



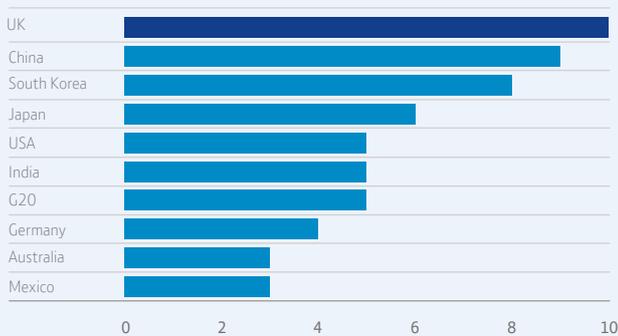
Delivering the UK's Digital Future



Delivering the UK's Digital Future

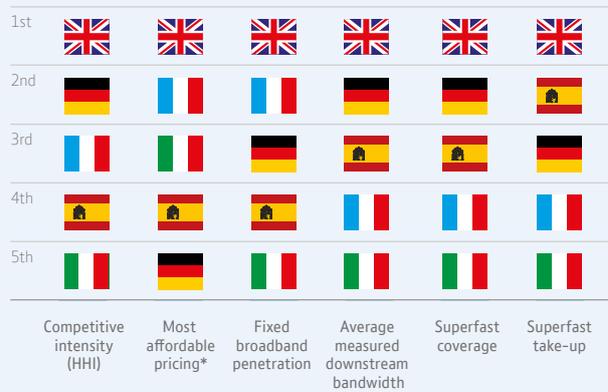
Digital Communications is a UK success story

% of GDP driven by Internet (eGDP)



Source: BCG UK eGDP May 2015

Digital communications



Source: Analysys Mason, * Ofcom ICMR 2015

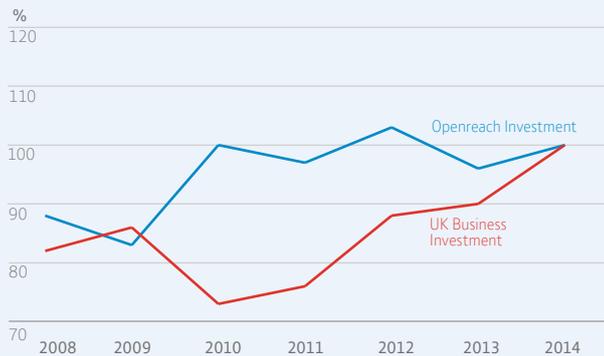
“Competing providers can now access BT’s network on equal terms, and this has contributed to one of the most competitive markets among major European economies with the average price of fixed residential broadband falling by 40% between 2004 and 2015

and the take-up of superfast broadband was double the average of the other four European nations.”

Ofcom
(July 2015)

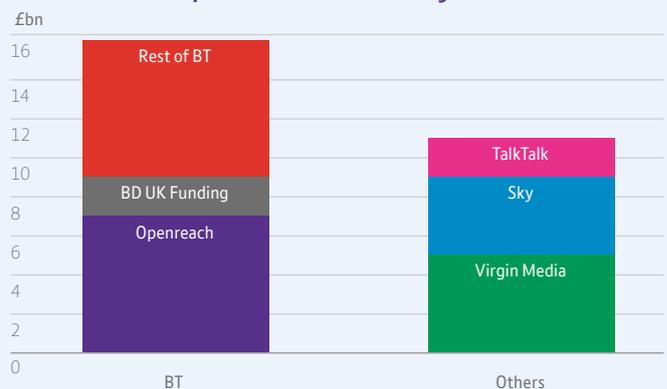
BT has played a major role in this success

Indexed investment 2014 = 100%



Source: BT KPIs, Business Fixed Capital Formation, National Accounts, ONS

Cumulative capex over the last 7 years



“BT Openreach has pulled off an extraordinarily efficient network rollout in the UK and we want to learn as much as we can from them. In terms of deployment we want to learn how BT was able to maintain such an extremely high rate of FTTN deployment – often passing one million homes per quarter – and bring that to bear on the NBN.”

Bill Morrow, CEO, NBN co
(separated network provider in Australia)

- Largest investor in the UK communications market (over £2bn p.a.);
- 3rd largest investor in R&D (over £500m p.a.);
- £20bn of capital investment over the last 10 years in networks – £10.5bn in Openreach;
- Highest level of fibre broadband availability of any major EU economy;
- Highest level of superfast broadband take-up and use of any major EU economy.

We are committed to playing a leading role in the UK's digital future as well

BT's Vision for the UK's Digital Future

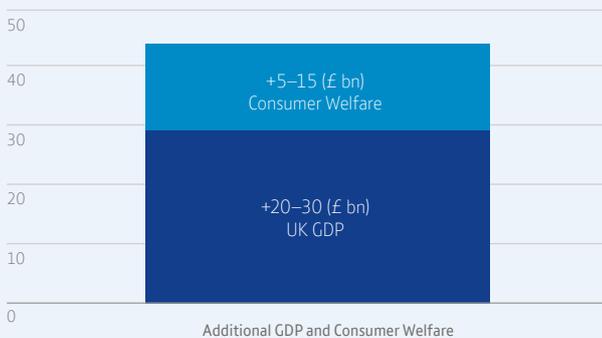
A world where:

- All customers can use communications networks to access the content and applications they need over the internet, however, whenever and wherever they want, seamlessly and at the speed they need;
- UK communications networks and services are very price competitive compared with other markets, owing to the continuation of the world's most competitive market;
- Customers' ongoing exponential demand growth for data is comfortably satisfied by evolving network infrastructure that stays ahead of customer need;
- OTT players, media and other firms can provide their customers with a plethora of world leading innovative services leveraging the strength of the UK's ICT infrastructure.

How BT will support that vision

- We want every household in the UK to be able to access broadband speeds that support all modern internet services; BT stands ready to support 5Mbps and 10Mbps with the right commercial environment;
- We will work to deliver fibre broadband as far as possible beyond the 95% into the final 5%;
- We plan to provide ultrafast speeds of 300Mbps to 500Mbps to 10 million premises by the end of 2020, plus a service up to 1Gbps where there is demand;
- We will deliver a higher service quality to all of our customers – business and households. One that exceeds the service expectations of regulators – but more critically better meets the evolving service needs of our customers.

