up of 23%. And importantly, it's take up across the board with other CPs apart from our own downstream businesses, other CPs picking up around 50% of the net adds in a typical quarter now.

TV and content has changed dramatically and has been a big success. As I said, 5m homes taking BT Sport, initially behind the Premier League, and then in the last 12 months we've kicked on with the launch of BT Sport Europe and BT Sport Ultra HD, which was of course the first ultra HD content in the UK. And of course the platform itself has really grown significantly, so in the last year the [TV] customer base is up 28% to over 1.5m, and there's real momentum there.

On mobility, as I said, BT Mobile launched just over a year ago, now has 400,000 customers and has proven to be very popular. But we've got this exciting business now with the acquisition of EE, and I think that allows us to truly take advantage of the opportunities around convergence, and we'll spend more time talking about that.

In the business markets there have been headwinds, but you could see in Tony's presentation we're beginning to address them. There's real momentum here in the UK I think here. It's all about IP and the transition to an all-IP set of products and services, and that's really taking off, as you can see from these numbers. And of course fibre is important to business customers as well.

And then globally, our Global Services business has had headwinds, but we're seeing real progress there as well. Things like the security practice we've got with revenues up 24% year-on-year, real momentum in that part of the business. And geographically we've seen our high-growth regions continue to grow with, for example, growth in AMEA up 12% year-on-year.

So, I think net/net the investments we've been laying down, that we've been talking to you about every quarter, have really begun to work for us.

With the acquisition of EE we wanted to take a moment to look at our structure to make sure it was serving customers in the way we felt was most effective, and so we moved some things around. So, bear with me over this chart because these new three slides can be a little confusing. This is what the business looked like with the integration of EE to start with on the 29th of January.

Of course EE was a completely formed business serving all customer segments and it had its own technology unit, so we've moved some things around, particularly these. I'll let you take a moment just to consider them. And that is the structure of the business moving forward. So a technology and services operation that is supporting the whole of the business that includes the mobility technology unit from EE.

Then if you move upwards, two consumer facing units, the EE consumer business and BT Consumer. A new B2B unit in the UK that includes the old BT Business, includes GS Corporate from the UK, and EE's B2B business, and also the public sector customers that were part of GS. So, a beefed up business with about £5bn in revenue, servicing domestic customers here in the UK, business and public sector. And a more focused Global Services business. Still with £5bn revenue, so pretty significant, but really focused now on multinational companies operating across several countries and regions and indeed the world.

BT Wholesale and Ventures includes the traditional wholesale business we've had, we've added in the MVNO business from EE, and we've pulled together the ventures that we've had across BT into one unit so that they can serve all customers across the group and be more entrepreneurial in how they do that. And then Openreach, which has remained exactly the same.

I'm going to talk now about how we're going to evolve the strategy. But before I go into that I want to talk about some of the themes that we're trying to address in the update of the strategy today, and these are the four things we're going to talk about. First of all, convergence. So this is in many ways a bit of a cliché. It's been around for probably 20 years. But it continues to gather pace and it continues to be one of the critical driving factors in the markets we operate in, be those consumer markets or B2B markets.

If you look here on this example, the boundaries between fixed, broadband, mobile and TV are beginning to blur. Customers want solutions that combine combinations of those, be those quad play type solutions, or triple play, or dual play solutions. Clearly, the fixed-to-mobile part of that is in its infancy and we're well placed to take advantage of that. TV and broadband is more established.

We would argue that the TV element of this is being ill-served by the market, where Sky continue to have a dominant position, with over 75% market share, and more restrictions in terms of the switching rules so that they can retain more customers. It's not a seamless switching mechanism as it is in the broadband

market. And that is something that will need to be addressed if this market is going to be truly converged and truly a level playing field.

But I think as we become a fully converged service provider going forward it's pretty obvious that we've got a strong place to really operate here, with a lot of upside. If you look at quad play penetration here on the right-hand side, the UK is underdeveloped versus almost every market in Europe, and that's one of the areas we see as a real growth opportunity.

The second market trend is around data. So, the growth of data is exponential. It's a very easy thing to say. Howard will talk more later of our ability to deliver that at the right price. But just looking at this chart you can see the growth rates that we're having to cope with across the business. And this is a high quality problem to have, people wanting to use more and more of your product, it's got to be a good thing. But the key is being able to deliver it in a way that provides good value and a seamless service to customers at the right price.

So, just to characterise it, within three years' time we will need to be able to convey three times the data across our network that we conveyed last year. It's that sort of growth rate that we're looking to address.

We think we're placed to take advantage of this and really help customers here. And that's because we have the best network in the UK. If you combine the reach, and scale of our fibre network together with what we've got now with 4G through EE, that combination means that we've got a fantastic opportunity here to address. And this is going to be a theme we come back to later.

One of the things that the data consumption is coming from is [businesses] using the cloud to deliver their services to their end customers. This is a trend that is affecting all B2B customers, we talk about public sector here, businesses it's exactly the same. It can be a very difficult transition. You need a trusted partner to do that. But ultimately we're seeing more and more businesses making that transition, and indeed more and more public sector customers to do that. That is why we've reorganised the business to serve customers through the business and public sector unit itself, but it's also something that we'll talk more about within GS in particular, and how we're addressing global customers' needs through our 'Cloud of Clouds' strategy, and that's something Luis will talk about later.

Which brings me on to trend four, which is around globalisation. And the trend that we've seen for a number of years is that many multinationals are looking to provide their operations with global solutions, where we can respond to their needs and where they're moving their operations around the world.

Digital transformation is very much a part of this theme. Cost transformation is very much a part of this theme as well. So, it is being used as a way of transforming the way they're operating the business. But importantly, the network itself is fundamental to it, and that is where we believe we've got a real strength.

So, we have the global reach across that network, we have the security expertise, as I mentioned earlier, our security practice is growing 24% year-after-year, we've got a strong portfolio, ability to service around the clock, strength in consulting, all these things are critical and it's allowing us to win more and more business for multinationals, as Tony mentioned in his presentation earlier.

So, moving on to how we are evolving the strategy, and the emphasis is on 'evolving', because much of the strategy is working for us. Fundamentally, it's all about sustainable, profitable revenue growth. That's the goal that we're focused on. It's about the relationships we have with our customers, how can we strengthen those, how can we broaden those, how can we increase our share of wallet that our customers spend with us.

The three building blocks of service, investment in growth, service investment and cost transformation are still there. There's a tweak to the one on service, which I'll come into in a minute. Cost transformation remains fundamental, and we've got a section on it later, but there have been some concerns I think that we're running out of road on cost transformation. One of the things we want to assure you of today is there's still plenty to go for, and we'll outline how we're going to get that £1bn that Tony talked about earlier out over the next couple of years.

In terms of that service and the evolution to customer experience, this is an important one. Basics of service are absolutely critical, but increasingly we're learning that service itself alone is not enough to really drive profitable revenue growth. You've got to create an outstanding customer experience that involves excelling at a number of other factors, and I'll talk more about that now.

First of all, expectations are rising from customers, it's an obvious thing to say but the sort of products we offer our customers are becoming more and more integrated in the way they live their lives and they run their businesses, and the way we educate and govern. And what we're seeing increasingly is that price alone is not the answer. Increasingly, things like the quality of the service, the reliability of the service, these are factors that are influencing the choice that customers have made.

So, to address that we've looked at investing in three areas: people, the networks themselves, and products. If I look at, to start with on people, what we're seeing is customers want calls answered in the

UK. And this is something we've seen changing over the last few years, we've made a number of announcements around it, but we are moving to move our contact centres and the calls themselves to be answered increasingly out of the UK over the next year. So, for EE, by March 2017 100% of calls from EE customers will be answered in UK contact centres. The Consumer business is starting from a lower base, but will get to 90% by this time next year.

It's not just simply about re-routing the calls to the UK. It's about changing the experience when they're here. So, we've looked at simplifying the way we serve customers, reducing the number of handoffs, training our advisers to be able to handle more questions and issues from customers as part of that training itself. And it's also about reducing the need to call in the first place. So, for example, we've taken the propensity to call down 44% over the last three years, and that's an area we'll continue to focus on.

It's about improving the digital capabilities of service. So again, a trend we see is that more and more customers want to serve themselves over the internet, be that sales, as you can see on the top chart, from our Consumer business now over 40% of sales are through online, or it can be through apps and services. This data here at the bottom is for EE, but it's true in our Consumer business as well, and even in Openreach, where the My Engineer app is proving extremely popular. It's true in the consumer business. It's true in the business markets as well. What we're seeing is customers want to serve themselves, and we've got to invest in digital.

And then around the products and network itself, ensuring that the products are more reliable, they're more stable, is part of our strategy. It includes focusing on workmanship and the quality of the engineering jobs themselves, reducing the number of missed appointments, for example, improving the repeat rates is an area we're focused on, and that's something that Clive will talk about later. It's also about looking at the products themselves and trying to ensure that the customers migrate over onto better products and those products improve over time.

So, if you look at the chart there, the fault rates on fibre has come down consistently over the last few years, as we've begun to optimise the product. This is the thing we see with all products and services is they become more mature. But importantly, from a customer perspective, customers have a much better experience and are more likely to recommend if they are fibre customers. And it's not just a marginal amount; it's 20 percentage points. So, again, it's key to ensuring we have happier, more loyal customers who are going to stay with us longer.

I wanted just to touch on the brand situation, because this is an area that there's been some discussion about. We want to follow a multi-brand strategy. It is a choice we're making, and it's a very simple one.

We're able to serve more of the marketplace, get a higher consideration across the market if we have multiple brands. It may sound obvious, but it is quite a significant difference. We can cover over 50% more of the market with a three brand strategy than we can with a single brand strategy. It just doesn't make sense trying to fold this into one brand, certainly at the moment.

The brands need to really mark out their territory and remain disciplined about that. But I think we've demonstrated with BT and Plusnet over the last few years that we're able to do that and grow two businesses simultaneously and ensure that they don't overlap. And EE, we see, has a very distinctive footprint as well and an area that we think will add incrementally to our overall coverage of the market. So, we will be following a multiple brand strategy going forward.

I want to move on and talk about investment for growth and talk about how we're changing the areas that we're looking at going forward. And it starts with being a fully converged service provider. This is at the centre of everything we do, which is why it's the centre pillar. This is about creating a seamless network that covers the best of fixed, the best of mobile. It's about moving to an all IP network, a common single access platform that allows you to connect to it, be it through fixed, through copper, fibre, mobile. It's one platform that's able to serve all customers, be those consumers, businesses, public sector, right the way across the board.

And this is a core that we've already built, so this is a theme that Howard is going to talk to in more detail later. But it is the single most important point of our convergence vision, it's this network that will allow us to deliver the products and services and the cost transformation that will give us competitive advantage.

The second area is around the network itself, and we've touched on this earlier, but I think with a combination of BT and EE we will have the best network in the UK. On 4G, as we announced last week, we will have geographical coverage of over 95%, up from the market leading 60% today. That is on the back of the investments around the ESN network, and it will give us a true competitive advantage. And again, this is something that Marc will go into in more detail, because I think it is an area that will allow us to differentiate ourselves significantly.

And superfast, the plan to get to 95% of the UK by the end of 2017, is on track. We're part of that. It's a government goal. It is our ambition to go further, there's no doubt about that, and it's one of the things we're talking to government about today.

It's not just about superfast, it's about ultrafast. We've previously talked about 10 million ultra fast homes by the end of 2020. We have an ambition to get to another 2 million to make that 12 million, with an increasing percentage of that coming through FTTP, as we've learnt more over the last couple of months about how we can deliver FTTP solutions to businesses and new developments in a more cost effective way. And that's something that Clive is going to talk about.

And then finally, just to give you a scale of the investments involved here, if you look across Openreach and EE capex, that's going to be around £6bn over the next three years, with continued investment into 2020 after that.

The third area of differentiation comes in the content, and applications and services that are carried over the network itself. This is about bundling, there's no question about that, bundling in the consumer market. It's also bundling in the business market, particularly the SoHo and SME end of things. But it's also about investments in things like sport and content, and we will continue to do that going forward. Sport has been a huge success for us. We'll continue to be disciplined about the way we add rights and renew rights as part of that investment. But it has provided a point of differentiation, and that is absolutely critical.

There are other elements of differentiation in different parts of our proposition, so security is an area that is of huge significance in the business market and public sector, and we've got a really strong practice there that is growing, we'll continue to invest there. Investments in cloud is another area, unified communications. So, it's not about investing across the board, it's about being really selective about where we can add applications and content and services to provide differentiation.

These last two areas are about where we focus from a geographical perspective, and there won't be any great surprise, I think, here. In the UK it is our ambition to be market leader in every segment we serve: consumer, business, public sector, wholesale, and corporate. We have the strength of market position, we have the strength of network, and we're prepared to make those investments.

But outside of the UK we have to be more selective, and our focus will be on multi-nationals, building on the strength that we've had over the last few years. It's a market that is very dynamic, we have a strong position, we're generating cash, and we have a strategy that is working, the Cloud of Clouds strategy, that Luis will articulate in more detail later.

Now, as Tony mentioned earlier, there are regulatory headwinds, and there's no doubt those are increasing rather than decreasing at the moment, and these will be higher over the next two years. But we

believe we can continue to grow the business in spite of those, and it's the investments we've been making over the last few years, in the downstream parts of the business in particular, that give us that confidence.

Now, so I'm clear, we support regulatory change where it improves customer experience, where it promotes their competition, we're prepared to support it, we recognise that that's the part of the way the market works. Where it doesn't do that, where it doesn't allow a fair return for investors, we will challenge. And we make no apologies for that.

That said, the investments we've been making have allowed us to offset the headwinds over the last few years. As I've said, the headwinds are going to get greater, but we feel confident we'll be able to address that. It is worth just dwelling on this, so I won't spend too long explaining it all, but the investments we've been making have benefited the whole of the UK. So, this is, amongst other sources of data, Ofcom data is included in here, but if you look at fibre and you look at coverage, you look at take up, you look at price, all of these dimensions, and many others, the UK is at the top of the charts across Europe in any comparison. And I think it's something just worth dwelling on for a second; we are providing an infrastructure that is the fabric of the UK, not just for BT customers.

And just in wrapping up, one other thing I wanted to talk about is how the centre of gravity of the business will change over the next few years. So with the acquisition of EE almost 60% of our EBITDA will be part of the downstream part of BT. So, our dependency on Openreach for free cash flow and EBITDA going forwards becomes less. So, the way to think of the business is the UK domestic business is going to be around 60% of that EBITDA. We're extremely well placed to take advantage of the digital transformation that is going on, be it in the consumer or the business space, we have a leading position on FMC (fixed to mobile convergence) and we have a premium position in the marketplace.

Openreach will continue to be a very attractive business, vertically integrated to de-risk any investment, but with an appropriate return that comes from being a regulated asset. And then we've got this very interesting international business, which once you look at it going forwards is growing. And we're one of the market leaders in that business, with competitive advantages around using our network in particular and its ability to access cloud-based applications and services. And in many cases others are retrenching from this market, so we do see plenty of growth there. So, it is an interesting combination of assets that give you a diversified portfolio.

So, in summing up, a couple of things. This is how we plan to drive sustainable revenue growth over the next few years. So, our investments today have been fuelling the growth, there's no question about that,

and we'll continue to invest with the discipline we have over the last few years. Cost transformation remains absolutely key to the way we generate cash and fund investments going forwards.

Our products are the type of products our customers want. There will be multiple brands in terms of delivering those products and services through a branded experience. Our focus will be on increasing share of wallet, be that through RGUs or through spend, and customer experience will increasingly be part of the way we drive revenue growth.

Our network, we believe, is second to none, the largest superfast network, with the best 4G network, and we intend to be first with 5G. We've got a growing business overseas, with strength with security, cloud and IP, and we're operating in markets that can grow. So it is quite a, I think, a potent combination.

That is why we have the confidence to guide not just for this year but two years, as Tony said. And I won't go over this again but just to remind you that comes with a minimum growth in the dividend of at least 10% this year and next year, and growth in revenue in both years.

So, in summarising, today's about seizing the opportunity around convergence, and we see that as the real source of our competitive advantage. It is the thing that's going to allow us to drive sustainable profitable revenue growth over the next few years. We will be the leading converged operator in the UK. We'll have the best network. We've got the people who really understand it. And we'll ensure that the customer experience through that is a source of competitive advantage. Cost transformation, I can't say it enough, will continue to be part of the formula, and we'll use that to help fund our investments for growth. Thank you very much and we will open for questions.

Q&A SESSION 1

Robert Grindle - Deutsche Bank

My question, I guess, if there's one, is on the guidance, very impressive you've given the guidance you've given, very narrow guidance. I look at the sector sometimes and think 'oh my goodness', there's so many moving parts at present, be it regulation, the competition, and convergence. Could you give a bit more clarity as to basically what's in or what's out?

On a two year view, and correct me if I'm wrong, there's probably not much impact from dark fibre, ducts and pole access, FTTP, the 2 million homes, I guess that's further out than 2 years. And what have you

broadly assumed for any impact from Project Lightning? Have you assumed a mobile new entrant or is it based on the status quo? Is it just the known regulatory headwind, and you had clarified that there are quite a few of them, and is it normal pricing inflation, like you've just announced, is just that type of stuff? But that was just one question.

Gavin Patterson

Great questions there, Robert. I'll let Tony chip in, in a moment, but maybe I'll just say a couple of opening comments. I think we have demonstrated, over a number of years, an ability to deliver against an outlook but be able to cope with changes in the market, changes in the competitive situation, and at times bringing forward investment where we saw a business case and a demand to do that.

And that is, I guess, the way we look at things. That's the mentality we look at. There is always things going on in our market. Ultimately, there will be things that come along that we can't even see today, it is that dynamic. But if we focus on where we can see the value, if we focus on where we see our customers' needs and we really focus on execution in particular we're very confident that we can deliver over the next couple of years.

In terms of the moving parts, Tony, I don't know whether you want to comment on anything specifically there?

Tony Chanmugam

Robert, you probably want to look at my file here which has got all the detailed assumptions. Unfortunately, you won't be given access to it! I think the key point, though, is when we put a plan together we put in a degree of contingency, we have detailed assumptions that are underpinning that.

And while I'm not going to say to you the number relating to the Project Lightning is X or Y, all the factors that you've highlighted, we've got an assumption associated with it, we've got a degree of confidence associated with the level of contingency we've got, and that's why we're willing to put an outlook number there. And hopefully you would have seen historically over the last seven years, if we put out an outlook and we put guidance numbers out there, we'll deliver on those.

I think it's just worth also highlighting, because there was a little bit of confusion in some of the reports that came out this morning in relation to what does this guidance actually mean in relation to the free cash flow number compared to what was in there previously on your consensus. The first piece is I think your

consensus numbers were out because there is a timing relating to tax. And so effectively your consensus numbers have got to be upped by around about £200m for the tax payment profile, so the £3.3bn that you had in there will become £3.5bn.

We're saying that our numbers will be £3.6bn, but that £3.6bn includes £100m of integration capital expenditure. This is the integration of EE, and it's incorporated within the £550m. And it's simple accounting rules which say we're going to take that number above the line rather than below the line, so in real terms our £3.6bn on a like-for-like basis becomes £3.7bn, compared to your consensus of £3.5bn, and that's where we get to the upgrade situation.

Simon Weeden - Citigroup

I wondered if I could ask you to touch on the little bit of regulatory positioning you placed there regarding those situations where you might challenge things that are coming your way from Ofcom that you don't feel are good for customers, good for investment? The particular focus, I guess, would be the dark fibre ruling under the BCMR, whether or not there's still time to challenge that, and if so when that time would expire, and whether it qualifies?

And the other one would be anything that might come out in due course regarding the control, governance and arrangements around Openreach, whether there are scenarios you can envisage there which you might not be happy with?

Gavin Patterson

Sure. Look, we recognise that regulation is appropriate where there is an economic bottleneck. We've never tried to defend that in a way. We've always supported the importance of doing that for the benefit of the country as a whole. And indeed the UK is the most regulated market when it comes to that local loop. It is right on the extreme of the spectrum of regulatory solutions.

My point in general was to make sure that there is a level playing field in a converged world. It is ridiculous that there are different switching regimes and switching rules between the different products in the market, and it isn't just seamless, irrespective of where you've started from. And that is something that needs to be addressed. In my view, when one player has a 75% market share in pay TV, while in any of the other markets that we talked about nobody has more than 40%, that seems a situation that needs to be addressed at some point as well. So, that was why I was making the point.

Regarding the specifics of dark fibre, we don't think dark fibre regulation is well conceived. We think over time, will lead to a consolidation of the market that will make all the smaller players, many of whom are providing innovative solutions tailored for their customers, on the Openreach platform today, they will find it harder and harder to compete if dark fibre becomes the dominant form of access in the way that LLU came in the consumer market. And you can see the consolidation that happened within consumer.

So, we are considering our choices at the moment about whether or not we would like to challenge it. Interestingly, all the infrastructure providers were critical of this when the Ofcom ruling came out. So, there are many others who are I think considering their position as well. And when we've made a decision, we've got a bit of time yet before we decide on what to do, we'll tell you about it.

Jerry Dellis - Jefferies

Hi. I've got a question on costs, please. To give us some perspective on your guidance for gross cost savings, could you tell us how much gross cost reduction was achieved last year and the year before? And perhaps allied to that, perhaps you could highlight why, given the visibility that you say you've got on cost reduction, you weren't tempted to perhaps quantify an EBITDA target or perhaps a range for the 17/18 year? Thank you.

