

## 5. BRITISH TELECOM GROUP (BT) - UK

### 5.1 COMPANY INFORMATION

#### Exhibit 13 – British Telecom Group at a glance

Ownership	Individual holdings Institutional	18% 82%
CEO	Ben Verwaayen	
Chairman	Sir Christopher Bland	
Year established	1984	
Revenue 2002	£18.4 billion	
Export markets	Europe, Asia Pacific	
Major subsidiaries	BT Retail; BT Ignite; BT Wholesale; BTextact Technologies; BTopenworld	
Headquarters	London	
Employees March 2002	108,000	

(Source: Paul Budde Communication based on company data)

BT Group plc is the listed holding company for the BT Group of companies, while British Telecommunications plc (BT) is a wholly owned subsidiary. In 2002, the company is Britain's largest fixed voice, data, and Internet service provider.

British Telecom was originally a 100% government-owned company in the UK, but by early 1997 the state had reduced its holding to 1%. The first incumbent public telecommunications operator in the world to be privatised, BT was sold-off in three stages:

- 1984 (50%);
- 1991 (25%);
- 1993 (24%).

#### Exhibit 14 – Major subsidiaries – March 2002

Company	Activity	Holding	Country
British Telecommunications	Communication related services and products provider	100%	UK
BT Australasia	Communication related services and products provider	100%	Australia
BT Cablesips	Cablesip owner	100%	International
BT Communications Management	Telecommunication services provider	100%	UK
BT (Hong Kong)	Communication related services and products provider	100%	Hong Kong
BT Ignite	Communication related services and products provider	100%	Germany
BT Ignite Nederland	Communication related services and products provider	100%	Netherlands
BT North America	Communication related services and products provider	100%	USA
BT Property	Property holding company	100%	UK
BT Subsea Cables	Cable maintenance and repair	100%	UK
BT Ignite Espana	Communication related services and products provider	100%	Spain
BT (Worldwide)	International telecommunication network systems provider	100%	International
Esat Group	Telecommunication services provider	100%	Ireland
Farland BV	Provider of trans-border fibre network across BT's partners in Europe	100%	International
Syntegra Groep	Systems integration and application development	100%	Netherlands
Syntegra	Systems integration and application development	100%	France
Syntegra (USA)	Systems integration and electronic business outsourcing services	100%	International

(Source: Paul Budde Communication, based on company data)

**Exhibit 15 – Joint Ventures – March 2002**

<b>Company</b>	<b>Activity</b>	<b>Holding</b>	<b>Country</b>
Albacom	Communication related services and products provider	45.5%	Italy
Blu	Mobile cellular telephone system provider and operator	29%	Italy
LG Telecom	Mobile cellular telephone system provider and operator	16.59%	South Korea

(Source: Paul Budde Communication, based on company data)

**Exhibit 16 – Associates – March 2002**

<b>Company</b>	<b>Activity</b>	<b>Holding</b>	<b>Country</b>
Cegetel	Communications related services and products provider	26%	France
SmarTone Telecommunications	Mobile cellular telephone system provider and operator	20.66%	Hong Kong

(Source: Paul Budde Communication, based on company data)

**5.1.1 Year 2002 results**

Reported revenue was down 10%, but for continuing operations, was up 8%. This lead to an unchanged EBITDA before exceptional items of £5.7 billion. Turnover highlights were:

- retail revenue increased by 0.2 per cent in the full year;
- wholesale revenue increased 5%, reflecting an 8% increase in network volumes offset by price and mix variance;
- BT Ignite's revenue increased 29% to £4.48 billion. Excluding the effect of acquisitions and disposals, the increase was 11%, and was mainly due to growth in Solutions, European Connectivity and UK IP revenues.

BT's share of its continuing ventures' operating losses for the year was £108 million before goodwill amortisation and exceptional items. Cegetel contributed £168 million to total operating profit before goodwill amortisation. Concert's loss attributable to BT for the year was £225 million before exceptional items compared with a profit of £19 million in the prior year.

Profit before taxation from continuing activities before goodwill amortisation and exceptional items of £1,273 million was, £490 million lower than 2001 reflecting reduced operating profits, Concert losses and higher interest payable arising from previous acquisitions and investments in Third generation mobile system (3G) licences.

Impairment of goodwill and overseas assets was £3.9 billion.

