

BT Global Services
**Mergers and Acquisitions Integration – Industry
Analysts and Consultants Roundtable**
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Introductions

Michaela Lowe

Head of Global Industry Analyst Relations, BT Global Services

Good afternoon, everyone. I am Michaela Lowe. I run the industry analyst relations programme for BT GS. There are lots of familiar faces in the room and I am happy to see you. Thank you for participating and attending the M&A Integration Roundtable. Later on we will open up for the Q&A, we will open up the phone bridge then. Please feel free in the room to ask questions, or wait until the end with the Q&A session - we would like to make this as interactive as possible. With that I will hand over to my colleague to my left and we will go around the table, ending with David Furniss, who will be speaking today. Thank you. (Introductions were made).

Analysts' Introduction to M&A Integration in BT

David Furniss

Vice President, M&A Integration Practice, BT GS

Thank you, and I am David Furniss. I lead the Integration Practice within BT GS. Good afternoon and welcome. Thank you for attending, everybody. You will notice we have a lot of people here who have M&A in their job title within BT GS and within BT. I wanted to ensure that we have some subject-matter experts here today to answer any particular questions that you have, who you can also follow up with after this session.

What are we going to talk to you about? I wish to focus today on our M&A Integration story, firstly giving you an insight into the methodology and approach that we use, secondly, how we measure success, and thirdly, highlighting the lessons that we have learnt, being honest about that, and finally the continuous improvement that we strive for, to build back into the process.

I will talk for 45 minutes, although I am not known for my brevity. This will leave around 30 minutes for questions. Clearly, if you do have a question on the way through, we will do our best to answer it or find who, within the group, we can ask to answer it.

No presentation on M&A is complete without some horror stories, its good context (laughter). The important point here is to realise that pursuing inorganic activity does have some element of risk. I

am setting this against the background that we are very successful in what we do. Clearly, if you look at some of these external comments (on the slide), they appear to support two ideas. One is that organic growth is one way of growing your company and supporting a strategy, but inorganic growth is very suitable for accelerating that, for acquiring capabilities, for acquiring geography. You will see how it supports the BT GS strategy. Inorganic is a fact of life for us, but clearly it does come with one level of risk. The level of risk is the fact that, once you have bought the company, you have to gain the benefits; you have to realise the value. Therefore, the fact that we put stress and that we put investment into integration is because we realise it is not only about doing the deal; it is about unlocking the value post-Day 1.

I realise I am racing ahead here. I am on slide four. Value creation is important here, because there is a lot of research about whether people are creating value from their acquisitions, or not. Hopefully, by the end of this presentation you will be convinced that we have a structure and an approach that allows us to really understand if we are realising value from those and returning the key commitments that we have made in executing those transactions. It starts with having a very clear vision of the rationale for the transaction and also, a clear plan of what you are trying to achieve – what results you are trying to deliver through the life of that transaction.

Currently, there is increasing pressure on delivery. It is very interesting that KPMG's survey from 2006 which showed that, among private equity houses' corporate acquisition managers, approximately 50% believe that there was hugely increased pressure currently on delivering value and seeing results. If anything, we are in a landscape where there is more M&A activity globally than there ever has been, but heightened pressure on those deals to deliver. We need a structure to deliver value. One of the points we are talking about today is *in2great*, which is our methodology and an approach that allows us to pursue that structured value delivery in the transactions that we are trying to integrate.

I will make a few points about the strategy for BT GS, because I want to link back our activities to some overall messages that you have seen. We need to execute our strategy and go to where customers need to be and deliver the capabilities that our customers need. You have probably seen these messages on previous communications from Maggy McClelland or from François Barrault.

I am on slide six at the moment. It is important to understand our strategic approach in the context of how we target our acquisitions. You will see here an overall view about how we look at and evaluate targets. We are consistently evaluating potential targets and we try to fit them into this particular approach. I can give you some examples, for instance, where we have high market attractiveness and high ability to execute. A top right-hand transaction will be the activity we have done in Italy, for example. A number of you were there last week (at the BT Italy analyst roundtable) talking with Corrado Sciolla and the team and seeing the business that we have created there, completely through acquiring various companies.

You also see other areas where we have made investments and early partnering approaches, for example, in the bottom left-hand space. In those areas, where we are monitoring those markets, we are looking at those opportunities and how they are going to deliver in future, for example, the joint venture we pursued with KDDI in Japan. There is therefore a variety of ways we look at targets. The real net of this slide is that it is not only about us buying anything we can opportunistically. It is about ensuring that we look at the target in the context of our strategic rationale and in the context of this approach, so that we can ensure that we can harness the benefits and that it does contribute to our strategy going forward.

It is also clear that we have a very, very precise approach. We are not in the business of buying something and then having to dispose of the parts that we do not need. You will see that we do quite precise transactions; we do not do disposals. You will have seen the announcement on the CS Communication & Système transaction, in France, where we are only buying the part of the business that does fit with our strategic approach of building a bigger business in France.

Moving on to the next slide, this translates into three approaches around the world, if I may look at it in that manner. In terms of strengthening our commitment to our multi-site global customers, you will see our focus on Middle East and Africa, Latin America and Central Europe as being areas where we are looking at transactions and looking at opportunities to support our customer requirements. The Comsat transaction from this year is a very good example of that. If we look in another area, for example aggressive growth, our opportunity is to grow very, very aggressively in Western Europe. Again, I would return to the Italian situation and also the multiple transactions we are pursuing in France at this particular point. There is then an opportunity to accelerate our growth in selected geographies. I am thinking particularly about Asia Pacific, where we know these are emerging and very important markets. They are often servicing our customer requirements, especially in business process outsourcing areas. It is therefore important for us to be there and to be there clearly in ability where we can grow to scale quite quickly. You will have seen transactions like i2i in India, which are considered part of that strategy.

That summarises how we are looking at this. I cannot tell you where we are going next. We will review some of the deals that we have done shortly. You will see the number of deals, which is a surprise to all of us, about how active we are. I reiterate that I cannot comment about the future, although there is a very interesting story. One of our colleagues in the Group, omitted his security obligations, because he put the destination of his latest trip onto his Outlook Out of Office information, so anybody who emailed him received some information about where his next trip was. I will not tell you which part of the business he is in but it is pretty obvious that he is working on M&A. We have now closed that one down. We cannot give you any more insight than that.

Looking at the next slide, slide eight, this is the first of two slides (listing our acquisitions), as we have done so many deals to date that we cannot fit them all on one. These are transactions going back to 2005. Some of them you will know quite well if you have been commenting and watching BT: Infonet, Albacom and Radianz. The important point to notice, when you look at this slide and also the one that follows, is that there is a range of transactions in terms of size. We are dealing with integration challenges and transactions that bring us as few as 70 employees and as many, in some cases, as 1,400-1,500 employees. There is quite a range of complexity. The other important point is that we are doing this in multiple countries. We are therefore obviously dealing with the culture and language challenges as we go forward in all of these areas. I will not go into any more detail on those transactions and will move on to slide nine.