Tony Chanmugam

So, there are two component parts in here. The trend in relation to gross cost transformation savings for the last two or three years compared to moving forward is not materially different. We'll go into more detail after the cost transformation session, and if we need further detail I suggest you have a follow up on there.

In relation to the EBITDA target, we felt you had a cash number in there and the cash number was pretty specific. The EBITDA follows through the cash because there's not been any material movements in working capital. So it's not a question in relation to confidence. It's more a question of saying here's the cash number, it will follow through from that.

Steve Malcolm - Arete

I'm afraid I'm going to stick on regulation. I'll try and ask you a slightly more precise question. The 17/18 guidance, is that baking in broadly the current Ofcom proposals on cost allocation review, or should we assume that you put in the full £160m for that, give or take? And I guess allied to that, can you help us

understand what you think that return on capital in the Openreach access division is at the moment against your allowed costs, because it's pretty hard to work out your regulatory financials. Thank you.

Tony Chanmugam

So, I think on the latter probably Damien and the team can talk you through that detail. In relation to the former, we've got our estimate of what that number should be. It takes into account Ofcom's views, it takes into account what we think needs to change associated with that. We will not have, in my view, an exposure associated with what will turn up in relation to our numbers.

Nick Delfas - Redburn

I was just going to ask about leverage, but since we've got Mike Rake on the stage, I thought I'd ask a different question. The BT Group has taken a very strong pro-EU stance. I'm just interested what you think the financial consequences of a Brexit would be. Would you no longer be able to operate in the European Union? Would you have to sell BT Italia? And also are you somewhat conflicted because under the directive of 2002 the European Commission is the arbiter ultimately of whether BT is broken up?

Sir Mike Rake

How long have you got? The principle of this we think is very clear and the board is very clear. I think very strongly that companies today have a responsibility to speak out on those issues that they think are important for their business, and for their employees, and their stakeholders, and that is what we've done. In fact, under the Companies Act you're required to discuss and explain events and issues that could impact on your investment decisions.

For us, to be honest, I think the major impact is indirect. We want to see a healthy economy in the United Kingdom. We want to see investment in this country continue. We want to see people able to take up our products. We want to see us engaged in a global world effectively through within a market of 500 million people. So, I would say in our business here, it's the indirect impact of what 95% of economists and others, substantial sources say will have a significantly negative impact on our economy over time.

I think then it just makes our life more complex in dealing in the European Union, dealing with telecoms where we've seen huge advances, roaming and other issues, and trying to create, in a complex telecommunications world, the beginnings of a level playing field that we can use effectively. And also I think our influence around the world will diminish.

So, in short, we think this is really important. We think we have an obligation. We're not telling people how to vote, people have the right to vote to leave, but what the out campaign of course has not done is admit, at least some of them have admitted, the significant economic and financial cost of leaving.

Nick Delfas

Is there any quid pro quo with the Commission on separation?

Sir Mike Rake

No, there's absolutely no connection at all between our position with the government or with the commission in relation to this matter. Those are purely factual matters. Indeed, we were speaking out, and I was speaking out, when some members of the cabinet were saying we shouldn't speak out. We've always just felt we had to do the right thing.

Guy Peddy - Macquarie

Quick question, in your notes throughout your report you talk about expectations for ongoing continued declines in mobile pricing. Given with EE now you're already losing customers, admittedly recently mostly prepaid, but you are losing customers, and with the competition that you talk about in your notes as well the market's getting tougher, potentially implies that you might actually lose more mobile customers going forward with new entrants. I just want to understand, can you explain what you see is actually the drivers of growth, in particular within the mobile business, given those two dynamics that are effectively headwinds? Thank you.

Gavin Patterson

Well, it is our responsibility to give a balanced view of the risks that we face as a business, which is what we've articulated there. And with roaming across Europe becoming standard over the next year, that will provide some headwind, particularly in terms of the monthly ARPUs that we're able to generate from customers. And that's one of the things we've made the point of.

Against that, data consumption is going up, and we have to find ways of monetising that so that it's accretive from a monthly ARPU basis. But that's a high quality problem to have to solve. Having a service

that people want to use more and more of, where you have, in our case we have the best network that is geared for 4G more than anybody else, that's where we see the sources of growth.

And on top of that, if you layer on the opportunities that come from convergence and driving penetration of mobile, particularly in the business market where EE was underpenetrated and we have to reach through the BT customer base, we see plenty of opportunity to move the top line from mobile related services going forward.

Tony Chanmugam

Gavin, just to add to that, we've also got the synergies that will come through on the revenue side as a result of the integration, both in the Consumer and the Business space.

Maurice Patrick - Barclays

So, you say you're the leading converged operator in the UK, post EE. It seems like Hutchison/O2 is failing. Maybe your key competitors don't seem as well positioned in a converged world that you talk about, and may be not as well invested as yourselves given what they've been spending in the past years.

EU and Ofcom are talking about more pro investments linked to the competition rather than just pure competition. You talk about growing your share of wallets and you've spoken about taking share in enterprise at EE, but I'm curious on your thoughts on consumer. Do you see yourselves and your growth taking more market share of consumers, retail market share, or just growing more wallets through your own customers?

Gavin Patterson

I think there is the scope to grow market share in the consumer markets, both behind the EE brand, behind the BT brand, and behind Plusnet, and I think we've demonstrated with broadband over the last few years, Maurice, that we've been able to do that.

I think fundamentally we see RGU growth behind convergence, be that quad play or triple play as being the engine, rather than necessarily putting it all through incremental customers, and be it on fixed or mobile, where the market is very underdeveloped, versus many of our European peers, or with conventional triple play, where our TV attachment rate is still relatively low in spite of the growth rates over the last few years.

There's plenty of upside to go for, and what we know is that the more products and services customers take from you, provided they see the quality of products and reliability of product, and the value of the products, they are more loyal, and they have more value from a net present value perspective. So, it's a trend that's working in our direction and we see plenty of growth there going forward.

Sunil Patel - BAML

Earlier this year Ofcom at the time of the Strategic Review talked around working on proposals to put in front of the Commission around greater Openreach independence, but obviously leaving the door open for negotiation and discussions with BT. You made various comments around ambitions for Openreach, £6bn capex plus the obviously over the next three years up to 12m [premises] by 2020. How much of that is dependent on a voluntary settlement with Ofcom? And what are, if any, red lines in your discussions with them, and how does it impact those ambitions that you spelled out this morning?

Gavin Patterson

Well, I'm not going to go into graphic detail of our discussions with Ofcom today. The discussions are ongoing, and I think we remain optimistic that we can find a voluntary agreement between us that ensure s that the UK gets the sort of investment that we all believe it needs over the next few years to stay at the top of the charts when it comes to internet economies around the world, and one that ensures that ultimately shareholders of BT can get a fair return for the sort of investments that they've made.

So, we've considered the conclusions that have come out of the DCR, we're ready, and indeed have made proposals to Ofcom around strengthening the governance around Openreach, ensuring that the decision making processes around how we allocate capital are clearer, being prepared to step up to higher service expectations which are within Ofcom's gift today of course. And indeed we have delivered over the last two years on the service levels that have been expected of us through Openreach.

But we're ready to step up to that strengthened governance, because we're very confident that what we're doing is the right solution for the country as a whole and it's a good solution for BT shareholders at the same time. So, I'm not going to go into all the details and I'm not going to negotiate publicly via today's meeting. But I think there is the scope to move forward in a way that gets a fast solution that will allow us all to move on and get on with the investments that clearly we want to do. Do you want to add anything, Mike?

Sir Mike Rake

I think that's exactly right. I think we're absolutely motivated by what's the right thing for the country. And that's where we continue to try and draw the lines where there's a cost to balance effectiveness to improve, if you will, with governance and transparency of governance.

I think the only other thing I'd add is you hear a lot of noise out there, and this has become a bit of a political issue and a little bit that's because it's a great opportunity for us because people are just desperate, the demand exponentially Gavin talked out, the demand for more speed right now, which for us motivates us anyhow because it's necessary for the country to be competitive and we have a huge business opportunity. But, there's a lot of noise out there of real nonsense, so we're focused on trying to keep it to the facts, keep it to decisions that should be made that are right for the country and allow us, as we said earlier, to invest properly to get a return and to deliver the kind of broadband to make this country even more competitive than it is.

Nick Lyall - Societe Generale

It's actually on the same topic as Sunil's question, but you talked in the presentation specifically about talks on functional separation, Ofcom was very set it seems on legal separation at the time of the DCR, so can we conclude today that you've actually at least reached some common ground on functional separation? And I admit you may have just answered it Gavin, to be fair, but would it be possible to tell us what sort of things would be acceptable in terms of independence for the Openreach board for you as well?

Gavin Patterson

Just around the definitions, legal incorporation can be part of functional separation in itself. It's not related to structural separation per se. So, as I say, I don't want to go into a lot of detail. It would be inappropriate for me to try and negotiate through you guys to Ofcom.

We believe there is a way forward on functional separation that gives confidence around transparency, it gives confidence around how the decision making process is enacted, but at the same time ensures that the fiduciary responsibilities of the BT board are respected and acknowledged. And ultimately as the owner of Openreach we need to make sure that we can live up to that expectation and those responsibilities.

It's also worth noting that incorporation per se does not replace regulation, whether it's incorporated or not. Indeed, whether it's structurally separated or not, Openreach is governed by regulation, and the outcomes that the Openreach business would deliver will be set by regulations that come out of the EU, and are implemented in the UK. And incorporation per se doesn't change that one way or another, and the risks are that it just adds additional cost into the business for no net benefit.

John Karidis - Haitong

You've told us that you'll be spending about £400m capex on the ESN contract. What can you tell us to help us size up the opportunity here, revenue, returns, payback, anything? If you can throw us a bone on this one, that would be really good, please.

Tony Chanmugam

I think the best way of putting this is we put a bid together, and when that bid was identified it gave us a return based on that investment. But what it does also do is it gives us a return in relation to the reach and the quality of the network that we have as a result of undertaking that activity that will help us in terms of generating incremental revenues and cash flows from the additional business that we will get on top.

So, we've outlined the fact that we're going to put in £300m this coming year, we've also said that the following year it will be £100m, that's where you get your £400m from. I think it would be fair to say, John, that the payback on this will be within the contract duration period, and the profile will be very similar to any type of network investment. But the 'but' on there is the additional flows we'll get from incremental business that will be driven by improvement of quality networks, I can't give you, and I won't give you an exact number on what that payback period is. But it's a double whammy in terms of a positive.

John Karidis

Sorry, have you actually said what the duration of the contract is?

Gavin Patterson

Marc, have we made that public? No. We haven't made it public. Thank you.

[Marc Allera later comments in his presentation that he'd misunderstood the question and the contract length is 5 years]

Andrew Lee - Goldman Sachs

I think your first or second slide kind of was the starkest thing versus the last Capital Market Day that you're growing now and you're forecasting growth for the next two years. I just wanted to ask a question around how you think about the sustainability of growth. You've been talking for the last year about trying to find a better balance between volume and pricing to give you better visibility and more sustainability. I just wondered if you could talk about how far along that transition you are, how much confidence and visibility that gives you on three year to five year growth, and how important regulation is on that transition?

Gavin Patterson

How many questions is that? Look, we are focused on growing the top line of the business. It's not just any growth. It has to be profitable. And we've been very clear about that. So, we have reshaped the revenue over the last couple of years to make it increasingly network oriented, which is really where our core business is.

To grow over the long term we need all parts, or the majority of the units, to be growing. We can't be dependent on one or two. And you've seen that coming through in these numbers. A number of the units are beginning to show top line growth, not just the Consumer unit, and that's critical.

The mix, we want to be ultimately more dependent on share of wallet and RGU growth than price. Where we take price we want to be improving value for customers at the same time, and the pricing changes we announced in the Consumer business last week are an example of that, higher speeds, better repair in terms of faster service, UK contact centres, which is what customers want. So, it's better value as opposed to simply price. So, I think you can see it in the Consumer business already, the RGU story is very much driving the business, and that's a very sustainable one.

The centre of gravity of the business is changing. We showed it in the pie charts earlier. Openreach remains absolutely core to our business. It is what all the downstream businesses in the UK are built on. We have a vested interest in making sure that that is a properly invested network with high quality service on a national basis. But it is a regulated asset and it is important that we reduce our dependency over time on that because we believe our downstream businesses can flourish in a competitive market. And I think we've been able to show that over the last few years that they are winning, and that's why both Business and Consumer are growing. And that's what we need over the long term.

So, the way I look at the group is, we've got the downstream units in the UK - EE, BT Business and Public Sector, and Consumer, that are able to really address the digitisation of the markets and be well placed to take advantage of that fixed and mobile convergence. Openreach becomes increasingly a very attractive regulated business making very predictable but regulated returns, and we'll continue to make sure it is properly invested.

And then we've got this very interesting Global Services business that is growing now in its more focused orientation. It's winning more new business and growth business, and it is able to exploit the trends around cloud, around security, and around network reach, where we've got a true competitive advantage. And I think that's quite a nice combination for investors. It's not completely dependent on the UK, it's a bit of an international flavour to it, but really exploiting the strength in market position we've got in the UK in unregulated markets.

Will Draper - Mirabaud

You talked a bit about differentiated content as one of your five drivers of growth, and it's peppered through the slides as one of the differentiators for you. You're obviously quite pleased with the way it's gone so far, you're getting some critical mass, with 2 million peak viewers, etc., and you've now got an EE customer base and a big 4G network to distribute more content over. I'm just wondering where you're going with content? Are you happy with what you have, or are you encouraged to push harder on content? And if so, in what kind of direction you might go? Thank you.

Gavin Patterson

Well, this is something we will touch on later in John's presentation in particular. Content as a form of differentiation has worked for us. We've really done that mainly in sport, and I think the results have been pretty good if you look it's less than three years since we launched, and I think we've got a very credible number two player in the market. And we're happy with that.

We will continue to be disciplined in how we invest going forward. So, market leadership at any cost is not a strategy we will follow in sport per se, but we must make sure that it is a compelling offer for customers and that we've got the ability to make those sorts of investments.

Outside of sport, general entertainment is very important. It's always worth remembering that at least half of the UK are not vaguely interested in sport at all. It seems hard to believe. But it's important that we do not disappoint those customers because they see us as sports obsessed.

Now, we've got I think a very good offering at the moment. We would like access to Sky's content, in the general entertainment field we've got Sky Movies today. We'd like the Sky basic channels. And that's something that I think is missing at the moment. But we will look at other general entertainment opportunities to ensure that it's a compelling offer going forward. It's not simply a sport one.

Stephen Howard - HSBC

I've got a question on your enhanced Fibre-to-the-Premise plans that you've unveiled today. Given the really quite impressive upgradability of hybrid fibre-copper platforms, and in your release you mentioned that a new technology, G.fast, capable of perhaps doing 5Gbps. What I'd like to understand a bit better is the economic case for going the whole hog, beyond G.fast, etc., and upgrading to Fibre-to-the-Premise. What are the incremental revenues you can drive for FTTP as opposed to G.fast, or to put it another way, what are the applications that require FTTP? Thanks.

Gavin Patterson

We've always believed it's going to be a mixed technology solution that is the right solution for the UK. FTTC and upgrades to FTTC will be, I think, the majority of that. But what we've learnt with new techniques and new approaches over the last few months is that we can deliver FTTP at a much more cost effective price point than we had a few years ago.

So, I'm not going to steal Clive's story, because he spends a bit of time talking about this later, but there is a role for it to play in the business markets, for example, in high streets, which have been some of the not spots that we've got at this point, in business parks. And in terms of where it sits in the portfolio, somewhere between the business connectivity provided by Ethernet and FTTC there exists a point I think in the business market for an FTTP product.

I think one of the other usage cases is housing developments. If we're in at the right point it is just as easy and just as cost effective to put a fibre line in there as a copper line. And there's no question about it, we've got about 250,000 fibre lines today, and the fault rate with them have been significantly lower, so like-for-like you'd always put fibre in.

And we've talked about this in today's press release, any development over 100 properties we will put fibre in for free, and there are different solutions for developments less than that, where there's a co-funding solution. So, it isn't a blanket change of approach here. It is recognising that actually you can do more Fibre-to-the-Premise cost effectively, and if you can you may as well do it. We'll come on to it later.

Polo Tang - UBS

I just really have a question about investment in the content. So, are you making a satisfactory return, and how do you measure it? So, I suppose the question's less about Premier League, because clearly we've seen benefits in terms of reduced line loss, but I suppose it's a reference in terms of the investment in Champions League.

Gavin Patterson

Well, I think in some ways you've answered your own question. We see content as a differentiator, not a standalone business per se. But we see its impact in terms of reducing line loss, ensuring that we continue to build our broadband and indeed our fibre customer base. It has direct revenues, both in the consumer market, where you can take the channel on satellite if you don't want to take our fibre, and indeed you pay £5 a month if you don't want to be a BT TV customer.

So, there are direct revenues as well, there's advertising, there's sponsorship, pubs and clubs, we have the most extensive reach of sport in pubs and clubs in the UK, and that is providing another revenue stream as well.

So, there are multiple ways of monetising the investment. We're happy that we can see its impact on the Consumer P&L. We saw it with the first investment in Premier League, we bounced back after the investment year to be generating profits that were higher than the base period. This year the Consumer EBITDA is marginally up year-on-year, and we would expect going forwards that to roll through subsequently.

We are confident that it is generating the sort of returns that we want from the Consumer business. And indeed there are other ways to exploit and use the content now that we've got the EE customer base as well. So, in a nutshell, we know where it brings the value, and we don't lose our head when it comes to going after it in auctions.

We'll take one more, and then we're going to take a break. I do promise this afternoon that we'll...it is this afternoon the next session? Yes. Go on one more question.

Paul Marsch - Berenberg

I just wanted to ask about dark fibre and DPA (duct & pole access). Have you had any material interest from competitors so far in those ideas, or is it just too early of competitors waiting to see the details? And in the medium term, don't you really have to make those offers successful given the emphasis that Ofcom puts on DPA in particular in the communications market review, which seemed to me an effort on Ofcom's part to deflect from the torrent of criticism that was going to come when they announced that they weren't going to push in the communications market review for an Openreach split?

Gavin Patterson

Well, if you talk about DPA, DPA is something we made available on a voluntary basis, I think five years ago now. There are a handful of uses of it today. We haven't been bowled over by demand. And I think when you look at why that is, some people say, oh well, it's not usable and it takes too long to get access to the records. If that's the case, and some people feel that way, we are addressing that. We're making the records available quicker. We're providing a digital map of everything. So, the serviceability of it is already being addressed.

I think it is for different reasons it hasn't been taken up. I think it is because there is a very compelling wholesale fibre offer available that means that you can invest in your own Fibre-to-the-Premise solution or your own infrastructure solution using ducts and poles. But it does not price in well against what is one of the best wholesale prices in Europe for fibre. And interestingly, Sky said in their own results last week that they felt that using Openreach was probably the right way forward for them and that ducts and poles access was not going to be a priority.

So, I'm not going to put ourselves in a situation where we're judged to have inhibited it in any way. We'll make it available, Ofcom's said it's at the right price point when it's benchmarked against European comparators, and we'll make it more serviceable, we'll provide the digital map to it. But if people don't take it up, they don't take it up. It may be because there are alternatives that are better for them, and that's certainly our belief.

James Ratzner - New Street

You haven't had a question yet on your cash return policy, so I was just wondering if I could ask for some more thinking around the dividend guidance, the "greater than or equal to 10%" is slightly more cautious than the "10% to 15%" range that you've had in the past. Yet, you seem to be more confident about the growth outlook. Arguably, the £7bn to £9bn leverage target you've given looks low to me for a business that's growing. How much scope is there to go above 10%? Could we see a one-off cash return? It would be interesting to get your thoughts on that. Thank you.

Gavin Patterson

Okay. We've been on 10% to 15% for the last few years. That should be judged against the FTSE that's been at 5% growth. And while we've had a wee bit of catching up to do over the last few years we're at a payout ratio now that, certainly it's not high versus the sector but it is high versus the rest of the FTSE, and we should keep that in mind. We have to balance the uses of our cash across a number of factors. We need to keep the network properly invested in. We want to ensure that the debt is paid down. And we've taken on a lot more debt with the acquisition of EE. We're now at £9bn. We want to bring that down over the next few years. We want to ensure that we pay a good dividend, a consistent dividend. We couldn't continue at 10% to 15% indefinitely, so we wanted to signal that we have the confidence for at least 10% over the next couple of years. But it will need to normalise if you look into the long term future, and that's what we were trying to signify.

And we should never forget that we have a pension that we need to ensure is properly funded going forwards. And one of the reasons we've given two years and not beyond is that there is a valuation due in a couple years' time and we want to maintain flexibility going forwards.

Tony Chanmugam

It's just worth adding one point, Gavin. If you look at where your consensus numbers are in terms of the dividend two years out, you're at around about 11 points. This is pretty consistent with that number.

Sir Mike Rake

And I think too this is at exactly the important time, for all the reasons that Gavin gave for BT in the next two years, to be conservative but clear that's the minimum, with all the other investment, pension, and other issues we face as we bring EE in. But I think it is a time, given the volatility we see in the markets, actually notwithstanding the very cheap finance we're able to get, to be conservative on debt and to be

conservative on the balance sheet, because I think we're all aware that life is a bit volatile at the moment. So, I think the board would feel very strongly that we need to remain at a level of conservatism here.

Paul Sidney - Credit Suisse

Your operational metrics, again, looked strong in the quarter. And just really returning to Project Lightning, are you seeing any impact so far operationally? And is that influencing your FTTP strategy looking at what VMed is doing? Thank you.

