

**Governance Protocol**  
**1<sup>st</sup> October 2018**

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## Definitions

1. Capitalised terms shall, unless otherwise defined in this Governance Protocol, have the same meaning as given to them in the Commitments as adopted by British Telecommunications plc (***BT plc***) on 30 September 2018 with effect from 1<sup>st</sup> October 2018, as may be amended by BT plc from time to time (the ***Commitments***).
2. In this Governance Protocol, unless otherwise state or the context otherwise requires:
  - (a) references to a ***person*** shall be construed so as to include any individual, firm, body corporate (wherever incorporated), governmental entity or any joint venture, association, partnership, works council or employee representative body (whether or not having separate legal personality);
  - (b) the singular shall include the plural and vice versa;
  - (c) the words include and including are each to be construed without limitation; and
  - (c) references to a document are references to that document as modified or replaced from time to time.

## **Part A Openreach Board**

### **1. Overview**

- 1.1 BT plc has agreed:
- (a) to delegate to Openreach Limited (acting through the Openreach Board) responsibility for setting the strategy of and overseeing the performance of the Openreach Division;
  - (b) to engage Openreach Limited to operate and manage the Openreach Division on behalf of BT plc;
  - (c) to authorise Openreach Limited to act as agent for the account of BT plc to manage all trading of the Openreach Division; and
  - (d) that Openreach Limited will be responsible for the employment, termination, management and training of all Openreach Employees,
- in each case on the basis of the terms set out in the Commitments, the ASA and this Governance Protocol.
- 1.2 The role of the Openreach Board is to govern Openreach Limited in accordance with the Commitments, the ASA and this Governance Protocol.
- 1.3 The Openreach Board will at all times operate within the scope of the Authority (as defined in the Commitments), as well as the other parts of this Governance Protocol (including the matters reserved for the BT Group plc board of directors (the ***BT Group plc Board***) and/or the BT plc board of directors (the ***BT plc Board***), under BT Group plc's and BT plc's governance policies, as amended from time to time and as further detailed in Part C of this Governance Protocol (the ***BT Governance Policies***)).
- 1.4 The BT plc Board may at any time resolve to vary or amend this Governance Protocol at its discretion.
- 1.5 Where the BT plc Board proposes to amend this Governance Protocol, BT plc shall:
- (a) notify Ofcom if the proposed amendment would constitute a material amendment to the arrangements described in the Notification; or
  - (b) inform and discuss with Ofcom in advance of making an amendment to this Governance Protocol which is material but does not fall within (a) above; or
  - (c) inform Ofcom of any other amendment to this Governance Protocol (after the amendment has been made).

### **2. The Duties of the Openreach Board**

- 2.1 Subject to the BT Governance Policies, the Openreach Board is to perform the following duties in respect of the Openreach Division.

## Medium Term Plan and Annual Operating Plan

- 2.2 To review and approve the Draft MTP and the Draft AOP (each to be produced by the Openreach Executive in accordance with the planning processes and timetables of BT and submitted simultaneously to the Openreach Board for review and approval and to the BT Group plc CEO and BT Group plc CFO for review, as set out in Part B of this Governance Protocol) which, following approval of the high level summarised versions of the MTP (the *Summary MTP*) and AOP (the *Summary AOP*) by the BT Group plc Board, will become the *Final Approved MTP* and the *Final Approved AOP*.
- 2.3 To submit the Summary MTP and the Summary AOP to the BT Group plc Board for approval (such summaries to be prepared by the Openreach Executive in accordance with the process set out in Part B of this Governance Protocol and reviewed by the BT Group plc CEO and BT Group plc CFO prior to submission).
- 2.4 To review and approve in year variations to the current Final Approved MTP and/or Final Approved AOP, which are proposed by the Openreach Executive in accordance with Part B of this Governance Protocol, including obtaining any further authorisations as required in Part B.
- 2.5 To delegate the management of the Openreach Division's capital expenditure agreed in the Final Approved AOP to the Openreach Executive in accordance with Part B of this Governance Protocol.
- 2.6 In exceptional circumstances (including any additional pension deficit funding agreed with the trustee of the BT Pension Scheme (the *BT Pension Scheme Trustee*) or as otherwise required in relation to pension scheme funding), BT Group plc Board shall, at any time and upon notification to the Openreach Board, be entitled to vary the budget for the Openreach Division agreed in the Final Approved AOP and then the Openreach Board shall propose a revised AOP under the process laid out in Part B of this Governance Protocol.
- 2.7 Nothing in this Governance Protocol is intended to prevent or in any way restrict BT Group plc and/or BT plc from making such use of Openreach Limited and the Openreach Division's revenues, cash or other assets as their boards may from time to time consider necessary or appropriate in order that BT Group plc may be able to meet any obligations which it may have or undertake from time to time to, or in respect of, the BT Pension Scheme or any other creditor.

