



Financial Planning Processes Guidance Note

March 2019

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Background and Principles

Background

The DCR arrangements strike a balance between greater Openreach independence and BT oversight

- Address Ofcom’s concerns that *“BT had retained control of Openreach’s decisions, while other telecoms companies have not been consulted sufficiently on investment plans that affect them”*
- Ensure that Openreach will secure greater strategic and operational independence, whilst recognising that BT must ultimately have and be able to demonstrate economic control over Openreach.
- Respect the need of BT and its directors to exercise legal, regulatory and fiduciary duties, and continue to be able to consolidate Openreach Limited within the BT Group plc accounts.
- Recognise the important role of the Openreach Limited Board, with the Openreach directors having legal duties.

The Financial Planning process needs to respect this balance

- Openreach does not have its own uniquely created planning process, and operates within the framework of the BT Group Planning process.
- However, the process provides Openreach with more independence than other Customer Facing Units (CFUs) in the development stage of the MTP/AOP – both in planning and in internal interactions.
- Openreach is also able to escalate any disagreements to the BT Group CEO and ultimately the BT Board.
- The process respects BT Group’s authority to make final capital allocation decisions and its fiduciary duty to its shareholders.

Our overall objectives

1. Make the DCR a success
2. Respect the greater strategic and operational independence afforded to Openreach
3. Respect that BT Group remains a consolidated Group
4. Ensure that BT and Openreach continue to work together efficiently

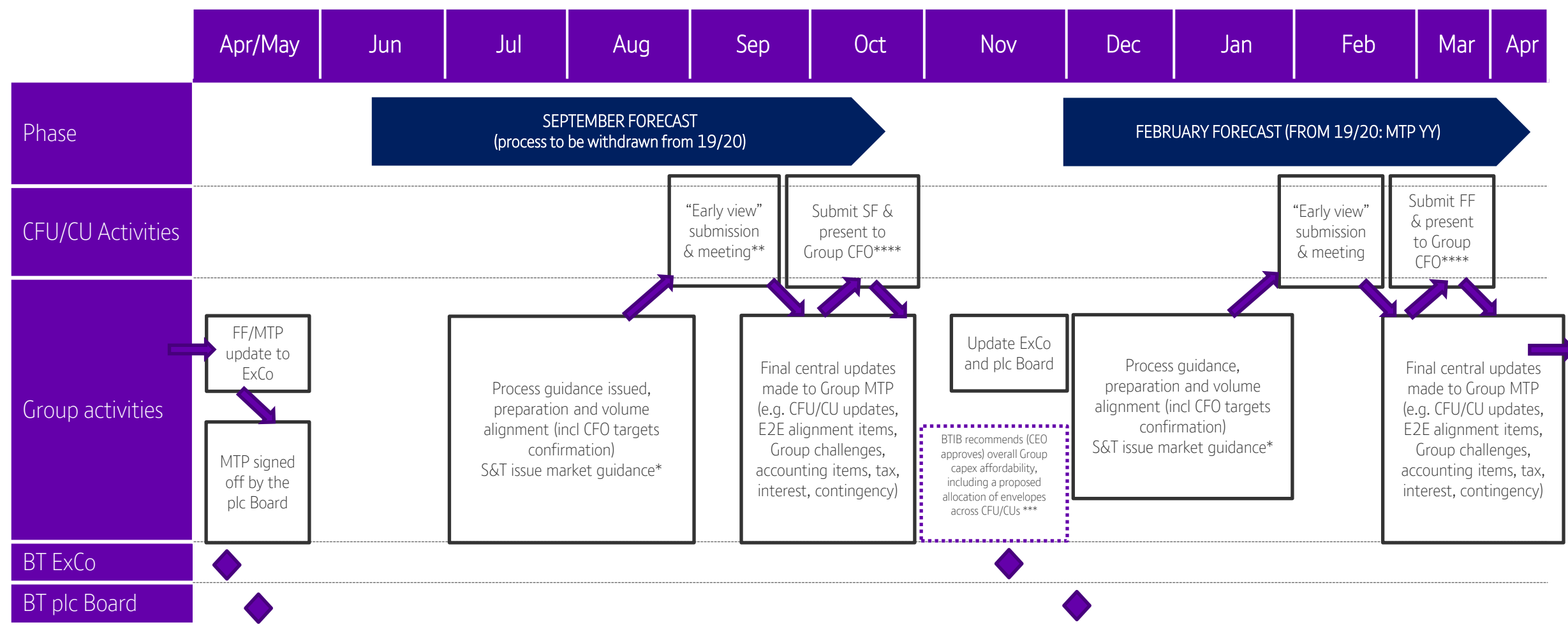
All Guidance Notes are based on the same Design Principles

