

The BT Story

23 February 2010

BT's Strategy

BT is now much more than just the provider of telecommunications networks and services in the UK. We have embraced fierce competition in our home markets and become an innovative and dynamic company competing in the converged markets of computing, IT and communications. We have moved onto the world stage, where we compete and win against some of the world's biggest companies.

BT today serves customers in more than 170 countries. We have one of the largest IP networks in the world with over 1,270 cities connected across the globe.

BT's strategy is to meet the demand for IT infrastructure and solutions among global organisations and satisfy the rapid expansion of broadband in the UK. At the same time as growing our business in these areas, we continue to deliver to customers in our more traditional business in the UK. Our services are designed to help customers make the most of the convergence of networks and services, mobile and fixed products, media and communications:-

- over 40% of Fortune 500 companies are our customers;
- the world's top 10 global stock exchanges depend on BT infrastructure;
- more homes in Britain now have access to broadband than have access to mains water; and
- over 65% of British households are now connected to broadband.

BT – the global company

BT is committed to developing its global business. We live in a global economy and broadband communications enable organisations to work seamlessly across time zones and borders. In order to help our customers reach new markets, and improve their productivity and operational efficiency, it is essential that we continue to build the IT infrastructure they need to compete in a global market.

Globalisation has changed the economics of business. It offers growth and competitiveness: trade protectionism does not. A BT that is successful at home and abroad will bring benefits to the UK and to its customers, large and small. For example,

- BT won over £6.9bn of new orders through its Global Services business in the last year;
- we provide services to some of the best known companies in the world e.g. Unilever, Reuters, Microsoft, Volkswagen, Volvo, BMW, Fiat, the EU, NATO, etc.

BT is a passionate champion of open standards and competition. To meet customer needs it is critical that barriers to entry are eliminated and all operators are treated equally. The protection of incumbent operators and national champions inevitably hurts consumers and the wider economy as choice is restricted, and innovation and investment are curtailed.

Broadband availability in the UK

Over 99% of UK homes now have access to broadband – the best in the G8. The UK has the second highest level of take up in the G8 and the UK is the most competitive market in the world, with over 400 Communications Providers providing choice and innovation to consumers. Broadband is available across the UK on an equal basis – BT is committed to providing services on a common basis, with no focus upon delivering fast speeds to cities alone as happens in many other countries. 89% of UK homes can already receive 2Mbs services. According to the EU, the UK ranks better for broadband than France, Germany, Italy or Spain.

Broadband – investing in faster speeds

As well as providing services across the UK in a non-discriminatory way, we are also looking to improve the speed of the broadband services we offer.

At the moment, our advanced ADSL copper broadband provides speeds of up to 20Mbps and is available to 40% of UK homes. Existing investment plans will see this reach 75% by Spring 2011.

Most attention is, however, focusing on plans for investment in fibre as the means to deliver super-fast broadband. Investing in fibre is risky and expensive, as shown by many independent studies. However, BT announced in July 2008 that it planned to invest £1.5bn by 2012 in super-fast fibre-based broadband. This investment will cover 40% of UK homes (10 million) and we expect that 4 million homes will have access by the end of this year.

There are two types of fibre being used - Fibre to the Cabinet (FTTC) delivering speeds of up to 40Mbps, perhaps rising to 60Mbps, and Fibre to the Premises (FTTP) delivering the UK's fastest speeds of up to 100Mbps (and potentially much faster) – as is happening now in Ebbsfleet Valley, Kent. Current plans are for 25% of the 10 million to be connected using FTTP.

There is no commercial case for going beyond 40% at present, but we aspire to much wider coverage when demand and finances allow. The scale of the challenge can be gauged by noting that the Broadband Stakeholder Group (BSG) estimates costs per customer in rural areas of between £400 to £1,700 per home for FTTC and from £2,000 to £10,000 per home for FTTP - costs are also heavily dependent on take up rates. Nonetheless, we are working with local groups to provide fibre based services in areas where it is otherwise uneconomical and will continue to do so whilst constantly reviewing our business case for further investment including changing the mix of FTTC and FTTP. No country in the world has deployed fibre to any significant extent without some kind of Government support, and there appears to be a growing consensus that the public policy should be to go further and faster than the current commercial case allows. The question remains, however, how to secure the appropriate level of funding.

