

HOGAN & HARTSON

L.L.P.

COLUMBIA SQUARE
555 THIRTEENTH STREET NW
WASHINGTON DC 20004-1109
(202) 637-5600

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BRUSSELS
LONDON
PARIS
PRAGUE
WARSAW
BALTIMORE, MD
BETHESDA, MD
MCLEAN, VA

JOEL S. WINNIK
PARTNER

DIRECT DIAL (202) 637-5857

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

BY HAND DELIVERY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

GN 96-245

**Re: The Merger of MCI Communications Corporation and
British Telecommunications plc**

Dear Mr. Caton:

Today, MCI Communications Corporation ("MCIC") and British Telecommunications plc ("BT") are filing the Federal Communications Commission ("FCC" or "Commission") applications and notification necessary to effect their proposed merger. The complete filing consists of three volumes. Volume One contains a description of the merger plan and sets forth the public interest statement. Volume Two contains the Section 63.11(b) Notification of MCIC, a Section 214 transfer of control Application and certain Section 310 transfer of control Applications. Volume Three contains exhibits relevant to and referenced by Volumes One and Two.

Pursuant to Commission practice, the original Section 214 Application and certain of the original radio Applications are being filed simultaneously herewith in Pittsburgh. One original radio application is being filed simultaneously in Gettysburg. Enclosed herein is an original and three copies of Volume One, Volume Three and the sections of Volume Two containing the Notification of MCI, a DBS transfer of control Application and the FCC Form 430 Licensee Qualification statement of BT. The originals in Volume Two enclosed herein are designated by yellow tabs.

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Mr. William F. Caton

December 2, 1996

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In addition to the attached three copies, Applicants are providing copies of all three volumes to the individuals listed on the enclosed Certificate of Service list.

Please address any questions regarding this filing to the undersigned.

Respectfully submitted,

HOGAN & HARTSON L.L.P.

By: Joel S. Winnik
Joel S. Winnik

Enclosures

CERTIFICATE OF SERVICE

I, Kathy Bates, a legal secretary with the law firm of Hogan & Hartson L.L.P., hereby certify that on this 2nd day of December, 1996, a copy of the foregoing Applications and Notification was delivered by hand to the parties listed below.



Kathy Bates

Dated: December 2, 1996

**Chairman Reed E. Hundt
Federal Communications Commission
1919 M Street, N.W., Room 814
Washington, D.C. 20554**

**Commissioner James H. Quello
Federal Communications Commission
1919 M Street, N.W., Room 802
Washington, D.C. 20554**

**Commissioner Susan Ness
Federal Communications Commission
1919 M Street, N.W., Room 832
Washington, D.C. 20554**

**Commissioner Rachelle B. Chong
Federal Communications Commission
1919 M Street, N.W., Room 844
Washington, D.C. 20554**

**William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554**

**John Nakahata
Senior Legal Advisor
to Chairman Reed Hundt
Federal Communications Commission
1919 M Street, N.W., Room 814
Washington, D.C. 20554**

**Jackie Chorney
Legal Advisor to Chairman
Reed Hundt
Federal Communications Commission
1919 M Street, N.W., Room 814
Washington, D.C. 20554**

**Pete Belvin
Senior Legal Advisor
to Commissioner Quello
Federal Communications Commission
1919 M Street, N.W., Room 802
Washington, D.C. 20554**

James Coltharp
Special Advisor
to Commissioner Quello
Federal Communications Commission
1919 M Street, N.W., Room 802
Washington, D.C. 20554

Rudolfo M. Baca
Legal Advisor to Commissioner Quello
Federal Communications Commission
1919 M Street, N.W., Room 802
Washington, D.C. 20554

James L. Casserly
Legal Advisor to Commissioner Ness
Federal Communications Commission
1919 M Street, N.W., Room 832
Washington, D.C. 20554

David R. Siddall
Legal Advisor to Commissioner Ness
Federal Communications Commission
1919 M Street, N.W., Room 832
Washington, D.C. 20554

Daniel Gonzalez
Legal Advisor to Commissioner Chong
Federal Communications Commission
1919 M Street, N.W., Room 844
Washington, D.C. 20554

Suzanne Toller
Legal Advisor to Commissioner Chong
Federal Communications Commission
1919 M Street, N.W., Room 844
Washington, D.C. 20554

