



# Changes to BT's 2007/08 regulatory financial statements

Explanatory statement and notification

Statement

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## Section 1

# Executive Summary

## Background

- 1.1 Relevant, reliable and timely regulatory financial information is fundamental to the effective economic regulation of the electronic communications sector. Fit for purpose financial reporting forms an essential element of the regulatory framework.
- 1.2 Ofcom requires regulatory financial information in order to monitor and enforce various obligations that are placed on dominant providers in markets where they are found to have significant market power ("SMP"). The regulatory financial reporting regime also demonstrates to the industry that certain ex-ante obligations are being effectively monitored and enforced.
- 1.3 The current regulatory financial reporting regime for British Telecommunications plc (BT) has evolved over time in response to ongoing changes in the regulatory, technological and competitive environment, including:
  - changes in the regulatory framework (following Ofcom's strategic review of the telecommunications sector);
  - structural changes in the way BT transacts with itself and its competitors (by way of the ongoing implementation of undertakings by BT accepted by Ofcom in lieu of a reference under the Enterprise Act and the creation of Openreach);
  - technological changes to the nature of BT's business, including the move to the next generation network, which BT refer to as their 21<sup>st</sup> Century Network (21CN);
  - changes in the way financial information will be made available to Ofcom (via the implementation of a new data extraction tool); and
  - the results of various regulatory decisions including market reviews and investigations.
- 1.4 As a result of some of the factors above, regular discussions with BT and use of the regulatory financial statements we identified a number of areas where we proposed to enhance the presentation and improve the quality of BT's regulatory financial statements, with the aim of ensuring they are fit for purpose.
- 1.5 The proposals for these changes were set out in a consultation document published on 17 April 2008<sup>1</sup> (the "April Consultation").

## Scope of this document and Final Decisions

- 1.6 This Statement sets out Ofcom's final decisions in respect of the April Consultation proposals which fell broadly into two categories;
  - Improvements to BT's regulatory accounting methods relating to the replicability of services<sup>2</sup> in a number of the business connectivity markets.

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<sup>1</sup> <http://www.ofcom.org.uk/consult/condocs/btregs08/>

- A number of ongoing improvements ("business as usual" changes) to ensure the regulatory financial statements remain fit for purpose.

1.7 The table below summarises the objectives addressed in this statement and our final decision taking full account of the responses to our consultation.

Objective	Decision: BT to...
<b>Next generation networks – BT's 21CN costs</b> Ensure the impact of BT's significant investment in its 21CN on regulated services is explained and disclosed appropriately.	<ul style="list-style-type: none"> <li>• Add new network components specific to BT's 21CN.</li> <li>• Disclose of the costs of these new components in the relevant statements.</li> </ul>
<b>Other network components – ongoing updates</b> Regular updating and amending of the list of components to ensure they remain "fit for purpose".	<ul style="list-style-type: none"> <li>• Add or delete specified network components to the agreed list.</li> <li>• Prepare analysis of cost inputs to regulated wholesale leased line services (this will not be made publicly available).</li> </ul>
<b>Transfer charging – the recording of wholesale SMP input costs to downstream (retail) activities</b> Clarification of BT's transfer charging scheme in support of its undue discrimination obligations.	<ul style="list-style-type: none"> <li>• Voluntarily prepare financial statements for the downstream product groups that use inputs from regulated business connectivity markets (this will not be made publicly available).</li> </ul>
<b>Matching revenues and costs</b> We have found that in some markets the immediate recognition of revenues for sales of equipment does not match the costs of that equipment (depreciated over their estimated economic life). This impacts the interpretation of profitability in those markets.	<ul style="list-style-type: none"> <li>• Explain in the financial statements the effect this accounting treatment has on the underlying margins in relevant wholesale markets (wholesale local access and the relevant business connectivity markets<sup>3</sup>).</li> </ul>
<b>Reporting on leased lines – addressing some of the findings set out in annex 13 (Replicability and the PPC charging model) of the Business Connectivity Market Review (BCMR)</b> We concluded last year that there should be a number of improvements in BT's regulatory reporting for Partial Private Circuits (PPCs) such as improved transparency, calculation of internal transfer charges and the updating of payment terms for internal and external services.	<ul style="list-style-type: none"> <li>• Improve and describe the basis on which revenues are calculated to more closely match internal and external billing practices.</li> <li>• Prepare a statement showing the difference between the revenue recognised in BT's general ledger and the calculated service by service revenue for the business connectivity markets covered by the replicability review (not for publication).</li> <li>• Revise the internal debtor calculation to reflect equivalent settlement terms experienced by BT with its external customers.</li> <li>• Provide additional financial information on services in relevant BCMR markets including improved disclosure of resilience and third party infrastructure.</li> <li>• Report separately for Central London Zone (CLZ) and non-CLZ prices in relevant BCMR markets.</li> <li>• Amend and enhance supporting documentation to reflect all of the changes set out above.</li> </ul>
<b>Reporting of services in the Asymmetric Broadband Origination market statement</b> We have identified some improvements to be made to the reporting of services sold in this market.	<ul style="list-style-type: none"> <li>• Prepare and report additional cost data on IPstream and Datastream services.</li> </ul>
<b>Attribution of low user scheme (LUS) costs</b> We believe BT's interpretation that these costs should be attributed to wholesale access markets to be inappropriate.	<ul style="list-style-type: none"> <li>• Ensure that no direct or indirect costs relating to the provision of the LUS, under BT's universal service obligations, are attributed to SMP wholesale markets.</li> </ul>

<sup>2</sup> See <http://www.ofcom.org.uk/consult/condocs/bcmr/> - Annex 13

<sup>3</sup> The 'business connectivity markets' were defined in the April Consultation.

- 1.8 The proposals in the April Consultation and the decisions in this Statement only relate to BT. In respect of KCOM (previously Kingston Communications plc), we have considered the implications of all the issues raised. However, given the scale and scope of the reporting obligations currently imposed on KCOM relative to BT, we have decided that no changes are necessary to KCOM's regulatory financial statements for 2007/08.

## Section 2

# Introduction

## Background

- 2.1 Regulatory financial information that is robust and understandable is essential for the effective economic regulation of the electronic communications sector.
- 2.2 Under sections 87 to 92 of the Communications Act 2003 (the “Act”) there are a range of remedies that can be implemented by Ofcom once it has been determined that an undertaking has significant market power in an identified services market. These include obligations:
  - to offer cost-oriented charges;
  - not to discriminate unduly; and
  - to cap prices, i.e. price controls.
- 2.3 These obligations are designed to exercise Ofcom’s duties under sections 3 and 4 of the Act. This includes the duty to further the interests of consumers in relevant markets by promoting competition and to act in accordance with the six Community requirements, the first of which is to promote competition. Where these obligations have been imposed it is essential that they are monitored and enforced effectively. Therefore, it is necessary to have appropriate regulatory financial reporting.
- 2.4 This information can be either on a regular (e.g. annual) basis for ongoing monitoring purposes or on-request, for example in connection with investigations.
- 2.5 Regulatory financial statements, like any form of business information, evolve over time to reflect a range of internally and externally driven factors. These include changes to accounting policies and standards, improved understanding or knowledge of cost drivers, changes in technologies and business processes and changes in the regulatory environment.

## The April Consultation

- 2.6 The April Consultation included proposals for several improvements that Ofcom believes are justified in order to maintain a fit for purpose reporting framework.
- 2.7 Responses to the April Consultation were received from BT, Cable & Wireless plc (“C&W”), UKCTA, Scottish and Southern Energy plc and one confidential response.
- 2.8 These responses have been taken into account by Ofcom in finalising the changes set out in this statement. Ofcom has also met with BT and UKCTA to discuss their responses.

## Structure of the paper

- 2.9 In the April Consultation we invited comments for each proposal by the way of questions. This statement sets out these questions as they appeared in the April Consultation, considers the responses received and states our final decision taking these responses into full account.

- 2.10 The report has been split into three main sections as set out below.
- 2.11 Section 3 sets out the proposals raised in the April Consultation to address some of the matters identified in the review on replicability of a number of services in the business connectivity markets that affect the regulatory financial statements.
- 2.12 Section 4 sets out the proposals raised in the April Consultation for network component changes.
- 2.13 Section 5 sets out the other proposals raised in the April Consultation for various improvements as a result of our ongoing review of the regulatory financial statements. In summary these are as follows:
- Improved transparency of reported margins affected by upfront charging of capitalised assets (non-matching issue): the non-matched revenues and costs to be disclosed in the RFR in the regulatory financial statements for the wholesale local access market and the relevant business connectivity markets.
  - Disclosure of the Asymmetric Broadband Origination (ASBO) services: improved disclosure of services (IPstream and Datastream) to provide more meaningful information to users of the regulatory financial statements.
  - Increased granularity of services in the Alternative Interface Symmetrical Broadband Origination (AISBO) market statement: further analysis of services so that BT's non-discrimination obligation can be more effectively monitored.
  - Attribution of costs associated with BT's LUS. We proposed to require BT to amend the way in which these costs are attributed.
- 2.14 Additionally, section 6 sets out the areas where the regulatory financial statements and other information provided to Ofcom will be improved but no formal changes are necessary.

## Legal Tests

- 2.15 All legal tests relating to Ofcom's considerations and conclusions are set out in Annex 1. These follow the order of questions in the report.
- 2.16 Annex 1 sets out Ofcom's reasons as to why it considers that the relevant legal tests under the Act are met for the modifications outlined in this section relating to the following Direction 1, Direction 3, Direction 4, the Schedule 4 FA10 Direction and the Schedule 5 FA10 Direction. This annex should be read in the light of relevant considerations and Ofcom's conclusions as set out in this statement.



## Section 3

# Improving reporting as a result of matters highlighted in the replicability work in business connectivity markets

## Introduction

- 3.1 The results of a review of the replicability of services in the leased lines markets were included in the Business Connectivity Market Review (BCMR) published on 17 January 2008<sup>4</sup> (full report in Annex 13 of the BCMR).
- 3.2 The purpose of the review was to determine whether other Communications Providers were able to replicate, technically and commercially, the retail services provided by BT, and whether the regulation of BT's pricing practices in the retail market should therefore be relaxed.
- 3.3 This report highlighted a number of matters of direct relevance to the preparation of the regulatory financial statements relating to, for example, transfer charging, accounting for revenue from external sales and payment terms.
- 3.4 As a consequence of this review we set out a number of proposals in the April Consultation to address these issues. The questions we asked in the April Consultation as to the suitability of these proposals are discussed and concluded below in light of any responses.

## Stakeholder responses

**Question 1: Do you agree with Ofcom's proposal that BT provides an AFI that explains the difference between the revenue reported in the regulatory financial statements compared to the revenue recognised in BT's general ledger for 2007/08 for the markets covered by the replicability review?**

- 3.5 Overall all the respondents agree with this proposal.
- 3.6 BT accept the need to provide greater transparency to enable Ofcom to get a better understanding of the key reasons for the differences between revenue shown in the regulatory accounts and revenue reported in the ledgers. C&W commented that the discrepancy between the reported revenue in the regulatory accounts and revenue as per BT's general ledger was a more general issue and it is not just in the markets that were subject to replicability review where this issue exists, it could be true for all markets.
- 3.7 It is essential that the regulatory financial statements reflect robust revenue calculations and consistent revenue recognition based on sound methodologies. We see this AFI as part of the checks and controls needed to develop a more robust basis of reporting both internal and external revenues. As such, and taking account of the comments of C&W, we wish to review and examine this AFI first to see that BT's improvements in its calculations are fit for purpose before considering a full roll-out across all services.

<sup>4</sup> <http://www.ofcom.org.uk/consult/condocs/bcmr/>

- 3.8 BT also commented that the specification for this AFI needs to be sufficiently flexible to allow full explanations of the differences to be given as these could vary from market to market and year to year. We agree with this comment and feel that our description of the AFI takes this into consideration. The description is at Annex H to Direction 4 at Annex 5 of this statement.

**Question 2: Do you agree with Ofcom's proposal for BT to report OSPs, resilience and third party equipment charges separately in the relevant markets within the regulatory financial statements?**

- 3.9 Overall all the respondents agree with this proposal.
- 3.10 BT accepts that providing greater transparency by separately disclosing revenue in these areas may be appropriate to help allay the "replicability" concerns raised by us.
- 3.11 BT also said in their response that it should be recognised that in accepting to provide revenues at this level of granularity that they are moving away from the standard approach of having a £10m de minimis limit to the reporting of individual items and they still believe it is appropriate that revenues below this level should be grouped with similar services in the appropriate market.
- 3.12 It could be that some of these services have costs and revenues below the de minimis limit, but not necessarily all. Due to the importance of the Business Connectivity markets and the results of the Replicability review, we believe it to be appropriate for the additional services as set out in the proformas at Annex 5 to be disclosed.
- 3.13 At this point we would like to provide clarification of our position on this de minimis limit. We set out below the explanation as described in our 2005 consultation<sup>5</sup> along with further interpretation of this guidance.
- 3.14 *Services "with low revenue and operating costs (typically below £10m pa) can be merged within similar product families. For example, connection services may be merged with rental services for the same 'low value' product set."*
- 3.15 This de minimis limit is there to *"simplify the preparation process, reduce the audit burden and help avoid undue emphasis or excessive analysis effort on immaterial activities. BT will however retain data at service level and make this available to Ofcom....."*. This limit *"only applies, therefore, to the presentation of the regulatory Financial Statements themselves and BT's cost attribution processes will retain the capability to generate information for all services and product groups."*
- 3.16 It should be emphasised that the "de minimis" limit applies to the reported individual services with small service revenues being aggregated. BT should report all revenues, internal and external, generated in the relevant market and should not exclude revenue from low value aggregated services out of the regulatory financial statements. These low value services should not be grouped with services that are reported individually and an internal and external split should be shown. In addition, aggregated 'low value' service/product groups should have accompanying explanatory notes, where appropriate, to explain the types of services within the aggregated group.

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<sup>5</sup> <http://www.ofcom.org.uk/consult/condocs/regfinch/main/regfinch.pdf>

- 3.17 Also the “de minimis” reporting limit is a guide to ensure the regulatory financial statements contain information on the most material services. However we would expect BT to disclose service level cost data below this limit if the service is of importance to the market e.g. new regulated services in fast growing markets.
- 3.18 There are no changes to our proposal and the relevant proformas, including these extra services where relevant are at Annexes C, D, F and G to Direction 4 at Annex 10 of this document.

**Question 3: Do you agree that BT should calculate and disclose service revenues on the CLZ and non-CLZ based prices in the relevant market statements?**

- 3.19 All respondents agree with this proposal.
- 3.20 There are no changes to this proposal and the CLZ charges will be applied by BT to all applicable services. The relevant proforma is at Annex C to Direction 4 at Annex 5 of this statement.

**Question 4: Do you agree that BT should update its Accounting Documents to transparently describe how the transfer charges and external revenues are calculated?**

- 3.21 All respondents agree with this proposal.

**Question 5: Do you agree with Ofcom’s proposal for BT to amend their current calculation of debtor days which is used to calculate notional debtors?**

- 3.22 All respondents agree with this proposal.
- 3.23 UKCTA noted that it should be corrected to prevent one off events from materially distorting the calculation. We understand this concern and will discuss with BT how they amend their calculations to exclude events that may distort the result.

**Enhanced ‘price x quantity’ calculation**

- 3.24 In the April Consultation we explained that BT were working on an improved “*price x quantity*” calculation for internal and external revenues. This is the methodology and calculation rules applied by BT to calculate the internal and external revenues based on volumes or quantities of regulated services provided from wholesale markets. BT’s published price list provides the internal transfer price for most services. Where an internal service is not provided externally then the basis of the charge is set out in an agreed transfer charging scheme. These calculations provide the basis on which BT demonstrates compliance with its non-discrimination obligations.
- 3.25 BT has revised its service revenue calculation to improve the ‘*price x quantity*’ calculation. BT has informed us that service revenue calculations have been amended to reflect a revenue system size rather than a working system size basis to minimise any difference between calculated and ledgered revenues at the service level as well as at the SMP market level.
- 3.26 BT will also now calculate and disclose separately a number of services including In Span Handover, City of London Zone, Protected Path and Resilience, Third Party Equipment and Excess Construction Charges.

- 3.27 BT will be updating the relevant parts of the 2007/08 regulatory financial statements and the Accounting Documents to explain in more detail this improved methodology.
- 3.28 We believe that this new methodology will improve the integrity of the revenues recognised in the financial statements. However, we will continue to assess this new approach after the preparation of the 2008 regulatory Financial Statements including a review of the related additional reconciliation statement that BT is directed to prepare as set out in paragraphs 3.5 to 3.7. For example, we will discuss with BT the checks and controls incorporated into the new process that will ensure that, over time, all relevant services are captured correctly in the calculation of internal transfer charges.

## Section 4

# Network components update

## Introduction

- 4.1 'Network components' are an important building block in the regulatory costing framework and we provided in the April Consultation a detailed explanation and description of this aspect.
- 4.2 We proposed to improve the reporting of network components in the following areas:
  - 21CN
  - Ongoing improvements to the network list.

## 21CN components

- 4.3 A number of the proposed additions to the list were new components which identify and cost parts of BT's 21CN.
- 4.4 BT's investment in a new core network is significant and from a regulatory aspect clear and transparent accounting for these costs is important.
- 4.5 Ofcom recognises that a full understanding of the way in which this new network will operate, what drives the costs and any impact on regulated services, is still in the very early stages of development. We therefore believe that, at this time, disclosure of the main parts of the new network is important for transparency purposes and stakeholder understanding.
- 4.6 This is the first stage of incorporating 21CN into BT's regulatory financial statements. This will give transparency to the costs and where they are being attributed so that we can formulate an effective reporting regime as the new network comes into use.
- 4.7 We will review with BT the appropriateness of their cost attributions. As the cost data becomes more robust and our understanding improves we will be analysing the information and implementing changes to BT's costing methodology if necessary.
- 4.8 Since the publication of the April Consultation, further analysis has shown that three of the 21CN components we proposed as additions are used solely by markets that are subject to a no undue discrimination obligation but not a cost orientation obligation. Therefore we have amended the list by excluding these three components, namely:
  - MSAN – BRAS (dense) link broadband
  - MSAN – BRAS (non dense) link broadband
  - Core/Metro (Broadband)
- 4.9 These three components do not appear in the list of additions in Annex A to the modified Direction 1 at Annex 3.

## Ongoing improvements to the network components list

- 4.10 In addition to the specific additions/deletions for 21CN we also proposed changes to the component list that are not captured in this category.
- 4.11 These changes represent a more granular analysis of the rest of the network and provide a closer alignment of underlying network costs.

## Stakeholder responses

### **Question 6: Do you agree with Ofcom's proposals to amend the list of network components?**

- 4.12 All respondents recognised the need to regularly review the list of network components and that BT's investment in 21CN makes this review especially important at this time.
- 4.13 C&W said that the selection of relevant 21CN components was an important decision and that the proposals came with very little explanation. Also, C&W believe that a comprehensive debate should take place with other CPs over the choice of 21CN components for 2008/09.
- 4.14 UKCTA views the revised list that includes the 21CN components as very much a first step and this should be a key area of focus going forward particularly during the parallel running (when 21CN and 20CN co-exist) to ensure costs aren't double counted.
- 4.15 We will proceed with the list proposed in the consultation. We recognise that the development of BT's 21CN is still in its early stages and that the costing approach in the regulatory financial statements is likely to be "work in progress" for some time.
- 4.16 We see these proposals as an initial step towards an ongoing dialogue in updating the regulatory accounting framework to take account of BT's 21CN. We believe that the joint BT/UKCTA transparency sessions could provide a useful forum for these discussions.
- 4.17 The full amended component list is at Annex 3.