Cash flow highlights were:

- £5.9 billion rights issue completed in June 2001;
- the demerger of mmO2 completed in November 2001 and the disposal of interests in Yell, Japan Telecom, J-Phone, Airtel and other businesses raised £8.0 billion;
- sale and leaseback of properties to Telereal raised £2.4 billion;
- capital expenditure on property, plant and equipment additions in continuing activities reduced by 20% to £3,100 million;
- operating free cash flow from continuing operations increased by £731 million to £2.65 billion before exceptional items.

Net debt at year-end was £13.7 billion, compared with £13.6 billion the previous year.

**Table 14 – Group revenue for years ending March – 1997-2002**

<b>Year</b>	<b>Revenue (£ billion)*</b>
1997	14.9
1998	15.6

Year	Revenue (£ billion)*
1999	16.9
2000	18.7
2001	20.4
2002	18.4

(Source: Paul Budde Communication based on company data)

Note: \*excludes associates and joint ventures revenue

**Table 15 – Group revenue by segment – 2002**

Segment	Proportion	Annual growth
BT Retail	41%	n/a
BT Wholesale	42%	+5%
BT Ignite	15%	+29%
Other	2%	

(Source: Paul Budde Communication based on company data)

## 5.2 BT COMPANY ANALYSIS – UPDATE DECEMBER 2002

By Paul Budde

### 5.2.1 Down to the depths

#### 5.2.1.1 The broader picture

When, in 1998, I first predicted that 40% of all incumbent telcos would not be around by 2010, it never occurred to me that icons such as AT&T and BT would be among the first casualties.

In spite of the fact that most of the major telcos are still using unsustainable, vertically integrated business models, I would have expected these two former goliaths to survive a little longer.

Following a decade of over-extension and high-risk tactics, to say nothing of almost two decades of naively cherishing dreams of removing political barriers to conquer the north American market, BT now finds itself forced to refocus, nearer at home, on its main strength – building affordable and quality networks for residential, business, government and community users. Governments around the world are only now beginning to recognise the fact that a world-class high-speed network will be the basis for many of its social and economic structures. Under pressure, BT started in February 2002, answering this call as is becoming evident in their restructuring programs.

The question will be is this too little too late? A Government Select Committee in May 2002 indicated that, in order to speed up the roll out of broadband, the regulator Oftel should consider the split-up off BT. Structural separation is definitely on the agenda. In late 2002 the OECD issued recommendations along those lines and in April 2002 the Australian Government announced the ‘virtual’ separation of its incumbent Telstra. Full network separation was being investigated in Australia at the close of 2002.

#### 5.2.1.2 Too little too late

Telcos are now frantically undergoing major structural changes, something I am fervently in favor of. But I am very critical of the way these changes are being presented to the market. It seems that the current changes are not based on carefully formulated visions.

I find it incomprehensible that a company the size and maturity of BT should have made such incredibly poor decisions, especially regarding 3G, for which there was clearly no acceptable business case. At that time several analysts (including myself) vociferously rejected the hype from vendors and financiers, but to no avail. Since 1999, we have maintained that ‘WAP is Crap’ and that the potential for billions in extra revenue from mobile data applications on new 3G systems was greatly exaggerated.

But BT persisted in paying the highest price of all, sacrificing everything in a lemming-like policy of market denial.

In April the company announced it would no longer pursue ‘fancy’ investments.

#### *5.2.1.3 Management should be held accountable*

I doubt that BT, during this period, actually knew where it was heading. The company’s bad management decisions were a reflection of well over a decade of poorly focused business activities. BT management blindly pursued a policy of disparate and inappropriate partnerships and investments overseas. While at home, its directors concentrated on defending their turf and taking advantage of telco legislation to delay competition and impede competitors, annoying and frustrating their customers in the process by, for example, deliberately rolling out services such as ISDN and Broadband slowly to avoid having to invest heavily in new infrastructures. The comparatively few services that they did roll out were at inflated and commercially unattractive prices.

All this in the name of ‘looking after shareholder value’! While some of that monopolistic behaviour might indeed have added a certain amount of value for the shareholders in the short term, it definitely did not add value to its business in the longer term.

To exasperate the situation, the company racked up a £30 billion debt in the process! This is criminally high, even for the affluent telecoms industry.

It amazes me that the market is accepting the demise of colossi such as BT so tolerantly. Management murmurs defensively about dot.com, global meltdowns and September 11<sup>th</sup>, blaming everyone and everything but themselves. And they are getting away with it.