Principles agreed between BT and Openreach	What this means in practice
Greater operational and strategic independence of Openreach	Ensuring that what we do gives effect to the aim of the Commitments in securing greater independence for Openreach from BT Group, treating Openreach differently where appropriate, and enabling Openreach to treat all its customers equally (see below).
Appropriate parent company economic control and oversight by BT	Recognition that BT remains one economic enterprise with one set of shareholders in which interest BT must act, and that finances need to be consolidated into one
Recognition of the important role of the Openreach board	Recognition of the role of the Openreach board in decision-making, provision of direction to and oversight of Openreach
Accountability	Clarity in roles, decision making and best practice governance This includes recognition of the personal responsibility of everyone involved in the process for the effective and efficient working of the Commitments
Efficiency	Following a clear and agile process, capable of evolution and timely escalation routes
Simplicity	Acting in a way that avoids duplication, minimises complexity and gets things done
Equal treatment	Ensuring that what we do enables and encourages Openreach to address the needs of all Openreach customers equally
Transparency	Demonstrate we are acting and behaving in line with the Commitments, including to Ofcom and other CPs. This includes operation of process and controls in a way that is auditable and capable of assurance

Financial Planning Process

Year 1 of the plan is referred to as "Budget" in BT Group and "AOP" in Openreach

High level Budget/MTP Process – BT Group

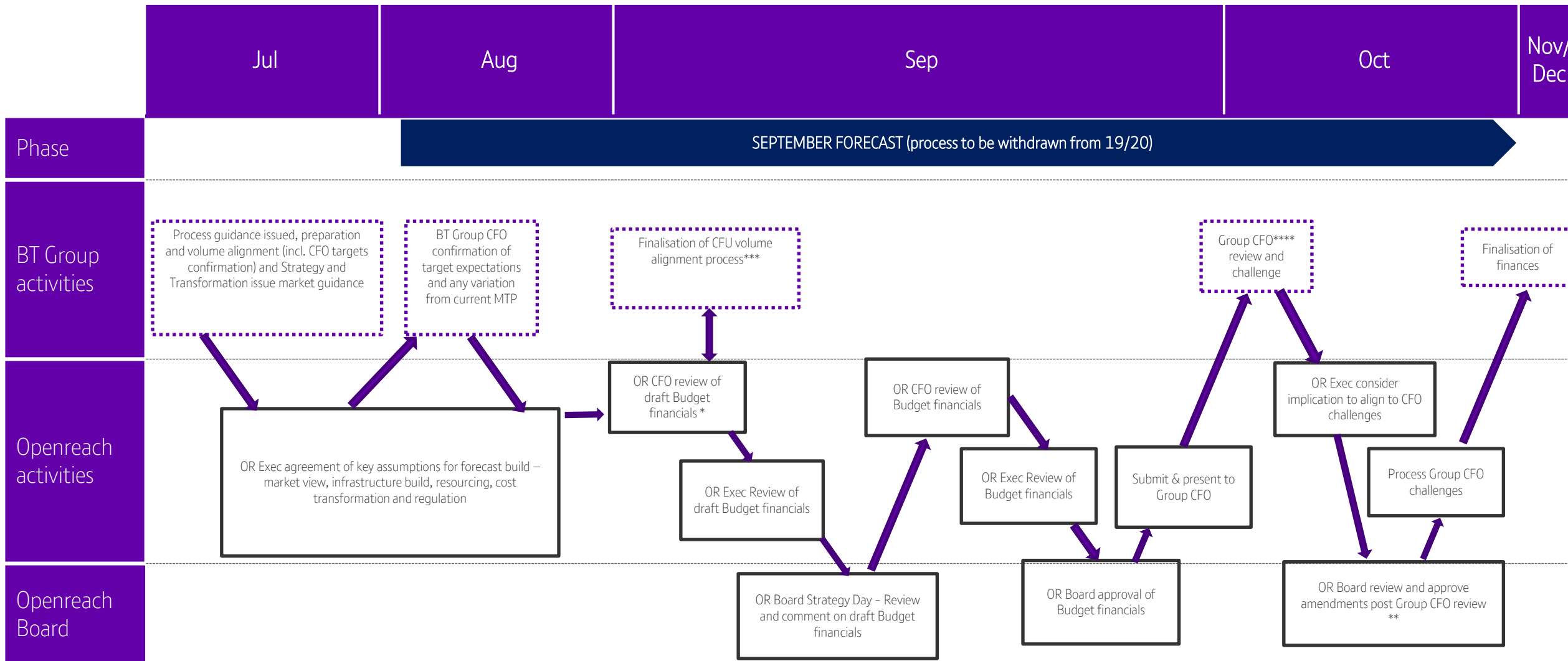


*S&T market guidance process is in development (by Strategy & Transformation) for SF 18/19; was not part of the 17/18 process
 **"Early view" meeting only occurs if a unit submission requires early intervention or discussion
 ***In FF 17/18, an additional Novator Capex meeting was held with each CFU to allocate additional Novator funding where required
 **** Group Review sessions may also include Group HRD and Group CEO as appropriate