Joseph Farrell, Chief Economist
Office of Plans and Policy
Federal Communications Commission
1919 M Street, N.W., Room 822
Washington, D.C. 20554

Greg Rosston, Deputy Chief
Economist
Office of Plans and Policy
Federal Communications Commission
1919 M Street, N.W., Room 822
Washington, D.C. 20554

Robert M. Pepper, Chief
Office of Plans and Policy
Federal Communications Commission
1919 M Street, N.W., Room 822
Washington, D.C. 20554

Elliot Maxwell, Deputy Chief
Office of Plans and Policy
Federal Communications Commission
1919 M Street, N.W., Room 822
Washington, D.C. 20554

William E. Kennard
General Counsel
Federal Communications Commission
1919 M Street, N.W., Room 614
Washington, D.C. 20554

David H. Solomon
Deputy General Counsel
Office of General Counsel
Federal Communications Commission
1919 M Street, N.W., Room 614
Washington, D.C. 20554

James Olson, Chief
Competition Division
Office of General Counsel
Federal Communications Commission
1919 M Street, N.W., Room 658
Washington, D.C. 20554

Thomas Spavins
Chief Economist
Competition Division
Office of General Counsel
Federal Communications Commission
1919 M Street, N.W., Room 658
Washington, D.C. 20554

James Earl
Competition Division
Office of General Counsel
Federal Communications Commission
1919 M Street, N.W., Room 658
Washington, D.C. 20554

Larry Spiwak
Competition Division
Office of General Counsel
Federal Communications Commission
1919 M Street, N.W., Room 658
Washington, D.C. 20554

Don Gips, Chief
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 800
Washington, D.C. 20554

Diane Cornell, Division Chief
Telecommunications Division
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 800
Washington, D.C. 20554

Roderick K. Porter, Deputy Chief
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 800
Washington, D.C. 20554

James L. Ball, Associate Chief (Policy)
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 800
Washington, D.C. 20554

Mindel De La Torre, Deputy Chief
Telecommunications Division
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 800
Washington, D.C. 20554

George Li, Deputy Chief (Operations)
Telecommunications Division
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 800
Washington, D.C. 20554

Troy Tanner, Chief
Policy and Facilities Branch
Telecommunications Division
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 800
Washington, D.C. 20554

Thomas Wasilewski, Chief
Multilateral and Development Branch
Telecommunications Division
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 800
Washington, D.C. 20554

Mark Uretsky, Senior Economist
Telecommunications Division
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 800
Washington, D.C. 20554

Kerry Murray
Telecommunications Division
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 800
Washington, D.C. 20554

Thomas Boasberg
Senior Legal Advisor
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 800
Washington, D.C. 20554

James Hedlund
Telecommunications Division
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 800
Washington, D.C. 20554

Thomas Tycz, Chief
Satellite and Radiotelecommunication
Division
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 800
Washington, D.C. 20554

Cecily C. Holiday, Deputy Chief
Satellite and Radiotelecommunication
Division
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 800
Washington, D.C. 20554

Karl Kensinger
Satellite and Radiotelecommunication
Division
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 800
Washington, D.C. 20554

Frank Peace, Jr.
Satellite and Radiotelecommunication
Division
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 800
Washington, D.C. 20554

Fern Jarmulnek, Chief
Satellite Policy Branch
Satellite and Radiotelecommunication
Division
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 800
Washington, D.C. 20554

Joanna Lowry
Telecommunications Division
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 800
Washington, D.C. 20554

Brett Haan
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 853
Washington, D.C. 20554

Regina Keeney, Chief
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W., Room 500
Washington, D.C. 20554

Mary Beth Richards
Deputy Bureau Chief
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W., Room 500
Washington, D.C. 20554

Geraldine Matise, Chief
Network Services Division
Common Carrier Bureau
Federal Communications Commission
2000 M Street, N.W., Room 230
Washington, D.C. 20554

Kent R. Nilsson, Deputy Chief
Network Services Division
Common Carrier Bureau
Federal Communications Commission
2000 M Street, N.W., Room 230
Washington, D.C. 20554

Les Selzer
Network Services Division
Common Carrier Bureau
Federal Communications Commission
2000 M Street, N.W., Room 230
Washington, D.C. 20554

