The transition to a competitive environment

The BT Experience

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Circulation Version

Early Years – From Open Market to Monopoly

1878: Early telephone services provided by private sector (eg National Telephone Company); General Post Office entered competition soon

1896: GPO took over NTC's trunk telephone services

1912: GPO took over private sector and became telephone service monopoly in UK (as a department of central government)

1969: GPO became a public corporation with two divisions: Post and Telecommunications

1981: Creation of two separate corporations and renaming to British Telecom

British Telecom
State-owned & Corporatized

80s'– Mark the beginning of two decades of market liberation

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1981: Creation of two separate corporations and renaming to British Telecom

1982: First market liberalization with licensing telecom operations to Cable & Wireless

1984: Privatization of >50% British Telecom

1993: 100% privatization, renaming to BT and introduction of a new segment specific structure, succession of a number of strategic alliances worldwide

1994: BT & MCI (US) launched Concert Communication Services ($1b JV) to provide global network for E2E advanced business services

1996: BT & MCI announced merger agreement

1997: MCI sold stake to WorldCom

1998: 50:50 global JV (Concert) with AT&T announced

2000: Local Loop Unbundling (LLU) in UK

1984 –Privatized, End of Monopoly

New Corporate Identity – BT
Global Expansion & JV

The 21st Century: Divestments, Re-Organisation, Streamline & Acquisitions

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Year 2001
Debt Restructuring

**launched
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siness services**

2001: BT restructuring and debt reduction program started: unwinding of Concert due to telecom market downturn; demergers of Yell and BT wireless (mmO2)

2004: Launch of 21CN (the world most ambitious and radical next generation network transformation)

21st Century 'New BT'

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A new BT in a competitive new world

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**JV (Concert)
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2000: Local Loop Unbundling (LLU) in UK

2005: >100,000 lines unbundled; important global acquisition (eg Infonet, Albacom, Radianz, Frontline)

2006: Launch of Openreach that manages UK access network on behalf of the telecoms industry

Transformation – Create new business values and capabilities

Divest

BT Group

Int'l / Wireless / Mobile

- Japan Telecom
- J-Phone
- Airtel
- StarHub
- O2 – BT Cellnet
- Maxis
- O2 - Telfort
- O2 – Viag Interkom
- O2 – Genie
- O2 – Esat Digifone
- Sunrise
- Rogers Wireless

Non-core

- Property - offices, exchanges, depots, warehouses, call centres & data centres
- Directories
- e-commerce
- Broadcasting& Other

