



BT's regulatory financial reporting

Changes to BT's 2007/08 regulatory financial statements

Consultation

Publication date:

17 April 2008

Closing Date for Responses:

29 May 2008

Contents

Section		Page
1	Executive Summary	2
2	Introduction	5
3	Improving reporting as a result of matters highlighted in the replicability work in business connectivity markets	8
4	Network components update	13
5	Improving disclosure in the regulatory financial statements for 2007/08	16
6	Other improvements to the regulatory financial statements	21
Annex		Page
1	Responding to this consultation	24
2	Ofcom's consultation principles	26
3	Consultation response cover sheet	27
4	Consultation questions	29
5	Impact Assessment	30
6	Network components – proposed additions and deletions	32
7	Legal Tests	38
8	Notification of Proposed Amendments to Direction 1 and the FA10 Direction	52
9	Notification of Proposed Amendments to Direction 3 and the FA10 Direction	59
10	Notification of Proposed Amendments to Direction 4 and the FA10 Direction	82
11	Notification of a proposal to make Directions under OA22 and FA10.22	128

Section 1

Executive Summary

Background

- 1.1 Financial reporting is an essential part of regulation. Relevant, reliable and timely regulatory financial information is fundamental to the effective economic regulation of the electronic communications sector.
- 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 21st 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, our ongoing review, regular discussions with BT and use of the regulatory financial statements, we have identified a number of areas where we propose to enhance the presentation and improve the quality of BT's regulatory financial statements.
- 1.5 Our proposals fall broadly into two categories;
 - Improvements to BT's regulatory accounting methods relating to the replicability of services¹ in a number of the business connectivity markets.
 - A number of ongoing improvements (the "business as usual" changes) to ensure the regulatory financial statements remain fit for purpose, for example changes to the network component list.

¹ See <http://www.ofcom.org.uk/consult/condocs/bcmr/> - Annex 13

1.6 The table below is a summary of the objectives we address in this consultation and our proposals on each.

Objective	Proposal
Next generation networks – BT's 21CN costs 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"> • Create a set of new network components specific to BT's 21CN. • Require disclosure of these components in the regulatory financial statements.
Other network components – ongoing updates Regular updating and amending of the list of components to ensure they remain "fit for purpose".	<ul style="list-style-type: none"> • Add or delete components to maintain integrity of reporting. • Provision to Ofcom of the cost stack information for regulated leased line products (inc. partial private circuits).
Transfer charging – the recording of wholesale SMP input costs to downstream (retail) activities Clarification of BT's transfer charging scheme in support of its undue discrimination obligations.	<ul style="list-style-type: none"> • Preparation of information for Ofcom for the downstream product groups covered by the relevant business connectivity markets.
Reporting on leased lines – addressing some of the findings set out in annex 13 (Replicability and the PPC charging model) of the BCMR 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"> • Enhance the basis on which revenues are calculated to more closely match internal and external billing practices. • Formal requirement to produce a statement for Ofcom only showing the difference between the total revenue in BT's general ledger and the calculated service by service revenue for the business connectivity markets covered in the replicability review. • Amend the internal debtor days to reflect broadly equivalent settlement terms experienced by BT with its external customers. • Increase granularity of services reported in certain markets e.g. AISBO. • Ensure these improvements are reflected across all reported markets and transparently explained in supporting documentation.
Matching revenues and costs We have found that in some markets the immediate recognition of revenues for sales of equipment not matching the costs of that equipment which are amortised over their estimated economic life impacts the interpretation of profitability in those markets.	<ul style="list-style-type: none"> • Require additional disclosure in the regulatory financial review (RFR) to ensure readers understand the underlying margins in relevant wholesale markets (wholesale local access and the relevant business connectivity markets).
Reporting of services in the Asymmetric Broadband Origination market statement We have identified some improvements to be made to the reporting of services sold in this market.	<ul style="list-style-type: none"> • Improve the disclosure of IPstream and Datastream services.
Attribution of low user scheme (LUS) costs We believe BT's interpretation that these costs should be attributed to wholesale access markets to be inappropriate.	<ul style="list-style-type: none"> • Require BT to amend its attribution methodology so all costs relating to the provision of the LUS, under BT's universal service obligations, are not attributed to SMP wholesale markets.

- 1.7 Alternative means of addressing these objectives have been considered. These are set out in the document. We are also keen to hear any other views that we may not have considered in formulating our proposals.
- 1.8 The closing date for responses to this consultation is 29 May 2008.
- 1.9 The proposals in this consultation only relate to BT. In respect of KCOM (previously Kingston Communications plc), we will consider the implications, if any, of the issues raised. However, given the scale and scope of the reporting obligations currently imposed on KCOM relative to BT, we do not consider that there any changes 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-orientated 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.

Scope of the consultation

- 2.6 This document addresses several improvements that Ofcom believes are justified in order to maintain a fit for purpose reporting framework.

Structure of the paper

- 2.7 Section 3 sets out the specific proposals 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.
- 2.8 Section 4 sets out the specific proposal for network component changes that, subject to the outcome of this consultation, will be implemented in time to apply to BT’s 2007/08 reporting obligations. We are proposing a relatively large number of additions this year and this section explains why the changes will enhance transparency and reporting.

- 2.9 Section 5 sets out other proposals for various improvements as a result of our ongoing review of the regulatory financial statements that, subject to the outcome of this consultation, will be implemented in time to apply to BT's 2007/08 reporting obligations. 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 are 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 are proposing to require BT to amend the way in which these costs are attributed.
- 2.10 Section 6 sets out the areas where the financial statements will be improved but no formal changes are necessary. These are set out in this consultation for stakeholder information and indicate the benefits of an ongoing review and improvement process in cooperation with BT.

Business connectivity markets

- 2.11 A number of the proposals in this document just apply to the business connectivity markets² or those covered in the replicability review. These markets for clarification purposes are:
- 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 segments at all bandwidths (including Kingston upon Hull)
 - Technical areas (Point of Handover)
 - Technical areas (Interconnect Circuits)*

* denotes a market not included in the replicability review

² The business connectivity markets as referred to in this document are defined in the last leased lines market review at <http://www.ofcom.org.uk/consult/condocs/llmr/statement/> where BT was designated as having SMP and accounting separation and/or cost accounting obligations.

- 2.12 Responses to the consultation and the questions raised in Sections 3 to 5 are due by 29 May 2008.

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 2008³ (full report in Annex 13 of the BCMR).
- 3.2 The purpose of the review was to determine whether other Communications Providers (OCPs) 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 relating to transfer charging, accounting for revenue from external sales and payment terms. Proposals for improvement of these areas are discussed in this section.

Transfer charging and accounting for revenue from external sales

- 3.4 There are three objectives relating to the topic of transfer charging and external revenue and these are discussed below.
- 3.5 Transfer charges are the internal sales from BT's wholesale markets to its downstream activities, which they are required to calculate in accordance with the regulatory accounting framework (as set out in a specific accounting document).

Internal and external revenue reported in the regulatory financial statements

Objective

- 3.6 We explain below that the basis used by BT to calculate external revenue reported in the regulatory financial statements is different from that for revenue recognised in BT's General Ledger. Our review of this methodology with BT found that there was scope for improving the calculation, understanding differences with ledgered values and enhancing the clarity of how these calculations are described in the Accounting Documents.

Ofcom analysis

- 3.7 For external revenues, our analysis of the differences between the revenue reported in the regulatory financial statements and the ledgered external revenues highlighted a number of reasons for these differences. Examples of these are:
 - Timing differences in volumes used to calculate the ledgered and regulatory accounts revenue (e.g. spot vs. average).

³ <http://www.ofcom.org.uk/consult/condocs/bcmr/>

- BT's view on materiality in deciding on separate calculation and disclosure of revenues of services in SMP markets.

Proposed changes

- 3.8 We have agreed with BT that they will provide to Ofcom statements for the markets covered by the replicability review, listed at paragraph 2.11 in the form of an AFI⁴ for 2007/08 only that explains the difference between the revenue reported in the regulatory financial statements compared to the revenue recognised in BT's general ledger. This AFI is described at Annex H to Direction 4 at Annex 10 of this document.
- 3.9 We will use this information to review the reporting requirements for future years and also to assess the improved price x quantity calculation that BT have agreed to work on for both internal and external revenues in order to minimise any differences.
- 3.10 Details of these improved calculations are being discussed with BT to ensure the revised methodology will be satisfactory to Ofcom and the accounting documents will be updated accordingly.
- 3.11 BT has agreed to provide a new basis for calculating internal and external revenues in time for an outline to be explained in the statement that will follow this consultation.

Legal Tests

- 3.12 In order to implement these changes Ofcom will have to modify Directions 3 and 4 under SMP condition OA2. We have set out how we satisfied the legal tests under sections 3, 4 and 49(2) of the Communications Act to implement these changes at Annex 7.

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?

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

Objective

- 3.13 The replicability review found that BT omits OSPs (including excess construction charges), resilience and third party equipment charges from the internal revenue reported in the regulatory financial statements.

Ofcom analysis

- 3.14 BT provided us with the value of these services for 2006/07 in order for us to assess their materiality. We also noted from this information that BT does not separately disclose sales of these items to internal and external customers in the regulatory accounts.

⁴ An AFI is Additional Financial Information which BT are directed to produce in Direction 3 in the form described in Direction 4. This information is for Ofcom only.

Proposed changes

- 3.15 We are proposing that these services are reported separately in the relevant markets. Based on the 2006/07 values some of these services fall below the £10m de minimis limit at which BT can group together services for reporting purposes as set out in paragraph 5.9, but we believe these to be important items that should be disclosed separately.
- 3.16 The proforma for the relevant markets, which are TISBO (up to and including 8mbps and over 8mbps up to and including 155mbps), Technical Areas (Points of Handover) and Wholesale Trunk Segments, with these additional lines can be found at Annexes C, D, F and G to Direction 4 at Annex 10 of this document.