### **Question 7: Do you agree with Ofcom's proposal requiring BT to provide Ofcom with the details of the cost stack underlying the regulated PPC and technical area services?**

- 4.18 All respondents agreed that more work was required in this area and the provision of this information by BT was a step in the right direction to achieving a more meaningful set of leased line components.
- 4.19 C&W were concerned that public disclosure of more detailed cost data for these services would be delayed by this proposal. We believe that a fundamental review of the way in which BT accounts for PPCs is best undertaken after Ofcom publishes its Business Connectivity Market Review (BCMR) statement so that the reporting going forward reflects our latest market review position and associated obligations.
- 4.20 This AFI is described at Annex H to Direction 4 at Annex 5 of the statement.

## Section 5

# Improving disclosure in the regulatory financial statements for 2007/08

## Introduction

- 5.1 The final set of proposals in the April Consultation mainly concern disclosure issues and cost attribution methodologies raised during our ongoing review of the regulatory financial statements. Responses to our proposal are discussed below:

**Question 8: Do you agree with Ofcom's proposal for additional disclosure of non-matched sales and costs in the RFR to assist users understanding of the underlying return for that market?**

- 5.2 All respondents support this proposal, with no other comments being made.

**Question 9: Do you agree with Ofcom's proposal to expand the list of services reported in the ASBO market?**

- 5.3 All respondents supported this proposal.
- 5.4 C&W felt that the 2006/07 reports for the ASBO market completely fail to address the issue of BT's compliance with its obligation not to unduly discriminate as they provide so little detail and don't identify internal and external sales properly. The proforma we are putting in place addresses this issue.
- 5.5 The proforma is at Annex B to Direction 4 at Annex 5 of this Statement. We have considered more detailed comments on this proforma and the final version has been modified to improve the presentation of services in this market.

**Question 10: Do you agree with Ofcom's proposal to expand the list of disclosed services in the AISBO market?**

- 5.6 BT feel that the requirement to disclose "main links" moves beyond the level of the end-to-end services actually sold to CPs. Main links are not sold separately and so they feel relevance of disaggregating to this level is not clear.
- 5.7 In response to BT's objection, BT's cost orientation obligation applies to "*....each and every charge....*" and it is essential that regulatory financial reporting is consistent with this key obligation. One of the reasons the condition refers to "each and every charge" is that there is a clear risk that bundling charges together (particularly charges that relate to parts of a service with very different cost drivers such as fixed vs. variable elements) could easily result in a bias against a particular group of customers with potential anti-competitive effect. To meet this concern it is essential that BT is able to produce information on the costs and revenues of each charge.
- 5.8 BT also commented that if we have specific concerns in relation to the main link service we can use our information gathering powers under the Communications Act to request more specific information from them.

- 5.9 Paragraph 5.7 sets out why we want the level of granularity we do and the issue is not related to a specific concern regarding main links.
- 5.10 BT also suggests that Ofcom could use its information gathering powers under the Communications Act to obtain the cost data supporting each charge rather than require the information to be disclosed in the regulatory financial statements. However, we consider that the regulatory financial statements play a key role in providing information on which to assess whether BT can transparently demonstrate that its charges are cost orientated using agreed accounting principles and methodologies. The use of ad-hoc information gathering powers would not provide the same level of assurance that BT either has or can prepare the information required. It is also important that this information is published on a regular basis with independent audit scrutiny.
- 5.11 UKCTA and C&W support our proposal. UKCTA made the comment that currently the regulatory financial statements provide very little insight into the AISBO market and this market is becoming increasingly important, with many end users of traditional interface services expected to migrate some or all of their services onto alternative interface services.
- 5.12 C&W are in support of the increased granularity and particularly on the main link charge where they said that the regulatory accounts fail to identify any difference in main link charges between internal and external supply; differences that almost inevitably exist. However, they did state that it is not clear that these improvements go far enough. They appreciate it is not possible to publish full detail on each product variant, however the main services should be shown with costs against revenues and other, lower value services should be shown in aggregate (with a split between internal and external), along with the relevant cost information at the aggregate level.
- 5.13 In response to the concern that this proposal does not go far enough, in addition to the extra services we are requiring publication of, we are also obtaining more detailed information from BT on a more granular analysis of the services in the AISBO market, which will be for Ofcom only. This along with the improved reporting for 2007/08 will help us assess the reporting requirements for the future in the AISBO market.
- 5.14 C&W's last point on aggregating low value services is applicable across all markets and our view on this is set out at paragraphs 3.12 to 3.17.

**Question 11: Do you agree with Ofcom's conclusion that the attribution treatment of LUS costs is currently inappropriate in the context of BT's USO obligations and therefore the Accounting Documents and in turn the Regulatory Financial Statements should be amended?**

- 5.15 In their response BT disagree with our view that the USO places no undue burden on them and explain why there is, in their view, a net cost of providing the Light User Scheme (LUS). Other respondents to this question agreed with our conclusion and the proposal to exclude these costs from wholesale SMP markets.
- 5.16 The scope of these proposals is limited to dealing with regulatory accounting issues and does not cover BT's current universal service obligations. As such our proposal to exclude LUS costs from wholesale SMP markets reflects our position based on the last USO review.



- 5.17 We conclude that BT's internal LUS cost transfer should be excluded from wholesale SMP markets and the allocation of these costs to non-SMP markets should be consistent with the agreed regulatory accounting policies and principles set out in the primary accounting documents which should also be followed in the preparation of the Openreach financial statements.
- 5.18 The related Direction is at Annex 6.

## Section 6

# Other issues and improvements to the financial statements

- 6.1 This section sets out the areas where the financial statements and other information provided to Ofcom will be improved but no formal changes are necessary.

### **Demonstrating compliance - reporting of non-discrimination in downstream markets**

- 6.2 As discussed in the April Consultation, we have agreed with BT that they will voluntarily produce information that demonstrates the effective operation of non-discrimination in downstream markets.
- 6.3 For 2007/08 this information will be targeted at the following markets:
- Wholesale low bandwidth traditional interface symmetric broadband origination (up to and including 8Mbit/s)
  - Wholesale high bandwidth traditional interface symmetric broadband origination (above 8 Mbit/s up to and including 155Mbit/s)
  - Wholesale alternative interface symmetric broadband origination at all bandwidths (AISBO)
  - Wholesale trunk segment at all bandwidths (including Kingston upon Hull)
  - Technical areas (Point of Handover)
  - Technical areas (Interconnect Circuits)
- 6.4 This information should be with Ofcom shortly after the publication of the regulatory financial statements and, due to the confidentiality of the data, will not be publicly available.

### **Increased granularity of services in the Alternative Interface Symmetric Broadband Origination (AISBO) market**

- 6.5 There are a number of services within this market that we did not propose explicit disclosure for the published statements as they currently have low value revenues. However, we are interested in their relevant cost orientation and non-discrimination as we believe they may grow in regulatory and commercial importance.
- 6.6 We have agreed with BT that the voluntary production of this information for a number of services in this market, in a format similar to the financial statements is to be provided to Ofcom following publication of the regulatory financial statements.

## Reporting Flat Rate Internet Access Call Origination (FRIACO)

- 6.7 As discussed in the April Consultation, the unit revenue and costs of FRIACO products will no longer be reported separately with other dial up volumes in the call origination market and at service level with other dial up services.
- 6.8 This is due to reduced popularity of this service as evidenced by customers migrating to broadband services and significantly reduced minute usage and costs over the last few years.

## Wholesale local access market- modifications to the FA10 Direction

- 6.9 Modifications to Schedules 4 and 5 of the FA10 Direction were consulted on and enacted in the 26 January 2007 consultation<sup>6</sup> and 30 May 2007 statement<sup>7</sup> respectively. In the consultation and the statement, however, we did not include the relevant annexes to the Direction, which include the proformas for the financial statements.
- 6.10 Therefore to resolve this oversight we have included the relevant annexes to the relevant FA10 Direction in this consultation and in addition have included the changes for this year and going forward.

## Reporting in wholesale international markets

- 6.11 On 7 July 2007, Ofcom completed our review of wholesale international services markets and determined, in accordance with the Commission's Guidelines, that there were no persons with SMP in any of the identified 235 wholesale international services markets. Accordingly, we revoked every SMP services condition applying to any party who had previously been determined to have market power in those markets, including the SMP services conditions that were imposed on BT for those markets as set out in Annex 2, Schedule 2 of the July 2004 statement<sup>8</sup>. As these SMP services conditions no longer apply to BT in respect of wholesale international services markets, we have taken the opportunity to remove reference to these markets from the regulatory financial statements.

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<sup>6</sup> <http://www.ofcom.org.uk/consult/condocs/obligations/obligations.pdf>

<sup>7</sup> <http://www.ofcom.org.uk/consult/condocs/obligations/statemet/statement.pdf>

<sup>8</sup> [http://www.ofcom.org.uk/consult/condocs/fin\\_reporting/fin\\_report\\_statement/finance\\_report.pdf](http://www.ofcom.org.uk/consult/condocs/fin_reporting/fin_report_statement/finance_report.pdf)

## Annex 1

# Legal tests

## Introduction

A1.1 This annex sets out how Ofcom has satisfied the legal tests to amend BT's regulatory financial accounting obligations, as set out earlier in this statement.

## 1) External revenue reported in the regulatory financial statements (Question 1)

### Legal tests

A1.2 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Directions 3 and 4 under SMP condition OA2 as discussed in paragraphs 3.8 to 3.9 of the April Consultation and paragraphs 3.6 to 3.8 and Annexes 4 and 5 of this report are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this statement.

### Section 3 and 4 – general duties & the six Community requirements

A1.3 Section 3 of the Act sets out the duties of Ofcom in carrying out its functions, in particular that it furthers the interests of citizens in relation to communications and furthers the interests of consumers in relevant markets.

A1.4 Section 4 of the Act requires that Ofcom acts in accordance with the six Community requirements concerning: the promotion of competition; the development of the European internal market; the promotion of the interests of all EU citizens; non-discrimination; promoting efficiency and sustainable competition and the maximum benefit for consumers; and facilitating service interoperability and securing freedom of choice for consumers.

A1.5 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews have already assessed whether these regulatory accounting obligations met the tests outlined in Sections 3 and 4 of the Communications Act. The changes to Directions 3 and 4 under SMP condition OA2 are designed to enable BT to more effectively fulfil the purpose for which these particular obligations were imposed (i.e. demonstrate cost orientation and non-discrimination). In consequence Ofcom believes the amendments to Direction 4 under SMP condition OA2 and a direction under SMP condition FA10.2 meet the tests in Sections 3 and 4.

### Section 49(2) tests

A1.6 Ofcom has the ability to modify a direction that gives effect to an SMP obligation under section 49 of the Act but only where it is satisfied that the tests under section 49(2) has been met. The tests are that the modification of the direction is:

- a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- b) not unduly discriminatory against particular persons or against a particular description of persons;
- c) proportionate to what it is intended to achieve; and
- d) transparent in relation to what it is intended to achieve.

Objectively justifiable in relation to the networks, services, facilities, apparatus or directions to which it relates

- A1.7 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner discussed in paragraph 3.8 to 3.9 of the April Consultation and paragraphs 3.6 to 3.8 and Annexes 4 and 5 of this report is objectively justifiable because the current checks and controls are inadequate for BT to demonstrate that the calculation of revenues shown in the regulatory financial statements are sufficiently reliable and relevant for reporting purposes.

Not unduly discriminatory against particular persons or against a particular description of services

- A1.8 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner discussed in paragraph 3.8 to 3.9 of the April Consultation and paragraphs 3.6 to 3.8 and Annexes 4 and 5 of this report is not unduly discriminatory because KCOM, the only other communications provider with similar obligations, does not have such extensive or detailed reporting requirements and is not subject to any changes set out in this statement.

Proportionate to what it is intended to achieve

- A1.9 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner discussed in paragraph 3.8 to 3.9 of the April Consultation and paragraphs 3.6 to 3.8 and Annexes 4 and 5 of this report is proportionate because we are only asking for this information as an AFI which is for Ofcom only and only for the markets covered by the BCMR in order to review the reporting requirements in future years.

Transparent in relation to what it is intended to achieve

- A1.10 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner discussed in paragraph 3.8 to 3.9 of the April Consultation and paragraphs 3.6 to 3.8 and Annexes 4 and 5 of this report is transparent because Ofcom is explaining and consulting on this change and has provided background explanatory material and evidence from other projects.

## **2) Charges in respect of other single payments (OSPs), resilience and the third party equipment charges (Question 2)**

### **Legal tests**

- A1.11 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Direction 4 under SMP condition OA2 as

discussed in paragraphs 3.15 to 3.16 of the April Consultation and paragraphs 3.9 to 3.17 and Annex 5 of this report are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this statement.

### **Section 3 and 4 – general duties & the six Community requirements**

- A1.12 Section 3 of the Act sets out the duties of Ofcom in carrying out its functions, in particular that it furthers the interests of citizens in relation to communications and furthers the interests of consumers in relevant markets.
- A1.13 Section 4 of the Act requires that Ofcom acts in accordance with the six Community requirements concerning: the promotion of competition; the development of the European internal market; the promotion of the interests of all EU citizens; non-discrimination; promoting efficiency and sustainable competition and the maximum benefit for consumers; and facilitating service interoperability and securing freedom of choice for consumers.
- A1.14 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews have already assessed whether these regulatory accounting obligations met the tests outlined in Sections 3 and 4 of the Communications Act. The changes to Direction 4 under SMP condition OA2 are designed to enable BT to more effectively fulfil the purpose for which these particular obligations were imposed (i.e. demonstrate cost orientation and non-discrimination). In consequence Ofcom believes the amendments to Direction 4 under SMP condition OA2 meet the tests in Sections 3 and 4.

### **Section 49(2) tests**

- A1.15 Ofcom has the ability to modify a direction that gives effect to an SMP obligation under section 49 of the Act but only where it is satisfied that the tests under section 49(2) has been met. The tests are that the modification of the direction is:
- a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
  - b) not unduly discriminatory against particular persons or against a particular description of persons;
  - c) proportionate to what it is intended to achieve; and
  - d) transparent in relation to what it is intended to achieve.

#### **Objectively justifiable in relation to the networks, services, facilities, apparatus or directions to which it relates**

- A1.16 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner discussed in paragraphs 3.15 to 3.16 of the April Consultation and paragraphs 3.9 to 3.17 and Annex 5 of this report is objectively justifiable because this change addresses a shortcoming in BT's calculation of revenues for services that are sold both externally and internally.

### Not unduly discriminatory against particular persons or against a particular description of services

- A1.17 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner discussed in paragraphs 3.15 to 3.16 of the April Consultation and paragraphs 3.9 to 3.17 and Annex 5 of this report is not unduly discriminatory because KCOM, the only other communications provider with similar obligations, does not have such extensive or detailed reporting requirements and is not subject to any changes set out in the statement.

### Proportionate to what it is intended to achieve

- A1.18 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner discussed in paragraphs 3.15 to 3.16 of the April Consultation and paragraphs 3.9 to 3.17 and Annex 5 of this report is proportionate because it addresses a serious shortcoming in BT's calculation of revenues and also that the internal sales should be shown as part of BT demonstrating it is complying with its non-discrimination obligation.

### Transparent in relation to what it is intended to achieve

- A1.19 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner discussed in paragraphs 3.15 to 3.16 of the April Consultation and paragraphs 3.9 to 3.17 and Annex 5 of this report is transparent because Ofcom is explaining and consulting on this change and has provided background explanatory material and evidence from other projects.

## **3) CLZ charging (Question 3)**

### **Legal tests**

- A1.20 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Direction 4 under SMP condition OA2 as discussed in paragraphs 3.19 to 3.21 of the April Consultation and paragraphs 3.20 and Annex 5 of this report are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this statement.

### **Section 3 and 4 – general duties & the six Community requirements**

- A1.21 Section 3 of the Act sets out the duties of Ofcom in carrying out its functions, in particular that it furthers the interests of citizens in relation to communications and furthers the interests of consumers in relevant markets.
- A1.22 Section 4 of the Act requires that Ofcom acts in accordance with the six Community requirements concerning: the promotion of competition; the development of the European internal market; the promotion of the interests of all EU citizens; non-discrimination; promoting efficiency and sustainable competition and the maximum benefit for consumers; and facilitating service interoperability and securing freedom of choice for consumers.
- A1.23 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews have already assessed whether these regulatory

accounting obligations met the tests outlined in Sections 3 and 4 of the Communications Act. The changes to Direction 4 under SMP condition OA2 are designed to enable BT to more effectively fulfil the purpose for which these particular obligations were imposed (i.e. demonstrate cost orientation and non-discrimination). In consequence Ofcom believes the amendments to Direction 4 under SMP condition OA2 meet the tests in Sections 3 and 4.

## **Section 49(2) tests**

A1.24 Ofcom has the ability to modify a direction that gives effect to an SMP obligation under section 49 of the Act but only where it is satisfied that the tests under section 49(2) has been met. The tests are that the modification of the direction is:

- a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- b) not unduly discriminatory against particular persons or against a particular description of persons;
- c) proportionate to what it is intended to achieve; and
- d) transparent in relation to what it is intended to achieve.

### Objectively justifiable in relation to the networks, services, facilities, apparatus or directions to which it relates

A1.25 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner discussed in paragraphs 3.19 to 3.21 of the April Consultation and paragraphs 3.20 and Annex 5 of this report is objectively justifiable because by not reflecting the CLZ discount BT are overstating the transfer charges to their retail services. It also highlights an area where BT is not demonstrating that it is complying with its non-discrimination obligation.

### Not unduly discriminatory against particular persons or against a particular description of services

A1.26 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner discussed in paragraphs 3.19 to 3.21 of the April Consultation and paragraphs 3.20 and Annex 5 of this report is not unduly discriminatory because KCOM, the only other communications provider with similar obligations, does not have such extensive or detailed reporting requirements and is not subject to any changes set out in this statement.

### Proportionate to what it is intended to achieve

A1.27 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner discussed in paragraphs 3.19 to 3.21 of the April Consultation and paragraphs 3.20 and Annex 5 of this report is proportionate because it corrects a potentially important error in the calculation of internal transfer charges which, in turn, supports the monitoring of BT's non-discrimination obligations.

### Transparent in relation to what it is intended to achieve



- A1.28 A7.28 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner discussed in paragraphs 3.19 to 3.21 of the April Consultation and paragraphs 3.20 and Annex 5 of this report is transparent because Ofcom is explaining and consulting on this change and has provided background explanatory material and evidence from other projects.

#### **4) Network component changes (Question 6)**

##### **Legal Tests**

- A1.29 The section below sets out why we, Ofcom consider that the relevant legal tests under the Act for the modification of Direction 1 under SMP condition OA2 and a direction under SMP condition FA10.2 as discussed in paragraphs 4.12 to 4.15 of the April Consultation and paragraphs 4.12 to 4.16 and Annex 3 of this report. This Section should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this statement.