Digital Britain

The Digital Britain Report was published on 16 June 2009 and set out the Government's plans for Britain to sustain its position as a leading digital economy and society. We are generally supportive of the broad range of proposals but have some concerns relating to:-

- the £200m funding for the **Universal Service Commitment** to provide 2Mbps broadband by 2012, which depends on Government agreement with the BBC Trust over the DSHS underspend;
- the 50p levy per line to help provide **Next Generation Access** to the 'final third', and issues around collection and administration;
- **Spectrum** proposals for 3G and 2G, which involve a substantial transfer of value from taxpayers to the mobile sector;
- **Copyright/P2P** proposals requiring Ofcom to reduce online copyright infringement and the procedures envisaged for implementation; and
- the many proposals to extend **Ofcom's powers**, which risk greater regulation and more bureaucracy unless carefully managed.

The **Digital Economy Bill**, now going through the UK Parliament, deals with those parts of the report where legislation is needed in order to implement the proposals. It does not deal with the USC, where powers exist already, or the NGA levy, which is to be covered in the forthcoming Finance Bill.

The Bill is still in the House of Lords and the timetable is tight if it is to pass into law before the General Election that must be held shortly. We continue to have some concerns:-

- on **Ofcom powers** - we hope the Government will put on record a statement indicating clearly the intention that the obligation on Ofcom to produce reports on infrastructure will be limited to a top-level review involving use of existing information wherever possible, rather than the imposition of onerous requirements on industry to provide detailed information.
- on **Copyright** - we believe that the draft Bill fails to deal adequately with issues on:-
 - due process, particularly on the principle of customers being innocent until proven guilty (at the moment customers would have to object and to demonstrate their innocence);
 - ensuring that any move to technical measures can only be taken after giving the earlier stages (notifications, education and new business models) a real chance to work; and
 - costs, where the principle of the beneficiary pays needs to be enshrined.

Three different House select committees have criticised elements of the Bill's provisions on copyright, most recently the Joint Committee on Human Rights. The Government needs to respond to these criticisms.

BT will continue to play an active part in taking forward the proposals in the Bill and more generally in response to the Digital Britain report.

Duct access

BT is willing to provide open access to our ducts and poles on a commercial basis. We advised Ofcom of this last year and we are working with them on how to achieve it. Other companies already have access to our exchanges so we are relaxed about providing them with another form of access as well.

Although it is unlikely to be the silver bullet to get fibre to every home, open access to all ducts, not just ours, might help BT and others extend coverage and so we would like to see a future government support such a move.

Duct access has been adopted in some other countries but normally as the only way for companies to access an incumbent's network. There are plenty of existing ways in which companies can access BT's network and so its impact may be less dramatic in the UK. We will only know for sure once they are opened. BT is taking a considerable degree of commercial risk by rolling out fibre and it will be interesting to see if others are willing to join us.

The 21st Century Network (21CN) - essential investment for future prosperity

In the UK, BT is building the world's first national IP network, recognising the critical part that collaboration and knowledge sharing through industry standards will play in future wealth generation. Outside the UK, the BT Global 21CN platform is now available in around 170 countries worldwide. The scale and investment involved in this activity sets us apart from other major network providers, particularly in the global reach of what we offer.

21CN is the world's first software-driven customer network. It enables customers to control and configure their services worldwide and it is designed for scaling up of capacity as needed.

Mobility and Convergence - allowing communications wherever you are

Computing and all forms of communication are going wireless and will increasingly be available on the basis of what you want where and when you want it. In the UK and Ireland, BT provides Wi-Fi access at almost one million hotspots making us the largest network. We continue to provide internet access in places where people want to log on including hotel chains, coffee shops, transport hubs, marinas, airport lounges, 16 major city centres, homes and independent businesses.

More than five million BT Broadband, BT Mobile Broadband and BT Openzone customers can use the internet at these locations. We are deeply committed to providing internet access wherever people want to log on, from their choice of Wi-Fi enabled device - where in or out of the home, the office or out and about - and will continue to grow our hotspot estate.

BT as a corporate citizen

BT is proud of its record as a world class employer and its contribution to Corporate and Social Responsibility projects around the world.