Legal Tests

- 3.17 In order to implement these changes Ofcom will have to modify Direction 4 under SMP condition OA2. We have set out how we have satisfied the legal tests under sections 3, 4 and 49(2) of the Communications Act to implement the changes at Annex 7.

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?

Central London Zone (CLZ) charging

Objective

- 3.18 No account is taken in the regulatory financial statements of the lower main link and local end charges available to other communication providers (OCPs) for 2Mbit/s PPCs in the CLZ. BT currently applies the higher non-CLZ prices to all circuits when determining the internal and external revenue. In this respect, the transfer charges to BT's own retail services are likely to be overstated.

Proposed changes

- 3.19 Ofcom proposes that BT show both the CLZ prices and non-CLZ prices in the statements.
- 3.20 However for BT to demonstrate that the price of the local end services in question are cost-orientated it need only show the nationally averaged cost, rather than two cost figures disaggregated between CLZ and non-CLZ areas.
- 3.21 The proforma for this change is at Annex C to Direction 4 in Annex 10 of this document.

Legal Tests

- 3.22 In order to implement these changes Ofcom will have to modify Direction 4 under SMP condition OA2. We have set out how we have satisfied the legal tests under sections 3, 4 and 49(2) of the Communications Act to implement the changes at Annex 7.

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?

Transparent explanation of internal and external reported revenues

Objective

- 3.23 During the replicability review, a number of OCPs expressed concern that the operation of the pricing mechanism is not the same internally as it is externally, which could give BT's downstream business a competitive advantage in the retail market.
- 3.24 BT is subject to accounting separation obligations, which are designed to ensure that internal transfer charges attributed to its retail products are the same as those that would be paid by an OCP.
- 3.25 We examined the PPC markets to determine whether the OCPs' claims were justified. This revealed the need for more transparent explanations of how BT's internal and external reported revenues are calculated.

Ofcom analysis

- 3.26 The PPC transfer charges in the regulatory financial statements are based on price x quantity calculations. In principle the prices used should be the same as those in the PPC price list. BT's calculations were reviewed to assess whether this was the case in 2005/06.
- 3.27 As a result we noted that, except in one or two instances, the calculations done by BT are based on several separate entries in the price list. On occasions constants are also applied to derive the average prices appearing in the financial statements.
- 3.28 As the precise nature of the calculations is not explained either in the regulatory financial statements or in the accounting documents, this reduces their transparency. We concluded that these calculations should, in the spirit of the regulatory accounting principle of transparency, be set out in such a way that a suitably informed reader can make his or her own judgement as to their reasonableness in compliance with Direction 2 to BT in the July 2004 statement⁵.

Proposed changes

- 3.29 In order to be fully compliant with Direction 2, we are of the view that BT should amend its Accounting Documents. These should transparently describe how the transfer charges (internally within BT) and external revenues are calculated. The accounting documents should also reflect the other changes we are proposing in this section.

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

Proposal to adjust the notional debtor days used in the calculation of working capital.

Objective

- 3.30 The regulatory financial statements include a mean capital employed (MCE) statement. It is against the MCE that the profitability measure of a return on capital

⁵ http://www.ofcom.org.uk/consult/condocs/fin_reporting/fin_report_statement/finance_report.pdf

employed is calculated. In calculating the MCE an estimate of the notional internal debtor relating to transfer charges is used.

- 3.31 As discussed in the business connectivity market review the regulatory financial statements should reflect the same settlement terms that apply to external sales for debtors that notionally arise on internal sales from wholesale markets. In the 2006/07 statements 59 debtor days are used to represent the settlement of charges from the wholesale to the retail markets.
- 3.32 Due to changes in payment terms, this averaged figure of 59 days needs to be reviewed to reflect current market conditions. We believe it is important that the debtor day period used in calculating notional debtors is updated regularly to reflect broadly equivalent settlement terms experienced by BT with its external customers.

Ofcom analysis and proposed changes

- 3.33 Through our analysis of BT's current contractual payment terms and actual settlement terms we believe that the current 59 day period should be recalculated to reflect the normal settlement periods experienced by BT.
- 3.34 Contractual settlement terms and actual settlement terms are likely to vary due to a number of reasons, including late payment of bills by OCPs and billing disagreements. It follows that actual settlement terms will be longer than those specified contractually.
- 3.35 BT believes that average actual settlement terms should be used as this will give a more accurate mean capital employed position that better reflects commercial reality.
- 3.36 We therefore propose that the basis of calculating notional debtors is changed and the accounting documents amended to reflect a calculation based on BT's actual settlement experience with its customers. This period is likely to be longer than the strict contractual terms but shorter than the current 59 day period. We also propose that this calculation is shared with Ofcom to ensure that no exceptional events (e.g. a significantly delayed settlement due to billing disputes) materially distort the overall calculation.
- 3.37 Although we are proposing a different basis of calculating notional debtor days in the regulatory financial statements, it is important to note that this would not necessarily be the calculation used in other Ofcom projects such as price controls or investigations. It is more likely that in these activities we would look at the costs and revenues of efficient operators and make relevant adjustments to reported numbers.

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?

Section 4

Network components update

Introduction

- 4.1 'Network components' is the term used to describe the various assets (or groups of assets) and activities that are used in the provision of regulated wholesale services with a cost orientation obligation. The scope of any individual component will also include any associated operating activities (e.g. preventative maintenance) undertaken in the provision of these services.
- 4.2 This list was last updated in 2006 in the regulatory financial reporting obligations statement published on 16 August 2006⁶.
- 4.3 Network components are a fundamental part of the costing process that enable BT to demonstrate compliance with its cost-orientation obligation as they:
- enable costs to be objectively attributed to services on a causal basis;
 - facilitate transparency of the costing process; and
 - minimise the risk of components not required by the purchaser being bundled into the cost of services.
- 4.4 Ofcom's consultation "Proposed changes to BT's regulatory financial reporting framework" (dated 27 May 2005)⁷ explained the principles and key characteristics of network components in detail. Therefore it is not proposed to repeat that description here, it is however worth highlighting some of the key characteristics that have been taken into account for 2007/08:
- the capability to objectively demonstrate equivalence of costing: where two or more services are similar but not identical then a combination of properly defined and costed network components, together with accurate usage factors, should clearly explain the differences;
 - the capability to disclose, in a transparent way, component utilisation: individual components are used or consumed by services at different rates and it is the application of varying usage factors that explains this difference. It is important therefore that not only are the components costed properly but that the usage factors are correctly calculated, relevant and can be independently verified; and
 - the capability to be costed on a single objective cost driver. Components should be associated with a single cost driver, a volume measure, which is used to attribute the component cost onward to all relevant services on a consistent and causal basis.
- 4.5 We are proposing to improve the reporting of components in the following areas:
- 21CN.

⁶ http://www.ofcom.org.uk/consult/condocs/reg_bt/statement/statement.pdf

⁷ <http://www.ofcom.org.uk/consult/condocs/regfinch/main/regfinch.pdf>

- Other.
- Leased lines and partial private Circuits (PPCs)

21CN components

- 4.6 A large number of the additions to the list are new components which identify and cost parts of BT's 21CN.
- 4.7 BT's investment in a new core network is significant and from a regulatory aspect clear and transparent accounting for these costs is important.
- 4.8 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.
- 4.9 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.
- 4.10 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.
- 4.11 A list of these components with explanations can be found at Annex 6.

Ongoing improvements to the network components list

- 4.12 In addition to the specific additions/deletions for 21CN we are also proposing changes to the component list that are not captured in this category
- 4.13 These changes represent a more granular analysis of the rest of the network and provide a closer alignment of underlying network costs.
- 4.14 A list of these components with explanations can be found at Annex 6.
- 4.15 The notification of the modification to Direction 1 and the FA10 Direction is at Annex 8.

Legal Tests

- 4.16 In order to implement these changes Ofcom will have to modify Direction 1 under SMP condition OA2 and a direction under SMP condition FA10.2. We have set out how we satisfied the legal tests under sections 3, 4 and 49(2) of the Communications Act to implement these changes at Annex 7.

Question 6: Do you agree with Ofcom's proposals to amend the list of Network Components?

Partial and private circuit (PPC) and technical area components

- 4.17 The Business Connectivity Market Review process highlighted the importance of improving the visibility of the cost stack underlying regulated services in the relevant markets.
- 4.18 Currently we believe the components which BT reports that underlie the PPC and technical area services do not fulfil all of the characteristics of a component as highlighted in the 2005 consultation and summarised in paragraph 4.4.
- 4.19 The new leased lines components we have discussed with BT are derived from the existing costing system and are the plant groups that sit behind the components. Ofcom believe they provide a more meaningful representation of the components underlying PPC services.
- 4.20 Through discussions with BT it would seem that there may be practical difficulties in BT reporting on this basis for 2007/08. We therefore propose that BT will provide Ofcom with more detailed information as an AFI in a form similar to the relevant statements of the published financial statements. BT will present this information to UKCTA in a format to be agreed between ourselves and BT. This AFI is described at Annex H to Direction 4 at Annex 10 of this document.
- 4.21 It is our intention to propose a more meaningful set of components for the leased line markets with cost orientation obligations in 2008/09 following a review of the new AFI referred to above and finalisation of the Business Connectivity Market Review

Legal Tests

- 4.22 In order to implement these changes Ofcom will have to modify Directions 3 and 4 under SMP condition OA2. We have set out how we satisfied the legal tests under sections 3, 4 and 49(2) of the Communications Act to implement these changes at Annex 7.

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?