##### **Section 3 and 4 – general duties & the six Community requirements**

- A1.30 Section 3 of the Act sets out the duties of Ofcom in carrying out its functions, in particular that it furthers the interests of citizens in relation to communications and furthers the interests of consumers in relevant markets.
- A1.31 Section 4 of the Act requires that Ofcom acts in accordance with the six Community requirements concerning: the promotion of competition; the development of the European internal market; the promotion of the interests of all EU citizens; non-discrimination; promoting efficiency and sustainable competition and the maximum benefit for consumers; and facilitating service interoperability and securing freedom of choice for consumers.
- A1.32 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as part of the appropriate remedies to its SMP in these markets. The relevant individual market reviews have already assessed whether these regulatory accounting obligations met the tests outlined in Sections 3 and 4 of the Communications Act. The changes to Direction 1 under SMP condition OA2 and a direction under SMP condition FA10.2 are designed to enable BT to more effectively fulfil the purpose for which these particular obligations were imposed (i.e. demonstrate cost orientation and non-discrimination). In consequence Ofcom believes the amendments to Direction 1 under SMP condition OA2 and a direction under SMP condition FA10.2 meet the tests in Sections 3 and 4.

##### **Section 49(2) tests**

- A1.33 Ofcom has the ability to modify a direction that gives effect to an SMP obligation under section 49 of the Act but only where it is satisfied that the tests under section 49(2) has been met. The tests are that the modification of the direction is:
- a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
  - b) not unduly discriminatory against particular persons or against a particular description of persons;

- c) proportionate to what it is intended to achieve; and
- d) transparent in relation to what it is intended to achieve.

Objectively justifiable in relation to the networks, services, facilities, apparatus or directions to which it relates

A1.34 Ofcom considers that modifying Direction 1 under SMP condition OA2 and a direction under SMP condition FA10.2 in the manner discussed in paragraphs 4.12 to 4.15 of the April Consultation and paragraphs 4.12 to 4.16 and Annex 3 of this report is objectively justifiable as this will enable Ofcom to more effectively monitor compliance and enforce BT's obligations for cost orientation, cost recovery and price controls.

Not unduly discriminatory against particular persons or against any particular description of services

- A1.35 Ofcom considers that modifying Direction 1 under SMP condition OA2 and a direction under SMP condition FA10.2 in the manner discussed in paragraphs 4.12 to 4.15 of the April Consultation and paragraphs 4.12 to 4.16 and Annex 3 of this report is not unduly discriminatory.
- A1.36 BT and KCOM Group Plc (KCOM) are the only communications providers in the fixed communications market to have SMP in multiple markets. As a consequence of this they are the only providers for whom Ofcom stipulates a list of network components.
- A1.37 Ofcom is not currently reviewing KCOM's current list of network of eight components because KCOM's relates entirely to call conveyance services in the Kingston area. This does not require the ongoing review and updating necessary in respect of BT's list which has a much broader potential impact on the analysis of costs in communication markets.

Proportionate to what it is intended to achieve

- A1.38 Ofcom considers that modifying Direction 1 under SMP condition OA2 and direction under SMP condition FA10.2 in the manner discussed in paragraphs 4.12 to 4.15 of the April Consultation and paragraphs 4.12 to 4.16 and Annex 3 of this report is proportionate because these changes are necessary for the list of network components to secure its main purposes, especially with the addition of the 21CN components for the first time this year. These purposes include:
- Enabling costs to be objectively attributed to regulated wholesale services on a causal basis;
  - Facilitating transparency of that costing process; and
  - Avoiding the risk of cost elements not required by the purchasers being bundled into regulated wholesale services.

Transparent in relation to what it is intended to achieve

- A1.39 Ofcom considers that modifying Direction 1 under SMP condition OA2 and a direction under SMP condition FA10.2 in the manner discussed in paragraphs 4.12

to 4.15 of the April Consultation and paragraphs 4.12 to 4.16 and Annex 3 of this report is transparent because Ofcom is explaining and consulting on each change and providing background explanatory material.

## **5) AFI to show the cost stack underlying PPC and technical area services (Question 7)**

### **Legal tests**

- A1.40 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Directions 3 and 4 under SMP condition OA2 discussed in paragraphs 4.17 to 4.21 of the April Consultation and paragraphs 4.18 to 4.19 and Annexes 4 and 5 of this report are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this statement.

### **Section 3 and 4 – general duties & the six Community requirements**

- A1.41 Section 3 of the Act sets out the duties of Ofcom in carrying out its functions, in particular that it furthers the interests of citizens in relation to communications and furthers the interests of consumers in relevant markets.
- A1.42 Section 4 of the Act requires that Ofcom acts in accordance with the six Community requirements concerning: the promotion of competition; the development of the European internal market; the promotion of the interests of all EU citizens; non-discrimination; promoting efficiency and sustainable competition and the maximum benefit for consumers; and facilitating service interoperability and securing freedom of choice for consumers.
- A1.43 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews have already assessed whether these regulatory accounting obligations met the tests outlined in Sections 3 and 4 of the Communications Act. The changes to Directions 3 and 4 under SMP condition OA2 are designed to enable BT to more effectively fulfil the purpose for which one of these particular obligations was imposed (to demonstrate non-discrimination). In consequence Ofcom believes the amendments to Directions 3 and 4 under SMP condition OA2 meet the tests in Sections 3 and 4.

### **Section 49(2) tests**

- A1.44 Ofcom has the ability to modify a direction that gives effect to an SMP obligation under section 49 of the Act but only where it is satisfied that the tests under section 49(2) has been met. The tests are that the modification of the direction is:
- a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
  - b) not unduly discriminatory against particular persons or against a particular description of persons;
  - c) proportionate to what it is intended to achieve; and

d) transparent in relation to what it is intended to achieve.

Objectively justifiable in relation to the networks, services, facilities, apparatus or directions to which it relates

A1.45 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner discussed in paragraph 4.17 to 4.21 of the April Consultation and paragraphs 4.18 to 4.19 and Annexes 4 and 5 of this report is objectively justifiable because currently we believe that the components in these markets do not satisfy all of the qualitative characteristics necessary for the effective reporting of costs in relevant markets.

Not unduly discriminatory against particular persons or against a particular description of services

A1.46 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner discussed in paragraph 4.17 to 4.21 of the April Consultation and paragraphs 4.18 to 4.19 and Annexes 4 and 5 of this report is not unduly discriminatory because Ofcom is not currently reviewing the regulatory financial reporting obligations of KCOM, the only other communications provider with similar obligations, and the potential impact on the telecommunications market from any such changes for KCOM, is far less significant.

Proportionate to what it is intended to achieve

A1.47 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner discussed in paragraph 4.17 to 4.21 of the April Consultation and paragraphs 4.18 to 4.19 and Annexes 4 and 5 of this report is proportionate as BT has a transparency obligation with regards to cost accounting and the current reporting of the underlying cost stack for the PPC markets and technical areas does not fully meet this obligation.

Transparent in relation to what it is intended to achieve

A1.48 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner discussed in paragraph 4.17 to 4.21 of the April Consultation and paragraphs 4.18 to 4.19 and Annexes 4 and 5 of this report is transparent because Ofcom is explaining and consulting on this change and has provided background explanatory material and evidence from other projects.

**6) Additional disclosure at the service level for the Asymmetric Broadband Origination (ASBO) market (Question 9)**

**Legal tests**

A1.49 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Direction 4 under SMP condition OA2 as discussed in paragraphs 5.7 to 5.12 of the April Consultation and paragraphs 5.3 to 5.4 and Annex 5 of this report are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this statement.

## Section 3 and 4 – general duties & the six Community requirements

- A1.50 Section 3 of the Act sets out the duties of Ofcom in carrying out its functions, in particular that it furthers the interests of citizens in relation to communications and furthers the interests of consumers in relevant markets.
- A1.51 Section 4 of the Act requires that Ofcom acts in accordance with the six Community requirements concerning: the promotion of competition; the development of the European internal market; the promotion of the interests of all EU citizens; non-discrimination; promoting efficiency and sustainable competition and the maximum benefit for consumers; and facilitating service interoperability and securing freedom of choice for consumers.
- A1.52 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews have already assessed whether these regulatory accounting obligations met the tests outlined in Sections 3 and 4 of the Communications Act. The changes to Direction 4 under SMP condition OA2 are designed to enable BT to more effectively fulfil the purpose for which these particular obligations were imposed (i.e. demonstrate cost orientation and non-discrimination). In consequence Ofcom believes the amendments to Direction 4 under SMP condition OA2 meet the tests in Sections 3 and 4.

## Section 49(2) tests

- A1.53 Ofcom has the ability to modify a direction that gives effect to an SMP obligation under section 49 of the Act but only where it is satisfied that the tests under section 49(2) has been met. The tests are that the modification of the direction is:
- a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
  - b) not unduly discriminatory against particular persons or against a particular description of persons;
  - c) proportionate to what it is intended to achieve; and
  - d) transparent in relation to what it is intended to achieve.

### Objectively justifiable in relation to the networks, services, facilities, apparatus or directions to which it relates

- A1.54 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner discussed in paragraphs 5.7 to 5.12 of the April Consultation and paragraphs 5.3 to 5.4 and Annex 5 of this report is objectively justifiable because it is necessary to achieve the objective of transparency in relation to the products and services that make up the Asymmetric Broadband Origination market.

### Not unduly discriminatory against particular persons or against a particular description of services

- A1.55 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner discussed in paragraphs 5.7 to 5.12 of the April Consultation and

paragraphs 5.3 to 5.4 and Annex 5 of this report is not unduly discriminatory because KCOM, the only other communications provider with similar obligations, does not have such extensive or detailed reporting requirements and is not subject to any changes set out in this statement.

#### Proportionate to what it is intended to achieve

- A1.56 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner discussed in paragraphs 5.7 to 5.12 of the April Consultation and paragraphs 5.3 to 5.4 and Annex 5 of this report is proportionate because it is no more than necessary for BT to comply with its obligation to have transparent accounting documentation for the purpose of ensuring consistent and comparable preparation of regulatory financial statements as well as proving assurance to market participants that products and services are not being provided on discriminatory terms.

#### Transparent in relation to what it is intended to achieve

- A1.57 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner discussed in paragraphs 5.7 to 5.12 of the April Consultation and paragraphs 5.3 to 5.4 and Annex 5 of this report is transparent because Ofcom is explaining and consulting on this change and has provided background explanatory material and evidence from other projects.

### **7) Increased granularity of services in the Alternative Interface Symmetric Broadband Origination (AISBO) market (Question 10)**

#### **Legal tests**

- A1.58 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Direction 4 under SMP condition OA2 in the manner discussed in paragraphs 5.15 to 5.18 of the April Consultation and paragraphs 5.6 to 5.14 and Annex 5 of this report are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this statement.

#### **Section 3 and 4 – general duties & the six Community requirements**

- A1.59 Section 3 of the Act sets out the duties of Ofcom in carrying out its functions, in particular that it furthers the interests of citizens in relation to communications and furthers the interests of consumers in relevant markets.
- A1.60 Section 4 of the Act requires that Ofcom acts in accordance with the six Community requirements concerning: the promotion of competition; the development of the European internal market; the promotion of the interests of all EU citizens; non-discrimination; promoting efficiency and sustainable competition and the maximum benefit for consumers; and facilitating service interoperability and securing freedom of choice for consumers.
- A1.61 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews have already assessed whether these regulatory accounting obligations met the tests outlined in Sections 3 and 4 of the

Communications Act. The changes to Direction 4 under SMP condition OA2 are designed to enable BT to more effectively fulfil the purpose for which these particular obligations were imposed (i.e. demonstrate cost orientation and non-discrimination). In consequence Ofcom believes the amendments to Direction 4 under SMP condition OA2 meet the tests in Sections 3 and 4.

## **Section 49(2) tests**

A1.62 Ofcom has the ability to modify a direction that gives effect to an SMP obligation under section 49 of the Act but only where it is satisfied that the tests under section 49(2) has been met. The tests are that the modification of the direction is:

- a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- b) not unduly discriminatory against particular persons or against a particular description of persons;
- c) proportionate to what it is intended to achieve; and
- d) transparent in relation to what it is intended to achieve.

### Objectively justifiable in relation to the networks, services, facilities, apparatus or directions to which it relates

A1.63 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner discussed in paragraphs 5.15 to 5.18 of the April Consultation and paragraphs 5.6 to 5.14 and Annex 5 of this report is objectively justifiable because it addresses a concern regarding insufficient disclosure of costs and revenues of services provided from the Alternative Interface Symmetric Broadband Origination (AISBO) market which is necessary to allow effective monitoring of BT's non-discrimination and cost orientation obligations for the relevant services.

### Not unduly discriminatory against particular persons or against a particular description of services

A1.64 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner discussed in paragraphs 5.15 to 5.18 of the April Consultation and paragraphs 5.6 to 5.14 and Annex 5 of this report is not unduly discriminatory because KCOM, the only other communications provider with similar obligations, does not have such extensive or detailed reporting requirements and is not subject to any changes set out in this statement.

### Proportionate to what it is intended to achieve

A1.65 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner discussed in paragraphs 5.15 to 5.18 of the April Consultation and paragraphs 5.6 to 5.14 and Annex 5 of this report is proportionate because it is no more than necessary for BT to demonstrate compliance with its obligations as well as providing assurance to market participants that products and services are not being provided on discriminatory terms. We understand this will add to reporting requirements; however we do not believe the requirement to be disproportionate, as discussed in paragraph 5.15 to 5.18 of the April Consultation and paragraphs 5.6 to

5.14 of this report. Also, we do not consider the preparation of such reports to be costly or time intensive and therefore burdensome.

### Transparent in relation to what it is intended to achieve

- A1.66 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner discussed in paragraphs 5.15 to 5.18 of the April Consultation and paragraphs 5.6 to 5.14 and Annex 5 of this report is transparent because Ofcom is explaining and consulting on this change and has provided background explanatory material and evidence from other projects.

## **8) Attribution of LUS costs (Question 11)**

### **Legal tests**

- A1.67 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the making of Directions in accordance with OA22 and FA10.22 as discussed in paragraph 5.23 to 5.27 of the April Consultation and paragraphs 5.15 to 5.17 of this report and set out in Annex 6 are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this statement.

### **Section 3 and 4 – general duties & the six Community requirements**

- A1.68 Section 3 of the Act sets out the duties of Ofcom in carrying out its functions, in particular that it furthers the interests of citizens in relation to communications and furthers the interests of consumers in relevant markets.
- A1.69 Section 4 of the Act requires that Ofcom acts in accordance with the six Community requirements concerning: the promotion of competition; the development of the European internal market; the promotion of the interests of all EU citizens; non-discrimination; promoting efficiency and sustainable competition and the maximum benefit for consumers; and facilitating service interoperability and securing freedom of choice for consumers.
- A1.70 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews have already assessed whether these regulatory accounting obligations met the tests outlined in Sections 3 and 4 of the Communications Act. This Direction is designed to enable BT to more effectively fulfil the purpose for which one of these particular obligations was imposed (cost accounting for the relevant market). In consequence Ofcom believes the Directions in accordance with OA22 and FA10.22 meets the tests in Sections 3 and 4.

### **Section 49(2) tests**

- A1.71 Ofcom has the ability to modify a direction that gives effect to an SMP obligation under section 49 of the Act but only where it is satisfied that the tests under section 49(2) has been met. The tests are that the modification of the direction is:
- a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;



- b) not unduly discriminatory against particular persons or against a particular description of persons;
- c) proportionate to what it is intended to achieve; and
- d) transparent in relation to what it is intended to achieve.

Objectively justifiable in relation to the networks, services, facilities, apparatus or directions to which it relates

A1.72 Ofcom considers that making Directions in the manner discussed in paragraph 5.23 to 5.27 of the April Consultation and paragraphs 5.15 to 5.17 of this report and set out in Annex 6 is objectively justifiable because these changes will ensure LUS costs are attributed on a basis consistent with the regulatory principles of cost causality, objectivity and transparency.

Not unduly discriminatory against particular persons or against a particular description of services

A1.73 Ofcom considers that making Directions in the manner discussed in paragraph 5.23 to 5.27 of the April Consultation and paragraphs 5.15 to 5.17 of this report and set out in Annex 6 is not unduly discriminatory because KCOM, the only other communications provider with similar obligations, does not have such extensive or detailed reporting requirements and is not subject to any changes set out in this statement.

Proportionate to what it is intended to achieve

A1.74 Ofcom considers that making Directions in the manner discussed in paragraph 5.23 to 5.27 of the April Consultation and paragraphs 5.15 to 5.17 of this report and set out in Annex 6 is proportionate because it is the minimum required to ensure that LUS costs, including associated administration and overhead costs, are excluded from relevant wholesale markets in the future.

Transparent in relation to what it is intended to achieve

A1.75 A7.75 Ofcom considers that making Directions in the manner discussed in paragraph 5.23 to 5.27 of the April Consultation and paragraphs 5.15 to 5.17 of this report and set out in Annex 6 is transparent because Ofcom is explaining and consulting on this change and has provided background explanatory material and evidence.

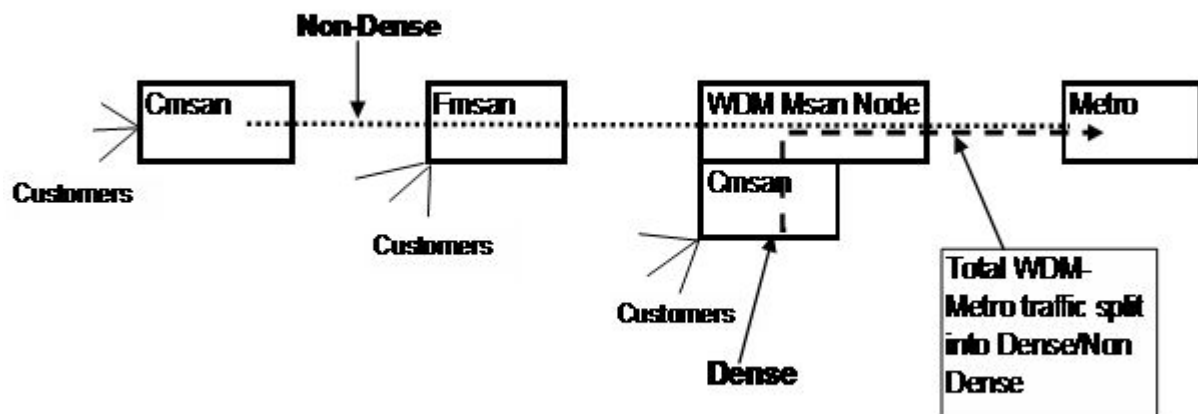
## Annex 2

# New 21CN components

### Additions

- A2.1 As set out in paragraph 4.13 we have obtained more detailed descriptions from BT of some of the new 21CN components for clarification of the points made by C&W in their response to the consultation. This additional material is provided for information only and we accept no responsibility for its accuracy.
- Access Cards (other services)  
MSANs for ethernet low band access ports, ethernet high bandwidth access ports, Time Division Multiplex ports, ISDN30 access ports and ISDN 2 access ports.
  - MSAN-POSI (dense) link voice  
MSAN transport control functions and MSAN transmission cards (up to but not including POSI Metronode) where MSAN is co-located with a Metro and/or a WDM MSAN.
  - MSAN-POSI (non-dense) link voice  
MSAN transport control functions and MSAN transmission cards (up to but not including POSI Metronode) where MSAN is remote from a Metro and/or WDM MSAN.
  - MSAN-METRO (dense) link connectivity  
MSAN control functions and MSAN transmission cards where the MSAN is collocated with a Metro and WDM MSAN.
  - MSAN-METRO (non dense) link connectivity  
MSAN control functions and MSAN transmission cards where the MSAN is remote to a Metro or WDM MSAN.
- A2.2 Further clarity provided by BT on the MSAN-METRO link connectivity component, both dense and non-dense.
- A2.3 Any traffic originating or terminating at a non-dense site will always use and only use the non-dense component. Similarly traffic originating/terminating at a dense site uses just the dense component. There should be no double counting as the WDM node - Metro asset is split proportionately between dense and non-dense. Please see diagram below which hopefully provides greater clarity:

Non-Dense traffic uses the pecked line and Dense the heavier line.