Estimate of economic benefits from BT's planned investment



Source: KPMG delivering Britain's Digital Future: An Economic Impact Study 2015

“Adopting a new model of competition based around structural separation of BT, and a revised regulatory framework would be a major market intervention. It is not clear that such a change would deliver the same economic benefits.”

“Significant hurdles would need to be overcome for structural separation to be an effective remedy. These hurdles represent a material challenge. We would note that no other jurisdiction has overcome these as a competition remedy.”

KPMG
Delivering Britain's Digital Future 2015

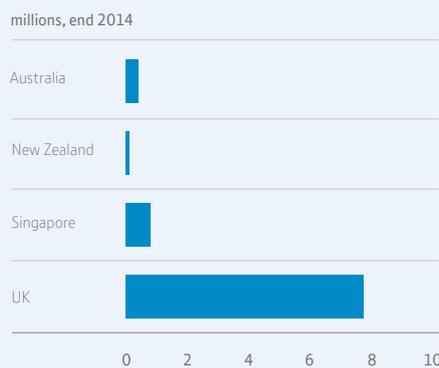
Ofcom has a key role to play

1. Long-term commitments to provide certainty and clarity;
2. Regulatory policies to encourage large scale investment;
3. Support for consolidation where it benefits competition and enables new investment;
4. A better regulatory balance between service quality and price;
5. A level playing field, particularly with regard to Pay TV;
6. Simplification of current regulation with duplication removed where possible.

UK progress also needs Openreach as a functionally separate part of BT

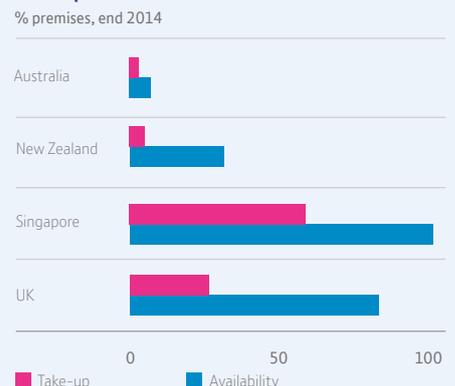
- Progressive functional separation model has successfully delivered investment and competition for UK;
- Openreach benefits from BT Group: R&D, technical know-how, access to capital, demand certainty, risk mitigation – benefits that flow to >500 providers using Openreach network;
- Structural separation has been implemented in only a handful of countries (< c. 3% of the global total) including Australia, New Zealand and Singapore; with outcomes that have been mixed at best.

Connected superfast broadband lines



Source: Analysys Mason, Commerce Commission New Zealand, Chorus, NBN Co, Point Topic, iDA Singapore, Enders Analysis

Take-up and availability of superfast broadband



Source: Analysys Mason, Commerce Commission New Zealand, Chorus, NBN Co, iDA Singapore, Point Topic

The UK is a digital success story. For the past five years, the UK has been the largest digital economy in the G20, as a percentage of GDP. Ours are the most competitive communications markets in the world. The UK has an even brighter future ahead if we make the right decisions. Demand for communications is growing exponentially. To meet that demand, the industry needs to invest. We need a regulatory regime that supports investments in network deployment and service improvement. BT is ready to forge an ultrafast future for the UK and to deliver faster broadband and better service to every property in the country.

Contents

1.	Summary	2
2.	UK progress since Ofcom's last Strategic Review (2005–2015)	6
3.	Regulatory policy (2005–2015)	9
4.	Regulatory Challenges and Lessons (2005–2015)	10
5.	Our vision for Delivering the UK's Connected Future over the next decade	12
6.	Our commitments to support the delivery of Britain's Digital Future	14
7.	Ofcom's role in enabling the UK's Digital Future	17
8.	Conclusions	18
	Contacts	19

1. Summary

Context

Ofcom is currently conducting an important once in a decade strategic review of the digital communications market in the UK. This document sets out BT's vision for what the UK needs to secure its digital future and maintain its position as the leading e-economy among G20 nations.

Ofcom's review is key to the UK's digital future

In the 10 years since Ofcom last conducted a strategic review, the digital landscape in the UK has advanced dramatically, in technological innovation and customer demand. At the end of 2005, only 41% of UK homes had a broadband connection with typical speeds of 1Mbps. Now 83% of UK homes have access to superfast broadband and average residential fixed line speeds are over 22Mbps.

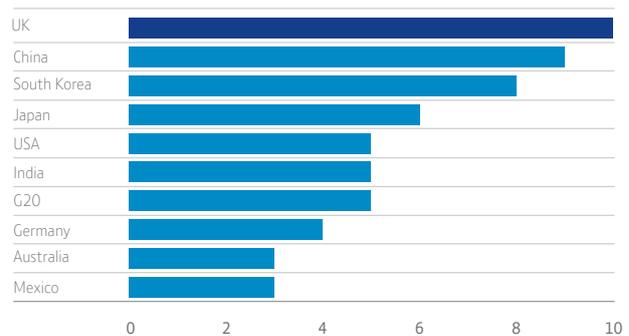
Communications over the decade

	2005	Today
 Household broadband internet connections	41%	77%
 Household mobile take-up	90%	95%
 Tablet take-up	0%	44%
 Average broadband speed (fixed)	Circa 1 Mbit/s	22.8 Mbit/s
 Average broadband speed (mobile)	Circa 1 Mbit/s (3G)	15.1 Mbit/s (4G)

Source: Ofcom

Today, broadband is central to the daily lives of Britons, with 39 million or 75% of all adults now going online daily, 17 million more than in 2005. We now spend more time using media and communications each day than we do sleeping, with UK internet usage per capita higher than in any other large EU member state. In a short period of time, Britons have become a nation of social media sharers, internet shoppers, smartphone and tablet users, and entertainment-streamers – with few peers globally.

% of GDP driven by Internet (eGDP)



Source: BCG UK eGDP May 2015

This transformation in connectivity has provided a profoundly positive boost to the UK economy today:

- UK "eGDP" (that part of the economy driven by the internet) stands at £180bn or 10% of overall GDP, forming a greater proportion than in any other G20 country¹.
- eCommerce (£ per head) is vastly higher than any other nation² (70% more than US).
- The UK economy has been rated the most 'digitally-ready' among major EU nations³.