Restructure & Acquire

BT Group

Restructure Organisation

Customers

BT Group
CEO
CFO
Group HR Director

BT Retail | BT Global Services | BT Wholesale | Openreach

BT Design

BT Operate

Suppliers

Create Global Services

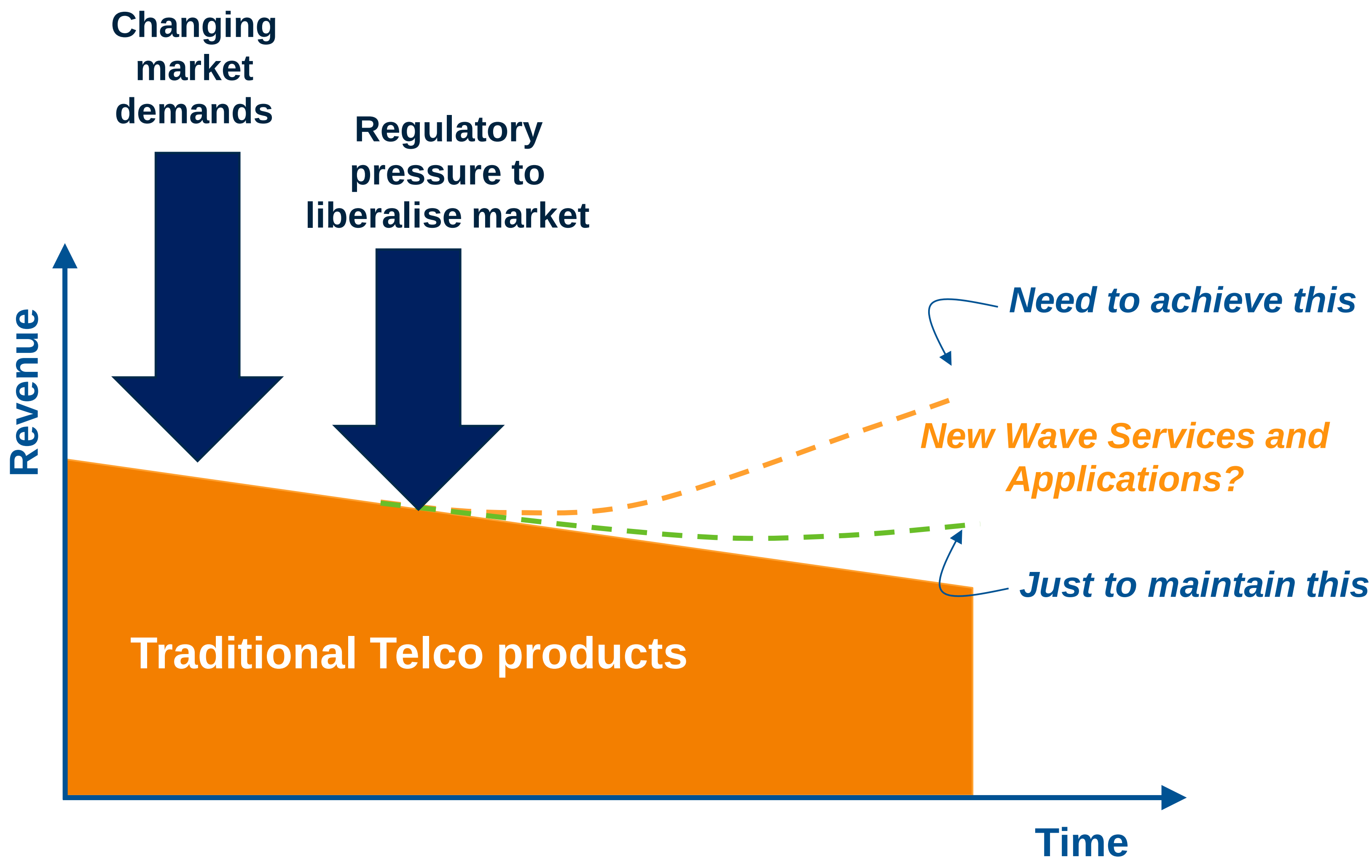
Acquire ICT Capability

FRONTLINE
SND
NET2S
i3
cara
INS
TNS
DinsaSoluciones
Counterpane Internet Security
ALBACOM
Enterprise
CS
infonet
KDDI BT Global Solutions
INS
Comsat International
Radianz
stemmer
Albacom Ampis
BT Telecom India JV
SkyNet
Atlanet
inmo
I.net
CWC Espana

Transformation : Why did BT do it?

Why?	How?
Outcome & Benefits	Lessons Learned

The future didn't look bright in 2001



We realised we had to change

….making hard decisions inevitable

Either

- **Strip back investments**
- **Reduce costs**
- **Manage a declining business for cash**
- **Focus on home market**

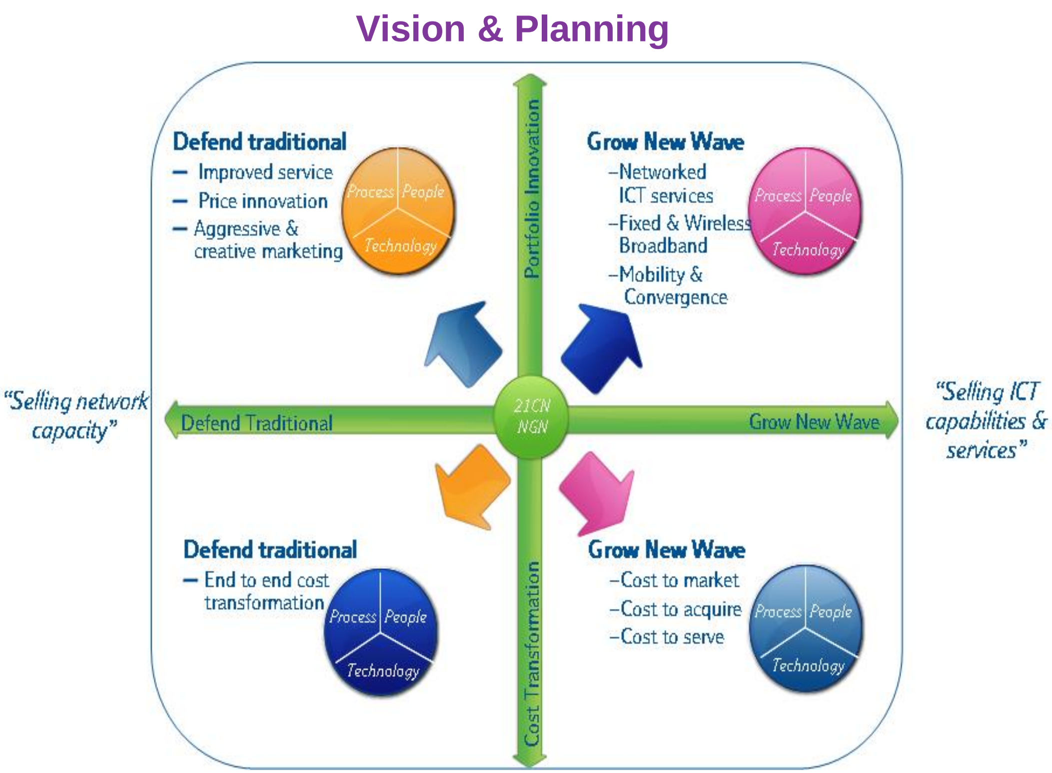
Or

- **Be radical**
- **Invest for growth in new wave**
- **Manage decline in traditional services**
- **Expand global business**

Or in the worst case do nothing at all …!!