Question: *May I ask one question on that front? How do you treat situations such as acquiring the Capgemini staff, but not the company, and the Schlumberger infrastructure and people that you acquired? They do not appear on this list, although some of the Fiat daughter companies do. Is it only when you make an acquisition of a publicly traded company that your organisation swings into action?*

It is. My organisation does not become involved in the outsourcing activities where we are effectively acquiring people assets but not shares and existing commitments of a limited company or a company of private or public ownership. We use some of the principles. It is also worth mentioning that my colleagues from HR M&A Integration area cover both outsourcing and acquisition within a change of management approach and within their particular subject-matter

domain. We have taken a very clear division between that because we have already had methodologies and approaches for outsourcing, because especially going back to the solutions business in previous years, we had approaches that we had proven would work for that. There is some exchange of best practice between us and the team that does that.

Question: Is this a comprehensive list?

I hope so. If you have found one that is not on there, please tell me.

Question: A couple that I had looked at recently were Lynx and Basilica.

It is a comprehensive list but I should explain: it is a comprehensive list of the BT GS acquisitions, of which there are 25 to date. There are 26, in fact, because the one we announced last week, acquiring Infonet, formerly an Infonet joint venture in Switzerland, did not make it onto this list. There are then a further seven transactions that we have done in BT Retail, since 2003. I was going to mention it because my team do support those transactions. We use the same methodology and the same approach. The comprehensive list would be a total of 33, at the moment, which was exactly what I was going to say on slide nine. Also bear in mind that we have included on here the CS, NET2S, INS (in Belgium, as opposed to INS the US company) transactions and also the E-net transaction. I must stress that INS has just closed but we still have three that are in the process of closing. We expect to close them towards the end of this quarter or early into next. They are announced, though, in the public domain.

I would like to move on to the next slide, which is slide 10, and make some general comments about a few areas before I talk to you about our methodology and approach. It would not be a presentation from BT if we did not talk about the network. However, for a change, we are not going to show you a network map. We thought we would take a slightly different approach. This shows an element supporting the growth of a network IT services company. It is important to understand that building our infrastructure – building that in terms of the numbers of points of presence (PoPs), building that in terms of the regions we cover and the services that we can run over that network – is supported by our acquisitions. A very good example of this would be Comsat, because as we speak, various additions to our network in Brazil and other countries in Latin America are coming online, allowing us to add much more seamlessly, customer connections, both going into and out of those countries. This allows us to include it, much more effectively, in customer bids going further down the line and to manage it within our overall service wrap. We are therefore still increasing our network capabilities and a lot of that is driven by the acquisition activity.

Question: Looking here at the map of the Americas region, I noticed that there are countries at the top of South America that did not yet privatise. However, Bolivia is on your map. Are you planning to extend coverage in that area, or because there is a denationalisation process going on, BT is not interested in buying anything over there?

Michaela Lowe

I would imagine that it is now covered with Comsat. That particular colour matching was done for the last Influencer day, which some of you were at. I could obtain a network map for you that would show exactly what is now covered in an interactive format, whether that is ethernet, multi-protocol label switching (MPLS) or virtual private networks (VPNs). I would therefore imagine we have some coverage, even if it is VSAT. I am happy to provide you that information.

David Furniss

Moving on to slide 11, talking a little bit more about success and how we view success, this is an overall comment in terms of all the transactions. Clearly, our primary goal in terms of my team and working with the business owners across BT GS is to deliver the financial and non-financial objectives of each particular acquisition. We want to make our commitment and realise the value that is being committed, through making that decision and gaining approval from the plc. board to do that. We also measure our achievement in terms of reaching an end state. It is very important to talk about end states. A lot of companies in this area do not have a very clear view of how they want the acquisition to end up, when they are looking at integration. In a sense, they do not plan for the end state that the company will end up in, in the operational model and within the operational fabric of the business.

We currently have five end states, but you will see in our lessons learned, we are becoming a lot clearer about what the end state will be. I will save some of those comments about why that is the case to the end, but I will talk about the five end states.

When we are looking at an acquisition proposal, we will look at a joint venture structure, for example, which is typical and well-known.

We may look at a divisional structure, where a company comes into BT but operates on a pretty much stand-alone basis. We do not do that very much in BT GS, but you do see good examples of that within BT Retail, where branding and the operational systems remain separate.

Many of you may say that that is not integration, but you have to be very careful, because sometimes we overuse the word 'integration'. People talk about systems integration, they talk about the whole operational integration and people integration; what I prefer to consider is the activities required once you buy the company to realise any cost synergies, revenue upsides, value upsides, the value generation and to put it into an operational state, where it can operate in perpetuity within BT, without limiting its potential and without limiting BT's potential.

That may mean that, in some transactions, we do stop short of, for example, integrating financial systems. A very good example in the retail transactions, where they are clearly active in the ISP space, is that we did not own a lot of capability, for example, to do with billing, in certain particular value-added aspects, especially also in the mobility area. We would not integrate those elements. We need those to stand alone, because they are capabilities that we want to build on and to scale. I would encourage you, looking in, not to necessarily judge us on purely integrating the systems. It does not mean that the project is not a success, as far as we see it, because the business may well be in an end state that we were very happy with and the operation was delivering the results that we wanted.

There is the divisional structure. Sometimes we use partial structures, where we will integrate part of a business, but we will not wholly integrate it. That is usually to try to preserve capability. One of the problems with putting companies into BT – albeit that they are sometimes large acquisitions – is that, given the scale of BT GS, which is more than 33,000 people, and given the scale of BT overall, with more than 100,000 people, it is sometimes very easy for acquisitions to become swamped by being part of big BT. Sometimes you only have to be there on the day we acquire a company to see how the target CEO's email box fills up with data requests and people wanting to come and meet them, or what we call 'integration tourism'. We buy a business and everybody wants to go and see it. Part of the role of my team is to keep everybody away, to allow it to operate and preserve its business momentum. We will sometimes not integrate these parts fully, in

somebody's eyes, because we want to preserve cultural capabilities, behavioural capabilities, and systems capabilities.

We may not have completely aligned these because we may have made the choice that, later on, we want to develop that company's capability in deference to our own, for example, knowledge management, which we acquired within the BT-INS transaction. We did not have a very effective, pre-existing knowledge management system. That is the basis of our knowledge management system going forward. Therefore we have not integrated that part, in fact, what we have done is quite the reverse. We have started to propagate that back over our professional services community and rolling it out to general usage. We do that in many cases.

Full integration is in many respects an end state that we will strive for in most of the acquisitions. If we can bring the acquisition into fully integrated – and I will come back to some of these comments at the end – then that is often the area that we need it to be. BT Italia is a very good example of that. There was not a country operation in Italy, which was the fourth largest telecoms market in Europe, to any great length of scale. We have now created what looks exactly like a country operation and is completely comparable with our operations in Germany and other countries around the world. It therefore works in the same way and can be accessed and utilised from a systems and processes perspective, in exactly the same way.

In my domain of M&A, I must also talk about disposals, because that is the sixth state. However, as I said, we do not do disposals – not at this stage, anyway.

