Good day ladies and gentlemen and welcome to the BT Central Auditorium and BT results presentation for the 4th quarter and full year ended 31st March 2011.

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

Good morning everyone and thank you for coming today, it’s as usual good to see so many of you here. Last year in our Investor Day we set out our plans to make BT a better business with a better future and to return the company to growth in the 2013 financial year. I’m pleased to say that we have again made progress this year but there is still a lot to do. Financially we have continued to deliver sustainable improvements in both profitability and cash flow and we have done this while continuing to invest in the business as the basis for future growth and sustainable progressive dividends. We have also continued in difficult times to maintain our commitment to the communities we live in and to the environment, winning numerous accolades in the process.

We do this because corporate responsibility, CSR is good for communities, good for our brand, and our business and good for our people so many of whom are involved in volunteering around the world. In recognition of this, we have added ‘being a responsible and sustainable business leader’ to our strategic priorities.

We also recently launched MyDonate an online fundraising site that does not charge a commission to the charities using it. We already have over 500 charities signed up. This project will be worth many tens of millions of pounds to the charitable sector.

Ian last year asked you to donate money, this year we are inviting you to take a few minutes to browse the MyDonate site and BT will donate £50 on your behalf to a UK charity of your choice. You can choose any of the charities published on the site. Alternatively you may wish to encourage your favourite charity to register with MyDonate to receive your £50.
Instructions on how to claim this are in the packs and I would really encourage you to use it for a good cause.

So now back to the business of the day. Reported revenues for the year were down 4% as Ian will shortly explain we have highlighted underlying revenue excluding low margin transit revenue for you as this measures the real underlying performance of the business and is the basis of what we want to focus on going forward. This was down 3%.

In terms of profitability adjusted EBITDA was up 4%, profit before tax was up 20% and earnings per share were up 21%.

Free cash flow before specific items and pension deficit payments was over £2.2bn, up 6% and after specific items was £2bn up 4%.

Net debt declined by £467m to £8.8bn after an accelerated payment of some £500m into the pension fund. So you can see that these results are in line with or mostly ahead of our outlook for the year. Based on our performance for the year the board is proposing a final dividend of 5p giving a full year dividend of 7.4p, up 7% compared with the 6% increase last year. We remain committed to paying progressive dividends and by progressive we mean balanced with the need to invest in the business, reduce net debt and support the pension scheme at the same time as delivering growth. We have seen a big change in BT in its financial and operational performance over the past two years. It is a much more soundly based company that it is very much looking to, and investing in the future. I hope you'll see that our efforts are beginning to bear fruit. I'll now hand you over to Ian to explain how we did it and our plans for the future.

Thank you Michael, good morning to you all. What I want to do is just briefly run through overall group results, say something about each of the division’s performance and of course the pension scheme, but particularly concentrate on what is happening on our key strategic objectives, you remember a year ago we set out where we were looking to take the business and we promised we would give you an update on how we are doing against that.

First of all the quarterly results, as opposed to the annual results that Mike gave, and revenue was 6% down, we did indicate to expect, particularly in Global Services, lower revenue because of the effect of Mobile Termination Rates and of course we showed the number excluding transit down 4%.

There was, as we mentioned this time last year, a £100m milestone payment in Global Services and that was worth about 2% to our revenue and helped last year’s revenue and if you took that out, effectively, excluding that revenue was down about 2%.

In terms of EBITDA, EBITDA continues to grow up 3%. Profit before tax up 21%, obviously a much higher number on our reported basis, that is the underlying basis, and earnings per share growing 22%.
Free cash flow was down 43% in the quarter, that reflects the smoothing overall, the important number is the £2.2bn for the full year as a whole. That is free cash flow three times, three times the level it was two years ago and that is a sign of what we can do as a business and we said not only is that cash flow sustainable but it will be above that level over the next two years.

And very much you see that in this chart, you can see the way our overall cash flow has grown. I don't show it on a quarterly basis because we have seen a smoothing and a changing round and cash flow will tend to be a bit volatile on a quarterly basis but as you can see, the underlying level of cash flow has increased quite significantly.

The EBITDA is a smoother trend shown quarterly, we continue to improve our EBITDA overall and that is coming through operational improvement. There remains a lot more to do on that level.

Now turning to individual lines of business, first of all Global Services. Global Services, as I mentioned and as I expected, was affected by two key factors, the anniversary of the £100m milestone and also the effect of transit revenues particularly mobile termination rates, with Germany a large part of that. So excluding both of those, we saw a small level of decline for Global Services revenue, however we saw costs come down again we should also exclude transit when we look at cost improvement to make it like for like with the revenue, and it was down 7% excluding transit. That meant for the quarter we had an increase in EBITDA, and for the full year EBITDA was up 30%. Critically, we said that the key measure we would be looking at was to return Global Services to generating value for the group. It was cash flow positive a year earlier than we originally had predicted. £119m, we said £100m I think the last time we spoke to you, so a very solid performance in that respect.

In Retail, revenue was down and all the parts of Retail were part of that. Consumer revenue was down, particularly we saw lower calls in the quarter against that we've seen some very good metrics otherwise and improvements in underlying metrics and when we go through the strategic objectives I think you will see that in more detail.

Business revenue was flat, that was a slight worsening of the 1% improvement last quarter but still way better than the -10% we were seeing a couple of years ago. I think there was just a slight softening of hardware and IT part of BT Business so whilst that was up quite significantly in total, probably just a shade less than we might have expected at the end of the year, and a similar story in Enterprises and actually in Redcare.

Ireland I should call out, down 4% but that shouldn't be a surprise given the very difficult market conditions in the Republic, and actually and as a result of the continued reduction in operating costs, all of the units within BT Retail actually increased their profits in Q4. Over the year as a whole we saw good profit increases coming out of Ireland which is double digit profit growth and also in BT Business similarly so. So some very good performances there and particularly
we are seeing a lot of investment in Retail and we said that to you and that is one of the things that held back, I think, particularly Consumer profit.

On Wholesale, Wholesale revenues were down 4% ex transit. I think you see in the chart on the right, the improving trend in broadband. We are used to seeing the Retail business increasing its overall broadband which would help some of the metrics for Wholesale broadband and other external broadband reducing. That position has changed, although Retail hasn’t changed, but we are actually seeing the contribution from Wholesale’s external customers and bringing on another major broadband provider back on to the Wholesale network has improved its metrics. We did see a continued reduction in costs but EBITDA was slightly down, down 4%, which is marginally worse than it has been in previous quarters.

On Openreach, I think the thing to call out in Openreach is that for the first time for about two and a half years, adjusted revenue is up, up by 2%. Continued decline in internal revenue is to be expected, but very strong growth in external revenue, and actually the metrics are looking pretty good and again we will talk about that in the strategy section.

Net operating costs were down 3%. Whilst we have seen ongoing process efficiencies in Openreach, there has been additional investment to support increased order volumes and particularly increased use of engineers and also some of the problems we had with the weather that meant we needed more people for repair but, net net, Q4 EBITDA up 10%. We have seen a very good Q3 and Q4 year on year EBITDA, but I would just caution that this time last year wasn’t a great number but what you are certainly seeing is Openreach has gone from a business that was generating a bit less than £500m pounds a quarter in EBITDA to one that is generating comfortably more, and I think with some of the underlying trends it is an encouraging scene for Openreach.