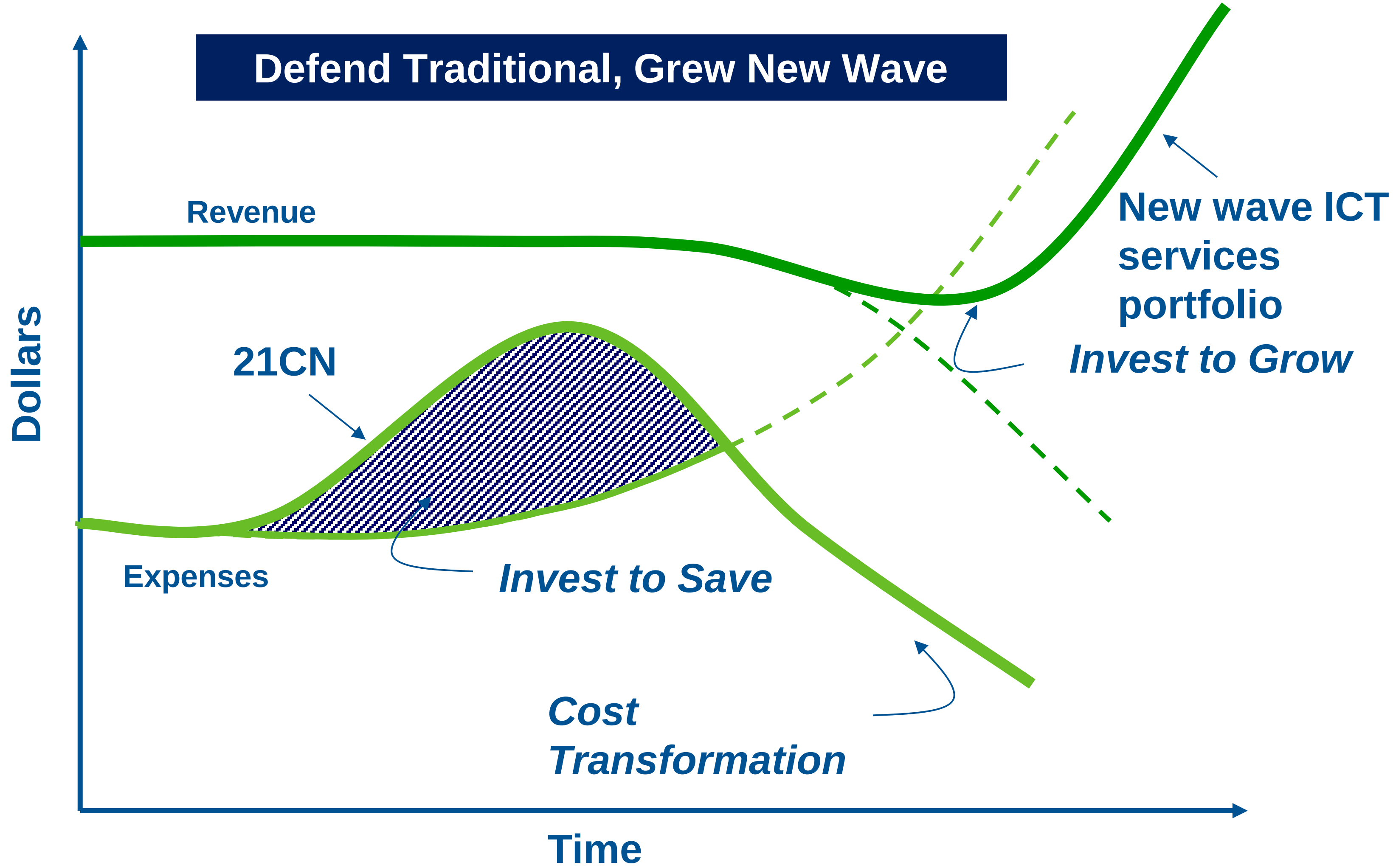
And we have chosen to invest in growth

- Leverage upon a NGN to
  - Defend the traditional business
  - Grow New Wave revenues
- To be successful, we need to address
  - Regulatory Relaxation
  - Customer Experience
  - Relentless Cost Transformation across people, process and technology
  - Comprehensive Market & Portfolio Transformation



With 21CN BT has set out strategy for investment and growth & created a Transformation Programme for the entire business

We need better cost structure and new revenue stream



Source: BT Group CTO Matt Bross

How did BT do it?

