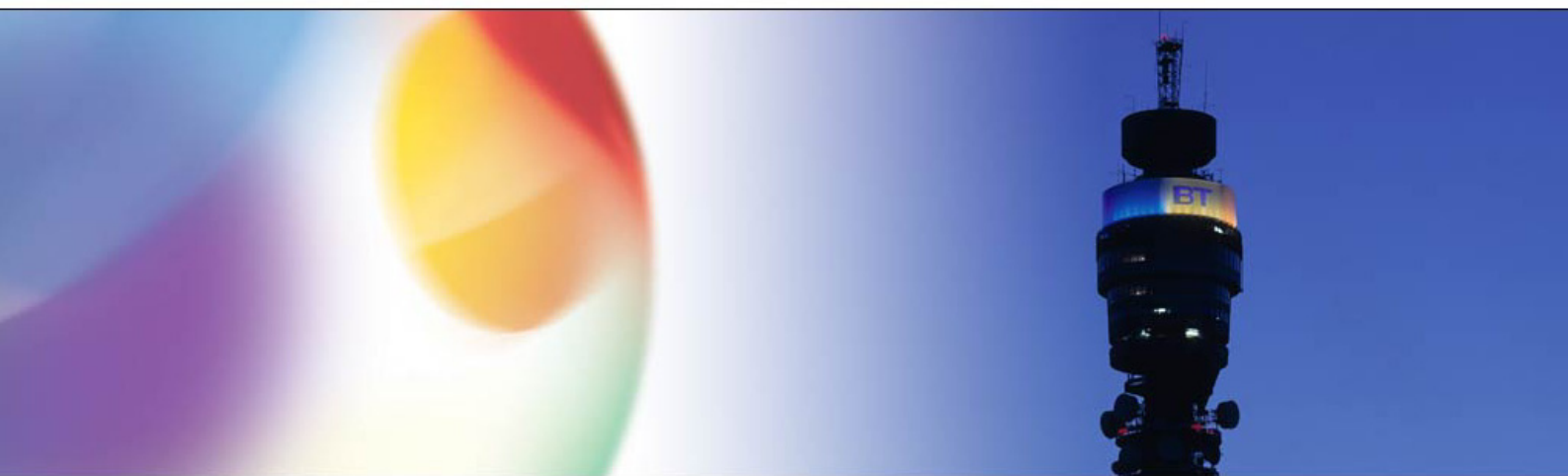




Regulation of Communications

BT's Compliance Report
for 2007/2008



Contents

Group Finance Director's foreword and summary	3
1. Our compliance policy and the regulatory context	4
1.1. The context and general policy of compliance	4
1.2. The legislative and regulatory environment	4
1.3. BT Group plc	5
2. An effective compliance programme	6
2.1. The leading role of senior management	6
2.2. Within BT	6
2.3. With Ofcom	8
2.4. With the industry at large	9
3. Organising our compliance regime	10
3.1. BT Group's compliance structure	10
3.2. BT's compliance operating framework	10
3.3. BT's approach to compliance in its separate lines of business	11
4. BT's risk reviews and performance measures	14
4.1. Our risk review procedures	14
5. Summary of plans for the coming year	15
6. Independent Assurance Report to BT Group plc	16

Group Finance Director's foreword and summary

BT's compliance report forms a key part of our social and environmental reporting and reflects the importance that BT attaches to its regulatory compliance programme and activities; BT's Social and Environmental Report can be found at <http://www.btplc.com/societyandenvironment/>. The Equality of Access Board (EAB) annual report is also available and can be found at <http://www.bt.com/eabreport>

The main elements of our regulatory compliance programme were to:

- Monitor the number of Ofcom cases involving BT, which have reduced from 30 in 2003-04 to 6 in 2007-08
- Publish a comprehensive series of key performance indicators relating to non-discrimination on our Group website at: <http://www.btplc.com/Thegroup/RegulatoryInformation/Ourundertakings/KeyPerformanceIndicators/KeyProductPerformanceIndicators/index.htm>
- Train over 26,000 UK managers and over 55,000 UK team members in the key elements of compliance
- Continue our robust risk reduction programme by conducting risk reviews across all Lines of Business
- Implement new developments in our complaints management system, enabling us to track complaints potentially related to compliance through to resolution and to provide detailed reports to the Equality of Access Office (EAO)
- Increase transparency in our industry by maintaining an external website that enables industry bodies to raise compliance issues with us via <http://www.btcompliance.com>

We have worked hard this year to meet the demanding milestones set as part of the Undertakings and will continue to pursue deregulation of those markets where regulation is no longer justified.