So digital communications is a British success story – and one that is no accident. It has been driven by massive investment and the most competitive broadband market in the world, with hundreds of competing retail service providers, as well as competing infrastructure providers, working across large parts of the UK in both consumer and business markets. This vibrantly competitive landscape, supported by appropriate regulatory safeguards, has stimulated innovation, low pricing and take-up of communications services.

¹ Boston Consulting Group

² Boston Consulting Group

³ World Economic Forum

UK: The most competitive major market in the world



Source: Ofcom (Prices), Analysys Mason (Incumbent operator share)

BT has played a vital role in this success by investing nearly £25bn in capital expenditure in the UK over the last 10 years. £10.5 billion of that money has gone to Openreach, the functionally separate business within BT Group in charge of maintaining and developing the network of copper and fibre that connects homes and businesses to local telephone exchanges. Since the formation of Openreach in 2005, regulatory undertakings agreed with Ofcom have opened up the network to the whole industry on equal terms, ensuring that every Communications Provider ('CP'), indeed the whole country, benefits from our investments in it. This is a network that is used on open and equal terms by over 500 CPs providing high-quality services supporting the UK transformation described above. BT, our industry and our nation have reason to be proud.

“As a consequence of these policies the UK enjoys excellent outcomes in terms of broadband adoption and speeds, and intensity of internet use is world-class.”

Plum Consulting
September 2015

The UK today is generally held-up as a model to the world, delivering speeds capable of supporting the most advanced online applications, and available to the vast majority of the population through affordable high-quality infrastructure. But there is more to do to ensure the UK remains at the forefront of the digital economy. We believe the UK has an even brighter future ahead and can maintain its lead over other peer nations, but only if we collectively focus on the right issues and take the right decisions in creating the right regulatory environment to support investment and service improvement to drive the UK's growth as a leading digital economy. The Ofcom Digital Communications Review (DCR) must support the positive progress of Britain's digital future: it must not yield to the calls motivated by corporate rivalry to inflict regulatory damage which would undermine the UK's future prosperity.

The outcome of the DCR should result in decisions that build on and extend the many strengths of the current model, course-correcting where needed, and addressing the new gaps that have emerged as markets and customer needs have evolved. It should not rip-up the rule-book that has provided the foundation for the UK's success so far but instead offer proposals for enhancing communications markets which support the expansion of networks and the improvement in service standards.

“The UK consistently outperforms the other four large European countries and is often competitive against the best-performing countries in the world. Based on our forecasts, we expect this strong performance to continue.”

Analysys Mason
September 2015

1. Summary continued

BT's plans to provide ultrafast speeds to the majority of the UK stand to contribute at least an additional £20 – 30bn in value (GDP) to the UK's digital future...

BT is continually working to secure Britain's digital future – developing, building and delivering next generation technological infrastructure and services across the UK.

As the largest investor in the UK communications market (spending over £2bn a year), and the UK's third largest R&D investor overall (spending over £500m a year), BT has played a big role in driving investment and innovation over the last decade.

£20–30bn

BT's plans contribute an additional £20–30bn in value to the UK's digital future.

We are determined to keep going in order to give the UK a digital future where:

- Everyone can access high-speed internet seamlessly, however, whenever and wherever they want, and at the speed they need;
- Consumers benefit from the world's most competitive market, built on equal access for any internet service provider to the Openreach network;
- The capacity and capability of our network infrastructure is always comfortably ahead of our customers' increasing demand for data;
- Everyone – OTT players, media, and others – can build on the strength of the UK's infrastructure to provide their customers with world-leading innovative services;
- Everyone receives the service quality they need to meet their evolving requirements.

BT has committed to this vision with a number of important pledges made recently by our Chief Executive, Gavin Patterson⁴, that can be delivered if supported by the right regulatory environment:

- We want **every property** in the UK to be able to access broadband speeds that support **all modern internet services**. BT stands ready to deliver 5Mbps to 10Mbps broadband to all premises if Ofcom and the government take the action necessary to make this commercially viable;
- We will work to deliver **fibre broadband as far as possible beyond the 95% current government target** into the final 5%;
- We plan to provide **ultrafast speeds** of 300Mbps to 500Mbps to **10 million premises** by the end of 2020, and to the majority of the UK by 2025, plus a **service up to 1Gbps** where there is demand;
- We will deliver a **higher service quality** to all of our customers, businesses and households, exceeding Ofcom's service standards and improving on time delivery for consumer customers to 95% by 2017.

BT's investments in ultrafast alone will benefit UK GDP by at least £20–£30bn over the next decade, according to an independent review by KPMG⁵.

⁴ 'Delivering Britain's Digital Future' presentation by BT, London 22nd September 2015

⁵ <http://www.btplc.com/News/#/documents/delivering-britain-s-digital-future-an-economic-impact-study-49077>

KPMG Estimate of Economic Benefits from BT's Planned Investment

KPMG View 'Delivering Britain's Digital Future' 2015



Source: KPMG delivering Britain's Digital Future: An Economic Impact Study 2015

How Ofcom can support Britain's digital future.

Ofcom has a vital role to play in continuing to drive investment at a crucial juncture for digital communications in Britain. The UK needs a regulatory environment with:

1. Long-term commitments to provide certainty and clarity.
2. Regulatory policies that encourage large-scale investment.
3. Support for consolidation where it benefits competition and enables new investment.
4. A better regulatory balance between service quality and price.
5. A level playing field, particularly with regard to Pay TV.
6. Simplification of current regulation with duplication removed where possible.

With such an environment, the communications industry will meet the challenges of the next decade, fulfilling the needs of UK consumers and businesses, driving growth and productivity in the UK economy while supporting social progress for the whole country.

“Adopting a new model of competition based around structural separation of BT, and a revised regulatory framework would be a major market intervention. It is not clear that such a change would deliver the same economic benefits.”

“Significant hurdles would need to be overcome for structural separation to be an effective remedy. These hurdles represent a material challenge. We would note that no other jurisdiction has overcome these as a competition remedy.”