Section 5

Improving disclosure in the regulatory financial statements for 2007/08

Introduction

- 5.1 This section sets out other proposals to improve the presentation of information in BT regulatory financial statements that will be implemented in time to apply to BT's 2007/08 reporting obligations.

Additional disclosure for market profit and loss statements

Objective

- 5.2 The 2006/07 regulatory financial statements include a summary profit and loss statement for each market in which BT has SMP. Market sales, costs and the return on both turnover and mean capital employed for both the current and prior year comparative are detailed in this summary. However we believe the returns in some markets are affected by the inclusion of non-matched sales and costs.

Ofcom analysis

- 5.3 Non-matched sales and costs arise as a consequence of BT charging other parties upfront for the sale and installation of equipment in its exchanges. Turnover is recognised and received in the year of sale but the capitalised costs are depreciated over the life of the asset. The non-matched element between sales and costs of these items may give rise to variances in the reported return. This issue mainly affects the wholesale local access market and the relevant business connectivity markets.
- 5.4 We do not believe BT's accounting policy for revenue recognition should change but that users of the regulatory financial statements should be able to appreciate the implications of this treatment on the returns.

Proposed changes

- 5.5 We propose that BT should disclose the value of the non-matched revenues and costs for the wholesale local access market and the relevant business connectivity markets in the Regulatory Financial Review (RFR). Therefore the reader could eliminate the effect of the non-matched costs and sales from the return reported in this market statement.

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?

Additional disclosure at the service level for the Asymmetric Broadband Origination (ASBO) market.

Objective

- 5.6 As part of our review of the 2006/07 regulatory accounting statements we identified a need for greater transparency in the ASBO market disclosure. The products and services, such as IPstream and Datastream, which sit within this market, are not easily identifiable in each service line currently disclosed. We therefore believe the current disclosure provides less meaningful information to users.

Proposed changes

- 5.7 In order to provide granularity of the products and services recognised in this market we propose further disclosure of the services reported in the 2006/07 statements. Our proposal is set out at Annex B to Direction 4 in Annex 10 of this document.
- 5.8 This disclosure aims to improve the link between the price list and the service descriptions and therefore aids users in better understanding this market.
- 5.9 BT is also able to apply guidance on merging low value services in the proforma, as addressed in the 2005 consultation⁸ on BT's regulatory financial reporting framework. Low value services were defined as those services with low revenue and operating costs (typically below £10m pa). Direction 4 was relaxed so that low value services within similar product families could be merged to reduce the reporting burden on BT. For example connection services may be merged with rental services for the same 'low value' product set. These groupings are then reported separately within the line by line service reporting of the relevant market statement.
- 5.10 The approach to the reporting of relatively small services set out in paragraph 5.9 applies to all markets reported in the regulatory financial statements.
- 5.11 The market definition of ASBO that applies for the 2007/8 regulatory statements is in the Wholesale Broadband Access market review statement dated 16 December 2004⁹.
- 5.12 The regulatory accounting framework also requires BT to update the wholesale catalogue and any other relevant accounting documents.

Legal Tests

- 5.13 In order to implement these changes Ofcom will have to modify Direction 4 under SMP condition OA2. We have set out how we satisfied the legal tests under sections 3, 4 and 49(2) of the Communications Act to implement these changes at Annex 7.

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

⁸ <http://www.ofcom.org.uk/consult/condocs/regfinch/main/regfinch.pdf>

⁹ <http://www.ofcom.org.uk/consult/condocs/rwlam/statement/rwlam161204.pdf>

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

Objective

- 5.14 It has been drawn to our attention that the statement showing the costs and revenues of services in this growing market contains a limited number of services which has made it difficult for stakeholders to assess if BT has met its non-discrimination and cost orientation obligations.

Ofcom analysis and proposed changes

- 5.15 This market is growing quickly and includes services of significance to the development of broadband markets.
- 5.16 It would seem reasonable to expand the number of services currently disclosed in the published financial statements and we have formulated our proposal taking into account the £10m de minimis limit for reporting services on an individual basis, described in paragraph 5.9 and the management account revenues for 2007/08.
- 5.17 The proforma statement showing the additional services we propose for the AISBO market in the regulatory financial statements is at Annex E to Direction 4 in Annex 10 of this document.
- 5.18 There are also a number of services that, whilst we are not proposing explicit disclosure for the published statements as they have low value revenues, we are interested in their appropriate cost orientation and non-discrimination information as we believe them to be strategically important. Paragraphs 6.9 to 6.11 sets out how BT will be providing this information to us.

Legal Tests

- 5.19 In order to implement these changes Ofcom will have to modify Direction 4 under SMP condition OA2. We have set out how we satisfied the legal tests under sections 3, 4 and 49(2) of the Communications Act to implement these changes at Annex 7.

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

Attribution of low user scheme (LUS) costs

Objective

- 5.20 As part of Ofcom's analysis of BT's 2006/07 regulatory financial statements in respect of access markets and Openreach, we found that BT attributes the costs of its LUS to the wholesale access markets that Openreach provide. These costs include administration activities as well as an assessment of the difference in retail prices between LUS rates and basic residential rental prices.
- 5.21 BT is obliged to provide a LUS under powers derived from the Universal Service Directive (USD). As well as estimating the costs of universal service obligations (USO)¹⁰, Ofcom estimated the benefits and concluded that the net cost was relatively small and that no undue burden was placed on BT. Most of the benefit to BT is

¹⁰ http://www.ofcom.org.uk/consult/condocs/uso/uso_statement/statement.pdf

derived from "brand enhancement and corporate reputation". These benefits would seem to mainly accrue at the retail level.

- 5.22 It was therefore unclear to us how BT's treatment of these costs was consistent with the regulatory principles of cost-causality, objectivity and transparency. We asked BT to provide a detailed justification for their treatment.

Ofcom analysis

- 5.23 We have thoroughly examined closely BT's justification for attributing LUS and associated administration costs to wholesale markets. We have also reviewed the basis on which BT is required by Ofcom to provide a LUS.
- 5.24 In our view BT's basis for calculating the cost of LUS and its justification for attributing these costs to wholesale access markets is weak and does not reflect a reasonable interpretation of the regulatory accounting principles of cost causality and objectivity.
- 5.25 By attributing an estimation of the cost of LUS to these wholesale access markets, BT is implying that these costs should be recovered in charges such as wholesale line rental (WLR). This contradicts Ofcom's USO conclusion that USO obligations place no undue burden on BT and that no allowance is made in Ofcom's determination of a WLR charge
- 5.26 We propose therefore to require BT to amend its attribution methodology for these costs so that no element is attributed to any wholesale SMP market. BT may continue to calculate a cost and transfer in its management accounts to Openreach and, for clarity, this could be shown separately in the Openreach reconciliation statements included in the regulatory financial statements.
- 5.27 Our analysis is based on the last review of the USO. As these obligations are reviewed in the future we would expect to reconsider the most appropriate regulatory accounting treatment.

Proposed changes

- 5.28 We believe the current basis of attribution as assessed against the current review of the USO to be inappropriate and in accordance with OA22 and FA10.22 we are of the view that we have reasonable grounds to believe that the previous years Regulatory Financial Statements and Accounting Documents are deficient. As a result we require amendments to the Accounting Documents under subparagraph (a) of OA22 and FA10.22 for 2007/08 onwards to reflect an attribution treatment that excludes all LUS costs, including associated administration and overhead costs, from wholesale SMP markets.
- 5.29 We do not believe it to be proportionate to direct BT to perform and secure subparagraphs (b) through to (e) of OA22 and FA10.22, which involve restatement and re-audit of prior year regulatory accounts where the deficiency occurs. BT's regulatory reporting obligations in the July 2004 statement set out BT's obligations with regards to prior year comparatives. From a regulatory perspective we believe this adjustment to be very important such that the prior year impact is adequately disclosed in the 2007/08 regulatory accounts.
- 5.30 We do however believe it to be proportionate to direct BT to amend the Accounting Documents and in turn the Regulatory Accounts going forward as set out in

paragraph 5.28 so that they demonstrate consistency with the regulatory principles of cost-causality, objectivity and transparency.

5.31 The proposed Directions are at Annex 11.

Legal Tests

5.32 In order to implement these changes Ofcom will have to make directions under SMP conditions OA22 and FA10.22. We have set out how we satisfied the legal tests under sections 3, 4 and 49(2) of the Communications Act to implement these changes at Annex 7.

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?

Section 6

Other improvements to the regulatory 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. These are mentioned in this consultation for stakeholder information and indicate the benefits of our ongoing review and improvement processes with BT.

Demonstrating compliance – reporting of non-discrimination in downstream markets

- 6.2 BT is required to separate out the upstream activities (wholesale markets) from downstream markets (retail markets) of its business as a result of accounting separation obligations. These provide clarity on BT's compliance with its no undue discrimination obligations.
- 6.3 During our review of the business connectivity markets and the replicability work reported in Annex 13 of this review we found that BT's recording and calculation of the inputs (transfer charges from wholesale SMP markets) were not as robust or effective as we would wish.
- 6.4 When we requested this information from BT, the time taken and degree of accuracy was not to a standard that we believe shows effective operation of the no undue discrimination obligation.
- 6.5 The effective operation of the non-discrimination obligation to ensure BT treats itself on the same basis as external purchasers is an important regulatory remedy. This means that BT should be able to provide relevant information to show that it can account properly for where the wholesale inputs are used and that the pricing of those inputs isn't anti-competitive.
- 6.6 Through discussions with BT we understand that this task would place a large burden of work upon them if they were required to produce it for all of the downstream product groups.
- 6.7 We have therefore agreed with BT that they will voluntarily produce this information for all of the downstream products groups covered by the business connectivity markets as listed in paragraph 2.11. 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. At this time we consider it to be disproportionate to move to a formal reporting obligation. We will review the information provided to ensure it is adequate to demonstrate no undue discrimination.
- 6.8 If similar information is gathered for other markets e.g. during a market review and we find similar issues then we will consider ways in which the reporting process can be improved.