## Strategy and Operational Performance

- 2.8 To approve the strategy of the Openreach Division as part of its approval of the Draft AOP and the Draft MTP within the budget and strategic framework set by BT Group plc Board, and to oversee its financial and operational performance against the targets contained in them.
- 2.9 To manage the Openreach Division within the scope of the Final Approved MTP and the Final Approved AOP, including, in accordance with clause 3.5 of Part B, any such changes to the composition and/or operating expenditure projects within the Final Approved AOP as may be made by the Openreach

CEO following consultation with the Openreach Board (subject to clause 3.6 of Part B).

- 2.10 To oversee the fulfilment of Openreach Limited's functions under the ASA.
- 2.11 To request, subject to the appropriate authorisation pursuant to clause 3.6 of Part B, additional capital from BT Group plc incremental to the Final Approved MTP and/or Final Approved AOP for the purposes of a specific investment that would benefit the customers of the Openreach Division, even where such an investment opportunity would otherwise be Net Present Value (*NPV*) negative for the Openreach Division.
- 2.12 To review and approve the Planned Action proposed by the Openreach Executive in accordance with clause 3.8 of Part B to address a negative or detrimental variation in the Openreach Division's revenue, EBITDA, capex or cash flow as set out in the current Final Approved MTP and Final Approved AOP.
- 2.13 To review and approve plans developed by the Openreach Executives in accordance with clause 4.2 of Part B in relation to major operational and investment decisions to fulfil its customer needs.
- 2.14 To support the Openreach Executive's engagement with customers of the Openreach Division and other stakeholders, including Ofcom, as it deems necessary and appropriate to understand their issues and concerns; if requested by Ofcom, to participate in annual joint board-to-board meetings with Ofcom.
- 2.15 To ensure that the Openreach Division delivers a high quality of service in compliance with regulation applicable to the Openreach Division and in fulfilment of the needs of its customers and to ensure that the current Final Approved AOP and the Final Approved MTP take account of this aim.
- 2.16 To ensure that the Openreach Executive effectively executes the current Final Approved AOP and the Final Approved MTP both in relation to financial performance (including in respect of the targets of revenue, EBITDA, capex and cash flow generation set out therein) and operational performance (including in relation to quality of service, investment and productivity) of the Openreach Division.
- 2.17 To provide all necessary information and authority within the parameters of this Governance Protocol to:
  - (a) the Openreach Executive, to enable the Openreach Executive to comply with the provisions of Part B of this Governance Protocol; and
  - (b) the Openreach CEO, to enable him or her to comply with the provisions of Part B of this Governance Protocol.

## **Compliance**

- 2.18 To operate the Openreach Division in accordance with BT's regulatory obligations under the Communications Act 2003 and under the Commitments (so far as they relate to the Openreach Division).

- 2.19 Pursuant to paragraph 19.2 of the Commitments, to establish the OBARCC with the role of reviewing compliance by the Openreach Division and Openreach Limited with the Commitments and this Governance Protocol, as further detailed in Section 7 of Part A below. The OBARCC shall replace the Equality of Access Board in respect of obligations pertaining solely to the Openreach Division.
- 2.20 To ensure that the OBARCC will, among other things, report regularly to the Openreach Board on, and conduct an annual review of, the compliance by the Openreach Division and Openreach Limited with the Commitments and this Governance Protocol and its handling of customer complaints and representations, and will provide to Ofcom and publish annually, a report on its findings.
- 2.21 To ensure that the Openreach Division follows the BT-wide process for managing risks in accordance with the BT Group plc Enterprise Risk Management Framework.
- 2.22 To ensure that the Openreach Division is managed as a functionally separate division within BT plc.

### **Treatment of Customers**

- 2.23 To ensure that the Openreach Executive treats all customers equally in consultation processes, particularly in the early stages of significant investment decisions related to the future development of the networks and products of the Openreach LoB and maintain customer confidentiality in accordance with the Customer Consultation Process set out in the Commitments and Part D of this Governance Protocol.
- 2.24 To consider and address as appropriate representations from Communications Providers, Ofcom and other stakeholders.
- 2.25 Subject to the statutory duties of the directors of Openreach Limited, to exercise its powers in a manner that treats all of the customers of the Openreach Division equally, as described in more detail in Section 5 of the Commitments.

### **Reporting**

- 2.26 To review and approve the financial results of Openreach Limited which are required to be produced for statutory purposes.
- 2.27 To review and submit to the BT Group plc CFO the financial results of the Openreach Division referred to in Section 20 of the Commitments.