Now moving away from the divisional before I get to the strategy. Pension schemes, we tried to give you a bit of detail on the pension schemes because I know it gets a bit complicated at times. On the assets we tried to take you through from where we were this time last year to here on the assets and what you will see is we put in around £1.3bn of contributions, that is £1bn of special contributions and around about £300m of normal contributions. The return on assets about 7%, actually that is lower than it was when we talked to you in December. I’m not surprised as the market has come off a bit but still it compares favourably with its comparators and we have also of course paid out benefits during the year that takes the overall assets up to £37bn. We have seen a substantial decrease, however, in the liabilities, part of that is caused by the way that IAS19 is calculated. The real discount rate used has gone up a bit but most of it is due to the change from RPI to CPI, but the net result of that is that the IAS19 deficit has declined from £5.7bn net to £1.4bn net, so a £4bn plus improvement in the IAS19 deficit. However, that is an accounting deficit and it has an odd way of calculation.
I think it remains better to look at the methodology and particularly start off with what we call the median estimate. What the median estimate is, and I’ll remind you that we have used this before, it takes the assets that we hold in the pension scheme and looks and says, what is the expected return using standard return models that you would expect on those assets and then compares it with the liabilities. When we did the 2008 valuation, that showed a £3bn deficit, today it shows a £3.2bn surplus. Now, that is not to say the pension scheme is not a big item, it is not to say it is volatile, it is all of these things but that actually is the expected return and the expected surplus from the assets we hold today. Now, what the trustees do is they take that and then they put a big level of prudence. Last time round it was about £6bn. Using similar methodology that the trustees used before, their deficit calculation as at the end of December was £3.2bn compared to £9bn last triennial review. So whatever methodology you take, what you see is a very substantial improvement in the underlying position regarding the pension.

Pensions Regulator, we put a statement in the results today that The Pensions Regulator has said that, in light of waiting for a decision on the Crown Guarantee on the pension, and there is quite a lot of work to be done on that, there are various points to be clarified and there may or may not be an appeal in due course, it is going to take a long time and until that is clarified they have put on hold their review. Now we believe that the 2011 valuation will be done before that review is complete, before we have sorted the other thing out with the Crown Guarantee from the Regulator’s point of view, and therefore I think the 2011 will overtake the 2008 valuation. The Regulator is doing no work just now on the 2008 valuation and will not do so unless and until the Crown Guarantee case is finally settled.

For 2012, I have just given you some numbers to help. Operating charge for pensions expected to be about £25m lower. As you know, last year it was about £100m higher so there is a slight benefit to EBITDA there. The pension interest is going to be £275m better, that is a big number but that is in specific, it is not in the underlying numbers, we make that specific, but that is going to go to a credit and the regular cash contribution is going to be about £130m lower. As Tony will say later, that is largely offset by some changes in working capital overall so it sort of balances out, it is a bit of a one-year thing because next year it returns back to the normal level at between £250m and £300m of normal contribution payments.

Now, away from the pension to the strategy. This slide is familiar to you. Our strategy starts, it is very important, it starts with customer service delivery. The reason for that is critical, not only because that improves what we do for our customers, but it is the key driver of cost reduction. Cost of failure is a huge cost in our business so by putting that as a cornerstone of what we do it drives through to cost transformation and that cost transformation releases resources, both people and also other resources in financial systems etc., that allows us to invest in the future and we have got five areas there that we invest and what I will do is I will take you through the various elements and we call it both internally and externally, the first bit is
about building a better business and then the investment is about building a better future.

Starting with customer service delivery, how have we done? We have had some challenges in the year and we always want to be honest about that. Whilst we have made improvements in a number of areas, we have had challenges particularly in the areas of provision and repair. Now, what happened? Well, on provision a few things happened but the biggest one of these was a change in the behaviour of the Communications Providers which meant they required a lot more engineers for the work, as well as of course volumes increased as you will see from the metrics, that meant overall at some point in the year we were requiring 40% more engineering visits than we were the year before. On average over the year it was about a 20% increase. That was something we didn't predict, frankly that was something that nobody predicted. The criticism I'd make of ourselves is we were too slow to react to it and that meant provision lead times went out further than they should do.

The good news is they are pretty much back where they should be - if you order a line today in most parts of the country you should be looking at single-digit number of days, less than ten working days to receive it, and on repair, we maintained that reasonably well. Today we have got slightly over one day's worth of repairs on hand, that is a very normal number and compares with two or three times that level it might have been four or five years ago so that is a big improvement. We were also affected by the bad weather - being an ex-retailer one cannot go through a presentation without talking about the weather - but we did see repair volumes actually go up the first time for a few years and hopefully we will get that back but today repair lead times are pretty good and finally, and it is an area which we are working very hard, is cable theft. Unfortunately as the price of copper goes up, the market is very responsive to that in terms of they take our cable and it is not so much the direct cost of that, but it is a damn sight more difficult to put the cable back than it was to take it in the first place out of the ground and that does actually cause, when somebody does take a lot of cable, it does cause problems to our customers. So, I am very glad to say that some of the actions we have taken have reduced that level but that has been some of our challenges. Despite these challenges, and actually despite the fact now we have got them very much under control and we are seeing at the year end much better performance, overall we have actually improved yet again in customer service and the best way to look at it is the numbers below and we have tried to give something from each part of the business. Global Services trouble tickets are down 10%, that is a good improvement again it feeds through to costs, fewer trouble tickets are really important. Wholesale broadband faults down 15%, carrying on the trend we have had. Very important for the customer, broadband has become so much at the core of what people want to do, and we have found that the tolerance for the broadband going down is far less today than your telephone going down and it is very important we continue to drive the fault number down and also the speed of repair and most broadband faults are sorted on the first call. Overall and probably the voice of the customer, in Consumer, we have seen a 20% reduction in complaints - that means we need less complaints people, we need to spend less resources sorting it and in Business we have seen a very
big reduction, a 6% reduction in complaints. In all of these areas, I stress there is much more to do and much more that we will do but we are making progress and it is important.

In terms of cost, I will let Tony talk through the detail of cost. It is worth saying we have reduced our cost over the last two years net by about £2.8bn, that is about 16% of our cost base. That has been a key driver of the fact that we have moved from a business that generates £700m in cash flow to over £2bn, so it is important for it. It is also important because of what it releases in investing for the future and I'll go through each of the key areas.

First of all, in broadband, there isn’t one single thing we do in broadband that we could say, that is the golden bullet. There are a number of things all contributing to a better broadband performance. First of all I should say BT Infinity, we are very pleased with BT Infinity weekly net adds and previously we have talked about sales numbers but adds are a bit smaller, about 5,000 a week. We are very encouraged with that number, well in excess of the rate that Virgin are doing. We are shortly going to hit 150,000 Infinity customers and customers really like it, so it is certainly a contributor.

BT Vision continues to grow, we added 30,000 customers, that is three times the rate of Virgin last quarter and the customers again really like it and it is something that makes it more sticky. We have got new services coming some of these we talked about before, also WiFi has become very important. We invested in WiFi a number of years ago, I think before it was popular, as it were, and every so often you are prescient, every so often you are lucky, I'm not sure which it is but WiFi has absolutely taken off. We have got 2.8 million hotspots and people are using a billion minutes a quarter. I remember a few years ago it was when we hit the million minutes a week, we thought that was pretty special, but a billion this quarter has doubled in the course of the year and what we see is lower churn and I'm not going to give you the exact number but we see quite a bit lower churn from our customers that are using the free WiFi anywhere you go service, which a lot of customer are, than the average customer but also we are differentiating our service it is important to say that. There was a time when everybody said we are free, we are cheap etc. etc. we said we are better. Probably the way we express that promise best of all is in the Hub, we call the Hub the hero and we recently launched our new Hub 3, handsome little fellow, available as part of our Spring Sale we have got just now, a very good deal. The Consumer team after the terribly successful Winter Sale came up with a Spring Sale, but this Hub, the FT described as a genuine everything machine. Rock solid WiFi, it has got smart WiFi, it searches for the best channel, customers really like it, the interesting thing is, it uses a lot less power, it uses a lot less plastic so great for the environment, and it is cheaper to produce, everyone is a winner. Finally on the subject of winners, Plusnet. We have seen continued growth in Plusnet - whilst we had the best broadband it was really important also to have the best value and cheap and cheerful, and that is what Plusnet is, good honest Yorkshire broadband. Whilst it represents less than a fifth of our overall net adds, it is very successful and attacks a particular segment of the market and it is award winning and among the
cheapest if not the cheapest standalone broadband around and the customers really like it.