KPMG

Delivering Britain's Digital Future 2015

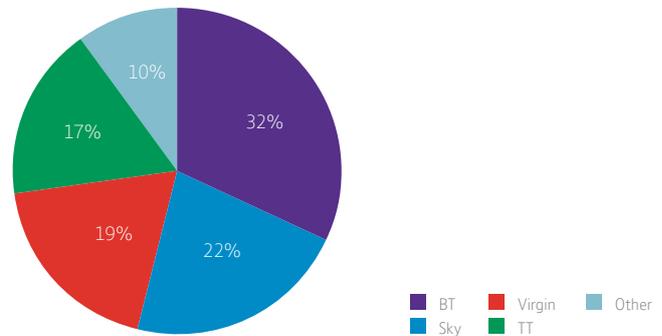
2. UK progress since Ofcom's last Strategic Review (2005–2015)

Outcomes in the UK market have advanced greatly over the last decade with the UK now one of the leading markets globally in terms of competition, pricing, speed, coverage and take-up of fixed-broadband. The trajectory is for continued future improvement and this achievement is due in large part to the UK's innovative functional separation approach implemented in 2006 by virtue of special legally binding Undertakings. This model created Openreach and has delivered equal access to nationwide infrastructure assets to over 500 competing CPs, while retaining the strong capabilities and incentives for infrastructure innovation and investment that come from having Openreach as part of BT Group. This progressive and balanced approach goes far beyond the regulation imposed anywhere in the world and has made the UK's communications market the most competitive and the most successful across the majority of key indices.

Thriving UK competition in fixed broadband...

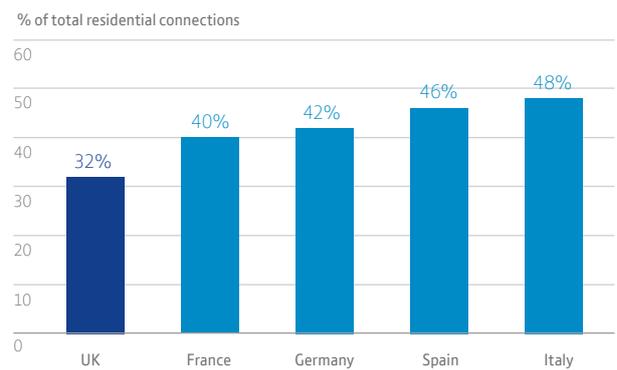
The UK market is unparalleled in terms of competition. Sky and TalkTalk, who sold virtually no broadband before the Undertakings came into effect a decade ago, now account for ~40% of the retail broadband market. BT now has the lowest retail broadband share of any former incumbent in Europe with its share of fixed lines falling by 20% in five years. No other country has seen multiple new entrants reach this scale in as short a period of time.

UK Broadband Market Share



Source: Point Topic

Incumbent Retail Broadband Share



Source: Analysys Mason (data as at March 2015)

...Has driven significant reductions in average spend, making the UK one of the most affordable markets in the world for broadband.

Strong competition has, not surprisingly, driven significant reduction in the pricing of the average broadband package in the UK over the past decade. At the same time, average speeds have risen significantly resulting in a dramatic decrease in overall average unit price (average price paid per megabit per second) which in 2014 was less than 1/20th the unit price that consumers received only seven years earlier. The latest Ofcom International Communications Market report bears out this phenomenon, confirming that the UK has the lowest average broadband price among comparable European markets.

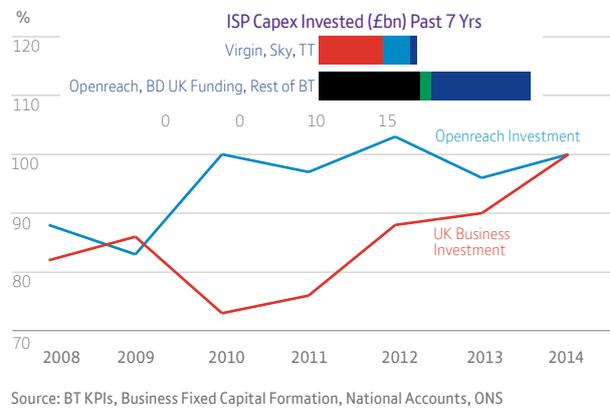
BT investment has driven rapid UK expansion of fibre coverage...

BT's significant investment to commence the deployment of fibre broadband across the UK at the height of the recession, when other businesses were reining in their investment, is a primary driver for the improved coverage and speeds that the UK is enjoying today. Over the past seven years, BT has invested significantly more than Sky, TT and Virgin combined in helping to push the UK rapidly up the international rankings on fibre coverage. Today the UK leads comparable markets with over 90% of premises covered with fibre and expected to continue to improve passing 95% of premises by 2017.

UK broadband speeds vs. average unit BB price (£/Mbps)



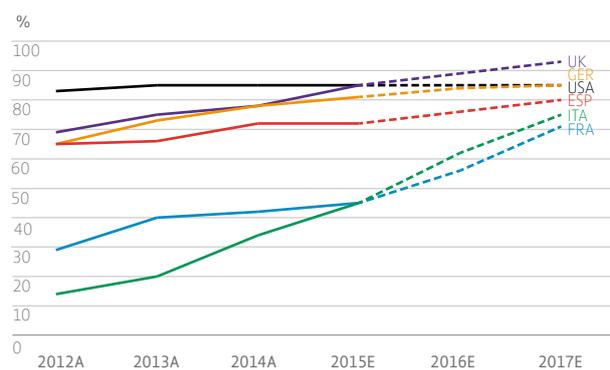
Indexed investment 2014 = 100%



Comparison of monthly broadband prices



Superfast coverage by country



2.
UK progress since Ofcom's last Strategic Review (2005 – 2010) continued

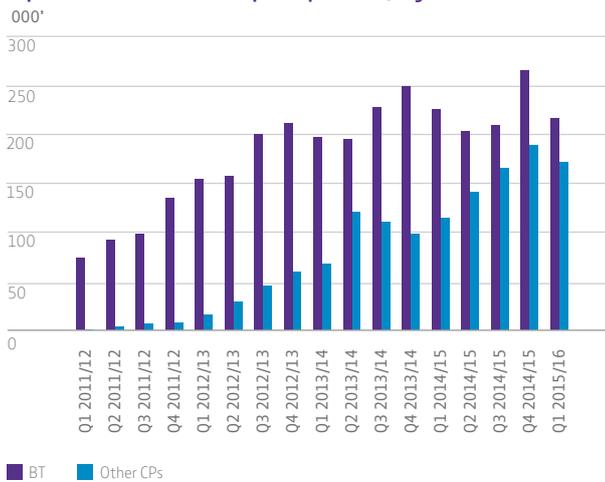
...and rapid growth in take-up of superfast with UK now leading comparable EU nations.

