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Dear Philip,

It was good meeting with you and Mike McTighe today to discuss the challenges that you face with investing in full fibre networks. I thought it would be helpful to summarise Ofcom's position on how we propose to adapt regulation to promote the investment case for full fibre.

I should say from the outset that we recognise that the full fibre business case is challenging and significantly more risky than the investment case for previous generations of broadband technology such as fibre-to-the-cabinet. Our proposals seek to reduce the risk that Openreach and other operators face when they contemplate such investment, while at the same time protecting consumers from the risk of higher prices and preserving retail competition.

There are three key features of our proposed approach to address the risks BT faces in investing in FTTP: a balanced approach to copper retirement; fair treatment of legacy copper investments; and clear "fair bet" terms.

On copper retirement, we are proposing to support Openreach in migrating customers to its new fibre network, so that the copper network can be retired to realise cost savings. We also propose to allow Openreach to charge a premium for regulated products on its fibre network to reflect the additional value delivered by full fibre.

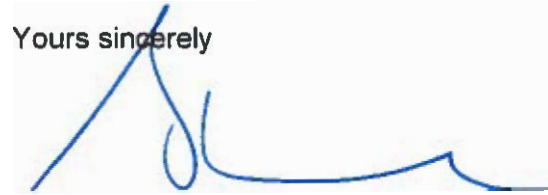
On legacy copper investment, we are proposing to index prices for existing copper products from 2021 which would inject more margin into network layer - allowing accelerated recovery of legacy copper investments.

In terms of the "fair bet", our proposals for copper retirement seek to reduce the downside risk in all geographic areas. In potentially competitive areas we are proposing no price controls on higher speed services, allowing uncapped returns. In areas where competition is unlikely we are proposing a Regulatory Asset Base (RAB) model which will include FTTP costs in BT's asset base, so ensuring BT gets a fair return.

The application of the fair bet to FTTP should be seen in the context of Ofcom's track record of delivering on the "fair bet" for BT's current fibre-to-the-cabinet investment, where BT enjoyed pricing flexibility for ten years and generated returns of 15%.

I do hope this clarifies Ofcom's position.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'Sharon White', written over a light grey rectangular background.

**Sharon White**

cc Mike McTighe