So, all of that all contributes to quite an important number which is, we have had 64% share of net broadband adds, that is our best market share of ADSL adds for eight years. Actually even more interesting if you throw cable into the mix our share doesn't go down very much - if you take total broadband across the UK our share was 50%, the best ever share we have had. Now I have said every single quarter these numbers bounce around but it is encouraging and these things all contribute. It is not just in broadband, I think it is also helping some of the active customer losses, we are still losing customers at a lesser rate and I think we can't be satisfied but the active customer losses are certainly the lowest for some time, and because of the growth in broadband and Vision we are seeing an increase in Consumer ARPU, i.e. customers are buying more, we may have slightly fewer customers but they are buying more and you see that on the chart.

Moving away for the consumer, which of course represents about 25% of our business, to SME. We talked about being “the brand for business”. Why? There was nobody who supplied a range of services to business on a national basis, and whilst we had a big share of the telecoms market, we had a very small share of IT and particularly the mobile market. How are we doing? Well we are doing pretty well, we are doing pretty well in our traditional business, the loss of lines has come down, also broadband net adds were substantially up year on year and also we have seen double-digit growth in both IT services and also in mobility and that is encouraging, and if you have got low market share it gives a real opportunity to increase it, and our BTB business, the second half of the year revenue was slightly up, again one of the signposts to the future.

Global Services, the first thing I should say is at the right you see an award, World Communications Award, ‘Best Global Operator’ - industry is recognising its position as one of the leading providers in the world, probably the leading provider of managed network services in the world. Order book was up 10% for the year as a whole, some contract wins I will call out in Q4, first of all Ecopetrol which is one of the largest companies in Colombia, also BASF which you will know and that is providing services in 60 countries around the world. We are seeing a big growth in AsiaPac in our pipeline for instance we renewed a contract with the Port of Singapore Authority, the largest container port anywhere in the world, we provide and run lots of the software that supports that and it's probably also worth saying, we talk about Asia a lot and we are making good progress in Asia, but we don't tend to talk about Latin America very much. We are making very good progress there, particularly in Brazil, Colombia, Chile, and in Brazil, for instance, we provide the infrastructure for the national lottery, and we just recently signed a large separate deal there for the equivalent of the Royal Mail in Brazil, so it is nice that in the last few months we have renewed with the Royal Mail in the UK and done much the same with the equivalent in Brazil. We are, I think, showing our strength down in Latin America, it is not just about Asia, you have also got to look at places like the Middle East as well.
We have also introduced the new structure that we talked about in Global Services, we call it the four by four structure, i.e. four regions but really driving it for our multinational customers. The top customers in the world, you will know virtually all their names in four key areas. Banking & Finance, Commerce, CPG and also Government & Health and in each of these areas we have particular expertise. Take financial services, something around 68,000 traders, many of you will speak to them on a daily basis, use our trader turrets. When you go on the floor of the New York Stock Exchange, you see the BT logo all over the place because we provide all the trader turrets there. We also have the Radianz community in financial services, and real strength in network. We are a provider of network services and the things that go round the network and that is a real focus.

“The wholesaler of choice” - Wholesale has changed. In the old days, and it is still in many countries the old days, Wholesale represented the business you had to buy from because you didn’t have a choice. Today Wholesale is a business people choose to buy from. They choose them increasingly to manage a large part of their network for them, and 40% of our business in Wholesale is underpinned by long term contracts. We are seeing, also in Wholesale, a movement away from traditional to IP, whether that is in the mobile sector in areas such as IP Exchange where we are seeing big increases, still measured in the tens of millions of pounds per year but big increases, we see that our role in helping particularly the mobile companies and other network providers presents real opportunities for our Wholesale business. Again, we also show the World Communications Award this time ‘Best Wholesale Carrier’. I am not a great fan of awards but hey, if you have got them you might as well mention them because they are quite special.

Now the final part of our growth strategy around being the best network provider. I’m going to talk about fibre, but it is not just about fibre it is about a number of other areas and I think first of all it should be mentioned this year and you can see on the chart on the right showing the quarterly breakdown we saw the number of copper lines in the UK increase by 11,000. It is not a big increase but compared to the 300,000 decrease, it is quite a change and a lot of media this morning had pre-decided their first question was going to be the death of the landline. I think to misquote someone, the death of the landline seems to have been somewhat exaggerated and we do see the growth, I think a lot of this has come in because of the growth of broadband people are seeing that in order to get the bandwidth and connectivity you need you need fixed line and fixed line is doing so much more and can do so much more for the family. It is not just in standard copper lines, it is not just in fibre, we are also expanding the range of ADSL2+ to about 80% in the UK this year. Ethernet has become very important to us, both for mobile customers and also fixed customers and it is fair to say we were behind the curve on Ethernet. I think two or three years ago we hadn’t invested the way we should have done, but we have caught up, in fact we have more than caught up we have exceeded, and we have expanded our Ethernet footprint very substantially, best in the UK and we are expanding Ethernet capability on a global basis as we are doing with MPLS and also investment in city fibre. One of the
things we have done is a review in Global Services of where our customers are and where our customers will be, not just to say they are in this country, which is reasonably easy, not even they are in this town, which is also reasonably easy, actually exactly where they are and to look and say where does our network fit in with where our customers are today and will be tomorrow. We actually need to make sure we have exactly the right products and presence in exactly the right place so that more of what we sell is running on our network more of the time. So it is very detailed work, not a huge amount of investment but very detailed work that can really improve our network.

Now to fibre, as part of the “best network provider”. The rollout is progressing at a good pace. We are doing 80,000 new premises a week that is a multiple of a lot of other telcos, and you follow a lot of other telcos, so you will know that as well. We will be, within a couple of weeks, at 5 million homes passed, premises passed, we have got around 150,000 end users, increasing at a good pace, and there are 45 Communications Providers selling or trialling our services, a genuinely open network and I can't think of anywhere in the world that can say that, that they are genuinely open network that is giving great end price for fibre to customers and I think that is a reason the UK is looking good. Also we are working very closely on public-private partnerships. Two key examples - about 18 months ago we signed a deal with Northern Ireland, where we provide fibre to Northern Ireland. Now over half of the premises in Northern Ireland have fibre available to them - put that in context, that makes Northern Ireland one of the most connected regions anywhere in Europe as actually it was for first-generation broadband, it was the first 100% enabled broadband region in Europe, and we have done that in a very short space of time. And about last September in Cornwall I had a very pleasant day in Newquay for the launch of our partnership with Cornwall and within six months, the first customer was connected. Now a lot of people are talking about public-private partnerships, and things they might do, will do, can do in lots of parts of the country and many people have been at it for a long time, but they are not delivering. We are not just talking about it, we are delivering for our customers and delivering for the UK and we will look forward to doing more of these.