A2.4 BT have also distinguished between the MSAN-Metro and MSAN-POSI components stating that they are all entirely separate as the MSAN-Metro relates to the connectivity product set and the MSAN-POSI to the voice calls set. All take traffic from the MSAN to the edge of the Metro.

- Edge ethernet ports  
Edge ethernet ports at the Metro for voice, broadband and connectivity.
- Combi card broadband  
MSAN specific to Combi card port (broadband only element)
- Combi card voice  
MSAN specific to Combi card port (voice only element).

Further clarity on the reason for splitting the Combi card into two separate components has been provided by BT:

It's necessary to split them as two different products are affected by the Combi card. If it were not split then the appropriate costs from either the Voice or Broadband element could not be posted to the correct services.

BT is trying to line up 21c costs to 20c and try to find matches wherever possible.

- Core/Metro Voice  
Specific/shared elements of the METRO relating to voice and WDM transmission electronics between point of services interconnect (POSI) sites (located at METROs).
- INODE-voice call set up  
I-node relating to voice calls.
- Border gateway and signalling firewall  
This is the point of service interconnect (POSI) at the METRO node.
- Core/Metro Connectivity  
Specific/shared elements of the METRO relating to connectivity

## 21CN glossary of terms.

A2.5 Due to the difference in technical terminology used for BT's current network and the 21CN we are including a glossary of terms which should be used alongside the 21CN component list at A6.1.

Acronym	Title	Definition
MSAN	Multi-service access node	Equipment located at all exchange buildings that: <ul style="list-style-type: none"> <li>Provides the interfaces between the copper and fibre access cables to customer premises and the 21CN network</li> <li>Aggregates traffic from the access cables and provides the interfaces to the backhaul network to the 21CN metro nodes</li> <li>In respect of narrowband services, performs signalling and control functions in response to user action and to signals sent by a call server.</li> </ul>
	Combi card	A component of an MSAN that terminates transmission of both narrowband and broadband information signals to and from copper wire pairs from one or more customer premises and converts between those signals and digital codes used to convey narrowband and broadband services in the network.
	I-node	A system that controls narrowband services provided by the network, and includes a call server. It performs functions including call control, destination number look-up and generation of usage information for billing purposes.
WDM	Wave Division Multiplex	A multiplexing technology used for fibre. It acts like a prism, separating the light in the fibre into different coloured beams - different wavelength channels - each of which carries as much data as a single fibre which has not had WDM applied to it.
BRAS	Broadband remote access server	An aggregation point for wholesale access to broadband data originating in a large number of MSAN's across 21CN, providing dedicated access interfaces to each wholesale customer..
	Metro node	Provides routing of traffic and signalling information for all services carried by the network to or from customers connected to a defined sub-set of the MSAN's of 21CN,
POSI	Point of Service Interconnect	A node in 21CN in which narrowband services carried in 21CN are connected with narrowband services carried in other companies' networks.
	MSAN Transmission cards	A component of an MSAN that terminates backhaul transmission between an MSAN and a metro node.
TDM	Time division multiplex	Method of digital multiplexing in legacy circuit-switched networks, in which signals from a number of circuits are transmitted on the same channel. The channel transmits a fixed number of digits from each circuit in turn at regular intervals.
SDSL	Symmetric digital subscriber	A technology for transmission using copper wire of broadband digital signals in which the rate of digital transmission in each direction is the

	line	same.
	Edge Ethernet port	Equipment at the edge of the Ethernet network. It terminates Ethernet traffic between a metro node and an MSAN.

## Annex 3

# Notification of modification to Direction 1 and the FA10 Direction

## NOTIFICATION UNDER SECTION 49 OF THE COMMUNICATIONS ACT 2003

**Direction modifying Directions under section 49 of the Communications Act 2003 and SMP Services Condition OA2 and FA10.2 specifying network components for the purposes of SMP Services Conditions OA1 to OA34, AA1 to AA12, BA1 to BA6, EA1 to EA7, FA1 to FA10, G1 to G9, GG1 to GG9, H1 to H8, HH1 to HH8, KA1 to KA4 and PA1.**

### WHEREAS:

(A) as a result of a market analysis carried out by the Director General of Telecommunications (the 'Director') and OFCOM in accordance with section 79 of the Act, BT has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

(B) as a result of such SMP designations, BT has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including:

- a) conditions OA1 to OA34 and FA10, imposing obligations on BT in respect of wholesale cost accounting, retail cost accounting and accounting separation in relation to BT's activities in those markets where BT has been designated as having SMP; and
- b) conditions AA1 to AA12; BA1 to BA6; EA1 to EA7, FA1 to FA10, G1 to G9; GG1 to GG9; H1 to H8, HH1 to HH8, KA1 to KA4 and PA1 imposing, amongst other things, obligations on BT in respect of the publication of reference offers and the notification of prices in relation to BT's activities in those markets where BT has been designated as having SMP;

(C) in the SMP services conditions referred to in paragraph B above, 'Network Components' are defined to mean the network components specified in any direction given by the Director or Ofcom (as appropriate) from time to time for the purpose of those conditions;

(D) by virtue of the Transitional Provisions, references to the Director in any of those SMP services conditions should be read as references to OFCOM;

(E) conditions OA2 and FA10 include, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to BT's obligations under conditions OA1 to OA34 and FA10, respectively;

(F) this modified Direction modifies:

- i) Direction 1 given under SMP Services Condition OA2 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 (Direction 1), as modified at Annex 1 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 16 August 2006, which relates to BT's obligations under SMP services conditions

OA1 to OA34, in that it specifies the network components which apply for the purposes of those conditions; and

- ii) a Direction given under SMP Services Condition FA10.2 at Schedule 2 to the Notification set out in Annex 2 of the Review of the wholesale local access market, dated 16 December 2004 (the "FA10 Direction"), as modified at Annex 1 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 16 August 2006, which relates to BT's obligations under SMP services condition FA10, in that it specifies the network components which apply for the purposes of that condition.

(G) this modified Direction also serves to specify the network components which apply for the purposes of other SMP services conditions set out at paragraph B(b) above;

(H) for the reasons set out in the explanatory statement accompanying this modified Direction, OFCOM are satisfied that, in accordance with section 49(2) of the Act, this Direction is:

- (i) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- (ii) not such as to discriminate unduly against particular persons or against a particular description of persons;
- (iii) proportionate to what it is intended to achieve; and
- (iv) in relation to what it is intended to achieve, transparent;

(I) for the reasons set out in the explanatory statement accompanying this modified Direction, Ofcom have considered and acted in accordance with the six Community requirements set out in section 4 of the Act and their duties in section 3 of the Act;

(J) on 17 April 2008, Ofcom published a notification of the proposed modified Direction in accordance with section 49 of the Act (the 'Notification');

(K) a copy of the Notification was sent to the Secretary of State, the European Commission and the regulatory authorities at every other Member State in accordance with section 50 of the Act;

(L) in the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 29 May 2008;

(M) by virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the Notification, with or without modification, only if:

- a) they have considered every representation about the proposal that is made to them within the period specified in the Notification; and
- b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

(N) Ofcom has considered every representation about the modified Direction duly made to them and these representations are discussed in the statement accompanying this modified Direction; and the Secretary of State has not notified OFCOM of any international

obligation of the United Kingdom for this purpose;

**NOW, therefore, pursuant to section 49 of the Act and Conditions OA2 and FA10, OFCOM hereby gives the following modification to Direction 1 and the FA10 Direction:**

1. The network components which apply for the time being for the purposes of SMP services conditions OA1 to OA34, AA1 to AA12, BA1 to BA6, EA1 to EA7, FA1 to FA10, G1 to G9, GG1 to GG9, H1 to H8, HH1 to HH8, KA1 to KA4 and PA1 are those specified at Annex A to this modified Direction.

2. For the purpose of interpreting this modified Direction, the following definitions shall apply:

- a) "Act" means the Communications Act 2003 (c. 21);
- b) "BT" means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;
- c) "Director" means the Director General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
- d) 'OFCOM' means the Office of Communications;
- e) "Notification" means the Notifications which set in place the obligations on BT referred to in recital (B) of this modified Direction above; and
- f) 'Transitional Provisions' means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003, and the Office of Communications Act 2002 (Commencement No. 3) and Communications Act 2003 (Commencement No. 2) Order 2003.

3. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them in this notification and otherwise any word or expression shall have the same meaning as it has in the Notification and otherwise any word or expression shall have the same meaning as it has in the Act.

4. For the purpose of interpreting this modified Direction:

- a) headings and titles shall be disregarded; and
- b) the Interpretation Act 1978 (c. 30) shall apply as if this Direction were an Act of Parliament.

5. This Direction shall take effect on the day it is published.

6. The Schedule to this modified Direction shall form part of this modified Direction.

**Craig Lonie**

**Director of Competition Finance**

**A person authorised by Ofcom under paragraph 18 of the Schedule to the Office of Communications Act 2002**

26 June 2008



**ANNEX A**

Annex A to Direction 1 and the FA10 Direction are amended to reflect the additions and deletions of the list of network components as highlighted below:

Local exchange concentrator	1
Remote-local transmission link	6
Remote-local transmission length	7
Local-tandem transmission link	8
Local-tandem transmission length	9
Product management, policy & planning for narrowband call services	12
National operator assistance	13
CWSS network terminating equipment & serving exchange equipment	22
DWSS network terminating equipment & serving exchange equipment	23
PDH multiplexers at third party site	24
SDH multiplexers at third party site	25
SDH (MSH) multiplexers at third party site	26
PDH multiplexers	27
SDH multiplexers	28
SDH cross connection/grooming equipment	29
Tributary card for SDH network by size	30
SDH (MSH) multiplexers	31
SDH (MSH) cross connection/grooming equipment	32
Tributary card for SDH (MSH) network by size	33
Network research and development	38
Private circuit specific	46
E-side copper (capital)	49
E side copper current	50
D-side copper (capital)	51
D-side copper (current)	52
Local exchange general frames (capital)	53
Local exchange general frames (current)	54
Dropwire (capital) including PSTN NTE	55
Business PSTN drop maintenance	56
Residential PSTN drop maintenance	57
Pair gain	58
PSTN line test equipment	59
PSTN line cards	61
ISDN2 line cards	62
ISDN2 NTE / other	63
ISDN2 drop (maintenance)	64
DSLAM (capital / maintenance)	66
External WLR SG & A	68
Internal WLR SG & A	69
Local loop unbundling room build activities	72
Local loop unbundling tie cables	74
SDSL connection activities	90
Customer Sited Interconnect circuits (CSI) 2Mbit link	102
Customer Sited Interconnect circuits (CSI) 2Mbit per km	103
Emergency operator assistance (999)	104
Intra Building Circuit (IBC) connection	105
Intra Building Circuit (IBC) rental	106
SG & A private circuits	108

Routing & records	111
MDF hardware jumpering	112
Software jumpering	113
Point of Handover electronics	115
Wholesale Access specific	116

### **New components on the list**

<u>Local exchange processor</u>	117
<u>Main exchange switching</u>	118
<u>Service assurance – Retail</u>	119
<u>Service assurance - Global Services</u>	120
<u>Service centres – provision</u>	121
<u>Service centres – assurance</u>	122
<u>Sales product management</u>	123
<u>SG &amp; A partial private circuits</u>	124
<u>SG &amp; A other access</u>	125
<u>Broadband line testing system</u>	126
<u>Local loop unbundling system development</u>	127
<u>Local loop unbundling hostel rentals</u>	128
<u>Local loop unbundling hostel power and vent</u>	129
<u>Directories</u>	130
<u>Backhaul extension services electronics</u>	131
<u>Backhaul extension services fibre etc</u>	132
<u>Wholesale &amp; LAN extension services electronics</u>	133
<u>Wholesale &amp; LAN extension services fibre etc</u>	134
<u>Wholesale &amp; LAN extension services BNS</u>	135
<u>Access cards (other services)</u>	136
<u>MSAN-METRO (dense) link connectivity</u>	137
<u>MSAN-METRO (non dense) link connectivity</u>	138
<u>Edge Ethernet Ports</u>	139
<u>Combi card broadband</u>	140
<u>Combi card voice</u>	141
<u>Core/Metro Voice</u>	142
<u>INODE-voice call set up</u>	143
<u>Border gateway and signalling firewall</u>	144
<u>MSAN-POSI (dense) link voice</u>	145
<u>MSAN-POSI (non-dense) link voice</u>	146
<u>Core/Metro Connectivity</u>	147

### **Deletions from previous list**

<del>Local exchange call set up</del>	<del>2</del>
<del>Local exchange call duration</del>	<del>3</del>
<del>Main exchange call set up</del>	<del>4</del>
<del>Main exchange call duration</del>	<del>5</del>
<del>Inter tandem transmission link</del>	<del>10</del>
<del>Inter tandem transmission length</del>	<del>11</del>
<del>Fibre access lines</del>	<del>21</del>
<del>Transmission links over fibre</del>	<del>34</del>
<del>Transmission links over radio</del>	<del>35</del>
<del>Carrier pre selection system set up</del>	<del>41</del>
<del>Carrier pre selection operator set up</del>	<del>42</del>

Carrier pre-selection customer set up	43
Carrier pre-selection in life management	44
Test access management system	60
ISDN30 (line cards/maintenance)	65
Local loop unbundling hostel activities	73
Shared local loop unbundling (SMPF) connection activities	75
FRIACO ports	76
ATM customer interface 2mb	77
ATM customer interface 34mb	78
ATM customer interface >155mb	79
ATM network interface	80
ATM network switching	81
Internal PPC SG&A	82
External PPC SG & A	83
Internal ISDN30 connection activities	86
ADSL connection activities	89
Internal ISDN30 takeover activities	99
External ISDN30 connection activities	100
External ISDN30 transfer activities	101
SG & A access (excl. wholesale and retail)	107
LAN & wholesale extension services	109
Backhaul extension services	110
Call centre costs	114

## Annex 4

# Notification of modification to Direction 3 and the FA10 Direction

## NOTIFICATION UNDER SECTION 49 OF THE COMMUNICATIONS ACT 2003

**Direction modifying Directions under section 49 of the Communications Act 2003 and SMP Services Conditions OA2 and FA10.2 specifying requirements for the preparation, audit and delivery of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting**

### WHEREAS:

(A) as a result of a market analysis carried out by the Director General of Telecommunications (the 'Director') and OFCOM in accordance with section 79 of the Act, BT has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

(B) as a result of such SMP designations, BT has been subjected to various SMP Services Conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OA1 to OA34 and FA10 imposing obligations on BT in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to BT's activities in those markets where BT has been designated as having SMP;

(C) in complying with the SMP services conditions referred to in paragraph B above, and in particular conditions OA5 and FA10.5, BT is required to, amongst other things:

- a) prepare;
- b) secure an audit opinion in respect of;
- c) deliver to OFCOM (with the corresponding audit opinion); and
- d) publish (with the corresponding audit opinion)

the Regulatory Financial Statements as directed by OFCOM from time to time.

(D) by virtue of the Transitional Provisions, references to the Director in any of those SMP services conditions should be read as references to OFCOM;

(E) condition OA2 and FA10 include, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to BT's obligations under conditions OA1 to OA34 and FA10;

(F) this modified Direction modifies:

- i) Direction 3 given under SMP Services Condition OA2 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 ("Direction 3"), as modified at Annex 4 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 30 May 2007 which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out an amendment to the Regulatory Financial Statements which are required to be prepared, audited (including the level of audit), delivered to OFCOM and/or published by BT under condition OA5; and

- ii) a Direction given under SMP Services Condition FA10.2 at Schedule 4 to the Notification set out in Annex 2 of the Review of the wholesale local access market, dated 16 December 2004 (the "FA10 Direction"), as modified at Annex 2 of the Changes to BT's Regulatory Reporting and Audit Requirements dated 16 August 2006, which relates to BT's obligations under SMP services condition FA10, in that it sets out an amendment to the Regulatory Financial Statements which are required to be prepared, audited (including the level of audit), delivered to OFCOM and/or published by BT under condition FA10.5;

(G) for the reasons set out in the explanatory statement accompanying this modified Direction, OFCOM are satisfied that, in accordance with section 49(2) of the Act, this Direction is:

- i. objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- ii. not such as to discriminate unduly against particular persons or against a particular description of persons;
- iii. proportionate to what it is intended to achieve; and
- iv. in relation to what it is intended to achieve, transparent;

(H) for the reasons set out in the explanatory statement accompanying this modified Direction, Ofcom have considered and acted in accordance with the six Community requirements set out in section 4 of the Act and their duties in section 3 of the Act;

(I) on 17 April 2008, Ofcom published a notification of the proposed modified Direction in accordance with section 49 of the Act (the 'Notification');

(L) a copy of the Notification was sent to the Secretary of State, the European Commission and the regulatory authorities at every other Member State in accordance with section 50 of the Act;

(M) in the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 29 May 2008;

(N) by virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the Notification, with or without modification, only if:

- a) they have considered every representation about the proposal that is made to them within the period specified in the Notification; and
- b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

(O) Ofcom has considered every representation about the modified Direction duly made to them and these representations are discussed in the statement accompanying this modified Direction; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

**NOW, therefore, pursuant to section 49 of the Act and Conditions OA2 and FA10, OFCOM hereby gives the following modification to Direction 3 and the FA10 Direction:**

1. The FA10 Direction shall be modified as set out in Annex A to this modified Direction
2. Direction 3 shall be modified as set out in Annex B to this modified Direction.
3. For the financial year 1 April 2007 to 31 March 2008, Direction 3 shall be modified as set out in Annex C to this modified Direction.
4. For the purpose of interpreting this modified Direction, the following definitions shall apply:
  - a) "Act" means the Communications Act 2003 (c. 21);
  - b) "BT" means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;
  - c) "Director" means the Director General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
  - d) "OFCOM" means the Office of Telecommunications;
  - e) "Notification" means the Notifications which set in place the obligations on BT referred to in recital (B) of this modified Direction above; and
  - f) "Transitional Provisions" means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003 and the Office of Communications Act 2002 (Commencement No. 3) and Communications Act 2003 (Commencement No. 2) Order 2003.
5. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them in this notification and otherwise any word or expression shall have the same meaning as it has in the Notification and otherwise any word or expression shall have the same meaning as it has in the Act.
6. For the purpose of interpreting this modified Direction:
  - a) headings and titles shall be disregarded; and
  - b) the Interpretation Act 1978 (c. 30) shall apply as if this Direction were an Act of Parliament.
7. This Direction shall take effect on the day it is published.
8. The Schedule to this modified Direction shall form part of this modified Direction.