## **3. Membership of the Openreach Board**

- 3.1 The Openreach Board will consist of the following directors:
- (a) an independent chairman (the *Openreach Chairman*);
  - (b) the Openreach CEO;

- (c) three independent non-executive directors (the *Independent Non-Executive Directors*);
- (d) one BT nominee director (the *BT Nominee*); and
- (e) one further executive director (the *Openreach Executive Director*),

such members to be appointed in accordance with the provisions set out in this Section 3.

### **Openreach Chairman**

- 3.2 BT Group plc will be entitled to appoint (following notification to Ofcom of the proposed appointment which shall in particular outline how the proposed appointee meets the criteria set out in clause 3.12 below (the *Independence Criteria*)) and remove the Openreach Chairman.

### **Openreach CEO**

- 3.3 The Openreach Board will be entitled to appoint the Openreach CEO, subject to the right of BT Group plc (including its Nominating & Governance Committee) to be consulted throughout the selection process, and further subject to the right of BT Group plc to veto the Openreach Board's final decision. BT Group plc will be entitled to remove the Openreach CEO. In the event that the BT Group plc Board vetoes the Openreach Board's final decision on the appointment of the Openreach CEO, the BT Group plc Board shall notify Ofcom.

### **Independent Non-Executive Directors**

- 3.4 BT Group plc will be entitled to appoint (following consultation with the Openreach Chairman, and following notification to Ofcom of the proposed appointment which shall in particular outline how the proposed appointee meets the Independence Criteria) and remove the Independent Non-Executive Directors. BT plc may delegate to the Openreach Board, in consultation with the BT Group plc Nominating & Governance Committee, the appointment of future Independent Non-Executive Directors and the removal of any Non-Executive Director.

### **BT Nominee**

- 3.5 BT Group plc will be entitled to appoint and remove the BT Nominee.

### **Openreach Executive Director**

- 3.6 The Openreach Executive Director will be appointed and removed by the Openreach Board on the recommendation of the Openreach CEO after consultation with the BT Group plc Nominating & Governance Committee.

### **Alternates**

- 3.7 The BT Nominee may, by written notice to Openreach Limited, appoint any person willing to act, whether or not he or she is a director of Openreach Limited, to be an alternate director and may, by written notice to Openreach Limited, remove from office any alternate director so appointed by him or her.



- 3.8 Any alternate director shall be entitled to receive notice of all meetings of directors and of all meetings of committees of directors of which his or her appointor is a member, to attend and vote at any such meeting at which the director appointing him or her is not personally present, and generally to perform all the functions of his or her appointor as a director in his or her absence but shall not be entitled to receive any remuneration from Openreach Limited for his or her services as an alternate director.
- 3.9 Any alternate director shall cease to be an alternate director:
- (a) if his or her appointor ceases to be a director; or
  - (b) if his or her appointor revokes his appointment; or
  - (c) on the occurrence of any event which, if he or she were a director, would cause him or her to vacate his or her office as director; or
  - (d) if he or she resigns his or her office by notice to the Openreach Limited.
- 3.10 Any alternate director shall be deemed for all purposes to be a director and shall alone be responsible for his or her own acts and defaults and he or she shall not be deemed to be the agent of the director appointing him or her.

### **Directors' Duties**

- 3.11 Each director on the Openreach Board shall:
- (a) at all times comply with his or her duties as a director of Openreach Limited under the Companies Act 2006 and/or any applicable Law, including the duty to act in the way he or she considers, in good faith, would be most likely to promote the success of Openreach Limited for the benefit of its members as a whole; and
  - (b) allocate sufficient time to discharge effectively his or her responsibilities and duties.

### **Independence Criteria**

- 3.12 The Independent Non-Executive Directors and the Openreach Chairman referred to in this Section 3 shall not be:
- (a) an employee or former employee of BT (within the last five years);
  - (b) a director, senior executive or employee of any Communications Provider;
  - (c) a partner, director or senior executive of any firm, company or organisation providing consultancy or professional services to BT or any other Communications Provider;
  - (d) a person with close family ties to any person falling within the categories set out in (a) to (c) above;
  - (e) an Ofcom employee; or

- (f) a material shareholder (directly or indirectly) in BT Group plc or in any other Communications Provider.
- 3.13 If a candidate does not meet all of the independence criteria referred to in paragraph 3.12 above, that does not preclude that individual from being appointed as an Independent Non-Executive Director if BT Group plc (having consulted with the Openreach Chairman and having notified Ofcom) considers that the independence of that individual is not materially compromised.
- 3.14 Appointments of the Independent Non-Executive Directors and of the Openreach Chairman to the Openreach Board shall be for a period of up to three years, extendable for two further three-year periods, provided the relevant director still meets the criteria for membership of the Openreach Board.
- 3.15 The Openreach Board as a whole will have the appropriate balance of skills, experience, independence and knowledge of the Openreach Division to enable it to discharge its duties and responsibilities effectively.

