



**BT progress with implementation of the new arrangements between
BT and Openreach**

BT submission, 31 March 2018

Non-confidential version

Executive Summary

BT is pleased to have the opportunity to respond to Ofcom's Openreach Monitoring Unit (OMU) call for inputs.

In the last year BT and Openreach have been working hard to deliver practical implementation of the DCR Settlement as early as possible, bringing forward the work wherever we can, whilst in parallel seeking to make progress on satisfaction of the notified pre-conditions (involving, as required, other parties notably HM Government and the BTPS Trustee).

We have:

- Incorporated Openreach Limited, appointed its Board of Directors and the senior management team has transferred voluntarily to Openreach Limited;
- Delivered the new brand identity for Openreach;
- Strengthened Openreach's independence through changes in governance and the new budget setting processes;
- Developed new systems to ensure the confidentiality of Openreach confidential information that we have committed to and which can be transparently monitored;
- Started the roll out of training to our people which, in addition to teaching them how the new arrangements will work, really emphasises the importance of everyone playing their part and being committed to doing the right thing, behaving the right way, and striving to help us to live up to our commitments.
- Established the new compliance bodies, the Openreach Board Audit, Risk and Compliance Committee and the BT Compliance Committee with supporting offices;

We are now on the cusp of being able to bring the DCR Settlement into full practical effect (save for the completion of the TUPE transfer of people to Openreach Limited and its associated ability to trade), our people are seeing and understanding the cultures and behaviours that we need to see, and these are contributing towards our making good progress to deliver on the goals of the DCR settlement.

We recognise that in the coming year there will be more for us to do – but we will be building on solid foundations, with the commitment of BT's senior management, from the Chairman of the Board, Jan du Plessis and the Chief Executive, Gavin Patterson, down throughout the company.

We are keen that all interested stakeholders develop a clear understanding of how the DCR Settlement should work. In this regard, we believe that there are a number of ways in which Ofcom can help BT and Openreach, for example, by adopting consistent language and ways of working.

We are determined to ensure that the DCR Settlement can remain the basis of an enduring regulatory framework, addressing Ofcom's competition concerns, and delivering the outcomes that we, Ofcom, and industry are all striving for.

1. Introduction

BT notified Ofcom of its intention to implement changes to the governance structure of Openreach on 10 March 2017. This new model aims to secure greater strategic and operational independence for Openreach, balanced with recognising that Openreach remains part of the consolidated BT Group. Following consultation, Ofcom confirmed in a statement dated 13 July 2017 that the notified model of functional separation for Openreach sufficiently addressed its competition concerns and that it is embarking on the current phase of monitoring implementation and compliance with the notified arrangements.

In its July 2017 statement, Ofcom noted that (whilst the notification was subject to four conditions), at that stage *“BT and Openreach had taken several encouraging steps towards implementation of the new arrangements”*.¹ In the period since then, both BT and Openreach have been working hard on bringing forward implementation of much of the new settlement, to allow for practical implementation as early as possible, whilst in parallel seeking to make progress on satisfaction of the notified pre-conditions (involving, as required, other parties notably HM Government and the BTPS Trustee).

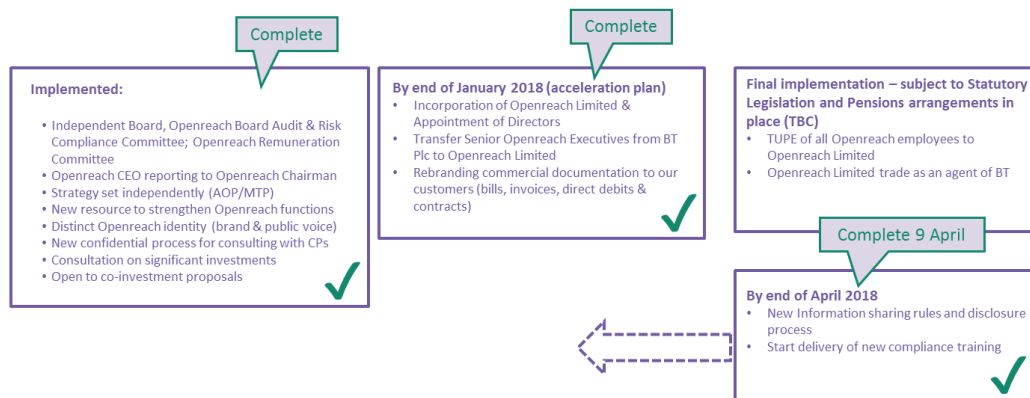
BT has therefore sought to bring about practical implementation of the Commitments and Governance Protocol by the interim deadlines of 1 January 2018 and 9 April 2018, supported by a Transitional Agreement, and not wait for full satisfaction of all of the conditions. BT has done so in order that the benefits of the greater independence for Openreach are realised by CPs as soon as practicable, but in a way that balances the interests of BT, its shareholders, employees and pensioners.

This preparatory work has entailed significant effort within BT. Much of the early focus had to relate to setting up the new governance arrangements for Openreach, to enable it to move to its more independent operating model. As this involved setting up a number of new internal governance structures, defining new relationship processes between BT and Openreach from scratch, and identifying and moving those people that needed to be in Openreach to enable it to fulfil its new role, it was necessarily an early priority of the BT implementation workstream.

Now that most of those structures are in place and operating effectively, BT has been able to shift focus onto making the changes that are required within BT Group in time for practical implementation by the interim deadlines of 1 January 2018 and 9 April 2018. BT has been able to adapt many of the existing governance structures and processes already in place for the Undertakings (albeit some of the changes have involved fundamental change), rather than start from scratch, building on them so as to take BT and Openreach to the higher levels of separation and compliance that we have committed to in the DCR settlement.

¹ Paragraph 7.5 of the July 2017 Statement.

DCR implementation: summary



As the OMU is aware, this has involved an extensive work programme within BT, with a systems implementation plan involving spend of several million pounds and a large number of individuals (about 20 in BT excluding Openreach) dedicated to working on the changes, under the direction of a programme board and under the oversight of an executive-led Policy Board (chaired by the Group General Counsel). The approach taken by the Policy Board has been to ensure that both the letter and the spirit of the DCR Settlement are embodied in the new working practices and processes being introduced across BT. This programme has sought to ensure that a strong compliance culture is embedded in the new behaviours of all employees whose roles will be impacted by the DCR Settlement, and to provide clarity for those concerned about the roles they play in engaging with Openreach (i.e. as customer, as supplier or as parent company).

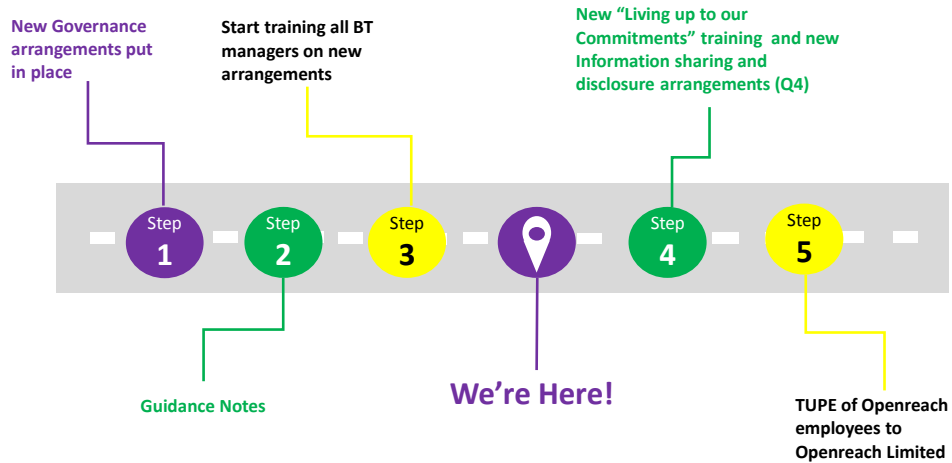
All BT managers will complete a mandatory Computer Based Training (CBT) package called “Living Up To Our Commitments”. High risk BT managers are receiving F2F training or attending knowledge calls (Webex) during January to March 2018 ahead of the launch of the new information sharing and disclosure process.