Why?

How?

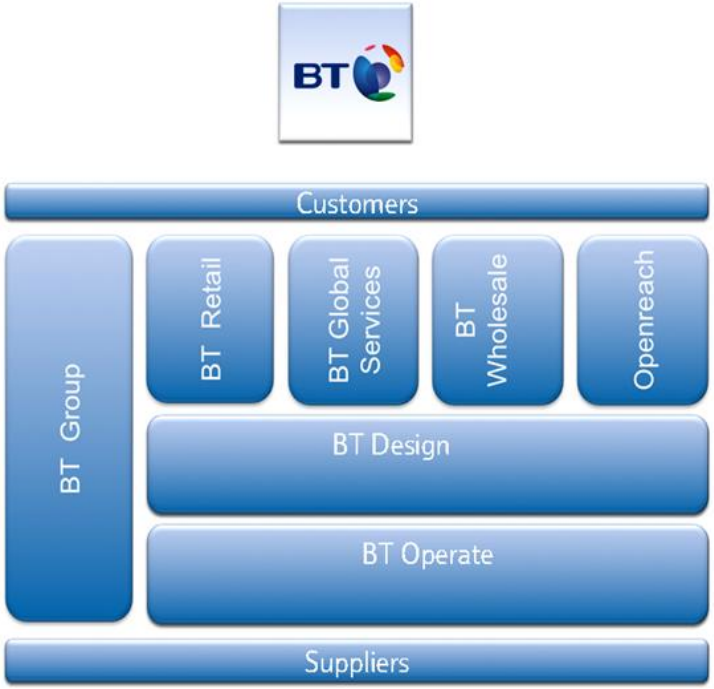
Outcome & Benefits

Lessons Learned

React proactively in exchange for regulatory relaxation

…………..so that we can focus and pursue our business strategies

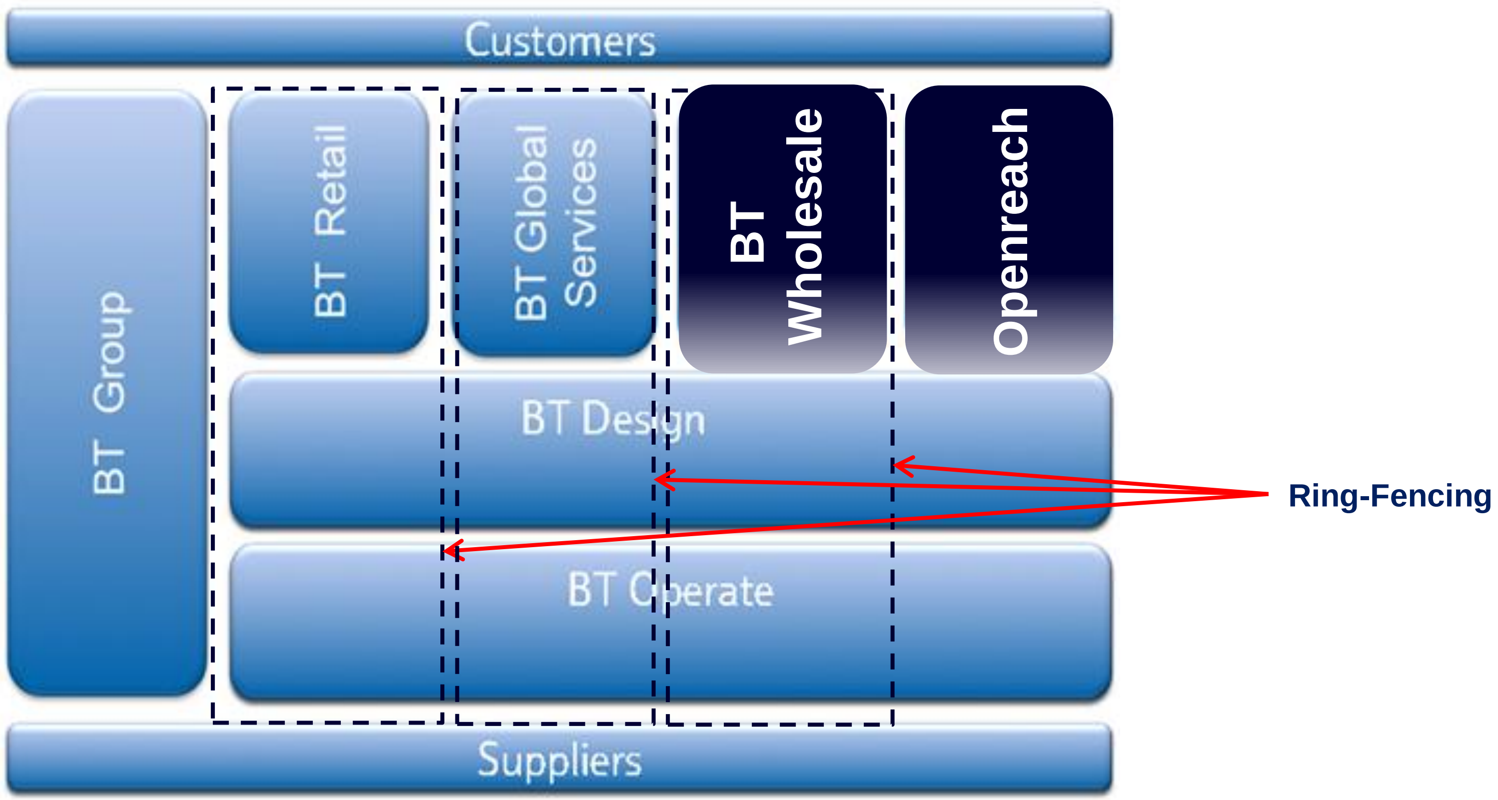
- BT Undertakings accepted by Ofcom on 22 Sep 2005
- Openreach
  - Equivalence : Ensure all communication providers (CP) have transparent and equal access to the BT nationwide local access network as any BT units
  - Physical separation of Openreach network & systems used by Openreach customers
  - Total management of all access and backhaul products
- BT Wholesale
  - Provide Equivalence to all CP in UK, i.e. CP would be able to use exactly the same set of regulated wholesale products, at the same prices and using the same systems and transactional processes, as BT's own retail activities.
  - Total management of all regulated products
- BT Design & BT Operate
  - clear "ring-fencing" of wholesale and retail design elements, confidential information and operations where there is any potential conflict of interest