Following a series of very public data security issues in other organisations we undertook a full review of our internal controls and we will continue to test our processes and procedures to maintain our high standards.

Supported by the Board, the Director of Regulatory Compliance and the collective energy of our management team, we will continue to build on our compliance achievements in the year ahead.

Hanif Lalani
BT Group Finance Director and Group
Compliance Champion
16 May 2008

Key contacts regarding this report:

Keith Read
Director of Regulatory Compliance

Chris Waring
Head of Group Regulatory Compliance

E-mail: compliance@bt.com

1. Our compliance policy and the regulatory context

1.1. The context and general policy of compliance

BT's electronic communications networks and services in the United Kingdom are regulated under the Communications Act 2003. The provisions of this Act, and the regulations imposed under it by Ofcom, are derived from the EU Communications Directives.

In addition to its obligations under the Communications Act, BT agreed a series of legally-binding Undertakings with Ofcom in September 2005.

BT's activities in the UK are also subject to non-sector specific legislation, such as the Competition Act 1998, the Enterprise Act 2002 and the Data Protection and Privacy Act 1998.

BT's policy is to be fully compliant with all legislation, regulatory obligations and conditions imposed on it and to conduct its business with integrity. This commitment extends throughout BT - from directors and executives to managers, other employees and contractors.

It is BT's policy to be fully compliant with the regulatory regimes in which the BT Group operates whilst encouraging innovation, BT's competitive spirit and its willingness and ability to take informed and fully assessed commercial risks.

1.2. The legislative and regulatory environment

The key legislative and regulatory regimes in the UK governing BT's activities include:

- **The Undertakings**
<http://www.ofcom.org.uk/telecoms/btundertakings> given by BT to Ofcom came into effect on 22 September 2005. The Undertakings are designed to deliver equality of access, which includes both equivalence of inputs at the product level, and organisational and behavioural changes by BT (including the creation of a new access services division named Openreach). The EAB monitors

BT's performance in delivering the Undertakings and reports annually to Ofcom on BT's compliance. The EAB also publishes an annual report on its activities, which forms part of this annual compliance report.

- **The Communications Act 2003**
<http://www.opsi.gov.uk/acts/acts2003/20030021.htm> provides the framework for the regulation of electronic communications networks and services in the UK. It gives Ofcom significant powers in connection with the setting, modification and enforcement of regulatory obligations. These obligations include General Conditions (which are generally imposed on all communications providers) and Universal Service Conditions and Significant Market Power Conditions (which are imposed on specific communications providers).
- **The Enterprise Act 2002**
<http://www.hmsso.gov.uk/acts/acts2002/20020040.htm> makes participation by individuals in certain types of cartel activities a criminal offence punishable by imprisonment for up to five years and provides for disqualification for up to 15 years for directors of companies that breach competition law. It also enables the Office of Fair Trading and Ofcom (in relation to communications markets) to refer to the Competition Commission for investigation of significant issues of possible market distortion, or to accept undertakings in lieu of a reference. It was under this provision that BT gave Ofcom the Undertakings referred to above.
- **The Competition Act 1998**
<http://www.hmsso.gov.uk/acts/acts1998/19980041.htm> prohibits anti-competitive agreements and abuse of a dominant position. A breach of the Competition Act can result in a penalty of up to 10 per cent of group world-wide turnover over the previous business year, the agreements being declared void and unenforceable, adverse publicity for the company and the possibility of being sued for damages. 'Dawn raid' powers are available to the Office of Fair Trading and Ofcom.

1. Our compliance policy and the regulatory context continued

Non-cooperation with an investigation and the deliberate or reckless provision of false or misleading information are criminal offences.

- **Data Protection and Privacy Act 1998**
<http://www.ico.gov.uk/> BT plc is registered in the UK as a Data Controller under the Data Protection Act. Although UK notifications are controlled centrally by BT's Data Protection Manager, all BT people who control Personal Data are responsible for ensuring that the data is included by contacting BT's Data Protection Manager. Our notification reference is Z5164594 and details of our registered purposes can be found on the Information Commissioner's website <http://www.ico.gov.uk>

BT is also registered with the relevant Data Protection Authority globally where the nature of our operations requires us to do so. Local data protection and legal contacts are also in place. BT maintains a good relationship with all Data Protection Authorities internationally.