Donald K. Stockdale, Jr.
Deputy Chief
Policy & Program Planning Division
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W., Room 544
Washington, D.C. 20554

Michael Pryor
Policy & Program Planning Division
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W., Room 544
Washington, D.C. 20554

Michele Farquhar, Chief
Wireless Telecommunications Bureau
Federal Communications Commission
2025 M Street, Room 5002
Washington, D.C. 20554

Gerald P. Vaughan
Deputy Bureau Chief
Wireless Telecommunications Bureau
Federal Communications Commission
2025 M Street, Room 5002
Washington, D.C. 20554

Rosalind Allen, Deputy Bureau Chief
Wireless Telecommunications Bureau
Commercial Wireless Division
Federal Communications Commission
2025 M Street, Room 5002
Washington, D.C. 20554

Sandra Danner, Chief
Wireless Legal Branch
Commercial Wireless Division
Wireless Telecommunications Bureau
Federal Communications Commission
2025 M Street, Room 7130
Washington, D.C. 20554

Karen Brinkmann
Associate Bureau Chief
Wireless Telecommunications Bureau
Federal Communications Commission
2025 M Street, Room 5002
Washington, D.C. 20554

Walter Strack, Acting Chief Economist
Wireless Telecommunications Bureau
Federal Communications Commission
2025 M Street, Room 5002
Washington, D.C. 20554

John Cimko, Chief
Policy Division
Wireless Telecommunications Bureau
Federal Communications Commission
2025 M Street, Room 5202
Washington, D.C. 20554

Nancy Boocker, Deputy Chief
Policy Division
Wireless Telecommunications Bureau
Federal Communications Commission
2025 M Street, Room 5002
Washington, D.C. 20554

David Furth, Chief
Commercial Wireless Division
Wireless Telecommunications Bureau
Federal Communications Commission
2025 M Street, Room 7002
Washington, D.C. 20554

Robert H. McNamara, Chief
Private Wireless Division
Federal Communications Commission
2025 M Street, Room 8010-E
Washington, D.C. 20554

Walter G. Boswell, Chief
Licensing Division
Wireless Telecommunications Bureau
Federal Communications Commission
1270 Fairfield Road
Gettysburg, PA 17325-7245

International Reference Room
International Bureau
Federal Communications Commission
2000 M Street, N.W., Room 837
Washington, D.C. 20554

International Transcription Service
Federal Communications Commission
2100 M Street, N.W., Suite 140
Washington, D.C. 20037

Before the
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In the Matter of)
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The Merger of MCI Communications)
Corporation and)
British Telecommunications plc)
)

96-245

APPLICATIONS AND NOTIFICATION

VOLUME ONE

Michael H. Salsbury
Executive Vice President
& General Counsel
Mary L. Brown
Sanford C. Reback
Larry A. Blosser
**MCI Communications
Corporation**
1801 Pennsylvania Avenue, N.W.
Washington, D.C. 20006-3606

Colin R. Green
Secretary and Chief Legal Counsel
British Telecommunications plc
BT Centre
81 Newgate Street
London EC1A 7AJ England

James E. Graf II
President
Joan M. Griffin
Cheryl Lynn Schneider
BT North America Inc.
601 Pennsylvania Avenue, N.W.
Suite 725, North Building
Washington, D.C. 20004

Joel S. Winnik
David J. Saylor
Hogan & Hartson L.L.P.
555 Thirteenth Street, N.W.
Washington, D.C. 20004-1109

Attorneys for
British Telecommunications plc

Dated: December 2, 1996



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**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)
)
The Merger of MCI Communications)
Corporation and)
British Telecommunications plc)
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APPLICATIONS AND NOTIFICATION

I. INTRODUCTION

By these Applications, MCI Communications Corporation ("MCIC") and British Telecommunications plc ("BT") seek authority of the Federal Communications Commission ("FCC" or "Commission") for the proposed merger of their two companies. The merger will build on the alliance between these two firms established in 1994, when BT acquired a 20 percent interest in MCIC. ^{1/} The merger of MCIC and BT will create a unified telecommunications company -- to be named Concert plc ("Concert") following on the success of their global joint venture company of the same name -- with experience in local, intercity, and international