#### **4. Proceedings of the Openreach Board**

- 4.1 The Openreach Board will meet as often as it deems necessary and at such times and places as are determined by the Openreach Chairman. The Openreach Board must approve the annual calendar of its meetings.
- 4.2 The Openreach Board may hold meetings by telephone or using any other method of electronic communication and may take decisions without a meeting by unanimous written consent, when deemed necessary or desirable by the Openreach Chairman.
- 4.3 Openreach Board meetings may be convened at any time by the Openreach Chairman or any other two directors.
- 4.4 The quorum for any Openreach Board meeting will be:
  - (a) other than where paragraph (ii) applies, four directors including the Openreach Chairman and the BT Nominee and at least two Independent Non-Executive Directors; or
  - (b) three directors including at least two Independent Non-Executive Directors and either the Openreach Chairman or BT Nominee (as applicable) in the event that:
    - (i) the Openreach Chairman or the BT Nominee notifies prior to the meeting by e-mail the remaining directors that he is not able to attend all or part of the meeting and which items on the agenda can be voted on with such a reduced quorum; or
    - (ii) the Openreach Chairman or the BT Nominee has to leave the meeting and it is recorded in the minutes that either of them has left and which item(s) on the agenda the leaving director has agreed can be voted on with such a reduced quorum.

- 4.5 A duly convened meeting of the Openreach Board at which a quorum is present is competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Openreach Board.
- 4.6 The Openreach Board will aim to reach decisions on a unanimous basis. Where it is unable to do so, decisions will be made on a majority basis. Any director's dissension in relation to a majority decision shall be noted in the minutes. Each director present will be entitled to cast one vote.
- 4.7 Unless otherwise agreed by all members of the Openreach Board, notice of each meeting confirming the venue, time and date (and dial-in details if required) of the meeting must be sent, with an agenda of the items to be discussed and any supporting papers, to each member of the Openreach Board, and to any other person required to attend the meeting.

## **5. Secretary**

- 5.1 The Openreach Board shall be supported by a company secretary, appointed by the Openreach Board, who shall ensure records of all Openreach Board decisions are made and kept. For the avoidance of doubt, the secretary is not a member of the Openreach Board.
- 5.2 The company secretary must ensure that the Openreach Board receives information and papers in a timely manner to enable full and proper consideration to be given to the issues to be considered by it.
- 5.3 The company secretary must minute the proceedings and resolutions of all meetings of the Openreach Board, including recording the names of those present and in attendance.
- 5.4 Draft minutes of Openreach Board meetings must be sent promptly by the company secretary to all members of the Openreach Board. Once approved, minutes must be sent by the company secretary to all members of the Openreach Board, unless the Openreach Board determines that it is inappropriate to do so.

## **6. Information to BT**

- 6.1 Subject to any restrictions on the provision of information set out in the Commitments:
  - (a) the Openreach Chairman will provide a fair, true and accurate report to the BT Group plc Chairman following each Openreach Board meeting on the proceedings followed and decisions taken by the Openreach Board;
  - (b) the minutes of Openreach Board meetings will be sent to the BT Group plc Company Secretary, the BT Group plc CEO, the BT Group plc CFO and the BT plc Company Secretary for information. Subject to any redaction or omission necessary in accordance with the restrictions on the provision of information set out in the Commitments, these minutes shall be a fair, true and accurate summary of each Openreach Board meeting;

- (c) for the avoidance of doubt and to the extent necessary and appropriate, the Openreach Board authorises the Openreach Chairman and the BT Nominee to share, subject to the limitations set out in clause 1.3 of Part D, confidential information pertaining to the Openreach Division, which they have acquired as a result of their position on the Openreach Board, with BT Group plc and BT plc, and BT Group plc (in its discretion) to share such information with the BT Pension Scheme Trustee; and
- (d) the Openreach Board will provide such information as the BT Group plc Board or the BT plc Board may reasonably request from time to time to allow BT Group plc and BT plc to satisfy any information obligations which they have towards the BT Pension Scheme Trustee.