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

- 6.9 As set out in paragraph 5.18 there are a number of services in the AISBO market where we are interested in their relevant cost orientation and non-discrimination information as we believe them to be strategically important services, but their current revenue values are relatively low and therefore we do not propose they explicitly report them in their regulatory financial statements.
- 6.10 We have agreed with BT that they will voluntarily produce the information we are interested in for a number of services in a similar form to that of the published statements, to be provided to Ofcom only following the publication of the regulatory financial statements.
- 6.11 Using this information we can consider the reporting requirements in this market for 2008/09.

Reporting Flat Rate Internet Access Call Origination (FRIACO)

- 6.12 BT has proposed to us that they wish to withdraw reporting all FRIACO products separately from other services.
- 6.13 They would include unit revenues and unit costs of these products with other dial up volumes in the call origination market and at service level with other dial up sub services. This would not move the FRIACO products into a different market.
- 6.14 This is due to the significantly reduced popularity of this service as customers migrate to broadband services for internet access, not dial up. Minute usage and costs have declined significantly over the last two or three years.
- 6.15 We agree with this proposal and are disclosing it here so that stakeholders are aware of this change to the regulatory financial statements for 2007/08.

Wholesale local access market - modifications to the FA10 Direction

- 6.16 Modifications to Schedules 4 and 5 of the FA10 Direction were consulted on and enacted in the 26 January 2007 consultation¹¹ and 30 May 2007 statement¹² 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.
- 6.17 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

- 6.18 On 7 July 2006, 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

¹¹ <http://www.ofcom.org.uk/consult/condocs/obligations/obligations.pdf>

¹² <http://www.ofcom.org.uk/consult/condocs/obligations/statement/statement.pdf>

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 statement¹³. As these SMP services conditions no longer apply to BT in respect of wholesale international services markets, we have taken this opportunity to remove reference to these markets from the regulatory financial statements.

¹³ http://www.ofcom.org.uk/consult/condocs/fin_reporting/fin_report_statement/finance_report.pdf

Annex 1

Responding to this consultation

How to respond

- A1.1 Ofcom invites written views and comments on the issues raised in this document, to be made **by 5pm on 29 May 2008**.
- A1.2 Ofcom strongly prefers to receive responses using the online web form at <http://www.ofcom.org.uk/consult/condocs/btregs08/howtorespond/form>, as this helps us to process the responses quickly and efficiently. We would also be grateful if you could assist us by completing a response cover sheet (see Annex 3), to indicate whether or not there are confidentiality issues. This response coversheet is incorporated into the online web form questionnaire.
- A1.3 For larger consultation responses - particularly those with supporting charts, tables or other data - please email joanna.gough@ofcom.org.uk attaching your response in Microsoft Word format, together with a consultation response coversheet.
- A1.4 Responses may alternatively be posted or faxed to the address below, marked with the title of the consultation.
- Joanna Gough
Floor 4
Competition Finance
Riverside House
2A Southwark Bridge Road
London SE1 9HA
- Fax: 020 7783 4328
- A1.5 Note that we do not need a hard copy in addition to an electronic version. Ofcom will acknowledge receipt of responses if they are submitted using the online web form but not otherwise.
- A1.6 It would be helpful if your response could include direct answers to the questions asked in this document, which are listed together at Annex 4. It would also help if you can explain why you hold your views and how Ofcom's proposals would impact on you.

Further information

- A1.7 If you want to discuss the issues and questions raised in this consultation, or need advice on the appropriate form of response, please contact Joanna Gough on 020 7783 4328.

Confidentiality

- A1.8 We believe it is important for everyone interested in an issue to see the views expressed by consultation respondents. We will therefore usually publish all responses on our website, www.ofcom.org.uk, ideally on receipt. If you think your response should be kept confidential, can you please specify what part or whether

all of your response should be kept confidential, and specify why. Please also place such parts in a separate annex.

- A1.9 If someone asks us to keep part or all of a response confidential, we will treat this request seriously and will try to respect this. But sometimes we will need to publish all responses, including those that are marked as confidential, in order to meet legal obligations.
- A1.10 Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use. Ofcom's approach on intellectual property rights is explained further on its website at <http://www.ofcom.org.uk/about/accoun/disclaimer/>

Next steps

- A1.11 Following the end of the consultation period, Ofcom intends to publish a statement in June 2008.
- A1.12 Please note that you can register to receive free mail Updates alerting you to the publications of relevant Ofcom documents. For more details please see: http://www.ofcom.org.uk/static/subscribe/select_list.htm

Ofcom's consultation processes

- A1.13 Ofcom seeks to ensure that responding to a consultation is easy as possible. For more information please see our consultation principles in Annex 2.
- A1.14 If you have any comments or suggestions on how Ofcom conducts its consultations, please call our consultation helpdesk on 020 7981 3003 or e-mail us at consult@ofcom.org.uk . We would particularly welcome thoughts on how Ofcom could more effectively seek the views of those groups or individuals, such as small businesses or particular types of residential consumers, who are less likely to give their opinions through a formal consultation.
- A1.15 If you would like to discuss these issues or Ofcom's consultation processes more generally you can alternatively contact Vicki Nash, Director Scotland, who is Ofcom's consultation champion:

Vicki Nash
Ofcom
Sutherland House
149 St Vincent Street
Glasgow G2 5NW

Tel: 0141 229 7401
Fax: 0141 229 7433

Email vicki.nash@ofcom.org.uk

Annex 2

Ofcom's consultation principles

A2.1 Ofcom has published the following seven principles that it will follow for each public written consultation:

Before the consultation

A2.2 Where possible, we will hold informal talks with people and organisations before announcing a big consultation to find out whether we are thinking in the right direction. If we do not have enough time to do this, we will hold an open meeting to explain our proposals shortly after announcing the consultation.

During the consultation

A2.3 We will be clear about who we are consulting, why, on what questions and for how long.

A2.4 We will make the consultation document as short and simple as possible with a summary of no more than two pages. We will try to make it as easy as possible to give us a written response. If the consultation is complicated, we may provide a shortened Plain English Guide for smaller organisations or individuals who would otherwise not be able to spare the time to share their views.

A2.5 We will consult for up to 10 weeks depending on the potential impact of our proposals.

A2.6 A person within Ofcom will be in charge of making sure we follow our own guidelines and reach out to the largest number of people and organisations interested in the outcome of our decisions. Ofcom's 'Consultation Champion' will also be the main person to contact with views on the way we run our consultations.

A2.7 If we are not able to follow one of these principles, we will explain why.

After the consultation

A2.8 We think it is important for everyone interested in an issue to see the views of others during a consultation. We would usually publish all the responses we have received on our website. In our statement, we will give reasons for our decisions and will give an account of how the views of those concerned helped shape those decisions.

Annex 3

Consultation response cover sheet

- A3.1 In the interests of transparency and good regulatory practice, we will publish all consultation responses in full on our website, www.ofcom.org.uk.
- A3.2 We have produced a coversheet for responses (see below) and would be very grateful if you could send one with your response (this is incorporated into the online web form if you respond in this way). This will speed up our processing of responses, and help to maintain confidentiality where appropriate.
- A3.3 The quality of consultation can be enhanced by publishing responses before the consultation period closes. In particular, this can help those individuals and organisations with limited resources or familiarity with the issues to respond in a more informed way. Therefore Ofcom would encourage respondents to complete their coversheet in a way that allows Ofcom to publish their responses upon receipt, rather than waiting until the consultation period has ended.
- A3.4 We strongly prefer to receive responses via the online web form which incorporates the coversheet. If you are responding via email, post or fax you can download an electronic copy of this coversheet in Word or RTF format from the 'Consultations' section of our website at www.ofcom.org.uk/consult/.
- A3.5 Please put any parts of your response you consider should be kept confidential in a separate annex to your response and include your reasons why this part of your response should not be published. This can include information such as your personal background and experience. If you want your name, address, other contact details, or job title to remain confidential, please provide them in your cover sheet only, so that we don't have to edit your response.

Cover sheet for response to an Ofcom consultation

BASIC DETAILS

Consultation title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

CONFIDENTIALITY

Please tick below what part of your response you consider is confidential, giving your reasons why

Nothing

☐

Name/contact details/job title

☐

Whole response

☐

Organisation

☐

Part of the response

☐

If there is no separate annex, which parts?

If you want part of your response, your name or your organisation not to be published, can Ofcom still publish a reference to the contents of your response (including, for any confidential parts, a general summary that does not disclose the specific information or enable you to be identified)?

DECLARATION

I confirm that the correspondence supplied with this cover sheet is a formal consultation response that Ofcom can publish. However, in supplying this response, I understand that Ofcom may need to publish all responses, including those which are marked as confidential, in order to meet legal obligations. If I have sent my response by email, Ofcom can disregard any standard e-mail text about not disclosing email contents and attachments.

Ofcom seeks to publish responses on receipt. If your response is non-confidential (in whole or in part), and you would prefer us to publish your response only once the consultation has ended, please tick here.

☐

Name

Signed (if hard copy)

Annex 4

Consultation questions

A4.1 Questions requiring responses by 29 May 2008

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?

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?

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?

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

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?

Question 6: Do you agree with Ofcom's proposals to amend the list of Network Components?

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?

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?

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

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

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?