Most CEOs, COOs, CFOs and the like regularly receive multi-million dollar bonuses. For what? Are they being rewarded for generating multi-billion dollar debts, for causing a total collapse of company share prices, for causing tens of thousand of employees to lose their jobs or for arrogantly ignoring the needs of a legion of dissatisfied customers?

#### *5.2.1.4 Urgent need for new leadership, -vision and -strategies*

Key ingredients of this new vision and direction should be:

- separation of its fixed network from its retail business;
- the access network should become a separate business;
- striving to become the preferred network operator for all types of access, coax cable, copper twisted pair, satellite, optical or wireless. Extra selling points and revenue earners will include network resilience, security, high capacity, network intelligence and dynamics. All need to be highly flexible in nature;
- opening up the network to smaller, mean and lean applications, as well as service software developers (ISP, ASP, Portals, Home Network Developers) and to content or service creators able to develop software and services direct onto the network;
- developing services in real-time, not in six months (and without the compulsory 12-month, fixed term contract);
- creating a new wholesale business model that allows revenue to be gained on opening access to the network. Permission-based models should be promoted to its potential wholesale and corporate customers;
- on an ongoing basis, new concepts, business models and products are needed for new types of services and content.

New chief executive Ben Verwaayen is currently intimating that he intends to concentrate on generating cash to provide flexibility, finance company growth and reduce debt. But this is to be his number two priority: providing satisfaction to the company’s millions of customers is to be number one. Then, subsidiary issues such as reducing the numerous levels of bureaucracy and improving lines of communications between workers and management are to be addressed. Cynics may rightly cry that

we have heard it all many times before, for we have, but analysts need to give the new kid on the block the opportunity to show his worth, if only for the benefit of the shareholders.

In sign of the state of which the industry is in, the company announced in April 2002 that it aims to bring customer dissatisfaction down by 25% per annum. Retail broadband prices were brought down, indicating the company's serious intention to lift its game in this emerging market.

#### *5.2.1.5 The road forward*

Since the business disasters of 2000 and 2001, significant developments have taken place. The company has sold its wireless network (mmO2). It has also sold its property division along with assets worldwide which, whilst of value and use to their new owners, were of no strategic value to a BT forced to seriously down-size its entrepreneurial ambitions by the de facto spectre of bankruptcy looming over the horizon. To be fair, though, half of the debt had been repaid by early 2002; by March 2002, BT was claiming to owe £13.7 billion.

With new leadership in place, the company now has a reasonable opportunity to move in the right direction. However, there will need to be an even greater revolution before it can re-surface as a leaner and meaner entity. BT has started on this process by recently selling off its retail outlets (and associated staff) and is planning to sell or hive off ancillary functions such as its IT support and building services. But there is still a long way to go. It is to be hoped that the new leaders can develop a vision for the future and that they will see fit to concentrate on their core business. BT needs to rid itself entirely of its archaic and bureaucratic culture, cease its navel-gazing and start thinking of markets and marketing, customer demands and revenue potential, not of technology and engineering or personal glory and boardroom perks.

#### *5.2.1.6 Be positive*

Despite the much-publicised downturn in the global economy, there is still money to be made in telecommunications, but only when BT has restructured itself to facilitate tapping into these new revenue streams, will that company be able to turn itself around, not just financially but, more importantly, in a business sense. This means concentrating on customers and viewing competitors in the market as collaborators, not as enemies who need to be frustrated, bullied and sued at every opportunity. Everything should be laid bare on the table, open for discussion including such holy cows as the fixed local access network.

A positively focussed BT, grounded in some of the principles outlined above, could once again become the international benchmark for other national telcos. By so doing, it could regain some of the prestige that it previously enjoyed as the undisputed bell-weather in the international telco market.

Interesting signs of where the company is heading started to arrive after the reorganisation:

- the wholesale division has been put in charge of the company's infrastructure;
- the key growth market earmarked by the company is broadband. However, its aim of 5 million users by 2006 is well below international benchmarks.

The company has indicated it still has global service provider aspirations and is considering new international partnerships to make it happen. But surely, any new strategic partnering will have to be mastered much better than has been done in the past.