^{1/} MCI Communications Corp./British Telecommunications plc, 9 FCC Rcd 3960 (1994) (Declaratory Ruling and Order) ("MCI/BT").

services. The Merger Agreement is fully described in Section II of this Volume One. 2/

The Applications are filed under Sections 214 and 310 of the Communications Act of 1934 3/ and the Submarine Cable Act 4/ to transfer control from MCIC to BT of Section 214 certificates of public convenience and necessity and other facility, circuit and service authorizations, radio licenses and submarine cable landing licenses held by subsidiaries of MCIC. 5/ In all cases, the legal standard to be applied to the applications by the Commission is whether the public interest, convenience, and necessity will be served by the transfer of control. A principal factor to be considered is whether the proposed transfer will promote competition

2/ For the convenience of the Commission and the public, a copy of this entire filing, except for BT's Articles of Incorporation and the draft International Facilities License, has been placed on computer diskettes (in Word Perfect 5.1) contained in the pocket of this Volume One. The Applicants would appreciate if commenters or petitioners in this proceeding would provide copies of their filings in the same format. Copies of BT's Articles and the draft License are available on request.

3/ 47 U.S.C. §§ 214, 310.

4/ An Act Relating to the Landing and Operating of Submarine Cables in the United States, codified at 47 U.S.C. §§ 34-39 ("Submarine Cable Act").

5/ The Section 214 applications are filed pursuant to Section 63.18(e)(5) of the Commission's Rules, 47 C.F.R. § 63.18(e)(5). The Section 310 applications are filed pursuant to 47 C.F.R. §§ 21.39, 22.137, 25.118, 80.29, 87.31, 90.153. Authority to transfer the submarine cable landing licenses is sought pursuant to 47 U.S.C. §§ 34-39 and 47 C.F.R. §§ 1.767, 63.18(e)(5). A Notification of the planned investment by BT of a ten percent or greater interest in the capital stock of MCIC and, indirectly, in its subsidiaries, is filed pursuant to Section 63.11(b) of the Commission's Rules, 47 C.F.R. § 63.11(b). (MCIC and its subsidiaries are referred to hereinafter collectively as "MCI.")

beneficial to American consumers. 6/ Because MCI operates as a facilities-based carrier to the United Kingdom (“UK”) from the United States (“US”) and by virtue of the merger will become affiliated with the foreign carrier BT, an additional public interest factor specifically relevant to the transfer of the Section 214 certificates and authorizations is whether the UK “provides effective competitive opportunities to US carriers to compete in that country’s international facilities-based market.” 7/ Because more than 35% of MCIC’s shares will be “owned of record or voted by aliens” under Section 310(b)(4), 8/ the Commission also considers whether the UK offers American carriers effective competitive opportunities to operate common carrier radio facilities similar to those licensed by the Commission to MCIC’s subsidiaries. 9/

6/ Market Entry and Regulation of Foreign-affiliated Entities, 11 FCC Rcd 3873, 3879 (1995) (“Foreign Carrier Entry Order”); Regulation of International Common Carrier Services, 7 FCC Rcd 7331 (1992); Telefonica Larga Distancia de Puerto Rico, 8 FCC Rcd 106 (1992); MCI/BT, 9 FCC Rcd 3960 (1994); AmericaTel Corporation, 9 FCC Rcd 3993 (1994). See also, Policy and Rules Concerning Rates and Facilities Authorizations for Competitive Carrier Services, 85 FCC 2d 1 (1980) (First Report and Order); Second Report and Order, 91 FCC 2d 59 (1982); Third Report and Order, 48 Fed. Reg. 46,791 (Oct. 15, 1983); Fourth Report and Order, 95 FCC 2d 554 (1983); Fifth Report and Order, 98 FCC 2d 1191 (1984); Sixth Report and Order, 99 FCC 2d 1020 (1985), vacated and remanded sub. nom., MCI v. FCC, 765 F.2d 1186 (D.C. Cir. 1985).

7/ 47 C.F.R. § 63.18(h)(6)(i).

8/ MCI was previously authorized to have non-US ownership of up to 35 percent. MCI Communications Corp., 10 FCC Rcd 8697, 8698 (1995).

9/ Foreign Carrier Entry Order, 11 FCC Rcd at 3885.

