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# UK and Pan-European Altnets

- ★ *Underweight, but watching for turnaround signs*
- ★ *Earnings disappointments likely  
Some signs of rationalisation ... but too little  
More supportive sector sentiment*

May 2001

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# Revenue Trend 1H01-on-1H00

Company	1H00 Revenue (£m)	1H01 Revenue (£m)	1H-on-1H growth	
			Actual (%)	Forecast (%)
C&W Global Division*	1,622.0	1,940.0	19.6	17.1
COLT Telecom	198.8	317.7	59.8	59.8
Energis	202.8	368.0	81.5	79.3
Telewest	392.5	555.3	41.5	44.8
KPNQwest	66.8	145.8	118.1	
Equant	352.4	514.2	45.9	42.8
Kingston*	92.8	108.6	17.0	14.6
THUS*	101.1	103.9	2.7	1.9
Versatel	17.4	58.1	233.7	235.8
Atlantic Telecom*	28.1	32.0	13.9	13.9
<b>TOTAL</b>	<b>3,074.8</b>	<b>4,143.5</b>	<b>34.8</b>	<b>33.1</b>
<b>TOTAL (ex-C&amp;W Gbl Div)</b>	<b>1,452.8</b>	<b>2,203.5</b>	<b>51.7</b>	<b>50.8</b>
Note: 1H01 represents 1-Apr to 30-Sep estimates for all companies (i.e. 2Q00 and 3Q00 for Dec YE companies). Pro-forma prior-years estimates derived for Telewest and Atlantic Telecom. Data in £				

# Voice: Data Revenue Split

Carrier	Voice % Rev	Data % Rev	Network Ownership
Cable & Wireless	60	40	Lighting dark fibre
COLT Telecom	65	35	Building own
Concert	50	50	Lease (use of Ignite in Europe)
Energis	55	45	Largely building own
Equant (with Global One)	1	99	Lease / IRUs
FirstMark	0	100	Dark fibre / lease / IRUs
FLAG Telecom	0	100	Building own
Global Crossing	52	48	Building own
GTS Telecommunications	53	47	Building own
Ignite	0	100	Building own/dark fibre
Infonet Services	0	100	Lease / IRUs
Interoute	0	100	Building own
KPNQwest	0	100	Building own/dark fibre
Level 3 Communications	0	100	Building own
360networks	0	100	Building own/dark fibre

# EBITDA Trend 1H01-on-1H00

Company	EBITDA		Growth		EBITDA margin		Change	
	1H00 (£m)	1H01 (£m)	Actual (%)	Forecast (%)	1H00 (%)	1H01 (%)	Actual (% pts)	Forecast (% pts)
C&W Global Division*	286.0	245.0	(14.3)	(19.6)	17.6	12.6	(5.0)	(5.5)
COLT Telecom	(0.8)	4.0	n.a.	n.a.	(0.4)	1.2	1.7	1.4
Energis	38.2	65.5	71.2	63.0	18.9	17.8	(1.1)	(1.7)
Telewest	103.3	122.5	18.6	12.1	26.3	22.1	(4.3)	(5.9)
KPNQwest	(13.0)	(35.5)	n.a.		(19.3)	(24.2)	(4.9)	n.a.
Equant	54.7	59.9	9.5	5.9	15.5	11.6	(3.9)	(4.0)
Kingston*	14.8	8.8	(41.0)	(53.2)	16.0	8.1	(7.9)	(9.5)
THUS*	5.7	(17.3)	n.a.	n.a.	5.6	(16.7)	(22.3)	(24.1)
Versatel	(23.2)	(48.5)	n.a.	n.a.	(132.8)	(83.1)	49.7	43.6
Atlantic Telecom*	(22.8)	(27.7)	n.a.	n.a.	(81.3)	(86.4)	(5.1)	(22.7)
<b>TOTAL</b>	<b>442.9</b>	<b>376.6</b>	<b>(15.0)</b>	<b>(24.0)</b>	<b>14.4</b>	<b>9.1</b>	<b>(5.3)</b>	<b>(6.2)</b>
<b>TOTAL (ex-C&amp;W Gbl Div)</b>	<b>156.9</b>	<b>131.6</b>	<b>(16.1)</b>	<b>(32.0)</b>	<b>10.8</b>	<b>6.0</b>	<b>(4.8)</b>	<b>(5.9)</b>

Note: 1H01 represents 1-Apr to 30-Sep estimates for all companies (i.e. 2Q00 and 3Q00 for Dec YE companies)  
Pro-forma prior-years estimates derived for Telewest and Atlantic Telecom. Data in £