### **5.2.2 Signs of a turn-around**

#### *5.2.2.1 Financial improvements*

BT was registering good news again in 2002. BT announced a 55% increase in profit before tax in its second quarter 2002 results compared with the same period of 2001. It also announced a 54% increase in earnings per share, and a return to the interim dividend list. Overall, BT increased its revenue by 2%

in the quarter. It had expected greater growth in broadband-related revenues – from 451,000 broadband subscribers as of November 2002 - but the management and operational changes were being implemented to see such growth in 2003. Importantly, the company reported that customer satisfaction was ahead of its competitors.

On top of these results, compared to many of its peers in Europe, BT was making good progress in managing its debt. With some €50 billion in debt in 2000, BT had cut this by around €20 billion by the third quarter 2002. In local currency, net debt at the end of September 2002 was £13.1 billion, down from £13.7 in March 2002, the start of the 2002 reporting period.

The October 2002 agreement to dispose of its stake in Cegetel to Vodafone in France will see net debt reduced by a further £2.5 billion (€4 billion) on completion. The different French businesses were being restructured under one management position to streamline operations.

#### *5.2.2.2 Broadband central to strategy*

In by late 2002, BT had clearly placed broadband at the heart of its strategy. It revealed a roadmap for its broadband business in November 2002. It set a target of 1 million broadband subscribers by mid-2003 and laid out plans to reach over 80% of the UK by 2005. BT also embarked on one of the UK's biggest advertising campaigns and introduced a range of consumer and business broadband products in 2002.

BT is to be commended for creating a Chief Broadband Officer to direct BT's policy on broadband developments across the entire company group. This managerial role, given to Alison Ritchie, the CEO of BT Openworld, can bring a focussed company-wide co-ordinated approach to broadband. BT Openworld's management was taken over by John Butler, director of new services and strategy.

Pierre Danon, BT Group main board director, and chief executive of BT Retail, clarified BT's co-operation with government and the need for government services as a driver for broadband service provision. The need for flexible regulation of broadband was also emphasised.

#### *5.2.2.3 BT Openworld restructure*

Following management's clear adoption of broadband for business direction, BT announced a framework for BT Openworld in December 2002. The business will be divided with the BT Openworld Internet access and portal services reporting to a new managing director, Duncan Ingram effective January 2003. All other parts of the BT Openworld portfolio will move to BT Retail, including the Internet operations, development and customer service team, and other Internet value-added services currently available to both BT Openworld and BT Broadband customers. The changes result in some cost savings coming from the avoidance of the duplication of activities in the future.

With Alison Ritchie taking on her new role as chief broadband officer, Duncan Ingram took management responsibility for BT Openworld, reporting to Pierre Danon, BT Group main board director, and chief executive of BT Retail. The strategic intent was to increase its focus on customer satisfaction and service. BT Openworld will be run as a separate business, independent of the rest of the BT Retail offering.

#### *5.2.2.4 BT Ignite and international businesses*

BT Ignite won one of the world's largest outsourcing contracts in November 2002, signing a seven year, €1 billion mobile and fixed network voice and data contract with Unilever. This was a vote of confidence in the BT Group.

France also came under strategic review in late 2002. BT wanted to strengthen its presence in France to compete more aggressively for business in the major corporate sector. It agreed to sell 26% of Cegetel to Vodafone in October 2002 and aligned all its operations in France under one overall country

manager. The proceeds of the Cegetel sale would see £2.5 billion reductions in group debt. BT businesses in France will build on existing relationships to grow revenues in France from under €100 million per annum. BT planned to leverage the capabilities of Syntegra France, Broadcast Services, Fluxus, Global Business and Ignite Solutions to compete for the largest multi-site corporate accounts in France.

BT had agreed with Cegetel the right to sell directly its global services to multi site corporate in France. BT will be working closely with Cegetel as its network partner in France. Cegetel's existing network and BT's Points of Presence (PoPs) were already connected to BT's pan-European fibre network.

The French market is a core part of BT's European market. Over a third of its potential multi-site corporate customers in Europe were based around four of France's major cities.

## 5.3 OPERATIONS

### 5.3.1 Overview

BT concentrates on voice and data services. It also develops and markets new higher value broadband and Internet products to its large customer base. The company comprises four separately managed lines of business:

- **BT Retail** – the UK's leading communications business and the prime channel to market for BT's other businesses;
- **BT Wholesale** – the provider of network services and solutions to communications companies, network operators and service providers, including BT Retail, BT wireless and BT Ignite;
- **BTopenworld** – a mass-market Internet business focused increasingly on broadband services;
- **BT Ignite** – an international, data-centric services and broadband IP business focused on European corporate and wholesale markets, and to a lesser extent, also the Asia Pacific.