In Section III of this Volume, the Applicants demonstrate that the proposed merger will serve the public interest by significantly promoting local telephone competition consistent with the Telecommunications Act of 1996 and FCC rules and policies implementing that Act. The combined resources of the merged companies will make MCI a stronger contender in this emerging competitive business, leading directly to more consumer choice, more innovative local services and lower prices. The Applicants also show that the public interest in promoting competition in international services and opening foreign markets will be served by the merger of MCI and BT. The Applicants demonstrate in this regard that UK international facilities may now be licensed to American carriers, that US companies are significant and growing competitors in the UK, and that there are no barriers to US companies obtaining radio licenses in the UK.

Volume Two of this filing contains the Section 63.11 Notification and the Section 214, Section 310 and submarine cable landing license Applications necessary to effect the merger. Volume Three contains certain exhibits to those Applications including a copy of the Merger Agreement. For the locations in this filing of additional information, please consult the detailed Table of Contents, a copy of which is contained at the beginning of each Volume.

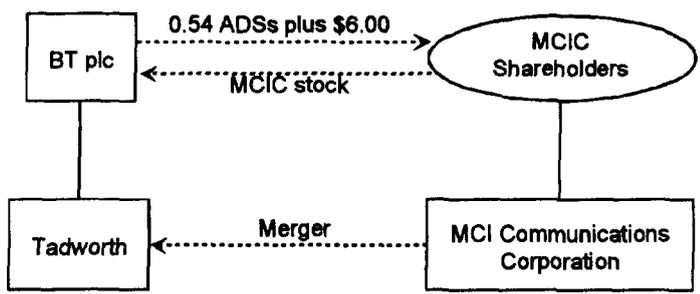
II. THE MERGER AGREEMENT

Under the terms of the Merger Agreement, upon closing, MCIC will be merged into a US subsidiary of BT, now known as Tadworth Corporation (“Tadworth”), formed specifically to effect the merger. The separate corporate

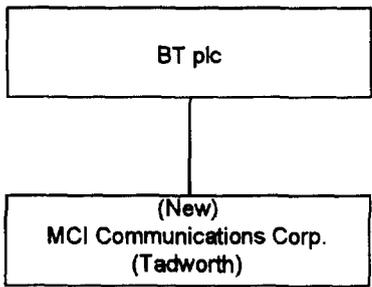
existence of MCIC will then cease. Tadworth will be renamed MCI Communications Corporation. Concurrently, BT will be renamed Concert plc (“the new Concert”) and the BT UK operations will be placed into a subsidiary of the new Concert. A graphic illustration of the merger plan is contained in Table 1.