Annex 5

Impact Assessment

Introduction

- A5.1 The analysis presented in this annex represents an impact assessment, as defined in section 7 of the Communications Act 2003 (the Act).
- A5.2 You should send any comments on this impact assessment to us by the closing date for this consultation. We will consider all comments before deciding whether to implement our proposals.
- A5.3 Impact assessments provide a valuable way of assessing different options for regulation and showing why the preferred option was chosen. They form part of best practice policy-making. This is reflected in section 7 of the Act, which means that generally we have to carry out impact assessments where our proposals would be likely to have a significant effect on businesses or the general public, or when there is a major change in Ofcom's activities. However, as a matter of policy Ofcom is committed to carrying out and publishing impact assessments in relation to the great majority of our policy decisions. For further information about our approach to impact assessments, see the guidelines, Better policy-making: Ofcom's approach to impact assessment, which are on our website:
http://www.ofcom.org.uk/consult/policy_making/guidelines.pdf

The citizen and/or consumer interest

- A5.4 The consultation relates to regulatory financial information provided to Ofcom and the published regulatory financial statements. 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. The regulatory financial reporting regime also provides confidence to the industry that certain ex-ante obligations are being effectively monitored and enforced.
- A5.5 These proposals have only limited direct impact on individual consumers. However, to the extent that an effective financial reporting regime contributes to a competitive telecommunications market, there will be a benefit to citizens and consumers.

Ofcom's policy objective

- A5.6 The purpose of this consultation is to ensure that BT is meeting its regulatory financial reporting obligations.
- A5.7 We have identified an area where we have reasonable grounds to believe the 2006/07 regulatory financial statements are deficient and therefore it is appropriate to require BT to rectify this.
- A5.8 In addition as a result of various market reviews and the ongoing use of the BT's regulatory financial statements we have identified areas where improvements to the financial statements need to be made to ensure they are fit for purpose.

Conclusion

- A5.9 Ofcom considers that the proposals and changes set out in Sections 3 to 5 are necessary and appropriate because they represent amendments and enhancements necessary to maintain the relevance and usefulness of the financial statements. Ofcom does not expect the proposals to result in a significant incremental cost to BT.

Annex 6

Network components – proposed additions and deletions

Additions

- A6.1 It is proposed that the following components are added to the list. A description of each component is provided against each item below.
- A6.2 21CN components
- **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-METRO (dense) link connectivity**
MSAN control functions and MSAN transmission cards where the MSAN is co-located 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.
 - **Edge ethernet ports**
Edge ethernet ports at the Metro for voice, broadband and connectivity.
 - **Core/Metro BB**
Specific/shared elements of the METRO relating to broadband.
 - **MSAN-BRAS (dense) link BB**
MSAN transport control functions and MSAN transmission cards (up to but not including BRAS Metronode) where MSAN is co-located to a Metro and/or a WDM MSAN.
 - **MSAN-BRAS (non-dense) link BB**
MSAN transport control functions and MSAN transmission cards (up to but not including BRAS Metronode) where MSAN is remote from a Metro and/or a WDM MSAN.
 - **Combi card broadband**
MSAN specific to Combi card port (broadband only element)
 - **Combi card voice**
MSAN specific to Combi card port (voice only element).
 - **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.
- **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.
- **Core/Metro Connectivity**
Specific/shared elements of the METRO relating to connectivity21CN glossary of terms

A6.3 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	<p>Equipment located at all exchange buildings that:</p> <ul style="list-style-type: none"> • Provides the interfaces between the copper and fibre access cables to customer premises and the 21CN network. • Aggregates traffic from the access cables and provides the interfaces to the backhaul network to the 21CN metro nodes. <p>In respect of narrowband services, performs signalling and control functions in response to user action and to signals sent by a call server.</p>
	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 Multiplexer	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 MSAN chains or an MSAN and a metro node.
TDM	Time division multiplexer	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 line	A technology for transmission using copper wire of broadband digital signals in which the rate of digital transmission in each direction is the same.
	Edge ethernet port	Equipment at the edge of the Ethernet network. It terminates Ethernet traffic between a metro node and an MSAN and also directly connected services from other providers.

A6.4 Ongoing improvements to the network components list.

- Broadband line testing systems**
 The costs within this component are for the Test Access Matrix for Broadband lines. These sit between the DSLAM and the Main Distribution Frame (MDF).
- Local exchange processor**
 Combines the local exchange processor set-up and local exchange processor duration components.
- Main exchange switching**
 Combines the main exchange set up and main exchange call duration components.
- Service assurance - Retail**
 This component contains services level guarantee payments made by BT Openreach to BT Retail (previously an integral part of BT Retail call centre costs).
- Service assurance - Global Services**
 This component contains service level guarantee payments made by BT Openreach to BT Global (previously an integral part of BT retail call centre costs).
- Service centres – provision**
 Captures the call centre costs associated with the provision and repair of Openreach services.
- Service centres – assurance**
 Captures the call centre costs for non-provision activities (provision activity captured in Service Centres – provision) for Openreach.

- **Sales product management**
Captures Openreach specific activity for product management, which was previously incurred within BT Wholesale prior to the Introduction of Equivalence of Inputs.
- **SG & A Partial Private Circuits**
Captures the costs of the selling, general and administration activity in wholesale markets supporting partial private circuits.
- **SG & A other access**
Refers to the residue selling, general and administration activity of access connectivity that is not captured by any of the other SG & A components.
- **Directories**
This captures an element of the cost of production and distribution of the BT phonebook that is provided to WLR provider's customers as well as BT Retail customer. Therefore this attributes the cost on an equivalent basis across both BT downstream and WLR providers.
- **Backhaul extension services electronics and backhaul extension services fibre**
Two new components to disaggregate the current "backhaul extension services" component.
- **Wholesale & LAN extension services electronics, Wholesale & LAN extension services fibre etc, Wholesale & LAN extension services BNS**
Three new components to disaggregate the current "LAN & Wholesale extension services" component.
- **Local loop unbundling systems development**
Captures the costs of research and development projects undertaken on behalf of Openreach that are specific to products e.g. LLU.
- **Local loop unbundling hostel rentals and local loop unbundling hostel rentals power and vent**
Two new components to disaggregate the current "local loop unbundling hostel activities" component and to reflect that the costs relate to the rental of sites for hosting LLU equipment.

Deletions

A6.5 It is proposed that the following components are deleted from the list. An explanation of why this is necessary is provided against each item below;

- **Test access management system (TAMS)**
This is being replaced by the broadband line testing systems, which is BT's name for this component.
- **ATM customer interface 2mb**
Refers to an activity in a market that only has a non-discrimination obligation, therefore component costs are not required to be reported.
- **ATM customer interface 34mb**
Refers to an activity in a market that only has a non-discrimination obligation, therefore component costs are not required to be reported.

- **ATM customer interface >155mb**
Refers to an activity in a market that only has a non-discrimination obligation, therefore component costs are not required to be reported.
- **ATM network interface**
Refers to an activity in a market that only has a non-discrimination obligation, therefore component costs are not required to be reported.
- **ATM network switching**
Refers to an activity in a market that only has a non-discrimination obligation, therefore no component costs are required to be reported.
- **Internal PPC SG & A and External PPC SG & A**
These components have been replaced by one single component; SG & A partial private circuits.
- **ADSL connection activities**
Refers to an activity in a market that only has a non-discrimination obligation, therefore component costs are not required to be reported.
- **Internal ISDN30 connection activities**
Refers to an activity in a market that only has a non-discrimination obligation, therefore component costs are not required to be reported.
- **External ISDN30 connection activities**
Refers to an activity in a market that only has a non-discrimination obligation, therefore component costs are not required to be reported.
- **Internal ISDN30 takeover activities**
Refers to an activity in a market that only has a non-discrimination obligation, therefore component costs are not required to be reported.
- **External ISDN30 transfer activities**
Refers to an activity in a market that only has a non-discrimination obligation, therefore component costs are not required to be reported.
- **ISDN30 (line cards/maintenance)**
Refers to an activity in a market that only has a non-discrimination obligation, therefore component costs are not required to be reported.
- **Local exchange call set up and local exchange call duration**
These components have been replaced by one single component - local exchange processor.
- **Main exchange call set up and main exchange call duration**
These components have been replaced by one single component - main exchange switching.
- **Carrier pre selection system set up**
An activity that does not need to be reported as it occurs in a market where BT has not been determined to have SMP.
- **Carrier pre selection operator set up**
An activity that does not need to be reported as it occurs in a market where BT has not been determined to have SMP.

- **Carrier pre selection customer set up**
An activity that does not need to be reported as it occurs in a market where BT has not been determined to have SMP.
- **Carrier pre selection in life management**
An activity that does not need to be reported as it occurs in a market where BT has not been determined to have SMP.
- **Inter-tandem transmission link**
An activity that does not need to be reported as it occurs in a market where BT no longer has SMP.
- **Inter-tandem transmission length**
An activity that does not need to be reported as it occurs in a market where BT no longer has SMP.
- **Backhaul extension services**
To be replaced by two new components – backhaul extension services electronics and backhaul extension services fibre.
- **Shared local loop unbundling (SMPF) connection activities**
BT have a service with this description and therefore a component is not necessary as it provides no extra information.
- **Transmission links over fibre**
BT capture this cost at various plant group levels and then spread across components.
- **Transmission links over radio**
BT capture this cost at various plant group levels and then spread it across components.
- **SG & A access (excl. wholesale and retail)**
To be replaced by SG & A other access as described in the list of additions. We believe the new name to be more transparent.
- **Fibre access lines**
Reported at plant group level by BT for costs to be exhausted by the relevant fibre components.
- **Call centre costs**
This is replaced by two new Openreach call centre components.
- **LAN & Wholesale extension services**
To be replaced by three components that identify different elements of this one component.
- **Local loop unbundling hostel activities**
To be replaced by two separate hostel rental components.
- **FRIACO ports**
BT will no longer be reporting the FRIACO services separately as set out in paragraphs 6.12 to 6.15.