# Capex Trend 1H01-on-1H00

Company	1H00 Capex (£m)	1H00 Capex/ Sales (%)	1H01 Capex (£m)	1H01 Capex/ Sales (%)	1H-on-1H growth Actual (%)	Forecast (%)
C&W Global Division*	1,106.4	68.2	1,235.2	63.7	11.6	15.7
COLT Telecom	196.5	98.8	351.2	110.6	78.8	99.0
Energis	98.1	48.4	187.2	50.9	90.8	78.0
Telewest	260.0	66.2	281.0	50.6	8.1	15.4
Equant	68.9	19.5	112.1	21.8	62.8	65.8
Kingston*	33.4	36.0	70.3	64.7	110.6	109.4
THUS*	45.1	44.6	76.0	73.2	68.4	88.3
Versatel	53.0	302.8	163.8	280.6	209.3	132.0
Atlantic Telecom*	21.7	77.1	34.6	108.2	59.8	50.0
<b>TOTAL</b>	<b>1,883.0</b>	<b>62.6</b>	<b>2,511.5</b>	<b>62.8</b>	<b>33.4</b>	<b>33.5</b>
<b>TOTAL (ex-C&amp;W Gbl Div)</b>	<b>776.6</b>	<b>56.0</b>	<b>1,276.3</b>	<b>62.0</b>	<b>64.3</b>	<b>57.7</b>

Note: 1H01 represents 1-Apr to 30-Sep estimates for all companies (i.e. 2Q00 and 3Q00 for Dec YE companies).  
Pro-forma prior-years estimates derived for Telewest and Atlantic Telecom. Data in £