BT also launched BTexact Technologies, a wholly owned business, comprising its engineering and technology research and development activities. Its principle customers are the other BT businesses and BT's alliance partners. BTexact Technologies also provides a select portfolio of professional and consultancy services to external customers.

See separate report: *United Kingdom – Key Statistics and Telecommunications Market Overview* at [www.budde.com.au](http://www.budde.com.au).

**Table 16 – Operating statistics – 1997-2002**

Year	Total lines (million)	UK Mobile subscribers (million)	UK fibre optic cable (million km)	Internet customers (million)
1997	27.6	2.70	3.30	n/a
1998	27.7	3.01	3.60	n/a
1999	28.1	4.52	4.06	n/a
2000	28.5	7.40	4.56	n/a
2001	29.0	11.16	5.10	1.25
2002	28.3*	n/a	n/a	1.75

(Source: Paul Budde Communication based on company data)

\* BT Retail only

**Table 17 – BT fixed call volume – 1998-2002**

Year	Call volume
1998	5%
1999	6%
2000	12%
2001	18%
2002	19%

(Source: Paul Budde Communication based on company data)

**Table 18 – BT exchange line connections and annual growth in the UK – 1997-2002**

<b>Year</b>	<b>Business lines (million)</b>	<b>Residential lines (million)</b>	<b>Service provider lines</b>	<b>Total (million)</b>
1997	7.2	20.3	n/a	27.6
1998	7.5	20.1	n/a	27.7
1999	8.0	20.0	n/a	28.0
2000	8.5	20.0	90,000	28.6
2001	8.9	20.0	70,000	29.0
2002	9.0	20.0	56,000	29.1

(Source: Paul Budde Communication based on company data)

### 5.3.2 Voice services

#### 5.3.2.1 BT Retail

BT Retail is the UK's largest fixed telephony service provider and is BT's primary marketing, sales and distribution channel in the UK. The business offers:

- Voice;
- Data;
- Internet;
- Multimedia;
- Managed communications services.

Oftel research shows BT Retail to be the main supplier for Internet service provision and hosting for small and medium-sized businesses with between five and 500 employees in the UK.

BT Retail is also the chief service provider for other BT business units. BT Retail is also a product company, sourcing and developing new packages and solutions for a wide range of customer markets.

For more information on the voice services market in the UK, see separate report: [United Kingdom – Voice, Data and Internet Services](#) at [www.budde.com.au](http://www.budde.com.au).

#### 5.3.2.2 BT Wholesale

BT Wholesale provides network services within the UK to more than 400 communication companies, network operators and service providers, including other BT businesses: BT Retail, BT Ignite, BT wireless and BT Openworld. BT Wholesale seeks to build complete communications packages working with its customers to help them succeed in their business.

Its assets in the UK include fibre optic cable and copper networks, the core telecommunications network and local exchanges. The BT Wholesale services include:

- ADSL;
- Internet Protocol (IP);
- Private circuits;
- Frame Relay;
- ISDN.

### 5.3.3 Internet services

#### 5.3.3.1 BT Openworld

BT Openworld is a mass market Internet business delivering services in the UK. Key services include:

- dial-up Internet access;
- Broadband access;

- Unmetered plans;
- SpeechMail.

On UK broadband, see separate report at [www.budde.com.au](http://www.budde.com.au): *United Kingdom - Broadband Market Overview*.

On the Internet in the UK, see separate report at [www.budde.com.au](http://www.budde.com.au): *United Kingdom – Voice, Data and Internet Services*.

### **5.3.4 Data services**

#### *5.3.4.1 BT Ignite*

BT Ignite represents BT's global broadband solutions business, focusing exclusively on the needs of multinational businesses throughout the world. It was created in July 2000 as an integral part of BT's refocused strategy.

For more information, see *British Telecom (BT) - BT Ignite, chapter 5.7, page 35*.

## **5.4 RESEARCH AND DEVELOPMENT**

#### *5.4.1.1 BTexact Technologies*

Established in January 2001, BTexact Technologies is a wholly owned business comprising BT's engineering and technology research and development activities. Its principle customers are the BT lines of business and alliance partners. BTexact Technologies also provides a select portfolio of professional and consultancy services to external customers.