- we support the British Red Cross with funding for essential emergency satellite telephones, IT equipment and GPS systems for vehicles to help them deliver disaster relief worldwide;
- our partnership with UNICEF is bringing education, technology and communications skills to children from poor socio-economic backgrounds in Brazil, South Africa and China;
- in the UK, one of the charities we support is Childline, the emergency helpline for children and young people. Since 2002, we have donated services worth £5 million and helped the charity raise more than £6.5 million;
- more than 10,000 of our employees work from home. Some 64,000 people were equipped to work flexibly, using whichever locations were most convenient to them on a particular day;
- 96% of women return after maternity leave, compared with a UK national average of 47%;
- we invest at least one per cent of our corporate pre-tax profits in communities each year. In 2008/09, our investment amounted to £25 million – a combination of direct funding and in-kind support. Our employees donated an additional £2.5 million through Give As You Earn schemes;

- we have been rated number 1 in the telecommunications sector in the Dow Jones Global Sustainability Index for the last eight years;
- we are twice winners of the Queen's Award for Enterprise for Sustainable Development;
- we fund and manage the UK's largest corporate Education programme in schools; and
- our total tax contribution to UK central and local Government was nearly £3 billion in 2008/9.

BT in Europe – the ECommunications Review

BT can only compete and give European customers the choice they need if the regulatory environment is right. In autumn 2006, the European Commission proposed changes to the EU telecoms rules ensuring competition and consumer protection, which BT generally supported. During the whole review process BT has been campaigning for the ECommunications Directive to remain a force for competition and customer choice. Adoption of the new telecoms package has been further delayed however. In early May this year, it came to a clash between the European Parliament and the Council on a copyright related issue, which initially was not part of the telecoms package. It is now expected that the European institutions will find a final agreement in autumn after the newly elected European Parliament has resumed its work.

In the knowledge based economy, the ICT sector makes a major contribution to Europe's competitiveness, accounting for more than two fifth of overall productivity growth. Competition at the service level must be allowed if innovation and competitiveness is to flourish. Attempts to restrict such competition will hinder the future success of the European economy and lead to less choice for the European customer.

BT believes that investment is driven by competition. But this requires a level playing field with consistent implementation and enforcement across the EU. The key to more effective, and ultimately less intrusive, regulation in our sector is the strengthening of non-discrimination and transparency to ensure equivalent access to the incumbents' networks. BT is campaigning on the basis of these principles within the EU.

BT in the Americas

North America is a key market for the company. BT has had continuous presence since 1998, and now employs more than 4,700 people there. BT has recorded 50% revenue growth in the Americas for the past 5 years, and US headquartered companies generate approximately \$1.2 billion per year in revenues for BT. BT serves more than 1000 customers in the US and Canada.

BT provides a range of solutions for multinational enterprises covering Convergence, Security, Enterprise Mobility, Contact Centre Solutions and IT Outsourcing and Transformation. Customers include companies such as PepsiCo, BMS, Jacobs Engineering, Microsoft and Continental Airlines.

To support its transformation agenda, BT has made 6 US based acquisitions (INS, Counterpane, Infonet, WireOne, Ribbit and Comsat) - the latter to provide coverage in Latin America.

The cost of access continues to be BT's biggest regulatory issue. Since the major market consolidation in 2005 we have become entirely reliant on the incumbent operators to provide last mile access. The incumbents are enjoying rates of return well over 80%, which make it almost impossible for BT to produce a competitive bid on a US only contract.

BT in Asia Pacific

BT's presence in the Asia Pacific region dates back to 1985. Currently, there are over 20,000 people directly and indirectly employed (including Global Services, joint ventures, vendors and contact centres) across 17 countries in the region. BT's key focus areas in the region are: to provide communications reach and ICT solutions to global multi-site corporations and to help local customers in Asia Pacific take their business to a global audience, while providing traditional wholesale and next generation 21CN operator services to carriers and communications service providers. BT services over 500 multinational customers in Asia Pacific and has invested over US\$100 million over the past three years in network expansion and now has 33 MPLS nodes in the region.

There is a significant diversity in communications regulatory frameworks in the Asia Pacific Region ranging from fully liberalised to closed monopolies. BT's policy focus in the region is to work with governments and regulatory authorities to encourage effective regulatory frameworks which foster competition and enable market access to all players. BT actively encourages Governments to comply with their WTO and trade commitments in the telecoms sector and to remove any existing barriers to international companies entering the market.

Regulation and Openreach

Control of the access network is with Openreach, a new business within BT, specifically set up to provide access network services and products on an equal basis to all the UK communications industry. Openreach is responsible for the bottleneck part of the network which includes the last mile access between the home and the business exchange and backhaul, the network which lies between the local exchange and the point of presence of competitors and BT's downstream arms. It began operating in January 2006, has assets of £8 billion and employs 20,000 engineers.