React proactively in exchange for regulatory relaxation

…………..so that we can focus and pursue our business strategies

- BT Undertakings accepted by Ofcom on 22 Sep 2005 - Equivalence
- Functional Separation of BT Wholesale & Openreach
- BT Undertakings – Code of Practice for BT people



Structure of Success : 21CN Transformation Objectives

Number One for Customer Service	Simplify and speed up the way we work	Bring strategic strength to the business through an open, global IP platform

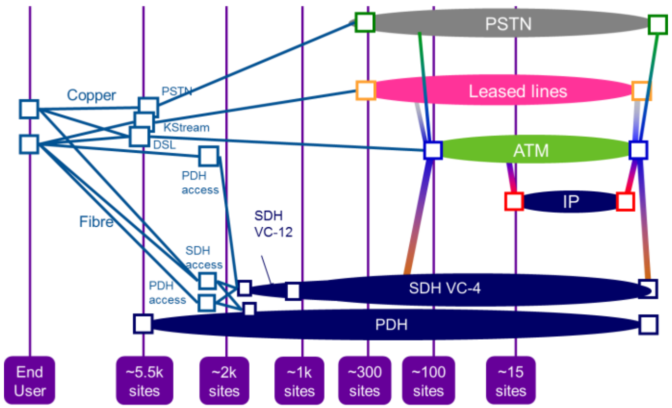
Harnessing the power of integrating people, process, networks, and software;
BT Design delivers platform-based services to keep BT Ahead of the Game

The Four Pillars of our Transformation

Business Alignment	People	Processes	Platforms
Working in partnership with the business to deliver for our customers, Right First Time.	Creating organizational capabilities for BT	Getting it right the first time, every time	Accelerating open innovation globally and reducing our cost to acquire & serve

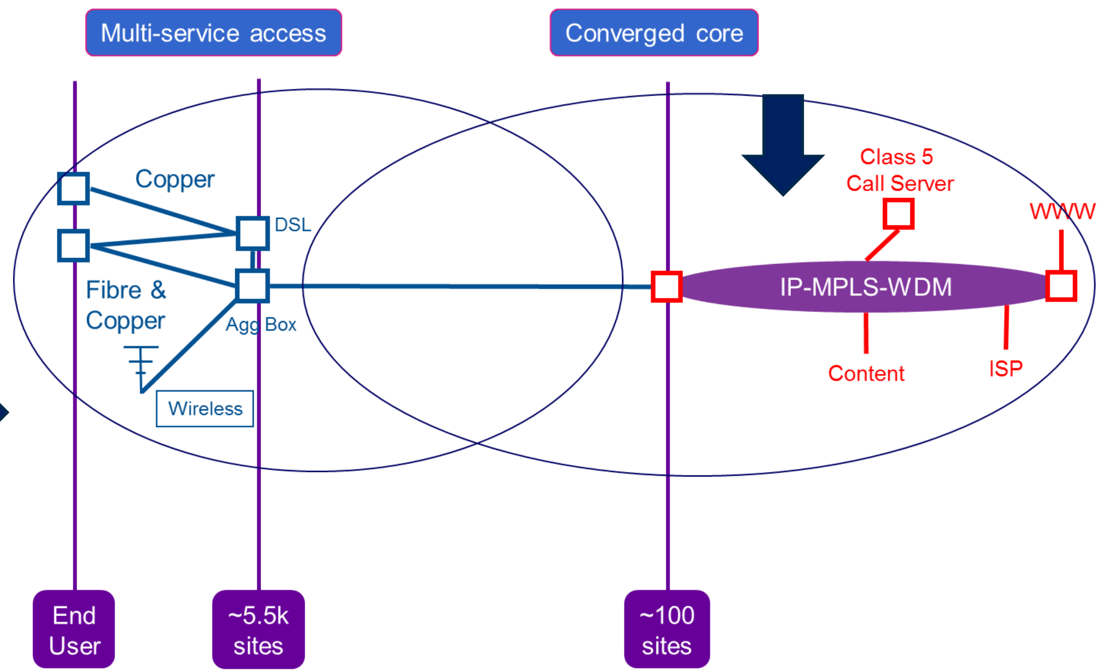
IP-based NGN - Simplify & speed Up the way we work