Regular meetings are held between BT and the UK Information Commissioner's office to enable BT to review the adequacy of BT's security policies and a practice regarding the information BT holds about its customers.

1.3. BT Group plc

BT Group plc is our listed holding company. See <http://www.btplc.com> for further details and information on our main businesses.

2. An effective compliance programme

2.1. The leading role of senior management

Our senior management team leads and supports our compliance policy. The team has established our compliance regime to ensure compliance is part of BT's culture at all levels of the company.

Our senior managers are subject to our high standards of compliance and lead by example to ensure that every member of BT learns and applies these standards appropriately. They are responsible for ensuring that BT business activities do not violate applicable legislation and regulations and are conducted fairly, legally and with integrity.

Led by our senior management, BT has undertaken a large number of compliance activities in 2007/08. We work to make sure that our regulatory compliance programme is consistent with the best practice set out in 'The Way We Work' (a statement of our business principles) and ensures we act commercially and ethically. Our programme consists of three main elements:

- Within BT
- With the Regulator
- With the industry at large.

2.2. Within BT

Corporate governance

Regulatory compliance is embedded in our corporate governance and social responsibility principles. The Director of Internal Audit and Regulatory Compliance reports regularly to the Board Audit Committee to maintain the independence of the compliance team.

Risk Reviews and Health Checks

The compliance team includes a dedicated risk review group which conducts risk reviews across BT and provides reports and recommendations to management through the Director of Internal Audit and Regulatory Compliance.

On line health checks are carried out in conjunction with line management and allow us to gather data on particular teams and topics relating to compliance risks. The findings are covered in our regular Compliance Summary Reports. During

the year we sent out over 20,000 on-line questionnaires on a variety of specific compliance questions agreed with line management. The specific feedback will be used by ourselves in collaboration with line management to tailor future compliance communications and local training.

The risk reviews and compliance health checks are built into our compliance and audit workplans.

Confidential Hotline

Our confidential hotline enables all BT employees to raise any concerns about our ethical conduct, including any potential compliance issues. All compliance-related concerns reported through the hotline are managed by the compliance team independently from line management. Our policy is to ensure that no employee will suffer adverse action for honestly raising an ethical or legal concern.

In total, 51 issues were raised through the hotline, 31 related to guidance about operational areas and 20 related to the Undertakings. The issues relating to the Undertakings included eight complaints which were fully investigated and reported to the EAO.

Review of Potential Breaches

In January 2006 we introduced a process to deliver BT's obligation under Section 10.16 of the Undertakings to 'inform the EAB of any breaches of these Undertakings that it identifies'.

A review group, consisting of regulatory and legal representatives including the Director of Group Regulatory Affairs and the Group General Counsel, is notified of cases where there may have been a breach of the Undertakings. If the Director of Group Regulatory Affairs and the Group General Counsel, taking into account the views of the Review Group, agree that a breach has occurred, the Group General Counsel advises BT senior management and the secretary of the EAB is informed. In 2007/08, 16 breaches were confirmed by the EAB. The EAB concluded that 11 of these breaches were trivial and five non-trivial. Details of all the breaches are shown in the EAB report.

2. An effective compliance programme continued

Training

We provide education and support on regulatory compliance for our employees and contractors. This education is provided using computer-based training, telephone training, seminars, team briefings, etc. One of the improvements during the year has been to have our more recent training material reviewed by the Plain English Campaign and awarded the Crystal Mark. In the coming year this approach will expand to encompass the majority of regulatory compliance courses and associated training material. The intention is to make the regulations easier to understand and apply in the workplace.

Our e-learning system provides details of mandatory training required across BT as well as details of courses required for each part of the business. It identifies when refresher training is needed and enables all BT people to take personal responsibility for ensuring their training is up-to-date. The standard mandatory courses cover data protection and privacy, competition law, retention of information, the Communications Act and the requirements of the BT Undertakings.

We achieved our target for 95% of managers to complete these courses. We have also achieved our target for 90% of team members to complete our 'Winning Through Compliance' and 'It Matters' courses.