Also note: 1) In 17/18 we ran a strategic investment process (SIP) to identify and review key new business cases across the Group so that funding could be incorporated in the MTP where required. This process is not required in 18/19 due to a 5 year Capex plan being in place.
 2) **We are removing the September Forecast process from 2019/20. There will therefore be only one performance comparator each year. We will implement high-level driver models to ensure that the impacts of current performance on later years are understood.**

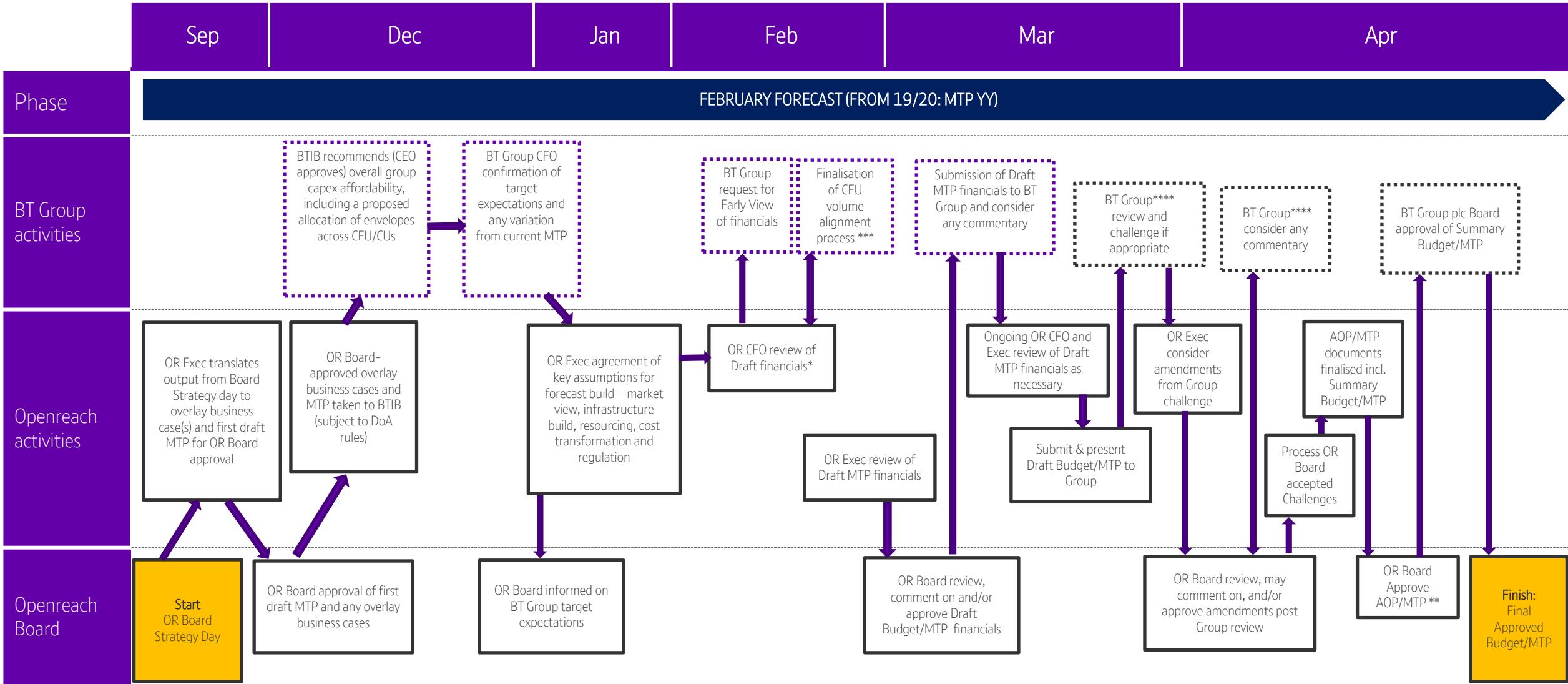


High level Budget/MTP Process – Openreach (1)



* Draft financials are prior to alignment of volume assumptions with RoBT
 **Potential for Board to Board escalation
 ***Regular sharing of information (consistent with commitments)
 **** BT Group Review sessions may also include Group HRD and Group CEO as appropriate

High level Budget/MTP Process – Openreach (2)



