

# Equality of Access Board

Annual Report 2006

BT Group plc  
Registered Office:  
81 Newgate Street, London EC1A 7AJ  
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## Annual Report

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The Equality of Access Board (EAB) is a committee of the BT Group plc Board.

BT Group plc is a public limited company registered in England and Wales.

This is the EAB Annual Report for the period ended 31 March 2006. Unless otherwise stated all facts, statistics, events or developments are correct to the nearest practical date before 11 May 2006. The opinions expressed are those of the EAB, not necessarily those of BT Group plc. The EAB Annual Report is a requirement of Undertakings given to Ofcom by BT pursuant to the Enterprise Act 2002.

## Chairman's introduction

The twenty-second of September 2005 marked a watershed in the regulation of telecommunications in the UK.

The agreement between BT and Ofcom announced that day marked the resolution of a major element of Ofcom's Strategic Review of the UK telecommunications industry. The legally binding Undertakings which BT gave Ofcom established a new regulatory environment based on BT providing to all communications providers, including its own customer-facing Lines of Business, a set of products and services which are equivalent in all material respects. This was the first step towards focusing regulation only where it is needed, on BT's local access and backhaul products and services. As part of the Undertakings BT agreed to establish the Equality of Access Board ('EAB') and the BT Group plc Board appointed me as its first Chairman.

The EAB is unique in the world of telecommunications regulation. No other major company has established a similar body with the role and powers to monitor, report and advise the company on compliance with regulation.

The EAB was established as a BT Group plc Board committee on 1 November 2005, over four months ahead of the deadline set by the Undertakings. Early implementation has proven entirely justified. It has allowed us to establish the extensive and complex processes needed to monitor, advise and comment on BT's compliance in good time for this first annual report. It has given us the opportunity to engage with Ofcom and the rest of the industry at the same time as BT has set about delivering its commitments. And it has allowed us to gain a fuller understanding of the implications of the Undertakings for BT and the rest of the industry.

During its first five months, the EAB has developed clarity around its mission and the unique role it plays. As a committee of the BT Group plc board, we have visibility and insight into a breadth and depth of issues that would be very difficult to replicate as an external body. Equally our position means that we must make extraordinary efforts to demonstrate the objectivity and transparency expected by our stakeholders.

BT has made as good a start as might have been hoped for, meeting all of the initial Undertakings milestones and delivery deadlines. For example, the creation of Openreach as an organisation of 30,000 is one which BT has shown great determination in achieving. While not everything has gone flawlessly, we see commitment to addressing the areas which need more work.

The complexity associated with delivering the equivalence targets during the next 12 months make the challenges for BT more significant. The combination of the scale of the system and process changes required and the challenging timescales committed to in the Undertakings means the highest hurdles are still to come.

And then, there is the need to look beyond adherence to the strict letter of the Undertakings to the spirit in which compliance can be achieved.

The EAB now has in place the foundation to monitor BT's progress in the year ahead.

**Carl Symon**  
**Chairman of the Equality of Access Board**  
**11 May 2006**

## Executive Summary

This report fulfils a requirement in BT's Undertakings for the Equality of Access Board (EAB) to publish an Annual Report on its activities. It explains who sits on the EAB, what its role is and how this is being delivered with the support of the Equality of Access Office (EAO). The EAB's opinions on BT's delivery of the Undertakings and related governance arrangements are set out with supporting evidence. Arrangements for handling complaints and breaches, for dialogue with stakeholders and for verifying the EAB's work are explained. An independent report from PricewaterhouseCoopers LLP (PwC), including its opinion, concludes the report.

### Compliance with the Undertakings to date

In the EAB's opinion, BT's compliance with the Undertakings has been satisfactory although it has had concerns including a missing management control for the IPStream product and the delayed set up of the account management function in Openreach. Both of these concerns have now been addressed. Neither constituted a breach of the Undertakings, but they were key vulnerabilities and areas for management improvement.

The EAB was impressed by the commitment BT has shown to the delivery of the Undertakings so far. The EAB has reviewed all of the Undertakings for which the due date fell in this reporting period. For all of the completed reviews, those Undertakings have been confirmed as delivered. Some have been delivered ahead of their due date, such as the Code of Practice. In addition, no complaints from communications providers (CPs) or breaches of the Undertakings have been reported to the EAB by BT or the EAO.

BT also needs to demonstrate compliance on an ongoing basis. The only Equivalence of Input (Eol) product provided in the reporting period was IPStream. BT Wholesale is still reviewing the detailed IPStream fulfilment (provision) key performance indicators (KPIs) to demonstrate to the satisfaction of the EAB that similar performance levels are being delivered to all customers.

The EAB recognises that the Undertakings represent a challenge to BT and CPs. All parties need to recognise the role they play in successful implementation. The development of strong relationships by BT will be the key component in this process.

### Measures to influence behaviours

In the EAB's opinion, BT has made a good start in delivering changed behaviours in line with the spirit of the Undertakings. BT has made significant progress in rolling out the Code of Practice and associated training across the entire company. The EAB also agreed with the inclusion of questions relating to equivalence in BT's external customer satisfaction and internal employee surveys. However, the real test is in industry perceptions of BT's behaviour. There is limited evidence of change in these perceptions as yet, although the EAB accepts it is still early days.

### BT's governance

The EAB has reviewed the governance structures, processes and policies within BT to support the Undertakings. The EAB considers these arrangements to be satisfactory with some exceptions. These include the handling of complaints from CPs and the coordination of major BT-wide deliverables. BT is addressing the EAB's concerns.

### The EAB's governance

The EAB views its governance arrangements as satisfactory, though it recognises areas for improvement and that some of those arrangements have not yet been tested e.g. judging complaints or the materiality of a breach.

Work carried out by BT's Internal Audit and Regulatory Compliance department (IARC) and discussions with PwC regarding their assurance procedures in the context of this report have identified some areas for improvement.

### Future focus

Looking to the coming year, the EAB has some concerns. BT has to deliver many challenging Undertakings and several of these are under time pressure. BT needs to enable timely and compliant delivery whilst not sacrificing the service levels delivered to its customers.

The focus of the EAB will therefore be on the key deliverable dates, on ongoing compliance and behavioural issues and on longer term, strategic matters, most notably Next Generation Networks. The areas of focus will include the following:

- **Local Loop Unbundling (LLU) Eol Ready for Service (RFS) 30 June 2006**  
This Undertaking requires significant systems and process work. It is of key importance to industry and also has implications for other Undertakings such as other Eol products which rely on LLU as an input. Work to date has been challenging and the programme delivery status remains at risk.
- **Wholesale Line Rental (WLR) Eol RFS (good faith gesture date) 31 December 2006**  
This Undertaking is the largest in terms of the scale of the customer base. The timescales for this task are proving to be extremely challenging and its delivery is at risk.
- **Ongoing Product KPIs**  
By the end of 2006/07, IPStream, LLU and WLR (for new customers) should all be operating on Eol principles; IPStream for some 15 months. The EAB will be examining whether the product KPIs demonstrate consistent levels of performance between all customers.
- **Ongoing Behaviours**  
As the Openreach and BT Wholesale product organisations mature and the early Undertakings deliverables move into business as usual, the EAB will be giving particular attention to whether BT has adopted appropriate behaviours. In addition to looking at existing measures such as the Code of Practice training completions, it will examine how much the reality of doing day to day business with BT has changed since the inception of the Undertakings.
- **Next Generation Networks**  
Whilst the Undertakings obligations for the Eol product deliverables are clear in most areas, obligations around BT's 21st Century Network (21CN) are less straightforward. The EAB will monitor how BT delivers its obligations in this area.