## **5.5 OTHER DEVELOPMENTS**

### **5.5.1 Year 2002**

#### **January**

- Board changes.

#### **February**

- Agreed to sell 50% holding in e-peopleserve, the human resources outsourcing business, to Accenture, for US\$70 million cash.

#### **April**

- Transferred printing operations, including customer billing, to edotech Ltd;
- Unwinding of Concert joint venture with AT&T completed;
- Distribution agreement signed with Japan Telecom for BT's global business services in Japan;
- New business strategy and mobility initiatives announced expected to deliver extra revenues of £180m a year by 2004/05;
- April 2002 BT acquired the bankrupt Redstone network and its liabilities for £1.

#### **May**

- BT decided to stop selling pre-paid phonecards, as only 3% of BT payphone calls used them.

#### **June**

- BT joined forces with Computacenter to bring new IT services for small and medium businesses.

#### **August**

- BT completed the acquisition of the assets and business of Scoot.com plc, giving it a broad database covering businesses in the UK.

#### **October**

- Agreed to sell 26% stake in French operator Cegetel for £2.5 billion. Proceeds went to debt reduction;
- Agreed to sell interests in Italy's Blu SpA to Telecom Italia Mobile.

**November**

- Broadband group strategy announced, including targets and Chief Broadband Officer managerial role;
- BT Ignite won UK's largest outsourcing contract ever - €1 billion, 7-year contract - with Unilever.

**December**

- BT Openworld restructure announced, splitting portals and access away from other Internet services, which fall under BT Retail control.

**5.6 CONTACT DETAILS**

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**5.7 BRITISH TELECOM (BT) – BT IGNITE****5.8 COMPANY INFORMATION****Exhibit 17 – BT Ignite at a glance**

Ownership	British Telecom	(100%)
CEO	Andy Green	
Year established	2000	
Revenue 2002	£4.48 billion	
Export markets	Europe, Asia Pacific, US	
Headquarters	London	
Branches	92 countries	
Customers 2002	1.1 million in 442 cities in 92 countries worldwide	
Employees 2002	17,000	

(Source: Paul Budde Communication based on company data)

BT Ignite is responsible for all BT's international activities. Its focus is on the corporate market mainly aimed at European based multinationals but also looking for customers outside these regions with offices in Europe. Already 80% of their business comes from these corporates. The rest is residential and Small-to-Medium Enterprise (SME) business coming from a number of ventures that they launched over the last decade. However, the majority have since been sold off and most of the others will disappear overtime.

Established in July 2000, BT Ignite focuses on providing a complete global communications portfolio for business and wholesale customers in all major cities around the world. From simple connectivity over managed Internet Protocol (IP) and broadband networks, through to advanced applications and eBusiness solutions, to complex consulting and complete outsourcing; products and services are aimed at helping companies transform the way that customers do business. BT Ignite has over 10 years experience of delivering bespoke communications and systems integration systems to the corporate market.

In Europe, BT Ignite's customers represent 70% of the London FTSE (Financial Times Stock Exchange) and nearly all of the UK's major banks run their day-to-day operations over BT Ignite networks and systems.

For further information see: *British Telecom (BT) - UK, chapter 5, page 25* and *mm02, chapter 18, page 129*.

### 5.8.1 Year 2002 results

Reported group turnover increased 29% to £4.48 billion. However, excluding the effect of acquisitions and disposals, the growth was 18%. This underlying increase was mainly driven by the growth in Solutions, European Connectivity and UK IP revenues.

Revenue highlights were:

- Ignite Solutions grew 17% to £1.82 billion for the year. Syntegra's revenue grew by 8%;
- European Connectivity grew by 23%, excluding the effect of acquisitions;
- UK IP and other operations grew 29%. The fourth quarter results were negatively affected by the disposal of Clear Communications, and the transfer of a major customer to BT Wholesale.

EBITDA at £146 million was almost three times as big as in 2000. Employees were reduced by 2,400.

Capital expenditure decreased from £935 million to £609 million.

Net operating loss was more or less constant at £353 million, but the operating cash flow improved from negative £885 million to £463 million.