## **7. Openreach Board Audit, Risk and Compliance Committee**

- 7.1 The OBARCC shall consist of the three Independent Non-Executive Directors and the Openreach Chairman.
- 7.2 The Openreach Chairman or one of the Independent Non-Executive Directors, at the discretion of the Openreach Chairman, will be the independent chairman of the OBARCC (the ***OBARCC Chairman***).
- 7.3 The OBARCC shall meet at least four times a year and at any other times at the request of the OBARCC Chairman.
- 7.4 The quorum for the OBARCC shall be two members present, one of whom must be the OBARCC Chairman or his nominee.
- 7.5 Each member will be entitled to cast one vote. The OBARCC will aim to reach decisions on a unanimous basis. Where it is unable to do so, decisions will be made on a majority basis with the OBARCC Chairman having a casting vote.
- 7.6 The OBARCC's duties in respect of the Openreach Division and Openreach Northern Ireland will include:
  - (a) review the content of the Codes of Practice for Openreach Employees and for Openreach Northern Ireland employees;
  - (b) review alleged breaches by Openreach Limited and/or the Openreach Division and/or Openreach Northern Ireland of the Commitments and this Governance Protocol and determine in each case whether a breach has occurred and whether it is trivial or non-trivial;
  - (c) review complaints relating to the compliance of Openreach Limited and/or the Openreach Division and/or Openreach Northern Ireland with the Commitments and this Governance Protocol including those made by: (i) employees of BT plc or Openreach Employees to BT's confidential helpline and access routes established for general purposes; (ii) Openreach's and/or Openreach Northern Ireland's customers; and/or (iii) Ofcom, and determine in each case whether a breach has occurred and whether it is trivial or non-trivial;

- (d) report back to complainants regarding the outcome of their complaints including whether the OBARCC considers that a breach by Openreach Limited and/or the Openreach Division and/or Openreach Northern Ireland of the Commitments or this Governance Protocol has taken place;
- (e) report regularly to the Openreach Board on the compliance by Openreach Limited and/or the Openreach Division and/or Openreach Northern Ireland with the Commitments and this Governance Protocol including details of breaches and complaints. These reports will be included in the minutes of the relevant Openreach Board meeting;
- (f) conduct an annual review of the compliance of Openreach Limited and/or the Openreach Division and/or Openreach Northern Ireland with the Commitments and this Governance Protocol and its handling of customer complaints and representations, approve and provide to Ofcom a detailed report (the *Openreach Report*) on the OBARCC's findings, and publish annually a summary of the Openreach Report; and
- (g) carry out any other functions specified as being within the remit of the OBARCC in the Commitments.

7.7 Openreach Limited shall inform the OBARCC if it identifies that there has been a breach of the Commitments or this Governance Protocol. The OBARCC shall inform Ofcom if it identifies that there has been a breach by Openreach Limited and/or Openreach Northern Ireland of the Commitments or this Governance Protocol.

7.8 The OBARCC may:

- (a) request support in reviewing aspects of the Openreach Division's and/or Openreach Northern Ireland's compliance with the Commitments and this Governance Protocol; and
- (b) suggest to the Openreach Board remedial action to ensure its compliance with the Commitments and this Governance Protocol.

7.9 Reasonable resources for supporting the OBARCC will be supplied by Openreach Limited.

7.10 BT plc will ensure that the OBARCC has reasonable and timely access to information held by BT that it needs to fulfil its role, regardless of where that information may be held by, or within, BT.

7.11 The extracts of the minutes of each meeting of the OBARCC relating to the compliance by the Openreach Division and/or Openreach Northern Ireland with the Governance Protocol and the Commitments shall be sent to Ofcom within a reasonable time of each such meeting. Such minutes shall be a fair, true and accurate summary of each meeting.

7.12 The OBARCC shall implement an information retention policy in relation to information relating to its activities under these Commitments with the effect that such information is retained for a period of at least 6 years.

## **BT**

- 7.13 The BT compliance body identified pursuant to paragraph 19.4 of the Commitments (the ***BT Compliance Body***) shall have a majority of independent members and be chaired by a non-executive director of BT Group plc.
- 7.14 An extract of the minutes of each meeting of the BT Compliance Body in relation to compliance with the Commitments and this Governance Protocol shall be sent to Ofcom within a reasonable time of each such meeting. Such minutes shall be a fair, true and accurate summary of each meeting.
- 7.15 BT plc shall inform the BT Compliance Body and the BT Compliance Body shall inform Ofcom if it identifies that there has been a breach by BT plc of the Commitments or this Governance Protocol. The BT Compliance Body shall notify the OBARCC if it determines that there has been a breach of the Commitments or this Governance Protocol, in so far as such breach relates to the Openreach Division and/or Openreach Northern Ireland. The OBARCC shall include the details of any such breach in the Openreach Report.
- 7.16 The OBARCC will be able to draw upon the expertise of functions within BT.