* Draft financials are prior to alignment of volume assumptions with RoBT
 **Potential for Board to Board escalation
 ***Regular sharing of information (consistent with commitments)
 **** BT Group review sessions may also include Group HRD and Group CEO as appropriate

How the AOP/MTP process differs for Openreach versus BT CFUs/CUs

The process followed by Openreach is the same for all Customer Facing Units (CFUs) / Corporate Units (CUs) except for the following items:

1. Greater strategic independence:

- The Openreach Board formally approves, as the Openreach Limited legal entity Directors, the Openreach AOP/MTP and investment cases in advance of submission to BT Group. Other CFUs/CUs will have an internal review process but without the formality.
- The degree of intervention by BT Group in the AOP/MTP development stages is limited to certain parental conditions (Commitments 10.2 (a)).

2. Greater transparency:

- Ofcom may ask to scrutinise the nature and reason for any subsequent changes following ORB approval of the AOP/MTP or investment cases. Other CFUs/CUs would not be subject to the same scrutiny.

3. Opportunity to challenge:

- The Openreach Board has the formally defined right to comment, amend and resubmit its AOP/MTP to the BT Group plc Board, if it is not approved first time round. Other CFU/CUs do not have this opportunity.

4. Information Protection:

- Sensitive Openreach information in the AOP/MTP and investment cases is only shared in limited circumstances and with limited people, in line with the Commitments on information sharing and disclosure policy.

Process Key Controls

Key Compliance Controls in the Financial Planning process (1)

1. During the development, and in advance of submission to BT Group, of the Draft Annual Operating Plan (AOP) and the Draft Medium Term Plan (MTP) or proposed investment cases, the Openreach Executive may share working drafts with BT Group personnel at working level:
 - to allow *alignment* of assumptions across the BT Group and to enable other consistency checks to be undertaken; and
 - on the basis that BT Group will only provide advice and process guidance to Openreach but will not seek to influence Openreach Commercial Policy.
2. During the development, and in advance of submission to BT Group, of the Draft AOP and the Draft MTP, the BT Group Chief Executive, Chief Financial Officer and Chief Strategy & Transformation Officer may be sighted on working drafts of the Draft AOP and the Draft MTP and the Openreach Strategy in limited circumstances (Commitment 10(a)). In the event that any feedback is provided on matters of Commercial Policy, this will be transparently reported to the Openreach Board. During the development it is expected that Openreach would be the one to initiate any senior dialogue, but recognising that BT may need to do so to fulfil its responsibilities as a publicly listed consolidated group of companies to ensure best practice governance (see Commitment 10(2)(a)).
3. In preparing the draft AOP and MTP Openreach will take into account the Revenue/EBITDA and capex targets set by Group and flag the reasons for any variance to allow the Group to manage its overall capex envelope.
4. When the Openreach Executive has developed Openreach's Draft AOP and Draft MTP, the Openreach Board will review and agree them, in advance of submission to BT Group.
5. If, following submission to and review by BT Group of the Draft AOP and the Draft MTP or any investment case, the Openreach Executive makes changes to them, the Openreach Board will review and agree the changes in advance of final submission to BT Group.

Key Compliance Controls in the Financial Planning process (2)

6. In advance of any BT Group review (such as the BT Investment Board) that may be necessary to secure investment funding, the Openreach Board will agree any proposed investment cases that will require BT Group approval.
7. In relation to Openreach investment cases submitted to BT to secure investment funding, the role of the BT Investment Board is to review the proposal and support the BT Chief Financial Officer, Chief Strategy & Transformation Officer and Chief Technology and Information Officer in making their recommendation to the BT Chief Executive:
 - If the Openreach Board is dissatisfied with a recommendation of the BT Chief Financial Officer, Chief Strategy & Transformation Officer and/or Chief Technology and Information Officer, it may raise that matter with the BT Chief Executive.
 - If the Openreach Board is dissatisfied with a decision of the BT Chief Executive, it may raise the matter with the BT Group plc Chairman (or the BT Group plc Board) if necessary.
8. **Information flows between BT Group and Openreach** will be tracked and documented through a specific **Project Disclosure**. If Confidential Information is provided by Openreach to BT Group people who are not on the Project Disclosure list, Openreach should make a separate Disclosure or ask that the recipient is added to the Project Disclosure group before the information is shared. All key transactions should be stored centrally for compliance and audit purposes.
9. **BT Group will not share unpublished Openreach assumptions with the other downstream CFUs**, though it can take account of them centrally to ensure that BT Group plans, forecasts and the overall BT Budget and MTP uses consistent data and assumptions.

Evidence will be sought by Commitments Assurance Office (CAO) and Commitments Monitoring Office (CMO) to confirm the above process and key controls, and the underlying principles are respected.