**Table 1
Merger Plan**

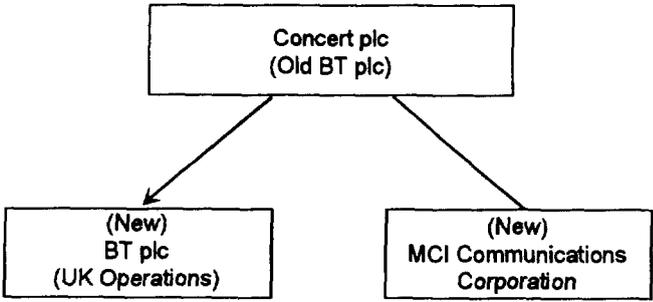
Step 1: Merger of MCIC Into Tadworth



Step 2: Name Change of Tadworth

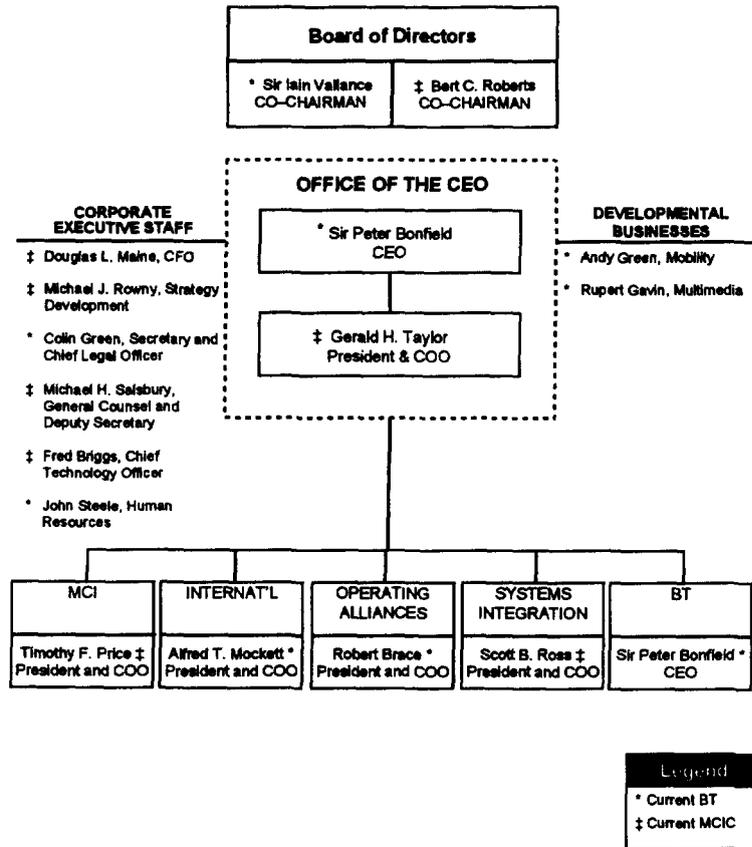


Step 3: Name Change of BT plc and Creation of Subsidiary for BT UK Operations



Iain Vallance, the Chairman of BT, and Bert C. Roberts, Jr., Chairman of MCIC, will be appointed Co-Chairmen of the new Concert. Peter L. Bonfield, Chief Executive of BT, will become Chief Executive of the new Concert. Gerald H. Taylor, Chief Executive Officer of MCIC, will become President and Chief Operating Officer of the new Concert. A chart illustrating the roles of executive management is contained in Table 2. A list of the officers and directors of the new Concert is contained in Volume Three, Section B. The new Concert will have headquarters in Washington, D.C. and London.

**Table 2
Senior Management**



The Board of Directors of the new MCIC will be comprised of a majority of US citizens, and the officers of MCIC immediately prior to the time of the merger will be unaffected by the merger. The Board of Directors of the MCIC subsidiaries holding FCC licenses and certificates will be comprised entirely of US citizens. The Concert Board of Directors will be comprised of fifteen directors, consisting of three executive directors and one non-executive director who have been designated by BT; three executive directors who have been designated by MCIC; and eight additional non-executive directors to be drawn equally from the Boards of BT and MCI. As a result of the exchange of shares, at current ownership levels, the Merger, if it were to occur today, would result in US citizens holding at least 35 percent of the new Concert shares immediately after the merger. The Merger Agreement reflects the expectation of the parties that the transaction will close by October 31, 1997. A copy of the Merger Agreement is contained in Volume Three, Section D, and a chart showing relevant aspects of the corporate structure for FCC licensing purposes is contained in Volume Three, Section C.

III. THE PROPOSED MERGER IS IN THE PUBLIC INTEREST

The merger of MCI and BT will create a single global company -- Concert -- well positioned to offer customers the most technologically advanced and competitive services in the rapidly evolving telecommunications industry. The combined entity will have the financial resources to enable it to invest heavily in its networks and to provide services to residential and business customers in new, capital intensive markets, including the US local telephone business. The merger

will combine the complementary management skills, background and experience of MCI and BT in wireline, wireless and multimedia technologies, allowing the combined entity to capitalize and build on the diverse expertise of each company. It will also permit significant savings in operating costs and capital expenditures. As a result of the merger, the combined company will be better able to offer competitive services to customers in liberalizing markets worldwide, and will be more attractive to potential partners than would MCI or BT alone in the creation of new ventures. In sum, Concert will be a strong competitor in local, national, and international markets with direct benefits to American consumers through service innovations, efficiencies and lower prices.