## **8. Other Matters**

- 8.1 The Openreach Board must:
- (a) have access to sufficient resources in order to carry out its duties;
  - (b) be given appropriate and timely training, in the form of an induction programme for new members and on an ongoing basis for all members;
  - (c) give due consideration to all applicable laws and regulations; and
  - (d) oversee any investigation of activities which are within Part A of this Governance Protocol.
- 8.2 In performing its role, the Openreach Board will act in accordance with, and give due consideration to, any applicable Law. The Openreach Board will apply those principles of the UK Corporate Governance Code (based overall on the underlying principles of good governance: accountability, transparency, probity and focus on the sustainable success of an entity over the longer term) which it considers appropriate and relevant to the operation of Openreach Limited.

## **9. Authority**

- 9.1 The BT plc Board authorises the Openreach Board to:
- (a) undertake any activity within the terms of the Authority;
  - (b) seek any information from any employee or contractor of any member of BT that it requires to perform its duties;
  - (c) call any employee or contractor of any member of BT to be questioned at an Openreach Board meeting, as and when required; and

- (d) delegate any of its powers to a committee of two or more of its members, or to the chairman or the secretary, with further powers of sub-delegation.

9.2 For the avoidance of doubt, the Openreach Board and/or Openreach Limited may not undertake, or agree to undertake, any of the following actions without further authorisation from the BT Group plc and/or the BT plc Board:

- (a) open or control any bank account;
- (b) incur any liability in respect of any borrowing, credit, finance or other indebtedness in the nature of borrowing (other than the receipt of trade credit in the ordinary course of business);
- (c) dispose of any interest in any part of the Openreach Business, undertaking or assets (other than the disposal of any business asset in the ordinary course of business pursuant to the terms of the ASA and in compliance with the current Final Approved MTP and Final Approved AOP); or
- (d) create or grant any option, right to acquire, mortgage, charge, pledge or other form of security or encumbrance on, over or affecting any asset or undertaking.

## **Part B Duties of the Openreach Executive and the Openreach CEO**

### **1. Openreach Executive Duties**

- 1.1 The Openreach Executive shall be responsible for:
- (a) the management and operations of the Openreach Division in accordance with the Final Approved AOP and the Final Approved MTP;
  - (b) developing and setting the strategy, objectives, budgets and forecasts of the Openreach Division, through the arrangements prescribed in this Governance Protocol for devising the Draft MTP and the Draft AOP;
  - (c) executing the Final Approved AOP and the Final Approved MTP both in relation to operational and financial performance, including in relation to quality of service, investment and productivity; and
  - (d) managing and overseeing the performance of the Openreach Division as directed, or delegated to, by the Openreach Board, within the constraints of the terms of this Governance Protocol, including managing and overseeing the implementation of the ASA.

### **2. Openreach MTP AND AOP**

- 2.1 The Openreach Executive will produce the Draft MTP and the Draft AOP in accordance with the planning processes and timetables of BT and the provisions of this Section 2. The Draft MTP and Draft AOP will be appropriately informed by ongoing engagement with Communications Providers by the Openreach Executive. For the avoidance of doubt, the AOP and MTP may be included in a single document.
- 2.2 The Draft MTP and the Draft AOP will be devised according to the following steps:
- (a) on the basis of indicative targets of revenue, EBITDA, capex, operating expenditure and cash flow and the strategic framework set by or on behalf of the BT Group plc Board (which themselves are informed by the Openreach Division's then current Final Approved MTP and/or Final Approved AOP), the Openreach Executive will develop the Draft MTP and the Draft AOP, setting out in particular:
    - (i) budget envelopes and targets;
    - (ii) product-level financial underpinnings, including first level of key components of each target (such as product groups);
    - (iii) volumes and portfolio evolution;
    - (iv) detailed descriptions of strategic programmes;
    - (v) operational targets, including customer experience;
    - (vi) network / platform evolution; and
    - (vii) an investment plan;



- (b) the Openreach Executive will simultaneously submit the Draft MTP and the Draft AOP to:
  - (i) the BT Group plc CEO and BT Group plc CFO for review, following which the BT Group plc CEO and BT Group plc CFO may make comments to the Openreach Executive, Openreach Chairman or Openreach Board; and
  - (ii) the Openreach Board to review and approve;
- (c) the Openreach Executive will also prepare the Summary MTP and the Summary AOP for the Openreach Board (having taken on board any views of the BT Group plc CEO and BT Group plc CFO) to submit to the BT Group plc CEO and the BT Group plc CFO for review (for information), following which they will be submitted to the BT Group plc Board for approval or – if not approved – for comment, amendment and resubmission. The Summary MTP and the Summary AOP will contain:
  - (i) high-level budgets for revenue, EBITDA, capital and operating expenditure and cash flow;
  - (ii) a break-down of the above to the first level of key components;
  - (iii) high level details of major strategic programmes; and
  - (iv) sufficient detail to ensure that BT plc is able to comply with IFRS10 (and any successor rule).