As the OMU will appreciate, setting a new internal culture involves not just training and educating relevant individuals on **what** they should do, and **how** they should go about it, but equally impressing on them **why** they should behave differently to the old regime under the Undertakings. This is all the more important when people in BT will have different roles and hence different relationships with Openreach (customer, supplier, parent company), to ensure that each and every one of them is clear about the capacity in which they are engaging with Openreach and what is expected of them when they exercise that role.

This programme has been supported by a clear set of messages from the BT Chief Executive, to seek to impress on everyone in BT the positive benefits to BT of the DCR Settlement and why it is in not only BT’s interests to make this a success, but equally our customers’ and ultimately consumers’ interests too. This is incorporated in a video shown at the start of each High Risk Training event and at the start of the CBT – so all BT employees will see and hear these messages. BT considers that successful implementation of the DCR Settlement (both the letter and the spirit) can best be secured through ensuring BT employees understand the positive reasons for change, so that they do all want to help BT to deliver on its commitments.

BT believes that it has, and is, making real and significant progress. As the schematic below shows, we have come a long way on our journey:

The practical steps we're taking to meet the Commitments



BT continues to work hard to progress the work on satisfying the conditions, and over the last number of months has been keeping the OMU updated of progress on a regular basis.

We are on the cusp of being able to bring the DCR Settlement into full practical effect (save for the TUPE and pensions issues that impact on Openreach's to undertake trading), our people are seeing and understanding the cultures and behaviours that we need to see, and these are contributing towards our making good progress to deliver on the goals of the DCR settlement. We recognise that in the coming year there will be more for us to do – but we will be building on solid foundations, with the commitment of BT's senior management, from the Chairman of the Board, Jan du Plessis and the Chief Executive, Gavin Patterson, down throughout the company.

In the following sections, we will provide further detail and evidence in relation to all these matters.

2. Satisfaction of the pre-conditions

The 10 March 2017 Notification <http://www.btplc.com/UKDigitalFuture/Agreed/index.htm> set out the four conditions (the **Conditions**) to be met before the Notification comes into effect. As Ofcom is aware, satisfaction of these Conditions involves approvals and actions from third parties – notably HM Government and the BTPS Trustee in relation to the Crown Guarantee and the BT Pension Scheme. BT has been working hard to progress those workstreams with the aim of securing prompt satisfaction of those Conditions. Nonetheless, BT and Openreach have now implemented most elements of the March 2017 Notification in advance of these Conditions being met. The elements that cannot yet be fully implemented (namely the TUPE transfer of employees to Openreach Limited and Openreach Limited managing and operating the Openreach CFU on behalf of BT because this would trigger a TUPE transfer) are explained in detail later in this report.

The **progress** against the four Conditions is set below:

- (a) *The adaptation of the Crown Guarantee or the provision of a new guarantee in respect of Openreach Limited's pension liabilities (insofar as they relate to pension benefits of employees who are currently covered by the Crown Guarantee) which is equivalent in operation and scope to the guarantee provided in respect of BT plc's pension liabilities under the Crown Guarantee, in terms acceptable to BT plc and the trustee of the BTPS from time to time (the **BTPS Trustee**):*

Progress:

- We have already provided Ofcom with detail of the timetable, work programme and progress over the past year of our review of the pension issues associated with the transfer of employees who are also active members of the BTPS to Openreach Limited and our discussions with the BTPS Trustee and DCMS.
- In January 2018 DCMS provided to us a draft Statutory Instrument (SI) for a new Openreach Limited Crown Guarantee. We responded to DCMS with details of two substantive issues with the draft SI, as we did not believe it was consistent with the above requirement for the guarantee to be 'equivalent in operation and scope to the guarantee provided in respect of BT plc's pension liabilities under the Crown Guarantee'.
- We have separately been progressing a review of our main UK pension schemes in consultation with our unions and employees. As a result of this review we have decided to close the BTPS to future benefit accrual for the vast majority of scheme members. Once these benefit changes have been implemented, there is no longer expected to be a need for a new Openreach Limited Crown Guarantee.
- Implementation of the closure will require a significant amount of planning and changes to administration processes and systems by the BTPS Trustee. Implementation of the changes is not expected to be complete before 30 June 2018.
- The CWU has also announced it will ballot its members over the outcome of the review.

- (b) *BTPS Trustee's consent (on terms acceptable to BT) for Openreach Limited to become a participating employer in the BTPS in connection with the arrangements set out in this Notification coming into force:*

Progress:

- We carried out significant work to understand the issues associated with the basis on which the BTPS Trustee would allow participation of Openreach Limited as a sponsoring employer.
 - However, as noted in section (a) above, the planned closure of the BTPS to future accrual is expected to mean there is no longer any need for sectionalisation of the scheme.
 - Timing of the TUPE transfer will be confirmed in the coming months.
- (c) *Subject to satisfaction of conditions (a) and (b) above and in anticipation of a TUPE transfer occurring when the Agency and Services Agreement (ASA) becomes effective, completion of consultation with the relevant employees and representatives, as prescribed by TUPE persisting at the time, to the satisfaction of BT plc:*

Progress:

As Ofcom is aware, satisfaction of this condition is dependent on resolution of (a) and (b). However, we have done what we can, and in particular the 15 senior Openreach Executives, the Openreach CEO's executive direct reports, have voluntarily transferred to become employees of Openreach Limited. Associated with this, interim arrangements have been implemented ahead of the full TUPE through BT and Openreach agreeing to a Transitional Agreement in place of the ASA which reflects the terms of the ASA, with the exception of those activities which, if undertaken by Openreach Limited employees, would trigger the TUPE transfer.

- (d) *Release by Ofcom of BT plc from the Undertakings pursuant to section 154(6)(c) of the Enterprise Act 2002.*

Progress:

BT recognises the importance that CPs and Ofcom place on retaining the Undertakings until such time as the first three Notification conditions have been met, and indeed on the maintenance of a vigorous and robust compliance monitoring regime.

BT and Openreach have discussed this with Ofcom and agreed that once we "go live" with the new processes to secure confidentiality of Openreach Commercial Information (CI) and Customer Confidential Information (CCI) that the Undertakings Annex 2 regime will be withdrawn. We aim to implement the necessary interim arrangements by the 9 April 2018, which includes new Information Sharing Agreements between relevant parts of Openreach and BT and a Disclosure Record process.

In conclusion in this regard, even though the Conditions have not yet been satisfied, BT has identified a path through to practical implementation of the Governance Protocol and Commitments to the greatest extent possible without triggering any TUPE transfer (the ***Transitional Phase***). BT has not postponed implementation until full satisfaction of the Conditions. As a result, we have put in place a transitional structure which will enable BT and Openreach to deliver most of the elements of the March 2017 Notification as of 9 April 2018, with a Transitional Agreement to support the role of the Openreach Board and Openreach Executive (who have transferred to Openreach Limited).

3. Functional separation

Changes made to Openreach governance

In January 2017, BT originally set up the Openreach Board (known as the ORB) as a committee of BT plc with a majority of independent members. We consulted with Ofcom before appointing them, in particular to assure Ofcom of their independence and suitability.

In June 2017, the Openreach CEO's reporting line was changed to the Openreach Chairman and his primary accountability to the Openreach Board.

On 15 December 2017 BT plc resolved to incorporate Openreach Limited as a separate, wholly owned subsidiary, replaced the committee with a board of Openreach Limited (with the same membership as before) and approved its articles of association. As part of this board resolution, BT plc resolved that Openreach Limited, acting through the Openreach Board, has been delegated authority to set the strategy and oversee and manage the performance of the Openreach CFU on behalf of BT plc in accordance with the Commitments and Governance Protocol and the Transitional Agreement (the **TA**) signed by BT plc and Openreach Limited on the same date. The TA establishes the operating relationship between BT and Openreach during the Transitional Phase and sets out their respective duties and obligations.