Of the transactions that we have done so far, the majority we have done to full or partial integration within BT GS. We have not done anything where we have kept these elements as stand-alone or in a divisional structure. I would say that that is something that is more applicable to BT Retail. Hopefully, from what I am saying, in the words that I am using, you can see that we have a very clear vision of how we want the end state and where we want the companies to end up once they arrive within the business. We also make our objectives very clear in the announcements. Looking back over the press releases and the various communications that we have made, we are quite clear about our objectives for the integrations. For example, we publicised the cost savings in Albacom and with Infonet, the fact that we were going to roll out capabilities from companies like Comsat and INS, and for example, the customer expectations in a transaction like Fiat and Atlanet. We are trying, in those external statements, to guide people as to what our key milestones and key expectations will be from the integration and then trying to confer back to you whether we have been successful or not.

I will make a couple of other overall comments before diving into *in2great*, because the other aspect that people talk about a lot – and this is a hugely debated subject in integration itself – is the change management challenge and the whole issue of culture.

The important point is that a lot of people looking at acquisitions focus on a lot of the non-people issues; they focus on points such as systems integration, they focus on revenue and business performance, without necessarily realising that most of the acquisitions that fail are the ones that do not pay great attention to the culture and people issues. Something we have done very, very early on is to spend a lot of time focusing on that, because if you can harness motivation, for example, or if you can harness attention and engage employees, if they are happy to be part of BT, if they are positive to the transaction, that gives you very, very good positive points, in terms of employee retention and productivity post-transaction.

It is interesting. We have an excellent track record on employee retention. I have to say that we have only lost one key employee – key senior management employee – that we intended at any stage to retain, out of all of the transactions that we have done. That also filters through to very good customer retention, because, if the employees are happy and they are positive about the transaction, it tends to have a very positive influence on customers. Again, we have not lost a significant customer in any of the transactions that we have done. In fact, as I will show you later, we have seen quite a good track record of some customers coming back and signing again with us, some years down the line from the transaction.

Both of these points underline the importance of the intangibles in the transaction and in that transitional stage. One of the other reasons we focus on the people issues, is to have business momentum and sustained continuity through the transaction. Some thing we definitely do not suffer from is post-deal depression, as people write about. There was a very good piece last week about Mothercare and the Early Learning Centre, where the overall businesses declined about 15% in terms of revenue performance due to the challenge of having to deal with absorbing the Early Learning Centre. It is not a technology area example, but it does give some insight into the general feeling that most companies that are acquiring tend to have some impact, not only to the results of the target, but also to the results of the acquirer. From our track record, we have not seen that kind of post-purchase depression and have had very, very good momentum and continuity through the transactions.

Moving on to slide 13, I will give you more detail on this. My HR colleagues can talk to you more about this. We really do focus on this and it is another point on not leaving the targets as stand-alone. In all of the transactions, even if we are leaving the company in a divisional structure, we will still be in there on Day-1, connecting up to the intranet, providing email access for everybody, in most cases doing rebranding and in all cases launching people programmes relating to personal development, culture transfer and knowledge transfer. I would not want you to have the impression that in any of these transactions we are sitting back and allowing these companies to operate as a stand-alone. We are in there, carrying out actions – quite invasive actions – from Day-1, and invasive in a positive sense.

Let me move on to slide 14 to finally talk about culture as we go forward, before we go into integration itself. A lot of the mistakes that companies make in this space are focusing all of their effort on the first 30 days. Integration is a long-term challenge; most of our projects last 12 months, some have lasted even longer. We are coming up to the end of the planned three-year integration project within Infonet. Therefore, it is important, not just to measure response and to capture people's engagement on the day, or within the first 30 days, it is to sustain it and keep it going throughout the life. You have to trust me that this is typical of the kind of response that we receive, because the country references (on the slide) have been removed so that you cannot tell which country this is from, but this shows you the sorts of outputs we have from ePulse surveys running across employees within the targets and asking questions on their attitudes to the acquisition. Depending on the size of the organisation, we will generally do this on a quarterly or, at worst, six-monthly basis through the life of the transaction, to understand this trend and to understand what the baseline attitudes are. I hope that gives you a good idea of the work that we do.

Moving on to slide 15, what I want to talk about for the rest of the presentation and want to give you greater insight into is what my team does and about the methodology and approach that we use. As a serial acquirer, we set up the integration practice just under two years ago, as a serious investment. There was an understanding that we were going to be doing this on a regular basis and we wanted to anchor the learning and create a domain of expertise, where we could at least absorb best practice and ensure that we did not make mistakes twice. We wanted to have continuous

improvement and learn from our mistakes. I set the team up just under two years ago and you can see here that we were set up as the centre of excellence within BT for integration, capability and methodology and skills, with these key objectives that you can read on the slide.

Looking at this, we really become involved in two key areas. One is the live projects. We spend about 80% of our time on the top two boxes that you see here: pre-transaction work. I will make a point about that again. In comparison with a lot of companies that we have talked to – and we do talk to quite a lot of the transactions services groups, similar groups to mine in companies like Cisco, Royal Bank of Scotland and various companies to compare notes – we probably become involved further up in the pre-transaction process than an awful lot of people trying to look at integration. I would say, in general, we seem to be at least as well-planned as the best companies in these situations, because we are making decisions about the end state as early as possible, but we are gaining the maximum amount of time to do the planning work, before we reach Day-1 and taking ownership of the company. We then have a clear view at that point about what we want to do. We then drive the integration projects ourselves. I am using post-merger integration (PMI) as an accepted term in this space; there are many others. I used to like the other one, post-deal activities (PDA). It is better than this but has obviously already been used. There were some other ones as well but we will remain with PMI for the moment.

That is the people. What we also do to support all of this is the bottom two boxes, on which we spend around 20% of our time, and that is maintaining the methodology. The methodology is highly important. *in2great*, as a methodology, is something that we have built in-house, using a great deal of inputs, learning and understanding from the transactions that we started in early 2005. Capturing that learning is something that we version control on a quarterly basis. The important part to me is that it is the anchor point that allows us to ensure that we can capture the learning from previous projects and recycle it and make sure that future projects really do bake in continuous improvement. I will show you a little more about that. It is also used consistently in all the transactions. Of all of the live projects that you have at the moment, any announcements that you see from BT GS or BT Retail, they will be using this approach and this methodology.

Question: *Have you used it for all of these transactions?*

Version one was released in the first quarter of 2006. We have used elements of it on the Albacom transaction and transactions going back to before then, but that was not *in2great* in its finished state, because that was *in2great* in elements that were contributing to what we finally brought together and announced at that point and launched internally. We are now into version six and will be releasing version seven at the end of this quarter.

In answer to the subtext of your question, there is learning from some of the earlier transactions that, had we taken the exact parallel approach and had exactly a consistent approach from transaction to transaction, potentially we would have been able to have greater cross-fertilisation and learning across those projects. This is a good example of why we needed a methodology, to capture some level of consistency.

Additionally, what we do in terms of M&A skills and community, is that we have probably nearly 60 people across BT GS and BT Retail, who do nothing else but M&A as their day job. There are domain experts for example, such as in the HR and service design areas, systems areas, who are people working on transactions on a regular basis. We decided very early on to try to give further domain knowledge, insight and best practice, to take a leadership role for those people and creating a community within BT. There is a community of people who do nothing else but work on M&A,

who we are in regular touch with and contribute to the development of the intellectual property, such as *in2great*.