Annex 7

Legal Tests

Introduction

A7.1 This annex sets out how Ofcom has satisfied the legal tests to amend BT's regulatory financial accounting obligations, as set out earlier in the consultation.

1) External revenue reported in the regulatory financial statements

Legal tests

A7.2 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 proposed in paragraphs 3.8 to 3.9 and Annexes 9 and 10 are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

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

A7.3 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.

A7.4 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.

A7.5 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 proposed 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 proposed 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

A7.6 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

- A7.7 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 3.8 to 3.9 and Annexes 9 and 10 is objectively justifiable because it is not currently possible to determine if the revenues in the regulatory financial statements represent those reported in BT's statutory accounts. If the revenues are different then the return at market level will be different.

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

- A7.8 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 3.8 to 3.9 and Annexes 9 and 10 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 change proposed in this consultation.

Proportionate to what it is intended to achieve

- A7.9 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 3.8 to 3.9 and Annexes 9 and 10 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

- A7.10 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 3.8 to 3.9 and Annexes 9 and 10 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

Legal tests

- A7.11 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 proposed in paragraphs 3.13 to 3.14 and Annex 10 are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

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

- A7.12 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.
- A7.13 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.
- A7.14 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 proposed 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 proposed amendments to Direction 4 under SMP condition OA2 meet the tests in Sections 3 and 4.

Section 49(2) tests

- A7.15 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

- A7.16 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraphs 3.13 to 3.14 and Annex 10 is objectively justifiable because BT are not accounting for material services in their regulatory accounts sold both externally and internally.

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

- A7.17 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraphs 3.13 to 3.14 and Annex 10 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 change proposed in this consultation.

Proportionate to what it is intended to achieve

- A7.18 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraph 3.13 to 3.14 and Annex 10 is proportionate because it is reasonable for us to expect these services to be reported in the regulatory accounts due to their value 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

- A7.19 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraph 3.13 to 3.14 and Annex 10 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

Legal tests

- A7.20 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 proposed in paragraphs 3.22 to 3.24 and Annex 10 are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

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

- A7.21 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.
- A7.22 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.
- A7.23 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 proposed 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 proposed amendments to Direction 4 under SMP condition OA2 meet the tests in Sections 3 and 4.

Section 49(2) tests

A7.24 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

A7.25 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraphs 3.22 to 3.24 and Annex 10 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

A7.26 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraphs 3.22 to 3.24 and Annex 10 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 change proposed in this consultation.

Proportionate to what it is intended to achieve

A7.27 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraphs 3.22 to 3.24 and Annex 10 is proportionate because as it currently stands we cannot say that BT is complying with its non-discrimination obligation in this area even if they are. We require the CLZ revenues to be reported separately so we can monitor BT's compliance with this particular obligation.

Transparent in relation to what it is intended to achieve

A7.28 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraphs 3.22 to 3.24 and Annex 10 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

Legal Tests

- A7.29 The section below sets out why we Ofcom it 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 proposed in paragraphs 4.6 to 4.15 and Annex 8 . This Section should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

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

- A7.30 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.
- A7.31 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.
- A7.32 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 proposed 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 proposed 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

- A7.33 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

- A7.34 Ofcom considers that modifying Direction 1 under SMP condition OA2 and a direction under SMP condition FA10.2 in the manner described in paragraphs 4.6 to 4.15 and Annex 8 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

- A7.35 Ofcom considers that modifying Direction 1 under SMP condition OA2 and a direction under SMP condition FA10.2 in the manner described in paragraphs 4.6 to 4.15 and Annex 8 is not unduly discriminatory.
- A7.36 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.
- A7.37 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

- A7.38 Ofcom considers that modifying Direction 1 under SMP condition OA2 and direction under SMP condition FA10.2 in the manner described in paragraphs 4.6 to 4.15 and Annex 8 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

- A7.39 Ofcom considers that modifying Direction 1 under SMP condition OA2 and a direction under SMP condition FA10.2 in the manner described in paragraphs 4.6 to 4.15 and Annex 8 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

Legal tests

- A7.40 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 proposed in paragraph 4.19 to 4.20 and Annexes 9 and 10 are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

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

- A7.41 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.
- A7.42 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.
- A7.43 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 proposed 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 proposed amendments to Directions 3 and 4 under SMP condition OA2 meet the tests in Sections 3 and 4.

Section 49(2) tests

- A7.44 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

- A7.45 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.19 to 4.20 and Annexes 9 and 10 is objectively

justifiable because currently we believe that the components in these markets do not fulfil all of the characteristics of a component and therefore our proposals aim to rectify this and allow all of these characteristics to be met.

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

- A7.46 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.19 to 4.20 and Annexes 9 and 10 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

- A7.47 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.19 to 4.20 and Annexes 9 and 10 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 meet this obligation.

Transparent in relation to what it is intended to achieve

- A7.48 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.19 to 4.20 and Annexes 9 and 10 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

Legal tests

- A7.49 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 proposed in paragraphs 5.7 to 5.9 and Annex 10 are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

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

- A7.50 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.
- A7.51 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.
- A7.52 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 proposed 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 proposed amendments to Direction 4 under SMP condition OA2 meet the tests in Sections 3 and 4.

Section 49(2) tests

A7.53 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

A7.54 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraphs 5.7 to 5.9 and Annex 10 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

A7.55 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraph 5.7 to 5.9 and Annex 10 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 change proposed in this consultation.

Proportionate to what it is intended to achieve

A7.56 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraphs 5.7 to 5.9 and Annex 10 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

- A7.57 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraphs 5.7 to 5.9 and Annex 10 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

Legal tests

- A7.58 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 as proposed in the remainder of this section are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

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

- A7.59 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.
- A7.60 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.
- A7.61 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 proposed 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 proposed amendments to Direction 4 under SMP condition OA2 meet the tests in Sections 3 and 4.

Section 49(2) tests

- A7.62 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

- A7.63 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraphs 5.16 to 5.17 and Annex 10 is objectively justifiable because it is necessary to allow us to monitor that BT is complying with its non-discrimination and cost orientation obligations in this particular market, which we were not able to do in response to a complaint from an OCP.

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

- A7.64 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraphs 5.16 to 5.17 and Annex 10 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 change proposed in this consultation.

Proportionate to what it is intended to achieve

- A7.65 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraph 5.16 to 5.17 and Annex 10 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.

Transparent in relation to what it is intended to achieve

- A7.66 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraph 5.16 to 5.17 and Annex 10 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

Legal tests

- A7.67 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 proposed in paragraph 5.28 and set out in Annex 11 are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

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

- A7.68 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.
- A7.69 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.

- A7.70 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 proposed 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 proposed Directions in accordance with OA22 and FA10.22 meets the tests in Sections 3 and 4.

Section 49(2) tests

- A7.71 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

- A7.72 Ofcom considers that making Directions in the manner described in paragraph 5.28 and set out in Annex 11 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

- A7.73 Ofcom considers that making Directions in the manner described in paragraph 5.28 and set out in Annex 11 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 change proposed in this consultation.

Proportionate to what it is intended to achieve

- A7.74 Ofcom considers that making Directions in the manner described in paragraph 5.28 and set out in Annex 11 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

- A7.75 Ofcom considers that making Directions in the manner described in paragraph 5.28 and set out in Annex 11 is transparent because Ofcom is explaining and consulting on this change and has provided background explanatory material and evidence.

Annex 8

Notification of Proposed Amendments to Direction 1 and the FA10 Direction

Proposed modification to Direction 1 for BT: Network Components

Notification of a proposal under section 49 of the Communications Act 2003

Proposal for modifying Directions given under 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.

1. Ofcom hereby makes, in accordance with section 49 of the Communications Act 2003 ("the Act"), the following proposal to modify:

- 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*, as modified at Annex 1 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 16 August 2006, specifying network components for the purposes of SMP Services Conditions OA1 to OA34, AA1 to AA12, BA1 to BA6, EA1 to EA7, G1 to G9, GG1 to GG9, H1 to H8, HH1 to HH8, KA1 to KA4 and PA1; 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, as modified at Annex 1 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 16 August 2006.

2. The draft modification to the Directions is set out in the Schedule to this notification.

3. The effect of the draft modification to the Directions, and the reasons for making the proposal, are set out in the accompanying explanatory statement.

4. Representation may be made to Ofcom about the proposed draft modification to the Direction by 5 pm on 29 May 2008.

5. In accordance with section 50 of the Act, copies of this notification have been sent to the Secretary of State, the European Commission and to the regulatory authorities of every other Member State.

Craig Lonie

Director of Competition Finance, Ofcom

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

17 April 2008

Schedule

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 XX XXXX 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 XX XXXX 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 proposed 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.

[Name]

[Title]

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

[Date]

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 multiplexors at third party site	24
SDH multiplexors at third party site	25
SDH (MSH) multiplexors at third party site	26
PDH multiplexors	27
SDH mutliplexors	28
SDH cross connection/grooming equipment	29
Tributary card for SDH network by size	30
SDH (MSH) mutliplexors	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 & A partial private circuits</u>	124
<u>SG & 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 & LAN extension services electronics</u>	133
<u>Wholesale & LAN extension services fibre etc</u>	134
<u>Wholesale & 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>Core/Metro BB</u>	140
<u>MSAN-METRO BRAS (dense) link BB</u>	141
<u>MSAN-METRO BRAS (non-dense) link BB</u>	142
<u>Combi card BB</u>	143
<u>Combi card voice</u>	144
<u>Core/Metro Voice</u>	145
<u>INODE-voice call set up</u>	146
<u>Border gateway and signalling firewall</u>	147
<u>MSAN-POSI (dense) link voice</u>	148
<u>MSAN-POSI (non-dense) link voice</u>	149
<u>Core/Metro Connectivity</u>	150

Deletions from previous list

<u>Local exchange call set up</u>	2
<u>Local exchange call duration</u>	3
<u>Main exchange call set up</u>	4
<u>Main exchange call duration</u>	5
<u>Inter-tandem transmission link</u>	10
<u>Inter-tandem transmission length</u>	11

Fibre access lines	21
Transmission links over fibre	34
Transmission links over radio	35
Carrier pre selection system set up	41
Carrier pre selection operator set up	42
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 9

Notification of Proposed Amendments to Direction 3 and the FA10 Direction

Notification of a proposal under section 49 of the Communications Act 2003

Proposal for modifying Directions given under SMP Services Condition 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

1. Ofcom hereby makes, in accordance with section 49 of the Communications Act 2003 ("the Act"), the following proposal to modify:

- 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, as modified at Annex 4 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 30 May 2007, specifying requirements for the preparation, audit and delivery of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting; 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, as modified at Annex 2 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 16 August 2006, specifying requirements for the preparation, audit and delivery of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting.