**Table 19 – Revenue for years ending March – 2000-2002**

Year	Revenue(£ billion)
2000	3.86
2001	3.47
2002	4.48

(Source: Paul Budde Communication based on company data)

### 5.8.2 Unwinding of Concert and BT's exit from AT&T Canada

On 16th October 2001, BT and AT&T announced the unwinding of Concert, their international joint venture. Its businesses, customer accounts and networks return to the two parent companies, with BT and AT&T each taking ownership of substantially those parts of Concert originally contributed by them. The working capital and other liabilities of Concert were divided equally between BT and AT&T with the exception that BT received an additional £275 million reflecting the allocation of the businesses.

BT and AT&T also terminated their Canadian joint venture agreement under which BT was committed to participate in AT&T's future obligation to acquire all of the publicly traded shares of AT&T Canada. AT&T takes full ownership of BT's interest in the Canadian joint venture and in AT&T Canada, and will assume full responsibility for all future obligations of the joint venture. BT ceased to have any interest in AT&T Canada, and is released from its future expenditure commitment associated with AT&T Canada.

For further information, see separate reports at [www.budde.com.au](http://www.budde.com.au):

- [AT&T Corporation](#);
- [Concert](#).

#### 5.8.2.1 Financial write down of Concert

BT wrote down in the second quarter of 2001 the value of its investments in both Concert and AT&T Canada. These were originally £1,236 million and £347 million respectively, before the write-down. The exceptional impairment charge of £1.2 billion against these investments comprises the elimination of BT's £347 million interest in AT&T Canada, all of BT's share of Concert's goodwill, approximately £260 million, and a write-down of £825 million in tangible fixed assets, mainly submarine cables, to be transferred to BT, offset in part by approximately £275 million from AT&T.

Some 2,000 people were expected to join BT after the unwinding of Concert, but it is also expected that the unwind will result in up to 2,300 job losses in the joint venture. Consequently, BT expects to recognise further exceptional restructuring charges of around £200 million for its share of redundancy and other unwind costs and additional transition costs. These costs were expected to be incurred in the second half of BT's 2001 financial year.

The transaction closed in April, 2002.

## 5.9 OPERATIONS

### 5.9.1 *BT Ignite – Europe*

Within Europe, BT Ignite has extensive scope and scale of operations. Features include:

- with 54,000km of fibre network across Europe BT Ignite has significantly more capacity than even the closest competitor;
- this capability links customers to 290+ towns and cities, connecting more than 2,500 buildings;
- more than 20 hosting centres securely manage and deliver online content and information;
- more than 400,000 customers including all the UK's major banks and 70% of the FTSE.

#### 5.9.1.1 *Belgium*

BT has been present in Belgium since 1988 and was renamed BT Ignite on 1st April 2001. BT Ignite Belgium offers a complete portfolio adapted to the specific needs of each company: SMEs, large corporations, multinationals, Internet Service Providers (ISPs) and carriers. Services are aimed at meeting customers' overall telecom needs in terms of data transmission, telephony, Internet, e-commerce, consultancy and completely tailored solutions. Some of BT Ignite Belgium's prestigious customers are The European Commission, Monsanto, Honeywell, NATO, Vedior Interim, Followeb and many SMEs.

#### 5.9.1.2 *Czech Republic*

This wholly owned subsidiary began operations in the Czech Republic in January 2000, offering voice, data, Internet and multimedia services to the business and wholesale markets.

#### 5.9.1.3 *Germany*

In February 2001, BT assumed full ownership of Viag Interkom, which was established in 1995. Fixed business has been incorporated into BT Ignite while mobile business is aligned with *mmO2* (see *chapter 18, page 129*). Services offered include the full range of IP, data and consulting services.

#### 5.9.1.4 *Hungary*

In 1999, BT established a subsidiary in Hungary to offer BT Ignite Internet Services on a national scale and interconnection to the BT Ignite pan-European network for international portfolio services.

#### 5.9.1.5 *Ireland*

In just five years since being established in 1997, Esat Business, a wholly owned division of BT Ignite, has become a leader in advanced voice, data and Internet services in Ireland with more broadband capacity than any other supplier and a strong reputation for world class customer service.

#### *5.9.1.6 The Netherlands*

In April 2001, the fixed business of Telfort, formed in 1997, moved to BT Ignite offering voice, data/IP, Internet and e-business services to the business and wholesale markets.