In terms of the network capability, we don't just stand still at doing more, we try and do it better and fibre-to-the-cabinet (FTTC) is currently running up to about 40Mbps. With a change to the Access Network Frequency Plan, the ANFP as you would know it. We believe, with the agreement of the industry, that we can roughly double the speeds that would operate from FTTC to up to 80Mbps. That is a decent increase. I think one of the things the UK is helped by, we have got quite short lengths between the cabinet and the home compared to other countries but that is good speeds. Now, we are not doing that alone, we are also going to carry on rolling out fibre-to-the premise (FTTP) and testing to see what premise can do, but FTTC we think in future years will deliver well over 100Mbps and I know you have heard that from some other people. FTTP, we are testing a 1 Gbps service so we are seeing what customers use and what customers want and very importantly of course what customers will pay for but we are making good progress.
So that is overall the strategy and as you see, in every single area we are showing signs of what we can do and the progress we are making.

The progress we have made to date has allowed improvement in the underlying revenue position. What we have tried to do here is quarter by quarter give underlying revenue excluding transit and taking off the positive or the negative one-offs just to try and give for the quarterly an idea of the trend. As you see, that trend is gradually improving the revenue picture. We are not saying, and I don’t think any telco in the world is saying, that revenue growth is an easy thing, but we are putting a lot of investment behind that and we are making some progress and it is why we have the confidence to say that we expect in the year after next to grow up to 2%.

We are trying to be much more granular today in explaining what that growth is, and what we’ve tried to do is split out transit and what we have seen is huge reductions in Mobile Termination Rates are coming. As you know, Mobile Termination Rates are a straight forward pass through for us, transit overall is very low margin and we’ve tried to split out what transit represents, but last year we had a 3% reduction excluding transit. If you look next year, we expect transit to be about £400m, about 2% down and excluding that we expect our revenue to be somewhere between flat and -2% and then the following year growth of up to 2% with transit causing a 1% decline. I think it is important that what we track is the revenue that contributes to the long-term growth potential of our business and profits and cash flow and that is what we are trying to do and I think that is a sensible way of looking at it.

Just finally, the other guidance, some people have said, oh well they can’t increase their revenue and increase their profits and cash flow, we believe we can do all of these things. There is still a lot of self-help in the group. We believe we can reduce our costs further. We believe we can improve operations, therefore we are saying you are going to see EBITDA growing this year and growing the following year to be above £6bn and free cash flow which has always been my particular favourite measure, is going to be above the 2011 level in the next two years so we intend to return this company to growth, increase the cash flow and increase the profitability.

I’ve said it before and no doubt I’ll say it again - we have made more progress but we remain very well aware that there is a lot more we can do and more importantly there is a lot more we will do.

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I will now run through the results of the quarter four and the full year. Starting at the top of the income statement on revenue, revenue declined by 6% in the quarter and 4% for the full year. The revenue decline is as the result of lower calls and lines in both Retail and Global Services. The impact of reduced transit revenues in Wholesale and Global Services and less lower margin equipment sales in Retail.

Revenue declined by 4.4% in the second half against a 3.6% decline in the first half. I said at the quarter 2 results that I expected the level of decline to reduce in the second half when compared to the
first half and this result is below our expectations, however once you strip out the impact of foreign exchange and low margin transit revenues, revenue declined by 2.8% in the second half versus a 3.2% decline in the first half.

Excluding the impact of low margin transit revenues and foreign exchange, our underlying revenue for the full year in 2011 declined by 3%, this is consistent with a 3% decline last year. Adjusted EBITDA, that is before specific items but after leaver costs, increased by 3% in quarter four and by 4% for the full year. Leaver costs were £21m for this quarter bringing the total for the year to £57m. This is an £85m decrease against last year. We continue to focus on ensuring that the leaver costs represent good economic value. EBITDA growth reflects the on going focus on our cost transformation programs across the group and I will say more about this later on. Operating profit increased by 9% in the quarter and 12% for the full year. This was driven by higher EBITDA and lower depreciation caused by lower capital expenditure in the last two years. Net finance expense of £845 million decreased by £45m year on year driven by reduced net debt and higher coupon debt maturing in the second half of the year.

We continue to focus on tax efficiency in the group. Our effective tax rate for the year was 21.7%. Our tax challenge for the year increased by £54m to £452m as a result of our trading performance. Adjusted EPS is therefore 21p for the year, 21% better than last year. Net specific items in the year of £127m after tax relate to the Global Services restructuring program, property rationalisation, net interest expense on pensions and the impact of deferred tax balances on the tax rate and the tax rate change from 26% from 1st April 2011. Further charges of around £50m are expected in 2012 in relation to the BT Global Services network rationalisation program.

Let me turn to free cash flow. As expected, capital expenditure in the quarter increased to £748m reflecting the phasing of our key programs such as the fibre roll out which Ian talked about earlier.

In total for the year we invested £2.6bn in capital expenditure, this is in line with the previous guidance that was given. Net interest payments in the year remain roughly flat against the prior year. Tax payments during the year increased by £343m from a net inflow in 2010 to an outflow of 209m in 2011. As we move towards a more normal tax payment profile this will continue into 2012 and I'll comment on that later.

Working capital and other is a £135m inflow in the quarter, £349m lower than last year.

As I mentioned previously we are focused on reducing some of the volatility in our quarterly cash flows and the cash generated this year has been much more smooth than in previous years. There remains however some underlying volatility in the timing of our cash flows due to the nature of our business.

For the year working capital and other was an inflow of £120m, £356m better than our last year and ahead of our expectations. This reflects the timing of supplier payments and lower regular pension payments. We would not expect this level of inflow to be repeated in future years. For quarter four this brings our free cash flow pre specifics to an inflow of £619m, specific items are an outflow of £73m and therefore free cash post specifics is reported as £546m.
For the year, free cash flow, pre specific items was £2.2bn, £170m higher than last year and ahead of our outlook. Net debt of £8.8bn is a £467m improvement compared with last year and is in line with our outlook, despite the fact that we accelerated our December 2011 pension deficit payment of £0.5bn.

Let me turn to operating cash flow by line of business. Operating cash flow for the lines of business is defined as EBITDA less capex and after the movement in external working capital. Global Services delivered a cash inflow of £119m in the year, this means we are cash flow positive a year ahead of schedule. This has been achieved through improvement in profit and working capital as well as delivering greater efficiency in our capital expenditure. Operating cash flow within BT Retail has reduced by £184m year on year, predominantly driven by a reduction in the working capital inflow. As we said last year BT Retail achieved significant improvements in working capital, I didn't expect to repeat them this year. Wholesale operating cash flow remained broadly flat for the full year. Operating cash flow within Openreach reduced by £89m with the improvement in EBITDA, being offset by increased capital investment mainly relating to the group’s fibre rollout program and the provision of network services to our CP customers. The Other balance relates to group cash items and the movement is mainly driven by tax as I described earlier.

Let me turn to debt and liquidity. We now have available facilities of £1.5bn for five years and no major debt maturities until the 2013 financial year. We do not need to go into the market over the next two years but may take advantage of opportunities as they present themselves. Looking forward we expect to continue to reduce our net debt and target an improvement in our credit rating.