### Conclusion

This report concludes that satisfactory progress has been made to date and that the EAB is positioned to oversee BT's future performance.

### Who we are

The EAB was established nearly five months ahead of schedule on 1 November 2005.

The EAB has five members. The Undertakings require that this should include a BT Group plc non-executive director who acts as chairman of the EAB; a BT senior manager; and three independent members. The EAB members are:

#### **Carl Symon** Chairman of the EAB



Carl Symon was appointed a non-executive director of BT Group plc on 14 January 2002. He retired from IBM in May 2001 after a 32-year career, during which he held senior executive positions in the USA, Canada, Latin America, Asia and Europe, including Chairman and Chief Executive Officer of IBM UK. Carl is chairman of HMV Group and a non-executive director of Rolls-Royce and Rexam. He is a US national.

#### **Sally Davis** BT senior manager



Sally Davis was appointed as BT's Chief Portfolio Officer in May 2005. She had previously held several senior executive roles within BT since joining the company in 1999. Before joining BT, Sally built start-up companies and held leading roles in several major communications companies, including Bell Atlantic in the US and Mercury Communications in the UK. She is a Fellow of University College, London.

#### **Sir Bryan Carsberg** Independent



Sir Bryan Carsberg was Professor of Accounting and Business Finance and Dean of the Faculty of Economic and Social Studies at Manchester University, before becoming professor of accounting at the London School of Economics from 1981 to 1984. He was Director General of Oftel (the former telecommunications regulator) from 1984 to 1992, Director General of the Office of Fair Trading from 1992 to 1995 and

Secretary General of the International Accounting Standards Committee from 1995 to 2001. Sir Bryan is currently Chairman of Council and Pro-Chancellor of Loughborough University. He holds a number of non-executive board appointments. He is a qualified Chartered Accountant.

#### **Stephen Pettit** Independent



Stephen Pettit is a non-executive director of National Grid plc, National Air Traffic Services and Halma plc. He is Chairman of ROK Property Solutions plc and a former executive director of Cable & Wireless plc. Before joining Cable & Wireless, Stephen was Chief Executive, Petrochemicals at British Petroleum. He was previously a non-executive director of KBC Advanced Technologies plc and Norwood Systems Limited.

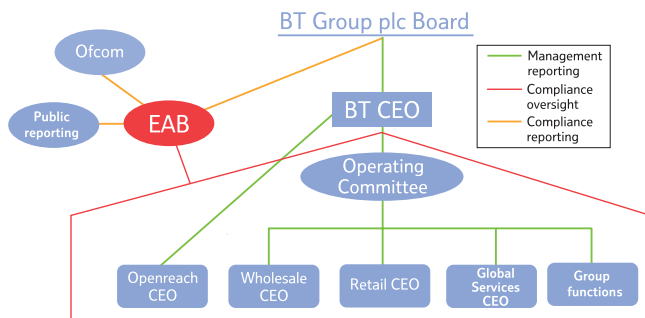
#### **Dr Peter Radley** Independent



Dr Peter Radley is the Chair of the IEE Communications Sector Panel. He is a Fellow of the Royal Academy of Engineering and has been involved in the telecommunications industry since 1965. Between 1991 and 2002 he held positions in Alcatel with global responsibility for technology and marketing and as Chairman and CEO for Alcatel UK. He is a member of the Broadband Stakeholder Group. Since 2002, Peter has been an independent advisor to a number of organisations including the DTI and South East England Development Agency and he has also been chairman of technology start-up companies in the broadband, IP and mobile sectors.

## How we work

The EAB is a committee of the BT Group plc Board although its structure, membership and obligations to Ofcom make it unique. It has oversight of each of BT's Lines of Business (LoB) to monitor compliance with the Undertakings. Its position in BT's reporting structure is outlined in the diagram below:



**Figure 1: The EAB's role within BT's reporting structure**

The EAB has agreed Terms of Reference outlining its role, monitoring and reporting remit, its powers, how its members are appointed and its organisation. These can be viewed on the EAB's website at:

<http://www.btplc.com/Thegroup/Theboard/Boardcommittees/EqualityofAccessBoard/TermsOfReference.htm>.

### EAB meetings

The EAB has met seven times to date. The Undertakings provide that 'in the first twelve months of operation the EAB shall have between six and ten meetings. Thereafter the EAB shall meet as frequently as the EAB determines from time to time'. All EAB members have attended every meeting.

The EAB has received presentations from the CEO of BT, the CEO of Ofcom, and the CEOs of BT's LoBs. Presentations from industry have included the UK Competitive Telecommunications Association (UKCTA), the Office of the Telecommunications Adjudicator (OTA) and the Federation of Communication Services (FCS).

The EAB has considered evidence on products central to the Undertakings, as well as discussing its own governance arrangements and the processes of the EAO.

The minutes of the meetings are sent to Ofcom as required by the Undertakings and a regular update on the EAB's activities is published on the EAB's website at:

<http://www.btplc.com/Thegroup/Theboard/Boardcommittees/EqualityofAccessBoard/eabupdate.htm>.

### Supporting the EAB

The EAB is supported by the EAO and the EAB Secretariat, the resource for which is supplied by BT.

The function of the EAO is to support the EAB on all matters within its remit, including reporting on BT's performance against the Undertakings and handling complaints from CPs. The EAB Secretariat organises EAB meetings, circulates minutes from the meetings to Ofcom, manages the EAB breaches process and the interface between the EAB and the BT Group plc Board.

The EAO was established on 1 November 2005. The Undertakings require that 'the most senior person of the EAO and the EAB Secretary shall be appointed with the agreement of the EAB, save where the first such appointments occur before

the establishment of the EAB and hence are made by BT'. The Director of the EAO, Jon Furmston and the EAB Secretary, Stephen Prior, were appointed before the establishment of the EAB and were therefore appointed by BT rather than the EAB.

There are 12 posts in the EAO and the EAB Secretariat, and only one remained vacant at the end of April 2006. The EAO's staff operate to a Code of Conduct which can be viewed at: <http://www.btplc.com/Thegroup/Theboard/Boardcommittees/EqualityofAccessBoard/EAOCodeofConduct.htm>.

The Undertakings allow the EAO to draw on functions and departments within BT to assist with its work, including IARC and the office of BT's Company Secretary.

### The EAB's opinion on its governance and resources

The EAB is required by the Undertakings to give a view on its governance arrangements and whether it had adequate resources at its disposal to fulfil its duties.

#### The EAB's opinion on its governance

The EAB views its governance arrangements as satisfactory, though it recognises areas for improvement and that some of these arrangements have not yet been tested e.g. for judging complaints or the materiality of a breach.

Work carried out by IARC and discussions with PwC regarding its assurance procedures in the context of this report have indicated an opportunity to strengthen some aspects of BT management's reporting, and the commissioning and documentation of internal validation reviews conducted on the EAO's behalf.

### How the EAB formed its opinion on its governance arrangements

In reaching its opinion the EAB has considered the following questions:

- Do EAB members understand the EAB's role and responsibilities within BT, and are suitable arrangements in place to enable those responsibilities to be fulfilled?
- Do EAB members have relevant skills and experience to perform their role, and was their induction process effective?
- Does the EAB have confidence in the completeness and accuracy of the EAO's compliance reports to highlight the issues that are critical to the delivery of the Undertakings and identifying actual or potential breaches?
- Is the EAB satisfied with the process for compiling the first annual reports and has it had unfettered influence on the detailed content and conclusions of the reports?
- To what extent have the EAB's governance arrangements been tested, particularly in respect of complaints and breach assessments?
- Have there been any explicit issues raised by the Director EAO regarding reasonable access to information held by BT?