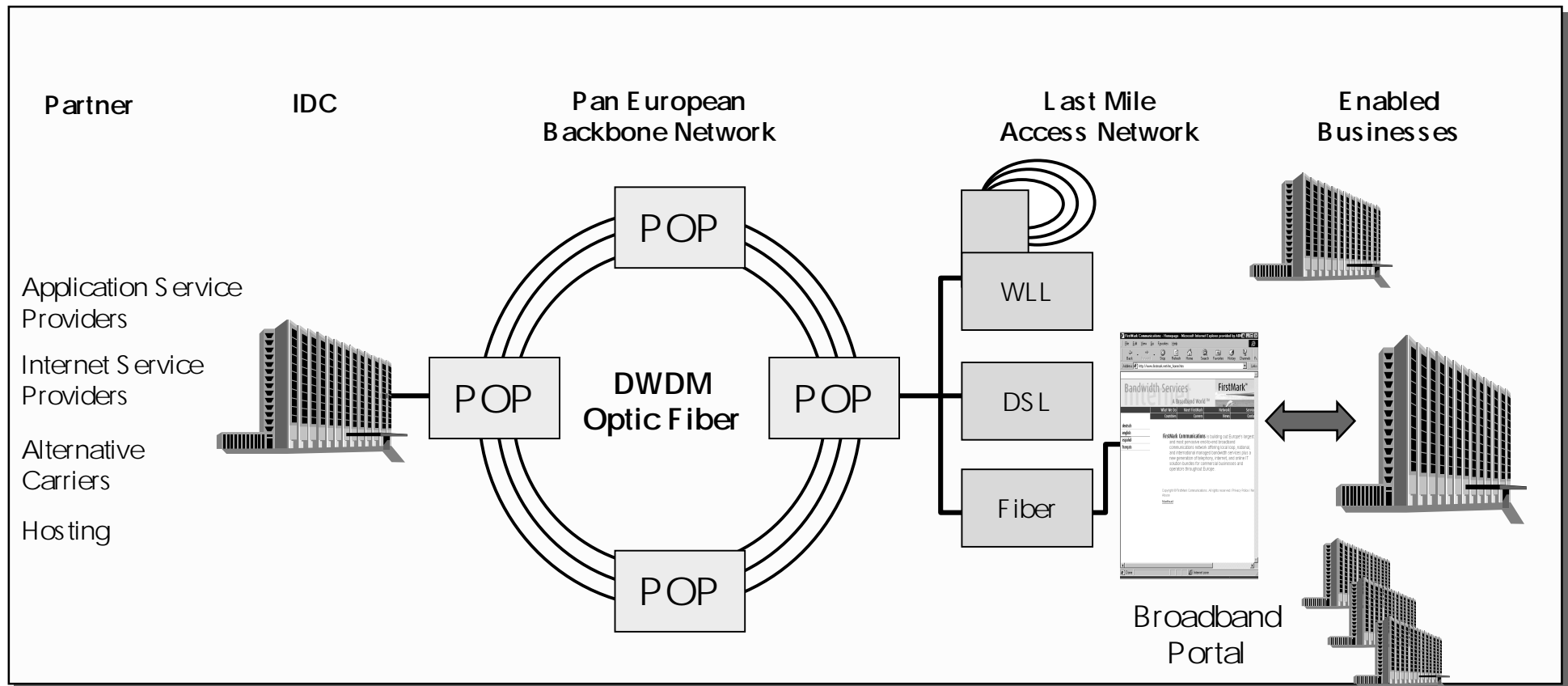
# Cost Control is a Differentiator

Positives favour the more established altnets		
Factor	Importance	Comments
J-Curves	High	Large Altnets at inflection ... but smaller ones struggling
Unit Costs	High	Next generation networks on-line from 2001
Outsourcing	Middling	Helps overcome lack of scale
Tax	Low	Accumulated losses will reduce overall tax bill

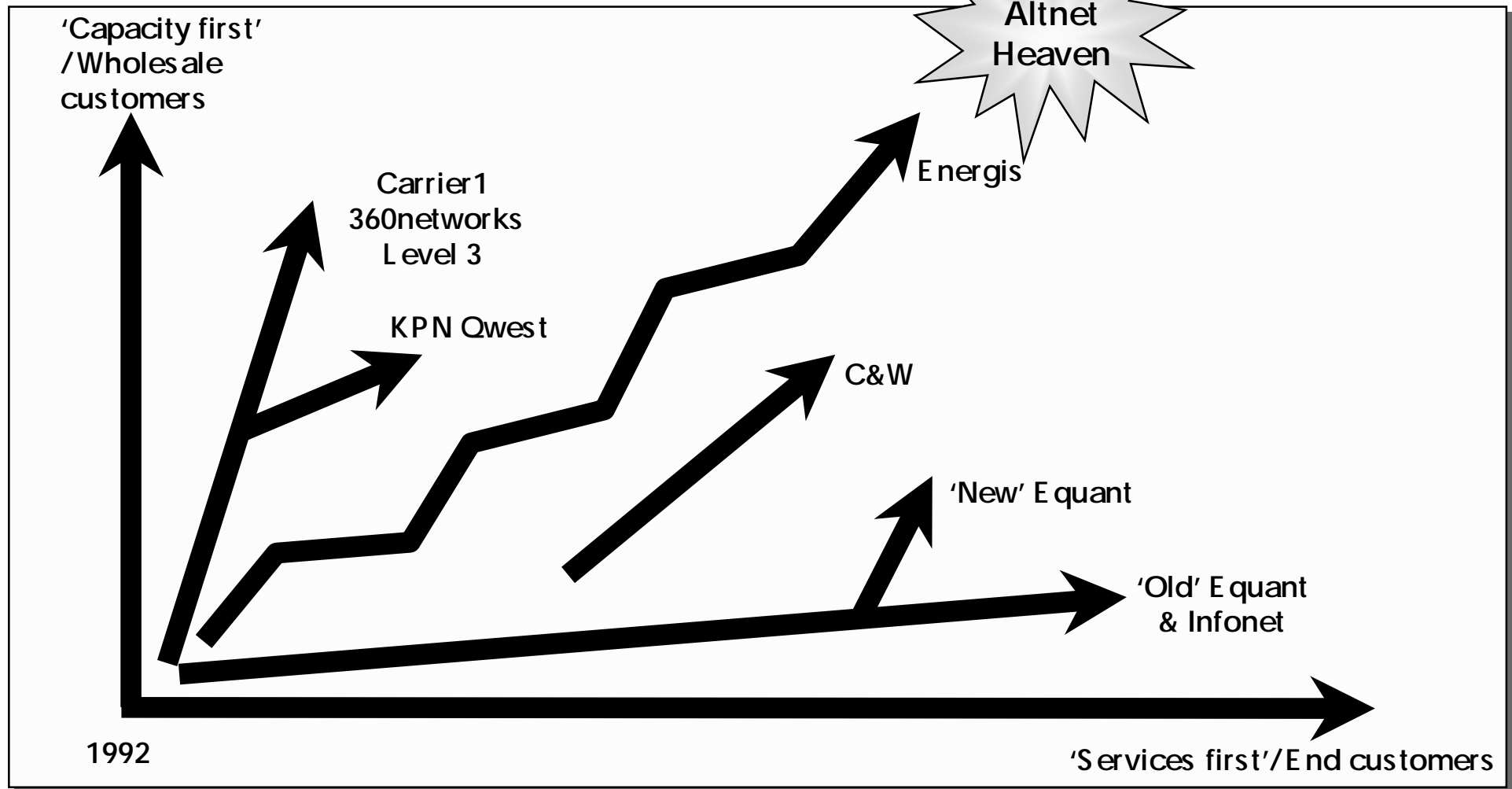
Negatives hurt the smaller Altnets more		
Factor	Importance	Comments
Broadband Access	High	DSL imposing significant extra burden in 2001
Price Pressure	High	Seems to have eased somewhat in 4Q
S G&A	High	Hard to manage when you are trying to grow
Distribution	Middling	Finding low cost distribution a problem