Let me turn to cost transformation now. As Ian said I’ll provide you a little bit more detail on our cost transformation activities. For the full year our total opex reductions exceeded our expectations at well over a billion pounds. Including the capital reductions last year this equates to £2.8bn savings over two years and this is after covering our incremental investments that we highlighted last year. This represented as Ian said earlier a saving of 16%. This achievement has been delivered through a rigorous focus on driving value from our suppliers, reducing low added value activities and most importantly re-engineering our processes. This is a key point which is why reducing costs in the right way will improve customer service by enhancing the service process and removing failure. During this year there has been a reduction in the level of POLO costs driven in the main by a transit volume decline and mobile termination rate price reductions. Our net total labour costs have reduced by 7% with indirect labour costs reducing by 13%, as we continue to reduce agency and contractor resource and redeploy existing permanent staff.

During quarter 4 the reported level of reduction in net total labour costs headlines at around about 2%. However after taking into account the impact of the pension charge the respective figures are 9% for the full year and 4% in the quarter. This slightly lower level of reduction in the quarter reflects the growth, greater level of
insourcing resource back into BT and higher Openreach overtime caused by the higher volumes that Ian talked about earlier. We expect to continue to deliver further reductions in our total labour costs, driven by productivity improvements, process re-engineering and a continued focus on driving value from our suppliers. Some examples of cost savings delivered this quarter; we have delivered savings from an end to end review of the broadband faults process which has identified common capabilities and removed duplication across the whole of our business, and when this is fully implemented during the course of next year it will have delivered savings of round about £50m per annum from that process. We have also delivered savings through a review of our engineering work on customer network connections. This programme has identified savings through process re-engineering which has reduced task times and identified better opportunities to realign our resources. Again, upon full implementation of this, we will deliver savings of round about £25m a year annualised.

Moving on to capital expenditure. Included within Openreach is the roll out of our fibre programme which is one of the fastest roll out programmes in the world. We have invested round about £600m on the programme to date which has been mainly on fibre-to-the-cabinet but also the initial phase of fibre-to-the-premises. The current expenditure profile is in line with the £2.5bn plan and the guidelines we have previously given. We expect to continue to invest around £2.6bn per year in capital expenditure supporting our key infrastructure programmes and supporting our customers. It is really important to note that we apply the same level of rigour on cost control to our capital investments as we do to our operating expenditure and we continue to drive supplier savings and operational efficiency improvements.

Let me just turn to cash flow. I want to provide some additional detail on the 2012 cash flow that Ian talked about. To help this I have summarised the key year on year movements in our cash flow for 2011. As I mentioned before, our tax payments have increased by £343m as we return to a more normal tax profile. This has been broadly offset by a £356m improvement in working capital. We will continue to drive improvement in working capital but we would not expect to achieve the same level of inflow that we have achieved this year in future years.

Looking ahead to 2012 free cash flow. We will see c.£250m higher cash outflow on tax as we return to a more normal payments profile which includes the £73m tax benefit from the early pension deficit payment. This will be offset by similar reductions in cash interest payments. As I mentioned earlier the cash flows from working capital in 2012 will be c.£120m lower than 2011. This will be offset by the reduced regular pension contributions Ian mentioned earlier. We expect our trading performance to drive free cash flow in 2012 above the levels achieved in 2011 and in line with guidance previously given. I expect the cash flow outflow on specific items to be round about £150m in 2012. Although the tax impact of the pension deficit payment becomes negative in 2013 and our regular pension payments return to a more normal level we expect our
continued trading performance to sustain cash flow above the level achieved in 2011, during 2013.

To reiterate, our financial strategy is to improve the underlying and profitable revenue trends. Grow EBITDA and grow free cash flow, which in turn will allow us to continue to invest in the business, reduce our debt, support the pension fund and pay progressive dividends. Thanks for listening I will now hand you back to Ian.

IL

Thank you very much Tony. As always question and answers, if you put your hand up there will be people running around with microphones. Can you say your name and from whence you come and if we can try and limit it to approximately one question that will be even better. Can we start over in the corner there.

Nick Lyall

UBS

Can I kick off with a fibre question please. Can you maybe give us some detail on how your share of additions has trended in areas where you have kicked off the fibre-to-the-cabinet programme please. I am assuming they start low but maybe you can give us some detail on how much higher they are so far.

IL

I will ask Gavin if he has got any particular comments whether we know that level of detail but certainly some of the areas we have been doing, we have seen exchanges now with double digits in terms of customer take up of fibre and given that Retail today has gone after fibre more than anyone else that is encouraging. I think it is really varies by area but maybe Gavin could talk a little bit about the combination of people upgrading and new people coming in.

GP

Yes, I think Ian has made the main point differ by region and differ by exchange in particular and we are learning a lot more about how to market this on a local level to take full advantage of the plans around roll out. In terms of the mix between new and upgrade it is about 30 new, 70 upgrade, that sort of ratio but we are seeing the new tick up from the levels we saw when we first rolled it out. So it is early days to be drawing any conclusions.

Andrew Lee

Goldman Sachs

Just a question on cost cutting. In the past you have talked about where you are in a 6 or 7 year cost cutting cycle by line of business where you are sort of at the end of the journey on Retail and sort of at the beginning on Openreach and Wholesale. I mean, I wonder if you can comment on where you are through that journey now and maybe in light of that talk about how you see the sustainability of cost cutting further out than 2012, 2013.

IL

I do not think we ever said we were at the end of the cycle, for the avoidance of doubt. I think we said we started off earlier in Retail but actually in Retail last quarter costs were down 8% so as you rightly say we are 6 years into the cycle, we are just not saying that is when the cycle ends and certainly a lot of the other lines of business have a lot more to do from here because they did start later, but Tony.

TC

Let me reassure you, having looked at Gavin’s budget in detail he has got a cost saving target in there and I am pretty confident that he
will deliver on that. What we are doing is we are evolving, we are taking the low hanging fruit off and we are now moving into middle hanging fruit so the key to the next year is the examples I quote on broadband. In the broadband fault process, there are over 4,000 people on that process and what we will do is we will free up the resource of round about 25% of that during the course of the year simply by looking at processes from a pan-BT perspective rather than look at it in terms of from a line of business perspective. So we will look at it end to end from a customer experience point of view. But the beauty of doing it that way is we improve the customer service as well as reducing the cost.

**Carl Murdock-Smith**

**JP Morgan**

I can see you are dying for a technical question on the Access Network Frequency Plan changes. In terms of the opportunity to double the FTTC speeds will that be uniform across the plan or is there the potential to have 40Mbps and 80Mbps. Basically how will these speeds be structured.

**IL**

It will vary by distance between cabinet and home but roughly along the way it will go roughly double to what it is today. That's the capability, but how one then offers that to the customer, we can take the choices but Liv do you want to talk in detail about this, in particular which frequency standard we decided to use.

**LG**

We can look to work on the product specifications over the next eighteen months but the capability exists and we will work out which customers want what speed, and then we will offer whatever the customer wants. We will work with our CP customers to find out where they want to sell it and we will offer that into the market place.

**IL**

There is an industry forum on this and we discussed it with industry forum and they need to get an agreement that takes a number of months. It is largely a software change that would be required to do which is not that big an imposition.

**Carl Murdock-Smith**

So you can still offer 40 and 80 at the same time.

**IL**

You can dial down anything that you want to so you can, but what you can do at capability you can offer different things so with fibre-to-the-premise for instance, you can offer 100Mbps, or you can offer someone a 50Mbps product.

**Darren Ward**

**Echelon Research**

Just a question about the guidance I have just done some sort of noddy maths and I calculated that out in 2013 the implied revenue guidance range is about £19.3bn to about £19.9bn, yet you are saying that EBITDA will be over £6bn. Is that at both ends of the range and can you just expand on that given that all the variability is in the higher gross margin non transit areas.