2. The draft modification to the Directions is set out in the Schedule to this notification.

3. The effect of the draft modification to the Directions, and the reasons for making the proposal, are set out in the accompanying explanatory statement.

4. Representation may be made to Ofcom about the proposed draft modification to the Direction by 5 pm on 29 May 2008.

5. In accordance with section 50 of the Act, copies of this notification have been sent to the Secretary of State, the European Commission and to the regulatory authorities of every other Member State.

Craig Lonie

Director of Competition Finance, Ofcom

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

17 April 2008

Schedule

Direction modifying Directions under section 49 of the Communications Act 2003 and SMP Services Conditions OA2 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 XX XXX 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 XX XXXX 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 proposed 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.

[Name]

[Title]

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

[Date]

Annex A

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

		Wholesale local access market	wholesale service A	wholesale service B etc
	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			
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		

<p>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.</p>		Wholesale local access market	wholesale service A	wholesale service B etc
Annex 26	Additional Information by way of notes			
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.

	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	Bradband conveyance in the UK	WS ATM Interconnection	Wholesale IDD 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 34/45 mbit/s trunk	Partial and private circuits 140/155 mbit/s trunk	Partial and Private circuits 622 mbit/s trunk
Annex 1	Statement by Ofcom	P		P		P						
Annex 2	Statement of responsibility	P	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	N	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	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	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						

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

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	Additional Information by way of notes									
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									

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 (up to and including 8Mbit/s);	WS service A	WS service B	Partial and Private Circuits 64kbit/s connection	Partial and Private Circuits 64kbit/s link	Partial and Private Circuits 64kbit/s transmission	Partial and Private Circuits 64kbit/s local end	Partial and Private Circuits 2mbit/s connection	Partial and Private Circuits 2mbit/s link	Partial and Private Circuits 2mbit/s distribution	Partial and Private Circuits 2mbit/s local end	RBS Backhaul sub 2mb rental	RBS Backhaul sub 2mb connection	RBS Backhaul 2mb rental	RBS Backhaul 2mb connection	SDSL
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	N	N	N	N	N	N	N
AI-2	Summarised activity analysis of components		N	N	N	N	N	N	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	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	N	N	N	N	N	N
AI-5	Analysis by asset category and network activities		N	N	N	N	N	N	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	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	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	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	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	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	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	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	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.		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

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.		Alternative interface symmetric broadband origination (all	WS service A	WS service B	WES/LES	BES	Technical areas	Point of Handover	Asymmetric broadband origination in the UK excluding the Hull area	Wholesale local access market	wholesale service A	wholesale service B etc
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				

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 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	Additional Information by way of notes						
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 Stick	WS Call origination local exchange Stick (ISDN)	WS local exchange Call origination circuit excluding FRIACO port	WS FRIACO port at the local exchange	WS PPP for FRIACO
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	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	Additional Information by way of notes							
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							

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.

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	N	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	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	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	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	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	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	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	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	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	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	N	N	N	N	N	N	N	N
<u>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</u>																			
<u>AI-23 Cost data for plant group to service for the PPC services and technical areas</u>		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N

		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
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.											
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	Additional Information by way of notes					
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	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	
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 10

Notification of Proposed Amendments to Direction 4 and the FA10 Direction

Proposed modification to Direction 4 for BT: Form and content of Regulatory Financial Statements

Notification of a proposal under section 49 of the Communications Act 2003

Proposal for modifying a Direction given under 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

1. Ofcom hereby makes, in accordance with section 49 of the Communications Act 2003 ("the Act"), the following proposal to modify:

- 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 specifying requirements for the form and content of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting; 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 in the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 16 August 2006, specifying requirements for the form and content of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting.

2. The draft modification to the Direction is set out in the Schedule to this notification.

3. The effect of the draft modification to the Direction, and the reasons for making the proposal, are set out in the accompanying explanatory statement.

4. Representation may be made to Ofcom about the proposed draft modification to the Direction by 5 pm on 29 May 2008.

5. In accordance with section 50 of the Act, copies of this notification have been sent to the Secretary of State, the European Commission and to the regulatory authorities of every other Member State.

Craig Lonie

Director of Competition Finance, Ofcom

A person authorised by Ofcom under paragraph 18 of the Schedule to the

Office of Communications Act 2002
17 April 2008

Schedule

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 XX XXXX 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 XX XXXX 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 proposed 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.

[Name]

[Title]

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

[Date]

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	£	£	£	%	£	%	
	£	£	£	%	£	%	
Residual Activities							
Wholesale residual activities	£	£	£	%	£	%	
Retail residual activities	£	£	£	%	£	%	
	£	£	£	%	£	%	
Adjustments	£	£	£	%	£	%	
Total Markets	£	£	£	%	£	%	

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	£	£	£	£	£	£	
	£	£	£	£	£	£	
Residual Activities							
Wholesale residual activities	£	£	£	%	£	%	
Retail residual activities	£	£	£	%	£	%	
	£	£	£	%	£	%	
Adjustments	£	£	£	%	£	%	
Total Markets	£	£	£	%	£	%	

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 SMP markets £m	Wholesale residual markets £m	Total wholesale £m
Operating Costs of Wholesale Services:																						
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	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Sub total Depreciation	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Sub total HCA Operating Costs	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
CCA adjustments:																						
Holding (gain)/loss	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Supplementary depreciation	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Other adjustments	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Roundings	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Total CCA Operating Costs	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£

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 ISDN2 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 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-landem 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 SMP markets £m	Wholesale residual markets £m	Total wholesale £m
Fixed assets																						
Land & Buildings	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Access - Copper	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Access - Fibre	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Access Duct	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Switch	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Transmission	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Other	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Investments	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Total Fixed Assets	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Current assets																						
Stocks	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Debtors	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Internal	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
External	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Total current assets	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Creditors falling due within one year																						
Other creditors	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Internal	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
External	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Total Creditors falling due within one year	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Net current assets	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Total assets less current liabilities	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Provisions for liabilities & charges & roundings	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Roundings	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Mean Capital Employed	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£

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 adjustments		Roundings	Total CCA operating costs	Return	Return on turnover	Mean Capital Employed	Return on MCE
	Internal	External	Roundings	Total									
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 adjustments		Roundings	Total CCA operating costs	Return	Return on turnover	Mean Capital Employed	Return on MCE
	Internal	External	Roundings	Total									
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
for the year ended 31 March 2007										
Service										
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	£	£	£	£						
for the year ended 31 March 2006										
Service										
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 Components	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
---------------------------------	--------------------	----------------------------	--	---------------------------	---------------------------	--	---------------	---	--------	---

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

	Average cost per unit (from annex 15)	Market A			Market B						etc		
		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
Fully Allocated Cost					

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
Market/Area						
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						
Total						
Adjustments (as necessary)						
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						
As in the Annual Report						

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		- External		x.xx	x.xx	
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

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

		network activities	
AI – 3	Cost category (as used within regulatory LRIC model) analysis for network components and increments	<ul style="list-style-type: none"> • similar to AI-1 but on a fully allocated cost basis 	CA & R
AI – 4	Summarised activity analysis for network components and increments	<ul style="list-style-type: none"> • similar to AI-2 but on a fully allocated cost basis 	CA & R
AI – 5	<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"> • HCA depreciation • CCA supplementary depreciation • Holding gain • Other CCA adjustments 	<ul style="list-style-type: none"> • impact on profit and loss cost base of the application of CCA methodologies • enable trend analysis of this breakdown to be undertaken • provides sub-analysis (for the cost/gain line items left) of the asset movement statement in relation to network components • provide input into network price control reviews 	CA & R
AI – 6	<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</p>	<ul style="list-style-type: none"> • review the breakdown of asset costs between principal asset categories and how such CCA asset values have moved in the year • enable trend analysis of CCA asset values to be undertaken • provide input into network price control reviews 	CA & R

	movement statement in the group statutory accounts		
AI – 7	Total mean capital employed and detailed activity analysis for all network components	<ul style="list-style-type: none"> • review network component costs • enable trend analysis of these breakdowns to be undertaken • provide input into price control reviews • assist in dealing with investigations • ensure summarised activity analysis presented elsewhere reconciles to BT's network activities cost base 	CA
AI – 8	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"> • review how outpayments are accounted for • review fast growing segment of wholesale call market • review the impact of outpayments on BT's network cost base, for example, for different call types • enable trend analysis of outpayment costs and volume breakdowns to be undertaken • assist in dealing with investigations 	CA & R
AI – 9	Detailed Network activity analysis of mean capital employed for all network components	<ul style="list-style-type: none"> • enable trend analysis of these breakdowns to be undertaken • ensure summarised activity analysis reconciles to BT's network activity mean capital employed 	CA & R
AI – 10	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"> • evaluate the price trends for composite elements of BT's asset revaluation indices • evaluate the weightings within individual asset revaluation indices • evaluate the trend of individual asset revaluation indices 	CA