The investment commitment by BT in fibre was not without considerable risk owing to the uncertainty and long-term nature of the investment, with payback taking over a decade and highly dependent on retail ISPs promoting take-up. For the first two years BT retail was the lone ISP driving adoption of fibre on the Openreach network and the only major player competing directly with Virgin's alternative vertically integrated superfast cable network, with TalkTalk and Sky preferring to remain on the side-lines and sell copper-based services. Today both Sky and TalkTalk are both successfully and aggressively retailing to acquire around half of all new Openreach fibre customers coming on to the network and adding to the competition with Virgin, who still have almost half the UK superfast customers in the UK. The result of all of this competition for superfast customers is that the UK now enjoys higher take-up of superfast than any other comparable EU market.

"If there is demand for fibre from our customers, we will look to provide that but we are not going to rush into that until we see real levels of customer demand that are attractive."

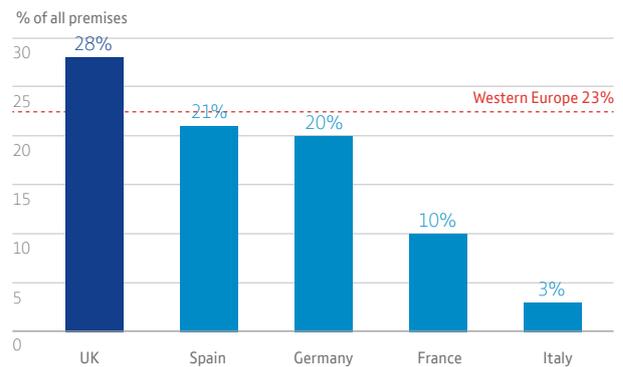
Jeremy Darroch
BSkyB, CEO, 17 November 2010, Financial Times

New NGA customers (Net-adds) to the Openreach network per quarter, by ISP



Source: Openreach

Superfast Broadband Take Up



Source: Analysys Mason (data as at end of 2014)

3. Regulatory policy (2005–2015)

Since 2005, regulatory policy has been a strong enabler of competition, customer choice and investment. In fixed line, the foundations of policy have been SMP regulation supported by functional separation, equal access to the Openreach network for all providers and no price regulation of BT's wholesale fibre products.

Competition and investment in broadband driving the UK forward...

Ofcom's approach has not only enabled use of the Openreach investment by all players but also stimulated fibre investment by other providers. Virgin Media is investing £3bn in extending the geographic scope of its network. Other fixed providers have also undertaken significant investment, for example CityFibre, COLT, Gigaclear, HyperOptic, KCom, Zayo, and EU Networks. It is very important that Ofcom understands and takes a policy position on the importance of stimulating commercial investment in competition with Openreach. Its actions will determine whether they thrive or fail. In parallel, the mobile network operators have been rolling out their 4G networks. Giving EE an opportunity to gain a first mover advantage by liberalising the use of its 1800MHz spectrum was a key decision that has stimulated both EE and its rivals to deploy 4G networks rapidly.

“It is BT's consumer business that aids Openreach, not the other way around. By having the consumer business with Openreach as one entity, BT has the capacity to invest more in UK infrastructure than it otherwise would.”

Berenberg
March 2015

...Underpinned by effective access to the network for all players

The functional separation model for Openreach, which already goes well beyond the commitments on openness and access provided in virtually any other equivalent market, has also worked well for the UK. It underpins the positive market outcomes achieved and the UK has gained from Openreach being part of the wider BT Group. For example, BT provides Openreach with ready access to capital, and this allowed the UK to benefit from one of the fastest superfast broadband roll-outs in the world. As part of BT, Openreach also has access to some of the world's most important telecoms research and development capability. Over the last decade, BT has been the UK's third largest R&D investor, currently spending over £500m a yearⁱ, and has played a big role in driving innovation. Openreach shares these benefits with the rest of industry by making its services available to all providers on equal terms.

The model embraces competition as the key driver of beneficial change and innovation but without being prescriptive to the market on the form that competition should take. It allows both competing infrastructures and competing services over common infrastructures to operate and thrive alongside each other wherever possible.

The market evidence and data backs up the importance and effectiveness of this competitive dynamic in the UK regulated market, where BT has the lowest market share of any former incumbent in the EU across the key range of services in consumer bundles, including voice telephony, broadband, mobile and Pay TV.

Industry concerns over the effectiveness of the current functional separation model are unfounded. The Undertakings have proved themselves as the most successful competition solution in the world. There are no better examples. BT has an excellent record of compliance with the Undertakings. Further, all the evidence suggests that implementing full structural separation – breaking up BT – would not be an effective or proportionate intervention and would make market outcomes worse, resulting in the UK losing its leading position among the world's digital economies.

4. Regulatory Challenges and Lessons (2005–2015)

Good though the UK market and competition outcomes have been over the past 10 years compared to other major economies, the huge changes in the communication market in that time have meant that Ofcom's policy in a number of important areas has not kept pace with the dynamics of the market and with changes in consumer demand.

Striking the right balance between quality and price for the end user...

The constant regulatory focus on pricing over the last decade is not appropriate in today's dynamic, investment heavy broadband world. Ofcom, by prioritising cost reduction in every charge control, has taken £1bn of revenue out of Openreach over ten years, without a compensating focus on quality. Customers do not want just ever cheaper broadband networks: they want better, faster broadband, and more reliable, more widespread networks and services. These ambitions are not consistent with ongoing punitive charge controls from the regulator.

Ofcom started to address this in the last Fixed Access Market Review by building allowances for customers' service expectations into the charge control. Since then Openreach has met or exceeded all the minimum service levels mandated in the Fixed Access Market Review. BT urges Ofcom to continue this supportive approach in its next market review, its Business Connectivity Market Review, concerning Ethernet connections for businesses. However, through a combination of harsh charge controls, invasive remedies (such as mandating Dark Fibre access) and challenging service level impositions, Ofcom appears to be reversing its long running policy of deregulation. Its draconian proposals will undermine the case for investment, the incentives to expand coverage and the improvement in Ethernet service quality from Openreach.