Question: *Out of the 60, are they very much out of the UK?*

They are spread out all over the place. Gary from the service design team has several experts across the world.

Gary Christie

Italy, some in Switzerland, the US. We have around 10 of those people and only three of them are in the UK.

David Furniss

Moving on to slide 16, it is important to give you an insight into the timeline. This is the type of timeline approach that we use. Looking at the bar at the top, you can see a deal coming up the pipeline, going through the various papers and approvals, which we have input into in terms of creating the end state and the integration model, moving into due diligence (DD) phase. DD is something that is one of the secrets of our success; we go into due diligence with the objective of, not only doing confirmatory DD, which most companies will do, and not only doing operational DD in terms of asking if processes exist in the way that they should, but also we do integration DD. We take the information that we can obtain from data rooms and interviews, with the clear objective of building the integration plan simultaneously and through that DD period. By the end of the DD period, we have a first cut, therefore, on what the key milestones will be that support the key synergies in the case, or the key value drivers within the case. That is a lot earlier than a lot of companies would do it.

We then move down towards, what we would call signing day or announcement day. As you all know, because you are picking up the information at that time, that is when the transaction is in the public domain, but we are not usually in control at that point because we have the regulatory cycle – some form of approval cycle – before we reach Day-1. On Day-1, we are reaching the product delivery. Through the life cycle, one point that we have learnt is that we are accelerating a lot of our integration. We know we can do this quicker. We planned and executed in Albacom against a two-year timeframe. We planned and executed in Infonet against a three-year timeframe. In the three transactions that we have done this year, for example in Counterpane, INS and i2i, those integration projects will be completed, as far as the exceptional activities of integration are concerned, all in less than 15 months and in action, 12 months. That is a function of the fact that we want to do everything quicker and a function of the fact that we are becoming better at it, so we know how to do it; we are learning how to do it faster. It is also a function of the fact that clearly, in those types of transactions, there are opportunities to do some parts quicker. In some of those transactions, we had completely greenfield areas, where we did not have any pre-existing capabilities, and therefore we were establishing those capabilities from scratch. There are therefore opportunities to do some parts quicker if we can.

Looking at the third bar on this – looking at the transitional stage – we then go into a transitional stage where we hand over into ‘business as usual’ (BAU). That means that the objectives, the ownership, the accountability for the transaction, will pass completely to a business owner, so that will be a President and therefore within the line reporting of the president somewhere within BT GS or BT Retail, if it is a retail transaction. For example, BT Italia is now within

Luis Alvarez's and my organisation. He is completely accountable for those results, in the way that you would expect. That is characteristic of all of these.

***Question:** You were just talking about completions and measuring when something is completed. What is included within that definition, going back to the previous slide? Is it only the parts in the central box at the bottom?*

I am paging up to slide 16. I hate to answer a question by making it slightly more complicated. You will see more on this in a couple of slides' time. We will determine at the beginning what the key activities that we have to execute to effectively integrate the business to the end state that we have determined. Completion can have slightly different meanings, for example, if there is a global programme, which there is at the moment for migrating all of BT GS to Oracle 12, the global financial platform, there is little point in us doing an integration project before that to migrate a business onto Oracle 11. It is wasted investment. It is wasted resource. Our task in that would not necessarily be to complete the integration of the finance system, but it would be to insert that into a work stack that states it will, at some point, be done. BT Italia, for example, is due to migrate to Global Financial Platform (GFP), in the first quarter of the next calendar year. At the moment, they are working on a previous version of Oracle, however, if you looked around across the BT GS estate, you would find that some countries are at different levels of version control because they are with inherited transactions, from acquisitions and so forth. Completion, to me, means we have completed all of the operational tasks we set out to do within the project plan that was signed off with the business owner.

***Question:** The definition is operational integration and those tasks, not necessarily any business objectives, such as achieving a certain revenue growth?*

To their constant attention, some of my team around the table will tell you that financial objectives are what they are paid on. When we integrate, in effect, we look at the actions. The actions are always linked back into the financial impacts. For example, the key milestone on Albacom would not have been renegotiating procurement contracts, simply. It would have been renegotiating procurement contracts, with an output benefit of a specified number of millions of pounds. We therefore know, when we have done that renegotiation, that we can bank that sum, because we know that will flow through. One of the reasons I choose integration directors to lead these projects, who have business experiences, not purely programme management experience, is because you need to manage this from a business perspective. This is because what will always happen is that, however much work you do at DD, however much you formulate the synergies, when you are on the ground, it never quite works out that way. This is characteristic of all integrations.

It is important, therefore, for somebody who is leading that project to be able to manage to the committed results, but potentially by saying, 'Our assumptions about where we could potentially make some savings were incorrect,' or 'We are unable to do that for various reasons.' I will give you a good example. On one transaction we assumed some cost savings for a contract renegotiation but because the contract renegotiation took us past 31 December, those contracts were already renegotiated and committed for a further 12 months, by the target. The assumption we made at one point is now no longer valid when we take control. In terms of our commitment to the plc. board, I cannot go back and say, I am sorry; we cannot do it.' I have to say, 'We will do it, but we will have to find another way of doing it.' You absolutely have to manage to the business objectives, so we would have a financial envelope, for the period of the project, which would generally be cost savings, because they are very easily measurable. Revenue synergies take more time to come through, because they take some time to build the pipeline and some time to drop through into

future years. We clearly look at the business objectives, in terms of completion, as much as we look at the operational activities.

Question: *Through transition and all of that process you have been talking about, who are you reporting to? Are you reporting into the chairman or the CEO or to the BT GS head?*

Let me take you a few slides forward. This is slide 18. This shows you a governance structure. To answer your question, we run monthly programme steering groups, to which, presidents of BT GS effectively are assessing business results and setting the activity performance of each of the acquisitions. They come from two angles. One is: who will be the future business owner? For example, Comsat we review with Luis Alvarez on a regular basis. If there is another good reason why another functional representative should be there, for example if there are professional services implications then Maggy McClelland would be there, as much as the ultimate business owner, for the revenue results, to assess the performance of that project on a monthly basis. We feed up to the BT GS team on a monthly basis. We feed our progress against the acquisition business case into the plc. board, on a monthly basis. We have to report that back on a regular timeline.

I will step back to the previous slide. This shows you the dashboard that we go into on the pre-transaction stage. Linking back to the timeline that you saw on the previous slide, these are the areas for which we have content, template, project plans and all of the mechanics of how to deal with the detail of the plan, and all of the checklists. The checklists are some of the most important elements. People may say that it is very easy to do checklists. The important point is to do your checklists rigorously. If you build learning from the previous transaction into your future checklists, you do not make the same mistake twice and you do not forget to do the parts that you are supposed to do. We adhere to this type of approach. You can see, once you have the chance to take a look at these slides post-session today, the kind of breadth that we are dealing with at this point.