		<ul style="list-style-type: none"> provide input into price control reviews and determinations 	
AI – 11	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"> review the nature and relative distribution of BT's asset base evaluate BT's chosen asset lives for individual asset categories review the relationship between gross HCA and CCA valuations evaluate the appropriateness of the CCA valuation basis for each asset category evaluate the appropriateness of the CCA depreciation methodology for each asset category review the impact of CCA accounting on the cost base enable trend analysis of CCA costs to be undertaken provide input into network price control reviews 	CA & R
AI – 13	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"> review the breakdown of costs to all the different components and sub-components within BT's network activities enable trend analysis of this breakdown to be undertaken provide input into network price control reviews ensure total plant group costs reconcile to the cost base for BT's network activities 	CA & R
AI-15	Provision of BT 'Data File'	<ul style="list-style-type: none"> Delivery of "data file" in prescribed format containing all records from cost attribution system. Format of file to allow for 	AS, CA & R

		<p>identification of sources of data, data flows (from the input sources at F8 code level through to products and services) and 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/3rd 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>	
AI-20	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"> • Breakdown of the following information <ul style="list-style-type: none"> – Full CCA on an actual price index basis – Pre 1997 assets on an RPI basis – Post 1997 assets on an actual price index basis. • Enable Ofcom to re-calculate and monitor the 	CA

		affect of this going forward.	
AI-21	Comprehensive analysis of the transfer charges where this information is summarised in the published statements because there are a significant number of variants with different charging bases.	<ul style="list-style-type: none"> • Allow Ofcom to check that material items have been separately disclosed in the published Regulatory Accounts. • Allows BT to demonstrate compliance with its non-discrimination obligations. 	AS

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

[illegible]

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	Volume	Unit	Average price £
	£m	£m	£m	£m			
for the year ended 31 March 2008							
Service							
<u>Internal IPstream end user access-connection</u>	£			£		y conn	£
<u>External IPstream end user access-connection</u>			£	£		y conn	£
<u>Internal IPstream end user access-rental</u>	£			£		y line	£
<u>External IPstream end user access-rental</u>			£	£		y line	£
<u>Internal Datastream end user access-connection</u>	£			£		y conn	£
<u>External Datastream end user access-connection</u>			£	£		y conn	£
<u>Internal Datastream end user access-rental</u>	£			£		y line	£
<u>External Datastream end user access-rental</u>			£	£		y line	£
<u>Internal Datastream- Backhaul circuits (VPs)</u>	£			£		y cct	£
<u>External Datastream- Backhaul circuits (VPs)</u>			£	£		y cct	£
<u>Ancillary Charges (migration, ceassation, re-grades)</u>	£		£	£		(ux)	(sx)
Service 1 Internal	£			£		y x	£
Service 1 External			£	£		y x	£
etc						y	
Service 2 Internal		£		£		y x	£
etc							
	£	£	£	£			

(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

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

Service

CLZ Service 1 Internal

Service 1 Internal

Additional associated services e.g. enhanced maintenance

Total Internal CLZ

Non-CLZ Service 1 Internal

Service 1 internal

Additional associated services e.g. enhanced maintenance

Total internal non-CLZ

CLZ Service 1 External

Service 1 External

Additional associated services e.g. enhanced maintenance

Total external CLZ

Non-CLZ Service 1 External

Service 1 External

Additional associated services e.g. enhanced maintenance

Total external non-CLZ

Weighted average price for CLZ/non-CLZ // Nationally averaged cost

Service 2 Internal

Service 2 External

etc

Service 3 Internal

etc

Support Activity

Internal Third Party Customer Infrastructure

External Third Party Customer Infrastructure

Internal Protected Path Variants and Resilience

External Protected Path Variants and Resilience

Internal Excess Construction charges

External Excess Construction charges

	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
	£	£	£	£	y	x	£	£	x.xx	x.xx	x.xx
	£	£	£	£	y	x	£	£	x.xx	x.xx	x.xx
	£	£	£	£	y	x	£	£	x.xx	x.xx	x.xx
	£	£	£	£	y	x	£	£	x.xx	x.xx	x.xx
	£	£	£	£	y	x	£	£	x.xx	x.xx	x.xx
	£	£	£	£	(ux)	(sx)	(sx)	(sx)			
	£	£	£	£	(ux)	(sx)	(sx)	(sx)			
	£	£	£	£	(ux)	(sx)	(sx)	(sx)			
	£	£	£	£	(ux)	(sx)	(sx)	(sx)			
	£	£	£	£	(ux)	(sx)	(sx)	(sx)			
	£	£	£	£	(ux)	(sx)	(sx)	(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 - Whilst the cost orientation obligation applies to these services the fact that each line is made up of a number of individual prices and volumetrics means that it is not possible to show this cost orientation data in this format

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

← Non- discrimination → ← Cost orientation →

for the year ended 31 March 2008

Service

Service 1 Internal
Service 1 External
etc

Service 2 Internal
etc

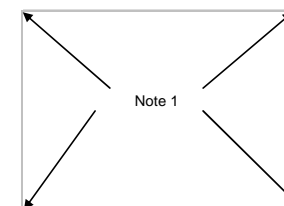
Support Activity

Internal Third Party Customer Infrastructure
External Third Party Customer Infrastructure

Internal Protected Path Variants and Resilience
External Protected Path Variants and Resilience

Internal Excess Construction charges
External Excess Construction charges

	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
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											
Internal Third Party Customer Infrastructure	£			£	(ux)		(sx)				
External Third Party Customer Infrastructure			£	£	(ux)		(sx)				
Internal Protected Path Variants and Resilience	£			£	(ux)		(sx)				
External Protected Path Variants and Resilience			£	£	(ux)		(sx)				
Internal Excess Construction charges	£			£	(ux)		(sx)				
External Excess Construction charges			£	£	(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 - Whilst the cost orientation obligation applies to these services the fact that each line is made up of a number of individual prices and volumetrics means that it is not possible to show this cost orientation data in this format

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

	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
for the year ended 31 March 2008											
Service											
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>	£			£		x	£ £		x.xx	x.xx	x.xx
<u>External main link rental charges</u>			£	£		x	£ £		x.xx	x.xx	x.xx
						-					
<u>Internal BNS all bandwidth rental</u>	£			£		x	£ £		x.xx	x.xx	x.xx
<u>External BNS all bandwidth rental</u>			£			x	£ £		x.xx	x.xx	x.xx
						-					
<u>Internal BNS all bandwidth connection</u>	£			£		x	£ £		x.xx	x.xx	x.xx
<u>External BNS all bandwidth connection</u>			£	£		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 - Whilst the cost orientation obligation applies to these services the fact that each line is made up of a number of individual prices and volumetrics means that it is not possible to show this cost orientation data in this format

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

												FAC (see Section 5)		Unaudited LRIC Floor	Unaudited LRIC Ceiling	Average price/FAC
for the year ended 31 March 2008	Internal Sales - services also provided externally	Internal Sales - services also provided internally	External Sales	Turnover	Volume	Unit	Average price									
	£m	£m	£m	£m			£	£	£	£	£	£	£	£	£	
Service																
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																
Support Activity																
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 - Whilst the cost orientation obligation applies to these services the fact that each line is made up of a number of individual prices and volumetrics means that it is not possible to show this cost orientation data in this format

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)

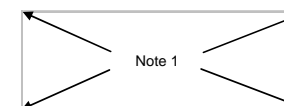
Summary

	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
for the year ended 31 March 2007											
Service											
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											
Support Activity											
Internal In Span Handover	£			£	(ux)		(sx)				
External In Span Handover			£	£	(ux)		(sx)				
Internal Excess Construction charges	£			£	(ux)		(sx)				
External Excess Construction charges			£	£	(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 - Whilst the cost orientation obligation applies to these services the fact that each line is made up of a number of individual prices and volumetrics means that it is not possible to show this cost orientation data in this format

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

Reference	Additional Financial Information	Description	Purpose (AS, CA or reconciliation)
<u>AI-22</u>	<ul style="list-style-type: none"> <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> <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 & 13) in the regulatory financial statements with the additional lines added.</u>	<u>reconciliation, AS & CA</u>
<u>AI-23</u>	<ul style="list-style-type: none"> <u>Information showing the underlying cost stack behind the PPC and technical area services using the plant groups to replace the current components</u> 	<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 11

Notification of a proposal to make Directions under OA22 and FA10.22

Notification of a proposal under section 49 of the Communications Act 2003

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

1. OFCOM hereby makes, in accordance with section 49 of the Communications Act 2003 ("the Act"), the following proposal to make:

- i. a Direction under SMP Services Condition OA22 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004, requiring BT to amend Accounting Documentation in order to remedy a deficiency identified by OFCOM; and
- ii. a Direction under SMP Services Condition FA10.22 at Schedule 4 to the Notification set out in Annex 2 of the Review of the wholesale local access market, dated 16 December 2004, requiring BT to amend Accounting Documentation in order to remedy a deficiency identified by OFCOM.

2. The Directions are set out in the Schedule to this notification.

3. The effect of the draft Directions, and the reasons for making the proposal, are set out in the accompanying explanatory statement.

4. Representation may be made to OFCOM about the proposed draft modification to the Direction by 5 pm on 29 May 2008.

5. In accordance with section 50 of the Act, copies of this notification have been sent to the Secretary of State, the European Commission and to the regulatory authorities of every other Member State.

Craig Lonie

Director of Competition Finance, Ofcom

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

17 April 2008

Schedule

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 XX XXX 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 XX XXXX 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 proposed 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.

[Name]

[Title]

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