### Evidence to support the EAB's opinion

The EAB has reviewed the comprehensive list of obligations set out in Section 10 of the Undertakings regarding the establishment and operation of the EAB and EAO, and has ensured that arrangements are in place to fulfil each of them. In addition, a wide range of agenda items in the EAB's meetings have informed its opinion on governance matters. These include the initial proposals for the EAO's monitoring arrangements, briefings on BT's breaches and complaints processes and the EAB's terms of reference.

#### The EAB's opinion on the adequacy of resources

The EAB views the current resources of the EAO and EAB Secretariat as satisfactory but, in the light of the IARC review referred to below, has asked the Director EAO to keep the EAO's resources under close observation.

### How the EAB formed its opinion on the adequacy of resources

In reaching its opinion the EAB has considered the following questions:

- Has the EAB been well supported by the EAO in receiving timely, detailed and verifiable monitoring data?
- Has the EAB Secretariat provided the EAB with appropriate information in a timely manner for its meetings?
- Is the EAB well informed of both internally and externally generated complaints and is it confident that the EAO has the capacity to manage effectively the investigative process on its behalf?
- Have the reviews of specific issues commissioned by the EAB provided it with a basis for judging compliance and recommending remedial action?
- Have there been any explicit issues raised by Director EAO or the EAB Secretary regarding resources at their disposal?
- Is the EAB's industry engagement strategy identifying key issues of concern to CPs and building confidence in the EAB's objectivity?

The EAB reached views on these questions with reference to its programme of activity to date and specific evidence outlined below.

### Evidence to support the EAB's opinion

As part of a readiness review of the EAO and the EAB conducted in February 2006, IARC assessed the EAO's resources. It noted that there were three vacant positions, two of which have since been filled.

IARC advised the EAO to keep the level of staff resources under review, especially if there was an increase in the number of complaints and investigations needing assessment.

## Implementing the Undertakings

This section contains a description of the governance structure that BT has put in place to deliver its obligations, as well as the EAB's opinion on its effectiveness.

### BT's Undertakings programme

The EAB has received presentations from senior executives of BT Group, Openreach, BT Wholesale, BT Retail and BT Global Services describing the governance and management arrangements that are in place to deliver the Undertakings. In addition, the EAB is informed on the status of BT's progress towards delivery of the Undertakings via the reports which are provided to the EAO by the BT Undertakings Group Programme Office.

### BT Undertakings governance and delivery structure

BT has established an overall governance framework which consists of the following three key components:

- The Group Undertakings Forum (GrUF) is a steering forum with overall responsibility for setting direction.
- The Group Programme Board's role includes managing priorities, resolving issues, and ensuring cross LoB consistency.
- The Group Programme Office supports the GrUF and the Group Programme Board by providing regular programme reporting and offering expert help and guidance to the individual programme delivery teams.

Each LoB has its own Undertakings delivery programme office which reports progress into the Group Programme Office. In addition, BT has arrangements for handling complaints from CPs relating to the Undertakings.

### Code of Practice

The Undertakings require BT to produce a Code of Practice to educate employees on appropriate behaviour under the new regulatory environment. Each employee received a Code of Practice relevant to them and LoB during December 2005. The computer-based training package "It Matters. . . The BT Code of Practice" was made available from 12 December.

An alternative specialised telephone-based training package was developed for BT employees in field roles. In addition, an induction pack has been developed which includes a section on the Code of Practice.

BT tracks completion rates for the Code of Practice training packages and makes these figures available to the EAB on a monthly basis.

### Implementation of the Undertakings in BT Northern Ireland (BTNI)

BT has obligations to implement aspects of the Undertakings in Northern Ireland and to report on delivery of these to the EAB.

However, BTNI is not affected by the structural provisions of the Undertakings and continues to function as a single integrated unit. It has an engineering workforce which acts as a delivery agent in Northern Ireland for Openreach and BT Wholesale products

Some of the other provisions of the Undertakings apply in Northern Ireland as they apply in the rest of the UK. For example, BT must make the same products available in Northern Ireland and apply the same timescales to the delivery of equivalence of input and transparency in respect of specified products.

BTNI people have been issued with a specific Code of Practice that reflects the special arrangements for Northern Ireland.

### **The EAB's opinion on BT's governance measures associated with the Undertakings**

The EAB considers that BT has established satisfactory governance arrangements to plan, prioritise and oversee the delivery of its Undertakings to Ofcom, except that there is room for improvement in the following aspects.

BT's arrangements for handling complaints from CPs related to the Undertakings could be improved and the EAB has made recommendations to BT to this effect. The EAB will review complaints handling arrangements again in the first quarter of 2006/07.

Certain Undertakings deliverables, for example WLR, require a concerted BT Group-wide approach to planning and prioritisation rather than a LoB by LoB approach. The EAB's favoured approach was being adopted towards the end of the reporting period and in 2006/07 the EAB will review its effectiveness.

BTNI has met the letter of the Undertakings, though some of its proposals for acting in the spirit of the Undertakings have not progressed as quickly as hoped. Significant steps have now been taken by BTNI to address the EAB's concerns.

In relation to some of the early Undertakings, it proved difficult to validate completion as BT had not adequately specified success criteria. However, this has now improved.

Finally, the EAB is unable to reach a view on BT's arrangements to remedy actual breaches of the Undertakings, since there has not yet been experience of such arrangements in practice.

### **Evidence to support the EAB's opinion**

The EAB has reached its view on these issues during its first few months of operation through briefings with BT LoB CEOs, its discussions with the EAO in consideration of monthly monitoring reports and EAO reviews of specific Undertakings. The EAB has met with BT's IARC Director, Group Strategy Director, Company Secretary, Group General Counsel and Group Regulatory Affairs Director. The EAB's view of BT's governance arrangements associated with the Undertakings has also been informed by discussions with PwC regarding its assurance procedures in the context of this report.

### **How the EAB formed its opinion**

In determining its view on BT's governance measures associated with the Undertakings, the EAB has had regard to the following issues:

- Does BT management have a clear, well understood framework for directing implementation of the Undertakings, both at Group and LOB level?
- Does BT management have effective mechanisms for ensuring complete and accurate monitoring and internal reporting on implementation of the specific Undertakings requirements and consequent compliance?
- Is BT management's monitoring and reporting of implementation and compliance subject to sufficient and appropriately independent scrutiny?
- Are the BT Group plc Board and relevant Board committees kept informed of compliance with the Undertakings? Are BT's external stakeholders – Ofcom and CPs – kept appropriately informed?
- Are effective measures in place to detect potential breaches, and to report and remedy actual breaches of the Undertakings?
- Does BT management have adequate processes in place to handle external and internal complaints relating to the Undertakings?

## How the EAO monitors BT's performance

The EAO produces a monthly report for the EAB on BT's delivery of the Undertakings. It is submitted to the EAB in advance of regular EAB meetings.

The report monitors the following key areas:

- BT's progress towards delivering the Undertakings
- BT's ongoing compliance with the Undertakings
- Product KPI performance
- Measures relating to the spirit of the Undertakings.

To reduce the level of detail, some Undertakings have been amalgamated and reported on as a group. A particular focus has been placed on Undertakings due within the next four calendar months on a rolling basis, plus other key Undertakings that fall outside of this window (for example Eol product ready for service (RFS) dates).

In order to highlight key issues, colour-coded status indicators are used in the report.

### The EAO's monitoring process

A pictorial summary of the EAO monitoring process is shown below followed by more detailed descriptions of each step.