**Craig Lonie**

**Director of Competition Finance**

**A person authorised by Ofcom under paragraph 18 of the Schedule to the Office of Communications Act 2002**

26 June 2008

## **Annex A**

Annexes A and B of Schedule 4 to the FA10 Direction are deleted in their entirety and replaced by the following.

	<p><b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes a statement to be produced and provided to Ofcom but need not be published</b></p>	Wholesale local access market	wholesale service A	wholesale service B etc
Annex 1	Statement by Ofcom	P		
Annex 2	Statement of responsibility	P	P	P
Annex 3	Consolidated performance summary	P		
Annex 4	Regulatory financial review	P		
Annex 5A	Attribution of Wholesale current costs	P	N	N
Annex 5B	Attribution of Retail current costs			
Annex 6A	Attribution of Wholesale Current Cost Mean Capital Employed	P	N	N
Annex 6B	Attribution of Retail Current Cost Mean Capital Employed			
Annex 7	Financial performance in Access markets	P		
Annex 8	Financial performance in other wholesale SMP markets			
Annex 10	Market Group Financial Review	P		
Annex 11	Market summary	P		
Annex 12	Market summary			
Annex 13	Market summary (ToD)			
Annex 14	Market Level Financial Review	P		
Annex 15	Network Activity Statement	P		
Annex 16	Calculation of FAC based on component costs and usage factors	P		
Annex 17	BT Network Services Reconciliation	P		
Annex 19	BT Reconciliation Statement - P&L	P		
Annex 20	BT Reconciliation statement -MCE	P		
Annex 21	BT Inter-market turnover reconciliation	P		
Annex 22	Notes to the Financial Statements	P	P	P
Annex 23	Report of the Regulatory Auditors	P		
Annex 24	Price controls in wholesale markets	P		
Annex 25	Price controls in wholesale markets	P		



<b>Note:"P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		Wholesale local access market	wholesale service A	wholesale service B etc
Annex 26	<b>Additional Information by way of notes</b>			
AI-1	Cost category analysis for network components, increments and common cost		N	N
AI-2	Summarised activity analysis of components		N	N
AI-3	Cost category analysis for network components and increments		N	N
AI-4	Summarised activity analysis for network components and increments		N	N
AI-5	Analysis by asset category and network activities		N	N
AI-6	CCA fixed asset movement statement		N	N
AI-7	Total mean capital employed and detailed activity analysis		N	N
AI-8	Analysis by type of product group and by type of OLO			
AI-9	Detailed Network activity analysis of mean capital employed		N	N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N		
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N		
AI-13	Total operating costs & mean capital employed costs for each plant group	N	N	N
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis			
AI-15	Provision of BT 'Data File'	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets	N	N	N
AI-21	Comprehensive analysis of the transfer charges	N	N	N

## **Annex B**

Annex C to Direction 3 as modified in the Changes to BT's Regulatory Reporting and Audit Requirements, dated 30 May 2007 is amended in that the words underlined are inserted and the words struck through are deleted.

	<b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes a statement to be produced and provided to Ofcom but need not be published</b>	<b>Br adband conveyance in the UK</b>	<b>WS ATM Interconnection</b>	<b>Wholesale IDD-to-Category B</b>	<b>Wholesale trunk segments (including Kingston upon Hull)</b>	<b>WS service A</b>	<b>WS service B</b>	<b>Partial and Private circuits 2Mbit/s trunk</b>	<b>Partial and private circuits 34/45 mbit/s trunk</b>	<b>Partial and private circuits 140/155 mbit/s trunk</b>	<b>Partial and Private circuits 622 mbit/s trunk</b>
Annex 1	Statement by Ofcom	P		P	P						
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P		P	P						
Annex 4	Regulatory financial review	P		P	P						
Annex 5A	Attribution of Wholesale current costs	P	N	P	P	N	N	N	N	N	N
Annex 5B	Attribution of Retail current costs										
Annex 6A	Attribution of Wholesale Current Cost Mean Capital Employed	P	N	P	P	N	N	N	N	N	N
Annex 6B	Attribution of Retail Current Cost Mean Capital Employed										
Annex 7	Financial performance in Access markets										
Annex 8	Financial performance in other wholesale SMP markets	P		P	P						
Annex 10	Market Group Financial Review	P		P	P						
Annex 11	Market summary				P						
Annex 12	Market summary	P		P							
Annex 13	Market summary (ToD)										
Annex 14	Market Level Financial Review	P		P	P						
Annex 15	Network Activity Statement	P		P	P						
Annex 16	Calculation of FAC based on component costs and usage factors	P		P	P						
Annex 17	BT Network Services Reconciliation	P		P	P						
Annex 19	BT Reconciliation Statement - P&L	P		P	P						
Annex 20	BT Reconciliation statement -MCE	P		P	P						
Annex 21	BT Inter-market turnover reconciliation	P		P	P						
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P		P	P						
Annex 24	Price controls in wholesale markets	P		P	P						
Annex 25	Price controls in wholesale markets	P		P	P						

<b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		Broadband conveyance in the UK	WS ATM Interconnection	Wholesale IPDD to category B	Wholesale trunk segments (including Kingston upon Hull)	WS service A	WS service B	Partial and Private circuits 2mbit/s trunk	Partial and Private circuits 34/45mbit/s trunk	Partial and Private circuits 140/155mbit/s trunk	Partial and Private circuits 622mbit/s trunk
Annex 26	<b>Additional Information by way of notes</b>										
AI-1	Cost category analysis for network components, increments and common cost		N			N	N	N	N	N	N
AI-2	Summarised activity analysis of components		N			N	N	N	N	N	N
AI-3	Cost category analysis for network components and increments		N			N	N	N	N	N	N
AI-4	Summarised activity analysis for network components and increments		N			N	N	N	N	N	N
AI-5	Analysis by asset category and network activities		N			N	N	N	N	N	N
AI-6	CCA fixed asset movement statement		N			N	N	N	N	N	N
AI-7	Total mean capital employed and detailed activity analysis		N			N	N	N	N	N	N
AI-8	Analysis by type of product group and by type of OLO										
AI-9	Detailed Network activity analysis of mean capital employed		N			N	N	N	N	N	N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N		<del>N</del>	N						
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N		<del>N</del>	N						
AI-13	Total operating costs & mean capital employed costs for each plant group	N	N	<del>N</del>	N	N	N	N	N	N	N
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis										
AI-15	Provision of BT 'Data File'	N	N	<del>N</del>	N	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets										
AI-21	Comprehensive analysis of the transfer charges	N	N	<del>N</del>	N	N	N	N	N	N	N

## **Annex C**

For the year 1 April 2007 to 31 March 2008 the annexes to Direction 3 as amended at Annex B to this notification shall also include the following.

Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.		Wholesale residential analogue exchange line services	wholesale service A	wholesale service B ...	Wholesale business analogue exchange line services	wholesale service A	wholesale service B ...	Wholesale business ISDN2 exchange line services	wholesale service A	wholesale service B
Annex 26	<b>Additional Information by way of notes</b>									
AI-1	Cost category analysis for network components, increments and common cost		N	N		N	N		N	N
AI-2	Summarised activity analysis of components		N	N		N	N		N	N
AI-3	Cost category analysis for network components and increments		N	N		N	N		N	N
AI-4	Summarised activity analysis for network components and increments		N	N		N	N		N	N
AI-5	Analysis by asset category and network activities		N	N		N	N		N	N
AI-6	CCA fixed asset movement statement		N	N		N	N		N	N
AI-7	Total mean capital employed and detailed activity analysis		N	N		N	N		N	N
AI-8	Analysis by type of product group and by type of OLO									
AI-9	Detailed Network activity analysis of mean capital employed		N	N		N	N		N	N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N			N			N		
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N			N			N		
AI-13	Total operating costs & mean capital employed costs for each plant group	N	N	N	N	N	N	N	N	N
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis									
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets	N	N	N	N	N	N	N	N	N
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N	N	N
AI-22	Restatement of market analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue									
AI-23	Cost data for plant group to service for the PPC services and technical areas									

[illegible]

Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.		Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);	WS service A	WS service B	Partial and Private Circuits 34/45mbit/s link	Partial and Private Circuits 34/45mbit/s distribution	Partial and Private Circuits 34/45mbit/s -local end	Partial and Private Circuits 140/155mbit/s link	Partial and Private Circuits 140/155mbit/s distribution	Partial and Private Circuits 140/155mbit/s local end
Annex 26	Additional Information by way of notes									
AI-1	Cost category analysis for network components, increments and common cost		N	N	N	N	N	N	N	N
AI-2	Summarised activity analysis of components		N	N	N	N	N	N	N	N
AI-3	Cost category analysis for network components and increments		N	N	N	N	N	N	N	N
AI-4	Summarised activity analysis for network components and increments		N	N	N	N	N	N	N	N
AI-5	Analysis by asset category and network activities		N	N	N	N	N	N	N	N
AI-6	CCA fixed asset movement statement		N	N	N	N	N	N	N	N
AI-7	Total mean capital employed and detailed activity analysis		N	N	N	N	N	N	N	N
AI-8	Analysis by type of product group and by type of OLO									
AI-9	Detailed Network activity analysis of mean capital employed		N	N	N	N	N	N	N	N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N								
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N								
AI-13	Total operating costs & mean capital employed costs for each plant group									
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis									
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets	N	N	N	N	N	N	N	N	N
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N	N	N
AI-22	Restatement of market analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue	N								
AI-23	Cost data for plant group to service for the PPC services and technical areas	N	N	N	N	N	N	N	N	N



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Annex 26	Additional Information by way of notes											
AI-1	Cost category analysis for network components, increments and common cost		N	N	N	N		N			N	N
AI-2	Summarised activity analysis of components		N	N	N	N		N			N	N
AI-3	Cost category analysis for network components and increments		N	N	N	N		N			N	N
AI-4	Summarised activity analysis for network components and increments		N	N	N	N		N			N	N
AI-5	Analysis by asset category and network activities		N	N	N	N		N			N	N
AI-6	CCA fixed asset movement statement		N	N	N	N		N			N	N
AI-7	Total mean capital employed and detailed activity analysis		N	N	N	N		N			N	N
AI-8	Analysis by type of product group and by type of OLO											
AI-9	Detailed Network activity analysis of mean capital employed		N	N	N	N		N			N	N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N					N			N		
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N					N			N		
AI-13	Total operating costs & mean capital employed costs for each plant group	N	N	N	N	N	N	N		N	N	N
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis											
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets	N	N	N	N	N				N	N	N
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N	N	N	N	N
AI-22	Restatement of market analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue						N					
AI-23	Cost data for plant group to service for the PPC services and technical areas						N	N				

<b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		Wholesale residential ISDN2 exchange line services	Residential ISDN2 internal service connections	Residential ISDN2 internal service rental	Residential ISDN2 external service rental	Wholesale business ISDN30 exchange line services	Wholesale service A
Annex 26	<b>Additional Information by way of notes</b>						
AI-1	Cost category analysis for network components, increments and common cost		N	N	N		N
AI-2	Summarised activity analysis of components		N	N	N		N
AI-3	Cost category analysis for network components and increments		N	N	N		N
AI-4	Summarised activity analysis for network components and increments		N	N	N		N
AI-5	Analysis by asset category and network activities		N	N	N		N
AI-6	CCA fixed asset movement statement		N	N	N		N
AI-7	Total mean capital employed and detailed activity analysis		N	N	N		N
AI-8	Analysis by type of product group and by type of OLO						
AI-9	Detailed Network activity analysis of mean capital employed		N	N	N		N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N				N	
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N				N	
AI-13	Total operating costs & mean capital employed costs for each plant group	N	N	N	N	N	N
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis						
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets	N	N	N	N	N	N
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N
AI-22	<u>Restatement of market analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue</u>						
AI-23	<u>Cost data for plant group to service for the PPC services and technical areas</u>						

Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.		Call origination on fixed public narrowband networks	WS Call originating local exchange segment PSTN and ISDN (excluding Operator Assistance)	WS Call originating local exchange segment (incl Operator Assistance)	WS Call originating local exchange segment ISDN (including Operator Assistance)	WS Call originating local exchange segment PSTN and ISDN (incl Operator Assistance)	WS Call origination local exchange Strick	WS Call origination local exchange Strick (ISDN)	WS local exchange Call origination circuit excluding FRIACO port	WS FRIACO port at the local exchange	WS PPP for FRIACO
Annex 26	<b>Additional Information by way of notes</b>										
AI-1 Cost category analysis for network components, increments and common cost			N	N	N	N	N	N	N	N	N
AI-2 Summarised activity analysis of components			N	N	N	N	N	N	N	N	N
AI-3 Cost category analysis for network components and increments			N	N	N	N	N	N	N	N	N
AI-4 Summarised activity analysis for network components and increments			N	N	N	N	N	N	N	N	N
AI-5 Analysis by asset category and network activities			N	N	N	N	N	N	N	N	N
AI-6 CCA fixed asset movement statement			N	N	N	N	N	N	N	N	N
AI-7 Total mean capital employed and detailed activity analysis			N	N	N	N	N	N	N	N	N
AI-8 Analysis by type of product group and by type of OLO											
AI-9 Detailed Network activity analysis of mean capital employed			N	N	N	N	N	N	N	N	N
AI-10 Graphs over time of the various raw indices, index weightings & composite indices		N									
AI-11 Estimated economic useful lives, valuation and depreciation basis etc		N									
AI-13 Total operating costs & mean capital employed costs for each plant group		N	N	N	N	N	N	N	N	N	N
AI-14 CPS set up costs and their recovery over time on a discounted cash flow basis											
AI-15 Provision of BT 'Data File'		N	N	N	N	N	N	N	N	N	N
AI-20 CCA information to allow Ofcom to re-calculate the RAV for copper assets											
AI-21 Comprehensive analysis of the transfer charges		N	N	N	N	N	N	N	N	N	N
AI-22 Restatement of market analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue											
AI-23 Cost data for plant group to service for the PPC services and technical areas											

Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.		Local-tandem conveyance and transit on fixed public narrowband networks	WS local-tandem conveyance segment	WS local-tandem conveyance segment (ISDN)	WS LTT Stick	WS LTT Stick (ISDN)	Single transit on fixed public narrowband networks	WS Single transit segment PSTN and ISDN
Annex 26	<b>Additional Information by way of notes</b>							
AI-1	Cost category analysis for network components, increments and common cost		N	N	N	N		N
AI-2	Summarised activity analysis of components		N	N	N	N		N
AI-3	Cost category analysis for network components and increments		N	N	N	N		N
AI-4	Summarised activity analysis for network components and increments		N	N	N	N		N
AI-5	Analysis by asset category and network activities		N	N	N	N		N
AI-6	CCA fixed asset movement statement		N	N	N	N		N
AI-7	Total mean capital employed and detailed activity analysis		N	N	N	N		N
AI-8	Analysis by type of product group and by type of OLO							
AI-9	Detailed Network activity analysis of mean capital employed		N	N	N	N		N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N					N	
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N					N	
AI-13	Total operating costs & mean capital employed costs for each plant group	N	N	N	N	N	N	N
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis							
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets							
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N
AI-22	Restatement of market analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue							
AI-23	Cost data for plant group to service for the PPC services and technical areas							

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Annex 26	Additional Information by way of notes																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																														
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		Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.									
		Broadband conveyance in the UK	WS ATM Interconnection	Wholesale IPDD to category B	Wholesale trunk segments (including Kingston upon Hull)	WS service A	WS service B	Partial and Private circuits 2mbit/s trunk	Partial and Private circuits 34/45mbit/s trunk	Partial and Private circuits 140/155mbit/s trunk	Partial and Private circuits 622mbit/s trunk
Annex 26	Additional Information by way of notes										
AI-1	Cost category analysis for network components, increments and common cost		N			N	N	N	N	N	N
AI-2	Summarised activity analysis of components		N			N	N	N	N	N	N
AI-3	Cost category analysis for network components and increments		N			N	N	N	N	N	N
AI-4	Summarised activity analysis for network components and increments		N			N	N	N	N	N	N
AI-5	Analysis by asset category and network activities		N			N	N	N	N	N	N
AI-6	CCA fixed asset movement statement		N			N	N	N	N	N	N
AI-7	Total mean capital employed and detailed activity analysis		N			N	N	N	N	N	N
AI-8	Analysis by type of product group and by type of OLO										
AI-9	Detailed Network activity analysis of mean capital employed		N			N	N	N	N	N	N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N		N	N						
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N		N	N						
AI-13	Total operating costs & mean capital employed costs for each plant group	N	N	N	N	N	N	N	N	N	N
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis										
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets										
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N	N	N	N
AI-22	Restatement of market analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue				N						
AI-23	Cost data for plant group to service for the PPC services and technical areas				N	N	N	N	N	N	N

Note:"P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.		Fixed geographic call termination	WS Call termination local exchange segment	WS Call termination local exchange segment (ISDN)	WS Call termination local exchange Stick	WS Call termination local exchange Stick (ISDN)
Annex 26	<b>Additional Information by way of notes</b>					
AI-1	Cost category analysis for network components, increments and common cost		N	N	N	N
AI-2	Summarised activity analysis of components		N	N	N	N
AI-3	Cost category analysis for network components and increments		N	N	N	N
AI-4	Summarised activity analysis for network components and increments		N	N	N	N
AI-5	Analysis by asset category and network activities		N	N	N	N
AI-6	CCA fixed asset movement statement		N	N	N	N
AI-7	Total mean capital employed and detailed activity analysis		N	N	N	N
AI-8	Analysis by type of product group and by type of OLO					
AI-9	Detailed Network activity analysis of mean capital employed		N	N	N	N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N				
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N				
AI-13	Total operating costs & mean capital employed costs for each plant group	N	N	N	N	N
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis					
AI-15	Provision of BT 'Data File'	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets					
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N
AI-22	Restatement of market analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue					
AI-23	Cost data for plant group to service for the PPC services and technical areas					

Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.		Residential analogue exchange line services in the UK	Retail Segments	Residential local calls in the UK	Retail Segments	Residential national calls in the UK	Retail Segments	Residential IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK	Retail Segments
Annex 26	Additional Information by way of notes								
AI-1	Cost category analysis for network components, increments and common cost								
AI-2	Summarised activity analysis of components								
AI-3	Cost category analysis for network components and increments								
AI-4	Summarised activity analysis for network components and increments								
AI-5	Analysis by asset category and network activities								
AI-6	CCA fixed asset movement statement								
AI-7	Total mean capital employed and detailed activity analysis								
AI-8	Analysis by type of product group and by type of OLO	N	N	N		N		N	
AI-9	Detailed Network activity analysis of mean capital employed								
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N		N		N		N	
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N		N		N		N	
AI-13	Total operating costs & mean capital employed costs for each plant group								
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis								
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets								
AI-21	Comprehensive analysis of the transfer charges								
AI-22	Restatement of market analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue								
AI-23	Cost data for plant group to service for the PPC services and technical areas								



Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.		Retail IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the UK	Retail Segments	Residential calls to mobiles in the UK	Retail Segments	Residential operator assisted calls in the UK	Retail Segments
Annex 26	<b>Additional Information by way of notes</b>						
AI-1 Cost category analysis for network components, increments and common cost							
AI-2 Summarised activity analysis of components							
AI-3 Cost category analysis for network components and increments							
AI-4 Summarised activity analysis for network components and increments							
AI-5 Analysis by asset category and network activities							
AI-6 CCA fixed asset movement statement							
AI-7 Total mean capital employed and detailed activity analysis							
AI-8 Analysis by type of product group and by type of OLO		N		N	N	N	N
AI-9 Detailed Network activity analysis of mean capital employed							
AI-10 Graphs over time of the various raw indices, index weightings & composite indices		N		N		N	
AI-11 Estimated economic useful lives, valuation and depreciation basis etc		N		N		N	
AI-13 Total operating costs & mean capital employed costs for each plant group							
AI-14 CPS set up costs and their recovery over time on a discounted cash flow basis							
AI-15 Provision of BT 'Data File'		N	N	N	N	N	N
AI-20 CCA information to allow Ofcom to re-calculate the RAV for copper assets							
AI-21 Comprehensive analysis of the transfer charges							
AI-22 Restatement of market analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue							
AI-23 Cost data for plant group to service for the PPC services and technical areas							

## Annex 5

# Notification of modification to Direction 4 and the FA10 Direction

## NOTIFICATION UNDER SECTION 49 OF THE COMMUNICATIONS ACT 2003

**Direction modifying a Direction under section 49 of the Communications Act 2003 and SMP Services Condition OA2 and FA10.2 specifying requirements for the form and content of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting**

### WHEREAS:

(A) as a result of a market analysis carried out by the Director General of Telecommunications (the 'Director') and OFCOM in accordance with section 79 of the Act, BT has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

(B) as a result of such SMP designations, BT has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OA1 to OA34 and FA10 imposing obligations on BT in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to BT's activities in those markets where BT has been designated as having SMP;

(C) in complying with the SMP services conditions referred to in paragraph B above, and in particular condition OA5 and FA10.5, BT is required to prepare such Regulatory Financial Statements as directed by OFCOM from time to time;

(D) by virtue of the Transitional Provisions, references to the Director in any of those SMP services conditions should be read as references to OFCOM;

(E) conditions OA2 and FA10.2 includes, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to BT's obligations under conditions OA1 to OA34 and FA10;

(F) this modified Direction modifies:

- i. Direction 4 given under SMP Services Condition OA2 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004, as modified at Annex 5 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 30 May 2007 ("Direction 4"), which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out the form and content to be applied by BT in preparing certain Regulatory Financial Statements required by virtue of condition OA5 and the Direction 4; and
- ii. A Direction given under SMP Services Condition FA10.2 at Schedule 5 to the Notification set out in Annex 2 of the Review of the wholesale local access market, dated 16 December 2004, as modified at Annex 3 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements

(the "FA10 Direction"), which relates to BT's obligations under SMP services condition FA10, in that it sets out the form and content to be applied by BT in preparing certain Regulatory Financial Statements required by virtue of condition FA10.5 and the FA10 Direction;

(G) BT is entitled to depart from the form and content set out in this Direction in certain circumstances in accordance with conditions OA7 and OA21 and FA10.7 and FA10.21;

(H) for the reasons set out in the explanatory statement accompanying this modified Direction, OFCOM are satisfied that, in accordance with section 49(2) of the Act, this Direction is:

- (i) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- (ii) not such as to discriminate unduly against particular persons or against a particular description of persons;
- (iii) proportionate to what it is intended to achieve; and
- (iv) in relation to what it is intended to achieve, transparent;

(I) for the reasons set out in the explanatory statement accompanying this modified Direction, Ofcom have considered and acted in accordance with the six Community requirements set out in section 4 of the Act and their duties in section 3 of the Act;

(J) on 17 April 2008, Ofcom published a notification of the proposed modified Direction in accordance with section 49 of the Act (the 'Notification');

(K) a copy of the Notification was sent to the Secretary of State, the European Commission and the regulatory authorities at every other Member State in accordance with section 50 of the Act;

(L) in the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 29 May 2008;

(M) by virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the Notification, with or without modification, only if:

- a) they have considered every representation about the proposal that is made to them within the period specified in the Notification; and
- b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

(N) Ofcom has considered every representation about the modified Direction duly made to them and these representations are discussed in the statement accompanying this modified Direction; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

**NOW, therefore, pursuant to section 49 of the Act and Condition OA2, OFCOM hereby gives the following modification to Direction 4 and the FA10 Direction:**

1. The form and content of the Regulatory Financial Statements set out in the FA 10 Direction shall be amended as follows in Annex A to this modified Direction

2. The form and content of the Regulatory Financial Statements set out in Direction 4 and applying to Wholesale Market 12 as identified in Part 1, Schedule 1 of the Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 shall be amended as follows in Annex B to this modified Direction.
3. The form and content of the Regulatory Financial Statements set out in Direction 4 and applying to Wholesale Market 14 as identified in Part 1, Schedule 1 of the Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 shall be amended as follows in Annex C to this modified Direction.
4. The form and content of the Regulatory Financial Statements set out in Direction 4 and applying to Wholesale Market 15 as identified in Part 1, Schedule 1 of the Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 shall be amended as follows in Annex D to this modified Direction.
5. The form and content of the Regulatory Financial Statements set out in Direction 4 and applying to Wholesale Market 16 as identified in Part 1, Schedule 1 of the Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 shall be amended as follows in Annex E to this modified Direction.
6. The form and content of the Regulatory Financial Statements set out in Direction 4 and applying to Wholesale Market 17 as identified in Part 1, Schedule 1 of the Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 shall be amended as follows in Annex F to this modified Direction.
7. The form and content of the Regulatory Financial Statements set out in Direction 4 and applying to Technical Areas shall be amended as follows in Annex G to this modified Direction.
8. The Additional Information set out in Annex 26 to Direction 4 shall be amended as follows in Annex H to this modified Direction and will apply only to the preparation of the Regulatory Financial Statements for the Financial Year 1 April 2007 to 30 March 2008.
9. For the purpose of interpreting this modified Direction, the following definitions shall apply:
  - a) "**Act**" means the Communications Act 2003 (c. 21);
  - b) "**BT**" means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;
  - c) "**Director**" means the Director General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
  - d) '**Direction 3**' means this Modified Direction given under SMP Services Condition OA2 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 as modified at Annex 4 of the Changes to BT's Regulatory Financial Statements and Audit Requirements, dated 30 May 2007, which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out the Regulatory Financial Statements which are required to be prepared, audited (including the level of audit), delivered to OFCOM and/or published by BT under condition OA5 as modified;
  - e) '**OFCOM**' means the Office of Telecommunications;

f) "**Notification**" means the Notifications which set in place the obligations on BT referred to in recital (B) of this modified Direction above; and

g) '**Transitional Provisions**' means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003, and the Office of Communications Act 2002 (Commencement No. 3) and Communications Act 2003 (Commencement No. 2) Order 2003.

12. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them in this notification and otherwise any word or expression shall have the same meaning as it has in the Notification and otherwise any word or expression shall have the same meaning as it has in the Act.

13. For the purpose of interpreting this modified Direction:

- a) headings and titles shall be disregarded; and
- b) the Interpretation Act 1978 (c. 30) shall apply as if this Direction were an Act of Parliament.

14. This Direction shall take effect on the day it is published.

15. The Schedule to this modified Direction shall form part of this modified Direction.

**Craig Lonie**

**Director of Competition Finance**

**A person authorised by Ofcom under paragraph 18 of the Schedule to the Office of Communications Act 2002**

26 June 2008

## Annex A

The Annexes to the Direction at Schedule 5 to the FA10 Direction are deleted in their entirety and replaced by the following.

### Index of form and content annexes

Annex 1	Statement by Ofcom
Annex 2	Statement of responsibility
Annex 3	Consolidated performance summary
Annex 4	Regulatory financial review
Annex 5A	Wholesale Current cost cascade
Annex 6A	Allocation of Wholesale Current Cost Mean Capital Employed
Annex 7	Financial performance in Access markets
Annex 10	Market Group Financial Review
Annex 11	Wholesale Market summary
Annex 14	Market Level Financial Review
Annex 15	Network Activity Statement
Annex 16	Calculation of FAC based on component costs and usage factors
Annex 17	BT Network Services Reconciliation
Annex 19	BT Reconciliation Statement - P&L
Annex 20	BT Reconciliation statement -MCE
Annex 21	BT Inter-market turnover reconciliation
Annex 22	Notes to the Financial Statements
Annex 23	Report of the Regulatory Auditors
Annex 24	Price controls in wholesale markets
Annex 25	Price controls in wholesale markets
Annex 26	Additional information by way of notes

## **Annex 1**

### **Statement by Ofcom**

Ofcom is entitled, under Condition OA6(c) to comment on the data in, the notes to, or the presentation of any of the Financial Statements, in relation to each of the markets.

## **Annex 2**

### **Statement of Responsibility (BT)**

The Board of Directors of the dominant provider (or if this includes a group of companies, the ultimate holding company) have responsibility for setting out the basis of preparation of the Financial Statements, confirming compliance with its responsibilities under the Conditions, and any other information relevant to carrying out its obligations under those conditions.



### Annex 3

#### Consolidated performance summary

Purpose of statement: to provide overview of performance and identify links to other sections of this report

For the year ended 31 March 200x		CCA operating costs	CCA return before taxation	Return on Turnover	MCE	Return on MCE	Supporting Information
Markets	Turnover £m	£m	£m	%	£m	%	
Access Markets	£	£	£	%	£	%	
Wholesale Markets	£	£	£	%	£	%	
Retail Markets	£	£	£	%	£	%	
	£	£	£	%	£	%	
<b>Residual Activities</b>							
Wholesale residual activities	£	£	£	%	£	%	
Retail residual activities	£	£	£	%	£	%	
	£	£	£	%	£	%	
Adjustments	£	£	£	%	£	%	
<b>Total Markets</b>	£	£	£	%	£	%	

For the year ended 31 March 200y		CCA operating costs	CCA return before taxation	Return on Turnover	MCE	Return on MCE	Supporting Information
Markets	Turnover £m	£m	£m	%	£m	%	
Access Markets	£	£	£	£	£	£	
Wholesale Markets	£	£	£	£	£	£	
Retail Markets	£	£	£	£	£	£	
	£	£	£	£	£	£	
<b>Residual Activities</b>							
Wholesale residual activities	£	£	£	%	£	%	
Retail residual activities	£	£	£	%	£	%	
	£	£	£	%	£	%	
Adjustments	£	£	£	%	£	%	
<b>Total Markets</b>	£	£	£	%	£	%	

**Annex 4****Regulatory Financial Review (BT)**

The dominant provider will be required to prepare a Regulatory Financial Review (RFR) to summarise the financial performance across the markets for which cost accounting and/or accounting separation obligations apply.

The RFR should assist the user's assessment of the regulatory financial statements as produced under condition OA5 and provide commentary on compliance with this regulatory condition.

The RFR should focus on those matters which are relevant to the users of the information, be clearly written and readily understandable

It should include discussion of the regulatory financial performance of the regulated activities in the period and the main influences on performance, including known trends and the effect of risks facing the activities.

The information and analysis contained within the RFR should be complete and free from bias

Disclosure should make clear any issues of comparability that would assist the reader's understanding of the review. It should highlight accounting policies that are key to the understanding of performance, focusing on those which have required the particular exercise of judgement in their application and those accounting policies which have changed in the year

When using financial and non financial measures in the RFR, it is important these are defined and explained, assumptions set out and prior year comparatives are disclosed on the same basis as current year figures

A key aim of the operating review is to enable the user to understand the dynamics of the products and services in each market where the dominant provider has SMP status and specific regulatory accounting obligations, and the main influences on financial performance and how these interrelate.

The review should explain the main factors that underlie the markets and in particular those which have either varied in the past or are expected to change in the future. It should set out an analysis of the effect of changes in each market or the environment in which it operates and of developments within each market. For example changes in the market conditions, introduction or announcement of new products and services, new and discontinued activities, other acquisitions and disposals.

The RFR should also analyse the main factors and influences that may have an effect on future performance, whether or not they were significant in the period under review. There should be a discussion on the principal risks facing activities and markets, with a commentary on the approach taken to manage them.

# BT's regulatory financial reporting

## Annex 5A

### Attribution of wholesale current costs

Purpose of statement: to provide an understanding of how costs have been allocated to each market

for the year ended 31 March 200x

	Residential analogue exchange line services £m	Business analogue exchange line services £m	Business ISDN2 exchange line services £m	TISBO (up to and incl. 8Mbit/s) £m	TISBO (above 8Mbit/s and up to and incl. 155Mbit/s) £m	ASBO (all bandwidths £m	Residential ISDN2 exchange line services £m	Business ISDN30 exchange line services £m	Wholesale local access £m	Total Access markets £m	Call origination on fixed public narrowband networks £m	Local tandem conveyance and transit on fixed public narrowband networks £m	Single transit on fixed public narrowband networks £m	Technical areas (Interconnect Circuits) £m	Fixed call termination £m	Wholesale trunk segments £m	Technical areas (Point of handover) £m	ASBO in the UK £m	Broadband conveyance in the UK £m	Total other wholesale SNP markets £m	Wholesale residual markets £m	Total wholesale £m
<b>Operating Costs of Wholesale Services:</b>																						
Provision / Maintenance	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Network Support	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
General Support	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
General Management	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Finance and Billing	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Accommodation	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Bad Debts	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Other Costs	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Depreciation - Land & Building	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
- Access	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
- Switch and Transmission	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
- Other related	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
<b>Sub total Depreciation</b>	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
<b>Sub total HCA Operating Costs</b>	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
<b>CCA adjustments:</b>																						
Holding (gain)/loss	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Supplementary depreciation	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Other adjustments	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Roundings	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
<b>Total CCA Operating Costs</b>	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£

#### Notes:

Cost categories to allow for sensible attribution of costs between Wholesale and Retail markets

Repeat analysis for prior year

For each category of costs, include a note summarising:

1: the nature of the costs involved      2: the key drivers behind the allocation of costs to the markets      3: significant changes in allocation bases during the year

## Annex 6A

## Allocation of Wholesale Current Cost Mean Capital Employed

Purpose of statement: to provide an understanding of how assets have been allocated to each market

for the year ended 31 March 200x

	Residential analogue exchange line services £m	Business analogue exchange line services £m	Business (SDN2) exchange line services £m	TISBO (up to and incl. 8Mbit/s)	TISBO (above 8Mbit/s and up to and incl. 155Mbit/s)	ASBO (all bandwidths) £m	Residential (SDN2) exchange line services £m	Business (SDN30) exchange line services £m	Wholesale local access £m	Total Access markets £m	Call origination on fixed public narrowband networks £m	Local tandem conveyance and transit on fixed public narrowband networks £m	Single transit on fixed public narrowband networks £m	Technical areas (Interconnect Circuits)	Fixed call termination	Wholesale trunk segments	Technical areas (Point of handover)	ASBO in the UK	Broadband conveyance in the UK	Total other wholesale SMP markets	Wholesale residual markets	Total wholesale
<b>Fixed assets</b>																						
Land & Buildings	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Access - Copper	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Access - Fibre	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Access Duct	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Switch	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Transmission	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Other	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Investments	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
<b>Total Fixed Assets</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Current assets</b>																						
Stocks	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Debtors	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Internal	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
External	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
<b>Total current assets</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Creditors falling due within one year</b>																						
Other creditors	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Internal	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
External	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
<b>Total Creditors falling due within one year</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Net current assets</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Total assets less current liabilities</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Provisions for liabilities & charges & roundings	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Roundings	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
<b>Mean Capital Employed</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>

## Notes:

Repeat analysis for prior year

For each category of fixed asset include a note summarising the nature of the assets involved

For all categories of asset and liability include a note summarising:

1: the key drivers behind the allocation of MCE to the markets

2: significant changes in allocation bases during the year

## Annex 7

## Financial performance in Access markets

Purpose of statement: to provide summary of financial performance in Access markets

for the year ended 31 March 200x

	Turnover				HCA costs	CCA		Total CCA operating costs	Return	Return on turnover	Mean Capital Employed	Return on MCE
	Internal	External	Roundings	Total		adjustments	Roundings					
Wholesale residential analogue exchange line services	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale business analogue exchange line services	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale business ISDN2 exchange line services	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale residential ISDN2 exchange line services	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale business ISDN30 exchange line services	£	£	£	£	£	£	£	£	£	%	£	%
TISBO (up to and including 8Mbits)	£	£	£	£	£	£	£	£	£	%	£	%
TISBO (above 8Mbits and up to and including 8Mbits)	£	£	£	£	£	£	£	£	£	%	£	%
AISBO (all bandwidths)	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale local access	£	£	£	£	£	£	£	£	£	%	£	%
	£	£	£	£	£	£	£	£	£	%	£	%

for the year ended 31 March 200y

	Turnover				HCA costs	CCA		Total CCA operating costs	Return	Return on turnover	Mean Capital Employed	Return on MCE
	Internal	External	Roundings	Total		adjustments	Roundings					
Wholesale residential analogue exchange line services	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale business analogue exchange line services	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale business ISDN2 exchange line services	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale residential ISDN2 exchange line services	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale business ISDN30 exchange line services	£	£	£	£	£	£	£	£	£	%	£	%
TISBO (up to and including 8Mbits)	£	£	£	£	£	£	£	£	£	%	£	%
TISBO (above 8Mbits and up to and including 8Mbits)	£	£	£	£	£	£	£	£	£	%	£	%
AISBO (all bandwidths)	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale local access	£	£	£	£	£	£	£	£	£	%	£	%
	£	£	£	£	£	£	£	£	£	%	£	%

## Annex 10

### Financial Review at Market Group level

The dominant provider will be required to prepare a Financial Review to summarise the financial performance across groups of regulated markets (deemed to be Access, other Wholesale SMP markets and Retail SMP) for which cost accounting and/or accounting separation obligations apply.

The Financial Review should assist the user's assessment of the regulatory financial statements as produced under condition OA5 and provide commentary on compliance with this regulatory condition.

The Financial Review should focus on those matters which are relevant to the users of the information, be clearly written and readily understandable

It should include discussion of the regulatory financial performance across the relevant markets, in the period and the main influences on performance, including known trends and the effect of risks facing those markets.

The information and analysis contained within the Financial Review should be complete and free from bias

Disclosure should make clear any issues of comparability that would assist the reader's understanding of the review. It should highlight accounting policies that are key to the understanding of performance, focusing on those which have required the particular exercise of judgement in their application and those accounting policies which have changed in the year

When using financial and non financial measures in the Financial Review, it is important these are defined and explained, assumptions set out and prior year comparatives are disclosed on the same basis as current year figures

A key aim of the operating review is to enable the user to understand the dynamics of the products and services in each market where the dominant provider has SMP status and specific regulatory accounting obligations, and the main influences on financial performance and how these interrelate.

The review should explain the main factors that underlie the markets and in particular those which have either varied in the past or are expected to change in the future. It should set out an analysis of the effect of changes in each market or the environment in which it operates and of developments within each market. For example changes in the market conditions, introduction or announcement of new products and services, new and discontinued activities, other acquisitions and disposals.

The OFR should also analyse the main factors and influences that may have an effect on future performance, whether or not they were significant in the period under review. There should be a discussion on the principal risks facing activities and markets, with a commentary on the approach taken to manage them.

