



Strategy Development Process Guidance Note

March 2019

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Background and Principles

The Commitments strike a balance that we need to preserve

The Commitments and the Governance Protocol strike a balance between greater Openreach independence and BT oversight. They:

- 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 BT and its directors can fulfil their legal, regulatory and fiduciary duties so as to be able to continue to consolidate Openreach Limited within the BT Group plc. account.
- Recognise the important role of the Openreach Limited Board, with the Openreach directors having legal duties.

The BT Group Strategy Development Process, described in this document, needs to respect this balance. Openreach will be treated differently to other BT’s Customer Facing Units (CFUs).

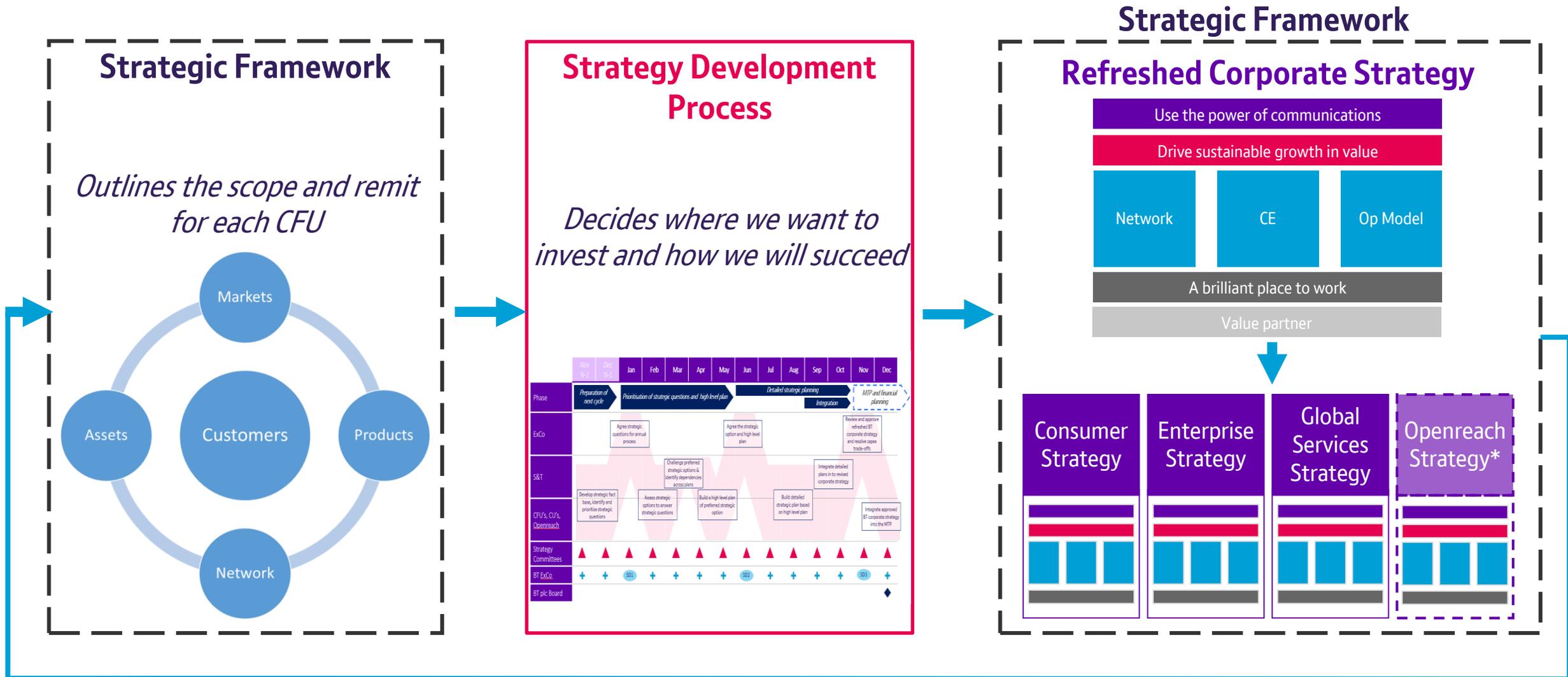
- Openreach has its own uniquely created strategy development process that integrates with the framework of the BT Group Strategy Development Process
- Openreach’s separate Strategy Development Process and the way that this intersects with the BT Group Strategy Development Process provides Openreach with greater independence than other CFUs during the development stage of the Openreach strategy – both in the way that Openreach develops its strategy and in how it interacts with BT
- Uniquely, Openreach is able to escalate any disagreements to the BT Group CEO and ultimately the BT Group plc. Board
- The BT Group Strategy Development Process respects BT Group’s authority to make final capital allocation decisions and its fiduciary duty to its shareholders

This Guidance Note is part of a series to support how BT and Openreach colleagues work under the new governance arrangements.