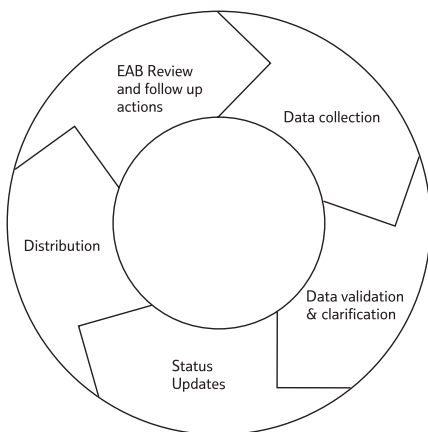


Figure 2: The EAO's monthly monitoring cycle

#### Data collection

The data included in the EAO Monthly Report is largely based on that provided by the BT Undertakings programme offices within each LoB. In addition, the EAO commissions reports from IARC to review whether BT has delivered the requirements of the Undertakings. The EAO will also seek industry's and Ofcom's perspectives on certain Undertakings. The data the EAO receives is for use within BT only and is not published by the EAB outside of BT.

The collection process is divided into four main areas:

- Undertakings progress reports, including commentaries on individual Undertakings and the systems on which they depend
- Ongoing Obligations reports
- Product KPI graphs and commentaries
- Behavioural measures charts and commentaries.

#### Data validation and clarification

Review sessions take place with each LoB before the report is submitted to the EAB. These sessions aim to ensure the EAO has a clear understanding of any issues that have arisen and for the LoBs to provide further clarification and detail as required.

The EAO aims to provide the EAB with a single, consolidated progress statement for those Undertakings that involve multiple LoBs. Initially, the EAO produced this based on its own analysis of the submissions from each LoB. However, it looks increasingly to BT to provide a single view of these deliverables.

#### Status updates

Every month, the EAO updates the individual status of each Undertaking, ongoing obligation, product KPI and behavioural measure in the EAO Monthly Report. In determining the status, the EAO may consider input from a number of different areas including BT LoBs, IARC, Ofcom, CPs and the EAO's own reviews.

Although BT may have given a particular status for an Undertaking for its own monitoring purposes, the status marking in the EAO Monthly Report is determined by the EAO.

#### Distribution

The report has a restricted distribution list. This includes the EAB members, EAO employees and the BT Company Secretary. The EAO also sends individual LoB programme offices a subset of the report with specific information related to their own LoB. Those on the distribution list are covered by Annex 2 of the Undertakings.

#### EAB review and follow-up actions

Each EAB meeting contains an agenda item where the contents and findings contained in the report may be discussed. As a result of the EAB's review, there may be feedback and follow up actions either for the EAO, or for BT. These follow up actions are recorded in the EAB meeting minutes.

## BT's performance against the Undertakings

The EAB's monitoring of BT's performance against the Undertakings consists of five parts:

- delivery of key Undertakings during 2005/06
- progress towards Undertakings due in 2006/07
- Ongoing obligations related to the Undertakings
- Product KPIs
- Measures relating to the spirit of the Undertakings

### BT's delivery of key Undertakings milestones during 2005/06.

#### The EAB's opinion

The EAB believes that BT's performance against delivery of the Undertakings during 2005/06 has been satisfactory except for the matters noted below. Indeed, BT's early delivery of some milestones has been impressive, such as the Code of Practice.

The EAB has had concerns about BT's ability to demonstrate all the necessary management controls to monitor whether call centre agents are using inappropriate information in IPStream transactions. These concerns have now been addressed.

BT established Openreach on schedule (confirmed by Ofcom). However, the EAB believes that the journey from establishment to Openreach being fully functional, particularly account management, should have been communicated more clearly to Openreach's customers. The operation of Openreach in accordance with the Undertakings since its establishment is assessed later in this section.

#### How the EAB has formed its opinion

The EAO uses a colour-coded status indicator to assess BT's progress towards delivery of each key Undertaking. The definitions are outlined in the table below.

In forming its opinion on BT's delivery of the Undertakings, the EAB has taken the following into account:

- The extent to which BT has successfully delivered key Undertakings on or before the required dates
- The number and significance of any concerns that have been raised by EAO commissioned completion audits, including issues relating to BT's delivery of the spirit of the Undertakings, and which are therefore subject to specific follow-up actions and/or review.
- Any other significant issues or concerns that have come to the EAB's attention.

#### Undertakings delivery status indicators

<b>Blue</b>	Undertaking completed, auditable evidence provided to the EAO (or IARC acting on its behalf) and validation successfully completed.
<b>Green</b>	Undertaking delivery on track, or Undertaking completed by BT and EAO awaiting auditable evidence of achievement.
<b>Amber</b>	Undertaking at risk i.e. there are key issues that could impact the delivery of the Undertaking to the agreed date but these are being managed within the programme.
<b>Red</b>	Undertaking date has been missed or in jeopardy i.e. there are key unresolved issues that will impact the delivery of the Undertaking to the agreed date.

Each month, the EAO determines the status of each relevant Undertaking.

Only the Director EAO can move an Undertaking from Green to Blue status. This decision will, in most cases, be based on a validation review to determine whether BT has completed the requirements of the Undertaking by the due date. The EAO may perform this validation review itself or, more frequently, commission IARC to undertake this work to inform the Director EAO's decision. For certain Undertakings, the Director EAO will also take into account the views of industry and Ofcom.

#### Evidence to support the EAB's opinion

The EAB monitored 18 key Undertakings (or groups of related Undertakings) due on or before 31 March 2006. Of these 10 are considered Blue; 6 were delivered with a formal completion review commissioned by the EAO underway; 1 was completed and awaiting review; and 1 has been superseded by another Undertaking.

None of the key Undertaking dates prior to 31 March 2006 have been missed by BT. There have been a number of Undertakings which have been delivered ahead of schedule – notably the publication of the Code of Practice and the establishment of the EAB.

#### Undertakings with progress status at Blue

The EAB considers that the following Undertakings were successfully delivered during the year ended 31 March 2006:

- Appointment of Openreach CEO
- BT to provide estimated space availability details
- Specific product transparency details for Carrier Pre-selection (CPS), Partial Private Circuits (PPC) and DataStream
- Standalone Address Matching service
- IPStream Eol RFS
- BT to satisfy Ofcom of Openreach establishment
- Publish a Code of Practice
- Wholesale leased line variants
- BT Wholesale dual product lines established
- Establish the EAB.

#### Undertakings with progress status at Green

BT stated that the following key Undertakings had been successfully delivered. However, an EAO commissioned completion audit is still to be completed:

- Openreach to provide SLA requirements to BT Wholesale where it uses BT Wholesale assets
- Organisational separation between BT Upstream and Downstream divisions
- All Chinese Wall provisions
- Estimated space availability – CP forecasts and observations
- Areas in BT exchanges as a service
- List of BT exchange vacations
- Establish a Contract Management Mechanism (awaiting review).

#### Issues arising from Undertakings monitoring

The EAO's monitoring has revealed a number of areas of concern. These are:

##### IPStream Equivalence of Input RFS on 31 December 2005

The EAO's initial completion review confirmed that most elements required for RFS were delivered. However, it highlighted that one particular control was not in place to detect call centre agents who deal with multiple products and systems, using inappropriate information in an Eol product transaction.

BT had implemented training and some system safeguards to prevent such use and in addition had controls in the form of mystery shopping and call quality monitoring.

However, system usage checks were not in place. Whilst data was being collected, its complexity meant analysis was delayed and control was not effective. In response to the EAB's concern, BT analysed a sample of one weeks' activity consisting of 30,000 orders and found one instance of inappropriate access. However, because the case was not a new IPStream customer, it did not constitute a breach under the RFS definitions. BT has agreed to monitor this on an ongoing basis.

Another area of concern was that whilst BT had complied with the letter in delivering equivalence within each IPStream product variant, known as Central and Central Plus, there was an aspiration from some quarters that BT would deliver equivalence across the portfolio.