**IL**

As Tony said, it is EBITDA over £6bn but obviously the more profitable the revenue the better. But the answer is any of those scenarios we expect to be over £6bn.
In terms of your maths, nearly there, £19.1bn to £19.8bn but you will do the maths and you will come to roughly that sort of number. Look, the £6bn will be done on £19.1bn. £6bn we are saying that we will deliver that.

There is quite a lot going on from a regulatory perspective at the moment, I just wondered whether you could update us on your thinking with regard to some of the key issues such as cost of capital, the approach to duct valuation in the Openreach charge control and also more topically I guess, the current debate on PIA, thanks.

PIA first of all. We put out trial prices with PIA which are better than the EU average, they are built up on a cost basis using tried and reasonably tested regulatory principles. What we are trying to do now is trial the execution of that and I am very glad to say Sky and Call Flow have signed up to do the trial and we will learn more from that. I think particularly around some of ancillary services how they actually work and what proportions to those services people want to do themselves and one of the things we tried to do is separate off the different aspects of PIA so people who have got a labour force can do it themselves, and it is a bit strange if someone moans about the prices when we offer them the chance to do a lot of it themselves. So as we work through that I think we will work out whether something should go up or should go down and you guys are the European comparative experts, I think you can probably do the maths on where prices sit against a number of European comparators. I will ask Liv in a second whether she wants to add to what I have said but on cost of capital and ducts asset value, we will be going back to Ofcom and saying we think their cost of capital calculation was too low and I think that won’t come as a huge shock to you and we have had a clearer look at it and certainly said that. We will also be pointing out that we think the regulatory asset adjustment made and the calculation of the cost of ducts aren’t adequately taken into account in the numbers. So we will be going back. But Ofcom has a good consultation process and we will be going back to make these points strongly so the answer is the cost of capital should be higher, the regulatory asset value should be higher and we think with PIA we will work with industry to see where it is.

With PIA, we have committed to accelerate our time that is on trial because it took a while to get people to sign up to this trial. We said that we would work twice the speed so we will go out with new trial prices that will last thereafter and well in advance of the BDUK process in the next few weeks. So we won’t be the cause of delay for people bidding for BDUK.

I think you know Ed Richards said to one of the parliamentary committees that he suspected he would end up having to rule on the issue because he thought that the sort of scale that some people were claiming was so far away from the trial prices that he found it difficult to see that there would be a conclusion. We hope that is not the case but I can understand why he might say that.
Robert Grindle
Deutsche Bank

Please could you give us an update on the latest with government. It did not seem that much has really happened there, austerity plans are still being cut, local government etc. Crown representatives have been appointed, is there any change on that. Are the prospects still good for the next couple of years.

TC

Is your question relating to the reduction in the government spending or the Crown Guarantee?

Robert Grindle

Government, Global Services cut backs.

IL

Not a huge amount has happened. We signed a memorandum of understanding with the government. We signed over the course of the year some very large contracts with government. There is no question government expenditure is under pressure as in fact more than a year ago we said exactly that, we expected it to be under pressure and we will work with the government to see what can be done. But Jeff I think do you want to add about the government expenditure generally, maybe not just in the UK.

JK

Generally I think there is both opportunities in government to sell additional services that drive costs. We are part of the process, I think we are in good position on key initiatives such as PSN, what we can do with the network here in the UK. There are opportunities even outside central government. We are seeing quite a bit of uptake in pipeline profile, I will not give you specific numbers but kind of a mix change to maybe more BPO services in these environments and we have taken some of the things in the UK and moved them for example, embassies outside the UK, we have signed particular deals both in Italy and in Spain. So it is going to be mixed and as we said earlier I think our issue is we are going to be part of the solution and not try to be part of the problem and so far I think that is working for us.

Maurice Patrick
Barclays

In Global Services you talk about the strong growth in LatAm and the accelerating growth in Asia. But the revenue growth for Global Services overall remains negative so what does that imply in terms of what is happening in the UK and perhaps you can give us some more colour in terms of UK trends.

IL

I will ask Jeff to give you a bit more detail but I think one of the things you have to look at is what happened to the order book 12, 18 months ago and some of that comes through. The other thing is MTR’s and the 100 million milestones last year and actually GS’s underlying revenue when you strip that out, is down about 1% in the quarter so that is a very different picture. But we do need an order book running north of £8bn, that is the aim. We have got reasonably close to it this year as a whole and we are doing okay in the UK. It is not an easy market, the same I think with Europe. Some wins, but Jeff do you want to talk in a bit more detail about Europe, UK.

JK

Well the trends are pretty consistent, most of what we talked about in the last year. MTR reductions in certain aspects of the business, calls and lines as people transition out of our more traditional
products and into some newer products. That coupled with our desires to make sure we have appropriate sales coverage in the UK. We have added capacity in the middle of this year and we will add the sales covers to make sure that we have propositions to actually take them out of our more traditional products and into some of our newer products. Very competitive market as you all know.

**James Ratzer**  
**Newstreet Research**

The question I have is regarding your revenue guidance. The Ofcom ruling on termination rate cuts was pretty much bang in line with the draft consultation. It looks like your 2012/13 revenue guidance has gone from growth at the group level to now flat to a slight decline so I was wondering what has changed in your thinking and if I can include one very quick second question, are you interested in bidding for 4G spectrum here in the UK, thank you.

**IL**

On the second one we will always look at any spectrum that comes available. We do not think the necessity for us to become a mobile operator is, high on the list of things we need to do. In terms of MTR’s, the world of MTRs is not just the UK. Certainly, you guys may know better that the German MTR’s cuts were quicker and more severe. The MTR judgement came just before we did our May results. To be honest, the amount of focus we had on MTR’s given that they actually do not make a difference to profit was pretty low. As we looked at the overall cumulative effect with various countries we thought we had better clarify but also if you look at our guidance we are still in that range. So MTR’s roughly cost us 1% and our revenue growth which we are talking about is somewhere up to 2% so I think it is actually more about granularity and MTR’s, are they are a bit higher than we planned? Yes, they are actually.

**Guy Peddy**  
**Macquarie**

Very quick question. On your operating cash flow by lines of business over the past year Global Services has obviously been the business that absolutely dominated the improvement. Is that the business that we should expect further work to be done to improve the operating cash flow from as the other businesses look to trend more sideways given working capital and things like that.

**TC**

We expect to see improvements in Global Services cash flow. We have given guidance associated with £200m for next year so there will be some improvement there obviously. If you then actually add that back and say, look at the cash flow movements there will be some movement in terms of EBITDA growth from the rest of the portfolio. You add the two together and then that will get you to the situation which ties into our guidance. So it will move slightly line of business by line of business but the overall trend, group profitability excluding Global Services, there will be a slight upward trend.

**Nick Delfas**  
**Morgan Stanley**

First of all on Capex. You are going to have a several year spend on Infinity and related FTTH but if you are looking three to five years out should we be thinking of a lower figure than £2.6n for capex and then on the Infinity roll out I think the add rate is the same as what you reported last November around 5,000 a week. Could you just
explain why that has not gone up given the increase in the number of home passed.

IL  
Well on the second one at the mid point, what we talked about before was the sales rate and the sales rate tends to run about 1,000 higher than the add rate because you get cancellations and things like that so actually it has gone up. It has gone up by about 20% like for like, which actually is pretty much what has happened to the base. On Capex, as we look today in five years time could our Capex go down, or six years, yes, if there is nothing else but I will probably tell you nearer the time but we are certainly, it is true, making a major change to our network at the same time as keeping Capex around £2.6bn. So the question is, what is the long term sustainable rate. We are adding a lot to our network at that sort of level, so I guess in the very long term, if we did nothing else it would come down.