Moving through the governance timeline as we have already done a little about that, I will move into talking about the information flow. This comes down to one point, which is the High-level Milestone Plan (HLMP). What we have is a standard set of documentation and standards for the data handling, because the key feature on a project like this is there is one simple truth: when you are running change projects like this, it is very easy to have two different messages flowing to the top of your organisation about how we are doing. One says one thing; one says something else. One of the key goals of *in2great* is to reach one single truth. What we do is the work streams within each of these projects – a work stream will be HR, sales, marketing, representing the functional interests – will feed in their key milestones and that is with some rigor and challenge about how those milestones are defined, into the HLMP that you see in the middle.

The HLMP does two things. Firstly, it captures the major milestones. You may have 150 milestones in a systems part in a systems project plan, but only 10 that drive financial outcomes and are critical. We want to know what the critical points are – the critical value drivers. The second one is that it allows you to map interdependencies. If nothing was interdependent in integration, it would be very easy, but most of it is interdependent. You need somebody to move something first before you can do something else with it. This is our way of making those interdependencies very, very clear and understanding the date and resource dependencies on that. The third element is status. The integration director and his programme office needs, every Monday, to fire in dates to understand where we should be on the project by now, against the plan. What should have been achieved? If there are exceptions to that, how can they manage the project to a point at which we know how to put it back on track, if it is off-track, or where we are against

our key milestones? This again, the HLMP does. We put in today's date and it tells you the activities that should have taken place by now. You can also use that for 'what if...?' forecasting and so forth, in terms of understanding the interdependencies and the overall risks.

Question: *When you have a team that is participating in this integration, do you have a team from BT GS that local people work in, or an external consultancy? Could you explain that a little?*

Typically, the deal team from engagement at DD would be the operational DD and the integration DD, all done by people from BT GS. We will make sure that we have a lead from each work stream. There has to be a minimum of 12-15 people turning up to do DD, from each of the representative domains and starting to populate their work streams. We work with the external advisors and people such as legal, tax and audit. We talk to those people on the way through the DD about managing risks and those kinds of factors. We do not maintain any external resource. We use only internal resource, from that period on, until Day-1. Post-Day 1, we have the kick-off meeting, where we then take their plan, brief their plan across to the target.

We clearly have very little opportunity to interact with the target before we have taken control of the business. That is the point when the domain experts who are driving the work streams on the BT side, need to then team up with the people in the target, who are going to help them deliver the synergies. To give you an idea, on Albacom, there were about 75 people from BT GS involved at the height of the project and about another 75 from Albacom. They can become very, very large, very, very quickly but a lot of that is people going in and out to do very specific jobs for short periods of time. Typically, the team structure will start at around 20 and will end up with about 20, but it will balloon in the middle, at the height of the activity.

Moving to slide 20, this maps back to the timeline that we showed you as to the breadth of activities that we are looking at and how the dashboard changes as we drive through the various phases of the integration.

Moving through on to slide 21, this shows you, as we go into the transition phase, the important point from the gentleman's question about accountability and also the gentleman's question about completion is that this is not only me saying internally that it is complete. We have to go through a very structured process and sign off the closure report to ensure that the business owner is happy with it, the BT GS team is happy with it and the plc. board is happy that the project has delivered its objectives and is ready to be signed off into BAU.

I will talk a little about the systems and infrastructure alignment. You will see here a very good representation, which you can read through, of where we focus our efforts from DD, going forward into Day-1. A key goal for us in all acquisitions going forward and for all of the ones that we have done in the last two years has been to ensure that we have the hygiene factors in place on Day-1, for instance, bt.com email, branding, intranet access, so there is the ability for people to feel part of BT and communications can flow through to the acquisition, straight away from Day-1. They are not held away at a distance from the company for any length of time.

This is where I was going to make the point that I already have made about locking into key initiatives. You may see us, especially in the systems area, not doing something in a project, which you would assume we were going to do straight away, such as alignment to financial systems and alignment to HR systems. Be aware that we may well be locking into these global initiatives for economic purposes and also for resource efficiency, where if there are larger change projects coming down the line then it makes no sense to do something tactically, in the acquisitions themselves.

Moving through into summary, I wanted to look at why we believe we are so successful and some key points about the successes on the acquisitions themselves. From every one that we have made, you can see that we have some good news, in terms of sales. There is this interesting comment about Nestlé. This is a very interesting one because this is a major customer coming back to sign up again, having been an Infonet customer for many, many years, who then went through the acquisition process, and they came back. This, in terms of customer retention and customer loyalty, is something that we would obviously like to highlight.

I will not go through each one, but in terms of success you can see examples here of how we have increased revenue. You heard much, much more from Corrado Sciolla, those of you who were there last week, in Italy, about the trajectory they are on and the success that we have built in BT Italia. Through all of these, you can see examples of customer wins, revenue growth, or cross-selling. Cross-selling is a key factor, because without integrating the company at a sales systems level and being able to interchange leads and customers across any perceived boundaries between those companies, we cannot unlock the cross-selling benefits. Going back again to a comment from earlier on, about the business objectives, the business objectives of most of our cases include a revenue upside that is harnessing some form of cross-selling. We have been very, very successful with that. We have been very successful in the Infonet context; we have built in a substantial pipeline and are delivering in excess of \$500 million of cross-selling revenue over a two-year period, as you can see. We have also been very successful in areas like Counterpane, which on its own was quite a small acquisition in terms of scale and size. We have been very successful in leveraging that into major bids and the win with CLSA in Asia Pacific, for example, was a very good early example of how you can take that capability and very quickly leverage it into a BT sales-driven opportunity somewhere entirely different in the world.

Moving into slide 24, I will not go through each individual one as they speak for themselves. One comment that is quite interesting, from a portfolio perspective, which one of the directors of Counterpane made, which was a subsidiary element about acquisitions that we never really thought about. He has gone on record to say that, in 2007, Counterpane launched more services than it ever did in the previous four years combined. He said that this was because he was part of BT. It was because he had an investment background whereby if he could make a good case to do something and it flows the benefit across both Counterpane and into BT, then he could see a very good reason for doing this and obtain access to that funding. There is another benefit there that we would not necessarily perceive sometimes in approaching these types of situations.

In terms of other successes, you have seen us take a lot of activities that have driven value into the acquisitions, for example, outsourcing the call centre in Italy early on in the life of that, property consolidation and transitioning various professional services communities and customer migrations. There are many, many examples here that drive value in the transactions.

Hopefully, from looking at these slides you have an example or view of the amount of activity that is going on in these integrations. You can see from these areas how much value we are driving out of these particular situations.

I will move on to slide 26, because I did say I would talk a little about lessons learnt and continuous improvement. I said that one of the goals we are driving for is a quicker integration. We have learnt from our previous transactions that employees are expecting change quite early on in the ownership of the business, so our opportunity to drive change is possibly greater than we originally thought. We have an opportunity there to drive quicker. I talked about several projects this year where we have gone much, much faster than transactions that we did in 2005. We have started to talk, within the team and within a lot of the new opportunities that we are looking at,

about 'full and rapid'. Our default situation is to drive for the full integration and to drive for that as quickly as possible. That is obviously to realise the value as quickly as we can, but also to have alignment.