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.

The Corporate Strategy is refreshed annually through the Strategy Development Process



Annual Cycle

* Openreach operates within the framework but with greater independence on their strategy

The BT Strategic Framework clarifies the role and scope of CFUs and Openreach within BT plc

What is the BT Strategic Framework?

- The purpose of this framework is to clarify the role and scope of CFUs and Openreach within BT plc. It clarifies the customers, products, networks, services and assets for CFUs and Openreach.
- This will enable Openreach to take the framework into account when setting its own strategy.
- The overall BT Strategic Framework will help to ensure consistency across the BT Group.
- The BT Strategic Framework is iterative and will evolve, but will be an output of the annual Strategy Development Process.

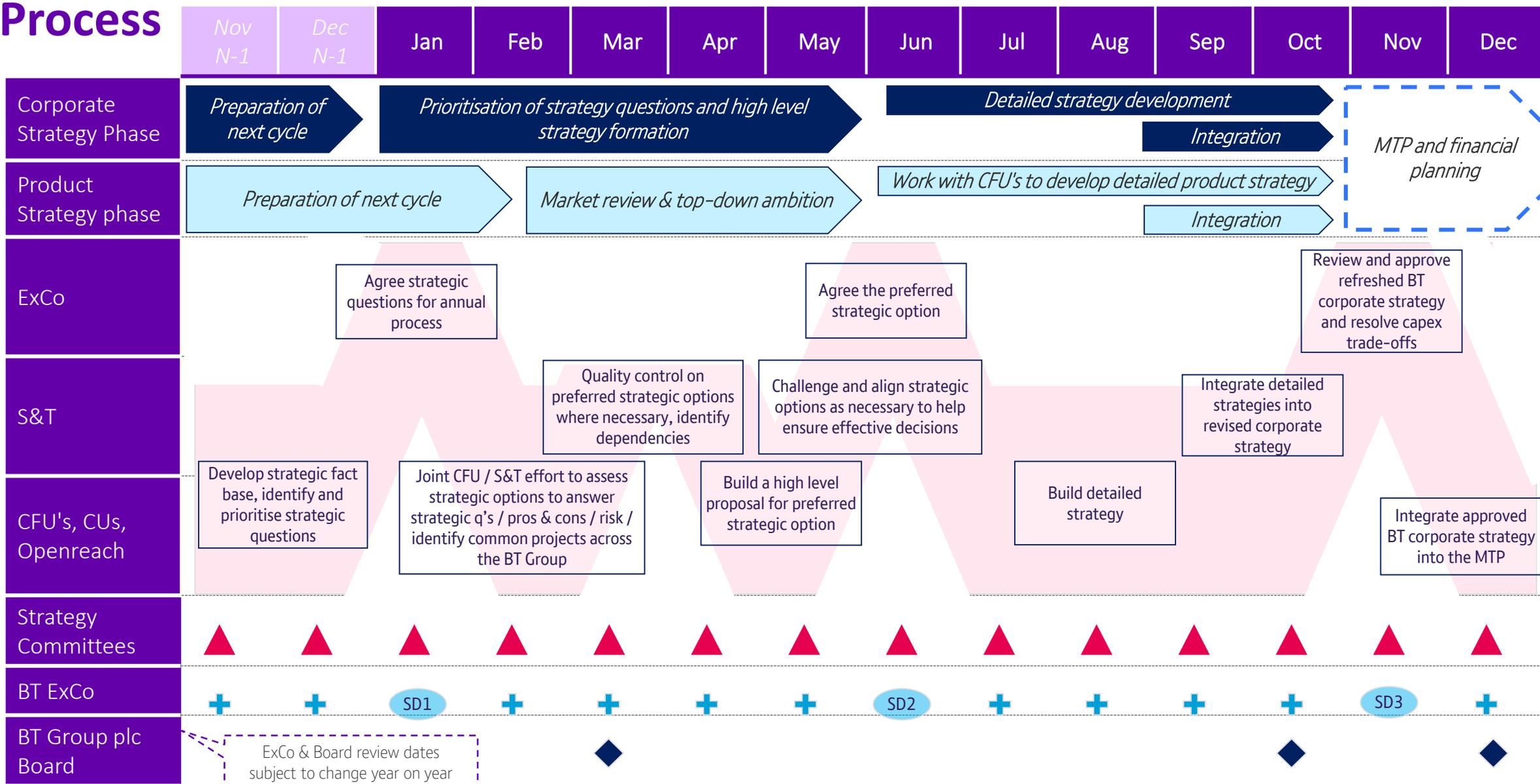
Strategy Development Process Overview

Key Principles of the strategy relationship with Openreach

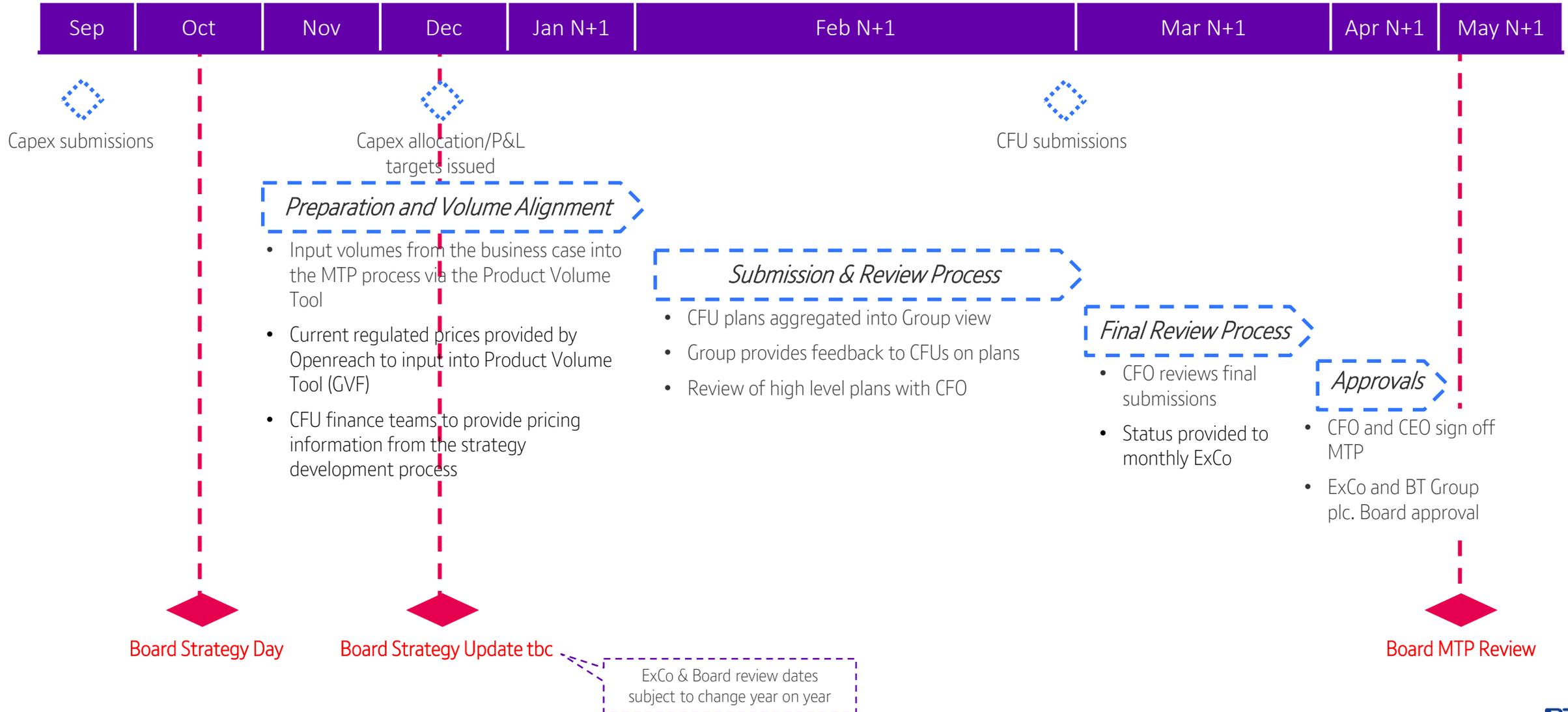
- The Openreach Board is free to set the strategy for the Openreach Division and to develop its own technology, network and product choices, taking into account the Strategic Framework which outlines the role and scope for Openreach. Openreach's strategy will be captured in the Annual Operating Plan (AOP) and Medium Term Plan (MTP).
- ExCo, on the recommendation of the BT Group Corporate Strategy & Transformation (S&T) team will consider annually whether the BT Strategic Framework needs to be refreshed.
- S&T will set a Strategic Framework for technology, network and products that will respect the Openreach product set identified in the Commitments.
- The Strategy Development Process will establish the baseline for technology, network and product strategy including volumes, capex and market outcomes, which in turn feeds into the AOP and MTP planning process*.
- The quarterly business unit reviews will provide BT as the parent with an update on how Openreach is performing against the plan.
- Where independent Group analysis is required (e.g. on a strategic decision which affects BT plc as a whole, including Openreach), the S&T team will develop this as part of their parent company role. They will also provide independent Group analysis to the BT nominee on the Openreach Board to support him to fulfil his role on the Openreach Board, if required.