### **3. Performance and Reporting**

- 3.1 Following each year of operation, the Openreach Executive shall produce a commentary for submission to the Openreach Board and to the BT Group plc CEO and BT Group plc CFO on the previous year's implementation of the Final Approved AOP as well as a commentary on the application of the Commitments.
- 3.2 The Openreach Executive will report monthly to the Openreach Board and to the BT Group plc CEO and BT Group plc CFO giving details of the actual and forecast performance of the Openreach Division against the financial budgets and key operational performance indicators as set out in the current Final Approved AOP.
- 3.3 The Openreach Executive shall also provide to the BT Group plc CFO reforecasts of its likely out-turn against the Final Approved AOP and Final Approved MTP, in a timetable coordinated with the rest of BT.
- 3.4 The Openreach CEO will have delegated authority from BT Group plc and BT plc and the Openreach Board, within a framework of delegations of authority approved by the Openreach Board and consistent with the framework determined by BT Group plc, to authorise capital and operating expenditure within the current Final Approved AOP.

3.5 Subject to clause 3.6 below, the Openreach CEO shall also have delegated authority, having consulted with the Openreach Board, to make changes to the composition of capital and/or operating expenditure projects within the Final Approved AOP, in fulfilment of the Openreach Division's best interests and its obligation to serve its customers equally in respect of SMP Products (as defined in the Commitments).

3.6 If the changes proposed by the Openreach CEO pursuant to clause 3.5 above:

- (a) involve capex expenditure or operating expenditure which result in:
- (i) the total capex budget or total operating expenditure budget set out in the current Final Approved AOP to be exceeded by **more than** £100 million in any given year, or the total capex budget or total operating expenditure budget set out in the current Final Approved MTP to be exceeded by **more than** £250 million over the period of the current Final Approved MTP; and/or

- (ii) the total of any first level of key components being exceeded by **more than** £100 million in any given year and/or by **more than** £250 million over the period of the current Final Approved MTP,

the Openreach Board shall obtain the prior authorisation of the BT Group plc Board;

- (b) involve capex expenditure or operating expenditure which result in:
- (i) the total capex budget or total operating expenditure budget set out in the current Final Approved AOP to be exceeded by **up to** £100 million in any given year, or the total capex budget or total operating expenditure budget set out in the current Final Approved MTP to be exceeded by **up to** £250 million over the period of the current Final Approved MTP, and/or

- (ii) the total of any first level of key components being increased by **up to** £100 million in any given year and/or by **up to** £250 million over the period of the current Final Approved MTP,

the Openreach Board shall obtain the prior authorisation of the BT Group plc CEO and BT Group plc CFO;

- (c) materially impact or may materially impact the risk profile of the current Final Approved AOP and/or Final Approved MTP, the Openreach Board shall obtain the prior authorisation of the BT Group plc CEO and BT Group CFO; or

- (d) affect items identified in the Final Approved AOP or Final Approved MTP as items of significant strategic importance to BT Group plc, the Openreach Board shall obtain the prior authorisation of the BT Group plc Board.

Prior to obtaining the appropriate authorisation as set out above in this clause 3.6, the Openreach Executive will, in each case, develop a proposal for the Openreach Board to review and approve and then submit for approval, to the

BT Group plc Board (through BT Group plc CFO) or the BT Group plc CEO and BT Group plc CFO as required pursuant to this clause 3.6.

- 3.7 The Openreach Executive shall be permitted to take such action as is necessary and proportionate for the purpose of reacting to exceptional unforeseen events outside the reasonable control of the Openreach Division (including events relating to acts of terrorism, national security, fire, flood, lightning or other similar force majeure type events) without prior authorisation of the Openreach Board or the BT Group plc Board or the BT Group plc CEO/ BT Group plc CFO as the case may be, and shall update the Openreach Board and the BT Group plc Board on the impact of such action on the next update of the Final Approved AOP and/or Final Approved MTP as soon as reasonably practicable in order to reflect any adjustments made thereto.
- 3.8 In the case of a negative or detrimental variation in the Openreach Division's total revenue, EBITDA, capex or cash flow as set out in the current Final Approved MTP and Final Approved AOP, as described below, the following will occur:
- (a) if the actual variance in any month is up to and including 5 per cent., the Openreach Executive, in consultation with the BT Group plc CEO and/or BT Group plc CFO, will develop and agree appropriate steps (the ***Planned Action***) for approval by the Openreach Board;
  - (b) if
    - (i) the actual variance in any month is above 5 per cent. and may lead to the forecast variance for the year to be above £25 million for EBITDA, capex or cash flow, or above £100 million for revenue; or
    - (ii) the forecast variance for the year is above £25 million for EBITDA, capex or cash flow, or above £100 million for revenue,the Openreach Executive will follow the steps in (a) above and will additionally recommend the Planned Action to BT Group plc Board for authorisation or amendment.