The Openreach Board members are shown below:

Our Board

Our board has a majority of independent members. And we consulted with Ofcom before appointing all of them. The board is responsible for strategy, investment and performance. It'll make sure we fulfil our obligation to treat all our customers – the communications providers – the same. It'll also monitor our CEO.



As indicated above, rather than wait for the satisfaction of the Conditions, during December 2017 BT organised for the voluntary transfer of employment of the Openreach CEO and his 15 direct reports from BT plc to Openreach Limited. The transfer is effective from 1 January 2018. This new organisation will allow Openreach Limited's senior management team to support the Openreach Board and directly manage the rest of the employees of the

Openreach CFU, without the risk of inadvertently triggering a wider TUPE process. As Ofcom is aware, this transitional implementation step results from BT carefully seeking to balance the employment law risks in this regard with the desire to proceed with early implementation.

The duties of the Openreach Board are set out in Part A Section 2 of the Governance Protocol, supported by the Transitional Agreement. This has enabled responsibility for the setting of the strategy of Openreach CFU to move to Openreach Limited on the basis of the terms set out in the Commitments, the ASA (and TA) and the Governance Protocol – see section 3 below.

Changes made to BT governance

Since March 2017 BT has made a number of changes to its governance processes. Some are a direct consequence of the DCR Settlement. Some have been part of our larger review of governance preceding BT's new Chairman taking office on 1 November 2017.

(i) Openreach Business Unit Reviews

An early change that was made to our governance processes was to decide that the CEOs of BT's downstream CFUs would no longer attend Quarterly Business Reviews for Openreach.

(ii) ExCo

We have also, in the course of summer/autumn 2017 undertaken a more fundamental governance review. By a resolution of the BT Board in September 2017, the BT Group Operating Committee (OC) was wound up. The Executive Committee (ExCo) was established as the successor to it, with effect from 2 October 2017. The ExCo is chaired by Gavin Patterson, the BT Group Chief Executive and the other members are those who were formerly members of the OC.

The rationale for this change was that we are driving change in the company to enhance business performance and to ensure clarity over decision making. These governance arrangements will also help us to deliver fully on the letter and spirit of our Commitments.

We concluded that we needed to reshape our governance in support of this drive, and that reshaping started with the move from the OC to the ExCo. One of our main aims has been to establish clearer, individual accountability and personal ownership of decisions to enhance decision-making across the business.

The way that ExCo operates is that rather than being a committee of the BT Board, the ExCo advises and informs the Chief Executive (whose authority to run the business day to day was explicitly confirmed by the September 2017 BT Board resolution) or the relevant member of the ExCo (pursuant to his/her delegated authority from the Chief Executive), on the matters brought to it. The ExCo has no collective decision-making authority.

This is part of wider changes to ensure that our Governance framework is based on the principle of single point of accountability with individual ownership for decisions, rather than an emphasis on collective forums. Rather than extending powers the formation of the ExCo simply results in its members being individually accountable for what were previously OC

collective decisions. These changes are in line with the approach that other FTSE companies apply.

The ExCo meets weekly. It focuses on four main topics: corporate strategy; performance and risk; organisation, culture and people and BT wide governance. One meeting each month is for a full day dedicated to long-term strategic thinking and deep dive strategic programme reviews; the other weeks, the meetings are short and focused only on urgent performance and risk issues requiring immediate decisions.

For the avoidance of doubt, Clive Selley, CEO of Openreach is not a member of the ExCo, but may attend when matters pertaining to Openreach are discussed and where his attendance is appropriate. Equally, where any matters pertaining to Openreach are considered by ExCo, this is conducted in a manner consistent with the letter and spirit of the DCR Settlement.

(iii) BT Investment Board

A further change to our Governance impacted the Design Council (DC). As a consequence of the winding up of the OC, the DC has also been wound up. Following the setting up of the ExCo, the Chief Executive and BT Group Chief Financial Officer (CFO) established the BT Investment Board (BTIB), which met for the first time on 7 December 2017.

The BTIB is chaired by the CFO and the other members are the BT Chief Strategy & Transformation Officer and BT Chief Technology and Information Officer TSO. Other representatives will be invited to attend meetings as required, dependent on the agenda. For the avoidance of doubt, these may include Clive Selley, CEO of Openreach who may attend when matters pertaining to Openreach are discussed and where his attendance is appropriate.

The BTIB operates by providing recommendations and input to support the BT Group Chief Executive and CFO with their respective decision-making on capex and opex investment matters. Like the ExCo, the BTIB has no collective decision-making authority.

The BTIB will meet six times a year. It meets once in November/December to provide recommendations to the Chief Executive on the capex and investment opex budget and Medium-Term Plan (MTP), allocation, key programmes and prioritisation. Five bi-monthly meetings follow, to review: capex and investment opex performance, investment case review and approval, and investment case status/dashboards.

(iv) BT Compliance Committee.

Alongside BT's new Chairman taking office on 1 November 2017, the question of Board committees (roles and membership) has been considered. The setting up of the BT Compliance Committee (BTCC) needed to fit within that review. The board of BT Group plc resolved to set up the BTCC at its meeting on 12 December 2017 as a sub-committee of the BT Group plc Board Audit & Risk Committee (BARC). Further detail in relation to the BTCC is provided in section 5 below.

Openreach Brand

BT and Openreach have pushed ahead on the rebranding of Openreach. We recognise the importance of Openreach having its own brand (a) in the eyes of its customers as proof its greater functional separation, independence and commitment to treating all its customers equally, and (b) with its people, as part of driving the right culture and behaviours. Openreach has already created its distinct Openreach identity (brand and public voice). Rebranding commercial documentation to Openreach's customers (bills, invoices, direct debits) has also been completed in January 2018. Details of progress are in the separate Openreach progress report.

Openreach HR and trading system changes

Rebranding commercial documentation to Openreach's customers (bills, invoices, direct debits) has also been completed in January 2018. Internal systems and Openreach employee payslips are also being rebranded. The HR and trading system changes, costs and dates agreed between BT and Openreach are summarised below:

Rebranding

Rebranding in this instance refers to: Change of logo, Font changes, Banner changes, Iconography changes, Colour changes & re-wording where required to adhere to the policy document signed off by the programme board.

Description of changes	Delivery date	Status
Rebranding of all Openreach systems which are used by Communication providers (CPs), Suppliers & Customers (except KCI notifications which would require changes to CP systems to consume). These changes include rebranding of the Openreach Portal and associated sites, IVR voice recording, Customer Sat Surveys, Reporting and mobile Applications which require End User sign off.	16 th September 2017	Delivered
Rebranding of the homepage Banner on the Openreach Portal and colour changes to comply with new brand guidelines	5 th October 2017	Delivered
Rebranding of our finance systems (Atlantis and Bill Maker) which send invoices, TRC's and estimates to CPs – Design, development and test only	18 th November 2017	Delivered
Rebranding of our finance systems (Atlantis and Bill Maker) which send invoices, TRC's and estimates to CPs – Test and delivery	22 nd January 2018	Delivered
Counterfoil on invoices to be reworded and rebranded plus a change on our BACs file to amend from BT to Openreach	17 th March 2018	Delivered
Internal systems rebranding – a few systems have been rebranded at zero cost. Other systems will be rebranded in the next financial year	To complete by March 2019	Early stage of scoping
HR and Payroll changes – Creation of new organisation within our HR and Payroll systems. Includes rebranding of payslips and 'employer' name change from BT to Openreach	Planned completion in July 2018	Early stages of design