Our training programme, 'It Matters' covers the obligations arising from the Undertakings and adherence to the BT Code of Practice. The course has variants tailored to the lines of business and specific business functions as well as a telephone training course for engineers. During 2007/08, we increased our focus on high risk contractors

completing the training, who are now expected to achieve the same level of training as BT employees.

Compliance messages are also included in other job-specific training to promote compliance.

Our leadership capabilities, people values, brand values and business principles all include clear statements on the corporate and personal integrity we demand of all our people.

Leadership capability: Having personal integrity and ensuring compliance with all legal and regulatory requirements.

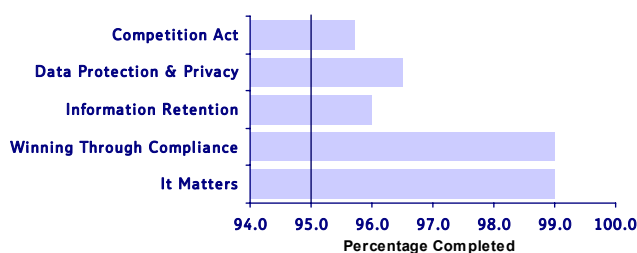
People value: Being reliable and acting with integrity.

Brand value: Being honest and delivering on commitments.

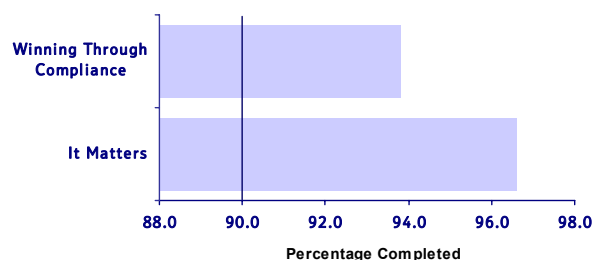
Business principle: Acting within the law and meeting our regulatory obligations.

It is mandatory for all our UK-based managerial and professional people to complete training on applicable rules and regulations. Where appropriate they are encouraged to pass on what they learn to their teams or ensure their teams undertake the training themselves. Additional detailed knowledge and expertise is required for BT people who are engaged in key activities affected by regulation. We have tailored our compliance programme to recognise BT's company structure and business activities and we supplement the training with examples to aid application of learning. This, along with the

%UK Manager Course Completions (Target 95%)



%UK Team Member Course Completions (Target 90%)



2. An effective compliance programme continued

refresher programme, all helps BT people keep up-to-date to enable them to comply with BT's legal and regulatory obligations.

If the Code of Practice is violated, BT is committed to taking prompt and responsive action to correct the situation and to take appropriate disciplinary action. Training on the appropriate behaviour to be adopted and other relevant support is provided for BT people. Employees who violate this Code, condone misconduct, do not report misconduct or do not take reasonable measures to detect violations of the Code of Practice may be subject to disciplinary action – up to and including dismissal.

Internal communications

We use BT's normal internal communications channels to raise awareness of regulatory compliance throughout the business. These channels include our internal magazine, regular briefings and team meetings for all BT people including frontline engineers and call centre advisors. We use the annual confidential employee survey, CARE, to determine the views of BT people on a range of subjects from support of managers to working conditions. The CARE survey includes questions about regulatory compliance and service to customers. The responses show that the majority of employees are confident that BT treats its customers equivalently and helps employees to meet their regulatory obligations.

2.3. With Ofcom

We communicate regularly with Ofcom and maintaining a good relationship with the regulator is a key element of our compliance policy. The EAB has a separate, independent relationship with Ofcom.

Data published by Ofcom in the Competition Bulletin

http://www.ofcom.org.uk/bulletins/comp_bull_in dex/ shows a reduction in the overall number of cases referred to Ofcom. Cases involving BT (complaints and disputes) closed by Ofcom have also fallen from 30 to six in the last five years, with none resulting in a breach notification against the company.

Telephone Preference Scheme (TPS)

During the year the Direct Marketing Association and customers raised 306 complaints with BT, of which 28 (9%) were proper to BT. The remaining 278 complaints had insufficient evidence to show that they were made directly by BT.

Of the 28 cases proper to BT, 27 were either not sales or marketing calls and therefore not covered under the TPS, or our records show that the account holder was an existing BT customer who had specifically given consent for BT to make sales and marketing calls to their number, overriding the TPS listing.