Gavin Patterson

I think it's early days for Lightning. Certainly what I've read is that Virgin did about 250,000 homes passed last year. I think the plan is to do over 500,000 this year. It's a mixture of FTTP and coax they're putting down, depending on where they are. We're seeing some impact, not an awful lot, I would say overall. I'm not going to quantify it. I think it's patchy. It depends on the area. It's a bullish business case. They've made it clear that, I think it's 40% take up is what's needed to make the thing pay, and we don't see that sort of impact anywhere at this stage.

The net-net is we're used to competition. We want others to invest in infrastructure. We're not trying to stop that in any way. We thrive in those sort of circumstances. And I think that's good for the UK as a whole. We're very confident in investments we're making, we're confident that those are the right ones for our business, and that will allow us to continue to grow going forwards.

COST TRANSFORMATION & EE INTEGRATION

Tony Chanmugam

Welcome back. If I look at one of our big successes over the course of the last seven years, it's been what we've done on cost transformation. I know that a number of you are concerned; concerned that we've run out of road, concerned that [I'm] going to say that, "I'm leaving; it may have an impact." The reality is it won't. None of these things [will].

The opportunities are still there. Cost transformation is in the life blood of the company. And if you see the people over there, they personify what's available and what we're doing about it. So, this is not about one person. It's about what they do and what their teams do, and this is the importance and the significance.

If I look back then over the last seven years, we've taken out £5.6bn of costs, and that is in absolute terms. That consists of gross cost transformation savings. It consists of investments. It consists of impacts of movements in terms of revenue, and it also covers margin mixes. But, the absolute number that's come out is that number there, £5.6bn.

What we've done over those seven years is we've used that to invest in the business. That's personified by what's happening in relation to labour costs. If you look over this period, labour costs have reduced by just under 20% despite the fact that we've brought in 15,000 people into the company by insourcing activity that was being undertaken by third parties.

We've also created much investment in customer service. We're putting 900 new staff into that area, and we're hiring 1,600 more. We brought in 3,000 engineers over the course of the last two years. So, the reality on this is that we're investing, but we're still reducing.

The question then is, why is it going to continue? The reality is that we have a material set of opportunities. So, when we talk about, and when I talk about it's not a billion pounds; it's well over a billion pounds that we can identify right now. If you were to go into Shaz's office and you would see a spreadsheet, which actually lists these programs down one-by-one.

What it shows is how much is flow through; in other words, how much was identified as part and parcel of activities that we've already started, but we know are going to go through into next year? We've then got a series of programs where we've got plans on and which are underway, and then we've got other opportunities that we're exploring.

The pipeline that we've got this year is no different to the pipeline we had last year in terms of size, or the year before. We have to work a bit harder. We have to work a bit smarter. What we've tried to identify on the right hand side is some examples of the types of programs we've got and the levels of benefit that we have there.

But, the key, I think, when we're looking at all of this is what are we going to do about the individual programs? I want to give you a flavour for our methodology and individual programs. With that, I'll hand over to Shaz, who's the MD of Cost Transformation and has been doing this activity for a number of years.

Shahzad Saleem

Thanks, Tony. So, we're several years now into our transformation journey, but we're still able to generate and identify substantial benefits due to our transformation approach. I'm going to take you through the transformation cycle and just how we do that.

So, it starts with a discovery phase, which typically lasts about three months. The purpose of the discovery phase is to come up with fact-based recommendations that are very much data driven using a very much analytical approach. We then move into our implementation phase, which is characterised by strong senior sponsorship and governance, very much detail programmatic that ties in a lot between the benefits and the financials, and that could take a period of anywhere between, again, 3 to 12 months depending on the complexity of the recommendations.

The third phase is a phase of bottom up continuous improvement where we very much hand them over to the business units who pick it up and deliver small incremental gains year-on-year.

Now, the secret of this and the beauty of what we do is we don't stop there, and we don't stop there because of technology and products innovations. Because of enhancements in our own analytical capability we may design a new analytical tool which gives us a different lense and way of looking at a problem from previous years. Because of that, we can start the cycle again after two to three years and deliver substantial benefits. Again, I'm going to take you through a number of programmes, which illustrate that.

So, we start with our Contact Transformation programme. We've delivered £300m worth of benefit to date. We've eliminated unnecessary call volumes into our call centres. We're resolving more calls the first time, and we're also able to, through a KPI measure-based approach, managing our call centres better than we've done before with better productivity and better utilisation within those call centres.

We're able to create scale centres by moving work more optimally, resourcing more optimally between our business units, We think there's further benefit to be had through moving work between our lines of businesses, and our right-shoring strategy is to bring more of our customer-facing work, as Gavin articulated earlier, back into the UK. Our commitment in this space is to deliver 90%, up to 90% of our Consumer calls in the UK and 100% of our EE calls within the UK by the end of March 2017. At the same time, we're sending more of our back office work into our own Indian shared service centres where we've got much lower attrition than we had with our previous BPO (business process outsourcing) partners.

It's not just in the UK that we're good at doing cost transformation. We also now have a history of doing this well overseas, using our Compete infrastructure within Global Services.

[Project] Compete is a—we've combined our discovery and our implementation framework and through that, we're rolling out a number of best practice initiatives through the various regions. They include such initiatives as within our network space, we've cleansed our access circuit inventory. We've migrated some of our customers onto lower cost options. We're able to provision circuits more quickly than we were before, and we're also able to cease our new circuits more quickly than we were before. We're taking, at that same time, an opportunity to go through region-by-region and optimise the network topology as we go along.

Another example of some of the benefits that we're seeing within our global regions relate to our suppliers also; rationalising our supply base and at the same time, insourcing some of those activities. Tony articulated earlier that we've insourced over the years something like 15,000 jobs and that's something we're doing very much in that Global Services space.

We're also, through review of our back office and support functions, we're more heavily utilising our shared service centres in our lower cost economies. As a result of that, we've got a much lower unit cost coming through, and we're taking the opportunity to reduce our subcontractor spend at the same time.

That to date is the—they're part of a number of initiatives that have delivered us £500m worth of benefits. We believe there's another £300m or more to go. We'll take that Compete framework, we'll take it into some of those tier two countries. We've used it in the bigger countries. We'll take it down a level.

Now that we've got a better grip and better view of our access circuits, we're now starting to worry about procurement and negotiating better deals for access circuits. We're conducting a review of our data centres and the data centre footprint, and looking for consolidation opportunities. These are a few of the activities that we're undertaking.

So, between those two programs that I've talked through today, we've delivered to date £800m worth of benefit, and we can see a line of sight to a further £400m worth of benefit. So, as we talked about earlier, still plenty of opportunities for us to still go after just from those two major programs, and they're just two of a number that we've talked about and that Tony talked about in his previous section.

I'm now going to hand over to Rikky, who will take you through a number of our IT initiatives.

Rikky Okker

Thank you, Shaz. I will present a number of examples of how existing programs have delivered and continue to deliver benefits for BT in addition to new programs, and I'll talk about examples in the IT space.

The IT function in BT develops all the systems for internal use, but also for the products that we sell to our customers. So, it's not only vital that they're cost efficient, but also that they meet high quality standards.

One of the programs that we have driven and that will continue to deliver benefits for BT both in terms of cost efficiency and quality improvement is insourcing.

We develop IT in-house. We do that in the UK, but we've also set up centres in India and Malaysia, where we've hired BT employees to do software development. In the UK, we now mainly do strategic work that's business-facing, and we've brought strategic work in-house in India and Malaysia, and we continue to work with strategic partners who are also based in low cost locations.

Insourcing has a number of benefits. First of all, we see higher rates of productivity from our own BT employees with, on average, 40% to 60% higher rates. So that means when we bring work in-house, we need fewer people to do that same work.

Second, when we bring work in-house, you can take away the margins that we previously paid to our vendors. And third, as Shaz referred to as well, we can much better control churn rates and quality levels, which means that on the end-to-end IT lifecycle, you can take out cost of failure. We have worked and will continue to work with strategic partners and as we've done before, we'll monitor their performance and strengthen relationships with the best-performing ones.

To date, since 2011, we've started insourcing in India and Malaysia and to date, we've hired over 1,300 BT employees, and that's delivered £50m of annualised benefits. We have direct line of sight to hiring over another 700 employees, which will drive another £9m of annualised benefit.

Now in addition to existing programs like insourcing, we will always look for new opportunities. And in the IT space, last financial year alone, we delivered £50m of annualised benefits and going forward, we believe we can do another £50m of annualised benefits in the IT space.

An example of a new opportunity that we've looked at this year was improving our IT operating model. There were several IT teams spread across the organisation, quite often linked to historic acquisitions that

we've done, and we've now brought them all together in the Technology and Service Operations Unit, leaving only client-facing and billable IT work in the customer-facing units.

Bringing them together is bringing economies of scales, but also improves support levels, as well as better security wrap around the systems, which will ultimately benefit our customers. So again, it's not just about being cost efficient. It's also about doing what's right for the customer.

Going forward, we expect some of our existing programs to continue to deliver benefits, and there's a number of new opportunities that we're working on. So, we will continue to insource, and that will continue to drive benefits.

We will work on further simplification of the IT estate, taking out complexity, and taking out costs. We are looking at much better management of our productivity in the engineering space. We are working with advanced code analytics, which automatically analyses code of developers and gives each individual a productivity metric, which will help us to drive further productivity gains, and that's something we've adopted from another industry. We'll look at further automations in IT support and testing, and we will continue to increase quality and therefore take our cost of failure.

Of course on top of that, as a separate program, we will deliver the EE synergies, and that is the next topic that we'll talk about. I will hand over to Tony for that.

Tony Chanmugam

Thanks, Rikky. I think it's just worth taking a step back on that. Every single program that we run, we run in a forensic fashion with a lead player from the cost transformation team, a lead player from the business, and an infrastructure that helps to support and generate those programs. That's why we've got confidence in what we've done, and we've got confidence in what we are going to do because it's about a structure and it's about being fed into the life blood of the business.

What we're doing on EE and the EE integration is absolutely no different to that. It's about using the same methodology, the same focus, and the same rigour.

When we started out on the acquisition and when we gave you an outline, we said that we thought we could deliver savings of roundabout £360m. I've gone through the detail already but I think it's just worthwhile highlighting the fact that we, after having done two months' worth of reviews, are even more

confident about what we think we can deliver, and are willing to commit to the 10% increase in the level of savings on the cost side and 10% reduction on the integration costs.

This does not mean that this is the end position. It simply means this is the position that we have confidence about right now. What that does is it generates incremental NPV to the case, 10% better as far as the costs are concerned.

If I look at the overall situation and if I look at where we are on the revenue side, we're not moving our numbers. The reason we're not moving our numbers is, not that we don't have the confidence. Our confidence remains the same. It's just that we're going to have to work it through.

An, when we have the product and when we have the propositions and when we see leverage as we do with the costs, then we'll talk again about what this number could be. But, I think it's just worthwhile just reiterating the opportunities in the consumer space and then the business space.

From the consumer point of view, we're in a situation where only three million homes use mobile and broadband from BT and EE combined. That means that there's another 14m homes which effectively get neither mobile or broadband and then there's another 10m that gets a mix.

You scale that opportunity up, it's there. So it's simply about a question of the products and the propositions being put into place, and the actions being put into place that drives that cross-sell. And you've already seen the traction that John's getting in relation to BT Mobile and the 400,000 customers we've got on that basis.

On the business side, I think it's worth just highlighting the similar sorts of opportunity we've got. It's interesting, when you look at Major & Public Sector in Graham's area, only 23% of customers use both BT and EE brand. If you go into the SME space, it's only 10%. If you go into the Large Corporates, it's 39% and even then, the mobile use on those large corporates from the EE brand is very small.

What this shows is we have a material set of opportunities on the revenue front in both business and in consumer, and that's what will help us grow our mobile revenues.

On the cost side, we have a number of programs much as we do in terms of cost transformation. What I'd like to do is pass over to the team to talk through with you some of these programs.

So with that, I'll now pass you over to Howard.

Howard Watson

Thank you, Tony and I'm Howard Watson, the CEO of TSO. So, you're going to see me briefly for this session on synergies, and then I'll come up a few minutes later to talk more broadly about TSO.

As Tony just showed, network and IT represent two of the higher areas for synergy. And what you see here is a total of £200m in run rate synergies from 19/20 onwards. This slide summarises those main opportunity areas, and I'll just talk through those. It's important though that as well as focusing on synergies, this is also about simplifying the estate that we leave once we've extracted those synergies.

If I, first of all, talk about consolidating technology and we've got off to a great start here. We've already defined what the end state IT and network architecture will be post the acquisition.

If I look at the IT landscape first, certainly in terms of what's come in with EE, we do have quite a complex IT estate. We can see the heritage that goes back to the T-Mobile and Orange companies. And that actually represents quite a key opportunity. Because over the next two to three years, we have the opportunity to migrate off some of those legacy IT stacks and consolidate. I think the important point to make here is in our technology consolidation plans, it's about taking the best of what we have now. It's not about trying to reinvent something new and move to that.

In the network space, the opportunity there is to move to a single core and again, we've already got momentum and have started that project.

Looking at the next area, which is purchasing efficiency, we very quickly kicked off the discussions with all of our key suppliers. Where we share common suppliers, we can leverage now our greater scale, and look for lower rates on the back of that, and those conversations are now in progress. And where we use different suppliers for similar activities then clearly we have consolidation opportunities and again, we're starting to see progress there.

Moving to people, Rikya has already presented what we've had as a sort of history over the last few years in BT of insourcing, bringing our intellectual property back into our organisation; very often doing that in a right-shored way into people in India and Malaysia and Hungary, but at the same time reducing costs whilst we undertake that transformation. We have sight of significant synergy opportunities in applying that methodology now across the EE landscape.

An example of that would be in many areas where we use offshore third party suppliers, we typically would have in BT 10% of those people onshore, 90% offshore. We see a ratio more like 40%/60% in EE today. And so, we can, over time, migrate that to the similar ratios that we see with BT.

It's through these areas that we've seen, as Tony's mentioned, some increases in the synergy opportunities and are confident in this £200m exit number position. Obviously, what's important is as we extract these synergies, we do that without impacting any of the existing programs or indeed the new programs to deliver the converged service division that we spoke about this morning.

Just to add a little bit more colour to what I've been talking about, we do have a surprisingly numerous number of IT stacks. The opportunity I have is to close six of those. We've identified which those are, and have the programs underway to do that.

In the network space, we will move to a single instance across a number of elements; so, a single network IP core, a single EPC. We'll take the two IP multimedia systems that we have today, converge to one and likewise, we have dual wide-area and local area networking solutions and we'll converge those into a single instance.

Data centres is a big opportunity for us. EE's five data centres are fundamentally outsourced, and the opportunity we have is to fully integrate those into the BT estate. And then last but not least, five current supply chain systems that we can integrate down to two.

So, they're just some examples of the projects that we have underway to deliver the £200m of synergies. It will give us a simpler business. We'll have our intellectual property insourced back to BT where it's currently outsourced, and actually as a result of this, we'll end up with a much more agile business, enabling us to deliver the converged services of the future.

With that, I'll hand over now to Andy Wells, who's going to talk about some further synergies. Andy.

Andy Wells

Thanks, Howard. Firstly, I am going to talk about customer service where we forecast there will be £40m of savings by 19/20. This will come through firstly insourcing customer service activities from third parties with calls being handled in the UK and our back office activities being moved to our shared service centres in India.

Now, we have a history of doing this in BT. So, we have a high degree of confidence that from the elimination of the supplier margins and also the increase in the underlying efficiency we get within our own centres, we will drive savings of 16 million pounds by 19/20.

Secondly, to ensure that we aim for top quartile performance, for time not spent on calls, we've benchmarked the organisation and we recognise that within EE, using the best practice that Shahzad spoke to earlier, we can save £7m a year by getting our agents to spend more time dealing with customers and less time dealing on waste and other non-value-add activity.

To ensure that our agents are more productive dealing with our customer queries and we're able to help customers get the right answer first time, we're going to build on the work that we've done where we've reduced repeats and transfers. Now within EE, they've made substantial progress on PTC (propensity to call) reduction, and we want to leverage that experience within our BT Mobile proposition to ensure we're spreading best practice and similarly, in fixed, there's a material opportunity on the EE fixed proposition from learning from the investments we've made in BT.

With productivity, we plan to benchmark handling and wrap times to basically ensure that we can squeeze the time spent on the phone to ensure that customers can be dealt with effectively first time so we can get better customer outcomes at lower costs.

And finally, we've already created a new shared service function for customer service support. Not only will this save money through the deployment of new technology and best practice across the group; it will also help underpin those customer improvements by ensuring we have a centralised and standardised methodology to planning and resourcing our call centres and improving them.

Now, I will just quickly come on to talk about property where we're forecasting £25m worth of savings by 19/20. The primary driver of this is through office consolidation where we forecast that across the combined BT and EE office estates, we can save £20m a year by 19/20.

We have already closed one BT office in Coventry. Now, we've moved the staff there to a local EE site, which is saving us £2m a year and we've already announced the closure of two smaller EE offices in Belfast and Leeds where the staff have moved to local BT buildings, which has saved a combined £1m a year.

Next, on insourcing, we expect to save over £2m a year from moving the cleaning and maintenance and security services for EE's office estate and also their shops to BT Facility Services. So, we know that not only will this eliminate the supplier margins from the third party, but also we'll get an underlying

efficiency. So for example, a cleaner can combine cleaning an EE shop with a local BT office in a town, which saves us money and gets us better utilisation.

Finally, by bringing together the combined capital and maintenance spend across our property estate, using that better leverage we've got and the better rate both on the BT and the EE side from the work we've done, we believe that combining that spend we will save significant amounts going forward.

Now, I will hand you back to Howard who's going to give an introduction to TSO.

TECHNOLOGY, SERVICE & OPERATIONS (TSO)

Howard Watson

Thank you, Andy. So, I'm kicking off now a series of sections where we run through each line of business and each CEO talks to us about their business. So, let me start with TSO.

Our TSO vision is that we create brilliant converged services over the best network, helping us to stand out from the competition and inspire customers. You can clearly see how the focus areas on the left hand side of this chart map onto the strategy that Gavin outlined earlier.

We'll be number one for network. We'll be the first to build a truly converged fixed and mobile network, giving customers the seamless connections that they need on a trusted network where they can get the best connectivity. The products and services will be designed for great customer experience, and in doing that, we'll keep it simple.

We'll have the best converged services to keep customers coming back for more, and we'll be fastest to market in terms of introducing those services and our continual theme of cost transformation using our technology and experience we'll find new and innovative ways to reduce our cost base.

Just a little bit about who we are in TSO. Here you can see some facts about us. We design, build and run all of the network and IT for all BT lines of business, the exception being the access network in the UK, which is run by Openreach and Clive will follow me and talk more about that.

With the home of the BT Labs in Adastral Park near Ipswich, we now have 1,000 extra technologists that have joined from EE who are now part of TSO, supporting the EE line of business, Wholesale and Ventures

and Business and Public Sector. And we're continually recruiting talented technical experts, graduates and apprentices.

We continue to have a really strong intellectual property portfolio. We've increased our patent filing rate year-on-year, and that now takes our total to around 4,700.

The map you see here shows our global development centres, and Rikky just spoke about the growth that we've seen in India and in Malaysia, and I'd also add Hungary to that from a location perspective. Some examples of where we're driving cost transformation are recently we've consolidated our network operation sites, insourcing into the UK, the Netherlands and LatAm and this drove a 25% cost reduction. And again, more recently, we've insourced our end user computing capabilities, which has driven a 40% reduction in cost.

Moving onto network strategy, at the network level, we see two significant trends for our customers. One is seamless connectivity, which we've already spoken about, and that's whether that's access via fixed, wi-fi or mobile, but also the significant increase in the demand for bandwidth; 50% year-on-year and we think that could actually be a fairly conservative measure.

68% of UK adults now own a smartphone and customers, like all of us, want to worry less about where to stand to get the best wi-fi signal; how to ensure that on our journey home on the train we don't lose 4G, and how to make sure that as we move from superfast to ultrafast that we can get that in each room in our house. This is the seamless ambition that we have for our customers.

Now, bandwidth demand is continuing to grow on the back of our peak usage. Recently, we had our highest usage day on the 22nd of March when the simultaneous 9.3.1 release from Apple coincided with a Call of Duty update and the Brussels' bombing and the news coverage of that. That created a peak event for us, and those events will continue.

The key to seamless connectivity though is in our access networks. Clive will talk more about ultrafast rollout plans shortly. In TSO, we've been focused on the standards and developing the technology for this. But, core technology of ultrafast is G.fast and in Q4, we achieved all the changes we required both with the International Telecommunications Union, the ITU, and through the NICC in the UK, changes to the national frequency plan.

We've also demonstrated in our trials that we now can meet our rates-per-reach ambition of a minimum of 300Mbps at 33 metres. We're also, in TSO, supporting Openreach's work on FTTP and developing techniques to improve the economics there, more of which we'll hear about from Clive.

Moving to mobile, in our radio access network, we've made significant progress. You can see from the chart bottom right here how our EE network continues to lead in terms of 4G capability now with 15m customers accessing that network, and that network reaching today 95% of the population.

We're also very much focused on quality with the lowest dropped call ratio in the industry. Then coming back to seamless services, we've now launched VoLTE, the Voice over LTE in key cities, and are developing seamless methods of transitioning from Voice over wi-fi to Voice over LTE, and we'll be the first to do this. We're also finding that our Voice over LTE calls connect faster, have a much higher audio quality and importantly, do not significantly degrade as the signal strength decreases.

The map on the top right here shows the geographic coverage that we'll achieve in our 4G network once the emergency services network contract is implemented and at this point, we'll have covered 99% of all major and minor roads, and also major rail connections as well. A key enabler for IoT, Internet of Things, technologies is that coverage.