This Section describes the public interest benefits of the merger. First, as described in Section III.A below, the transaction will strengthen MCI as a competitor in local telecommunications markets in the US, and therefore will promote competition for local telecommunications services. The result will be lower prices, greater choice, a greater variety of service options, and more rapid deployment of advanced technologies for local telephone customers in the US. Second, Section III.B below demonstrates that this transaction will promote competition in the global telecommunications market to the benefit of American consumers of international telecommunications services. The combination of BT's and MCI's expertise and resources will enable the merged company to develop and market global services more effectively. Third, as demonstrated in Sections III.C and III.D below, the telecommunications market in the UK is fully open, satisfying the effective competitive opportunities standard that the Commission has

established pursuant to the public interest provisions of both Section 214 of the Act, governing investment in US international facilities by foreign carriers, 10/ and Section 310(b)(4) of the Act, for indirect foreign ownership or control of common carrier radio licenses. 11/ Thus, the merger advances the international telecommunications policies shared by both the US and the UK, enabling the merged company to exert positive pressure for market opening and competitive developments in Europe, Asia/Pacific, and Latin America. These public interest benefits are described in greater detail in the following sections.

A. The Proposed Merger Will Serve the Public Interest By Promoting Competition Beneficial to Consumers in Local Telecommunications in the United States

This merger promotes the Commission's longstanding pro-competitive policies and the goals of the Telecommunications Act of 1996 ("1996 Act") 12/ to bring competition, for the first time, to local telephone markets. The Commission recognized in the Interconnection Order that "[t]he opening of all telecommunications markets to all providers will . . . bring new packages of services, lower prices and increased innovation to American consumers," and that competition in local markets is desirable, "not only because of the social and

10/ 47 U.S.C. § 214. Section 63.18(h)(6)(i) of the Commission's Rules, 47 C.F.R. § 63.18(h)(6)(i), requires an applicant to show that "the named foreign country . . . provides effective competitive opportunities to U.S. carriers . . ."

11/ 47 U.S.C. § 310(b)(4); Foreign Carrier Entry Order, 11 FCC Rcd at 3943.

12/ Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56.

economic benefits competition will bring to consumers of all local services, but also because competition eventually will eliminate the ability of an incumbent local exchange carrier to use its control of bottleneck local facilities to impede free market competition.” ^{13/} The merger will create an even stronger new competitor, prepared to go head-on against local telephone monopolies to bring lower prices, greater choice and higher quality to local subscribers. The transaction thereby will advance one of the core purposes of the 1996 Act -- opening the local telecommunications markets to competitive entry.

MCI pioneered telecommunications competition in the US, and it has been at the forefront of nearly every competitive initiative. MCI is now bringing its competitive energy and skills to the local market, and is gearing up to provide residential and business customers a newly expanded array of service options, just as it has done for long distance services. MCI has already built and activated its own fiber optic digital local networks -- covering more than 2,700 route miles nationwide -- for residential and business customers in thirty-four cities, including Atlanta, Baltimore, Boston, Chicago, Cleveland, Dallas, Detroit, Hartford, Houston, Los Angeles, Milwaukee, New York, Orlando, Philadelphia, Phoenix, Pittsburgh, Portland (OR), San Francisco, Seattle and Washington, D.C. By the end of 1996, it

^{13/} In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, and Interconnection between Local Exchange Carriers and Commercial Mobile Radio Service Providers, FCC 96-325 at ¶ 3 (rel. Aug. 8, 1996) (First Report and Order) (“Interconnection Order”).

will have invested nearly \$1 billion in developing and building local switched networks. By the beginning of 1997, MCI expects to have deployed class 5 switches providing local service to 25 markets in 20 states. Concurrently, the company is significantly expanding its menu of national services, including the introduction of new Internet-based and Intranet services, wireless services, multimedia offerings and satellite services.

Expansion of MCI's local services will require MCI to commit significant additional resources to increase its sales and service force, serve more markets and expand MCI's consumer marketing and advertising efforts. Moreover, while MCI's initial entry into some local markets will be on the basis of resale and/or the predominant use of unbundled network elements obtained from other carriers, MCI plans a transition to a greater reliance on its own facilities to permit more innovative service offerings and greater price competition. Given a favorable regulatory climate and assuming MCI can obtain the pro-competitive interconnection agreements required by the 1996 Act, MCI plans to invest approximately \$700 million in 1997 in local network construction. ^{14/} In 1998 and beyond, the merger will provide the combined company with the financial stability necessary to expand this critical investment.

^{14/} MCI's 1997 business plan for local markets has been previously announced, and is not likely to change as a result of the merger announcement, because the merger is not expected to close until fall 1997.