BT invested £10bn over 5 years in Network & Systems and infrastructure to target substantial long tern cost savings



- 17 Networks to one all IP-based
- 3,500 Support Systems to 400
- Shut down 600 Digital-Line Exchange
- 45,000 FTE reduced by 50%

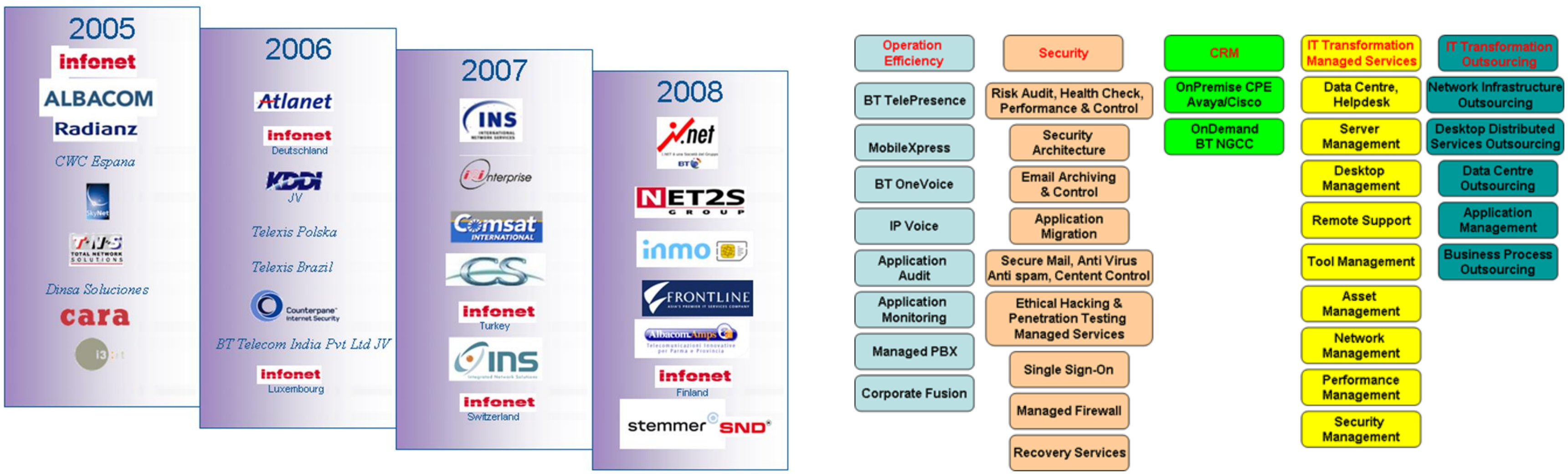
- Simplified product portfolio from 450+ to less than 150
- Increase Automation
- Reduce new product development costs and increase speed to market



Grow new wave ICT managed services

- BT's Global Services division was created in 2002/3 to become the world's leading ICT services provider focused on international Enterprise ICT & Wholesale services, in response to changing ICT needs and attitudes
- BT Global Services acquired more than 30 companies in the ICT industry in the past 5 years to develop, integrate and offer end to end global ICT solutions for enterprises and telecom operators
- Broad portfolio of ICT products and services including Professional Services to design, build and operate the ICT networks, systems & services for enterprises and telecom operators

BT's Global Services to become the world's leading ICT services provider



Outcomes & Benefits

Why?

How?