We also right now, to achieve that coverage, rolling out and using our 800 MHz spectrum, and that will improve, significantly improve in-building coverage for our 4G network. Mark will speak more about the opportunities that this presents and the continued leadership position that we will deliver on the back of that coverage.

Those access networks are supported by the UK's best core network and the key thing here is we have just completed the upgrade of this network. We now have ten times the capacity that we did when we started the upgrade two and a half years ago, and the devices that we've put into that network are a fifth of the cost of the ones that we replaced.

We've recently proven 3Tbps over fibre. So, I'm comfortable that we don't have a capacity crunch in the network that we've now deployed and clearly, that's important given the bandwidth growth we're predicting.

The other key piece is this new network is significantly cheaper to grow on a just-in-time basis as that bandwidth grows and also to run. The rate of reduction there is 60%. We will use this network as our new integrated core. The network will be programmable. By that, I mean we'll implement software defined

networking and network functional virtualisation, and this critically will underpin the Cloud of Cloud strategies in Global Services that Luis will speak about a little later.

We've talked before about our vision for all IP services in 2025. This chart here depicts a number of the milestones on the way to achieving that, and we've now updated that to include those milestones as they relate to EE and mobile. The overall theme is one of an integrated core network built on the recently refreshed BT core; this network becoming more and more real-time programmable with SDN (software defined networking) and NFV (network function virtualisation) implemented, and with customers connected via an access network, which consists of superfast moving to ultrafast, 4G evolving to 5G and a seamless integration with Wi-Fi. And we're looking, again, at that end state being in 2025 with most of the UK covered by 5G and ultrafast and services delivered in an all IP way.

Just moving on then to look at how we'll use that best network in a seamless way to create great new converged services, and I'm just quickly going to give a tour through four examples depicted here.

Moving first to TV, 15/16 has been a great year with some really good innovations on our TV platform: a 4K channel, the first in Europe, a great new immersive app that we delivered for Champions League together with the Connected Red Button capability that we built on our YouView platform. Interestingly, we find that TV continues to drive changes across our broader business. It's making us much more agile in our IT delivery and it's focusing on network operations in a key way.

The next phase on our TV platform is enhancing 4K with high dynamic range and looking at enhanced audio opportunities; a new connected home capability, which will include TV and a next-generation level of customer and user experience that we'll deliver in a seamless way across the set top box, the web and our app platforms.

And also in TV, looking at the processes that we've used, we're looking at how we can improve how we operate. We've driven a 35% reduction in the cost of our TV and media support, by looking at areas such as automating things like capacity planning.

Moving to voice, we've talked before about our IP voice plans. Clearly, we all see services such as Skype and FaceTime becoming increasingly popular, and we believe now we start to see some customer pull for IP services, as well as the sort of network push needs such as the PSTN equipment and having to continue to sustain that. And importantly, as we remove that PSTN equipment, fewer engineer interventions are required at a cabinet level, reducing costs and reducing faults.

The network and service solutions for this migration are now well developed. We have a number of the new IP multimedia system-type capabilities delivered and are highlighted here.

This is not new. IP voice and its use in business and wholesale has been deployed for a number of years. I know Graham will talk about IP voice later in the day. We now have a number of platforms there, which can meet the sizes, all sizes of enterprise and over 350,000 IP lines are currently being used by businesses in the UK.

In terms of our consumer lines, we're now in test of this and we'll see some early adopters being involved in those trials, and we expect volume migrations to commence from about 2018 onwards.

Moving to another key and exciting area in the mobile space; a lot of people are talking about 5G right now and it's key to understand how we define 5G. We're committed to be leaders in 5G development, in its launch, and in its adoption. We're already active participants in the 5G Innovation Centre Research, and the collaboration work that we're doing with the University of Surrey, and clearly we're well positioned with 4G leadership.

We're world leaders in what's called LTE Advanced, and that's essentially taking our spectrum and aggregating the carriers and being able to deliver higher and higher speeds. We did that as a world first with World Tech City in 2013 and more recently, we have a 400Mbps trial in Wembley. And we'll also be early adopters of what is now being called LTE Advanced Pro or 4G Pro. These are some of the names we invent for things like this.

However, what this will allow us to do, what 4G Pro allows us to do is give significantly greater bandwidth, but also gives us the improvements that we need for emergency services users, for the mission critical push-to-talk capability. It allows device-to-device functionality, and also it's the real enabler for the Internet of Things.

Being a leader in 4G Pro will allow us to develop 5G-like services as early as 2018 using further carrier aggregation and it also allows us to take the frequency division duplex spectrum that we have and combine it with the time division duplex spectrum. Apologies for that but it's quite critical because it looks at how we can take the spectrum assets that we've got and use them most effectively to deliver greater bandwidth to customers.

Narrowband IoT is also a key part of 5G and Gerry will talk more about opportunities in the 5G area shortly. So, watch out for our converged services that we're delivering in the road to 5G.

Last but by no means least, looking at how we deliver a digital customer experience is important and this slide shows some of the areas that we're currently developing. By 2020, 60% of all IT spend will be cloud-based. Our customers use cloud services to access best in class services at a lower cost, and Luis will touch on these later, and we've now added network programmability functions into our cloud offerings.

We've recently upgraded our wholesale portals to simplify the customer experience and to embrace digital there, and we streamlined that and made it much easier for customers. The key to a digital customer experience is to keep things simple, and a great example we think of that has been our EE wi-fi calling application where you don't need to download an app to your phone. It senses the presence of wi-fi and seamlessly uses that.

Then in some respects, most importantly is the network programmability capabilities we're building, which allows us to get much greater insight on our network and using those programmability features to create new services.

So, TSO is about delivering the number one network with stand-out services. That's how we contribute to the group strategy you can see here. Having that number one network, the first true converged services between fixed and mobile delivered in a seamless way; continuing our theme of cost transformation and finding new and innovative ways to reduce our cost base, and all of this by ensuring that we have the right intellectual property inside our organisation and continuing to focus on talented and experienced engineers to deliver that.

That's TSO. With that, I'm now going to hand over to Clive to talk about Openreach. Clive.

OPENREACH

Clive Selley

Thank you very much, Howard, and good afternoon to everyone. We've never relied more heavily on the connectivity that Openreach provides than today. It is the foundation of Britain's digital economy, and that's why Openreach needs to be fully accountable for its performance to our customers, to our regulator, to policymakers, media and the general public.

I've been CEO of Openreach for around three months now, but I do have a strong background in engineering, technology and networks, and that has taught me that the telecoms business is one of

constant renewal and change. And that's why my first task as CEO was to carry out a thorough review of our business, listening to the views of our customers and our many stakeholders.

Today, I want to give you my assessment of where Openreach stands, and how we will support Britain's digital ambitions by delivering better service, broader coverage, and faster speeds.

Let's not forget the UK is Europe's leading digital economy, and Openreach has played an absolutely key role in this. Our infrastructure comprises copper, superfast and ultrafast platforms. These are used on equal terms by over 560 communication providers, creating a highly competitive market that delivers value and choice to UK consumers and UK businesses. Ultimately, we connect 21m consumers and about 5m businesses across this nation.

We are a huge engineering operation with some 28,000 people in front line operations carrying out some 290,000 jobs every week from customer appointments through to work at cabinets in the street through to work at exchanges. And as you all know, we operate in a fast-changing market. In particular, our investment in fibre is changing the dynamics of our business.

In just six years, we passed over 25m UK premises. Now, over 20m of these were funded entirely through our commercial rollouts, and we've won competitive contracts to deliver fibre to another 4.5m premises supported by BDUK funding. Both rollouts are helping the government achieve its aspirations for UK superfast coverage.

Demand for fibre today is growing strongly. Nearly 6m customers have taken up our fibre service through their CP, and that's an increase of 342% since the last Investor Day in 12/13.

So, this is a large and dynamic business, but it's also a regulated one with many products subject to price controls. The gross impact felt by regulation at the Openreach level has been equivalent to 11% of our revenues on a cumulative basis since 12/13. And despite the cost of regulation, Openreach has maintained stable revenues at around £5.1bn. I believe this is a significant achievement, and it is largely due to our success in growing revenues from our fibre deployment, which I'll come back to shortly. We are also offsetting regulatory headwinds by growing volumes and by delivering efficiencies, which of course translate to a reduction in our cost basis.

So, fibre is our primary growth engine today, which shows how far we've come since we committed to fibre back in 2009. This was an investment decision taken at the height of a global recession. Our belief in

customers' growing needs, our confidence in the technology, and our courage to invest then is paying dividends now.

Fibre revenues have grown by 264% in the last three years as take up has accelerated. These revenues, which under the principle of fair bet, are not subject to price controls, have offset substantial regulatory headwinds elsewhere.

Since the start of the program and up to March 2016, we've spent £3bn of gross capex on fibre broadband, and we will continue to invest in building more fibre and more capacity to meet fast-growing demand from all of our CPs. Non-BT CPs now account for about half of that demand.

In 15/16, fibre order volumes grew by 29% year-on-year. So, one thing's for sure; Britain's digital leadership today would not have been possible without BT's ambition and investment. But of course, fibre broadband is not our only growth story. We've grown the Ethernet base by 38% over the last three years and actually, it may surprise some of you that the copper base has also grown by some 300,000 lines over the last three years as well.

We are a heavily regulated business, and our strategy and plans are addressing the headwinds. In 15/16, those headwinds amounted to about £130m. But now looking ahead, the recently concluded Business Connectivity Market Review will impact the business by a further £175m to £200m this year. Including the current copper charge control, we therefore expect headwinds of up to £250m this year.

The BCMR has also mandated access to dark fibre from October next year, and we're working with industry to implement this. And as I look ahead, there is a Wholesale Local Access market review underway now, and we're awaiting the government and the regulator's view on universal broadband provision.

Most significantly, we're awaiting the final outcome of the Digital Communications Review. We continue to work with Ofcom to achieve an outcome that incentivises investment in Britain's digital future so that consumers and businesses continue to enjoy the benefits of a strong leading digital economy here in the UK.

Delivering our plans helps to offset the impact of regulatory interventions in three ways: Firstly by driving much higher business volumes through lower prices and improved service; secondly by innovating to deliver new products to attract new customers such as different speeds within the Ethernet and fibre broadband portfolios, and also premium repair propositions. And finally, by reducing the cost of delivery through a range of techniques.

Although there are obvious headwinds from regulation, price controls feed through into some of the lowest broadband prices in Europe, and these low prices are helping in turn to accelerate demand, which provides us with a significant revenue tailwind.

Demand for data has quadrupled since 2012 and continues to rise rapidly across all customer segments. While each customer segment has different drivers, what they all have in common is the need for even higher levels of reliability, improved certainty of delivery, and ever-increasing bandwidth. We are investing to meet that demand, focusing clearly on the rising expectations for service, coverage and speed from across the customer base. And we see gross opportunities across the business led by fibre.

In the consumer space, multiple devices and particularly video streaming are creating a need for reliable guaranteed speeds. This leads to continued growth in broadband, as well as the ongoing migration from the copper platform to the superfast platform and now and into the future from superfast onto ultrafast.

Among business and corporates demand for cloud services is increasing. We forecast continued growth in Ethernet volumes as well as demand for a fibre product targeted at SME needs, which we plan to address with a new business FTTP proposition. For our infrastructure clients, data centre bandwidth is growing significantly, creating a prebuild opportunity.

The demand is also rising for new infrastructure providing connectivity at new housing developments across the UK. There's also a trend and opportunity for increased backhaul connectivity, including to small cells for the mobile community.

Accelerating demand for our infrastructure and products are the main reasons why I see Openreach as a business with more opportunities than challenges.

So, how will Openreach respond to these opportunities in front of us? As I said earlier, I've completed a strategic review of the business to identify what we're doing well, where there's room for improvement, and to set the course for the future. The prescription is clear. To meet customer demand and expectations we need to continuously deliver better service, broader coverage, and faster speeds.

Delivering these will be my priority and the focus of our investment in the coming years. So, let's turn first to service, which is clearly the top priority.

But I want to start firstly with an acknowledgement. Although we know we have more to do on service, we have delivered some significant improvements over the past couple of years, just a few highlights of which are up on the screen in front of you.

For the last two years, we've beaten all 60 of Ofcom's Minimum Service Levels (MSL), which of course step up each year, and we just had the next ratchet from the first of April on our MSL set. We've made encouraging progress with improved Ethernet delivery with 16% more circuits delivered year-on-year in 15/16 and we've eliminated the tail of orders for new housing developments.

However, although service is improving, it has been an irritant for too long. We must and we will do better, and this is how.

First, we see the MSLs that Ofcom set as a floor, a minimum, which we want to go beyond. So, for example, we're targeting ourselves to deliver 95% of appointments on time. And secondly, we're hiring over 1,000 engineers to help us to improve service in the field and deliver more fibre.

And thirdly, we're focusing on four key improvement areas to tackle the biggest causes of complaint. My mantra is "On time, Right first time, Own it, and Work smarter".

For consumer customers, we'll halve the number of missed appointments, and we'll have zero tolerance for multiple misses. We'll multi-skill our engineers to deal with a wider range of problems, and when things do go wrong, I've set up a unit to actively manage the customer's case right through to resolution.

For business and corporate customers, we'll increase our Ethernet delivery by 20% year-on-year. We'll deliver more orders on time and to the first date agreed and complex circuits will have an end-to-end project owner. Then behind the scenes, we'll focus on improving network health to reduce the underlying fault rate on the UK network. We'll also deal with perennial problems such as delays in permissions for wayleaves and permissions for street work.

Raising the quality of service for the customers of all our CPs is good business. By delivering high-quality services, we reduce costs and we make life easier for the CPs, and this should lead to higher volumes of business. That is good for them and it's good for Openreach.

Given the importance of a fast internet connection, we will also take steps to deliver broader coverage across Britain. We're already on track to help the Government meet its target of 95% superfast coverage

by the end of 2017. We hope to go further. We intend to go further. We continuously review our network, looking for new areas we can reach through our own commercial rollout.

In BDUK areas where we've seen particularly high take up of our services, we've been able to release a take-up dividend of around £250m, which local authorities can reinvest in extending the fibre network. If all of this money were reinvested through Openreach, we believe we could deliver coverage to another 1% of the country or another 300,000 homes.

And then finally, we stand ready to deliver the Government's 10Mbps Universal Service Commitment. At the labs at Adastral Park we're already testing novel technologies like long-reach VDSL, and I believe this could be very fundamental to delivering the 10Mbps Universal Service Commitment at real pace.

So, as demand grows exponentially, we need to invest now in building the next-generation of infrastructure to meet that demand. Ultrafast speeds, so speeds defined above 100Mbps, will be delivered by a mix of technologies, most notably G.fast and Fibre-to-the-Premise. Let me take G.fast first.

This is a technology whose development was led by BT. We've made progress since our announcement in September to bring ultrafast speeds to 10m homes by 2020, using G.fast. We've now held successful trials in Cambridgeshire, in South Wales and in the North-East, which have proved the reach, but critically also the stability of the technology.

We've had the G.fast standards and the use of the spectrum approved, and we've also selected our first production vendor. We will now pilot the new approach at scale at 25,000 homes in Kent and Cambridgeshire this year. And assuming we have regulatory certainty, we expect that next fiscal [year] we'll begin a full national rollout.

Now, our FTTP network, which is already the largest in Britain, will play an increasing role in the technology mix going forward as we continue to develop ways both to improve the customer experience, but very significantly lower the cost of deployment. This is a key focus for me.

The recent trials in different types of areas for both business and residential customers are proving the viability of more efficient and cost effective delivery methods. My goal is to increase the mix of FTTP within our ultrafast program and increase our coverage ambition by another 2m; so, bringing ultrafast speeds to 12m homes and businesses by 2020, subject of course to regulatory certainty.

Now, with this ambition in mind, we will continue working closely with our CP customers on the trials and to determine demand and to develop the products collaboratively. We will also connect all new housing developments of 100 or more homes to FTTP free of charge, and provide a cost effective model to ensure smaller sites have fibre too. As well as serving consumers, we will offer up to 1m SMEs ultrafast speeds, again through a mixture of G.fast and a new FTTP business product designed for small business customers and especially honed for high street and business park environments.

Now, we're not just investing money; we're investing it efficiently. Delivering a better customer experience is my top priority for customers and of course, it also removes the cost of failure and leads to greater efficiency. With this in mind, our cost transformation activity is focused in three areas.

Firstly, a healthier network with fewer faults as a result of focused investment in proactive maintenance and also improved quality of workmanship on the network. Secondly, a workforce that's better skilled and better equipped to carry out the tasks we need to do as a result of more investment in engineer training. And thirdly, through efficient processes that can be scaled. In particular, this year, we're focused on process reengineering on both Ethernet provision and also on the FTTP build process.

Now, I take my responsibility very seriously indeed to keep this nation connected. I will bring to Openreach a deep understanding of the technology the sector relies on and an obsessive focus on execution and delivering what we say when we say it. We are a strong business with more opportunities than challenges in the time ahead.

Very specifically, fibre and Ethernet demand is absolutely key to our growth. Investment continues to grow in Openreach, and this will help us deliver better service. We will deliver a step-changing customer experience, hiring a thousand engineers, reducing network faults, delivering on-time and tackling missed appointments.

We will deliver broader coverage. We aim to go beyond the 95% Government target and are actively working on novel technical solutions. And with the gain-share funds available, we estimate we could bring fibre to another 300,000 UK homes, extending the footprint to 96% of the nation. We will deliver faster speeds with our ambition to extend ultrafast, with a mix of G.fast and FTTP, to 12m homes and businesses by 2020, including 2m with FTTP.

We now require positive regulatory outcomes and certainty so that Openreach can keep digital Britain ahead. Thank you very much.

I would now like to invite to the stage Gerry McQuade, the new CEO of BT Wholesale and Ventures. Thank you, Gerry.

WHOLESALE & VENTURES

Gerry McQuade

Thank you. Thank you, Clive and good afternoon, everyone. I just wanted to say as Gavin said earlier, Wholesale and Ventures is a new organisation we've put together on the back of the refreshed strategy, and I just want to take a few minutes talking to you about what's in Wholesale and Ventures, what the rationale was in terms of putting the business unit together, but also to talk a little bit about how we intend to deliver against that rationale.

So, just a few key points I want to make sure that you take away. One is that across both Wholesale and Ventures, there's a very strong broad, large and loyal customer base who are highly satisfied. But, across that customer base, they're all affected by the themes that were talked about by Gavin earlier. They're affected by digitalisation. They're affected by a desire to move to convergence, and we see Wholesale and Ventures as a route to that.

We are uniquely able to respond to that. And I think that the way we've restructured the organisation really gives us further opportunity to respond to that.

Also, as repeated a number of times earlier, we have a good, strong, cost transformation record. By bringing the organisation together, there's further opportunity there. And by delivering against those three things, we really see some further opportunities for growth across Wholesale and in Ventures.

So let me spend a little bit of time just explaining what's in the line of business. You'll be familiar with the old BT Wholesale business and it services over 1,200 customers or communication providers; additionally it also serviced globally around 200 media and broadcast organisations.

It won't surprise you that we see a major opportunity in combining that organisation with the EE wholesale organisation where they were number one in the UK, serviced over 30 brands in the UK, including Virgin Media, the Post Office, Utility Warehouse, amongst others. Across that, there's an obvious cross-sell opportunity. But more than that, we definitely see that we can deliver new services to new customer groups within there, and especially delivering converged services to that renewed wholesale business.

The Ventures area is a range of businesses, which I'll touch on in the next slide, which are all focused on a number of vertical markets. But, we see opportunities across those markets. But all in all, what we're left with is a business that is delivering over £2bn in revenue, over £800m in EBITDA, and will double the size of the employee base going forward.

So, let's me just talk a little bit about Ventures, which is probably the least understood. You can see that we have a number of specific market-facing units who are targeted at specific verticals.

There were two simple rationales in bringing this together. One was, as Gavin said earlier, to create a lot more focus for these businesses. Individually, they can be quite small in BT terms and be lost in a large enterprise, can sometimes not get quite the focus that they require to develop the individual business units. What we see is by bringing them together, we can make sure that there's the right managerial focus and a more entrepreneurial spirit in driving them forward.

The second rationale, and just as important really, is that the capabilities within these businesses actually give us the opportunity to start to refresh some of the propositions that each of the businesses have to ensure that they can then deliver new propositions to market and new opportunities for revenue growth.

We're especially excited in terms of bringing the IoT business from EE, which you can see is their type of EE Connect, which was launched over nine months ago and has gotten significant traction in the market. Putting that together with the BT Redcare gives us a very strong machine-to-machine IoT focus going forward, which can play across a number of these ventures. And also, the MDATA capability, which comes out of the EE network where we anonymise and aggregate data, which gives us an enhanced data analytics capability, which again can support some of these organisational units.

Let me just give you a couple of examples. I have one on the screen, which is if we took our BT Fleet capability where we have over 45 customers, 80,000 vehicles and bring that together with some of the logistics capability we have in the supply chain organisation, aligned with the mobile analytics data and machine-to-machine tracking capability, we can put together a very different proposition to the fleet marketplace around integrated field force management. That can be utilised, again, in Openreach as well, which is one of the major customers there.

Another example is something that's prosaic as our payphone estate. Everybody's familiar that the payphone sits in the high street estate. It is connected out to the telephone wire, but also connected to power. You can see those are already starting to be used as advertising units. Going forward, there's an opportunity to use them as digital advertising. We can enhance that digital advertising with the analytics

capabilities. We have to make sure that the footfall and the demographic passing that advertising holding actually is much more targeted, thus engendering more revenue.