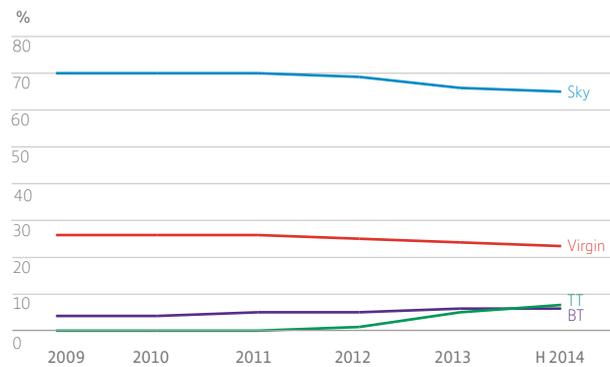
This will not just affect Openreach. It will, most likely, result in the elimination of network investment in competition to Openreach too, as others will have no incentive to invest in the face of a charge control which will cut market prices for key services in half over three years. The response to the Business Connectivity Market Review consultation by the Infrastructure Investors Group shows that other major investors, including Virgin Media, share our view⁶.

⁶ <http://stakeholders.ofcom.org.uk/binaries/consultations/l1cc-dark-fibre/responses/llg.pdf>

...While ensuring a level playing field across the entire market

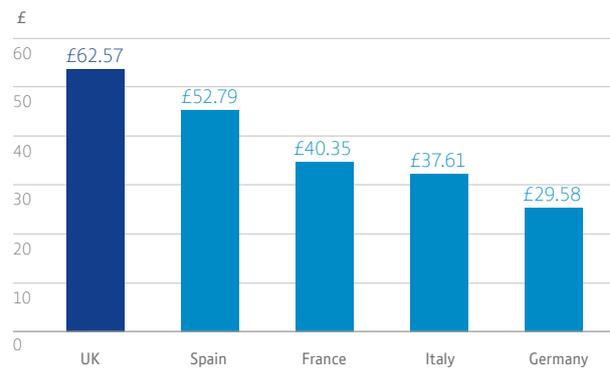
Given the clear success of competitive benefits in the broadband market, it is very disappointing to note the lack of such benefits of effective competition for consumers in Pay TV. Sky has a 75% share of Pay TV revenues and a 64% share of Pay TV subscribers, which it has sustained for the whole of the last decade. The wholesaling obligations imposed on Sky under the WMO (which is still subject to appeal) are too weak to address this market power. Sky's stranglehold on Pay TV has endured for 20 years despite repeated attempts at regulatory intervention over the period. Pay TV is not characterised by scale new entry, as broadband has been, but by the regular elimination of competitors – Setanta, ESPN, Top-Up TV and HomeChoice. BT's acquisition of rights such as the minority FAPL rights and UEFA Champions League has not fixed the problem. BT Sport is materially constrained in its ability to drive consumer platform choice for material numbers of subscribers. Sky's insurmountable advantages in Pay TV markets mean that third party Pay TV retailers cannot compete effectively with Sky in acquiring Pay TV subscribers. It is time for Ofcom properly to address the instances where competition has obviously failed in Pay TV.

UK Pay TV market share (subscribers)



Source: BT compilation & graph based on company reports. Sky excludes Now TV

Comparison of monthly Pay TV prices



Source: Ofcom Dec 2014 International Communications Market Report

5. Our vision for Delivering the UK's Digital Future over the next decade

It is hard to predict what future services will be and what demands they will place on the network. It is, however, possible and indeed essential to prepare for future demand based on what we see as emerging trends and patterns in use and consumption of the services we offer.

Over the next decade, the enormous growth in demand for communications networks and services will continue. BT has seen circa 40% compound annual growth in data on its networks for many years. Currently, BT is seeing growth in demand for data per user, which has already doubled since 2012, rise by 62% a year. We confidently forecast, as many industry analysts do, that this growth will continue. Our central expectation is that average data volume demand per user will continue to grow at a rate of about 50% a year for the next decade.

Despite this growth in demand, revenues in communications markets have been in steady decline, both in fixed and mobile. This is due to a combination of technology change, regulatory intervention and competition constraining business models and monetisation. We expect these pressures to continue. The challenge for the industry, and therefore for the regulator, is how to ensure that the investments necessary to meet customer needs can be made by commercially viable business cases funded from market pricing models, driving further innovation and efficiencies.

In addition to the challenge of ever-growing demand, looking forward we believe there will also be a need for ubiquitous use of wireless for connecting devices, along with growth in cloud-based applications, intense competition and ever-higher expectations of service.

The regulatory framework needs to evolve to facilitate these key trends, in particular to ensure :

- Genuine value for customers that encompasses price, performance and quality expectations;
- A supportive investment environment that delivers for the customer;
- A level playing field of regulation across fixed, mobile and Pay TV;
- Competition that continues to drive markets, enabling deregulation to let markets drive outcomes;
- Investment to ensure delivery of the service quality customers need.

5 Key trends

Value

Value for customers (price, performance, quality) can be substantially improved. Regulation should evolve to facilitate.

Investment

The investment required to meet customer needs should be embraced by the regulatory framework.

Fixed, mobile and Pay TV

Regulatory policy to adapt to accommodate ongoing convergence of fixed, mobile and Pay TV.

Competition

Competition is intense, such that there is substantial scope for deregulation.

Service

Service will be as important as price and needs to be fully embraced in the regulatory framework.

BT's vision for the UK's Digital Future

We believe our vision for what BT can deliver is fully aligned with these market trends and changing customer needs over the next ten years. This will ensure that these ever-growing expectations from customers can be met effectively with competition, investment and innovation as the driving forces:

A world where:

All customers can use communications networks to access the content and applications they need over the internet, however, whenever and wherever they want, seamlessly and at the speed they need.

Customers' ongoing exponential demand growth for data is comfortably satisfied by evolving network infrastructure that stays ahead of customer need.

UK communications networks and services are very price competitive compared with other markets, owing to the continuation of the world's most competitive market.