# Annex 11

## Market summary

Purpose of statement: to provide more detail on financial performance and first order tests of compliance with cost orientation and non-discrimination obligations

### Summary

	Internal Sales - services only provided internally £m	Internal Sales - services also provided externally £m	External Sales £m	Turnover (see note 1) £m	Operating costs £m	Depreciation £m	Holding gain/(loss) £m	Supplementary depreciation £m	Other adjustments £m	Roundings £m	Total CCA operating costs £m	Return £m	Return on turnover %	Mean capital employed £m	Return on mean capital employed %
2007	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%
2006	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%

Note 1: Comparison of Average internal and external charges with each other and with FAC

← Non- discrimination → ← Cost orientation →

	Internal Sales - services also provided externally £m	Internal Sales - services only provided internally £m	External Sales £m	Turnover £m	Volume	Unit	Average price £	FAC (see Section 5) £	Indicative LRIC floors & ceilings as multiple of FAC	Average price/FAC
<b>for the year ended 31 March 2007</b>										
<b>Service</b>										
Service 1 Internal	£			£		x	£   £		x.xx	x.xx
Service 1 External			£	£		x	£   £		x.xx	x.xx
Service 2 Internal	£			£		x	£   £		x.xx	x.xx
Service 2 External etc	£	£	£	£						
<b>for the year ended 31 March 2006</b>										
<b>Service</b>										
Service 1 Internal	£			£		x	£   £		x.xx	x.xx
Service 1 External			£	£		x	£   £		x.xx	x.xx
Service 2 Internal	£			£		x	£   £		x.xx	x.xx
Service 2 External etc	£	£	£	£						

## **Annex 14**

### **Market Level Financial Review**

The dominant provider will be required to prepare a Market Level Financial Review (MLFR) to encompass all markets for which cost accounting and/or accounting separation obligations apply.

The MLFR should assist the user's assessment of the regulatory financial statements as produced under condition OA5 and provide commentary on compliance with this regulatory condition.

The MLFR should focus on those matters which are relevant to the users of the information, be clearly written and readily understandable

It should include discussion of the regulatory financial performance of each individual market, in which the dominant provider has accounting separation or cost accounting obligations, in the period and the main influences on performance, including known trends and the effect of risks facing each market.

The information and analysis contained within the MLFR should be complete and free from bias

Disclosure should make clear any issues of comparability that would assist the reader's understanding of the review. It should highlight accounting policies that are key to the understanding of performance, focusing on those which have required the particular exercise of judgement in their application and those accounting policies which have changed in the year

When using financial and non financial measures in the MLFR, it is important these are defined and explained, assumptions set out and prior year comparatives are disclosed on the same basis as current year figures

A key aim of the operating review is to enable the user to understand the dynamics of the products and services in each market where the dominant provider has SMP status and specific regulatory accounting obligations, and the main influences on financial performance and how these interrelate.

The review should explain the main factors that underlie each market and in particular those which have either varied in the past or are expected to change in the future. It should set out an analysis of the effect of changes in each market or the environment in which it operates and of developments within each market. For example changes in the market conditions, introduction or announcement of new products and services, new and discontinued activities, other acquisitions and disposals.

The MLFR should also analyse the main factors and influences that may have an effect on future performance, whether or not they were significant in the period under review. There should be a discussion on the principal risks facing activities and markets, with a commentary on the approach taken to manage them.



# BT's regulatory financial reporting

Annex 15

## BT Statement of Costs on a Current Cost Basis

Network Activity Statement  
for year ended 31st March 200x

Network Activity Statement - Consolidated (this is a consolidation of all markets where there are cost accounting obligations)

Fully Allocated Cost	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume	Average costs per min/unit on a current cost basis relating to current year
----------------------	--------------------	----------------------------	--	---------------------------	---------------------------	--	---------------	---	--------	---

Components

Local exchange concentrator  
Local exchange call set up  
Local exchange call duration

:

per component list

:

xDSL specific  
Product management, policy & planning for xDSL interconnect services  
Wholesale bad debts

Totals

## Annex 16

# **Calculation of FAC based on component costs and usage factors** **for the year ended 31st March 200x**

Market A					Market B						etc		
	Average cost per unit (from annex 15)	internal service connections	internal service rentals	external service rentals	internal service connections	internal service takeovers	external services connections	external service transfers	internal service rentals	external service rentals	etc	etc	etc
Fully Allocated Cost (£m)													
Components													
Local exchange concentrator	x.xx												
Local exchange call set up	x.xx												
Local exchange call duration	x.xx												
:	x.xx												
per component list	x.xx												
:	x.xx												
xDSL specific	x.xx												
Product management, policy & planning for xDSL inte	x.xx												
Wholesale bad debts	x.xx												
FAC		x.xx	x.xx	x.xx	x.xx	x.xx	x.xx	x.xx	x.xx	x.xx	x.xx	x.xx	x.xx

Annex 17

**BT Network Services Reconciliation**

for year ended 31st March 200x

**Consolidation Statement (a summary of all wholesale markets where there are cost accounting obligations)**

	Total (from Annex 15)	Market A	Market B	Market C	Non cost accounting, roundings and residuals
<b>Fully Allocated Cost</b>					

Local exchange concentrator

Local exchange call set up

Local exchange call duration

:

**per component list**

:

xDSL specific

Product management, policy & planning for xDSL interconnect services

Wholesale bad debts

---

**Totals**

---

## Annex 19

**BT Reconciliation Statement**

**Consolidated profit and loss account**  
**For the year ended 31 March 200x**

	Turnover £m	Operating Costs £m	HCA Return or Profit before taxation £m	Holding gain/(loss) and other Adjustments £m	Supplem- entary depreciation £m	CCA Return or Profit Before Taxation £m
<b>Market/Area</b>						
Wholesale Markets (Access and other where cost accounting and/or accounting separation obligations apply)						
Retail Markets (where cost accounting obligations apply)						
Sub Total SMP Markets						
<u>Residual activities</u>						
- Wholesale residual activities						
- Retail residual activities						
Sub Total Residual Activities						
Adjustments						
Wholesale						
Retail						
Sub Total Adjustments						
<b>Total</b>						
<b>Adjustments (as necessary)</b>						
Elimination of Inter Business turnover and costs						
Other operating income						
Goodwill						
Group's share of profits of associates and joint ventures						
Profit on sale of fixed asset investments						
Profit on sale of Group undertakings						
Amounts written off investments						
Profit on sale of property fixed assets before exceptional items						
Profit on sale of property fixed assets						
Net short term interest payable						
Long term interest payable						
<b>As in the Annual Report</b>						

**Annex 20**

**BT Reconciliation statement**

**200x**

**200y  
(comparative)**

**Consolidated mean capital employed**

For the year ended 31 March 200x

**£m**

**£m**

Shareholders' funds as in the Annual Report  
CCA adjustments

**Adjustments**

Corporation taxes payable

Provision for dividends payable

Deferred tax /(ACT recoverable)

Long term borrowing:

Due in less than one year

Due in more than one year

Adjustments to closing capital employed

Goodwill

Minority interests

Closing CCA capital employed at 31 March

Opening CCA capital employed at 1 April

Adjustment to opening capital employed

Revised opening CCA capital employed at 1 April

Average CCA capital employed

Daily averaging adjustment

Deferred costs

**Total CCA mean capital employed**

**Mean capital employed of SMP Markets**

Wholesale Markets (Access and other where cost accounting and/or accounting separation obligations apply)

Retail Markets (where cost accounting obligations apply)

**Sub total markets**

**Residual activities**

- Wholesale residual activity

- Retail residual activity

Sub Total Residual Activities

Adjustments

Wholesale

Retail

Sub Total Adjustments

**Total CCA mean capital employed**

Annex 21

**BT Inter-market turnover reconciliation**  
 for year ended 31st March 200x

Charges from Wholesale residual to Retail markets are not shown on the face of the Retail market P&L account as charges from Wholesale markets	Other wholesale services (combined) £m	Residential analogue exchange line services in the UK £m	Residential local calls in the UK £m	Residential national calls in the UK £m	Residential IDD calls category A routes (retail IDD routes which are competitive) in the UK £m	Residential IDD calls category B routes (retail IDD routes which are not competitive) in the UK £m	Residential calls to mobiles in the UK £m	Residential operator assisted calls in the UK £m	Retail residual £m	Total 200x £m
Turnover originating in:										
Wholesale residential analogue exchange line services										
Wholesale business analogue exchange line services										
Wholesale business ISDN2 exchange line services										
Call origination on fixed public narrowband networks										
Local-tandem conveyance and transit on fixed public telephone networks										
Single transit on fixed public narrowband networks										
Technical areas (Interconnect Circuits)										
Fixed call termination										
Traditional interface symmetric broadband origination (up to and including 8Mbit/s)										
Traditional interface symmetric broadband origination (above 8Mbit/s up to 155Mbit/s)										
Alternative interface symmetric broadband origination (all bandwidths)										
Wholesale trunk segments										
Technical areas (Point of Handover)										
Asymmetric broadband origination in the UK										
Broadband conveyance in the UK										
Wholesale residential ISDN2 exchange line services										
Wholesale business ISDN30 exchange line services										
Wholesale local access										
Wholesale residual										
Residential analogue exchange line services in the UK										
Residential local calls in the UK										
Residential national calls in the UK										
Residential IDD calls category A routes (retail IDD routes which are competitive) in the UK										
Residential IDD calls category B routes (retail IDD routes which are not competitive) in the UK										
Residential calls to mobiles in the UK										
Residential operator assisted calls in the UK										
Retail residual										
Total 200x										

## **Annex 22**

### **Notes to the Financial Statements**

These will contain notes, modelled on statutory accounting conventions, to assist the user in the interpretation of the individual statements.

The notes will address issues necessary to ensure the fair presentation of the financial statements (where fairly presents is the basis of presentation) and that they are properly prepared (where properly prepared is the basis of presentation) including to the extent necessary the basis of accounting, accounting policies, changes for restatement, non compliance with UK GAAP and any other information that will enable users to properly understand the individual financial statement.

Amongst others the necessary notes would be expected to include:

- a description of the basis on which revenue from sales to other operators arise and other related matters necessary to understand how financial performance has been measured
- a commentary setting out how the principle of non discrimination and the calculation of usage factors have been applied in the preparation and presentation of financial statements in respect of wholesale services

## **Annex 23**

### **Report of the Regulatory Auditors**

The report of the independent regulatory auditors, produced in accordance with Condition OA5 (b),(c) and (d).

The statement by the regulatory auditor shall set out the responsibilities of the Dominant Provider and of the auditor, the basis of audit opinion in accordance with current auditing standards, to whom a duty of care is owed and their opinion in respect of each Financial Statement.

For reasons of simplicity and understandability the auditor may have a single opinion covering Accounting Separation Financial Statements and Cost Accounting Financial Statements, provided that their opinion clearly identifies the nature of the assurance given in relation to each.



## Annex 24

## Price controls in wholesale markets

	NCC Control X factor	Average charges 2005/06	Average Charges 2004/05	% Change relative to RPI		NCC Control X factor	Average charges 2005/06	Average Charges 2004/05	% Change relative to RPI
Basket									
Basket 1	RPI -x%	measure	measure		Basket 10	RPI -x%	measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 2	RPI -x%	measure	measure		Basket 11	RPI -x%	measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 3	RPI -x%	measure	measure		Basket 12	RPI -x%	measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 4	RPI -x%	measure	measure		Basket 13	RPI -x%	measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 5	RPI -x%	measure	measure		Basket 14	RPI -x%	measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 6	RPI -x%	measure	measure		Basket 15		measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 7	RPI -x%	measure	measure		Basket 16		measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 8	RPI -x%	measure	measure						
- Internal		x.xx	x.xx	x.x%					
- External		x.xx	x.xx	x.x%					
Basket 9	RPI -x%	measure	measure						
- Internal		x.xx	x.xx	x.x%					
- External		x.xx	x.xx	x.x%					

## **Annex 25**

# **Price controls in wholesale markets**

[narrative]

**Annex 26****Additional information by way of notes**

<b>Reference</b>	<b>Additional Financial Information</b>	<b>Description</b>	<b>Purpose (AS, CA or Reconciliation)</b>
<b>AI - 1</b>	Cost category (as used within regulatory LRIC model) analysis for network components, increments and relevant layers of common cost (LRIC basis)	<ul style="list-style-type: none"> <li>• to ensure the LRIC model reconciles to BT group's total cost and asset &amp; liability base</li> <li>• review the outputs of BT's LRIC model for the whole BT group by cost category and components, increments and layers of common costs</li> <li>• identify all relevant layers of common costs separately within BT group</li> <li>• enable trend analysis of this breakdown to be undertaken</li> <li>• enable assessment of cost-volume relationships</li> <li>• provide input into network price control reviews</li> </ul>	<b>CA &amp; R</b>
<b>AI - 2</b>	Summarised activity analysis of components for network activities, increments and the relevant layers of common cost (LRIC basis)	<ul style="list-style-type: none"> <li>• review the outputs of BT's LRIC model by activity analysis for network components, increments and the layers of common costs</li> <li>• identify all relevant layers of common costs separately for network activities</li> <li>• enable trend analysis of this breakdown to be undertaken</li> <li>• provide input into network price control reviews</li> <li>• ensure LRIC model reconciles to the total cost and asset &amp; liability base for BT's network activities</li> </ul>	<b>CA &amp; R</b>

		<ul style="list-style-type: none"> <li>•</li> </ul>	
<b>AI – 3</b>	Cost category (as used within regulatory LRIC model) analysis for network components and increments	<ul style="list-style-type: none"> <li>• similar to AI-1 but on a fully allocated cost basis</li> </ul>	<b>CA &amp; R</b>
<b>AI – 4</b>	Summarised activity analysis for network components and increments	<ul style="list-style-type: none"> <li>• similar to AI-2 but on a fully allocated cost basis</li> </ul>	<b>CA &amp; R</b>
<b>AI – 5</b>	<p>Analysis by asset category and network activities, of the depreciation charge for the year and impact of CCA valuation adjustments on costs for the year: - e.g.</p> <ul style="list-style-type: none"> <li>• HCA depreciation</li> <li>• CCA supplementary depreciation</li> <li>• Holding gain</li> <li>• Other CCA adjustments</li> </ul>	<ul style="list-style-type: none"> <li>• impact on profit and loss cost base of the application of CCA methodologies</li> <li>• enable trend analysis of this breakdown to be undertaken</li> <li>• provides sub-analysis (for the cost/gain line items left) of the asset movement statement in relation to network components</li> <li>• provide input into network price control reviews</li> </ul>	<b>CA &amp; R</b>
<b>AI – 6</b>	<p>CCA fixed asset movement statement</p> <p>a) gross replacement costs brought forward, additions/disposals/transfers, holdings gains/(loss), gross replacement costs carried forward and</p> <p>b) gross depreciation brought forward, HCA depreciation charge, supplementary CCA depreciation, disposals/transfers/other movements, holding gains/(loss), gross depreciation carried forward)</p> <p>by asset category for BT Group plus reconciliation to HCA fixed assets movement statement in the group statutory accounts</p>	<ul style="list-style-type: none"> <li>• review the breakdown of asset costs between principal asset categories and how such CCA asset values have moved in the year</li> <li>• enable trend analysis of CCA asset values to be undertaken</li> <li>• provide input into network price control reviews</li> </ul>	<b>CA &amp; R</b>

<b>AI – 7</b>	Total mean capital employed and detailed activity analysis for all network components	<ul style="list-style-type: none"> <li>• review network component costs</li> <li>• enable trend analysis of these breakdowns to be undertaken</li> <li>• provide input into price control reviews</li> <li>• assist in dealing with investigations</li> <li>• ensure summarised activity analysis presented elsewhere reconciles to BT's network activities cost base</li> </ul>	<b>CA</b>
<b>AI – 8</b>	Analysis by type of product group and by type of OLO of costs, mean capital employed and transfer charges to disaggregated activities (and associated volumes) in relation to outpayments to other licensed operators (OLOs)	<ul style="list-style-type: none"> <li>• review how outpayments are accounted for</li> <li>• review fast growing segment of wholesale call market</li> <li>• review the impact of outpayments on BT's network cost base, for example, for different call types</li> <li>• enable trend analysis of outpayment costs and volume breakdowns to be undertaken</li> <li>• assist in dealing with investigations</li> </ul>	<b>CA &amp; R</b>
<b>AI – 9</b>	Detailed Network activity analysis of mean capital employed for all network components	<ul style="list-style-type: none"> <li>• enable trend analysis of these breakdowns to be undertaken</li> <li>• ensure summarised activity analysis reconciles to BT's network activity mean capital employed</li> </ul>	<b>CA &amp; R</b>
<b>AI – 10</b>	Graphs over time of the various raw indices, index weightings & composite indices used by BT to revalue assets onto a current cost basis	<ul style="list-style-type: none"> <li>• evaluate the price trends for composite elements of BT's asset revaluation indices</li> <li>• evaluate the weightings within individual asset revaluation indices</li> <li>• evaluate the trend of individual asset revaluation indices</li> <li>• provide input into price control reviews and determinations</li> </ul>	<b>CA</b>

<b>AI – 11</b>	Estimated economic useful lives, valuation and depreciation basis, survey used for valuation or index used to revalue , historical cost accounting (HCA) & current cost accounting (CCA) depreciation, gross book values (GBV) by year of acquisition, gross replacement costs (GRC) & net replacement costs (NRC) across asset categories	<ul style="list-style-type: none"> <li>• review the nature and relative distribution of BT's asset base</li> <li>• evaluate BT's chosen asset lives for individual asset categories</li> <li>• review the relationship between gross HCA and CCA valuations</li> <li>• evaluate the appropriateness of the CCA valuation basis for each asset category</li> <li>• evaluate the appropriateness of the CCA depreciation methodology for each asset category</li> <li>• review the impact of CCA accounting on the cost base</li> <li>• enable trend analysis of CCA costs to be undertaken</li> <li>• provide input into network price control reviews</li> </ul>	<b>CA &amp; R</b>
<b>AI – 13</b>	Total operating costs & mean capital employed costs (and associated volumes) for each plant group and their individual exhaustion, including the disclosure of relevant usage factors, onto each network activity and/or (sub) component	<ul style="list-style-type: none"> <li>• review the breakdown of costs to all the different components and sub-components within BT's network activities</li> <li>• enable trend analysis of this breakdown to be undertaken</li> <li>• provide input into network price control reviews</li> <li>• ensure total plant group costs reconcile to the cost base for BT's network activities</li> </ul>	<b>CA &amp; R</b>
<b>AI-15</b>	Provision of BT 'Data File'	<ul style="list-style-type: none"> <li>• Delivery of "data file" in prescribed format containing all records from cost attribution system. Format of file to allow for identification of sources of data, data flows (from the input sources at F8 code level through to products and services) and</li> </ul>	<b>AS, CA &amp; R</b>

		<p>attribution bases.</p> <p>The data would as a minimum, be able to replicate the outputs of the financial statements, and therefore would include transfer charges and CCA adjustments, and be able to identify the attribution bases to those described in the DAM. The basis of preparation, must be consistent with the Primary Accounting Documents</p> <p>The information to be provided annually within 10 days of the publication of the regulatory accounts. The outputs of the annual file would be consistent with published audited information.</p> <p>BT to maintain file in format consistent with Ofcom/3<sup>rd</sup> party import routine, accompanied by provision of control totals, and any technical advice which allows seamless data transfers and it should be updated where appropriate. In consultation with Ofcom, BT shall procure an appropriate audit opinion in relation to the data file.</p> <ul style="list-style-type: none"> <li>•</li> </ul>	
<b>AI-20</b>	CCA information to allow Ofcom to re-calculate the regulatory asset value (RAV) for copper assets used in BT's access network.	<ul style="list-style-type: none"> <li>• Breakdown of the following information <ul style="list-style-type: none"> <li>– Full CCA on an actual price index basis</li> <li>– Pre 1997 assets on an RPI basis</li> <li>– Post 1997 assets on an actual price index basis.</li> </ul> </li> <li>• Enable Ofcom to re-calculate and monitor the affect of this going forward.</li> </ul>	<b>CA</b>
<b>AI-21</b>	Comprehensive analysis of the transfer charges where this information is summarised	<ul style="list-style-type: none"> <li>• Allow Ofcom to check that material items have been separately disclosed in the</li> </ul>	<b>AS</b>

	in the published statements because there are a significant number of variants with different charging bases.	<ul style="list-style-type: none"><li>published Regulatory Accounts.</li><li>Allows BT to demonstrate compliance with its non-discrimination obligations.</li></ul>	
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## **Annex B**

The form and content of the Regulatory Financial Statements set out in Direction 4 and applying to Wholesale Market 12 is specified as shown below with the specified services underlined.