It doesn't take a leap of understanding to see that those are also opportunities for small cell environments going forward, which all the mobile players will require as the data increase comes through into the urban environment. So, that was the rationale and some of the assets that we want to utilise.

I think given that, we really feel that we're in a strong place to innovate. We start with the two number one players in the Wholesale market. The fixed market, we were always number one. EE, with the mobile wholesale market, was also number one.

Across all of Ventures, we also start with market-facing units, which are either number one, or are very strong in the market that they represent. We're also talked about some of the product opportunities we have across there, there are also a number of other things that underpin our strategy. For me, there are three key areas which we need to focus on.

One is the customer experience, which is while it's strong, it will continue and need to improve. The second is across the cost base that we have here, we need to make sure that we take the opportunity by bringing the organisation to get further value out of the cost base and make sure that we remain cost competitive. As we said before, we want to utilise some of that cost savings to invest wisely across some of the opportunities that we have.

So, let me take each of those in turn.

Customer experience within the Wholesale market is something we've been focused on over the last three years and actually had a lot of success. In every relationship that we have in Wholesale we measure the customer's appreciation of whether we are delivering the quality of the service. We do that across all the products that we supply, whether it's how we repair things, how we deliver things, how our account management and sales is performing, and how our billing is perceived, whether it's clear and whether it's accurate.

You can see on the graph on the right that across the years, year-on-year-on-year we've improved the customer level of satisfaction to a point where our customers are claiming that on every aspect that we deliver service that they score us 8.5 out of 10 on average, and we've got a very highly satisfied customer base. However, we know that the expectation bar for our customers and their customers is only going to keep rising, and that we need to consistently look to improve that.

When we talk to our customers, there are three things that they constantly require of us. One is that we become much more predictable, especially in how we deliver things. The second is that when you deal with us, that our people are skilled and proactive in how they deal with problems and that they deliver a first-call resolution when they do have a problem.

But in truth, the last thing our customers want to deal with are people. They really want to have digital interactions to reduce their cost base and the cost that they then pass onto their customers. Those are the key things that underpin our customer experience strategy.

Self-evidently, our customers want good experiences. But just as much, they want value for money. Cost transformation—one of the things I realised in coming into the business is that transformation, and especially cost transformation is part of the DNA. It allows us to stay price competitive and it allows us to invest in new propositions.

We've got a very good track record. Our SG&A over the last three years has reduced by 39%. Our third-party costs reduced by 58%, and our network unit costs by 61%. However, as everyone has said before, there is much more to go after.

By bringing the organisational units together, we can go after further insourcing; we can close legacy platforms; we can deliver more digital capability to reduce our costs; and we get a great chance to get further economics across the new organisation, across infrastructure, service management and sales channels.

We've referenced the investments that we're making in customer experience, but we've also invested in our portfolio over the last few years. Where we have invested, we've done it in a very targeted way and every investment has paid off as you can see in the chart on the right.

We're going to keep investing in a similar fashion. However, we've got some new things to invest in as a result of the broader organisation.

We're going to keep investing in wholesale Ethernet. We're going to extend the network coverage so that we can deliver orders faster, have a better position in the market, and we'll also add access points to a MEAS (Mobile Ethernet Access Service) service, making sure that we're even closer to more mobile sites across the UK.

I'm very excited about the opportunity that we have with the portfolio of Hosted Communication Services, but we've already connected this to our fixed network. Over the next few months, we'll also connect that to the mobile network. What that does is deliver a truly converged offer that our customers can utilise for their customers, and there's a lot of demand for that going forward.

I'm also excited about what we can do in the IoT space. We're very well placed to exploit that. We've got a new platform which was delivered by EE, which has delivered good growth over the last few months. By bringing that together with the Redcare base give us further opportunities both within that sector, but also across the other business units that we also have in Ventures.

I'm also comfortable that there are a number of opportunities in here to support BT's top line. The reason I think we can do that is that the market is increasingly moving to IP, but increasingly asking for converged platforms and we're very well placed to support that.

We know that across both Wholesale bases that our customers want a more integrated mobile and fixed environment. We have very little overlap between our fixed wholesale base and our mobile wholesale base. There is a massive opportunity as you'll have seen in some of the consumer charts for cross-sell, but there's also opportunities for enhanced services.

The Ventures portfolio themselves individually are strong. They're doing well in the markets they compete in, but the new portfolio of services really gives us further opportunities to develop that further going forward.

So, let me conclude by just showing you some key targets, which we think really support our strategy. Though we're a new line of business, we actually have very strong customer relationships, and we're well placed to support them going forward. We have a strong cost transformation record with further opportunity going forward. We will continue to be disciplined in where we invest going forward, but we have some strong opportunities for growth through the new combined assets.

To underpin that, I wanted to highlight three key metrics which I think underpin the strategy. Ethernet remains a really key growth opportunity for us in our Wholesale business, and I'm targeting a 50% growth in that over the next three years. Mobile, as I've mentioned, is a major opportunity for cross-sell into the fixed Wholesale base, but also in the wholesale EE base, there are further opportunities.

Our MVNOs require 4G. They need 4G to be competitive, and that is a further opportunity for us. We're very supportive of supporting that, and we want to move to over 80% of our wholesale base on 4G over the next three years.

There are many improvements that we are targeting on customer experience. On-time delivery is the key one that our customers require, and I want to make sure that we deliver that on-time in over 95% of occasions over the next three years.

So, hopefully that explains Wholesale and Ventures and how we intend to deliver the strategy. I think some of my colleagues are now going to join me on stage for Q&A.

Q&A SESSION 2

Robert Grindle - Deutsche Bank

Some very exciting stuff and a lot of stuff for a former telecoms engineer to get his teeth into, but I just picked up on the consumer IP thing. Some operators have made a much bigger deal about moving consumer to all-IP. It was almost a footnote in the TSO presentation. Why now? Why 2018 deployment? Is it a bigger deal than this, or just another sort of development?

And if I could just pick up on TV stuff. We had no mention of YouView. Is that just sort of we've moved on since then; it's all moving into the cloud and the Netflix app-type of world? Thanks.

Howard Watson

I mean certainly I think to the "Why now" point, and you're right. If you look at moving consumer telephony to IP, it's something that various operators have been doing at different rates in different locations.

We think the timing—it's important with this to ensure, I think, that there is sufficient consumer pull in order to have services that we can then create a converged experience for those customers. And I do think that what we're seeing now in the trends with the way consumers use voice, that that time is approaching.

I think we've avoided doing it too early, and I think we've benefited from that. We've had to sustain our existing network, and we've successfully done that. We're comfortable that we can certainly do that out until 2025 provided we start migrations and start to shrink down some of that network.

So, just looking ahead, we see the next year looking at trialling and getting the proposition right and then starting migrations beyond that point.

Gavin Patterson

And on YouView, I think we'll not steal John's thunder. I think you want to talk about that later. So, watch this space.

Annelise Berendt - Point Topic

On FTTP rollout and the extra 2m premises, is it fair to say apart from the new build housing, the focus really for FTTP now is going to be small businesses, and whether that be high streets and business parks? Does that mean that FTTP for areas, perhaps rural areas, areas with exchange only lines that are residential, it's not really going to be much for consideration, or a focus for Openreach now?

Sort of just added to that, when do you think you'll be releasing areas that you are going to be building FTTP in?

Clive Selley

Okay. Thank you for the question. I think FTTP is extremely interesting as a technology. We've taken a very good hard look over the last three months at how we have been deploying it, and we have been deploying it largely as part of the BDUK program; so, to the more rural areas.

We think there is scope to better engineer the way we deploy, and that will do a couple of things. One is it will improve the customer experience on provisioning, and we think we've now come up with a set of techniques for reducing costs. We're on a set of trials, and they are in all of the kind of housing types and business types that you might think of when you think of the UK.

So, very rural housing, to your question about are we ignoring that? We're absolutely not. We're going to raise the amount of FTTP we do in ultra-rural areas. We just need to get better at doing it and that's what the re-engineering was about.

We've also done it in suburbia to figure out how in a suburban setting we can engineer for a better experience and lower cost. We've also done it in MDUs (multi dwelling units), a set of MDUs in London, so tower blocks, apartment blocks, and we've done it in Bradford High Street. We've done in a Yorkshire Business Park.

So, we've tested our new techniques in the different kinds of premises, both housing and business. So, we have new cost point targets, new customer experience targets, and we'll now use FTTP absolutely where it makes sense.

It will absolutely make sense, we believe, in a business setting. So, our ambition is to go to high streets and business parks, better serve SMEs and the retail chains that live there. We will definitely go to MDUs because we have, I think, a much more compelling solution now, and we will definitely use this new FTTP deployment in the ultra-rural areas in order to reuse the gain-share funding to get a bigger footprint.

So, we have a tonne of places where we think this will work, and we're now going to take it from trials to scaled deployment. The initial ambition that we're setting is two million.

Jerry Dellis - Jefferies

Just a question on EE integration please, and particularly on the revenue synergies; you mentioned what seems to be a pretty strong cross-sell opportunity. But within the synergy estimates, what sort of pricing reaction are you anticipating from the operators who are currently already addressing the customers that you seek to bring across?

Tony Chanmugam

We're expecting the same sort of pricing actions we're getting as John is launching the mobile SIM. We've got some competitive pricing in the market. We're not looking to be the lowest price player. This is not a price point play. This is a bundled proposition based on quality, the quality of the network and the reach and speed of the network we have.

Simon Weeden - Citi

I want to ask on the MVNO migration point that you made, the desire to move from under 5% on 4G now to over 80% in three years' time. That does stand out just a little bit against the policies of some others. I mean it's not the opposite; it's just that they don't tend to talk about it much.

I wondered what the commercial rationale was. I can understand that a certain network spectrum re-farming rationale perhaps, but to go about it proactively and quite so vigorously does leave you standing out against the industry.

Gerry McQuade

Well, we are standing against the industry. I think we recognise that, first of all, we're a willing wholesaler and we want to support that wholesale base. That wholesale base is increasingly recognising the need to move to 4G and I don't think for a second that all of the customer base, their customers will move to 4G that quickly, but we certainly are comfortable supporting our MVNOs with 4G. We have been for some time, and we continue to do that going forward. We know we need to be more supportive, but we've always been supportive. I think it's been difficult for MVNOs to make the choice actually themselves because they're worried about data growth. That's what we need to support, but we're very happy to do that.

Steve Malcolm – Arete

Question please for Howard and Clive on the slightly nebulous subject of 5G. Can you just share with us your thoughts on the sort of spectrum and network estate you're thinking about if you look into the next 5 to 10 years, are we talking licensed / unlicensed, very high bandwidth, how much frequency, all that sort of thing. And on the impact, to a layman like me, what that might mean?

It looks like you have sort of an enormous scale and network reach advantage against your peers. Does that worry you at all from a regulatory perspective; that regulators may try to level the playing field? We're seeing a bit of lobbying in the States at the moment with the likes of Verizon. Is that something we should think about in a five-year view? Thanks.

Howard Watson

I'll take part of that, yes. I mean I think—I mean we're continually looking at our spectrum assets. I think post the BT acquisition of EE, we're in a healthy place when it comes to spectrum. And so, I think that sets us up really well for the sort of 4G Pro step towards 5G.

I think as we get beyond that to that final step towards 5G, I think you're absolutely right. How we innovatively use our wi-fi, other types of unlicensed, as well as licensed spectrum is very critical to our thinking. Likewise, how small cells sort of play into that and how we use our network reach for small cell deployments.

So, I think those are all factors that we are thinking through when looking at our spectrum estate, and we'll continue to sort of review that, as well as in line with what other spectrum becomes available.

Gavin Patterson

Just on the regulatory front, Steve, Openreach, of course, is regulated today. 95% of its revenues are on regulated products. So, I don't see that changing fundamentally going forward.

Then within the mobile space, the CMA reviewed this last year as part of the acquisition and gave a unanimous approval, four to zero, on all—I think there are nine concerns in total, including whether we had an excess of spectrum and said they didn't think we did.

So, as more spectrum becomes available on an ongoing basis, we will look at that as I'm sure others will as well. But, if I look at our position relative to the market leaders in other markets, we're not overdeveloped particularly. We've got about a third of the fixed and a third of the mobile market, which is compared with European peers towards the lower end of market share.

So, we're conscious of it, but we think the market is appropriately regulated and very competitive.

Clive Selley

I just want to make a point kind of linking fibre with 5G. I think as 5G networks begin to appear in a few years from now, what we'll see is the topology of mobile networks changing. So, instead of being highly centralised macro tower-based, there's going to be vast proliferation of small cells.

This is very exciting from an Openreach perspective because the hundreds of thousands or even millions of small cells will all require back-haul. So, I'm very excited about the prospect of delivering fibre, including FTTP in dense areas like high streets as the back-haul for these new small cells.

James Britton, Nomura

A question for Clive actually. Clive, are you looking forward to having your own R&D department? I guess from a serious point, would that have any impact on you being able to accelerate the reduction of cost for a fibre to the premise business case?

Then perhaps secondly, can you just talk a little bit about how your relationship —will the strategy towards MBNL, and using MBNL is evolving as you look to integrate the EE infrastructure in BT's network? Thank you.

Clive Selley

Okay. So, you're alluding to the fact that I used to sit in this seat [points to Howard Watson], aren't you? So, yes, I enjoyed running the BT Labs for many years. I think it's a fantastic R&D resource for the country, for the industry, not just for parts of BT. I'm extremely proud of what they've done in terms of forging forward with the G.fast standard. That is going to be a real winner for the UK.

From an Openreach perspective, I will use TSO and I will other companies. There's a big supply chain of technology companies. So, I will use the best of everything that's available, including TSO because it is world class.

Gavin Patterson

What I would say is I think Openreach benefits from the wider BT group when it comes to R&D. The nature of research and development is if you segment it too much, you lose the creativity, the serendipity that comes from different researchers talking to people and trying to solve different problems.

So, I think it would be a shame if that's the way it went because I think net-net it could reduce the effectiveness of our R&D operation for the whole as a country. So, I wouldn't favour doing it.

In terms of MBNL, Gerry, do you want to answer that?

Gerry McQuade

I would say it's an arm's length joint venture. It makes its own decisions with both shareholders and is independently controlled.

Nick Delfas - Redburn

Just questions for Clive; how many FTTP homes do you expect to pass by say FY2018? Secondly, on the fair bet, how much of the VDSL investment in your mind was subject to the fair bet given that it was quite an incremental rollout? I think Ofcom's implied that it's not all fair bet.

Clive Selley

Right. So on the fair bet, I think what needs to be taken into account is that we've piled in very large amounts of money when nobody else was doing so in the depths of a recession. That was very courageous I think.

On that basis, it is reasonable that we get a fair return and a return that reflects the risk that we took at the time. I'm also very keen that we take into account the fact that the investment itself is not finished. We are still continuing to invest in an increasing footprint. So, I think all of that suggests to me that the fair bet on VDSL has time yet to run.

It's a long payback business case. Adoption is growing. I think it's a very successful platform, but there's a while to go yet in my mind before that fair bet is played out.

Nick Delfas

And FTTP.

Clive Selley

Okay. I'm not in a position to forecast by year yet how many FTTP homes passed. What I would tell you is the re-engineering exercise has finished its first phase. I articulated in answer to an earlier question the five trial locations of different types of premise. I now have a model in my mind of what it costs to deliver in those different premise types, and we'll now be laying our plan for deployment.

We need to work with the CPs on proposition development. So, I would, for example, see premium propositions being deployed for business customers in high streets and business parks. We've still got to do that work in the detail.

But, I think my view on FTTP now is very different from three months ago. Now that we've gone through the reengineering exercise, I'm very excited about the prospect.

Guy Peddy

Just a quick question on the emergency services contract without giving any details of the contract, but you talked about \$400m potential capex spend. We can assume a lot of that is what I'll call EE network acceleration and some of it is probably very specific to the emergency services. Could you break that down?

Also, just following up on that, a lot of the government documentation talks about 97%-plus land mass coverage and we're talking about 95% with EE. So, is there another technology or other things you're going to do bridge that gap? Thanks.

Tony Chanmugam

Yes. So, in relation to the ESN contract, you're quite right, there is a split. We're not going to give you that level of detail. I mean the inference is – will it reduce EE's overall capital expense from an ongoing basis because some would be brought forward? Absolutely, but we won't give that split.

Gavin Patterson

And Marc, do you want to comment on the second point?

Marc Allera

The commitment on the contract is 92% geographic. What we're actually doing is going beyond that with our 95% commitment.

Polo Tang - UBS

Just a question maybe for Tony in terms of the cost transformation. You talked about well over a billion in terms of cumulative cost savings over the coming years. I'm just trying to understand how much of that cost savings is actually going to drop down into EBITDA and where it is being invested, what are the priorities for reinvestment? Is it being sprinkled through all different divisions, or is most of that going into consumer in terms of customer service and content?

Tony Chanmugam

Yes. I mean what I'd say here is that a level that drops down in the bottom line will not be dissimilar to the way it dropped down previously. It's going to be a mix, a specific number in relation to that.

In terms of how that investment is being made, we've talked about what we're doing on customer service. You've seen the increased investment we've made in terms of content. If you look at what we're doing in relation to the fibre investment on our network and it's on the major strategic platforms as opposed to a large set of small incremental investments.

James Ratzer - New Street

A question looking ahead to the Wholesale [Local] Access review that will be coming up towards the end of this year; at the end of the day, Ofcom takes a fairly mathematical approach to looking at what the return on capital is versus the allowed rate of return. I think I'm right that in a recent BCMR they increased the rate of return in your cost of business up to 8.8%. Can we conclude from your guidance for 17/18 that you think you're making a return that's pretty close to that level today?

Tony Chanmugam

Yes. I mean I think we're probably better off talking you through the details and Damien can talk you through that after, in the lunchtime session. What we're not going to do is go into that level of detail. We'll talk to you about the generalities of what we're doing, but when you're asking for specific points of percentages, this is not the way you do business.

CONSUMER

[Video plays of [BT broadband advert](#) starring Ryan Reynolds]

John Petter

Thank you, Ryan Reynolds! I'm John Petter, the CEO of the Consumer division. I'm going to talk to you this afternoon about the strategy of the consumer division, the progress that we've made in the last three

years, and plans for the next three years. Before I do that, I really wanted to emphasise that, first of all, the four key take outs from today because these are really the four key reasons to believe in our plan. Of course they're about broadening and deepening the customer relationships that we have.

Firstly, the fibre investment in the Consumer division has been transformational, and we'll keep doing this both with superfast and ultrafast and go further amongst our customer base.

Secondly, the Consumer division has a unique opportunity to drive quad-play and convergence and you'll see us working with some of our colleagues from EE to do this in a kind of way that creates significant value for BT Group.

Thirdly, the ownership of content assets has been proven in the last three years to drive subscriber growth and a tolerance to pricing as well. Our plan is to keep investing, but to make very rational investment choices.

Finally, and above all else, this plan is underpinned by a desire to improve customer experience as being a crucial way to create the long-term value amongst our customer base.

Before we get into the detail, I thought it could be useful to give you a bit of a portrait of just who we are in the Consumer division and what we do. So there are two brands, the Plusnet and the BT brand and about 10,000 people in total. As the name suggests, it's not surprising that the majority of the customers that we sell to are actually consumers, but not all of them. We sell to some businesses where it makes sense to do so. For example, selling BT Sport to pubs, for instance.

We have about ten million subscribers, and that makes us the biggest player in terms of the landline phone market and the broadband fixed ISP market as well. The rest of this presentation is mostly focused on the BT brand, and not the Plusnet brand, and that reflects the right balance because Plusnet accounts for about 20% of the broadband net additions that we drive.

I wanted to talk briefly for a moment, if I may, to give you a bit more of a portrait about Plusnet, because it's not something that we discuss very often. Plusnet's our price-focused brand basically. It competes head on versus TalkTalk. It has a simple portfolio, a fixed landline, and broadband, and also now TV as well. Plusnet operates from a low cost base from offices in Sheffield and Leeds. It has the agility and very much the feel of a small business, but it leverages BT's scale in areas where it makes sense to do so, such as procurement and technology.

Plusnet has a very distinctive service proposition and gets very good service ratings from its customers, interestingly, but the proposition is quite explicitly very much more about self-service than BT's is. Plusnet plays a very important role in our strategy overall because it helps us compete aggressively on price whilst at the same time helps us minimise the cannibalisation of the BT brand as well so as to create more value overall.

In talking about the market, it's true, as Tony said, there are always lots of customers that both BT and EE has the opportunity to sell to. There are 14m homes that have a service today from neither brand. But the thing that's particular about the BT Consumer division is there is a really good opportunity to sell more services to our existing customers, too. You can see this from the low market share that we have both in pay TV and in mobile.

At the same time, there is a very clear and pronounced trend for consumers, at a household level, to consolidate their purchases towards triple play; to buy three services, broadband phone and TV from a single provider. On one level that creates a good opportunity for us. At the same time it's true as well to acknowledge that there are real challenges in the pay TV marketplace. The challenges arise principally from the fact that we have an unregulated competitor, with enormous market power, and a market share well in excess of 70%.

The other interesting thing about UK market place in some ways though is the trend that you can't really see at the moment. If you look at the UK market, you can't really see, particularly relative to the rest of Europe, a very strong trend in quad-play, and we think there's a very real opportunity here for us. We think that BT Consumer is in a very strong position here, combining as we do the best of fixed in fibre, and the best of mobile through 4G, and a compelling content proposition to differentiate as well. We think there is an opportunity to provide bundles of four services at a household level that really capitalise on the households' unquenchable appetites for data, and to create more value overall, and sell very much on a more for more basis.