Our learning would be from some of the transactions that we have done in the past. I talked in the beginning about those end states: partial integration and moves such as joint ventures. We have proven with BT Italia and we have proven this with i2i in India, that, for us, alignment to a standardised set of systems and processes as quickly as we can is the best way and shortest route to releasing value. We are taking that on board and driving that in all of the future transactions that we are looking at, where possible. We have also learnt a lot about BT culture and values. Some of the change management slides that I showed earlier, showed that we understand the people challenges and we are increasingly doing more to harness that.

Currently, there is a lot of theory being discussed in integration circles about productivity measurement. Can you drive greater value by sustaining higher productivity? This is especially key in professional services acquisitions. If you could prove a link between demotivation or positive motivation and the number of billing days, for example, or the amount of attendance, you could put a value on how well you execute communication and how well you execute motivation after the acquisition. We are very interested because, as you know, we are looking at professional services acquisitions, for example, we have made on with INS. We are interested in looking at the impacts on people businesses, where you look at people assets, rather than tangible assets. You will probably see us do more thinking on intangibles as we go down the line.

We have done well at targeting the CEOs that we are acquiring and targeting the management teams that are coming in with these businesses and making them continue to run that business and sustain momentum and continuity through the transaction. I am very pleased that we have retained a lot of these people – a lot of senior management – from acquisitions and they have taken senior roles, roles with broader responsibilities, across global services. At the last count, we had somewhere close to 40 Infonet managers who, having gone through the acquisition, are now in more senior roles with greater responsibility in their same domains, but driving bigger parts of BT GS. You see the cross-population working very well, not only from the portfolio perspective, but also from the people perspective and the effective cross-selling and uplift programmes.

When I talk about lessons learnt, this is continuous. This is not me saying that we are going to change this, from today. Hopefully, some of the points that I have talked about in the presentation, you will see, we have learnt as we went along. We have become better at cross-selling. We have transferred some of the learning from Infonet, Albacom and Radianz onto the acquisitions that we did last year. We are transferring what we did in 2006 into 2007. We are always driving to improve.

A quick look at slide 27 gives you an insight into a planning process very early on in our M&A process. This shows you the stage at which we make a lot of the decisions about alignment to back office systems and about the overall speed of the integration itself.

I have already made the point on slide 28 about planning and preparation. The point is that one of the key areas of our success is that, when we do DD, we look at DD in three dimensions, at least. We are now starting and we have started in the last 12 months to look much more at DD from a cultural perspective, as well. You can learn an awful lot about a company from studying its communications, looking at the tone of the emails. Having a great opportunity to sit across the table with people, asking them questions, it is as much about the behaviour and about their body language and how they communicate with you, as the content itself. It gives you many sorts of

cultural indications as you are running into the transaction about the sort of culture that you are inheriting with the business and how best to deal with that. In a way, we are moving towards this more four-dimensional model now on DD. I would reiterate that the benefits of using that structured approach have allowed us to capture a lot of the information that we have there, and make sure that does not become lost and is preserved post-Day 1, through the DD process.

To move finally on to slide 29, hopefully this is all useful information to you and it is answering some of your questions as we go along. How are we doing? I would say we have delivered consistently against the integration plans under cost savings. If you look at the external information that we put out about what we wanted to achieve on Infonet and what we wanted to achieve on Albacom, we achieved more than those cost savings. For example, we targeted to achieve \$150 million cost savings on Infonet in three years; we did it in two. We targeted to achieve 20 million Euros cost savings on BT Albacom; we did more than that. In that sense, looking across the 20 live projects that we have done – in other words the ones that are past the first 90 days already completed – looking back on those we have achieved all of the committed business case objectives, business outcomes and operational outcomes across those transactions. That kind of success, almost reaching 100%, is far better than the sorts of best practice and the sorts of numbers that I put up on my horror-stories slide, in terms of the benchmarks we see in the industry. I would argue that we are doing much better than a lot of our competitors and a lot of other companies engaged in M&A and we are achieving the value returns that we intended to. We are very good at employee and customer retention; I talked about that and the employee survey results. We are spending a lot of time focusing on the people programmes and it seems to be working. That cross-selling is key. It is very easy to buy a company but not leverage it. A lot of our business cases rely on us taking a small capability, such as Counterpane, and leveraging it across the BT sales channels. We have a proven capability to do so. We have other capabilities as well. We have rolled out the knowledge management now to 1,000 of our 5,000 professional services body in BT GS. We have taken what was in BT INS in the US, a company of 900 people – 650 professionals – taken that knowledge management system and already propagated it to 1,000 other professionals within BT. That roll-out is ongoing and we have finally acquired the company, just less than six months ago.

We are focusing on continuous improvement. Much of what I have talked about today is harnessing lessons learnt but taking M&A integration seriously, setting up the centre of excellence, investing and taking the time to consider how we do this and being able to recycle our learning and doing it on a repeatable basis. We are driving for increasing standardisation, which will show benefits, as I have explained. I have talked about our best-in-class financial results and the clear benefit of establishing the centre of excellence and the methodology that goes with it.

I will end on a point that François has started to talk about. As we start to talk externally about our capabilities, his belief is that our end-to-end capability on this is not only something that is a benefit to us internally, it is a clear point of competitive advantage if we can execute transactions better than our competitors. It is also something where we may be able to flow the benefits of this to our customers, in the sense that I would never want to go out and compete with a major consultancy practice on this on pure M&A integration or transaction services-types of offerings. However, this gives us a very different opportunity in talking to a customer about a set of requirements that have been triggered by some form of merger or acquisition, by being able to better understand the types of activity we need to pursue and bring a different methodology to the approach, to manage the delivery of those services, the delivery of that outsourcing and the delivery of whatever transformation a customer is going through.

That is end of my slides. Thank you very much for your attention. We still have some time for questions.

Questions and Answers

Question: *Do you have a rule of thumb target for revenue synergies from BT GS – maybe a percentage of revenues target?*

Not really. We do not talk about the individual revenue in aspirations for each deal. It varies so much from deal to deal. We look at each one on its operational merits and on the opportunity.

Question: *Are the deals structured so that revenue synergies come in addition to expected benefits? Are they the ‘icing on cake’ or are they part of the business case?*

They are part of the business case, in the sense that we would look at a model for the expectation of the company as a stand-alone and an expectation of the company’s performance under BT ownership. That would therefore reflect everything that we could leverage about the company.

Question: *How do you deal with something fairly straight forward? For instance, if BT has a tax-VAT ratio, and requires someone who has 25 or 50% premium, it is 37.5 that they have to hit then for it to make sense. However, it goes into your overall organisation. It is swallowed and you cannot see the earnings or the growth of that portion of it. Cost savings are helpful, but how do you model that or make sure you are achieving those sorts of revenue savings? This is a follow-on from that previous question.*

Perhaps behind that question, highlights that there is not absolute understanding of the first gentleman’s question. I hope that there is no implication at all that any of the revenue upside is factored into any of the consideration or anything to do with the deal costs themselves. I would not wish to comment about that; you could talk to the corporate finance people about their approach to deal-making.