OTT players, media and other firms can provide their customers with a plethora of world-leading innovative services leveraging the strength of the UK's ICT infrastructure.

6. Our commitments to support the delivery of Britain's Digital Future

The industry will need to invest substantially more to ensure a further leap forward in network infrastructure and customer outcomes over the next decade and to deliver this vision. BT is committed to playing a leading role in this transformation and has announced four pledges on broadband speeds, coverage and service:

- 1. Deliver broadband speeds of 5Mbps to 10Mbps to everyone in the UK**
- 2. Expand the reach of fibre broadband beyond 95%**
- 3. Take the UK from Superfast to Ultrafast**
- 4. Ensure better service aligned with evolving customer needs**

1

Deliver broadband speeds of 5Mbps to 10Mbps to everyone in the UK

We are already supporting existing government ambitions for a 2Mbps Universal Service Commitment. This means, in effect, all premises who want to will be able to access broadband speeds fast enough for things like email, and for using BBC iPlayer in standard definition. But of course, customers want more than that.

We want every household to be able to access, at minimum, a good broadband speed, one that supports modern internet services; so BT stands ready to provide speeds between 5Mbps and 10Mbps to every property on the network, so long as Ofcom and the government take the action necessary to make this commercially viable. This will allow every home to enjoy the most popular internet services, such as iPlayer, YouTube and Netflix in high definition.

2

Expand the reach of fibre broadband beyond 95%

We want to go beyond providing good broadband for everyone in the UK and ensure that as many Britons as possible can enjoy the superfast experience of fibre.

The roll-out of fibre broadband has been a huge success for the UK. We're on schedule, on budget, and we've driven take-up ahead of our plans. As of today, Openreach's fibre broadband is available to more than **24 million homes and businesses**.

Thanks to the Openreach roll-out, in partnership with government and councils, the UK is on track to hit, and potentially even to exceed, 95% access to fibre broadband services by the end of 2017.

We believe fibre broadband should be extended further. Should the current public funding model be continued, we're willing to support the government to make sure homes and businesses in the most difficult and commercially inaccessible areas are connected.

As with the current roll-out, we are willing to contribute funding to assist with the process. We have committed hundreds of millions of pounds to the current government supported fibre roll-out, on top of our £2.5bn commercial investment. Nor do we assume that all funding comes to BT. We welcome the contributions of other players.

We have a number of plans which will help to go beyond 95% fibre broadband coverage:

- Accelerating the return of public funding as a result of the successful take-up of superfast broadband (£129m identified so far) so that government and councils can reinvest these extra funds, taking coverage towards 96%.
- Working with new property developments to have fibre broadband, and a choice of providers, available for all new building sites.
- Accelerating the successful Openreach 'Never Say No' programme so that communities in rural areas and urban not-spots can pay for fibre deployment.

3

Take the UK from Superfast to Ultrafast

We want to accelerate the country's transformation into Ultrafast Britain and will do this by delivering ultrafast broadband with speeds of 300Mbps-500Mbps to 10 million premises by the end of 2020, and 1Gbps for those who want even faster speeds.

BT moved early on superfast investment and we aim to do the same again with this next generation of speeds by pioneering a technology called G.fast. This enables us to achieve ultrafast speeds from the existing fibre-enabled street cabinets more cost effectively, more quickly and in a far more scalable manner. Openreach is currently trialling G.fast with eight CPs on its live network in a number of locations across the UK and has had very promising results achieving over 700Mbps in some cases. In addition to G.fast, we are also committed to scale deployment of fibre-to-the-premises, where that is the right solution, with speeds of up to 1Gbps.

Our ambition is ultimately to extend ultrafast to the majority of the UK within a decade. KPMG is estimating benefits to UK GDP of at least £20-30 billion over the next decade alone if this vision is realised. These benefits do not include consumer welfare improvements (e.g. better access to services, greater leisure time, costs savings) or societal gains (e.g. digitally inclusive populace, greater social cohesion, etc.)

So the overall benefits to the UK as a whole are potentially even more significant.

6.
Our commitments to support the delivery
of the UK's Digital Future

4

Ensure better service aligned with evolving customer needs

BT, and indeed the whole industry, has to rise to match customers' growing service expectations as the internet plays an ever more critical role in society. Every operator has a role to play. Indeed, today, different CPs using exactly the same Openreach input products achieve vastly different customer service outcomes, so the challenges fall on both Openreach and their CP customers.

“The right regulatory environment that promotes a long-term view of investment and supports innovation, fair competition and stronger customer choice, regardless of product or provider.”

Gavin Patterson, BT CEO
22 September 2015

While Openreach is continuing to make good progress against the challenging service targets Ofcom sets, our ambition is much higher. To meet that ambition we have announced a number of key commitments to our customers:

- BT Consumer announced a significant move to repatriate our customer-facing calls to the UK – 80% by the end of 2016 with an ambition to go much further.
- Openreach has also launched a Charterⁱⁱ setting out commitments to:
 - Aspire to go beyond the UK's 95% target for fibre broadband;
 - Work to provide people with the speed they need, including the proposal to give 10 million homes and businesses access to ultrafast broadband by the end of 2020;
 - Raise service standards, in particular offering quicker installations and faster repairs, and aim to do much better than the rising minimum service levels (MSLs) already set by Ofcom;
 - Continue to be a trusted partner to the CPs that Openreach serves, and demonstrate that it treats them all fairly and equally. This includes consulting with CPs on offering increased end-customer contact with Openreach as well as the opportunity to input to service and product developments through a customer panel;

- Continue to make a difference to society, not only through building the UK's connected future, but also through recruitment, including former military personnel, apprenticeships and voluntary work; and
- Invest to help sustain the UK's position as a leading digital economy.
- Openreach has also launched the 'View My Engineer' service which aims to improve customer experience by giving text progress updates and an engineer's mobile phone number.

Competition remains the most effective method for driving service. So one of the most effective things Ofcom could do to drive standards is to ensure a consistent and transparent approach across all products and providers for frictionless switching processes, covering Pay TV, fixed telecoms and mobile. We should do away with the confusing and disparate approaches currently in place which act as barriers to consumer empowerment.