Why should you believe any of this? If you had believed this three years ago, then I think you would feel vindicated by the trends that you've seen in the Consumer business in the last three years. So if I start from the active line losses, these are down by 80% across the last three years. If you look at the size of our TV subscriber base, that's also grown by 80%. If you look at the size of our broadband base, that's 20%, or 1.4m customers bigger, and by coincidence, the consumer ARPU that we have has also grown by 20%.

The number of fibre customers that we have has more than tripled from 1.2m to 3.9m in total, and at the same time, the sport base has grown from nothing up to well over 5 million over this period. In the last 12

months, the BT Mobile base has grown to more than 400,000 from a standing start. This, of course, has had quite a profound effect on our revenues. What you can see here is a trend for revenue growth, a total growth of more than £600m. Most important, in some ways, a turnaround of a trend first of all revenue shrinkage to revenue growth; and secondly, that the profits have actually grown faster than the revenue.

There are many respects in which the BT Consumer division is relatively similar to some of our competitors, but there is one key belief that sets us apart. That is the belief that consumers value the internet and connectivity so much that they are prepared to pay more for a better broadband service.

So, BT Consumer really went first on fibre in terms of the migration of our existing customer base from copper to fibre, and we've certainly gone farthest. Around 50% of our customers have fibre today. Fibre comprises a really strong business case and it's a business case that arises from happy customers. The consequences are higher ARPU, much lower churn, and a stronger propensity to buy more services from us as well.

We have the same kind of perfectionism on our fibre network that our colleagues from EE have on the 4G mobile network. That was what you heard from Ryan. The standard offer in the last month that we've just changed has increased from 38Mbps that our competitors offer to 52Mbps for BT customers today

We know it's not just about network access products. The entire broadband customer experience our customers get depends on the entirety of their experience. The most problematic area, in terms of the consumer experience, in many cases, can be the broadband network in the home.

That's why we constantly try to upgrade our broadband routers. We are now on the broadband Home Hub 5, 5B in fact, which has roughly the same technology as the Sky Q router. So, there are no prizes for guessing, but in the next year, our plan is to launch the creatively named Home Hub 6, which will leave the Sky Q router standing for range performance in the home.

In terms of customer experience, we have made a lot of progress over the last three years. The propensity to call has hugely decreased. Complaints into Ofcom are down as well, and one-call resolution is up, but we're not satisfied really with the progress that we've made, principally, because of the scale of aspiration that we have, to turn this into a key area of strength for our business.

There are four things that we are doing here and intend to go further with. Firstly, the website is the heart of the BT Consumer business. As you heard from Gavin, about 40% of the total sales the Consumer business makes today are sold through our website, and crucially the website is the system that we use in

our call centres. What we found is that, when we made that change in our call centres, it creates a better customer experience because it's simpler to use, and the call centre agents are more likely to get it right. It makes us much more efficient as well. And, it increases the quality of the website build too.

What we're doing is taking that approach and applying it to service. So today already, some of you may have seen the demonstration outside. Service journeys online have been built out, and they're reducing calls to the tune of 29,000 a week. Our plan is to roll out the same system that we're calling consumer.com to our service call centres in the course of the year ahead.

Simpler systems have facilitated a change in the operating model and broadly that means creating roles to give our colleagues in the call centres more empowerment and broad responsibility to solving customers' problems. That's being rolled out already backed by about 100 hours per person of training to 20% of our Consumer call centres so far. That's driven a massive improvement in those centres in terms of the unit efficiency and a 47% reduction in complaints, and our plan is to go further.

The final element of this really comes down to the people. Our customers' preference is that these people should be in the UK. In the last year, just under 1,000 call centre jobs have been created in the UK. Our plan in the next year is to create another 1,000 and to get to 90% of the calls answered in the UK by the end of the fiscal year.

The interesting thing here, perhaps, I think, is the extent to which our colleagues in the call centres are really up for this challenge. One of the challenges that we faced in the past has been the fact that our legacy terms and conditions didn't involve our colleagues in the call centres actually having to work evenings and weekends. But as part of this change, there was a ballot that we organized in December of last year to ask them to voluntarily change their terms and conditions, for no more money, to work the evenings and weekends. In the ballots, they voted overwhelmingly in favour, so they're really behind this.

Cost saving is very much in the DNA of the consumer business. The best proof of that, in some ways, is at the same time as growing our revenues, the overall size of the consumer team has actually shrunk by 6% in the last year. There are several ways in which we do this.

The first is leveraging scale and having our colleagues on board from EE gives us far more to go at there. Secondly, if the capability is key to us, then we try to bring it in-house to pick up a supply margin. Thirdly, we believe very much in best practice and the application of that throughout the business, but at the same time, it's very useful to have Plusnet that has the agility of a small business to try out new things as well.

Finally the wedge-centric approach that we have to managing our business is good for customers because it saves them time and effort, but it also saves lots of money as well.

So I'm going to talk about BT Mobile, but before I do, I'm very conscious that some of you may be wondering, well why have BT Mobile? Haven't you just bought EE? The chart on the left tries to address this point actually in fact. What it shows is that the EE brand actually has pretty good acceptance from the BT customer base, but at the same time, the heartland of the EE brand is actually rather younger and more tech-centric than the BT customer base. When you have a combination of the two brands, both BT and EE, then in the context of mobile, the consideration to buy a service from us increases, in fact, by 60%. That's the reason for doing this.

Now, so far on BT Mobile, we've really only just got started. There was the SIM Only service that we launched in March [2015]. That was marketed below the line originally. In November, we started advertising, and today we've got about 400,000 customers.

In the course of the summer, our plan is to launch our bundled handsets as well. That unlocks a further 50% of the market. Just as you heard from Tony, that's a significant investment of around £100m, but that will create a very strong return for the business over the coming months and years. We're working very closely through our colleagues from EE on getting every detail of this launch right, and believe me, on complex matters like what handsets should be arranged, what should our credit policy be, it very much helps to have the market leader on your side.

Moreover, we're working very closely with our colleagues from EE on pricing and the goal is very much to maximise the overall profits for the business in total. So sure, there is a discount for BT broadband customers should they buy EE mobile, in the same way for EE mobile customers, there is a discount if they buy BT broadband. But this is not, as Tony said, about being the cheapest in the marketplace. The proposition that we have on BT Mobile is about the combined power of 4G and the BT wi-fi network. It's about getting BT Sport on your phone as well and a very simple customer experience. That's the proposition today, but the future that we envisage is a future of quad-play and converged bundles and put very simply, that means more SIMS in the household, and more data for more money.

I'm going to talk briefly about TV and BT TV has been the fastest growing TV platform in the marketplace in 2015. There is a good market opportunity for Freeview customers to trade up and for pay TV customers from Sky and from Virgin Media to look to save some money and to spin down to BT TV.

BT TV has been the first to market with some significant innovation such as 4K and download to own content as well. The BT TV platform today through YouView gives a very strong customer experience but there is an opportunity to innovate further, we believe, through creating experiences through the whole home and out of home as well, and through continuing to transform the user interface and to make it more immersive.

None of this of course matters if there is nothing to watch, but there is a lot to watch on BT TV. In the course of the last year, we've just launched 17 new channels, the most significant of which was the AMC channel, of course. There was a very prudent and very managed first step into premium content. The message here is that we will continue to invest in premium content of behind the strong business case on a very rational basis.

Now BT Sport had a very strong year as well. The viewing figures were up by well over 40%. If BT Sport were a football club, I would hesitate to say that we are Leicester City, but if we were a football club, I would expect this to be Villarreal tonight! More remarkable though in some ways than the viewing figures is the fact that this channel that started completely free now has more than 75% of its customers paying for it, either paying directly or through BT TV. Our plan is to keep on innovating in the way that we have through The Goal Show, and Connected Red Button, and all of these experiences are best on a BT TV platform. We'll keep on investing in sports rights as well.

But I wanted to emphasise that we do this from a very strong starting position. Our core Premier League rights are underpinned for the next three years and instead of complementary rights in terms of the FA Cup, and Scottish football, and Premier Rugby and women's tennis and Cricket Australia, are secured for longer periods than that. But my message to you again is that BT Consumer division will continue to invest in sports rights, but to do it on the basis that we have so far, on the basis of a very well underpinned and very rational business case.

So in conclusion, the ask today is to judge us on exactly what we do in the same way that was true three years ago and our offer to you is to deliver more RGUs, a better quality of service served from the UK, and more investment in sports and content, and that investment is going to be strongly rational. Just to reiterate, this means striving harder with fibre and going deeper into our customer base exploiting the opportunity for mobile first with handsets and then with quad-play and convergence; a very rational approach to investments in pay TV and Sport and all of this underpinned by improvements in customer experience. If we do all these things, and of course we're going to do all of these things, and that will deliver the top and bottom line growth into the BT business and its shareholders. Thank you.

I'm going to pass you now to Kevin Bacon, in fact, and then to Marc Allera, from EE.

EE

[Video plays of [EE mobile advert](#) starring Kevin Bacon and Rachel Riley]

Marc Allera

Well, thanks, John. Thanks, Kevin, and thanks, Rachael! I had the pleasure of telling our story and our plans last week to about half of our employees, around 7000 of them, up in Birmingham, and we had applause, we had cheers, we even had some tears of emotion. For those of you that want to get those emotions out there, that's fine. Don't feel like you need to hold anything back!

I'm a few months in, the team are a few months in, and I want to share with you how things are going, from my perspective, and what my plans are for EE and how we fit into the overall business. I think if I could describe the mood in EE at the moment; it's excitement. There's so much opportunity, so much possibility there for everyone.

What was great actually last week was talking to our people who sit in our call centres or are in our retail stores, and they're becoming shareholders of this wonderful company. They're very excited about that as well, which is just one of many benefits that our people have. So we're getting on with the integration as Gavin and Tony has said, it is going well and the opportunities, John's highlighted some of them, just simple things like knowledge sharing. I'm able now to get knowledge and experience from the market leader in broadband, John and his team, and we're able to impart some of that knowledge on mobile. We're talking together about the channel opportunities that we have. We have a number of channels where we can offer BT's products that aren't available today.

We've got more possibilities with the shareholder that is looking very much long-term. We have shared purpose, and we have shared values as well, but we bring a lot to the party as well. If I was to say, "what are the four key things we bring to this group?", I would start with our brand. It's a great brand, and I'll talk more about it later. It stands for innovation and it's got real momentum, it's a fantastic brand.

We have scale. We have the largest 4G customer base in Europe and the largest consumer mobile base in the UK.

Our people are fantastic. They're used to change, they're fast paced, and they're highly engaged. Even through an integration and acquisition period last year, which as you all know for people can be a very, very uncertain time, we achieved a top ten position in the *Sunday Times* best companies to work for, which said our people are enjoying and recommending EE as a place to work, and we want that to continue.

Of course, when I totted up how much experience there is in the EE team, in mobile, it adds up to 80,000 years of mobile experience. That's what we're bringing to the group. Of course, we bring our network – the biggest, fastest network in the UK. I know we talked a lot about network today. I'm going to talk about it again because it's a great asset and it offers us great opportunity and possibilities.

So, let me talk you through what I'm focused on, my four key areas of priority, network leadership and that's not just about rolling out the network which will be further than anyone's gone before. This is about making the network part of our DNA, part of what our people talk about with customers, how our customers understand it, how we communicate it, and you've seen the adverts. It's not just about rolling it out. It's about getting the UK consumer, whether they're with us or not with us, to understand that we have the biggest, best, and fastest network.

Data monetisation, you've heard from a number of people today on the huge growth there is in data. We've shown some data growth in fixed. I'm going to talk to about data growth in mobile. That represents a great opportunity for us to monetise it over the long term.

Cross-sell and convergence, we have the largest customer base, that gives us a big opportunity. And, of course, customer experience, the best network for our customers' needs, the best service in the UK, bar none. That's what we're focused on, driving a premium customer experience.

Now, before I get into the plan, let me just remind you quickly of the business structure, and Gavin touched on this earlier on, but we've split out the B2B, the technology, and the wholesale areas very logically into all of the line of businesses where they fit best. What's left is a leading consumer mobile business. It has a market share of 32%; 80% of our revenues are post-paid, and we have some what we call converged products, mobile broadband and home broadband. Whilst they're relatively small parts of our revenue, they are growing at around 17% year on year.

A large proportion of these products are sold through our direct operation, which is the largest multi-channel operation in the UK, which includes around 550 stores and we are responsible for the delivery of the ESN capability and we are the market leader. We are number one in pretty much every segment we

play in and we have a really strong position. We have a very, very healthy pay monthly split within our customer base, more customers than anyone else, and our brand – it is worth reminding you all – our brand is only three and a half years old. It's a new brand. It has great momentum. And you can see here on the chart on the bottom right, we are very, very close now to catching the UK's number one in terms of brand position for first choice purchase intent, which is the key metric that drives consideration. We are knocking on the door there and with a brand that is just three and a half years old, so we've got brand momentum.

Now, let me talk to you about network. The strategy is very simple: build the biggest, best, and fastest network in the UK. We've got what I call the Holy Trinity of assets to build the best network and keep our leadership, and the Holy Trinity are sites, spectrum, and capacity. So on sites, we have more sites than anyone else in the UK and more sites converted to 4G than anyone in the UK.

On spectrum, we have 120MHz of paired spectrum. That is pretty much double our closest competitor. And on capacity, we have the largest rollout of high-capacity backhaul right across the UK. That's giving our customers the fastest speeds. And Howard talked earlier on about our 400Mbps trial that's live now in Wembley that our customers are experiencing.

And everywhere we go, we win awards. Everywhere, where independent benchmarks like RootMetrics and Speed Tests and Ookla go, we come out top or joint top. I can't remember the time where we didn't come in first or joint first actually. But, we're not stopping there, that's just where we are today.

Our customers' expectation of us is that we provide data and access to 4G wherever they go. I think there's a big shift that needs to happen in the way that mobile network operators think and talk about coverage. Historically, we've always talked about and quoted, and this includes us, population coverage. We quote figures like 96% and 97% and 98%.

There's one fundamental flaw with population coverage and just focusing on population coverage. That is with a mobile service, customers move. It might sound obvious, but they expect to use data when they leave the place that they live.

They travel. They go on holiday. They go camping. They visit beaches. They go running. They drive cars like Tesla's that are now constantly connected to a 4G connection. So, geographic coverage, for us, becomes the most important metric because our customers expect access to that data, like hot and cold running water, wherever they go.

Even coverage obligations from the regulator and government don't distinguish between 2G and 4G. I don't think we as an industry, and we as a network operator, can seriously say to any customer now that you're covered if we are covering you with 2G because the expectation is you should be able to use data, and just being able to call and text is now not enough for customers. The benchmarks they're setting for us keep on rising.

This is why I'm really, really excited about our rollout because our geographic coverage is going from where we were at the start of this year, the very start of the year was 50%. Where we are today is around 60%. We get to 92% geographic coverage towards the end of next year, and 95% by the end of the decade. This is further than anyone has ever gone ever in the history of UK mobile.

It's 4G as standard. And a great example of that, just last week we switched on the Isles of Scilly, and this is a really, really difficult place for our engineers to get to. You might ask, why are you so excited about the Isles of Scilly? Only 2,000 people live there, but every year they get 200,000 visitors. If we were to look at that on a population basis, it would be pretty low in terms of our priorities, but 100 times more people visit the Isles of Scilly than live there. We switched on the Isles of Shetland as well.

We're going to reduce our dropped calls to 0.2% by the end of 2018. That is a world leading benchmark in terms of call quality, and how it's touched on the access to all the resource we've got now within the BT group means we can lead in 5G.

We continue to be a long-term partner in MBNL, which is a great long-term partnership we have with Hutchison that allows us economies of scale, but also importantly allows us to differentiate on the areas we want to differentiate, specifically 4G.

I just want to touch on the Emergency Services Network contract, there was a question earlier, actually I misunderstood the question. The contract is a five-year contract, and it is pretty recent. We won it in December. We are now focusing on making this happen.

This is a very, very large rollout. It's a 24/7 operation. It's also likely to be a global first, or right up there with a global first. No other commercial network operator in the world, at the moment, is also running an Emergency Services Network. Really important for the Emergency Services team, it's of course 4G, and this replaces the technology they have today.

So if you were a fireman or woman going into a burning building, it would be really helpful, wouldn't it, to have an image of that building where the entrances and the exits were. Or, if you were speeding in an

ambulance with a patient who was critically ill and you could send a blood sample or an image of their injury to the receiving hospital very, very quickly, these are the types of things that over 4G, these 300,000 brave men and women can do that they can't do today. So it's going to be a big responsibility for us, but we also believe that, as well as saving the government money, it will also save time, and most importantly saves lives.

It means a big scale up in terms of our coverage, our resilience, and our reliability. We've talked earlier on about the capex profile up to £300m in 16/17 and up to £100m in 17/18.

I also think what this will do, when it is live, it will say a lot about our network and our brand. Just think for a minute what it would mean for customers when they know that the Emergency Services Network, the people we depend on most, are depending on us. So I think it will have some halo impact in terms of our brand as well.

I obsess about network and the team obsess about network because of data growth. There are so many forecasts out there about data growth. There's one here that I think it's probably at the median of what we're going to see, which is a seven-fold increase in data from our customers. Some forecasts say five, some say ten, but the sevenfold increase, this is the equivalent of 120 million DVDs a month being viewed by our customers.

We are already seeing, so this is my point around geographic coverage, 20%, one in five of our customers is already streaming music over their 4G network in their car; 50% of our traffic is already video. I think this is going to rise to 75% by the end of the decade, and of course on big events when you've got great games on, as there is tonight, you see massive loads coming on our network.

The peak time, no prizes for guessing the peak time is at 5.40pm in the evening and at that point when people are on their way home, or some of us anyway, we're seeing five times the level of 4G versus 3G traffic happening. So we've got a seven-fold increase in demand coming. There's not many industries you can be in actually where you've got a product that you supply that has got a seven-fold increase in demand coming, so that's a great thing. The key for us is how we monetise that.

So I want to talk a little bit about how I'm thinking around this. The concept is 'more for more', pretty consistent with the way John's thinking about it as well. My focus with the team is on access fees, what we also call MRCs, monthly revenue commitments from customers. This is because there is, and has been for years, and will continue to be, a decline in out of bundle revenues as customers use more and more over-the-top services and send texts and pictures over services like iMessage, for example. But what that

means is there's a need for more and more data, and if we can offer bigger better bundles for customers, they are prepared to pay a little bit more to get more data and you can see from the top left here, this is the year on year handset upgrades that were doing. What's happening in the customer base year on year, I'm seeing customers willing to pay around £4 more than they were on their previous upgrade and they're getting around 1.5Gb extra for that.

I've also got an opportunity still within my customer base. I've got 84% of my customer base on pay monthly on 4G. There's still 16% to go, and we do get an increase when we migrate those customers across. That will help me in terms of my access fee growth story.

On convergence, we have the largest customer base. This is an enormous opportunity for cross sell and convergence. I know Tony's mentioned it. John's mentioned it. I actually couldn't believe when I came into the business and I was allowed to share my data with John and look at this that there are 14 million homes out there that have neither a BT or an EE connection.

I think with the multi-brand strategy we have, with the products and the knowledge that we can now share and collaborate on, I think this represents a large opportunity for us. Even within the EE customer base there are still two thirds of our customers in those homes that have no EE or BT broadband.

Also within our base, whilst we've been focusing on cross-sell and have been doing a reasonable job of it over the last couple of years, I've still got around 70% of my customers who only have one product with me and with the opportunity we have with tablets and mobile broadband that represents an opportunity as well.

I spoke about the need to deliver a premium experience to match the premium network position we have. Again, I think we're making good progress here. We halved the number of complaints in mobile in the last 12 months. We are now below the industry average in terms of complaint levels.

Our PTC (propensity to call) has made great progress as well going from seven to two. There's still more to go, but it does show the progress we're making and I was really, really pleased last week to announce for our customers that we are going to be handling 100% of their calls on EE in the UK and Ireland. That's going to create 600 roles, and I believe quite firmly improve the customer experience. We get a pretty significant NPS (net promoter score) increase when we serve a customer in the UK and Ireland.

I'm also focusing and getting more of our customers using digital tools. We have 5 million very satisfied users of our app today. We're going to grow that by 100% in the next year to 10 million. That will make it

one of the biggest apps and most used apps in the country. We're also rolling out a number of initiatives under our Omni-channel programme, things like click and collect, and things like customers being able to make appointments to visit our stores, which are in trial and yielding some really positive results for customers.

Tony and the team talked about the integration of synergies and the work that's going on. I think it's going really well. We're used to integration at EE. We've brought together Orange and T-Mobile. We know what cost reduction looks like. It's very welcome and something the team are working on, and we are confident on delivering these and all of the opportunities that have been talked to earlier on. Looking at supply contracts and offices, IT synergies, suppliers all of those good things are being looked at and worked on and working hand-in-hand with the Cost Transformation team.

So, that's the plan in a nutshell the opportunity ahead that I see, and I just like to summarise again, recap on the four key areas that I'm focused on. First is ensuring we continue to be the best for network in the UK and that's rolling out our coverage to 95% geographic 4G, delivering a world-class performance of voice of a drop call rate of 0.2% as well. I'm more for more and convergence; I want to capitalise on the data growth that we're seeing. This huge growth in data means, over the long term I believe, we can monetise that volume of data growth.

I will deliver the best customer experience for our customers over the next few years. The start of it is bringing our service, all of it, back to the UK and Ireland for our customers by the end of this year and growing the number of customers using our digital tools. I'm going to monetise the cross-sell opportunity we have with the largest consumer base in the UK with more products, more brands, and more channel opportunities than we've ever had. Thank you very much.