BT - in figures 2008/2009 (to 31 March 2009)

Revenue	£21.4 billion
Profit before tax	£0.2 billion
EBITDA	£5.5 billion
Capital Expenditure	£3.1 billion
Total Exchange lines in UK	26.3 million
Wholesale Broadband connections	13.8 million approx
Employees (direct)	105,000 approx

BT Vision

BT Vision is our next generation television service. It uses a single set-top box to deliver to the TV set pay per view and subscription video on demand services, digital terrestrial 'free to air' channels, communications and interactive services - including in due course video telephony and instant messenger. The service is designed to be easy to use, bringing the next generation of TV technology within reach of a mass audience and putting the UK at the forefront of the development of digital TV delivery. There are now over 450,000 customers.

BT Vision's service covers the range of 'traditional' programming such as first run movies, older, classic library movies, high profile UK and US episodic television programming, children's programming, sports and music. The service gives customers the opportunity to watch programming with complete flexibility, not only in terms of when and what they watch, but also how they pay for it.

Vision customers can view programmes from the leading rights owners, including Disney, Dreamworks, BBC Worldwide, NBC Universal, HBO, Paramount, Warner Music Group, and National Geographic. We also offer BT Vision Sports, and have rights to show 46 live Premiership football matches in 2009/10, as well as 242 Premiership matches just hours after the final whistle. Matches from Scotland and other major European leagues are also available.

Pay TV

Ofcom's pay TV consultations say that Sky has 100% of the wholesale pay TV market for premium movies and over 80% of the wholesale pay TV market for sports. This reduces choice and raises prices. While locking BT and others out of the pay TV market, Sky leverages its dominant position to cross-subsidise its products in broadband, where BT provides open and equivalent access for all. This is, therefore, a structurally flawed market - new providers cannot enter because they cannot outbid Sky for key content. As a result, customers are paying too much and have too little choice. BT and other providers could offer cheaper alternatives if the market is opened up.

Ofcom needs to take action urgently to encourage competition, which will bring choice and lower prices in exactly the same way that BT wholesale provision of its network has made the UK one of the cheapest and most dynamic markets in the world for communications.

BT supports Ofcom's proposal to require Sky to offer its premium channels to other providers in the wholesale market. A full set of channels must be available, and Ofcom must set clear prices in order to avoid pricing designed to keep out competitors.

NHS

BT has been working with the NHS for the past 60 years. Since 2003, BT has been delivering three major contracts to provide IT services to the NHS in England as part of the NHS National Programme for IT (NPfIT), the world's largest civilian IT project. The project is critically important to the health service, and it is now delivering enormous benefits to doctors, nurses and patients.

BT has built and is managing N3 – the state of the art, secure broadband National Network for the NHS – connecting every NHS organisation across England and Scotland and over a million NHS employees. BT completed the network two months early in January 2007. It is one of Europe's largest Virtual Private Networks with more than 43,000 connections throughout England and Scotland. Replacing old and more expensive technology, it provides the foundation for other frontline applications. It supports, for example, the complete transfer of a patient's GP record in the fraction of time it used to take. It is also helping the NHS make efficiency and quality improvements. The N3 network has now been voice-enabled, allowing trusts to converge their voice and data over a single network – slashing the cost of internal phone calls and calls to mobiles.

BT is working with the NHS in London and the South of England to modernise its IT systems and services to help provide safer and more efficient healthcare. More than 200 new IT systems and services have been installed by BT at NHS trusts and today there are over 100,000 healthcare professionals registered to use them.

In particular, great progress has been made in Mental and Community Health care settings, where new specialist health IT systems are working in more than 85% of trusts in London. BT has also installed major new IT systems at five acute trusts – an area which has been more challenging as BT works with hospitals to manage massive programmes of change. The most recent to go live was Kingston Hospital NHS Trusts at the end of November 2009. Although it is early days, so far it has gone well and positive feedback has been received from the customer.

Recently, BT has extended its role to the South of England. This includes taking over the running of the IT systems at eight acute trusts previously installed and managed by Fujitsu Services Ltd and installing new IT systems at Mental and Community Health trusts, where it is making good progress.

BT is also building and managing the Spine, the secure database which stores essential patient information, including demographic and clinical information which may be important for the patient's future health and care. Its messaging capability also enables the delivery of a range of other services being rolled out as part of the NPfIT in England, including the Electronic Transmission of Prescriptions and Choose and Book.