The EAB asked BT Wholesale to describe the possible options in March 2006 and its recommended course of action. BT recommended that the underlying concerns were best addressed in the plans to replace the IPStream product as part of 21CN. However, as those plans required commitments and dates to be agreed with industry and Ofcom, the EAB has asked BT Wholesale to confirm its course of action in June 2006.

Finally, the EAO reviewed the potentially inappropriate use of information by BT Retail prior to placing the IPStream order with BT Wholesale. This situation which existed for only the first two weeks after the RFS date was considered under the BT possible breach process, but did not constitute a breach of the Undertakings.

Given BT's actions in response to those concerns, and subsequent EAO completion reviews, delivery of this Undertaking has been confirmed. Later in this section, it is also acknowledged that BT has applied EoI principles to all customers, not just new ones.

#### Transparency requirements for specific products

In its second quarterly report on the Implementation of the Undertakings (published 26 January 2006) Ofcom expressed concern that CPs believe that some important aspects of the use of comparable products are not described in BT's published documentation. As part of its monitoring of ongoing obligations, the EAB will encourage BT to use reasonable endeavours to resolve these issues.

#### Industry co-operation

The EAB requested a review in the light of concerns expressed by BT that lack of industry co-operation was jeopardising delivery of some Undertakings milestones. The EAB's opinion was that whilst there may have been some initial reticence on the part of CPs to commit to testing, there have also been issues around the stability of BT's testing platform. Nevertheless the EAB is keen to ensure that industry as well as BT continues to work towards the implementation of the Undertakings.

#### BT Wholesale Chinese Walls

Following concerns raised by CPs, the EAO conducted a review in February 2006 of the effectiveness of the Chinese Walls within BT Wholesale. The review found that the concerns were understandable given the new structure of BT's Products and Strategy Group and lack of communication about how the Chinese Walls work in practice. However, there was good evidence that the Chinese Walls were being effectively implemented and no breach of the Undertakings was identified.

It was also evident that the initial compliance training may have had the unintended adverse effect of discouraging appropriate information sharing and openness.

Going forward, BT Wholesale needs to encourage behavioural change to ensure greater transparency and openness in the sharing of product plans with all customers at the earliest opportunity. Also, given industry's sensitivity about BT Wholesale's Chinese Walls, the operational effectiveness of these organisational arrangements will be kept under review by the EAB.

### BT's progress towards Undertakings due in 2006/07 onwards

#### The EAB's opinion

BT's successful delivery of the Undertakings due in the next 12 months includes three areas of significant concern. These areas are described in the 'Ongoing Concerns' section. Otherwise the EAB believes BT is either on track to deliver, or is applying management focus to get on track to deliver the Undertakings.

#### How the EAB has formed its opinion

In forming its opinion on BT's delivery of the Undertakings due in 2006/07, the EAB has taken account of the EAO's monthly reports on BT's progress towards delivery of key Undertakings, in particular:

- The importance and potential impact on Undertakings determined to be in jeopardy
- The relative number of key Undertakings with progress status at Green, Amber and Red (see the explanation of the colour-coded status in the previous section)
- The EAO's perspectives on the adequacy of BT's management effort and processes in place to ensure successful delivery.

#### Evidence to support the EAB's opinion

Evidence has been provided through the EAO's monitoring process and presentations by BT's LoBs and industry bodies. Further information about LLU, WLR and call centre behaviours is provided in the 'Ongoing Concerns' section.

Another area of future focus will be BT's delivery of its obligations for 21CN.

#### Ongoing Obligations related to the Undertakings

A significant number of the Undertakings do not have a completion date associated with them. In addition, many Undertakings require ongoing compliance from BT as well as compliance by a particular date. The EAB refers to both of these categories of Undertakings as 'Ongoing Obligations'.

BT is still in the early stages of delivering the Undertakings and therefore the EAB is unable to offer an overall opinion on these ongoing obligations. However, several issues have been given specific attention including BT Wholesale Chinese Walls and call centre behaviours (for IPStream). These types of issues will be kept under review as part of the EAB's ongoing monitoring activities.

One other area of specific focus is the operation of Openreach in accordance with the Undertakings. Concerns about the set up of Openreach's account management function, including how it was communicated to customers, were relayed to the EAB in March 2006 and the EAB has monitored the position closely since then. The completion of this function has

been slowed by the intent to recruit externally to create a new culture within the organisation. Openreach committed to Ofcom to have 50% of vacancies filled by 31 March 2006, which it has met.

More recently, the EAO has embarked upon a general review of the operational readiness of Openreach. Its initial findings have identified a number of areas other than account management, such as product management, are still coming up to full strength and complex boundary arrangements between Openreach and BT Wholesale are still bedding down in terms of processes and trading arrangements. This is not unexpected in the formative stages of such a large organisation, but the impact on service levels, in the long term, will require careful monitoring.

The EAB will give an opinion on the ongoing obligations in its next Annual Report once a full year of ongoing compliance audit and reviews has taken place.

### Product KPIs

#### The EAB's opinion

BT has made a satisfactory start in developing a first set of KPIs that will be used to measure the ongoing delivery of consistent levels of performance between customers. BT has also met the requirement to publish a set of KPIs by 31 January 2006. However, the EAB asked BT to consider how it could improve the report, such as by including statistically valid indicators of equivalence.

The IPStream product had the only Eol KPIs formally tracked in the reporting period, although other product KPIs are reported. The aggregate IPStream fulfilment KPI showed varying levels of performance between customers. The EAB requested a detailed explanation from BT Wholesale.

#### How the EAB formed its opinion

In forming its opinion on product KPIs the EAB has taken account of the following:

- BT's willingness to propose KPIs and provide associated data and commentary to the EAB
- BT's commitment to and achievement of the publication of a set of external KPIs by 31 January 2006
- Whether product equivalence appears to be being delivered based on the KPI data
- Outstanding issues relating to the product KPIs
- BT's future plans for KPI development
- The accuracy of KPI data supplied by BT
- The effectiveness of BT management's mechanisms for ensuring complete and accurate reporting of KPIs.

#### Evidence to support the EAB's opinion

##### BT's KPI proposals and supply of data to the EAB

BT proposed KPIs to the EAB for two categories of products. Firstly, products for which Eol is an Undertakings requirement after the RFS date: IPStream, LLU, WLR and WES/BES. Secondly, products for which the Undertakings require transparency and where there is a valid internal comparison: DataStream and PPC. Only one of these products (IPStream) passed its RFS date in the reporting period and its performance is analysed below. One other KPI, PPC repair, has indicated cause for further analysis, which is currently underway.

The first set of KPI data was provided to the EAB in December 2005 for inclusion in the EAO's Monthly Report,

which was earlier than originally envisaged for the following reasons:

- The EAB believed it would be beneficial to start collecting and analysing product KPIs at the earliest opportunity in order to resolve any process issues as quickly as possible;
- The establishment of the EAB over four months ahead of schedule meant that BT was required to publish its set of KPIs earlier than anticipated i.e. at the end of January 2006 rather than at the end of June 2006.

Initially BT Wholesale proposed a series of straight line comparison graphs to show BT's service performance versus other CPs. Openreach however proposed a set of graphs using a statistical approach known as the modified z-test.

Upon inspection the EAB saw merit in both the simplicity of the BT Wholesale approach and the statistical rigour of the Openreach z-test. However, the appropriateness of the z-test is currently being independently assessed.

#### BT's external publication of a set of KPIs

The EAB acknowledges that BT made considerable effort to publish the first set of KPIs. It notes that these are, initially at least, a subset of the KPIs that BT provides to the EAB on a monthly basis. The EAB has encouraged BT to go beyond the letter of the Undertakings by providing a more complete commentary to accompany the KPI graphs and indicators of statistical equivalence, as it believes these will be helpful to the rest of the industry. In addition, BT agreed to a recommendation from the EAB to publish a more comprehensive IPStream provision KPI alongside the existing measure, and it did so in April 2006.