## Annex 12

## Market summary

Purpose of statement: to provide more detail on financial performance and first order tests of compliance with non discrimination obligations

Asymmetric broadband origination in the UK

## Summary

	Internal Sales - services only provided internally	Internal Sales - services also provided externally	External Sales	Turnover (see note 1)	Operating costs	Depreciation	Holding gain/(loss)	Supplementary depreciation	Other adjustments	Roundings	Total CCA operating costs	Return	Return on Mean capital turnover employed	Return on mean capital employed
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m		£m
2008	£	£	£	£	£	£	£	£	£	£	£	£	%	£
2007	£	£	£	£	£	£	£	£	£	£	£	£	%	£

Note 1: Comparison of average internal and external charges with each other

				Non- discrimination			
				Internal Sales - services also provided externally	Internal Sales - services only provided internally	External Sales	Turnover
				£m	£m	£m	£m
for the year ended 31 March 2008							
Service							
Internal IPstream end user access-connection				£			£
External IPstream end user access-connection						£	£
Internal IPstream end user access-rental				£			£
External IPstream end user access-rental						£	£
Internal IPstream- Backhaul circuits (VPs to first ATM switch)				£			£
External IPstream- Backhaul circuits (VPs to first ATM switch)						£	£
Internal Datastream end user access-connection				£			£
External Datastream end user access-connection						£	£
Internal Datastream end user access-rental				£			£
External Datastream end user access-rental						£	£
Internal Virtual Paths Handover (b)				£			£
External Virtual Paths Handover (b)						£	£
Backhaul circuits (excluding Virtual Paths Handover) (a)				£			£
Ancillary Charges (migration, ceassation, re-grades)				£		£	£
Service 1 Internal				£			£
Service 1 External						£	£
etc							y
Service 2 Internal					£		£
etc							y x
				£	£	£	£

(sx) This service comprises a number of individual prices as indicated by the value of x

(ux) This service comprises a number of individual volumetrics as indicated by the value of x

(a) Backhaul circuits represents the elements of IPStream Centrals and Datastream Virtual Paths which fall into the asymmetric broadband origination market.

(b) This service comprises a number of individual prices.

## **Annex C**

The form and content of the Regulatory Financial Statements set out in Direction 4 and applying to Wholesale Market 14 is amended in that the words underlined are inserted into the Regulatory Financial statements.

## Annex 11

## Market summary

Purpose of statement: to provide more detail on financial performance and first order tests of compliance with cost orientation and non-discrimination obligations

TISBO (up to and including 8Mbit/s)

Summary

	Internal Sales - services only provided internally £m	Internal Sales - services also provided externally £m	External Sales £m	Turnover (see note 1) £m	Operating costs £m	Depreciation £m	Holding gain/(loss) £m	Supplementary depreciation £m	Other adjustments £m	Roundings £m	Total CCA operating costs £m	Return £m	Return on turnover %	Mean capital employed £m	Return on mean capital employed %
2008	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%
2007	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%

Note 1: Comparison of Average internal and external charges with each other and with FAC

for the year ended 31 March 2008										FAC (see Section 5)		Unaudited LRIC Floor	Unaudited LRIC Ceiling	Average price/FAC	
Service										Average price					
										£	£	£	£		
Internal Sales - services also provided externally	Internal Sales - services only provided internally	External Sales	Turnover		Volume	Unit									
£m	£m	£m	£m												
<u>CLZ Service 1 Internal</u>															
<u>Service 1 Internal</u>															
Additional associated services e.g. enhanced maintenance															
<u>Total Internal CLZ</u>										£					
										£					
										£					
<u>Non-CLZ Service 1 Internal</u>															
<u>Service 1 internal</u>															
Additional associated services e.g. enhanced maintenance															
<u>Total internal non-CLZ</u>										£					
										£					
										£					
<u>CLZ Service 1 External</u>															
<u>Service 1 External</u>															
Additional associated services e.g. enhanced maintenance															
<u>Total external CLZ</u>										£					
										£					
										£					
<u>Non-CLZ Service 1 External</u>															
<u>Service 1 External</u>															
Additional associated services e.g. enhanced maintenance															
<u>Total external non-CLZ</u>										£					
										£					
										£					
<u>Weighted average price for CLZ/non-CLZ // Nationally averaged cost</u>										£	£	x.xx	x.xx	x.xx	
Service 2 Internal										£	£	x.xx	x.xx	x.xx	
Service 2 External															
etc															
													</		

## **Annex D**

The form and content of the Regulatory Financial Statements set out in Direction 4 and applying to Wholesale Market 15 is specified as shown below with the specified services underlined.

## Annex 11

## Market summary

Purpose of statement: to provide more detail on financial performance and first order tests of compliance with cost orientation and non-discrimination obligations

TISBO (above 8Mbit/s up to and including 155Mbit/s)

## Summary

	Internal Sales - services only provided internally £m	Internal Sales - services also provided externally £m	External Sales £m	Turnover (see note 1) £m	Operating costs £m	Depreciation £m	Holding gain/(loss) £m	Supplementary depreciation £m	Other adjustments £m	Roundings £m	Total CCA operating costs £m	Return £m	Return on turnover %	Mean capital employed £m	Return on mean capital employed %
2008	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%
2007	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%

Note 1: Comparison of Average internal and external charges with each other and with FAC

	Internal Sales - services also provided externally £m	Internal Sales - services only provided internally £m	External Sales £m	Turnover £m	Volume	Unit	Average price £	FAC (see Section 5) £	Unaudited LRIC Floor £	Unaudited LRIC Ceiling £	Average price/FAC
<b>for the year ended 31 March 2008</b>											
<b>Service</b>											
Service 1 Internal	£			£	y	x	£ £		x.xx	x.xx	x.xx
Service 1 External			£	£	y	x	£ £		x.xx	x.xx	x.xx
etc					y						
Service 2 Internal			£	£	y	x	£ £		x.xx	x.xx	x.xx
etc											
<b>Support Activity</b>											
Internal Protected Path Variants and Resilience	£			£	(ux)		(sx)				
External Protected Path Variants and Resilience			£	£	(ux)		(sx)				
	£	£	£	£							

(sx) This service comprises a number of individual prices as indicated by the value of x

(ux) This service comprises a number of individual volumetrics as indicated by the value of x

Note 1 - Costs associated with support services are included within the above reported services and hence not disclosed separately.

## **Annex E**

The form and content of the Regulatory Financial Statements set out in Direction 4 and applying to Wholesale Market 16 is specified as shown below with the specified services underlined.



## Annex 11

## Market summary

**Purpose of statement:** to provide more detail on financial performance and first order tests of compliance with cost orientation and non-discrimination obligations

### Alternative interface symmetric broadband origination (All bandwidths)

## Summary

[illegible]

**Note 1: Comparison of Average internal and external charges with each other and with FAC**



	Internal Sales - services also provided externally	Internal Sales - services only provided internally	External Sales	Turnover	Volume	Unit	Average price	FAC (see Section 5)	Unaudited LRIC Floor	Unaudited LRIC Ceiling	Average price/FAC
for the year ended 31 March 2008	£m	£m	£m	£m			£	£	£	£	
<b>Service</b>											
Service 1 Internal	£			£	y	x	£	£	x.xx	x.xx	x.xx
Service 1 External			£	£	y	x	£	£	x.xx	x.xx	x.xx
etc					y						
Service 2 Internal		£		£	y	x	£	£	x.xx	x.xx	x.xx
etc											
<u>Internal main link rental charges</u>	£			£	y	x	£	£	x.xx	x.xx	x.xx
<u>External main link rental charges</u>			£	£	y	x	£	£	x.xx	x.xx	x.xx
					-						
<u>External BNS all bandwidth rental</u>			£	£	y	x	£	£	x.xx	x.xx	x.xx
<u>External BNS all bandwidth connection</u>			£	£	y	x	£	£	x.xx	x.xx	x.xx
<u>Internal Excess Construction Charges</u>	£			£	(ux)		(sx)				
<u>External Excess Construction Charges</u>			£	£	(ux)		(sx)				
	£	£	£	£							

(sx) This service comprises a number of individual prices as indicated by the value of x

(ux) This service comprises a number of individual volumetrics as indicated by the value of x

Note 1 - Costs associated with support services are included within the above reported services and hence not disclosed separately.

## **Annex F**

The form and content of the Regulatory Financial Statements set out in Direction 4 and applying to Wholesale Market 17 is specified as shown below with the specified services underlined.

## Annex 11

## Market summary

Purpose of statement: to provide more detail on financial performance and first order tests of compliance with cost orientation and non-discrimination obligations

## Wholesale Trunk Segments

## Summary

	Internal Sales - services only provided internally £m	Internal Sales - services also provided externally £m	External Sales £m	Turnover (see note 1) £m	Operating costs £m	Depreciation £m	Holding gain/(loss) £m	Supplementary depreciation £m	Other adjustments £m	Roundings £m	Total CCA operating costs £m	Return £m	Return on turnover %	Mean capital employed £m	Return on mean capital employed %
2008	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%
2007	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%

Note 1: Comparison of Average internal and external charges with each other and with FAC

	Internal Sales - services also provided externally £m	Internal Sales - services only provided internally £m	External Sales £m	Turnover £m	Volume	Unit	Average price £	FAC (see Section 5) £	Unaudited LRIC Floor £	Unaudited LRIC Ceiling £	Average price/FAC
<b>for the year ended 31 March 2008</b>											
<b>Service</b>											
Service 1 Internal	£			£	y	x	£ £		x.xx	x.xx	x.xx
Service 1 External etc			£	£	y	x	£ £		x.xx	x.xx	x.xx
					y						
Service 2 Internal etc		£		£	y	x	£ £		x.xx	x.xx	x.xx
<b>Support Activity</b>											
Internal Protected Path Variants and Resilience	£			£	(ux)		(sx)				
External Protected Path Variants and Resilience			£	£	(ux)		(sx)				
	£	£	£	£							

(sx) This service comprises a number of individual prices as indicated by the value of x

(ux) This service comprises a number of individual volumetrics as indicated by the value of x

Note 1 - Costs associated with support services are included within the above reported services and hence not disclosed separately.

## **Annex G**

The form and content of the Regulatory Financial Statements set out in Direction 4 and applying to Technical Areas (Point of Handover) is specified as shown below with the specified services underlined.

## Annex 11

## Market summary

Purpose of statement: to provide more detail on financial performance and first order tests of compliance with cost orientation and non-discrimination obligations

## Technical Areas (Point of Handover)

## Summary

	Internal Sales - services only provided internally £m	Internal Sales - services also provided externally £m	External Sales £m	Turnover (see note 1) £m	Operating costs £m	Depreciation £m	Holding gain/(loss) £m	Supplementary depreciation £m	Other adjustments £m	Roundings £m	Total CCA operating costs £m	Return £m	Return on turnover %	Mean capital employed £m	Return on mean capital employed %
2008	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%
2007	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%

Note 1: Comparison of Average internal and external charges with each other and with FAC

← Non- discrimination →
← Cost orientation →

	Internal Sales - services also provided externally £m	Internal Sales - services only provided internally £m	External Sales £m	Turnover £m	Volume	Unit	Average price £	FAC (see Section 5) £	Unaudited LRIC Floor £	Unaudited LRIC Ceiling £	Average price/FAC
<b>for the year ended 31 March 2007</b>											
<b>Service</b>											
External Customer Sited Handover connection			£	£	y	x	£	£	x.xx	x.xx	x.xx
External Customer Sited Handover rental			£	£	y	x	£	£	x.xx	x.xx	x.xx
External In Span Handover connection			£	£	y	x	£	£	x.xx	x.xx	x.xx
External In Span Handover rental			£	£	y	x	£	£	x.xx	x.xx	x.xx
Service 1 Internal	£			£	y	x	£	£	x.xx	x.xx	x.xx
Service 1 External			£	£	y	x	£	£	x.xx	x.xx	x.xx
etc					y						
Service 2 Internal		£		£	y	x	£	£	x.xx	x.xx	x.xx
etc											
<b>Support Services</b>											
Internal Excess Construction Charges	£			£	(ux)		(sx)				
External Excess Construction Charges			£	£	(ux)		(sx)				
	£	£	£	£							

←
Note 1
→

Note 1 - Costs associated with support services are included within the above reported services and hence not disclosed separately.

## **Annex H**

The additional information set out in Annex 26 to Direction 4 is amended in that the words underlined are additional AFIs, which will apply only to the preparation of the Regulatory Financial Statements for the Financial Year 1 April 2007 to 30 March 2008.

## Annex 26

Additional information by way of notes

<b>Reference</b>	<b>Additional Financial Information</b>	<b>Description</b>	<b>Purpose (AS, CA or reconciliation)</b>
<b><u>AI-22</u></b>	<ul style="list-style-type: none"> <li><u>Statements for the markets covered by the replicability review for that explain the difference between the revenue reported in the regulatory financial statements compared to the revenue recognised in BT's general ledger.</u></li> </ul> <p><u>Differences identified in the following categories: provisions, other immaterial unidentified services, impact of differences between calculated and ledgered volumes and other. This is the minimum disclosure and it should not restrict BT if they identify other types of differences.</u></p>	<u>The format will be similar to the relevant market statements (annexes 11, 12 &amp; 13) in the regulatory financial statements with the additional lines added.</u>	<u>reconciliation, AS &amp; CA</u>
<b><u>AI-23</u></b>	<ul style="list-style-type: none"> <li><u>Information showing the underlying cost stack behind the PPC and technical area services using the plant groups to replace the current components</u></li> </ul>	<u>The format for this AFI is similar to the statements within the current format of the regulatory financial statements that explicitly disclose component information</u>	<u>CA</u>

## Annex 6

# Notification of Directions under OA22 and FA10.22

## NOTIFICATION UNDER SECTION 49 OF THE COMMUNICATIONS ACT 2003

**Directions under SMP Services Condition OA22 and FA10.22 requiring BT to amend Accounting Documentation in order to remedy a deficiency identified by OFCOM.**

**WHEREAS:**

(A) as a result of a market analysis carried out by the Director General of Telecommunications (the 'Director') and OFCOM in accordance with section 79 of the Act, BT has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

(B) as a result of such SMP designations, BT has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OA1 to OA34 and FA10 imposing obligations on BT in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to BT's activities in those markets where BT has been designated as having SMP;

(C) in complying with the SMP services conditions referred to in paragraph B above, and in particular conditions OA5 and FA10.5, BT is required to, amongst other things:

- a) prepare;
- b) secure an audit opinion in respect of;
- c) deliver to OFCOM (with the corresponding audit opinion); and
- d) publish (with the corresponding audit opinion)

the Regulatory Financial Statements as directed by OFCOM from time to time.

(D) by virtue of the Transitional Provisions, references to the Director in any of those SMP services conditions should be read as references to OFCOM;

(E) condition OA22 and FA10.22 include, in accordance with section 45(10) of the Act, the ability for OFCOM to make a direction to BT requiring it to amend Accounting Documents where OFCOM has reasonable grounds to believe that such documents are deficient;

(F) OFCOM has reasonable grounds to believe that BT's Accounting Documents are deficient in that the costs associated with supplying its Low User Scheme have been inappropriately attributed to wholesale access markets and these Directions require BT not to attribute these costs to wholesale access markets;

(G) for the reasons set out in the explanatory statement accompanying this modified Direction, OFCOM are satisfied that, in accordance with section 49(2) of the Act, these Directions are:

- i. objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- ii. not such as to discriminate unduly against particular persons or against a particular description of persons;



- iii. proportionate to what it is intended to achieve; and
- iv. in relation to what it is intended to achieve, transparent;

(H) for the reasons set out in the explanatory statement accompanying these Directions, OFCOM have considered and acted in accordance with the six Community requirements set out in section 4 of the Act and their duties in section 3 of the Act;

(I) on 17 April 2008, OFCOM published a notification of the proposed Directions in accordance with section 49 of the Act (the 'Notification');

(J) a copy of the Notification was sent to the Secretary of State, the European Commission and the regulatory authorities at every other Member State in accordance with section 50 of the Act;

(K) in the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 29 May 2008;

(L) by virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the Notification, with or without modification, only if:

- a) they have considered every representation about the proposal that is made to them within the period specified in the Notification; and
- b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

(M) OFCOM has considered every representation about the Directions duly made to them and these representations are discussed in the statement accompanying these Directions; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

**NOW, therefore, pursuant to section 49 of the Act OFCOM hereby:**

1. Makes a Direction under OA22 as set out in annex A;
2. Makes a Direction under FA10.22 as set out in Annex B
3. For the purpose of interpreting this modified Direction, the following definitions shall apply:
  - a) "Act" means the Communications Act 2003 (c. 21);
  - b) "BT" means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;
  - c) "Director" means the Director General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
  - d) "OFCOM" means the Office of Telecommunications;
  - e) "Notification" means the Notifications which set in place the obligations on BT referred to in recital (B) of this modified Direction above; and

f) "Transitional Provisions" means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003, and the Office of Communications Act 2002 (Commencement No. 3) and Communications Act 2003 (Commencement No. 2) Order 2003.

3. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them in this notification and otherwise any word or expression shall have the same meaning as it has in the Notification and otherwise any word or expression shall have the same meaning as it has in the Act.

4. For the purpose of interpreting these Directions:

a) headings and titles shall be disregarded; and

b) the Interpretation Act 1978 (c. 30) shall apply as if this Direction were an Act of Parliament.

5. These Directions shall take effect on the day they are published.

**Craig Lonie**

**Director of Competition Finance**

**A person authorised by Ofcom under paragraph 18 of the Schedule to the Office of Communications Act 2002**

26 June 2008

## **ANNEX A**

### **Direction under OA22:**

BT shall amend its Accounting Documents by adopting a cost attribution treatment that excludes the attribution of any costs associated with the provision of the Low User Scheme to any markets with the SMP designation

## **ANNEX B**

### **Direction under FA10.22:**

BT shall amend the preparation of its Accounting Documents by adopting a cost attribution treatment that excludes the attribution of any costs associated with the provision of the Low User Scheme to any markets with the SMP designation.