#### *5.9.1.7 The Nordic region*

In October 2001, BT Ignite took full control of the business customer elements of BT's Telenordia joint venture in Sweden and Finland - a relationship established in 1995, offering voice and data communications solutions. This complements the rollout in April 2001 of the second phase of Ignite's pan-European communications network with expansion into Denmark and Norway. In those countries, BT Ignite sells bandwidth through its European corporate and carrier sales force.

#### *5.9.1.8 Slovakia (Bratislava)*

BT Slovakia was established in January 2001 as an extension to BT Ignite's established operations in central and eastern Europe and provides IP solutions to the corporate and business market in Bratislava.

#### *5.9.1.9 Spain*

As BT Ignite's wholly owned operation in Spain, BT Ignite Espana has been leading the way in data communications for the country since 1994, successfully rolling out the first nationwide IP network in the world to deliver Public Switched Telephone Network (PSTN)-like functionality, quality and advanced IP services and now providing a centre of expertise for the rest of the group.

#### *5.9.1.10 Switzerland*

BT has had interests in the Swiss market since 1997, initially as BT Switzerland and until recently through sunrise communications AG. In April 2001, BT Ignite established an operation to deliver our portfolio of business communications solutions to this important market.

#### *5.9.1.11 UK*

BT Ignite UK was formed in mid-2000 from a number of already successful BT businesses in the data, IP and solutions space. It delivers a complete range of IP and data communications solutions to business and wholesale customers.

### **5.9.2 BT Ignite – Asia Pacific**

BT Ignite's operations in Asia Pacific are a key factor in the company's ability to deliver truly global end-to-end services for multi-national businesses.

Within the Asia Pacific, operations focus on:

- Singapore;
- Hong Kong;
- Seoul;
- Tokyo;
- Taipei;
- Thailand;
- The Philippines;
- China;
- Malaysia;

- Australia – Sydney and Melbourne.

Services in other countries are provided through partnerships with local communications providers. BT Ignite has approximately 250 tier one, multinational customers across the region.

## **5.10 SERVICES**

BT Ignite services are grouped into three areas:

- Connectivity;
- Security;
- Flexible working.

### **5.10.1 *Connectivity***

Connectivity services give customers the flexibility to tailor their requirements to individual needs. Key components include:

- Network services: A wide choice of networking infrastructures from Frame Relay to IP;
- Equipment: LAN switches, Wide Area Networks (WAN) routers, voice switches, firewalls;
- Equipment Services: A range of installation options from simple provision to full project management and systems integration services
- Consultancy on network optimisation and migration.

Regional customer-service activities are managed locally through centres in Hong Kong and Sydney.

Services include:

- Fault Management - from a single point of contact through to regular proactive management of your network. Technical expertise and management tools to complement customers' in-house IT skills;
- Service management - from network reporting to a dedicated Service Manager to Service Level Agreements or technical advisory services;
- Comprehensive e-Service offering;
- Multilingual support on request;
- Freephone access from many countries;
- Global proactive monitoring capabilities.

The centres in Hong Kong and Sydney are also linked to other Global Service centres in the USA and Europe.

### **5.10.2 *Security***

An increased focus and dependence on faster, more intelligent networks also raises the issue of security and the need for business continuity. Services include:

- Consultancy- pre and post implementation;
- Network and infrastructure security;
- VirusScreen/scanning;
- Digital certification;
- Disaster recovery.

### **5.10.3 *Flexible working***

Elements include:

- Secure remote access;
- Service and fault management;

- Audio and video conferencing;
- shared workspace;
- Consultancy.

## 5.11 OTHER DEVELOPMENTS

### 5.11.1 Year 2002

#### February

- BT joined Global Interoperability Group, a network of horizontal marketplaces within the Global Trading Web Association (GTWA) for global e-commerce.

#### April

- BT completed unwinding of Concert;
- Japan Telecom agrees to distribute BT global business services in Japan.

#### May

- BT, Dell and EMC launched BT Data Storage, a portfolio of networked information storage services;
- BT contracted to supply Visa EU with the technology to upgrade its European financial transaction processing network, known as VisaNet, to IP.

#### June

- BT won several of KPNQwest customers following that company's collapse;
- Esat Group connected its domestic network into the BT international network.

#### July

- BT formed a strategic partnership with ViryaNet Europe to deliver secure managed field solutions for service organisations across the UK and Europe.

#### November

- BT Ignite won UK's largest outsourcing contract ever - €1 billion, seven-year contract with Unilever.

## 5.12 CONTACT DETAILS

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