For more information please visit the BT Health website at <http://www.btplc.com/health/>

BT and Climate Change

BT has been active on climate change for many years and our strategy for carbon cutting includes reducing our own emissions, influencing suppliers to produce lower carbon-emitting products, influencing customers by proposing lower carbon solutions to their needs, and engaging with our workforce, to reduce their personal carbon footprints and help them influence their local communities.

Specifically, we have pledged to:

- build on the 58% reduction in carbon emissions that we have achieved for our UK operations since 1996, by targeting an 80% reduction by 2016;
- review our energy supply, including exploring the further potential of wind; and
- incorporate energy consumption and environmental factors into our procurement processes.

BT supports targets as a means of setting a framework. The UK must use its capabilities in both the public and private sectors and develop new links between the academic communities, public authorities and industry to work to common goals. This should happen on a national, multi national and global basis, The UK should be at the forefront in encouraging appropriate responses globally, which will differ by location and social and economic circumstances.

BT is one of Britain's biggest consumers of electricity, with an annual requirement of around 0.7 per cent of the UK's entire consumption. Our 'green energy' contract is saving the equivalent amount of carbon as that resulting from the electricity consumption of over 300,000 households every year. BT has also announced plans to develop wind farms aimed at generating up to 25 per cent of its existing UK electricity requirements by 2016. The wind farm scheme is the UK's biggest corporate wind power project outside of the energy sector. Costing up to £250m, it will bring together third party funding and renewable energy partners to safeguard future supplies of clean, green energy for BT. Subject to planning consent and suitable sites being secured, BT's wind farms would prevent the release of 500,000 tonnes of CO₂ each year compared with coal generation.

BT and the 2012 Olympics

BT is the Official Communications Service Provider for the London 2012 Olympic and Paralympic Games. We will be responsible for providing all communications services to the London Organising Committee (LOCOG) and all communications services to the workforce and at venues. We are also a Sustainability Partner and will work with LOCOG to help stage sustainable Games.

Digital Divide

With broadband availability at almost 100% across the UK, there is no digital divide in terms of whether or not people can access the range of opportunities offered by the internet via the broadband network. There is, however, still a divide between those who have access to computers at home and those that do not. BT works with partners across the UK to introduce people to the benefits of the internet and has provided 5,000 diverse community groups with an internet-ready PC and other kit via the BT Community Connections Award Scheme.

Net Neutrality

BT's services are designed around what our customers want. The UK has the most competitive communications market in the world and this fact means that many of the concerns around the net neutrality debate in the US are not relevant to the UK. In order to enable competition and innovation, *all upstream network owners* should allow any content to be carried on fair and equal terms, including services provided to their own downstream businesses. At the same time, as long as it is on a fair and equitable basis, these network owners can offer and charge for additional capabilities to enable differentiated service levels (such as guaranteed quality of service). Service providers need the flexibility to develop and implement different services and innovative services and charging models.

SOME THINGS YOU MIGHT NOT KNOW.....

- **Sorting out spam** - Around 90 per cent of e-mails on the internet are spam. BT introduced the world's first fully-automated 'spam buster' system in October 2006.
- **BT Conferencing** - is the number one conferencing provider in Europe. The use of **conferencing** has reduced our carbon footprint by 100,000 tonnes of CO2. And we are helping our customers achieve the same sort of result. Our conferencing business has grown by 21% in the past year.
- **Keeping your home safe** - BT Home security is broadband compatible, can be set/unset from mobile phone or via the internet, and alerts you via email, phone, or text if triggered.
- **Crime fighting** - BT's satellite technology is being used in the first police mobile forensic lab. It can conduct DNA and blood tests at the crime scene instantly linking into national databases, making the first critical minutes of a serious crime investigation more effective.
- **Financial centres across the globe** - 60,000 traders in over 800 trading firms across 51 countries rely on BT's voice applications and integration technologies.
- **Broadcast TV** - BT Tower is a global media hub, handling an average of 90,000 hours of UK and international broadcast content every day.
- **Mental Health** - BT has launched a major programme to tackle problems such as anxiety, depression and stress in its workforce. BT has cut the number of employees off work suffering from psychiatric problems by 30 per cent over the last four years.
- **Our Home IT support service** has provided 10 million minutes worth of advice on problems ranging from wireless connections to storing digital photos since its launch 18 months ago.