#### IPStream KPI results

The KPI data for IPStream fulfilment (shown below) provided by BT does not appear to demonstrate consistent performance for all customers and in the light of this the EAB asked BT Wholesale to provide an analysis of the results. CPs outside of BT appear to experience consistently higher performance.

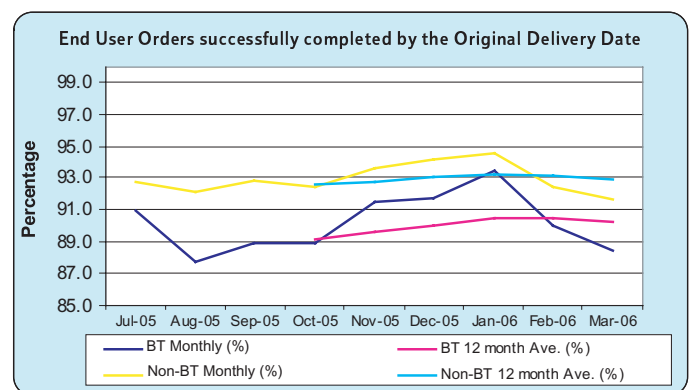


Figure 3: IPStream fulfilment KPI

BT Wholesale reported that there are eight order types of IPStream fulfilment, each of which could have a different performance level. The mix of these ordered by a CP would affect the overall performance even if each order type was being delivered consistently to all CPs. However, BT Wholesale also found that several of the order types did not demonstrate consistent performance between all CPs at this more detailed level and is undertaking further analysis to understand why.

BT has also published a KPI for IPStream repair which shows less marked differences than fulfilment but still does not confirm consistent performance to all customers. The EAB has asked BT Wholesale to investigate this.

Lastly the EAB noted the absence of a KPI for IPStream migration performance and therefore requested BT to provide an interim measure in lieu of agreement between Ofcom, BT and industry on a longer term KPI. The interim KPI provided by BT appears to demonstrate that similar performance is being delivered.

**BT's plans for future product KPIs**

BT has commissioned an independent study into the appropriateness of the modified z-test approach for use in demonstrating consistent service levels to all customers. This study is likely to complete in 2006/07 and may result in proposals to change the KPI set that will be used going forward.

Both BT Wholesale and Openreach have supplied the EAB with indicative plans for further KPI developments to cover additional products.

**EAB key areas of focus for 2006/07**

The EAB's focus will continue to be on IPStream KPIs. The EAB will also consider proposals from BT's review of the appropriateness of statistical methods and any implications for the current KPI set. The EAB will expect BT to ensure that when LLU, WES/BES and WLR are made Eol that the KPIs used to measure these products are sufficiently robust to allow reliable conclusions to be drawn within three months of launch. The learning curve from IPStream will prove valuable and the EAB expects BT to work with the relevant industry groups to ensure that the current KPI set, as well as future ones, meet with industry approval.

**Measures relating to the spirit of the Undertakings**

**The EAB's opinion**

BT has made a good start in delivering some of the early Undertakings ahead of schedule and indeed going beyond what was required in some cases. It has also proposed an initial set of three behavioural measures.

Product KPIs and volume of complaints received by the EAB could also provide an indication of progress but it is too early to form a clear opinion.

BT now needs to expand the measures and demonstrate further tangible evidence during 2006/07 to show continued commitment to the spirit of the Undertakings.

**How the EAB has formed its opinion**

In forming its opinion on BT acting within the spirit of the Undertakings, the EAB has taken the following factors into account:

- Feedback from discussions with industry and Ofcom
- Evidence of early delivery of the Undertakings by BT or where it has gone beyond the letter of the Undertakings
- BT's willingness to propose measures and provide associated data and commentary to the EAB
- The accuracy of data supplied by BT
- Whether the data captured in the measures demonstrates that BT is behaving in accordance with the spirit of the Undertakings

- Outstanding issues relating to the behavioural measures
- BT's future plans for measure development.

**Evidence to support the EAB's opinion**

BT has shown good commitment to delivering some of the Undertakings ahead of schedule. For example, the EAB was established by BT on 1 November 2005 over four months early. This had the effect of requiring BT to publish its first set of external KPIs earlier than originally envisaged on 31 January 2006, which it achieved. BT also developed and published the Code of Practice ahead of the date required by the Undertakings.

Furthermore, BT has gone beyond the minimum required in some instances, most notably IPStream where Eol principles are being applied to all customers, not just those defined by RFS.

In addition to the deliverables above, BT proposed three initial behavioural measures: Code of Practice training completion, BT employee survey results and CP customer satisfaction. Each of these measures is described in more detail below.

**Code of Practice training completion**

The ultimate aim of the Code of Practice is to bring about behavioural change within BT that supports the aims of the Undertakings. However, the EAB believes that the rate of completion of the Code of Practice training can be used as an intermediate measure to demonstrate BT's commitment towards implementing behavioural change.

The following table summarises training completions across all Lobs within the UK as at end of March 2006, and shows that good progress is being made.

Employee Status	% Actual completions
Managers	97
Team Members	89

**BT Employee survey**

One way of assessing behavioural change within BT is by measuring changes in employee attitudes over time. As a first step, the BT employee CARE survey which took place in February 2006 contained specific questions that aimed to sample employee attitudes and opinions on matters relating to BT and the Undertakings. The survey included two general questions aimed at all employees. The results are shown below.

General BT questions	% scoring positively*
"I believe that BT treats all customers, whether internal or external, in a fair and equal manner"	71
"The company helps me to comply with our legal and regulatory obligations"	80

\* Rather than negatively or responding neutrally.

These results will be used to establish a baseline set of data for measuring ongoing performance.

#### Customer Satisfaction (BT Wholesale and Openreach)

Improvements in CP customer satisfaction will be an important measure of BT's commitment to operate in accordance with the spirit of the Undertakings. Since November 2005, two questions relating to the Undertakings and equivalence have been included by BT Wholesale in their existing customer satisfaction survey. The results are shown in the following table.

Questions	Measure	Result
"How confident are you that BT Wholesale will deliver against its commitments from the Telecoms Strategic Review?"	Confidence rating between 1 (not at all confident) and 10 (completely confident); all respondent scores are modelled to give a score on a 1 to 100 scale index.	73
"Now thinking more specifically about equivalence, do you believe BT Wholesale delivers products equivalently to all its customers?"	% of respondents that answered Yes	80

A similar survey by Openreach commenced in April 2006 and these results will also be reported to the EAB.

While the initial survey results are encouraging they represent a baseline set of data and the EAB will monitor the ongoing trend during 2006/07.

## Responding to complaints

BT employees and communications providers can complain to the EAO if they suspect that BT is not delivering the letter or acting in the spirit of the Undertakings.

The EAO has developed a process to handle complaints from BT employees and communications providers fairly and transparently. The EAO and the EAB both play key roles in assessing complaints and informing the complainants of the action, if any, taken by the EAB as the result of a complaint.

They also view complaints received by BT and are required by the Undertakings to take a view on the effectiveness of BT's complaints handling process.

### Complaints from CPs

Complaints from CPs are dealt with using the EAO's complaints guidelines, which are published on the EAB's website at <http://www.btplc.com/Thegroup/Theboard/Boardcommittees/EqualityofAccessBoard/EAOcomplaintsguidance.htm>.