All findings have been passed back to the Direct Marketing Association, who pass them on to the Information Commission Office. BT contacted all the individuals once the case had been investigated and closed.

Migration Authorisation Codes

Ofcom implemented General Condition 22 on 14 February 2007. This condition requires communication providers to supply broadband migration authorisation codes (MACs), to make the move between broadband providers more efficient. Communication providers are required to provide Ofcom with a report of the number of MAC requests received, the number refused (there are four acceptable reasons) and the percentage of MACs issued within five working days. BT has consistently issued over 99% of MACs authorised each month, within the target period. Although the number of MACs has fluctuated, the average number of MACs issued each month has been over 3,900.

Silent Calls

The Ofcom target for the maximum level of 'silent calls' made for a telephone campaign is 3% in each 24 hour period. Ofcom demonstrated the importance of this target by taking action against several companies. We made the necessary improvements to our reporting system to enable us to measure performance by autodialler as well as by campaign for each 24 hour period. We have demonstrated to Ofcom that we have met their target and in February we responded to the consultation document on silent calls.

2. An effective compliance programme continued

2.4. With the industry at large

We initiated regular Compliance Update meetings with Ofcom and also meet with Industry Representatives. In addition we provide information on our external website, <http://btcompliance.co.uk/>.

Compliance Course

Building on our work with the Compliance Register, we introduced a course for compliance professionals, which leads to a qualification recognised by The Law Society. The third course will be completed in November 2008.

Complaints from Communications Providers

During the year we have improved our complaint handling processes. Each month we provide the EAO with a summary report and analysis of complaints received from communications providers about the Undertakings and complaints related to the Undertakings received through our confidential Hotline. During 2007/08 we investigated and reported 40 complaints from communications providers. Of these, 27% concerned equivalence, 63% concerned compliance with the 'spirit' of the Undertakings and the remaining 10% were predominantly concerned with information sharing. Openreach was the subject of approximately 82% of the complaints, BT Wholesale and BT Retail both had 8% and the remaining 2% related to BT Global Services. Following internal investigation it was found that none of the complaints involved activities that breached the Undertakings. Although the number of complaints has risen from the 28 reported last year, these must be compared to the approximately three million engineering site visits.

3. Organising our compliance regime

3.1. BT Group's compliance structure

Our regulatory compliance structure aims to ensure that compliance is the responsibility of all BT people from our call centres to the BT Board. The regulatory compliance team is integrated in our corporate social responsibility (CSR) governance structure and is part of our CSR Practitioners Forum and CSR Steering Group. The CSR Steering Group monitors targets, performance measures, compliance issues and Ofcom rulings.

3.2. BT's compliance operating framework

To ensure common and shared objectives across the Group we have created the compliance framework set out below. Our compliance team monitors progress against the framework:

Principles

- **Compliance Policy, Vision, Structure & Scope** - An integrated and effective business wide compliance framework, measured against best practice principles and standards, which supports BT's strategy embodied in both our brand and values
- **Identification of Compliance Obligations** - Identification of key situations created by the activities of the business that result in compliance obligations
- **Code of Conduct** - High corporate and personal standards of honesty and integrity supported by internal disciplinary procedures
- **Liaison with the Regulator & the Industry** - Maintain effective communications to ensure understanding, not necessarily agreement, on legal and regulatory issues
- **Industry & Regulator Complaints** - Complaint-handling system is systematically reviewed to identify compliance issues for resolution and future risk reviews.

Organisation

- **Allocation of Responsibility** - Heads of business units are responsible for establishing and maintaining effective compliance programmes

- **Appropriate Resources & Budget Allocation** - Resources are provided to implement and maintain an effective compliance management programme.

Training & Communications

- **Monitoring & Communicating Changes in Regulatory Obligations** - Structured arrangement to ensure that substantive changes to relevant legal and regulatory obligations are communicated to and understood by relevant parties
- **Visibility & Regular Communication** - Effective communication of key messages reinforcing our commitment to compliance
- **Education & Training** - Managers and team members are adequately trained on key compliance obligations.