New confidentiality arrangements

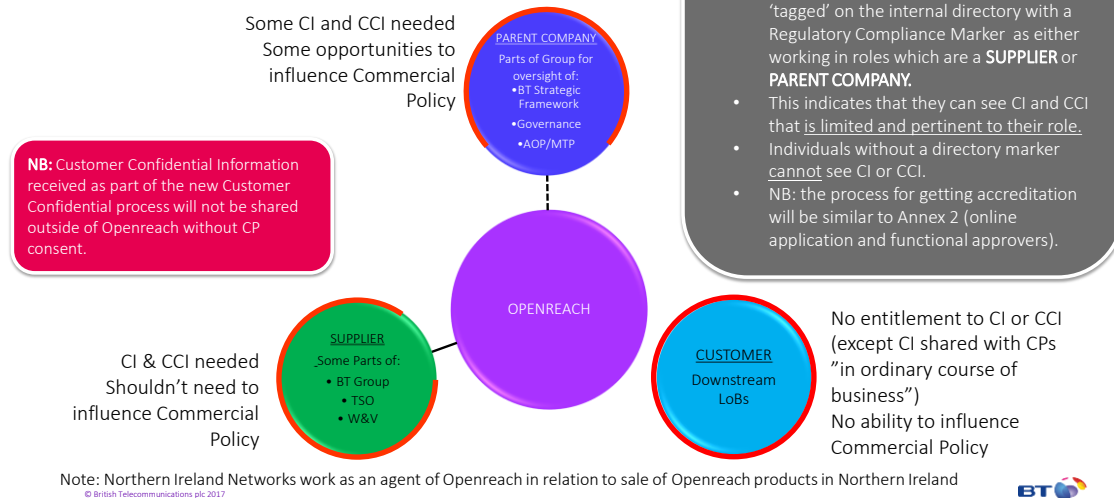
BT is in the process of implementing new information sharing rules and disclosure process fully aligned with the Notification which will come in to effect 9 April 2018. The purpose of this is to ensure that (i) BT fully respects Openreach's greater independence, (ii) the confidentiality of Openreach CI and CCI is fully respected and (iii) BT people interact in the right ways with Openreach, only seeing Openreach confidential information and seeking to influence Openreach commercial policy to the extent necessary to fulfil their roles and in accordance with Commitment 10.

- (i) The different relationships between BT and Openreach – identifying those who can see Openreach CI and CCI

The starting point for this has been for BT to recognise the different relationships that BT people have with Openreach. In this regard, BT has implemented new role descriptors that will apply to all BT people interacting with Openreach as shown below:

Look up the Internal Directory

Identifying the key relationships with Openreach



The significant of these role descriptors is that in the operation of our new processes, those employees in the 'parent' and 'supplier' roles will need to undergo specific training before 9 April 2018 so that they can get access to Openreach CI or CCI.

As part of the transition to enable compliance with the confidentiality requirements under Commitment 10, BT has also been reviewing the list of those individuals with Annex 2 status in BT: the training requirement on the new role descriptors will enable BT to control those who will have access to Openreach CI/CCI going forwards, such that there is no assumption that anyone with Annex 2 status will be entitled to see Openreach CI/CCI in the future. The training on the new arrangements has focussed on people who currently have Annex 2 status. It explains that most of them will no longer automatically have rights to see this Openreach information and they will need to complete training and go through a formal vetting procedure. We are on track to have this new arrangement fully in place 9 April, enabling us to replace the Undertakings' Annex 2 arrangements.

(ii) Regulatory Compliance Markers

To ensure compliance with the letter of our commitments, as well as to support a compliant culture within BT, people requiring CI/CCI to carry out their activities in their parent company or supplier capacity, will have an associated regulatory compliance directory marker. The markers will be a continuous method to remind people of the need to maintain Openreach's independence.

Only people who have been trained can apply for a directory marker and receive/share Openreach CI/CCI after 9 April 2018.

(iii) Information Sharing Agreements (ISA)

To ensure the effective and efficient sharing of CI and CCI which is not significant within a controlled environment capable of being monitored, BT is creating and putting in place information sharing agreements (ISAs). These will be used where we can identify activities operated around the business, which require Openreach CCI/CI to be supplied to BT people

for them to fulfil their supplier or parent company role. These documents drive the rules put in place for the sharing of information and give clear instructions on the information that should and shouldn't be shared, the purpose of the sharing, and the restrictions or controls expected to safeguard it.

This clear process further emphasises the distinctions between the roles of Openreach people and BT people acting in their supplier or parent company supplier.

(iv) Management of Significant Information

To enable oversight and control of compliance with our Commitment to provide greater transparency in relation to the sharing of significant Openreach information, Group Regulatory Compliance (GRC) has developed a new system, which is a secure portal to manage the sharing of "Significant Information" between Openreach and BT.

The system enables BT to capture when Significant Information is shared with BT (whether in the course of the relevant BT people acting in a parent company or supplier capacity). Each individual exchange of Significant Information will need to be logged by the sender on the new portal. This allows the business to maintain a robust trail of evidence from sender to receiver, with dates, reasons etc.

We do however anticipate that on occasions it may be appropriate for the sharing of Significant Information to be covered by an Information Sharing Agreement (*ISA*). This would cover a situation requiring a regular exchange of Significant Information within clearly defined parameters or on specific projects which require both BT and Openreach people and the appropriate sharing of information.

Only a few authorised people in GRC have access to the secure portal (e.g. for the purposes of producing the disclosure record report) and rigorous controls are in place to ensure confidentiality.

Similarly, the strengthened system of justifying the need to share Significant Information between Openreach and BT, managing that exchange and tracking such disclosure will enable the tighter oversight over BT's ability to influence Openreach's Commercial Policy, to ensure that it is appropriately controlled to apply to specific roles within the 'parent company' function.

Embedding the knowledge – ensuring the right behaviours

BT has developed an extensive programme of training activity to ensure that everyone in BT knows what is expected of them and how our commitments apply to them. Key elements of this are as follows.

(i) Pan BT Training

This will be based on a new Computer Based Training (CBT) course 'Living Up To Our Commitments'. We have introduced this new training requirement for all BT and Openreach employees. This training forms part of wider mandatory computer based training, which all employees must complete on a cyclical basis. The CBT details what it means to them and how they should operate when the Commitments. It includes a video from Gavin Patterson emphasising the importance of the training and the positive need for change across BT to

embrace the new Commitments; it will also allow BT's Compliance function to test employees' understanding of the new rules and behaviours, so that follow up/additional training can be devised. The CBT has now launched and subsequently over 10,000 completions have already been registered. The course has also been allocated for future completion to an additional 7,000 employees to date.

(ii) "High Risk" training

In December 2017, BT commenced an extensive training programme for 'high risk' teams to explain the changes brought in by the DCR Settlement, the positive reasons underpinning these changes, and the behaviours expected of those being trained. This is as a prelude to the computer-based training programme that is being rolled out across BT in the course of 2018.

This is to acknowledge there are people within the business that will be interacting with Openreach in a way that is of a higher risk to the company. This could be through the volume of interactions or by the types of information shared between Openreach and themselves or because of the roles that the BT people have as Parent Company people.

- ▶ BT face-to-face (F2F) and Knowledge call training to 'high risk' groups started in December 2017 and will be completed by end March 2018.
- ▶ This 'high risk' training programme is intended to cover over 3000 BT people - by either F2F sessions or trained via Knowledge calls (Jan-March). Openreach are doing a similar exercise in parallel for their people.

In addition, this training programme is designed to help clarify, practically, the ways in which BT can interact with Openreach under the Commitments, and how Openreach CI/CCI should be handled after 9 April 2018. This is important to ground the cultural changes in tangible guidance on how people are expected to behave.

4. Strategic independence

(i) Openreach developing its AOP and MTP

As a consequence of BT taking the various governance and process steps identified above, BT has already enabled Openreach to assume responsibility for its strategy and budget.

A key part of this is the development of Openreach's Annual Operating Plan (AOP) and Medium Term Plan (MTP). We started to develop a Guidance Note (GN5) in Spring 2017 setting out the process to be followed by BT and Openreach in developing the AOP and MTP to ensure that there is a clear understanding of the respective roles of BT and Openreach in setting the AOP and MTP, respectful of the independence requirements of the DCR Settlement. In practice, there have been complex points of detail that have needed to be considered. However, it was confirmed to the DCR Policy Board at its August 2017 meeting that this Guidance Note was sufficiently developed for the teams in Openreach and BT to start working on the creation of the coming year's AOP and MTP by reference to it. Since then, we have continued to work through specific matters needing to be clarified and agreed. A copy of the proposed process will be provided to Ofcom once it has been agreed.