I'm now going to hand you over to Luis.

GLOBAL SERVICES

Luis Alvarez

Thank you. Let me start with answering one question that I got over lunch that I know that is a critical one. It is, yes, I am Spanish, and yes I am a Real Madrid supporter, right!

Last night I was watching the match on BT Sport, right, so I really enjoy our own services, but as soon as the match finished I went into the digital services that our corporate customers provide and we were booking my kids here and in Madrid, hotels and flights, so leveraging the value of the global services that we provide.

Okay, let me start sharing with you a little bit of what is our role within the group. As Gavin said this morning we are really supporting our customers on a global landscape as soon as they move into the globalisation which is pretty much a trend. We really aim, we have the ambition to be the trusted partner they need. So we serve these leading multi-national companies globally.

We're also in the new structure a business that is more focused on those customers and that has simplified the way we work with them. In reality, this business in this newer structure has grown last year and also generating EBITDA and cash flow positive as I'm going to refer later.

But more importantly, it's not only about the performance of the business in itself, it's also being hand by hand with our customers as they use these technologies to transform their businesses. In that sense it's our 'Cloud of Clouds' strategy which is allowing us to sell more services to customers, to win in the market, and also we continue to invest in our customers' formation, in our portfolio and improving the customer experience of those customers. So those are the themes that I'm going to go through in the presentation in the next minutes.

The first thing is that who is the business that we are now? Well the first thing is that, as I said, we are a leading global business communication player. It is well recognised by Ovum, by IDC, by Gartner as I'm sure you already know. It is a business that is focused on these global customers that are operating across the globe. It's a business that is focused on those customers. This is 5,500 customers, we have 17,000 employees on a worldwide basis. We have integrated our UK public sector and some of the UK headquartered customers into Business and Public sector and Graham is going to refer to that later.

As I said, this new structure is providing us the base to be more focused, to have a sharper focus on those customers, and also make things simpler for them in the way we operate. It is a business that is around £5bn in terms of size that is generating above 10% EBITDA and is cash flow positive. It is very important that it is very well balanced business across geographies.

It has a solid infrastructure landscape from a European perspective in the UK and in continental Europe, and also we are growing, as Gavin said, in regions like in Asia, the Middle East and Africa where we have been able to grow about 12%. From a portfolio perspective, we are also well-balanced. We have a solid

base in our infrastructure and voice products, but we are really growing on a strategic portfolio as in the collaboration of productivity tools as well as in security where we have been able to grow 24% as, Gavin referred earlier.

So, who are the customers that we serve? Well, we serve customers on a global basis. We have customers like Unilever, like Nestlé, Rolls-Royce, or financial services companies like Citigroup, or Zurich. What we do for them is we connect their offices, their factories, their data centres, their contact centres. We integrate that so their employees can leverage the opportunity to work together, but also we connect them with their suppliers or with their customers.

To some extent, what we are is supporting our customers on this globalisation in which they want to become more efficient or to expand into new markets. They want to increase the productivity of their workforce as Thomas Friedman used to say in *The World Is Flat* book, "It's like being in one space altogether." And at the same time, we are trying to help our customers when they have different kinds of relationships with their own customers.

70% of our customers do operate in more than one country, so they really need our support on a global scale. It means that we need to support them when they grow and they do operations, but also some customers who are benefiting from our global scale like Nationwide in the UK who benefits from our knowledge around the financial services industry, or customers like the European Parliament, or the Commonwealth Bank of Australia where we have just signed recently quite a security bill because of our understanding of how security is absolutely critical in the financial services industry.

We are also supporting these customers with our multi-country model, in which we are able to leverage the focus we have put in 20 countries where we generate around 90% of our revenue, and we support those customers not only of course in those countries but also across the around 200 territories in the globe. We do that both with our infrastructure but leveraging our partners to do that. We have this multi-country approach and also a very strong global account management that most of you know that it's absolutely critical to have this responsibility with the customers on a global basis.

So what are the trends that we're seeing, in terms of how these customers behave? Well you have heard this before from several people in the conversations. On one hand these customers are starting to use digital technologies to change their businesses, so they use this basically for three things. The first one, what they do is they try to be more productive internally. Most of you use instant messaging, video conference, or audio conference services, you try to leverage the corporation, the knowledge you have

across the organisation. We have just rolled out, for example, for Kimberly-Clark just a couple of weeks ago for 40,000 of their employees that set of solution on a global basis.

The second area on top of internal productivity is making sure that they have a very strong external improvement on the way they interact with their customers. We are working with Etihad which you know pretty well. As a Real Madrid supporter, I saw yesterday what Etihad was. At Etihad we're rolling out contact centre solutions, and we are improving the multi-channel relationships they have with their travellers.

The third thing is a very interesting one of how customers use the new technology which is just around disruptive models. It not only things like Uber but with Generali, for example, they have now considering how they can use the connected car information that Gerry referred to, how we can use that to create new portfolio solutions like pay as you drive insurance.

What is happening is that when customers move into using leverage in the digital technologies for their businesses, they move more and more applications into the cloud. And you can see, what Gavin said, about the trend of having those applications into the cloud when you have players like Salesforce helping sales force organisations to improve, or SAP in the cloud, or Microsoft, or many of the other players like Amazon.

Some of those customers, when they are starting to use these cloud services, they change the way they need us to work with them. So they want to have a better choice, more opportunities to select which are those services provided. They want to have a high performance network because the networks have the core of what they do. They want to have it end-to-end secure solutions, and they need to have an expert who knows very well what are the opportunities that they can do for their business, and helping them in that journey.

In that sense, we compete in the market both with the larger telecom players that are building solutions or that already having some infrastructure. We are also competing in some cases with some regional players in a very few small locations, we do that with IT services companies like in the security space. But very importantly, it is something that is absolutely critical in the business like Global Services, we know what we do and what we don't do. We are absolutely focused on ensuring that we leverage the value and the knowledge that we have around what we have called the Cloud to Cloud strategy, but we are not developing software. We are not competing with Amazon or we are not using desktop manager.

So why are we winning in the market? Well we are winning in the market because we are a leading cloud services areas integrator. We are that company that is able to bring those things together based on a number of its strengths. The first one is that we have our global reach that I'm going to refer in a second and the performance of the network that is at the core of what we do for our customers.

We have a strong portfolio of capabilities including security as a key differentiator that we have. We do have the ability to work with several services on an end-to-end scale, and as we said, this is the only way to deal with critical services and improving the customer experience of our customers. Finally, we have a team of around 2,000 people around the globe who are able to work with our customers through consultancy and professional services to help them while they go into this digital journey.

Let me try to illustrate a little bit more. This is our Cloud of Clouds strategy. As you can see in the centre of it, at the core of it, is our network. We have direct presence in around 180 countries, and we are able to cover another 32 territories with infrastructure and partners. We do have 5,000 points of presence, which means that those are the locations in which our customers can connect their offices or their services or their factories to our global network. We have endpoints, around half a million endpoints in which customers use those services, consume the applications that are available in that infrastructure.

When you look through the cloud that is above, that has to do with those productivity and collaboration services, the ones that we all use on a day-to-day basis, we have now direct presence in 75 countries for voice services, for voice over IP services, and we also have 600,000 seat users using this collaboration service platform. We have an exclusive arrangement on audio conferencing with Dolby that we're really leveraging into the market.

When you look to the one that is on the right, we have 14 data centres around the globe, and we also have 250 data centres of our customers connected to this network. So it's leveraging the value of the cloud, both private and public. Then we have the partners that we have on the left that we have already connected like Amazon, Microsoft. We are the only player that has all of the data centres of Microsoft connected around the globe as part of this infrastructure.

We have a wrap of security around this that is absolutely essential. We have 14 security operational centres around the globe with 2,500 professionals that we have on security and helping our customers both from within BT and ensuring they have their businesses protected and their data is assured.

So, when you have this opportunity of winning in the marketplace on this infrastructure, one of the critical things is how you ensure that the experience of your customers is being second to none so that you

leverage the value of this through strong customer service. We have now 4 global hubs and 15 satellites on a regional basis so that we can provide the 24/7 service. We are also doing this in many other areas of the group. We're moving into having the net promoter's score as the way of measuring with more feedback from our customers how are we performing and taking the actions in order to make sure that we react quickly so that we keep improving our performance.

One example of what we are doing, and this links us to what you have heard before in the cost transformation conversation, is that it is possible, it is necessary in many cases to reduce our costs and to keep improving the customer experience. A great example of that is removing the cause of failure, and in the last two years we have improved by 47% our cycle time in terms of the time it takes to deliver services for our customers.

Talking about cost transformation, well I think you've heard very well that this is part of our DNA and you have seen in all the presentation so far, but for us in Global Services it was critical to really leverage and replicate this success as you have seen on the Compete program across different geographies, but also making this a competitive advantage. It's not only about having a lower cost base, it's also being able to use that cost base to compete better and to win more in the market as well as a key contributor for the improvement of the EBITDA of GS as you have seen in the last year.

A couple of examples that you have here, is the £100m we have improved on access costs merely working with our suppliers in the way we have been making our network more efficient or around £200m on the individual cost of the labour costs. We keep exploring up there. We keep exploring new opportunities as we said because surely that is part of our, those of you who make the sports you always want to do better like I do run, so I was try to improve my marks. I am sure that we do have opportunities across the business.

By exploring those opportunities, we are learning as well. Technologies are coming, robotics and new stuff that you can use as part of your processes, as well as some of the way that we work with our suppliers. With this we have not only improving our cost basis, as I said, but also we are generating the space, the funds, to invest for growth.

When we look to what are the areas in which we are investing for growth, well, there is no doubt that on the Network space we are increasing our presence globally, we are reducing our unit cost and that is making us more competitive and more efficient.

On Collaboration, as I said, we keep adding new partners. I was having a conversation this week with Microsoft to extend the relationship we have with them as part of the cloud services, and of course the opportunities that EE is bringing to the table with the global data roaming, there's no doubt that it's going to make a difference for our customers both in the UK and globally.

On Security, using big data as a key element on understanding the threats and the attacks that are happening day in and day out on the networks of our customers and infrastructure that we manage for them, it is essentially it's an area where we keep investing.

On the Compute, well, there is no doubt that more and more technologies are coming to the table, and we keep expanding the capabilities we have in that environment.

Of course when we look to Vertical propositions, as I'm sure you know because some of you use it, we have the largest cloud for financial services that is called Radianz, and in that we have over 12,000 members that are using the services both from contribution of status changes, from dealers that are making their trades there but also we have extended to new sectors. We now have now a digital retail solution that we're using and we keep bringing in partners to use those technologies.

In the case of Radianz infrastructure, Algomi it is a fintec company that is using now Radianz as an opportunity to address their corporation, or in the case of digital solutions in any of the Armani shops around the globe where we have the solutions rolled out.

When you invest, and you have this clear strategy, we are proud to say that we are winning in the market. I think that probably some of the examples you have here, well you all know Walgreens Boots Alliance, we have won that against Vodafone. We have been able to secure Alstom in France against AT&T or we have been able to win Zurich against OBS.

In the case of Commerzbank, we are supplying for 49,000 employees of Commerzbank a solution in 20 countries so that they can have a seamless way of a relationship within their operations so that they can use, as I said, email, instant messaging, voice services, conferencing, using also our Dolby capability.

It's not only about the renewed contracts that, as you know, we have been quite successful doing that in the last year, but also the importance is that we are winning and growing our new business as a branch of services.

Of course the opportunities on the new customers [is] bringing them on board, but on the existing customers making sure that we increase the share of wallet by cross-selling our Cloud of Clouds strategy. You have in the slide here earlier, I think security we mentioned the 24% growth as a clear opportunity. All the unified communications, the collaboration, the productivity environment where we have been able to grow over 20%, or the cloud environment where we will have been able to double the size of our business.

As you look through the share of wallet we have on our top customers, it's just 18%, so you can see all the opportunity in those top customers as well as on the remaining sets of accounts where we can really grow. When you look to the average size, the average number of products or solutions that they have, you can see that there is still space for growth. So it is a growth opportunity for GS based on the Cloud of Clouds strategy in order to leverage our presence and our support through these multinational customers.

So, as a quick summary, well I think that, as I said, we are focused on these leading multinational companies on a global basis. We do have a very strong focus on supporting those customers, and we made easier for them now on the new structure to grow, to work with them. We have been able to secure the services to them in the new business, in the new structure. We are growing. We are delivering positive EBITDA and positive cash flow. And by using this portfolio, we're becoming the trusted partner.

There are three metrics that are going to reflect that. The first one, the increase in the share of wallet; the second one; making sure that on the strategic portfolio, that I have mentioned earlier, we grow; and the last one, making sure that we keep improving the experience of our customers by using NPS and evolving over time.

So, on that note, thank you very much, and let me invite Graham to join us. Thank you.

BUSINESS & PUBLIC SECTOR

Graham Sutherland

Thanks, Luis. I feel almost a little bit apologetic trying to match the intros of my colleagues this afternoon. I definitely can't thank Ryan, Kevin, or Rachel. I'm more into Inverness Caledonian Thistle than Real Madrid. So that said, I think it's better to move on! Good afternoon, everyone.

I'm really delighted to have the opportunity to talk about Business and Public Sector. I've got five clear messages I want to bring today, and I think it's a start of the new business. I think it's a significant opportunity for Business and Public sector, the opportunity that convergence brings to BT. We also have the opportunity that EE brings to drive growth, to improve acquisition, sales coverage, and cross sell; the importance of having the best network for BT and our customers and how that enables an improved portfolio and a better service experience for Business and Public sector. I also want to talk briefly around our plans to turn around our public sector business. And finally, I want to reinforce many of the points that have been made today around the continued and substantial opportunity that we have for cross transformation.

So moving on, I'll talk about the new organisation. Well, this business is obviously newly formed at the start of April, serving public sector corporate customers and SMEs in the UK and Ireland. We have revenues of £5bn and a very substantial EBITDA number of approximately £1.6bn. We serve 1.2 million customers with over 12,000 employees bringing together the capabilities of BT Business, Global Services in UK, and EE business.

We've made a fast start. We've already initiated a bold integration agenda creating strong platform for growth and a continuation of our strong track record in delivering cross transformation.

So what have we done so far? Well we've combined ten channels into three, creating scale, most importantly, and consolidating resources with a clear focus on our customers and the markets that we serve. We've appointed three high-quality leaders into those roles. Two have come from EE business and one from BT Business.

We've created a single service organisation with the opportunity to develop a better service experience aligned to what is a much more simplified and focused channel model. It's been a pretty complex process as you can imagine, and has taken a lot of energy. Just to give you an example of that, we've completed the TUPE transfer of over 1,600 people to BT Plc during February and March. So we stood this organisation up from scratch within 60 days of closing the EE deal.

So let's just talk about the market. The market's substantial, £23bn and forecast to grow. As you can see, our existing business is weighted towards voice and data services, but we really are embracing the shift in market profile. And, as you heard earlier today, we are experiencing strong and profitable growth in IP and cloud services, mobility, and IT managed services. We have a strong conviction that our customers will see tangible benefits from convergence and the use of cloud services ensuring that we continue and increasingly make a significant contribution to growth of the UK digital economy.

We believe that this will be brought to life by the best fixed and mobile converged network, ensuring that customers will want to buy from a single partner that can deliver a truly converged and reliable experience. I think a lot of what you've heard today reinforces that point, and we see the assets as being critical to the development of this business going forward. We believe this will support our future growth in both private and public sector.

The business market remains extremely competitive and fragmented with hundreds of companies competing across the various areas and dimensions of this market. Probably the surprising thing is few compete across the whole market. Our position varies considerably in each segment, as you can see, and it also varies quite substantially by region across the UK. This is our real opportunity and our ambition is clear, we aim to grow market share in all our areas.

Customers need converged services as they look to open new markets, mobilise their workforce and improve productivity and effectiveness. Our aim is pretty straightforward. We want to support the business outcomes of our customers. We want them to have the best devices, secure, easy to manage, simple to deploy. We want our businesses to have the best content, again secure, self-service, solution focused, all applications easily accessible; the things they need to run their business well, and that's all based on the best network coverage, reliability, and most importantly quality of service.

The public sector market for core communications and IT is also substantial at £10bn. We are a large player but in a very diverse market. The market has changed and is changing significantly. And over the last five years, we've seen a reduction in the amount of large SI (Systems Integrator) led contracts which have been ending and have been replaced with smaller contracts.

An increasing proportion of government spend is also moving to devolved governments and regions, probably about 40% plus of the total and as you will be aware from previous sessions, our public sector revenues have been declining for a number of years. Several major BT contracts have ended, or are close to ending, and their replacements have been smaller in scope. The impact of these contracts will work through our business over the next two years.

That said, we believe the public sector remains a very significant opportunity for BT, so we're adapting our strategy to this changing environment and we're looking to focus on a number of areas. We will strengthen our regional model. It's a very significant part of our business today, but we're going to strengthen it and we're going to improve sales execution. We're going to drive growth and converge

portfolio looking to expand our share of mobility, IT, and managed services. And we have a significant role to play in providing solutions that enable the digitisation of public services.

So why will we succeed in delivering growth in this market as it converges? We already have a strong and recognised position in the UK built around our people, our core product capabilities, and a trusted brand. The scale and depth of our UK and Ireland business is enhanced by the breadth and quality of our global capabilities. Luis took you through this, and I think it's worth recognising that a lot of the UK business market do buy global services and global products, and we bring customers through the journey as they expand and they grow their business. It's an important aspect of what we're about.

As we move forward, our scale enables us to drive sustainable differentiation by investing our portfolio. That drives lower unit costs, better experience for our customers, and ultimately it makes it easier for our salespeople and our channels to sell more. Our ambition and intent is to enhance market leadership in all our segments and use scale to improve our margins.

So, moving forward, we think we have a strong opportunity to drive revenue and margin growth. The speed of integration in bringing the teams together has really created quite a substantial opportunity to increase our sales coverage, combining the strength of EE and sales acquisition, and what was a strongly growing business with BT's account relationships. We now have over 1,500 salespeople in the UK and close to another 1,000 working in our local business channel and our partners; that's a substantial asset and it has a substantial regional presence as well. We've created new acquisition teams with a clear focus on new sales by segment and improved coverage of the market opportunities to support cross sell. That's already taken place in the last 60 days and is up and running.

An enhanced regional focus and being closer to the decision-makers will reinforce BT's position as a key and valued partner across both the private and public sectors. It's probably well-known, but maybe not widely known, that we make a significant contribution to the community in which we operate, and this will help us grow as we move forward. As you can see, the cross sell opportunity is significant as we've got a relatively small number of customers who take services from both BT and EE, and in fact quite surprisingly little crossover in the SME market. We've launched a number of campaigns already with the initial customer feedback being positive. Early deals that we've signed in the last 60 days demonstrate our ability to sell mobile into BT's existing base and create opportunity that might not have been filled by either BT or EE alone.

The opportunity to increase BT and EE customer overlap also has an additional benefit, the clear read through on the churn dynamics of our existing business. Clear proposition focus with cross sell is

important. It'll enhance our ability to reduce customer and product churn. When we cut right through it, this is the key to long-term value creation in our business.

You can just see from the slide there that once we get three or more services into any customer relationship, the churn is significantly reduced; 50% from one product to two; another 50% reduction from two to three; and actually when we get to four or more services, the churn is negligible. We have some customers now where we have eight or nine services with the customer. When you get to that stage, you're basically inside the business. You both rise and fall in the success of what you do. And when we get to that situation, it facilitates a substantial increase in contracted revenues. So a key part of what we will focus on over the next few years is to ensure that we manage that dynamic well and create the opportunity to significantly reduce our churn.

At the heart of our offer to our customers must be a trusted and reliable customer experience. Again, we all talked about it today, but again, similar to many other areas, we've made real progress in recent years driving the issues that cause customer frustration, so significant improvement in driving down complaints, repeat calls, handoffs, etc.

This progress has been made during the period within business where we've had a lot of change. We've migrated 95% of our customers to a new CRM that facilitates better service, but also bundling, speed to market, etc. That's taken quite a lot of energy over three years to do that. In the same period, we've also migrated all our mobile customers from Vodafone MVNO to EE. As many people will know, migrating from one MVNO to another is quite a challenge.

However, despite that improvement, the expectations and demands from our customers continue to develop as our products and services become increasingly more important to the success of their businesses. Our strategy, though, around service is now much more closely aligned to the progress we've made in our portfolio. Over the last three years we've launched a significant refresh of our product portfolio and supporting systems enabling bundling, simple propositions, increased speed to market, and mainly focused on IP products and services where we can introduce applications that add a lot of value to our customers. So we're going to continue to invest in integrated products and services to drive resilience, design a better experience up front, ensuring customers have all the quality that they would expect. This is, in all cases, grounded in a deeper integration of our fixed and mobile network, ensuring seamless and secure connectivity, much better experience, and for us lower costs.

Again, we're going to cover cost transformation. We've a rich history and a strong track record of cost transformation. Over £200m reduction in operating costs within BT Business over the last two and a half

years delivered a headcount reduction of over 2,000. This is 20% of the workforce over ten quarters and that improved our productivity by 30%. It's backed by a management ethos built on sustaining effective change, simplification, and rooted in trying to always trying to always deliver better experience through that process.

It's an exciting time for me and the team because we have the opportunity to progress this, once again. There's three businesses coming into one and therefore the process starts all over again. We've already seen that as we've gone through the first stages of the management restructuring, affording us a very significant transformation opportunity. As you can see from the slide, a fairly strong and balanced pipeline, and we're already working to deliver on this potential.