Process

- **Assessment of Operational Implications** - Identification of business and operational activities exposed to the greatest compliance risk and linked to BT's risk register
- **Continuous Improvement & Business Excellence** - Active promotion of both the efficiency and effectiveness of compliance practices
- **Product Development & Change Management Controls** - A structured approach to embed compliance issues in new product and service development and other change management initiatives
- **Risk Control & Self-Assessment** - Integration of self-audit requirements within general business improvement initiatives to embed regulatory compliance throughout the organisation
- **Independent Monitoring & Validation of Control Effectiveness** - Adequate levels of independence are established to monitor the effectiveness of compliance.

3. Organising our compliance regime continued

Measurement

- **Reporting Standards & Criteria** - Structured and effective control framework to notify senior management of material compliance issues
- **Performance Management** - Integration of compliance obligations into divisional performance evaluations
- **Management System** - Clear guidance on compliance obligations integrated with BT's business principles, The Way We Work
- **Performance Measurement** - Establishment, monitoring and review of a robust and comprehensive set of regulatory compliance metrics.

3.3. BT's approach to compliance in its separate lines of business

BT consists of four lines of business (BT Wholesale, BT Retail, BT Global Services and Openreach) plus BT Design and BT Operate. Each of these parts of the business has a dedicated compliance team within BT Group responsible for ensuring that compliance is part of day-to-day business activities and that these activities meet best practice standards.

The compliance team for each part of the business is responsible for:

- Promoting a culture where compliance with BT's regulatory commitments and competition law requirements is recognised as an essential element of all activities
- Identifying the risks of non-compliance with BT's regulatory commitments and competition law
- Putting in place any processes and programmes to mitigate those risks
- Helping meet our commercial goals within the compliance framework
- Ensuring that all mandatory compliance training is completed
- Maintaining registers of risk and appropriate actions taken
- Reviewing major processes to ensure compliance is achieved

- Providing communications on compliance.

Compliance within BT Wholesale

BT Wholesale

(<http://www.btplc.com/Thegroup/Companyprofile/Groupbusinesses/BTWholesale/index.htm>) is the part of BT that supplies communications providers including BT Retail and BT Global Services, with large-scale voice, data and mobility capabilities. BT Wholesale offers a large and growing portfolio of communications products and services as well as bespoke solutions.

In 2007/08, the BT Wholesale compliance programme included:

- Training over 1,100 UK based managers and 1,500 UK based team members in regulatory compliance
- Continuing with the roll-out of the Wholesale compliance computer-based training course entitled 'Developing Products in a Competitive and Regulated World' for the Wholesale products community
- Comparing key performance indicators showing internal and external customer performance to demonstrate non-discrimination
- Providing an externally verified compliance accreditation programme (BTEC) for product managers entitled 'Product Management for the Communications Market'.

Compliance within BT Operate

BT Operate

(<http://www.btplc.com/Thegroup/Companyprofile/Groupbusinesses/BTOperate/BTOperate.htm>) is responsible for deploying and running communications services for customers over BT's core network and systems and is responsible for implementing BT's global 21CN platform. It implements and operates the software, hardware and networks that drive BT's services to its Retail, Global Services and Wholesale customers, and their customers.

3. Organising our compliance regime continued

Operate is a new organisation set up in July 2007 and made up of units previously in other parts of BT particularly BT Wholesale. A framework for Compliance has been put in place.

In 2007/08, the BT Operate compliance programme included:

- Training over 3,100 UK based managers and 8,400 UK based team members in regulatory compliance
- Providing an Undertakings knowledge call for those joining the Operate Organisation
- Creating a plan for a series of Compliance Reviews to ensure that BT Operate remains a compliant organisation
- Making available the Network Component Ownership Listing

Compliance within BT Retail

BT Retail

(<http://www.btplc.com/Thegroup/Companyprofile/Groupbusinesses/BTRetail/index.htm>) is a UK retail operation that provides its customers with communications products, services and solutions. Our 18.3 million customers are consumers as well as small and medium enterprises throughout the UK. BT has more than 30 call centres employing about 16,000 advisors who handle over 600,000 calls a day. For the consumer market, BT Retail develops and delivers innovative propositions, such as BT Fusion, BT Talk Together, Entertainment, BT Answer and BT Broadband. For business customers, this means developing bespoke solutions and giving advice on important areas of business strategy.