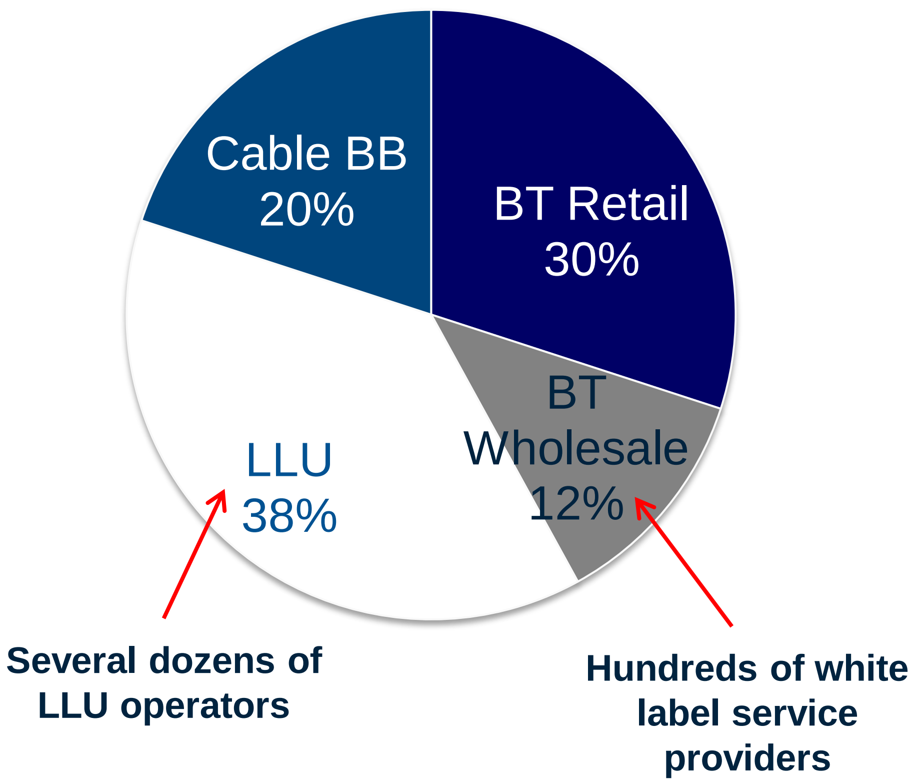
Outcome & Benefits

Lessons Learned

UK Telecom Market - one of the most open and competitive in the world

- Major Competitors
  - 5 fixed BB providers
  - 3 Fixed telephony providers
- Facts & Figures (Yr 2012):
  - Fixed residential BB : 21.7m (include 4m superfast BB)
  - Mobile subscriptions : 82.7m
  - Proportion of adults with BB : 76%
  - Average BB speed : 12 Mbps
  - Household broadband penetration stands at 73.6%

UK Broadband

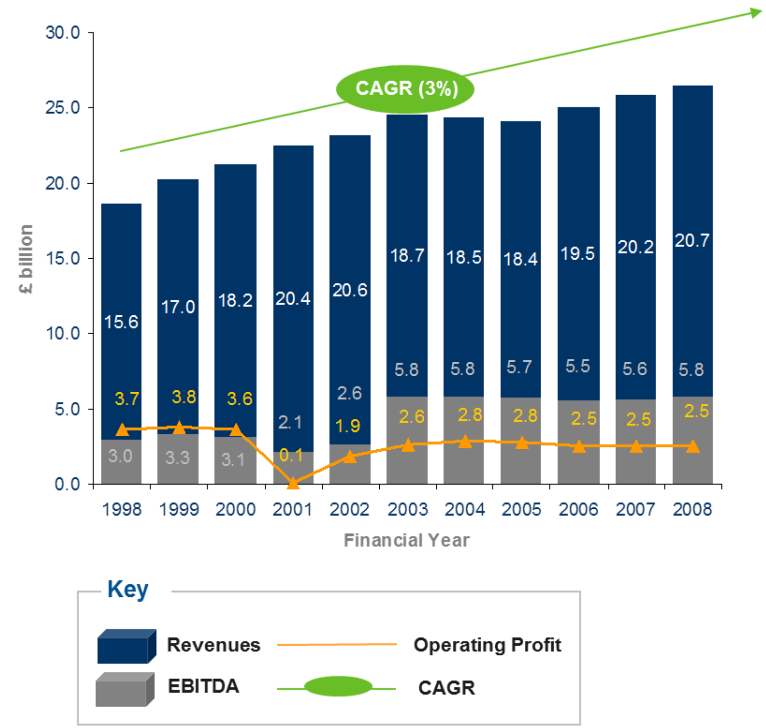


Wholesale is good business for BT

- Wholesale products and services contributed £9bn to BT Group
- Represent **46%** of BT Group Revenue of £19.3bn in 2012

Our results speak for themselves

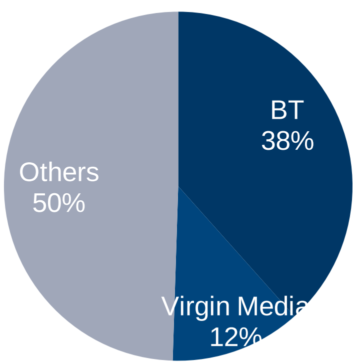
- Year 2012 EBITDA target of above £6bn delivered a year early
- Transformation Years – Positive revenue growth !
- Cost Savings : Total of £1.5bn saved from 2005/6 to 2007/8