The EAO reports the outcome of its investigation to the EAB, which decides on what action, if any, to take in respect of the findings. It can suggest remedial action to BT, although it has no formal powers to direct BT's behaviour or impose sanctions. The EAO will inform the complainant of any actions taken by the EAB.

The EAO has not received any complaints from CPs since its establishment in November 2005 until 31 March 2006. During February and March 2006, the EAO consulted external stakeholders about possible reasons for the absence of complaints and reported assurances that its complaints handling process was satisfactory. Ofcom has also received no complaints alleging BT has breached the Undertakings. The EAB has asked the EAO to continue to monitor the situation on an ongoing basis.

BT reports to the EAO on complaints it receives from CPs. The EAO produces a quarterly report on complaints for review by the EAB.

The first of these reported that BT had received no complaints from CPs (up to the end of March 2006) alleging a breach of the Undertakings.

### Complaints from BT employees

The EAO reports quarterly to the EAB on complaints made to BT's confidential helpline by BT employees alleging breaches of the Undertakings. The quarterly reports include information on the number of complaints received from employees, the Undertaking category and the complaint outcome.

The EAO can follow up any internal complaint irrespective of the outcome of an investigation elsewhere in BT. Relevant findings will be reported to the EAB so that it can take any necessary action.

The EAO may choose to investigate an internal complaint addressed directly to it, rather than to the hotline if the EAO considers that employee has made a reasonable case for not using the hotline. In such circumstances, the EAO will aim to deal with the complaint on the same timescale as for external complaints.

BT reported that three complaints were received by its confidential helpline during the period.

### BT's complaint handling arrangements

The EAB's initial review of BT's complaints handling arrangements led it to suggest improvements in how BT defines and considers complaints related to the Undertakings.

The EAB suggested that BT should adopt a consistent complaint definition, improve its internal reporting arrangements and provide clearer public information on how any complaint will be handled.

## Handling breaches

The Undertakings are legally binding such that a breach of them could have significant consequences for BT. BT and the EAB have obligations in regard to identifying and reporting breaches which reflect the different role each plays in the delivery of the Undertakings.

### Responsibilities for detecting and reporting breaches

BT must report any breach of the Undertakings to the EAB and it established a BT-wide process to fulfil this responsibility in January 2006. The range of possible inputs to the BT breaches process includes external complaints, internal employee complaints and internal audit reviews. No breaches have been reported to the EAB, although BT has confirmed to the EAB that a number of potential breaches were assessed in the reporting period.

By contrast the EAB has obligations to report breaches directly to Ofcom. A non-trivial breach must be reported within 10 days of the EAB being notified of such a breach. The EAB has approved arrangements to ensure that such notifications will be issued by the EAB Secretary on the EAB's behalf to fulfil this requirement.

In addition, the EAB annual report to Ofcom must include a summary of trivial breaches during the reporting period and any concerns the EAB has about possible future breaches by BT. The EAB has not had cause to report any non-trivial breaches to Ofcom thus far, and its annual report to Ofcom provides a nil return on trivial breaches since none have been reported to the EAB in the reporting period.

## Ongoing concerns

There are a number of areas where the EAB has concerns as to the risks of future delivery or potential breaches. In all cases it appears that BT is working to mitigate the risks. It was not clear at year end whether the efforts made by BT are likely to be effective.

Areas that are considered to be at risk and therefore subject to close EAB scrutiny are as follows:

- **LLU Eol RFS 30 June 2006**  
This programme has suffered from a number of delays which have made the achievement of the RFS date very challenging. At the end of March 2006, BT presented a revised plan to industry and Ofcom that it would deliver both MPF and SMPF Eol by 30 June 2006. The EAB does not consider that there is a lack of intent by BT to hit the deadline, however the volume and complexity of the work puts it at risk.
- **Call centre behaviours**  
BT has an ongoing obligation to manage information flows so that the downstream businesses do not have access to certain information regarding the upstream businesses, unless that information is available to all CPs. Many of BT's downstream call centres work in a manner such that an agent can deal with multiple services and products, primarily to benefit the end user experience. However this blended environment could lead to situations where call centre agents may use inappropriate information for the Eol element of the transaction, by looking at the non Eol product systems. These possibilities are gradually being precluded by system changes and management controls but in the meantime there is a risk of breach, even though the cases may be isolated and therefore trivial.

There will also be risks surrounding many of the ongoing obligations and additional Undertaking deliverables, however those listed above represent the most important areas of concern in the EAB's opinion.

In addition, the EAB has an ongoing concern about delivery of BT's gesture of good faith in respect of the analogue WLR product, Eol RFS on 31 December 2006. This involves a very large scale system and process transformation for BT. Such scale means that any slippages or other problems are difficult to remedy and recover from. It already appears that BT is struggling to find sufficient time in its project plan to allow the two key components to be completed – Openreach to define its new Eol gateway service and BT Retail/BT Global to amend their downstream systems and processes to interface with Openreach. This is further complicated by the fact that the definition of the Openreach gateway needs to be agreed with the rest of industry, not just downstream BT. Again the EAB does not consider there to be a lack of intent, however the amount of work to be completed before the deadline certainly puts this programme at risk. Failure to deliver against this gesture of good faith would not constitute a breach of the Undertakings.

## Our stakeholders

The EAB has three main stakeholder groups: industry, Ofcom and BT. In the first few months following its establishment, the EAB has sought open and ongoing dialogue with all of its key stakeholders and has aimed to provide a high level of transparency. The latter has been demonstrated by the publication of a regular overview of the EAB's activities, and the publication of draft complaints guidelines for stakeholder input.

### Industry

The EAB considers its industry stakeholders to be any CPs affected by the Undertakings. This includes large and small CPs, alternative network operators and communication service providers without their own network assets. BT Global Services and BT Retail are EAB industry stakeholders because of their role as communications providers and each has briefed the EAB on its experiences to date.

Dialogue with industry organisations is important to enable the EAB to hear a range of views. In March 2006, the UK Competitive Telecommunications Association (UKCTA) and the Federation of Communication Services (FCS) presented their members' opinions and experiences since the implementation of the Undertakings. They also outlined their expectations of the EAB in the coming months. Peter Black, from the Office of the Telecommunications Adjudicator (OTA), also gave the EAB his assessment of the delivery of the Undertakings covering LLU.

The EAB has approved the EAO's programme of informal dialogue with industry stakeholders. In its first few months of operation, the EAO has met with numerous CPs to hear their views.

The EAO follows rules of engagement each time it meets with a CP or industry body. CPs can choose whether it is beneficial for BT to be informed of the details of the meeting. This does not apply to complaints and reviews into matters related to BT's delivery of the Undertakings which are bound by formal guidelines.

The EAB gives updates to industry via its website. A regular overview of the EAB's activities is published on the EAB's website:

<http://www.btplc.com/Thegroup/Theboard/Boardcommittees/EqualityofAccessBoard/EqualityofAccessBoard.htm>.

### Ofcom

Ofcom was closely involved in determining the role and responsibilities of the EAB. The relationship between the EAB, the EAO and Ofcom consists of both formal and informal meetings. Ofcom's CEO presented his views on the Undertakings at the EAB's first meeting. Ofcom and EAO officials meet informally to ensure mutual understanding of relevant issues.

### BT

In order to fulfil their monitoring and reporting responsibilities, the EAB and the EAO have worked closely with BT.

## Verifying our work

### Appointment of external auditors

The EAB is required, in respect of each BT financial year, to produce a detailed annual report to Ofcom on its review of BT's compliance with the Undertakings.

The EAB also has to prepare this publicly available report, which must be subject to external audit as part of the assurance provided on BT's annual Regulatory Compliance report. The only detailed provision regarding the scope of this assurance is that it 'may include an opinion on the processes for non-financial metrics such as KPIs'.