These commitments have been drawn up by BT on the basis that the policy environment is stable and supportive. Our experience of superfast broadband roll-out has demonstrated the value of ownership integration in supporting investment. Full structural separation of Openreach would lead to large-scale industry disruption and uncertainty that would undermine the feasibility of such major investment plans.

ⁱⁱ Openreach, <http://www.homeandwork.Openreach.co.uk/Our-responsibilities/>

7. Ofcom's role in enabling the UK's Digital Future

Regulation needs to ensure customers' needs are met by supporting efficient investment and delivering effective competition across the whole of the industry, including Pay TV as well as communications. To enable the industry to meet the challenges of the next decade, it is essential that Ofcom adopts the right regulatory strategies. The strategies that we believe Ofcom should adopt are outlined below:

Long-term commitment

Ofcom should make long-term commitments in regulation to secure the long-term investments needed to meet future customers' needs. All communications providers need policy certainty to underpin risky investments with long payback periods and to invest with confidence.

Support for investment

BT hopes to be able to make positive business cases for further billions of pounds of discretionary fibre and copper investment in the next five years. However, these depend on a supportive regulatory approach. Excessively onerous charge controls will undermine BT's case for investment and the business cases of other investors.

Ofcom should also recognise that the functional separation model retains key elements of vertical integration necessary to provide vital investment incentives, facilitating major infrastructure projects, while ensuring effective access to, and competition over, the key assets. The UK has gained, and will continue to gain, from Openreach being a part of BT – benefiting from more investment, coverage and high-quality faster speed products. It would be irrational and unwarranted for Ofcom to contemplate structural separation of BT, thereby making further investment significantly riskier and also delaying

any beneficial effects. In the few markets where it has been adopted, structural separation is delivering manifestly poorer outcomes than the UK and has typically been implemented following a decision by the government to commit massive public subsidy to roll out fibre. This is not a model that the UK should adopt.

Support for consolidation when it benefits competition and brings investment

To meet the challenges of declining revenues and rising investment demands, firms will look to consolidate to support investments and reduce costs. Experience in fixed telecoms over the last ten years shows that consolidation can strengthen competition and improve customer outcomes. Ofcom should support consolidation that promotes investment, innovation and competition, adapting its regulatory interventions as may be necessary to support these outcomes.

A better regulatory balance between service quality and price

Customers don't simply want ever-cheaper broadband: they want faster, better broadband, with high service standards. We believe Ofcom should take customer service needs into account when setting price controls.

A level playing field particularly with regard to Pay TV

In a world where customers increasingly buy bundles of fixed, mobile and Pay TV services, we believe Ofcom needs to ensure a level playing field of competition across the whole industry and not to allow disparities in regulation to distort market outcomes. Market power and customer problems should be addressed with vigour wherever they arise. Ofcom should focus its efforts on the problems in Pay TV, where competition has failed.

One of the most effective things Ofcom could do to drive a level playing field in the retail market is to ensure that the same rules and processes for marketing and migration, including frictionless switching processes, are imposed on all competitors, in particular prioritising the application to cover Pay TV. Consumers would benefit from the certainty and simplicity of a harmonised switching process across the bundle, which in turn will support competition in bundles. In particular, Ofcom should act now to remove the opportunity currently available to cable and Pay TV operators to prevent customers from leaving. Ofcom's competition policy must, as a minimum, provide for a level-playing field in the retail market, or consumers will suffer from inferior outcomes.

Regulate only where necessary and avoid rule duplication

Ofcom should apply the minimum regulation necessary, avoiding interventionist regulation and continue to allow competition to work and ensure markets work for customers without distortion. We believe this is a golden opportunity for Ofcom to eliminate all regulation that is no longer needed. In particular, where it duplicates other regulation, is conflicting, out of date or creates arbitrage opportunities, deters investment or no longer reflects the reality of competition.

Openreach to remain a functionally separate part of BT

Openreach should be kept as a functionally separate part of BT. The entry and growth of scale competitors in the last decade – with Sky and TalkTalk now accounting for around 40% of the retail broadband market – shows the model has promoted competition, and contrasts starkly with the situation in Pay TV.

8. Conclusions

Digital communications is a British success story. The UK is already ahead of its European peers on superfast broadband coverage, take-up and average speeds and has one of the most competitive broadband markets in the world. Wholesale access products are more widely available and more accessible in the UK and at lower prices than in comparable economies. We have the largest digital economy in the G20 measured by percentage of GDP. More of our GDP is generated from the internet than in any other country.

investments is estimated at £20–30bn. Our R&D spending of £500m a year delivers innovation that keeps the UK ahead, such as the G.fast technology we will use to deliver ultrafast broadband.

We are now at a critical point in the development of the UK as a digital nation. Consumers and businesses are already driving increasing demand for data. This trend will accelerate as new data-hungry technologies and applications enter the mainstream over the next decade. There are already over 40 million devices in

BT is committed to playing a leading role in delivering this transformation. We have pledged, subject to regulatory support, to deliver minimum broadband speeds of 5Mbps and 10Mbps to everyone, to extend superfast broadband beyond the current target of 95% of UK premises in support of any future government funding scheme, to roll-out ultrafast broadband to most homes and businesses within the next decade and to raise service standards, with faster installations and repairs.

Ofcom also has a leading role to play. By adopting the regulatory approach that we propose, it can create an environment that gives customers the high-speed, high-quality services they need and maintain the UK's position as one of the world's top digital economies. If this is the outcome of the Strategic Review of Digital Communications, it will be a resounding success.

Digital communications is a British success story.

BT has played a major role in this success. We have invested £20bn in our networks over the last ten years, and £10.5bn of this has gone to Openreach to maintain, repair and upgrade the access network. The value add to UK plc of our planned ultrafast

the 'Internet of Things' in the UK. This is forecast to grow resulting in more than a billion daily transactions by 2022⁷. Network performance, coverage and reliability will be absolutely essential to the functioning of society and the economy.

⁷ 'Promoting Investment and Innovation in the Internet of Things', Ofcom, January 2015

Contacts

BT Press Office

newsroom@bt.com
T 0207 356 5369

81 Newgate Street
London EC1A 7AJ

BT Investor Relations

ir@bt.com
T 0207 356 4909

81 Newgate Street
London EC1A 7AJ