Step by step view of steady state annual Strategy Development

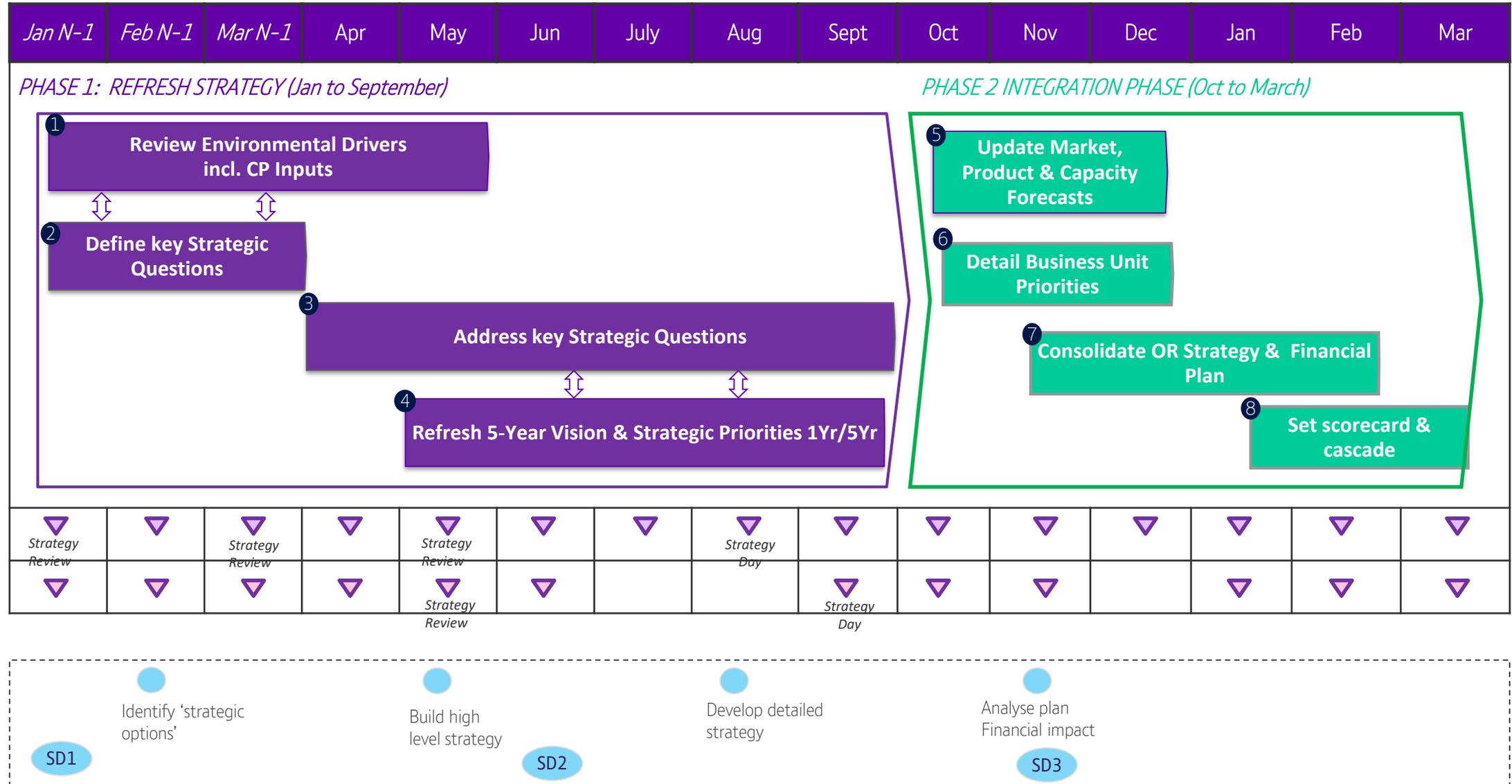
Process



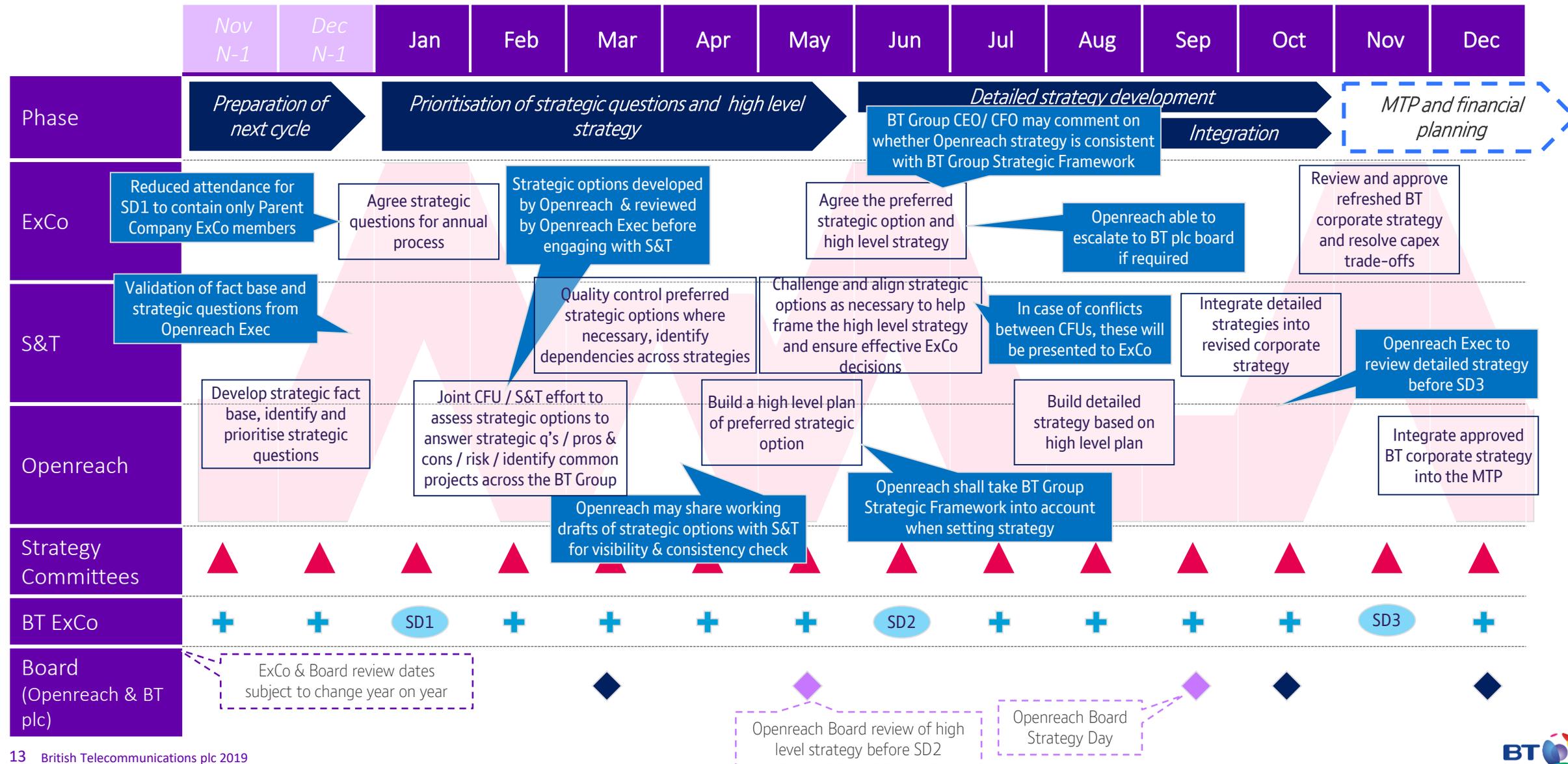
MTP and financial planning phase (November to May) – Strategy development process provides volumes & values from business cases into the MTP process



The Openreach Strategy Process is distinct but is synchronized with the Group Process



The need for independence of Openreach also translates into a number of specificities within the Group process