(ii) Openreach consultation processes

Openreach has implemented a new confidential consultation process. BT fully supports these new arrangements and has facilitated their early introduction over the course of 2017. Details of progress are in the separate Openreach progress report. The main output to date from this new consultation process, from BT's perspective, is the Openreach Fibre First programme relating to expanded deployment of a FTTP network. This originated from Openreach's confidential CP customer consultation process in 2017.

(iii) New Resources

As part of ensuring that Openreach has committed, expert capabilities, BT has transferred to the Openreach CFU over the course of 2017 senior resource to strengthen key Openreach functions.

Such transfers from BT Group include, for example:

- Openreach's Managing Director of Regulatory Affairs
- New Director of Strategy
- Board governance expertise to set up the Commitments Monitoring Office (CMO), supporting the Openreach OBARCC
- Capability for Openreach to deliver BDUK contracts (management and delivery teams)
- Cost transformation teams from Group.

In addition technical experts moved from TSO (Chief Technology and Information Officer's team).

Where BT did not have the capability or resource to transfer, Openreach has recruited expertise required. Such new hires are:

- New Director of Corporate Affairs
- New Corporate Affairs team.

5. Culture of independence

Regular employee communications

From the outset, we have been committed to ensuring that our people hear the messages we want them to hear about our commitment to the DCR settlement. For example, on 10 March 2017, on the date of notification of the DCR Settlement to Ofcom, Gavin Patterson sent the following message to all BT people:

To: Everyone in BT
From: Gavin Patterson, chief executive officer BT Group
Status: For information

Agreement reached with Ofcom on the Digital Communications Review

I'm pleased to announce we've reached agreement on a long-term regulatory settlement with Ofcom, which includes the future governance of Openreach. We believe the agreement is in the best interests of colleagues, customers, service providers, shareholders, pensioners and everyone who relies on our infrastructure. It also meets Ofcom's competition concerns.

As with any negotiation, we've had to be flexible to ensure we reach an agreement. However, I'm pleased to confirm that Openreach will not be separated from BT. Instead we will create a new company - Openreach Limited, a wholly owned subsidiary within the BT Group and we will meet Ofcom's requirement by transferring Openreach people into this.

We have also agreed with Ofcom that the transfer to Openreach Limited will only take place once:

- Arrangements are in place for people to continue in their pension scheme, at the point they transfer to Openreach Limited
 - We have concluded consultation relating to the TUPE transfer of people to Openreach Limited.
- These were essential pre-conditions for an agreement.

All of this will take time to work through, so the changes will not be immediate. We will now begin detailed discussions with the pension trustees and the unions, who have actively contributed to the DCR process. We will continue to keep you up-to-date over the coming months. Ofcom will shortly start a period of consultation with industry on the agreement reached – a necessary step prior to conclusion of the Digital Communications Review process.

The settlement also builds on changes we have already made to the governance of Openreach, to enable a greater degree of independence and transparency in how it makes decisions and serves customers. These include the creation of the Openreach Board. In addition, reflecting its enhanced independence, the BT logo will not feature in Openreach Limited branding following implementation.

We understand the UK has placed a great deal of trust in us. We believe these changes are the right thing to do to improve customer service and how Openreach works with industry. It supports investment in the UK's digital infrastructure and provides the best outcome for our people.

We know for colleagues, particularly those in Openreach, Ofcom's review has been unsettling. And, I'll be honest, it's been challenging to balance a number of competing interests over the prolonged period of negotiation. But we've listened to the criticism of our business and we believe we've reached an outcome that's sustainable and proportionate, brings certainty for the future and is in the interests of all concerned.

Our focus now is to get behind the agreed changes and deliver the digital future and the experience our customers, employees and our company desire.

Gavin

Since then, as noted above, BT has devised an extensive training programme to support the implementation of the DCR Settlement within BT.

This training programme has been accompanied by an internal communications campaign to emphasise the positive reasons for BT agreeing and implementing the DCR Settlement, plus the need to see the resultant changes to business processes and practices as part of a wider programme of cultural and behavioural changes. This campaign aims to provide regular and timely communications to BT people about the changes taking place and the reasons for those changes.

Group Regulatory Compliance and BT Internal Communications have also been spreading the word about the Commitments with a regular “drum beat” of messaging and communications. These include attending team meetings, having calls when requested and placing news items on BT Today (BT’s intranet). These are seen by all BT employees and enable questions to be raised and answered by GRC as required. There are also a continuous postings on GRCs personal profiles with the use of hashtags including #Ourcommitments and #RCMS. GRC is able to spread the word to all followers of profiles, hashtags and forum groups.

In addition, other internal communications have included:

- Email to Group Customer Experience working with Openreach under the Commitments – IMPORTANT
- Update on the W&V Legal community call
- Commitments overview to the TSO Business Management team
- Commitments overview to the TSO Leadership team
- Commitments update to the TSO Legal community
- BT Today article “Make sure you are ready for Our Commitments – 31 January 2018
- BT Today article “Our Undertakings remain in place” – 7 November 2017
- BT Today article “Commitments launch event registration” – 15 March 2018
- BT Today article about compliance markers – 13 March 2018
- Commitments launch event at BT Centre on 15 March to be hosted by some of BT’s most senior managers
- Invitation to replay a recording of the Commitments launch event – 16 March 2018
- Reminder for those going through reorganisations to prepare and be ready for Our Commitments in their new teams – 16 March 2018
- Further supportive messaging about the Commitments on BT’s internal social media platform.

On 15 February the BTCC and the CAO were publicised as a lead story on BT Today, highlighting their establishment and membership, and the important role that they will play in ensuring that BT makes the DCR Settlement a success.

In addition, there will an internal BT Today communication about the launch of the Commitments. This is due for publication on 9 April.

Codes of Practice

The new Codes of Practice for BT and Northern Ireland Networks were approved by the BT Policy Board in January 2018 and these will come in to effect 9 April 2018. The codes of practice have been created to communicate the changes taking place clearly and why they have happened – in line with Commitment 17. They are statements of expectations to the business as to how BT interacts with Openreach. They give a clear and concise note on what is changing, in time for 9 April 2018, and to indicate who they should contact in order to obtain further information and/or training.

The Codes of Practice are on www.BTPLC.com, will be on our Compliance Websites and are referenced in the new CBT. We will send them out to people who become Parent Company or Supplier roles. There is also a Code of Practice for Northern Ireland Networks, due to the unique working relationship it has with Openreach.

6. Compliance and oversight

Compliance Committees (OBARCC and BTCC)

The Openreach Board Audit and Risk Compliance Committee (OBARCC) and the BT Compliance Committee (BTCC) are now both established.

Details of progress in relation to the OBARCC are in the separate Openreach progress report. In this section we shall provide information on the BTCC.

The BTCC was formally stood up by a resolution of the board of BT Group plc at its meeting on 12 December 2017. It was agreed that the BTCC will be a sub-committee of the BT Group plc Board Audit & Risk Committee (BARC). As the Openreach Board Audit, Risk and Compliance Committee (OBARCC) reports (indirectly) to the BARC on Openreach's compliance with the Commitments (as well as reporting directly to the Openreach Board) there will be a logical symmetry from the BTCC doing so (in respect of the rest of BT's compliance) as well.

The Commitments and Governance Protocol require that the BTCC has a majority of independent members. BT's Non-Executive Directors are considered to be independent for these purposes. The BTCC will therefore comprise three Non-Executive Directors and one BT Senior Manager. The initial membership is:

- Independent Chair: Isabel Hudson
- Independent Members: Jasmine Whitbread (member of the BARC), Mike Inglis
- BT Senior Executive: Dr Tim Whitley.

The inclusion of the current Chair and another member of the EAB will provide significant continuity of expertise in relation to regulatory compliance.