There has been a continued focus within the industry and from Ofcom on consumer protection and the issue of miss-selling. In May 2005, BT introduced its Sales and Marketing Code of Practice, which sets out standards for our sales people. The Code is available on our website

<http://www.btplc.com/Thegroup/Regulatoryinformation/Codeofpractice/Salescodeofpractice/Salescodeofpractice.htm>

In 2007/08 the, BT Retail compliance programme included:

- Training over 5,200 UK based managers and 11,500 UK based team members in regulatory compliance
- Operating call quality monitoring over call centre staff.
- Running a mystery shopper programme with an independent company designed to test call centre agents on aspects of compliance.
- Continued to work with outsourcing partners in deploying relevant compliance training amongst their employees who helped deliver and support BT Retail's products and services.

Compliance within BT Northern Ireland

BT Northern Ireland (BTNI) is part of BT Retail, providing communications products, services and solutions to both retail and wholesale customers in Northern Ireland. However, in the context of UK Regulation, there are significant differences between BT's operations in Northern Ireland and the rest of the UK, and it was agreed with Ofcom that organisational changes that have been implemented in the rest of the UK would have been inefficient, costly and disproportionate. BTNI's version of our Code of Practice is designed to ensure that BTNI complies with the spirit as well as the letter of the Undertakings. Although the Undertakings do not explicitly limit the extent to which BTNI people can have access to Openreach and BT Wholesale commercial information and customer confidential information, the BTNI Code of Practice states that BTNI people can only have access to such information where it is operationally necessary to deliver products and services on behalf of Openreach and BT Wholesale.

The BTNI and BT Ireland organisations were brought together under a single management structure, now known as BT Ireland, in April 2006. However, for the purpose of the Undertakings, the definition of BT Northern Ireland continues to refer only to those activities, and the people supporting them that take place within the geography of Northern Ireland.

3. Organising our compliance regime continued

Compliance within BT Global Services

BT Global Services

(http://www.btglobalservices.com/business/global/en/about_us/index.html) serves 10,000 multi-site organisations worldwide, including 80% of the FTSE 100. BT Global Services operates in over 70 countries.

In 2007/08, the BT Global Services compliance programme included:

- Training over 7,800 UK based managers and 5,000 UK based team members in regulatory compliance
- Developing Compliance training for people outside of the UK and ensuring compliance is embedded in the BT Global Services outsourcing programme.
- Working in conjunction with the Acquisitions team to ensure, where necessary, new acquisitions receive the requisite compliance messages and training.
- Managing the BT Global Service compliance risk register and reviewing the associated systems and process.

Compliance within BT Design

BT Design

(<http://www.btplc.com/Thegroup/Companyprofile/Groupbusinesses/BTDesign/BTDesign.htm>) was created to deliver faster, better, simpler and cheaper solutions for BT's customers, focussing on three key customer experiences: concept-to-market, lead-to-cash and trouble-to-resolve.

In 2007/08, the BT Design compliance programme included:

- Training over 4,500 UK based managers and 500 UK based team members in regulatory compliance
- Embedding compliance in the established governance framework for BT Design.
- Delivering a tailored programme of communications to inform BT Design people of the changes arising from the agreement of new information sharing rules

- Devising and implementing enhanced functionality on inventory systems to facilitate improved control over Data Protection risks

Compliance within Openreach

Openreach

(<http://www.openreach.co.uk/orpg/home/home.do>) is a separate business unit within BT responsible for maintaining, repairing and developing the 'first mile of the network' that links every home and business in the country to the main network. The role of Openreach is to provide equality of access to the network for all communications providers.

In 2007/08, the Openreach compliance programme included:

- Training just under 2,800 UK based managers and 27,000 UK based team members in regulatory compliance
- Rolling out a communications and training programme ('Living the Spirit') that delivered 41 interactive seminars to over 800 people in the Openreach Business Units of Finance, Service and Sales Products & Marketing.
- Developing a programme of compliance checks of Openreach engineers at end-user premises.
- Working closely with Group Regulatory Compliance, Internal Audit, Risk Management and the Equivalence of Access Office to assess Openreach's progress in meeting the milestones set out in the Undertakings.

4. BT's risk reviews and performance measures

4.1. Our risk review procedures

The Group Internal Audit team independently reviews the effectiveness of BT's systems and processes, and the controls over them. It assesses whether these can deliver what is required effectively and reliably. Audit reviews evaluate whether risks have been properly assessed and adequate safeguards are in place to protect assets and the integrity of information. The audit team also checks that compliance requirements are met, including organisational changes, system and process changes and controls.