TC  
Long term sustainable £2.6bn.

Paul Sidney  
Credit Suisse  
Just following on the ducts and poles debate. How seriously do you take the recently announced Fujitsu business plan in light of that whole debate around pole and duct pricing.

IL  
We are delighted to hear if there is truly someone who is prepared to do the heavy lifting on investment because BT has been basically the sole candidate for that. A lot of people have talked about things but how much this is to try to get some BDUK money and how much it is serious? But you guys do the maths of what 5 million fibre-to-the-home would cost in rural areas and the return on it and maybe also ask Fujitsu Japan about where is their announcement about £2bn, £3bn extra expenditure? Has anyone heard the Fujitsu announcement about their extra capital expenditure over the next few years? No I have not either. So I would love to think it is right but the maths are very difficult to work at that multi-billion pound level of expenditure but it is not up to us to judge other people’s business plans. You guys are the financial experts in this and I say do your own maths. We will offer the most complete service in terms of wholesale access level for fibre and I think it is great to see how many service providers, and I think the big service providers, will come in over the not too distant future. TalkTalk have already talked about it and already getting customers on and that will build up and Sky I think have got interest in it. But we will offer passive access, we will offer sub loop unbundling, something for everyone. But I say to you, you do the maths.

Simon Weeden  
Citi  
Gone a bit quiet on the pensions, so I am happy to step into the gap. Could I ask you if we could in any way read into The Pension Regulator’s decision not to proceed with a review at this stage or rather not to continue its long review any further for the moment, into thinking that their level of stress about the pension scheme maybe less now or is it more of a reflection of the fact that even if they found something and they brought it to you, you would not necessarily have to take any notice of them until the court case is settled and then second, in a related way, in terms of thinking about the speed with which you progress the dividend and the speed with which you wish
to deliver can we now assume that The Pension Regulator thoughts are less of a priority for you when thinking about that.

**IL**

I might ask Mike to say something about the dividend in a second although be clear from our view of pension, the trustee always did the work on a very conservative basis, they have had actuaries all over the review, they have had QC’s all battling that and what was actually the most critical thing on the pension was first of all BT getting its cash flows in a position that could more than support the pension scheme, that is what we have done. The second is that what has happened in the pension scheme, yes we have seen a very large reduction in deficit or increase in surplus, depending on which of the numbers you take but whatever it has improved a lot. I do not know if The Pension Regulator is saying they are more comfortable or less comfortable and I have found with regulators it is best not to interpolate, it is best for us to just say what they have said which is, they have put the review on hold pending the outcome of the Crown Guarantee case and that is not, I do not see how that could come to any conclusion within the next year, I think it will be well beyond next year, given the speed the legal community move at, God knows how long. So we just carry on doing what we are doing. More importantly trustees carry on doing what they are doing which is an improving position and come up with the next valuation. Like for like, as things stand, I think unless we see some massive change in asset values that would tend to suggest a lower deficit BT’s now well positioned, giving what we are generating to fund that, and pay down the debt and pay dividends, Michael I don’t know if there’s anything you want to say about dividend policy.

**MR**

I can imagine what Ian is just saying also to be really good because it goes without saying the board is very comfortable indeed with what we are doing with the pension scheme at the moment, with the funding we are putting in place with what we are seeing right now as the outcome but it is a big issue for us and we need to keep it under review links directly with the dividend question. We obviously want and intend to have a growing dividend. To do this we have to be able to invest in the future so it is sustainable. I believe we absolutely do have to, we do believe we have reduce debt and we do absolutely have to keep on top of the pension scheme. Now in terms of that balance that we need to kind of continue with, I think it is keeping our credit rating at an appropriate level that allows us to go into the market when we need to, we are not going to go overnight to AAA, we can be BBB, BBB+, that is what we need to retain and that is how we will balance it.

**Chris Alliot**

RBS

Just coming back to the nitty gritty a little bit, the comment you made about the changing behaviour on the Comms Providers around Openreach, seemed to make a sort of noticeable impact on staff costs. Could you put a bit more colour in that, what change, is it just TalkTalk, seeking to unbundle more exchanges. What changed and whether that carries on in a sort of into this year or whether it was just sort of one quarter phenomenon.

**IL**

It was not particularly the unbundling of exchanges although we did have migrations number on exchanges became singletons rather
than mass migrations and I apologise in advance we may go into a level of nitty gritty that people do not want to but that actually the biggest change was something called working line take-over and where a number of the big CPs got more involved taking over existing lines but they needed, when that is done, if you consume a certain type of capability on our systems you can basically do it without sending an engineer. If you do not you have to send two or three engineers do exactly the same thing. You have to cease the line, get an engineer, then restart the line and need an engineer as opposed to it is an automatic switch over and that increased our volumes a lot and it has also got to be said our volumes increased because copper lines went up which does help and BB visit went up and BB net adds were over a million in the year which I think was more than people might have assumed, so that was sort of the reasons and they did increase our cost base, we had to meet that demand and also having had three years big improvement in the repair volumes who also saw because of the really bad weather over the winter, that actually, deep, deep frost did impact on our network and the intake and volume went up on repair, that came back. Overall provision volume sustained reasonably high, not quite I think as high as we were repair volumes have gone back to where they more like I hope a trend which is continuing to come down so we went from a repair once every fifteen years in the access network to once every fourteen years having gone from three years ago once every nine years so it is in context but Liv do you want to add.

LG

It is a demand situation and then it is a working behaviour situation so I need to work better with the CPs on the working behaviours and that is the plan for the year, we want demand to stay up.

Chris Alliot

So that should basically normalise coming through the year is that fair to say.

LG

We have got commitments as to when people will consume the system’s capability over the course of the year so the behaviours piece will normalise, the demand we don’t want normalised, so hopefully that will stay high.

IL

The other thing is we are working very closely with CPs now and I think everyone has realised this is not a great thing to get forecasting on a regional basis. It goes from the days of not being regulated. Now if you were from Sony for instance we would expect to give them so many TV’s every week and if you went massively over they would say, sorry you cannot have your TV. In a regulated world it used to be that service providers were very small and what they demanded they got because it was a regulated responsibility given they now represent quite a big proportion of the market it cannot work that way, they realise, we realise and actually just from working together all of us are a lot better to make sure we can forecast that and make sure we have got the resource and also make our resource a lot more flexible, both as geography so for instance we just recruited 200 ex soldiers who are actually going to be our sort of, and they are going to be trained up for engineers - they are used to travelling around the countries so actually they are going to be travelling around the country because what we tend to find is you have got hot spots, so Northern Ireland today you can get a new
provision in may be four days. In some parts of the country it could be eleven, twelve, thirteen days and what you want to do is try and deal with the hot spots. So there are a number of things we are doing and I think it is a lesson that we have all learned and that is life.

**Chris Alliot**

In terms of the quantity has it actually impacted, labour costs, you sort of mentioned 4% down in the fourth quarter and 7% over the full year, was that broadly to do with that one element.

**TC**

Two things, the reduction in the quarter was because we brought in over the last two years, round about just under 2,000 jobs back into BT, which were being undertaken outside what was classified as our labour cost base so we brought work back in so that would mean the level of labour cost would reduce. That said the level of overtime for example on the Openreach has increased quite materially but both Liv and Helen have assured me categorically that the level of her Openreach labour costs will reduce in the course of the year.