In short, the BTCC reviews:

- BT's compliance with the Commitments and the Governance Protocol as set out in section 19.4 of the Commitments and sections 7.13 – 7.15 of Part A of the Governance Protocol, as may be amended from time to time;
- whether the culture in BT and the behaviours of BT people in relation to the Commitments and Governance Protocol are conducive to BT's compliance with them and to delivery of the Digital Communications Review (DCR) objectives; and
- the extent to which metrics published by Ofcom in relation to the DCR are being achieved and the objectives identified by Ofcom in the DCR Final Statement are being met.

In practice, the BTCC recognises that the approach to compliance with the DCR Settlement will need to be different to the Undertakings, given that the Commitments are more principles based and that compliance with the letter of the settlement will not of itself suffice. In many respects BT is conscious that there remain grey areas as to what the spirit of the agreement requires and how it will be appropriate for BT to exercise the rights reserved to it in the DCR Settlement: this is a key area of focus for those within BT working on implementation. Similarly, the BTCC recognises that there will be much closer monitoring of compliance and that perception of success by Ofcom is likely to be strongly related to market outcomes and the reactions of other industry players.

Having regard to these factors, some of which are outside BT's control, the BTCC is committed to ensuring tighter, more focussed and rigorous, monitoring and testing of BT's adherence and commitment to both the letter and the spirit of the settlement and to ensuring that the behaviours of BT people will contribute to the delivery of the DCR outcomes that BT and Openreach, industry and Ofcom all wish to see.

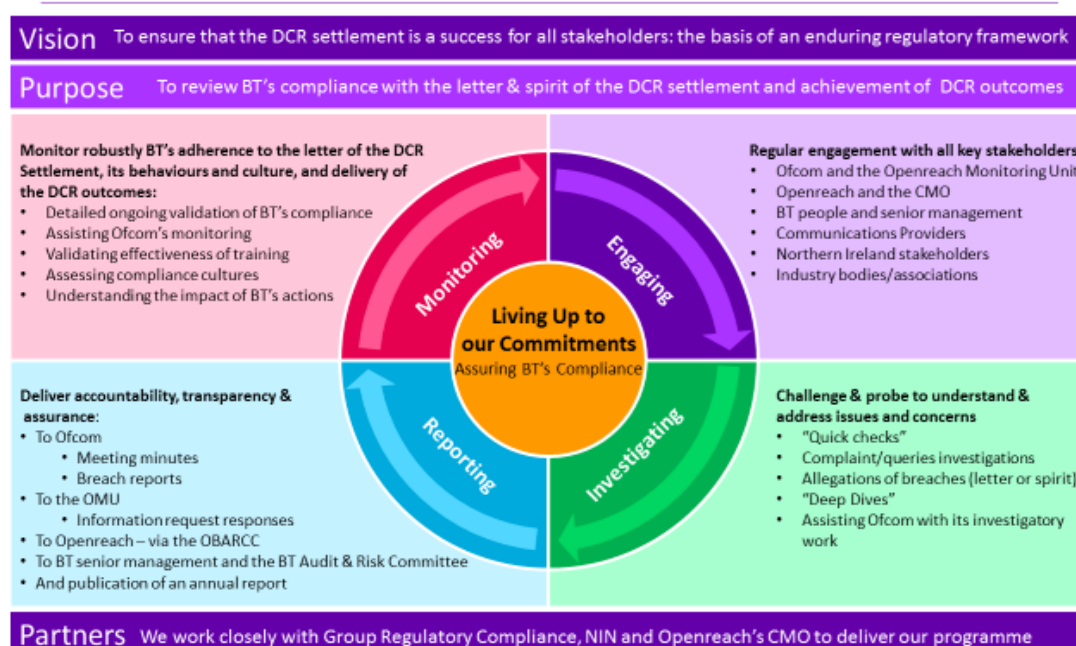
The BTCC will meet at least four times a year – but in 2018/19 is planning to meet approximately bi-monthly, given the importance of rigorous oversight during the implementation phase and initial “live running” period. The BT Group plc Chairman will attend BTCC meetings and the Director of the EAO (Jon Furmston) has been invited to attend the first two or three meetings to ensure a smooth transition and to assist with ensuring that there are no “compliance gaps”, in particular in relation to ongoing Undertakings monitoring. The first meeting of the BTCC was held on 14 February 2018.

In addition to its accountability to the BARC, the BTCC will also have accountability to Ofcom. Specifically, the Commitments require that minutes of meetings of the BTCC be provided to Ofcom and that the BTCC reports any breaches of the Commitments or Governance Protocol by BT. The BTCC is not required to publish any formal reports (in contrast to the OBARCC) but intends nonetheless to publish a report on its activities and findings on an annual basis.

The BTCC is supported by the Commitments Assurance Office (CAO). This will be a team comprising a number of full and part time members with relevant specialist expertise. The office will be headed up by George Ritchie who has many years of extensive legal and compliance related experience. The BTCC is considering the appropriate size of the CAO, and the extent of the resources dedicated to its support. The BTCC is committed that the CAO should be sufficiently resourced to deliver its, and the BTCC's, remit, and resourcing was discussed at its first meeting on 14 February. The CAO is currently in the course of putting in place all of its operating activities.

The BTCC and CAO's operating model is shown in the figure below

BTCC and CAO operating model



The list of activities below to be undertaken by the CAO in support of the BTCC is planned to include:

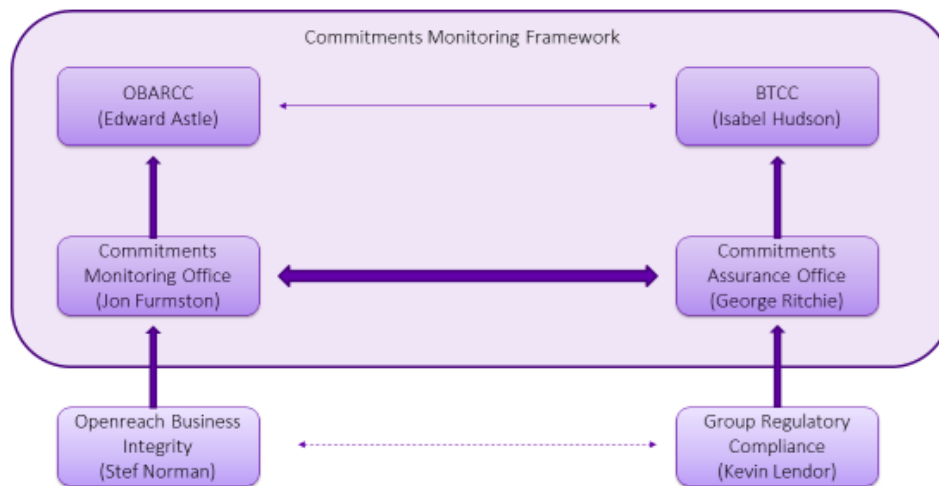
- a. Overall Commitments monitoring and assurance;
- b. Behaviour and Culture monitoring;
- c. Engagement with representatives of industry;
- d. Engagement with Ofcom's OMU;
- e. Information sharing;
- f. Handling investigations into Commitments compliance;
- g. Quick checks;
- h. Breach investigations and decisions;
- i. Code of Practice and training;
- j. BT Northern Ireland Networks;
- k. Supporting the BTCC, including reporting to the BT Group plc Board via the BARC and to Ofcom;
- l. Conduct an annual review of compliance with the Commitments and publish an annual report; and
- m. Other potential oversight areas (e.g. Undertakings related activities).
 - i. The Statement of Requirements (SoR) process for Wholesale & Ventures:
 - ii. Product Key Performance Indicators (KPIs).