The Risk Review team undertakes independent group-wide reviews of compliance risks, including risk identification, management processes and Undertakings milestones. It reports formally to both the business and the EAO and provides support through risk recovery and by implementing action plans. The role of the Risk Review team includes:

- Monitoring ongoing compliance across BT, identification and assessment of risks, and support to operational management
- Compliance and risk reporting, generating action plans and monitoring progress to resolution
- Undertaking investigations and implementing recovery and improvements, including compliance breach case work
- Supporting the business and the EAO in monitoring the delivery of Undertakings milestones and embedding them into business as usual
- Supporting Internal Audit and coordinating reviews of compliance areas
- Managing both internal and external relationships

The audit and compliance teams co-ordinate their efforts to deliver a service to all parts of the business. We agree an annual work plan with the EAO that focuses on reviewing certain aspects of the delivery of Undertakings milestones as requested by the EAO. An annual plan of work provides all parts of BT with an independent view of how well controls and risks are being managed to meet compliance requirements and manage risks. It also provides the EAO with an independent statement of the effectiveness of BT's activities to meet the requirements of the Undertakings, validation of the requirements met and a review of activities for ongoing compliance. The EAO use this information as part of its reporting to the EAB on the Undertakings and as a source of input to their annual external report. Group Regulatory Affairs, Group Legal and the Director of Equivalence receive regular updates on the implementation of the Undertakings and any general compliance risk issues. The team also undertake investigations, recovery work and improvement programmes as well as capture risk information to enable root cause analysis and wider business improvements.

5. Summary of plans for the coming year

We took into account the findings from a benchmarking exercise and feedback from meetings with both Ofcom and industry in setting our plans for 2007/08. We will continue to improve our compliance performance and our collaboration with industry in the coming year by:

- Continuing compliance update meetings with Ofcom
- Continuing to work closely with the EAO to further support its monitoring of BT's delivery of the Undertakings
- Expanding our work on reviewing the maintenance of the high company standards for data protection
- Working closely with all parts of BT to deliver the compliance aspects inherent in the Undertakings
- Continuing to work closely with all parts of BT and third party suppliers to meet data privacy regulation
- Implementing a measure of behaviours relating to regulatory compliance
- Revising our compliance training programme to accommodate organisational changes and updates to the regulation
- Increasing the level of involvement with business process outsourcing
- Ensuring we meet our current and future compliance obligations with regard to the 21st Century Network (21CN) <http://www.btplc.com/21cn/> including continual review of the Consult 21 process to ensure that our interaction with the industry is compliant.

6. Independent Assurance Report to BT Group plc

Respective Responsibilities of the Company and PricewaterhouseCoopers LLP

We have been engaged to express an independent opinion on certain information contained in the report entitled Regulation of Communications - BT's Compliance Report for 2007/2008 (the "Report"). The preparation of the Report is the sole responsibility of the management of BT Group plc ("BT", the "Company" or the "Group").

Scope and Approach

Our engagement was designed to provide reasonable assurance on whether the following aspects of the Report (the "Selected Information") are properly compiled from the underlying management information and policy documentation of the Group:

- Section 2.2, An effective compliance programme - within BT on pages 6 to 8.
- Section 2.4, An effective compliance programme - With the industry at large on page 9.
- Section 3.1, Organising our compliance regime - BT Group's compliance structure on page 10.
- The information relating to the Competition Bulletin, Telephone Preference Scheme & Migration Authorisation Codes data shown in the shaded boxes on page 8.
- The statement of BT's compliance operating framework show in the shaded boxes on pages 10 to 11.
- The information relating to compliance activities in each BT Line of Business shown in the shaded boxes on pages 11 to 13.
- The statement of BT's compliance policy show in the box on page 4.

In this regard, we completed, in conjunction with BT's internal audit department, tests over data extraction, consolidation and reporting. In addition, we discussed with management the processes to collate the Report and read 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.

We have not undertaken any work to confirm that all relevant issues are included or that the balance of the Report is appropriate. 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.

Conclusions

In our opinion the Selected Information is properly compiled from the underlying management information and policy documentation of the Group. Further, nothing has come to our attention to indicate that the remainder of the Report for the period ended 31 March 2008 is inconsistent with the findings of our work. This report, including the conclusion, has been prepared for and only for the Directors for management purposes 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
May 2008