**Jerry Dellis**

Just within your strong cost cutting numbering for the other opex line was particularly low I just wondered what was going on there and whether there was some level of exceptionality and then just the second one quickly if I can, I think S&P back in December indicated that a Pension Regulator decision was pretty crucial in any potential credit rating upgrade. I just wondered where we are on that sort of situation at this point.

**IL**

Okay I will answer the second one and get Tony to answer the question about exceptionality. S&P I think, not the S&P rule, I do not know what S&P want to say but we will carry on talking to all the rating agencies, what we have said we will do I think you can see is what we have done is exceed that. We would hope S&P would recognise our improved position but it is very much up to the rating agencies it is not something that is within our hands to deal with but actually we are a very different, a better company from the one that had their credit rating a point higher than it is just now. So on to that one on exceptionality.

**TC**

Let me answer on S&P. I’m meeting with them in the course of the next few weeks, am I going to be able to tell you exactly how they are going to move, no. I did not expect the movement to go downwards so maybe I am not the best judge of that. All that I would say is that the discussions we have had with them and the other two agencies have been based on improving the quality of the performance and letting the ratings look after itself and we have given the results back to the ratings agencies during the course of yesterday and today and we have been pleasantly surprised by their reaction but that is no guarantee in terms of any movements on there, we need to have further discussions with them. In terms of the opex question, nothing specific in there, the individual items on expenditure will bounce up and down so there is nothing exceptional in there.

**Steve Malcolm**

I just want to come back to that Fujitsu question because I am not very good at maths and you probably know a bit more information
than I do, maybe you can help me a little bit but I mean is it in your view, is it sort of credible that you can spend a billion and a half to 2 billion, get access to government funding of save £500m and cover 5 or 6 million homes which are the sort of claims they are making and shouldn’t we be slightly worried about companies that maybe have a slightly longer term investment horizon and lower hurdle rates than most people in this room think about for things like this or is it just complete non runner as far as you are concerned when you, you must have looked at some of the numbers?

IL

We have looked at some of the number yes, we have said our return that we have got on the programme is a double digit years. We have said that we are doing say £2.5bn on 15-16 million homes, doing it at real scale, and I have to say we really struggle to see how fibre-to-the homes, to those rural locations, how the maths of that works. The answer will be in the proof of the pudding, the real proof of the pudding: What truly are they ordering, what truly are they going to do. It is easy to make an announcement, we have had lots of them from lots of different people over time and I just refer you back to the last two or three years’ sets of announcements. Apart from BT and, to be fair, Virgin mainly, who actually has delivered, if others are prepared to do it, we’d love to see their colours from the start, and UK will be a better place the more do it, but you guys are better at maths, you have got a lot more time, we have to get on and just run a business. We’ll let you judge as to whether you think that fibre-to-the-home to rural premises is top of your list of investments that you would do but I would really suggest you ask that question to Fujitsu, Japan and ask them about what they think the returns period is, and the take up assumptions and how much they charge for it because it is the sort of question you would ask us of course.

Steve Malcolm

[Geographic allocation of government funding]

IL

Well they said they are going to tender for four areas and we will bid for them, I do not know if we will win all of them and if it goes the same way as places like Cornwall and Northern Ireland and, I think Wales, are going to go, what they will look for is get the best bang for their bucks, which is absolutely right. We will put in a bid, other people will put in bids, see who wins, it might be Fujitsu, it might be us, it might be somebody entirely different. I think what is really important when the government does it is we have got a real criteria about delivery because, regretfully, if you look at some of the private partnerships, in places like Yorkshire, we are a number of years into it and have not seen the delivery and really, ultimately customers do not benefit from people putting in wires, they benefit from actually getting a service.

Mark James

Liberum

Just back to your comments on what people might pay for fibre, I mean it is early days I know but you are pricing fibre pretty keenly and I am probably going to horrendously misquote this but I think it costs about £5 more to get fibre versus copper, as people become more aware of these products and services do you think that spread is going to narrow, stay the same or get bigger, and if I can just sneak in a second one, unrelated, on staff costs, are you capitalising more as staff costs than a year within the mix, can you give any
colour on that. Is it fibre, is it direct versus indirect, if you can just sort of talk me through that.

IL

Actually today if you are an option 2, or an option 3 customer no we are not charging more - you can get fibre for under £20 a month which is option 2, option 3 is more, the idea actually is to basically move people up the price mix stack by offering a really high service and that seems to work. I think Virgin probably, having a big price premium, struggle somewhat more. I do not know if it is going to be a competitive market but as you say will we want to see volume and that is going to be important, so the wholesale level is a higher price. But on the other hand you can get more people taking option 3, so basically when you get people taking a higher price, you get a lot of other things in it as well and it does seem to be decent demand.

Mark James

Fibre versus copper, do you think that is going to, if I quote £5, do you think that is going to get bigger, or get smaller.

IL

Well you call it £5 and I say it is not £5. We have priced at the same price as option 2 and option 3, effectively to make a good deal for customers. That seems to work, but what you get is a change in mix but price points today seem to be good, I mean sub £20 for fibre if it’s in your area, that is a really good deal.

TC

No material movement in the level of capitalisation.

Morten Singleton
Investec

Just getting back to the rural broadband question. You have highlighted increased network capabilities and this access network frequency plan I just wondered as well as sort of doubling the speed effectively, does it also improve the penetration rates and distance from the exchange and if that is the case should we not also be looking at perhaps passing more homes than the two thirds that you are looking for the £2.5bn by 2015 and whether indeed there would also be any change in your perspectives on the further roll out. I think we have heard you talking about if the government were to give you the circa £830m you could reach 90% of premises for maybe matching or somewhere near that figure, that investment, so whether the network technology has basically changed your perspectives on the finances of rural roll out.

IL

Well distance from the exchange isn’t really the big issue. Actually on fibre-to-the-cabinet it does not really matter if you are a long way from the exchange, what does matter is how far you are from the cabinet. It does not really have much effect - this dramatically increases the speed for people who are decent distance away but not, if you are miles and miles from a cabinet then the copper portion, which is what comes from the cabinet, you will struggle with the signal, you would have to look at other technologies or a new cabinet or fibre-to-the-home. So it does not really change the topology or how you would do it. The average distance, I think, people are from the cabinet in the UK is about 400 metres and so at that distance you should be down pretty close to 40Mbps. To give you an idea, I’m about 500 odd metres away and get 38Mbps.

IL

Okay, we will take one more question. Anyone, are we done.
Just about the dividend. I'm detecting a slightly more cautious note on your talking about the dividend and I can understand that because the pension thing has gone back a bit but the market seems to be expecting 13% growth to 8.4p next year and that does not sound like what you are saying, I wonder if you can just give any small specific thoughts on that.

Our statement dividend is exactly what it has been, which is we will do a progressive dividend. What is meant by progressive is that we will grow it responsibly and actually there is nothing on the pension that is bad news today. Today's stuff on pension is all good news, so nothing has changed, it is up to what the market wants to guess on the dividend. Some people see big movements, some people see reasonably small movements, but we have said we will grow this dividend in a solid, consistent fashion. In addition it is very well covered by cash flow, very well covered by profit, I think that is also a good thing because we have got other things to do but the shareholders can look forward to continued growth in dividends.

I don't think there is anything to add - I think we have said it, I mean the key thing, given our history, is we want dividend growth to be sustainable, that is what we think our shareholders want and to do that we have got to invest and reduce debt and make sure we top up our pension scheme - and that I think we are making a lot of progress in doing.

And that is where we are, we are doing all these things. So thank you very much everyone, have a very good few weeks.