The CAO's engagement with stakeholders will include the following:

- a. Meetings of the BTCC will be held quarterly (more frequently in the first year);
- b. Meetings with Ofcom's OMU will be held monthly, with regular engagement/information provision between meetings in line with the OMU's annual work plan;
- c. Meetings with the Head of Openreach's CMO will be at least monthly with day to day engagement on specific matters as required;
- d. Meetings with other external stakeholders will be both proactive – e.g. industry groups, oversight of activity in Northern Ireland - and reactive, in the event of complaints or representations – and the CAO will ensure appropriate engagement of the BTCC with key stakeholders (e.g. invitations to CPs to attend at BTCC meetings);
- e. Engagement with Group Regulatory Compliance will be on a regular basis, and have regard to their assurance role (see details of assurance programme below).

The setting up of the BTCC and the CAO completes the establishment of the compliance framework promised by BT in the Commitments and Governance Protocol. The overall framework is shown below.

Key Relationships in the DCR monitoring framework



Group Regulatory Compliance (GRC) Assurance

In addition to GRC's role in implementing the BT training programme, BT's GRC function has also devised a bespoke compliance and assurance programme to support the implementation and operation of the DCR Settlement. This includes a number of different strands:

- **GRC Assurance Programme**
This will consist of creating an annual rolling plan to capture all assurance requirements GRC will provide over the Commitments and Governance Protocol. The assurance activities will include audits, ensuring reporting takes place, driving key performance indicators monitoring the commitments and keeping up to date and engaged with other assurance providers.
- **Business Partners**
GRC BPs will work closely with the business and help maintain compliance to the commitments. The BPs will identify potential weaknesses or concern areas and where required, feed in to the assurance team programme.
- **Regulatory Compliance Marker System**
GRC will govern the marker system and the supporting processes. GRC will be able to maintain an independent view of people applying for the markers and reject or investigate applications.
- **Ongoing help and guidance**
BT operates a confidential helpline called 'Speak Up'. This enables employees to feel comfortable they can highlight worries or issues and remain anonymous. The process is applicable to all areas within BT, including compliance issues to the commitments.
- **Helpdesk**
GRC operate a compliance helpdesk for all BT people can send emails to a monitored functional email account about the Commitments. The queries raised are actioned, allocated and dealt with as soon as possible, keeping the individual up to date

throughout the process. GRC will look for common themes and where necessary put out refresher training and communications on points of clarification.

Costs of implementing compliance controls

Responding to Ofcom's enquiry, BT Group has to date invested in the following area (which, to be clear, are incremental to BT's regular compliance work) in order to ensure implementation of the new Compliance Controls:

- New Regulatory Compliance Marker System
- Individual system developments to take new Supplier marker
- Disclosure system 10K software plus hardware infrastructure costs
- New Living up to the Commitments CBT
- Development of User Access Audit tool to cope with changes to the Regulatory Compliance Marker system and enhance how we monitor User Access Controls to systems which are either Openreach, shared with Openreach or Group Finance systems with Openreach information

7. Equal treatment of customers (e.g. investment decisions, SoR process)

BT and Openreach recognise the importance of ensuring that the new equal treatment principle is properly embedded within Openreach, so that all CPs can have full confidence that Openreach is striving to respond promptly and effectively to meet their needs, is engaging with them fully and fairly on potential major strategic network investment decisions and will engage with them constructively on potential co-investment and other new commercial models.

The training being given to BT and Openreach people is designed to ensure a culture that will deliver the right behaviours. In many respects it will be for Openreach to take the lead, but all our people need to know what they should be doing to play their part. To this end, the DCR Policy Board has agreed a Guidance Note, (GN3 – previously supplied to Ofcom’s OMU) explaining the difference between EOI and Equal Treatment, and the meaning, scope and reach of the Equal Treatment concept. We include a summary of this in our training to the high risk groups.

In practice, the introduction by Openreach of its new confidential consultation process will be the key starting point – providing Openreach’s CP customers with the ability to engage with Openreach in confidential discussions about potential opportunities. We anticipate that Openreach will provide more detail in this regard in its response.

Additionally, BT recognises that where Openreach operates in competitive markets where it is not designated by Ofcom as having Significant Market Power, Openreach will nonetheless take the interests of all its customers into account when considering the evolution of its product portfolio and network.

8. Northern Ireland

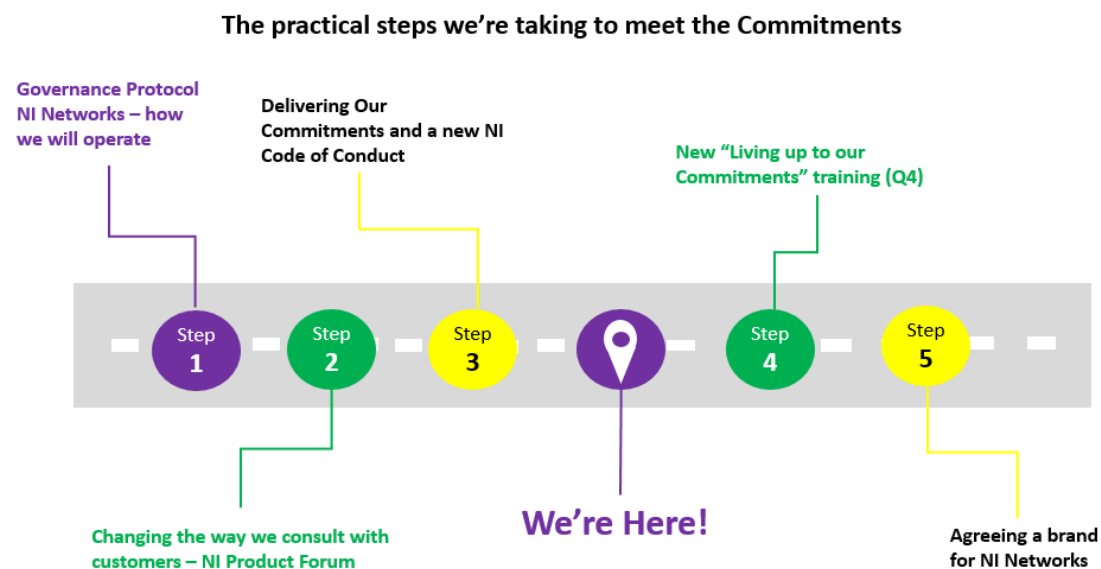
Section 18 of The Commitments, describes Operations in Northern Ireland and what BT has committed to in terms of the operation of NI Networks (NIN) as a virtually separate organisation.

Given the unique nature of NI Networks, recognised by the specific treatment of it in Commitment 18, considerable attention has been given to implementation of the DCR Settlement in this respect. There are a number of work packages underway and these are described at a high level below:

Resourcing the DCR Implementation

NI Networks appointed two DCR Programme manager leads in September 2017 (NI Networks, DCR Transformation Managers), reporting directly to the MD. These two roles are to facilitate the implementation of the Commitments (specifically Commitment 18, Operations in Northern Ireland) and the Governance Protocol BTNI Networks. The responsibilities of the DCR leads include (but are not limited to):

- Regularly meeting Ofcom NI to update on the implementation of the Commitments Implementation
- Ensuring the NI Networks team understand the changes to how they will work under the Commitments
- Ensuring appropriate Information Sharing processes are in place between Openreach and NIN and NIN and its host organisation, BPS
- Production of Guidance Note 8 (NI) and associated business processes



Guidance Note 8 – Northern Ireland Networks

NI Networks, along with the Regulatory and Compliance teams have developed Guidance Note 8 detailing the principles on how NI Networks will operate as a virtually separate

organisation within BT. This was approved by the DCR Policy Board in February 2018... Themes addressed in Guidance Note 8 include (but are not limited to):

- Equal Treatment
- Information Sharing*
- Trades – how NIN manages internal and external trading arrangements
- Compliance and Monitoring*
- Customer Communications*
- Brand*
- Annual Operating Plan/Medium Term Plan (AOP/MTP)*

*Described in more detail below

Information Sharing

A specific information sharing process has been developed for NIN to address two key areas of information flow:

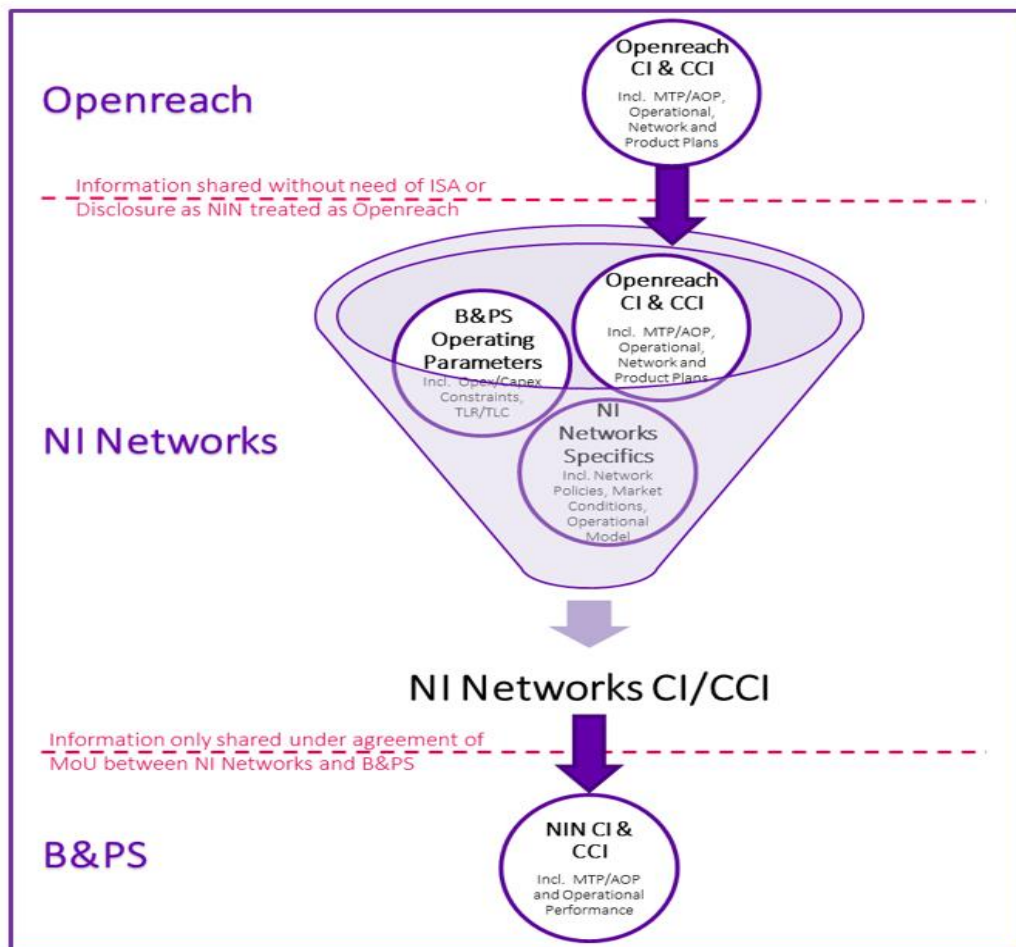
1. **Openreach Sharing Information with NI Networks** - Northern Ireland Networks remains a virtually separate organisation within BT. The Commitments provide that the confidentiality restrictions set out in section 10 of the Commitments do not apply to NI Networks, so people working for NI Networks can be within the Openreach confidentiality circle (per Commitment 18.1 and 18.2(a)).

To assist Openreach employees (who, in accordance with the LID information sharing processes need to look up on the Directory whether the proposed recipient has a Regulatory Compliance Marker before sharing information), there will be a status on the Directory against all NI Networks employees: *“Northern Ireland Networks, Openreach Information Permitted”*.

2. **NI Networks Sharing Information with B&PS** – Measures have been taken to minimise any information sharing outside of NIN, removing a number of individuals and functions from key processes and meetings where NIN information is available. Information shared outside of NIN will be managed under a ***Memorandum of Understanding (MoU)***.

Within the **MoU** the specifics for information sharing are detailed which include:

- Named individuals who can receive NIN information
- Types of information that can be shared
- Responsibilities of the individual who receives information
- Disclosure process to be followed for information shared outside the boundaries of the MoU
- Quarterly reviews of the MoU



Compliance and Monitoring

The NIN team held a workshop with Group Regulatory Compliance (GRC) on 30 November in Belfast where we discussed the framework and governance for monitoring NIN compliance. A number of steps were agreed including the creation of a dashboard for NIN – a sample of which has been drafted by GRC.

The forum for reporting on NIN Compliance with the Commitments to NI stakeholders is the NI Regulatory Compliance Committee (NIRCC), which meets twice a year. GRC operates the NI RCC to review NIN's compliance with its equal treatment, separation and information confidentiality obligations with stakeholders. Terms of Reference for the NIRCC were documented and shared with Ofcom NI in November 2017.

The NIRCC is open to internal and external stakeholders and invitees will include NIN, Ofcom, BT Regulatory Affairs, BT Group Regulatory Compliance, the Openreach CMO, Northern Ireland CPs and Northern Ireland stakeholders. The first NIRCC was held at Ofcom offices in Belfast on 30 November 2017 and was well attended by NI stakeholders.

Customer Communications

Commitment 18 3 (d) requires NI Networks to have regular engagement with NI stakeholders and produce an annual report on proposed BTs Access Network and BTs Backhaul Network in Northern Ireland. NI Networks launched the first NI Product Forum on

30 November 2017, Terms of Reference for the forum were documented and shared with Ofcom NI.

This was chaired by the NIN MD and included Ofcom and a number of stakeholders from across industry in NI. The agenda for the inaugural NI Product Forum included:

- Update on NI Networks by NIN MD
- New Customer Consultation Process
- Copper and Fibre Product Forum Update

The next NI Product Forum will coincide with the next NIRCC, likely to be held 7 June 2018.

Brand

NIN is phasing out the use of “BT” and “British Telecom” on vehicle fleet and clothing. This will be completed within 36 months and 18 months respectively from the date upon which the BT commitments take effect. The future branding of NI Networks is currently in discussion with the CEO of the host organisation, Business and Public Sector.

Compliance Training

An NI Networks version of *Living Up to Our Commitments* Training has been developed and the script shared with Ofcom, NI. A number of training sessions have been completed including:

- Computer Based Training – Living Up To Our Commitments
- High Risk Training – Supported by BT Group Regulatory Compliance
- Face to Face Training for Senior BPS team – Supported by Regulatory Affairs team

The OMU representative from Ofcom NI has attended a High Risk Training Session.

AOP and MTP

To enable the successful development of the NIN AOP and MTP and ensure alignment with Openreach; NIN and Openreach maintain a close relationship at a product evolution, volume forecasting and operational level. This includes (but is not limited to), regular quarterly overview sessions, a handshake process between Openreach and NIN during AOP and MTP development and ad-hoc engagement as required.

The NIN AOP/MTP will be subject to the Information Sharing principles set out in the NI Information Sharing Memorandum of Understanding.

9. Pulling together

Implementation of the DCR Settlement has involved not just changing what we do, and how people think and behave, but also the way we communicate and the language and terminology we use.

BT is extremely keen that all interested stakeholders develop a clear understanding of how the DCR Settlement should work. In this regard, we believe that there are a number of ways in which Ofcom can help BT and Openreach, by adopting consistent language and ways of working. In particular, we have identified three areas where we believe that Ofcom can help us to maintain clear, consistent messages.

These are:

- Communications: Being clear in external communications that refer to “BT”, which parts of our organisation the communications relate to – in particular using both ‘BT’, ‘Openreach’ and ‘Openreach Limited’ correctly (and certainly NOT referring to “BT Openreach”);
- Contact: Respecting the differing roles and responsibilities of people in BT and Openreach – for example sending information requests to BT and Openreach which are within the remit of each of them respectively; and
- Culture: Helping us by embedding these messages in training or communication of the new arrangements to Ofcom people.

We are keen that we do all pull together to do everything we can to ensure the DCR settlement succeeds, and so, if Ofcom wishes, we would be happy to discuss these suggestions with Ofcom.

BT

31 March 2018