There is an obvious challenge, for example if you ask me today to rebuild the financial perimeter of Infonet, it is so deeply integrated into BT, I would have a very difficult time doing it and referencing it against the original business case. There are several ways to monitor performance. One is to look at the overall additive benefits of this. Secondly, it is like asking what your plan horizon is, and do you have a perpetual plan horizon, or do you have a limited plan horizon. My plan horizon for achieving the business objectives, in many respects, would be 12 months, in terms of achieving those within that particular timeframe. You have the same problem measuring the organic performance of the business, predicting it going forward, as you do in terms of the acquisition, in the sense that it is very difficult to say with any certainty that you are going to grow by a certain size by a certain time, more than two or three years ahead. We do not measure them separately beyond the first 12 months when it is integrated; we look at the additive benefits. There are pointers and signals that you can pick up, in terms of particular customers and particular deals and particular groupings of people that would give you an indication of whether that is taking place or not.

Question: *Why do you buy professional services when they must be margin-dilutive?*

I cannot comment about the financial basis of the transaction; that is something that Michaela could arrange a follow-on discussion on, with Chris Halbard.

I am looking at buying professional services companies from the point of view of capability. We look at every acquisition in terms of the benefits that we can bring to it – both economic and others. In that sense, we are buying them because they do give us capabilities that we do not currently have. The ability to grow those organically may be zero. In terms of the financial impacts of those transactions, I think it is better to follow up with you with Chris Halbard about it.

Question: *As a follow-up on professional services, you are acquiring companies like that with a different business model altogether. When you are looking at how they are operating and how they are measuring themselves, how do you combine that with what your own systems can do?*

It is important to make it clear that we already have a rather strong professional services group within BT GS anyway, with about 5,000. In terms of a business model of billing, utilisation, cost recovery and those types of elements, a lot of our customer deals do reflect that and those professionals are factored into those deals, alongside the products and the services that we also deliver in terms of the portfolio. We are used to running a ‘blended’ business model in the sense that we have physical products and human products and we are mixing the two of them together into the blended result within the tender.

If we acquire a professional services company, the challenge for us is much less about understanding their business model in the context of that; it is more about understanding the benefits that they can bring to our existing professional services operation. For example, with the BT INS transaction, we understood well how to run a professional services business, but they brought us different dimensions in terms of knowledge management, professional communities, some different skills sets we did not already have and also some experience in dealing with customers and some existing customers to whom we did not have access.

Question: *I was curious to know if you had a strategy across geographies where you would be satisfied of your strategy of acquisition. As we saw, you already acquired 30 companies over two years, which is a significant number. When would you consider that you have achieved your goal and have achieved the size that you desired to reach across European geographies? Is it only about spending what money you have?*

That is a very good question. It is probably good to have a session with Clive Ansell on the strategic goals for each country. There is no number in the back of everyone’s minds, that when we reach a certain market share then we are happy. There are a number of issues that drive this but more from a bottom-up perspective in the sense that a lot of what we drive, for example in a transaction like Comsat, was the ability to deliver to a number of customers’ requirements. That is because we either had existing relationships that were costing us far more and not enabling us to offer an end-to-end service in servicing those countries, or we were having a critical mass of requirements in certain countries and it made sense to move from an indirect to a direct model. Rather than in terms of asking what our overall market share is in Brazil, for example, this can be driven by our set of requirements that mean it is worth engaging now and doing something like this.

We talk about BT Italia a lot but it is a very good example. We did not have an overall goal for this but we built quite a large business there. As for whether we have an end objective or not, in terms of we want to reach a certain point in Italy, the answer is ‘no’. In a sense, we are growing it, not quite one customer at a time, but we are growing it by ensuring that we are able to address the customer requirements for the upcoming deals and that we are not falling short of customer expectations in being able to do business in Italy. That would be a better way of expressing it.

Question: *Given that you are very successful in being effective in integration, to what extent are you and your team used as a placating and encouraging force as part of the deal team, in front of target management to make them feel happy about how you deal with everything afterwards and so that they can feel happy about how everything is going to work?*

A lot. We do become involved quite early in the process. We do become involved in meeting the target management, as part of deal team, at a very early stage. It is quite interesting in that much, much more, at the moment we are seeing, not a concern but an interest by target management as to what the process is going to be like, what they are expecting us to do, what is their career going to be like in BT and we are able to answer a lot of those questions.

Question: *This may just be me as an outsider, but on slide 7, which is the one with the map of the world, you say that for Russia, as an example, your strategy is to 'strengthen commitment to multi-site global organisations'. I do not understand what 'strengthen commitment' means. What does it mean?*

What it means is that, generally, we do not offer services directly within Russia, to Russian companies trying to communicate out or needing to have services going out. Our strategy for somewhere like Russia for example will be determined by where current customers that we have, which are based in any country in the world that we currently deal with, require us to service in Russia. A good example would be links into manufacturing plants or links into outsourcing situations and so forth.

In general, one way of approaching the end – and we have done that historically in certain countries – is to go the local telecoms provider, buy a circuit from wherever our network lands to the front door of where they need to be and then manage it as part of that. However, if their expectations are more complex, in other words if they want two circuits or they want to increase services over those circuits and it is outside of our service wrap, then we cannot manage it within an SLA, then that is not a very simple example, but a number of those simple examples would indicate that we need a larger stake in Russia. We need a larger play in Russia because we have people there who have requirements. Hungary would be a good example. We built an outsource centre in Hungary for providing call centre services, because there was a tremendous increase in the number of our customers that were outsourcing their data processing requirements and business processing outsourcing (BPO) requirements into Hungary. From five years ago, we had very little there; we now have a 90- or 100-seat call centre, a substantially larger country organisation, two PoPs with which we can move closer to the customer. That is effectively what that means.

Michaela Lowe

We will have to have a roundtable later in the year over there, as well.

Question: *Would BT consider, as part of its M&A strategy, an acquisition of a much larger company, for example, something like NTL? Is that part of the plan or is the M&A strategy targeted towards specific capabilities or specific geographies, rather than gaining this higher period of acquisition?*

That is a good question. I am an output of the M&A strategy in a sense, as I act on where we need to go to do the deals. The best person to aim that question at is probably François, because in terms of the overall strategy for the business and how inorganic plays into that, it would probably be a good opportunity.

Michaela Lowe

It is clear that it is going to be a combination. On the first part of the question on the size, we review a lot of opportunities of lots of shapes and sizes and will continue to review opportunities of a lot of shapes and sizes. You can tell by the pattern of acquisitions that we have made that capabilities are on the forefront and raising our global capabilities to commit to people and gain commitment to service our customers. There are also geographies; that is why that map is the way it is. There are geographies where we wish to extend our presence and capabilities to deliver, for different reasons, to customers. We are going where customers want us to go.

***Question:** You were talking earlier about being able to standardise systems and processes as quickly as possible in the target companies. Do they all automatically fall under the outsourcing engagements that you have? For example, does their HR automatically go to Accenture or do you look at it on a company by company basis?*

Sue Gooch (HR, M&AIP)

From an HR perspective, they would not automatically if they were [inaudible] wider, they would come in with their own HR support, generally. They have their own payroll. We would look to harmonise that and move it towards our own.

***Question:** Eventually, they all would end up there.*

Sue Gooch

Eventually, generally.