BT is required to make reasonable endeavours to include provisions accepting obligations towards Ofcom in its letter of engagement appointing the auditors. This includes delivery of its work, its report and opinion, subject to a liability limit to be agreed with Ofcom.

The EAO consulted BT, UCKTA and Ofcom on their expectations of the nature and degree of assurance that should be provided. The EAO also consulted the leading independent providers to understand best practice approaches to this type of regulatory assurance.

A consensus was reached with all parties that in Year 1 the assurance would, by necessity, be limited in scope given that the EAO/EAB has been focused on establishing key processes. However, it was generally agreed that, where possible, the EAB should seek to obtain a positive assurance opinion on the activities described in this report. The consultation process also confirmed the benefit of using a competitive process to appoint a supplier most capable of delivering a high level of assurance.

### Statement of assurance requirements

In December 2005, the EAB decided to hold a competitive process to appoint the external auditors and to discuss a range of options for the scope of work. The EAO issued a statement of requirements for audit services requesting bidders to provide proposals.

At its January 2006 meeting the EAB selected PwC from the shortlist of bidders to conduct the 2005/06 external assurance work. The EAB's decision was referred to BT's Audit Committee in February 2006 which confirmed that there was no conflict of interest in appointing PwC even though it already acts as BT's statutory auditors.

In March 2006 PwC issued letters of engagement to the EAB and to Ofcom to establish the tri-partite arrangement as required by the Undertakings.

## Independent Assurance Report to the Equality of Access Board and Ofcom

### Respective responsibilities of the Equality of Access Board and PricewaterhouseCoopers LLP

We have been engaged to express an independent opinion on selected aspects of the Equality of Access Board ("EAB") Annual Report for the period ended 31 March 2006 (the "Report"). The preparation of the Report in accordance with the requirements of the Undertakings given to Ofcom by BT Group plc ("BT" or the "Group") pursuant to the Enterprise Act 2002 effective 22 September 2005 (the "Undertakings") is the sole responsibility of the EAB.

There are no generally accepted standards for reporting on compliance with the Undertakings or in respect of related performance measures. The reporting policies adopted by the EAB in forming their opinions expressed within the Report are described under "How the EAB formed its opinion" on pages 5, 7, 9 and 10 respectively (the "Reporting Policy").

### Scope and approach

Our engagement was designed to provide assurance on:

- whether, in our opinion, the EAB's opinions in respect of:
  - its governance arrangements;
  - BT's governance measures associated with the Undertakings;
  - BT's delivery of key Undertakings milestones during 2005/06; and
  - BT's progress towards the Undertakings due in 2006/07 onwards
 each shown within a shaded box on pages 5, 7, 9 and 10 respectively (the "EAB's Opinions") are fairly stated in accordance with the Reporting Policy. In this regard, we planned our procedures to have a reasonable expectation of detecting material misstatements or omissions in the EAB Opinions. We obtained an understanding of the relevant controls and procedures applied by the EAB and the EAO to generate, aggregate and evaluate information in respect of the Group's governance and compliance with the Undertakings. We performed tests of these controls and procedures and reviewed the work undertaken by BT's Internal Audit and Regulatory Compliance department ("BT IARC") on behalf of the EAB including, to the extent considered necessary, review of detailed workpapers and re-performance of testing;
- whether, in our opinion, the Report is consistent with the EAB's annual report to Ofcom (the "Ofcom Report"). In this regard, we planned our procedures to have a reasonable expectation of identifying any material inconsistency in the Report compared with the content of the Ofcom Report. We performed a full comparison of the text of the Report to the more detailed Ofcom Report. Other than the consistency of the Report and the Ofcom Report we have not been engaged to provide assurance over the Ofcom Report. Accordingly we do not express any separate opinion on the Ofcom Report;
- whether, in our opinion, the Key Performance Indicators for IPStream disclosed on page 11 (the "KPIs") are properly prepared in accordance with the Reporting Policy. In this regard, we planned our procedures to provide us with reasonable assurance they are properly prepared in accordance with the Reporting Policy from the underlying management information of the Group. We completed, in conjunction with BT Internal Audit, tests over data generation, consolidation and reporting; and

- whether, in our opinion, the measures for training completion, BT employees survey, and customer satisfaction related to the spirit of the Undertakings disclosed on pages 12 and 13 (the “Measures of Spirit”) are properly compiled from the underlying management information of the Group. In this regard, we planned our procedures to provide us with reasonable assurance they are properly compiled from the underlying management information of the Group. We completed, in conjunction with BT Internal Audit, tests over data consolidation and reporting.

In addition, we reviewed the minutes of EAB meetings, discussed with employees of the Equality of Access Office the processes to collate the Report and reviewed the remainder of the Report for consistency with our knowledge of the Group in order to report whether anything came to our attention to indicate that the remainder of the Report is inconsistent with the findings of our work. Specifically, due to the highly subjective nature of any assessment in the early stages of the EAB’s operation, our engagement did not include the provision of any additional assurance in respect of the EAB’s opinion on the adequacy of resources as set out in the shaded box on page 6.

Our engagement includes the expression of an opinion on the fairness of the EAB’s opinions in respect of BT’s governance measures associated with the Undertakings, BT’s delivery of key Undertakings milestones during 2005/06 and BT’s progress towards the Undertakings due in 2006/07 onwards. Our assurance procedures, which are described above, focus on understanding and evaluating the relevant controls and procedures applied by the EAB and the Equality of Access Office (“EAO”) to generate, aggregate and evaluate information in respect of the Group’s governance and compliance with the Undertakings. We have not been engaged to provide any separate independent assurance over the internal controls and other actions implemented by the Group to ensure compliance with the Undertakings. Accordingly we do not express an opinion in this regard.

We planned and performed our evidence-gathering procedures to obtain a basis for our conclusions in accordance with the International Standard on Assurance Engagements 3000 (Revised) - “Assurance Engagements other than Audits or Reviews of Historical Information”. We have not performed an audit, and therefore do not express an audit opinion, in accordance with International Standards on Auditing (UK and Ireland).

We believe that our work provides a reasonable basis for our conclusions.

### Considerations and limitations

The Group’s governance measures to ensure compliance with the Undertakings represent a set of internal controls and other actions designed to provide reasonable assurance regarding compliance, in all material respects, with each of the Undertakings and to support reporting of compliance with those Undertakings. Further, the EAB’s governance measures to monitor, assess and report on the Group’s compliance with the Undertakings represent a set of internal controls and other actions designed to provide reasonable assurance regarding the assessment of compliance, in all material respects, with each of the Undertakings. Because of the inherent limitations in any set of internal controls, for example the degree of judgement required in applying certain controls, internal controls may not prevent, detect or report non-compliance with the Undertakings. Also, projections of any evaluation of effectiveness to future

periods are subject to the risk that controls may have become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### Conclusions

In our opinion:

- the EAB’s Opinions, each shown within a shaded box on pages 5, 7, 9 and 10 are fairly stated in accordance with the Reporting Policy;
- the EAB Annual Report for the period ended 31 March 2006 is consistent with the Ofcom Report;
- the KPIs on page 11 are properly prepared in accordance with the Reporting Policy;
- the Measures of Spirit on pages 12 and 13 are properly compiled from the underlying management information of the Group; and
- nothing has come to our attention to indicate that the remainder of the EAB Annual Report for the period ended 31 March 2006 is inconsistent with the findings of our work.

This report, including the conclusion, has been prepared for and only for the EAB and Ofcom for the purpose of allowing the EAB to meet its requirements under the Undertakings and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**PricewaterhouseCoopers LLP**  
Chartered Accountants  
London  
11 May 2006

Equality  
of Access  
Board

BT Group plc  
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