There are areas of difference for Openreach within the Group process

1. Greater strategic independence:

- Group have the opportunity to challenge CFU's strategic priorities and choices, whereas it has less scope to challenge Openreach.
- BT's ability to review and intervene whilst Openreach is developing its key strategic choices is limited (e.g. if inconsistent with the Group Strategic Framework or if required to comply with fiduciary duties)
- The Openreach Board formally approves the Openreach Strategy before submission to BT Group. Other CFUs will have an internal review process but without the formality.
- Group Corporate Strategy will review and integrate Openreach's strategy (which will have been developed taking the overall BT Strategic Framework into account) into the wider Group strategy.
- The Openreach Board has the formally defined right to comment, amend and resubmit its strategy to the BT Group plc Board, if it is not approved first time round. Other CFUs do not have this opportunity.

2. Escalation:

- If BT and Openreach cannot agree on Openreach's proposed strategy or on the introduction of a new product, the area of disagreement may be escalated by Openreach to board level and discussed between the Openreach Board and the BT Group plc Board. This escalation route is not available to CFUs. BT Group plc Board will make the final decision.

Process Key Controls

Key Controls in the Strategy Development Process (1)

1. Openreach shall take the BT Group Strategic Framework into account when setting the strategy for the Openreach Division, and shall set this out in its draft AOP and draft MTP.
2. BT Group plc CEO and BT Group plc CFO shall review the strategy developed by Openreach Limited and may comment within the AOP and MTP review process set out in the Governance Protocol on whether this strategy is consistent with the overall BT Strategic Framework.
3. During the development of the Strategy for Openreach, and in advance of submission to BT Group Corporate Strategy & Transformation team, the Openreach strategy lead 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;
 - to ensure the proposed Openreach Strategy takes account of BT Group Strategic Framework; 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 nor will it direct the development of Openreach strategy within the overall Strategic Framework.
4. During the development, and in advance of submission to BT Group, of the Strategy for Openreach, the BT Group Chief Executive, Chief Strategy and Transformation Officer and Chief Financial Officer may be sighted on working drafts of the strategy and the Openreach Strategy in limited circumstances (Commitment 10.2). In the event that any feedback is provided on matters of Commercial Policy, this will be transparently reported to the Openreach Board.
5. When the Openreach Strategy lead has developed Openreach's Strategy, the Openreach Board will review and agree the strategy and the key strategic questions, in advance of submission to BT Group.
6. **The role of S&T will be to review, quality control and align strategic options. It will challenge** CFUs and Openreach (to the extent that it is appropriate in line with the Strategic Framework) integrating the final detailed strategy into a single cohesive corporate strategy for BT Plc. S&T will also **help frame the discussion** for ExCo and **set out any conflicts**, including capex trade-offs, that may need to be resolved by BT ExCo (Parent Company members). The BT Group Chief Strategy and Transformation Officer will be the recommender, under the RAPID model, of the high level strategy and preferred strategic option to the ExCo.

* BT Group refers to BT acting as "parent"

Key Controls in the Strategy Development Process (2)

7. If, following submission to and review by BT Group of the Strategy for Openreach, the Openreach Strategy lead makes changes to it, the Openreach Board will review and agree the changes in advance of final submission to BT Group.

8. If, following the development and agreement of Openreach's Strategy, BT Group alters the BT Group Strategic Framework, the Openreach strategy lead will review and align the Openreach Strategy to ensure it takes into account the BT Group Strategic Framework (Commitments 6.3).

9. If in-year **changes need to be made to the approved AOP**, these should be brought to the BT Group plc Board or the BT Group CEO/CFO for authorisation if the proposed changes:

- exceed the financial thresholds stated in Governance Protocol, Part B, clause 3.6.
- may materially impact the risk profile of the current Final Approved AOP and /or Final Approved MTP
- affects items identified in the Final Approved AOP or Final Approved MTP as items of significant strategic importance to BT Group plc

10. In relation to Openreach investment cases submitted to BT to secure investment funding, the **role of the BT Investment Board** will be to review the proposal and make a recommendation to the BT Chief Executive.

- If the Openreach Board is dissatisfied with a recommendation of the BT CFO, it may raise that matter with the BT CEO
- If the Openreach Board is dissatisfied with a decision of the BT CEO, it may raise the matter with the BT Group plc Chairman (or the BT Group plc Board) if necessary.

11. Information flows between S&T and Openreach will be tracked and documented through a specific strategy **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.

12. 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 Strategy 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.