***Question:** It is the same from the finance and accounting, as well.*

David Furniss

In terms of finance, there is transactional outsourcing of finance. However, going back to the example I was giving, for the transactional outsourcing of finance, if we are locking into a more global initiative on standardisation, we cannot do the transactional piece before we do the other alignment. This is because we have to ensure the business can run, doing what it currently does today, and then migrate it in one to a new paradigm, rather than doing it in parts. Otherwise, we breakdown the original systems. Our plan and our economic view of an acquisition would be that we would move and leverage all of the outsourced relationships, for the back office especially, and any other opportunities and take the same kind of economic approach we have across BT GS, generally.

***Question:** My question is about the partial end state that you described. The example you gave was INS with their knowledge management system, which you did not want to be overwhelmed. Presumably, eventually, you do want that knowledge management system to be fully integrated into the professional services. Is that partial integration only about someone tidying it up later, but it will not be your team?*

Not at all. It may not be that good an example, because we are propagating that out. I will try to think of a better example. The clear example would be SkyNet and TNS, which we brought into I.net together. We have kept them partially integrated. For the purposes of people here, these are two local area network (LAN) integration companies, which we brought together to gain scale.

They are companies of around 100 employees each, UK-based and which were linked into BT Business in the UK. I may have the numbers of employees wrong. In the end, although they are owned as a BT GS acquisition, they are providing much more service into BT Retail.

However, we put their back-end progressively into BT GS in terms of financial systems and reporting but we kept some of their front-end systems and front-end activities fully separated for two reasons. One reason is because we recognised that we did not have the sales expertise to sell the proposition straight from the acquisition and that, if we had merged those people straight into the sales team, they would have been highly dissipated across a large community that we would have lost that group. 'Community of interest' is interchangeable information between themselves and we preserved it for that reason. The second part is that we also preserved some of their technical people and their service model people separately, because they were taking a different approach to managing the LAN elements on the customer site. If we reversed them into the BT service model, we would have potentially been sending engineers out there who did not completely understand how those were configured. We left them as they were; the challenge for us is to do the same as we talked about with INS, which is learning to try to cycle people through.

I know it is quite an interesting business because what we do to try to help our salespeople learn about selling that proposition is that we put them into I.net for a while. We take them out of BT Business and make them work with I.net. We then put them back in, so we are 'sheep-dipping' people through this, in a sense, but it is still in its partially integrated state.

***Question:** In summary, what you are basically saying is, 'Look how good we are at integrating' with the example you just gave of INS expanding. In terms of the UK reality, what has been successful is acquiring a whole series of opportunities where BT was a challenger, rather than an incumbent, because it was outside of the UK, so it gives you a platform to operate the variety of services that could move outside the traditional environment but meets the demands of your customer service. Can you measure the success against that requirement or are you building up global companies that can see the value added there? Is that something that perhaps you are not involved in, in terms of your own scope in M&A? Do you think that transfers to one of the others or is that something that you are specifically targeting? You gave the example of Nestlé and some other examples very recently. The question is, if you are being so successful, can you not take this success and use it within Germany or use this success in the US? It is not a trick question. For me, from a strategic point of view, is that not where we are going?*

It should be. If you look at the countries that we have done, we have done this approach in Italy, in France, in the US, the UK, in India, in Spain and in a variety of geographies. Wherever the next transaction in another country is going to be, there is no reason why we cannot take the same approach.

To answer the other part of the question, we are not necessarily leveraging into a Nestlé example. In a sense, the company did not sign up again with us because we used the methodology. They signed up again with us because they valued what they were receiving from BT. What they were obtaining from BT in terms of services and meeting their requirements, they felt was equal or greater than what it had been when they had been a customer of Infonet. In a way, they were evaluating on that, not on the fact that behind the scenes, we had secured anything or ensured continuity, for example. We do not tend to look into the customer contracts from the point of view of having to preserve this individual one. In most transactions, there are multiple customers. We do not have the optics and line of sight into each one to be able to say, 'If we change that, so will Nestlé. If we change this, we will upset this individual.' We have to look at it overall and say, 'If we change too much, we will upset the customer body.'

Question: *Your success in the acquisition of Infonet must have played an important part?*

There is no question. We have had anecdotal and maybe written evidence on this. We have two or three customers that said they would not have signed up again with this business, had we not acquired them. We could go back to Italy again and look at the strategic rationale and you see the value of an inorganic strategy, it would not have been possible for BT to gain the Fiat global outsourcing contract without a significant presence in Italy. Albacom, in its previous state of ownership – due to having no global capability other than being a distributor, but not being wholly owned – was not necessarily a valid bidder for a global contract with Fiat. You can see the synergies there, on both sides.

Question: *Which were the most successful and the least successful of the acquisitions?*

What a very good question! I find the best has to be BT Italia, without a shadow of a doubt, in terms of the scale of the business that we have built, validating the success of an inorganic strategy and being able to do now a third transaction in Italy off the back of that and being able to prove that we can not only integrate the first element, but we could take the Atlanet business and integrate that into what was essentially a moving target. We were still trying to integrate Albacom at the same time. That shows and supports that it is probably the best one.

In terms of our worst one, I do not like to talk about a ‘worst one’.

Question: There should be one that was particularly challenging?.

The most challenging is a very good question. Our most challenging is probably Infonet. Being very open, this is not from the point of view of being able to achieve the objectives, but because of the scale of the needs to integrate the business. We have had some fantastic successes along the way with that, in terms of customer wins and MobileXpress as a product being taken out of Infonet and now as a full line BT GS product. It is a fantastic product itself and very successful. We have learnt an awful lot from that transaction.

Michaela Lowe

From the channel’s perspective, that one also worked very differently in selling so there were a lot of elements that were out of the control of an integration team.

Question: *Can I follow up on that particular BT-Infonet position there? You talked about a 30 day, a 90 day and a year milestone. What kind of timeline are we talking in overall terms here, because I do not know what is left really?*

On Infonet, we are planning to conclude the integration project on 31 March 2008, which was the planned timeframe. That is all of the country organisations, aligning the sales channels and all of those issues. At that point, the integration as we see it will be complete. Elements of the Infonet service and network are playing into a larger initiative, which Bob DaGiau will do a briefing on.

Michaela Lowe

That is probably in late spring.

David Furniss

We have some upcoming briefings because there are elements of Infonet that we want to take in conjunction with elements of Radianz and elements of the existing BT network and produce that fully harmonised approach. However, that is forming part of a larger initiative, so in a sense, we open and close that project down in March, as originally planned.

Question: If you are looking at acquisitions and ventures in China, what steps will you take to protect BT's Integration Practice, because the Chinese are very good at [inaudible]?

Michaela Lowe

We just opened a research centre there.

David Furniss

The usual BT attitude and pursuit of security, many companies when we acquire them think our approach is very, very deep and often far beyond their expectations. We would take that normal approach, as we do. We do not have a security expert in the room; they do exist, I promise you. We do have some M&A security experts. We would take the normal approach. In terms of intellectual property that is translatable or transferable into those kinds of markets, you have to think about what kinds of benefits they might receive from that. Without a global network to deploy services on, taking intellectual property rights (IPR) about how to build MPLS, for example, or class of service, is practically irrelevant in that sense. I am concerned about my IPR in terms of *in2great*, so I will be doing an awful lot to ensure that that does not leak out of the business, as well.

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