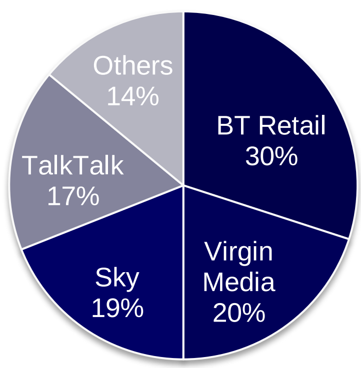
Source: BT Annual Company Reports

We are still the market leaders after 30 years of competition !

Fixed Line Market Share (Ofcom 2012)



Broadband Market Share (Ofcom 2012)



BT Global Services –grew from strength to strength

- BTGS contributes about £8bn revenue from customers in over 170 countries
- 40% of BT Group Revenue in Year 2012

Gartner Magic Quadrants assesses suppliers on delivering services for WAN, MPLS, IPsec, Ethernet, Voice and dedicated internet access including managed VPN

Lessons Learned

Why?

How?

Outcome
&
Benefits

Lessons
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Circulation Version

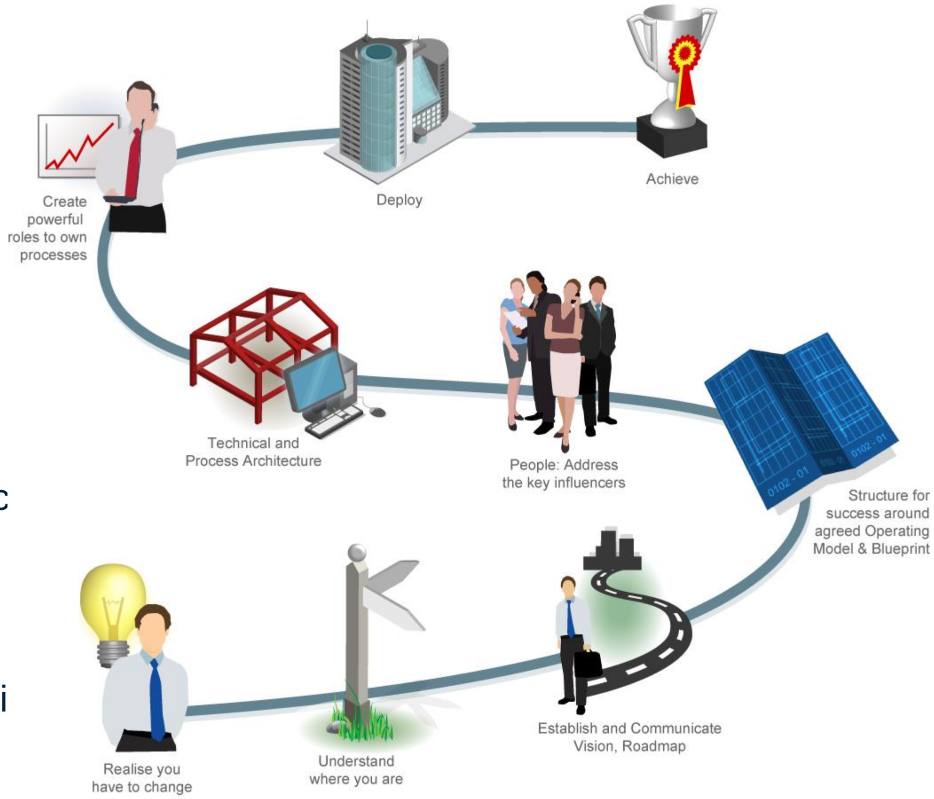
Lessons learnt

Structured planning is the foundation for success

- Embrace & facilitate Competition
- Plan vigorously and boldly
- Techno-Economic Modelling is key
- Change Management methodologies are a must
- Keep revisiting the business case
- Clear communication and transparency
- Transforming the organisation and culture is the biggest challenge
- Visible change leadership from Executive Management

Formula for a successful transformation

- Throughout its many successful transformations, BT has learned and refined the formula for successfully transforming the business. This formula is common to any transformation journey and is illustrated below.
- The transformation journey consists of 9 stages, and each must be passed through for success:
  - Realise you have to change
  - Understand where you are
  - Establish and communicate the vision and roadmap
  - Agree the operating model and blueprint
  - Address the key influencers to enable change in the organisation
  - Design the technical and process architec
  - Create powerful roles to own processes
  - Deploy quickly
  - Measure performance and Celebrate achi



We have shared our expertise and experiences with many operators in Asia

StarHub

Sri Lanka Telecom

TM

kt

CAT

Sense of Communications

BT

Bringing it all together