# Altnet "Heaven" : Full End-to-end Connectivity



(i) service quality and range; (ii) margin control

# Alternative Stairways to Altnet Heaven





# Next Generation Networks...

## | **Defined by:**

- Broadband end-to-end capacity
- Optical switching
- IP routing
- Processing as well as transmission (i.e. real convergence)

## | **Benefits relative to second generation**

- New products, new sales, new revenue
- Significantly lower costs
- Greater control by customers
- Lower churn => closer customer relationship

...significant commercial service in 2001

# Prospective Pan-european End-to-end (Increasingly IP Backbone) Operators

Carrier	Global	pan-Europe	End-to-end network		
			IDC	Backbone	Last mile
Cable & Wireless	✓	✓	✓	✓	✓
Carrier1		✓	✓	✓	✓
COLT Telecom		✓	✓	✓	✓
Energis		✓	✓	✓	✓
Equant / Global One	✓	✓	✓	✓	✓
FirstMark		✓	✓	✓	✓
FLAG Telecom	✓	✓		✓	
Global Crossing	✓	✓	<b>sold</b>	✓	✓
GTS Telecommunications		✓	✓	✓	✓
Ignite (Concert)		✓	✓	✓	✓
Infonet Services	✓	✓		✓	✓
Interoute		✓		✓	
KPNQwest		✓	✓	✓	✓
Level 3 Communications	✓	✓	✓	✓	✓
Metromedia Fiber Networks	✓	✓		✓	✓
Viatal		✓	✓	✓	
360networks	✓	✓	✓	✓	

Plus a similar number of regional and niche operators

# Pan-European IP Backbone Database

Carrier	IDC floorspace		Backbone route kms	
	actual sq ft (000)	planned sq ft (000)	actual kms (000)	planned kms (000)
Cable & Wireless	227k (w/wide)	1.0m (w/wide)	upgrading	17.0
COLT Telecom	624.0	1,000.0	6.6	14.0
Concert			building	75.0
Energis	80.0	200.0	30.0	35.0
Equant			leased	move to IRU
FirstMark	90.0		8.3	12.0
FLAG Telecom			28.0	64.5
Global Crossing			80.0	160.0
Global One		8 centres	40 countries	
GTS Telecommunications	288.0	288.0	17.5	25.0
Ignite	250.0	800.0	50.0	70.0
Infonet Services			upgrading	720.0
Interoute			3.0	14.5
KPNQwest	100.0	550.0	6.2	20.0
Level 3 Communications	5.5m (w/wide)	6.5m (w/wide)	28.0	33.6
360networks		540.0	5.0	18.0

Maybe about a 10 fold increase in capacity in c.2 years

# Adjusting Global Comps for Key Differences

Valuation Issues	North America	Europe	Asia
Market differences	Contiguous market, Structural separation, Common regulation	Increasing common market, Full service carriers, Separate regulation	Dis aggregate market, Full service carriers, Different regulatory regimes
Timing of VoIP	Quickly from 2001	Gradually from 2001	Gradually from 2001
Voice v Data	50:50	60:40	70:30
HS data v dial up	2000	2001	2001
Strength of customer relationship	Weak	Good	Strong
Re-balancing of revenue	Awkward structure	Good ... But subject to regn.	Strong
Demand v supply of bandwidth	Supply >> Demand	Supply > Demand	Demand > Supply
Quality of bandwidth	High	Good	Moderate
Leased v own infrastructure	Largely own	Mostly dark fibre	Mostly lease
Next generation network	Early 2001	Late 2001	Later

US is further ahead on demand, and has a different industry structure...useful operational benchmarks but less good for valuation

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