#### **4. Engagement with Customers**

- 4.1 The Openreach Executive will engage with the Openreach Division's Communications Provider customers (and other stakeholders, including Ofcom), as they deem necessary and appropriate, to understand their requirements, demands, issues and concerns, and in a manner which treats all customers equally.
- 4.2 Subject to the other provisions of this Governance Protocol (including as set out in Part D), the Openreach Executive may develop plans for review and approval by the Openreach Board on major operational and investment decisions, for example:
- (a) form, technical decisions and timing of major access network investments;

- (b) new products and technologies, or enhancements to existing products; and
- (c) timing and prioritisation of product, system and process investment.

## **5. Accountability of the Openreach CEO**

5.1 The Openreach CEO will report to the Openreach Chairman and will also be accountable to the Openreach Board in relation to the full range of his/her duties.

5.2 In addition, the Openreach CEO will have secondary accountability to the BT Group plc CEO for the purposes only of:

- (a) ensuring that BT Group plc, BT plc and their respective directors are able to continue to comply with their legal, fiduciary and regulatory obligations and ensure best practice governance for BT as a whole, and for the avoidance of doubt the BT Group plc CEO shall be entitled to direct the Openreach CEO in relation to such matters to fulfil these obligations; and
- (b) ensuring the delivery (financially or operationally) of the Final Approved AOP and the Final Approved MTP,

such accountability being necessary to ensure that the directors of BT Group plc and BT plc can comply with their obligations, and the exercise of such accountability to be conducted in such a way as to respect fully the roles and responsibilities of the Openreach Board and the Openreach CEO's accountabilities to it whilst allowing BT Group plc and BT plc to fully comply with their obligations and best practices.

5.3 The scope of the information that the BT Group plc CEO is able to obtain from the Openreach CEO in the exercise of such accountability shall exclude:

- (a) information provided to the Openreach Division during the confidential phase of the Customer Consultation Process set out in Part D, other than as specifically permitted therein; and
- (b) details of discussions at the Openreach Board level that refer to the commercial plans and strategies of individual non-BT Communications Providers.

5.4 In order to ensure compliance with this Part B of this Governance Protocol and to provide transparency on the nature of the Openreach CEO's secondary accountability to the BT Group plc CEO, the Openreach CEO shall provide a report to the Openreach Board and to the OBARCC on a monthly basis which sets out a fair, true and accurate summary of the nature and substance of his discussions with the BT Group plc CEO in the previous month.

5.5 The Openreach CEO will not be a member of the BT Group Operating Committee (or any successor to that committee) but may attend those meetings where matters pertaining to the Openreach Division are discussed and where attendance is deemed appropriate by the BT Group Operating Committee.

## **Part C Matters reserved for the Boards of BT Group plc and BT plc respectively**

- 1.1 Openreach Limited will, unless otherwise provided in this Governance Protocol, remain subject to the BT Governance Policies and the BT Group Risk Policy.
- 1.2 The BT Group Risk Policy defines BT's approach to risk management. It forms part of BT's internal control and corporate governance arrangements, applies to BT plc and BT subsidiaries and sets out detailed requirements and minimum levels of achievement necessary to implement Enterprise Risk Management.
- 1.3 The BT Governance Policies include:
  - (a) the matters reserved for the BT Group plc Board and the BT plc Board, including its responsibilities for the company's overall strategy and financial performance;
  - (b) the terms of reference for the BT Group Operating Committee, including its responsibilities for the company's overall strategy and financial performance;
  - (c) delegations of authority which provide rules, guidelines and approval matrices for decision-making within the lines of business and functions in BT; and
  - (d) the BT policy reserved powers which address key areas with BT-wide significance which are not reserved to the BT Group plc Board, the BT Group Operating Committee or the lines of business within BT, for example in relation to compliance with anti-corruption and bribery, data protection, competition, or human rights legislation, human resources policies, treasury matters and accounting policies.

## **Part D Customer Consultation Process**

- 1.1 Openreach Limited will operate a formal process for consulting its customers in relation to significant investments related to the future development of its networks and products in accordance with the detailed process outlined in paragraph 9 of the Commitments.
- 1.2 This consultation process will consist of:
  - (a) a confidential phase (investment and technology choice);
  - (b) a public phase (commercial and technical feasibility); and
  - (c) a committed phase (implementation).
- 1.3 In the confidential phase, Communications Providers can discuss such investment ideas with Openreach Limited without this information being disclosed outside the Openreach Division except with the consent of the Communications Provider proposing the investment. Communications Providers will be formally consulted in the public and committed phases.