So just to summarise, I think our focus in Business and Public Sector is clear. We think we're uniquely positioned with the scale, brand, and breadth of capabilities to benefit from the opportunity that convergence brings. We're very excited about EE and the opportunity it brings to drive growth from sales coverage and cross-selling.

We've strong ambition to drive 15% increase in our RGUs over a three-year period.

Our portfolio and the development of our products is critical. Luis talked about the Cloud of Clouds. It applies equally to Business and Public Sector as it does to Global Services. It's all about getting the right applications and the right services in front of our customers at the right point when they want it, wherever they are and we're right in the middle of that.

We believe that we can achieve double-digit growth in our strategic portfolio areas over the three year period, and we're adapting to changes in the public sector market. We will turn the business around, and it will grow over the periods that we're discussing today and we have a substantial opportunity for cost transformation.

Finally, we'll be tireless in our ambition to improve customer experience. We're all in on net promoter score as providing tremendous insight and value within our business. We're applying a strong closed loop experience for our customers, and we're already seeing the benefits for that in terms of our relationships and also our upsell opportunity.

So, I think a strong agenda ahead of us and an exciting opportunity for this business. The structural changes the group have made I think are particularly resonate in this area where we've got all the assets

together and now to have a real go at driving market share growth. We're excited about it. We look forward to seeing the outcome over the next coming years. So thank you very much for your time.

I'd just like to invite my colleagues, film stars, and football fans back on the stage. Thank you.

Q&A SESSION 3

Paul Sidney -Credit Suisse

Just a couple very quick questions. How does BT's approach to bidding sport rights change when bidding as an incumbent rather than a challenger? So for example the upcoming Champion's League rights? Just secondly, are there any plans to put price increases through to pubs and clubs and to your wholesale customers for BT Sport? Thank you.

John Petter

I'll take the second one first. Funnily enough we don't pre-announce any pricing changes, so I'm not going to tell you the answer to the second one. It would be commercially very unwise to do so.

On the first point, in terms of how the approach to bidding for sports rights changes depending on if you're an incumbent as opposed to a challenger. I think that BT Sport as a whole that we are really in effect still a challenger actually because whilst we have individual sector rights, I think we still have lots of upside to get from the business because it's priced just at £6 a month for BT customers which represents a superb value for money and for us the same disciplines apply. The question that we try and answer internally is can we make a strong business case to be bidding a certain amount, and we'll get to that sensible maximum, and then we'll stop. The same disciplines apply completely. It doesn't change.

Paul Sidney - Credit Suisse

So, basically it's the same approach?

John Petter

Yes.

James Ratzer - New Street

I've got two quick questions which I think are for Marc on EE. Firstly, I think one of the trends you've called out in service revenues was actually increasing the number of your customers going to SIM only contracts as handset lives extend. I was wondering if you could help us break down what you're seeing as underlying consumer spend on the service as to how much drag is coming from the handset part of the revenues? The second question just follows on from the question earlier about the lifespan of the ESN contract of five years. That's slightly shorter than I'd expected for a £400m upfront investment. Does that mean we should be expecting a kind of higher return over the five years of almost £18m per annum to justify the £400m upfront spend? Thank you.

Marc Allera

I'll take the first question around market trends. I'm not going to go into any specifics on ARPU between SIM only and handset, but, we are seeing and have done actually for the last three years a reduction in the size of the handset acquisition market, and I believe this is fundamentally down to a lack of innovation in the smartphone portfolio from all the providers and customers getting slightly more apathetic than they have done historically at new handset launches. If that trend continues, that's not necessarily a bad thing for us. The 'more for more' strategy applies to SIM only as much as it does to handsets. If customers are really hanging on to those handsets for a little bit longer that obviously helps from a cash profile point of view as well.

But there are some large device launches planned this year and large device launches do give us opportunity to grow our access fee so we do look forward to them. But we're certainly seeing that trend, the market sees the trend, of customers holding on to handsets longer and the size of the SIM only market growing at the expense of handsets.

On ESN, again I'm not going to go into all of the details on the business case, but we won the contract understanding fully the investment profile and the return of that contract. We're very happy to have won it. That's all I'm going to say.

Patrick Basiewicz - Olive Tree

Yes, this is Patrick Basiewicz from Olive Tree. Regarding your customer base that you have both in EE and BT, and the 3m presumably is just a union of the two sets. It does not really back a single offer like Telefonica's Fusion or Deutsche Telekom's MagentaEINS. So can you please give us a little bit of colour on

whether you're trying to develop a converged offer in the future, and how aggressive you will be with promoting that offer if yes, and what kind of investment both in marketing and resource you expect from such an offer?

John Petter

I would slightly disagree with the premise of the question because I think there is a converged offer today, actually. There's a converged offer from BT, and there's a converged offer from EE, because for BT, we're selling BT Mobile, but it uses the EE network. There's four services that we offer from BT and the same is true for EE. They're selling BT broadband that uses the BT wholesale network. So I think there's a quad play offering from both companies and the same opportunity that you've described in terms of doing something like MagentaEINS and that is there for us. It's absolutely there for us. Given the strength of both networks I think that we're really strongly positioned to exploit this opportunity.

Paul Marsch - Berenberg

I just wanted to ask Graham a question about the new Business and Public Sector division. Under the old structure, it was flat year-over-year for revenues and it was 2% growth in Q4. What about under the new structure, is it a growth business now or is the faster-growing new IT-based revenues outgrowing the decline from the old legacy business? If not, when will it, give or take?

Graham Sutherland

Yes, we've had a reasonably strong end to the year in BT Business, and we are encouraged by it. We are seeing underlying pick up and new services coming through, which is good. Obviously, we haven't issued our restated numbers for any of these businesses yet, I think it comes out in early June or something like that, so really I don't want to go into the detail today because all that will be issued out in about a month's time. But obviously we have been discussing for a number of years the decline in public sector and that will obviously impact the exit position a little bit as we restate the numbers and move forward.

Polo Tang - UBS

Just a few questions around the MBNL joint venture between Hutchison and EE. The first question is really just to try and understand how much sharing is done between Hutchison and EE in terms of, is it a lot of active sharing, or is it mainly passive? The second one is just about clarification on the accounting, in terms of capex to sales pre-ESN contract was quite low, round about 10%, so I'm just trying to work out

therefore, was capex low because the joint venture's doing all the capex, and it comes back as an operating cost or opex into EE, so could you just clarify and talk around how the accounting works between MBNL and EE?

Marc Allera

Let me start with the relationship. As I said in my presentation, this is a long-term partnership, very successful. We think it's one of the leading partnerships of this type across the globe. It's a long-term partnership, and we share a number of things on 2G and 3G to help our economics, it gives us economies of scale, but we don't share on 4G, and that's important for us to maintain our differentiation, both on coverage, and on speed, and quality.

In terms of accounting on MBNL, I'm going to have to defer that one, I think... Perhaps Tony might be able to help me with that one?

Tony Chanmugam

You're quite right in terms of the assumption, you've got to take into account the fact that a lot of the capital investment sits with them, but that said, that would be the same with all the mobile players in the UK using a shared-network infrastructure through a joint venture.

Andrew Hogley, Mirabaud

A question for John, I think, given what you said on brand segmentation and the value of increasing RGUs, why should we not expect a Plusnet mobile offer? Or, should we expect a Plusnet mobile offer?

John Petter

Well, I haven't told you not to expect one, but I haven't announced one either. You can draw your own inferences.

Stephen Howard - HSBC

Given that convergence is clearly a compelling proposition for, shall we say, a large subset of UK customers, and given that we've got the heads of Consumer and EE on the podium, I'm just wondering under what circumstances would you be able to charge a more explicit premium for offering a bundled

service? If indeed it is as appealing as many of us think. And conversely if you don't, at what point do you become concerned about competitor response from people who have an inferior product portfolio, which in terms of convergence, let's face it, is arguably pretty much everyone in the UK at the moment.

John Petter

It's fair to say that in their core areas both brands trade at a premium currently; BT trades at a premium for fixed broadband and for the EE business today, they trade at a premium for mobile. I think there is the opportunity to put together literally the best of both, combined with the differentiated service offering. And what we've found, and this has been found in other markets too, is that the most motivating consumer concept, is just a very simple concept of being the best connected, more of the time, in a very simple way. That's a concept that really works with customers, and I think there's a very good opportunity for us to put that combination together for people, and that opportunity increases through the onset of ultrafast as well. That gives us even more strength in our armoury. I think together, between us, we're very well positioned to do this.

In terms of competition and their approach, of course we do worry about what the competition is going to do. You have to in such a fast-moving marketplace, try to anticipate and be constantly looking at the people that have angles on you. At the same time, the core offering is so strong, especially combined with content, that I think we can have an awful lot of confidence in it too. Do you want to build on that, Marc?

Marc Allera

Yes, I would say this is the most competitive market in Europe, and has been for years. Both businesses have been very successful despite that very, very competitive landscape, in achieving the market shares that we have. My belief, and our belief, is in terms of what we're doing over the long term, building a much better product for customers, the bet is that we will attract more and retain more of our customers with a better product, albeit potentially at a 'more for more' proposition.

John Karidis, Haitong

I'm trying to get a better feel for the scale of your ambition for the divisions that you manage because I'm trying to understand how aggressively you want to execute. You described the size of the opportunity in convergence, but then I look at Graham's presentation, 15% increase in total RGUs over three years, Marc's presentation doesn't actually have any sort of ambitions there in terms of RGUs or revenue or costs, for example, from using BT Sport to reduce churn. And then John's presentation has, whatever it is, two and a

half million RGUs extra over three years. I don't actually know what the base is. So does that sort of strike you that it's a little bit confusing to try and gauge what you want to achieve over the next three years in terms of revenues and EBITDA from all the stuff that you've given us? Can you talk a little bit more about that, please?

Gavin Patterson

We've tried to illustrate within these presentations some of the 'moving parts' of the business and give you more depth, but we don't and never have guided on an individual business unit basis. This is a group. We give significant amounts of guidance anyway at a group level, and we try and talk about, as we have done today, what are the things that we're working on and why we've got confidence that we can deliver the overall group guidance. If we made it too easy for you, and gave you all the algorithms underneath it, you wouldn't have a job to do! So we don't want to spoil that. Do we?

John Karidis

Very considerate. Thank you.

Andrew Lee – Goldman Sachs

Just taking the assumption that you anticipate very strong demand for G.fast, in the event you do get regulatory clarity and support for G.fast, how much flexibility does your free cash flow guidance give you to accelerate G.fast rollout, faster than your current plan? And how much operational scope do you have to accelerate G.fast, faster than your current plan?

Gavin Patterson

We've always said that we have the scope within our plan to bring some of the plan forward if demand exists, and indeed if demand isn't there, we can slow it down, depending on what the market needs absolutely are. That's one of the reasons we don't give a capex number in totality for the whole group. We guide on free cash flow. We guide on EBITDA. We guide on revenue.

So there is scope to adapt the plan. It's not a dramatic change because ultimately we want to roll it out in an efficient manner and that, like anything, means you smooth the resource over a number of years; you don't go from feast to famine etc. But there is some flexibility to change the rate of deployment and we'll judge it as we go through.

Nick Lyall - Societe Generale

It sounds like you've just announced mobile on Plusnet as well. So you've now got three brands with quad-play and potentially with content as well, two of which are premium. So could you tell us how you're going to avoid any clashes in the segment on pricing and also avoid complexity and extra costs, particularly in the two premium brands? Then secondly, a really interesting slide in the Business presentation on churn, but again on Consumer, could you give us a clue on one-play churn, churn with content, fibre churn, and what you're aiming at in Tony's guidance on quad-play churn ultimately?

John Petter

So in terms of how we manage cannibalisation risks, having different brands that appeal to quite different segments and that have very different brand identities, coupled with a strong CRM system that starts with a single view of the customer, that's how we manage that risk, actually. We've shown that we can do it very successfully because Plusnet trades at a massive discount versus BT. Their typical ARPU's are far cheaper, but we're still using Plusnet to complete effectively at the low end on fixed broadband and we're still making very good money on BT broadband too. So it's absolutely possible. We're doing it on fixed. It's great to have the extra asset in terms of EE because that covers another segment, the tech savvy, clearly the young segment, too. It just gives us more tools to do it, to create value overall. So I think we're very well positioned in the multi-brand strategy. It's a great one, actually. I forgot the other parts to the question, can you remind me what they were?

Nick Lyall

Sorry, it was churn. The Business slide was very clear in terms of one, two, three, four-play, plus, could we get some similar stats in Consumer if possible?

John Petter

I don't think we're sharing that level of detail in terms of the churn by combination of RGUs. But the simple message, and I did touch on this in my presentation, is that generally the more stuff you have, the happier you are and the less you churn. And the sort of base service that turns that dynamic around more than any other is fibre broadband, basically. And because fibre broadband customers get the TV service, and can stream channels on it, and they are happier. So it's fair to say that standalone and PSTN, those customers have a service that's least differentiated and they're probably, overall, our least satisfied

customers, although there are some initiatives that we're taking around nuisance calls to enhance their service, particularly, but generally the more you have, the happier you are, but we're not giving out specific numbers I'm afraid Nick.

Maurice Patrick - Barclays

A quick question about distribution, perhaps one for Marc. So today you talked a lot, as a group, about convergence, the impact of convergence, more products, lower churn, but also the need for online and reducing complexity, but by inheriting EE you have a big retail distribution network of owned stores but still a large reliance on independent retail, which creates a fairly large drag on profitability. So I guess thoughts on how the market evolves from a BT, but also from an EE perspective, around the use of distribution, whether it's more online and less physical retail and certainly less independent retail?

Marc Allera

Yes, one of the fascinating things about the mobile market is still the importance of retail as in terms of stores. For the last four years, the percentage of customers buying through retail, whether direct operator or independent, has stayed pretty flat at around 66%, 67%. So the importance of retail, I believe, certainly in the next three to five years is still going to be there.

I also believe that it potentially increases as your product portfolio gets more complex and customers need to see more, experience more, and talk to more specialised teams about it. We see that in other countries as well as the UK.

The opportunity is certainly there, as I alluded to, there are certain channels where we don't yet have the multi-brands operating in and that's something we're discussing and having a look at, it's an opportunity for us. Independent distribution is still an important part of the UK mobile market, and we have long-term partnerships in place there. I think that's all I'll say on that.

Nick Delfas - Redburn

The first one was on EE, maybe you can't answer the question but the net adds, if I take off more than 400k for John's BT Mobile, the net adds looking like they're about 300k, which is very good for Q1 so I don't know whether that was the EE brand contract net adds for the quarter?

Marc Allera

No, we confirmed EE net adds in the first two months of 54,000, post-pay.

Nick Delfas

Okay, 'cause there's a post-pay number in the book there but maybe we can take it up afterwards.

Marc Allera

That's a two month period though.

Nick Delfas

Okay. Then can I have one quick follow up? Well it's not a follow-up, it's a different question. I've got one for John on non-sport TV. Obviously you've done the deal with AMC, the viewing figures for 'Fear the Walking Dead' look a little bit low at 100K. Was that deal worthwhile and what do you do next? Do you triple up and buy some more AMC-style deals, what's the plan on TV?

John Petter

The business case for buying exclusive entertainment content is, in truth, slightly less clear cut than the business case for sport because sport, by its nature, is exclusive and you have to have it now, in the moment as it were. And you know what you're going to get too. Whereas for entertainment, it's more around brands and you have to make the brands famous, first of all, and very few things are so must-have that you have to have them at that instant. So the business case is more complex for entertainment.

Having said that, as Gavin said earlier, there is a big segment of the market, roughly 50%, that is not motivated by sport. And what we found with AMC, interestingly, is that you have to choose to select AMC at the point-of-sale as a customer. It's not default opt-in, and we already find that more customers opt-in for AMC than for BT Sport, which reflects this point that entertainment plays to a bigger part in the market.

The viewing figures we're pretty happy with. The viewing figures that you may be looking at may be the BARB figures. The viewing figures that matters to customers will reflect the increased habit to view this content as boxed sets and much of the viewing for AMC is actually viewed on demand, and that wouldn't be reported in the figures that you would have seen in terms of the live linear channels. And that's just

typical for these big US dramas, that people watch them at the time that suits them instead of necessarily live.

So we're very happy with AMC and that was a sensible, managed first step into premium content, and we'll keep the same approach going forward, in terms of looking for assets out there to give us the opportunity to strengthen our business, but we'll take a very rational approach to them.

Guy Peddy - Macquarie

This question is more for Marc, actually. Sitting up there, John's obviously very happy because he's got a great portfolio of assets, multiple brands and convergence strategies to push for the next however many years, but I'm more interested in the standalone mobile proposition at EE, which potentially faces a new entrant that's got a history of pricing at marginal cost, got 10m homes, probably 13m SIMS in those homes. That is obviously quite a competitive threat for a premium operator, where, with handset lifecycles going a little longer, you'll probably find the number of customers out of contract has probably gone up. So given all those dynamics, I'm just slightly wondering how you can actually grow? What have I missed?

Marc Allera

Do I not look happy?

Guy Peddy

Not as happy as John.

Marc Allera

Look, I think we're in a great position. This market, as I say, has been so competitive for so many years. We have to deal with new entrants whether they're MVNO's at the low-end, the medium-end, or the high-end, all the time. Despite all of that, we've remained a market leader for many years, and with the strategy to roll out the network and have that differentiation, which I believe over the long term is a very, very important factor. And as customers get more and more discerning about, not just as they previously have, about voice and text coverage, but data coverage and data speed and a network that can handle a seven-fold increase in that demand over the next three years, there's very few places where they can go to service that demand.

And I think those customer trends mean that we are going to be in a very good position going forward. We've got great distribution and we've got a very large customer base. I think all of those things are important.

And just to remind you, we don't just sell mobile. We do have close to a million broadband customers. We've got an opportunity there, and with John and the team sharing a lot of knowledge and information that's going to help us penetrate the households that are keen to buy more from EE, and we've made some good inroads already on tablets and mobile broadband where, although the percentage of revenue is still relatively small for us, it is growing around 17% year on year.

James Britton - Nomura

This is a question on mobile. Can you give us your current view on how important the iPhone is in the UK market, particularly I guess, I'd be interested to know whether BT Consumer can now jump into the EE agreement with Apple and offer an iPhone if they wanted to? And then finally, a penny for your thoughts on soft-SIMS, would you support soft SIMs in mobile handsets going forward?

Marc Allera

Well, the iPhone is very important in the marketplace. Lots of customers have them. The loyalty scores, the propensity of customers to take another iPhone once they're on an iPhone are the highest in the market. And as more and more customers buy them, that means that base becomes even more important.

The specifics of our contractual arrangements with partners like that obviously we can't really discuss today. Soft SIMs, we already have a product live with Apple on the iPad and we'll continue our discussions with them on other opportunities on that product.

Steve Malcolm - Arete

Two totally unrelated questions, you can answer either or neither. First of all, on BT Mobile net the extra £100m you're planning to spend on devices, John, can you just sort of give us insight into why that money was allocated to you maybe and not EE? You've only got 400,000 subs at the moment. Even if you gave everyone an iPhone that's well over a third of the base that you've acquired in the year, so what's the thinking behind that sort of segmentation?

And then a question for Marc, just on the network, and I guess having the best mobile network is the Holy Grail in any market. I guess the mobile market in general suffered from homogenisation of networks. If we look at the UK, we've got two large network shares. Can you just share with us, how you think you got there and how you stay ahead? I mean, you had an 18-month lead in LTE by going early which is helpful, you've got spectrum. Did you deploy Ethernet to your base stations much more quickly? Vodafone spent twice as much as you last year and doesn't seem to have got very far. When you look at the next four or five years, how do you maintain that advantage? Thank you.

Marc Allera

I'm not going to give you the answer to all of our secrets in terms of how we stay ahead. Nor comment on the investments others are making. But I think a lot of this is about mind-set and focus and taking a leadership approach and that's what we did last week with our announcement to roll out to 95% of the geography of the UK. I do think that is going to give us a good few years advantage in terms of coverage and speed and quality, and that's what as a group we have to monetise that advantage we'll have, not just in the consumer segment but in business, large and small, in M2M and all the other areas that a great data network will give us a lead in.

Gavin Patterson

Very good, well, we have to call time there. Thank you, gentlemen. That's the end of the Q&A session. I'll let you leave the stage.

CLOSING REMARKS

In wrapping up today, first of all, thank you all for giving us a day of your time. I know that's a huge commitment. There's been an awful lot of content we've gone through today, but hopefully you found it useful and you've got an insight into how we're trying to grow the business from here.

It has been a chance for us not to fundamentally change our strategy, I think of it more as a refresh today. We focused on the strengths. We focused on our competitive advantages across the business. I hope you got a sense of how we intend to capture the growth opportunities that are in front of us and importantly how we grow the value of the businesses going forwards.

This is a slide that I used earlier, but in many ways it tries to sum up exactly what we're trying to do. The opportunities around convergence I think are clear and present and I think we have a better position in the market than anybody else to really take advantage of, and that is going to be the driving force behind our desire to drive profitable revenue growth over the long term. We are the leading converged UK operator.

It is about the network, fundamentally; not just about the network, it's about ensuring that we take full advantage of the people capability that we have across these two businesses, but also we use this as an opportunity to make customer experience a source of competitive advantage as well.

I hope you've taken away from today that the cost transformation story has not run out of legs. There's plenty still to go for there and it's that cost transformation that we can use to invest back into the business that allows us to continue to make the sort of commitments on dividends, paying down debt, ensuring that the pension is fully funded going forwards. So on that note, thank you very much, and enjoy the rest of the day.