



# Changes to BT's regulatory financial reporting and audit requirements

Explanatory statement and notification

Statement

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## Section 1

# Executive Summary

## Background

- 1.1 Relevant, reliable and timely regulatory financial information is fundamental to the effective economic regulation of the electronic communications sector.
- 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 provides confidence 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) and Kingston Communications plc (KCL) has evolved over time in response to ongoing changes in the regulatory environment. The last significant consultation on the regime was in 2004<sup>1</sup> (the "2004 Consultation") in response to the regulatory framework for electronic communications network services that came into effect on 25 July 2003. The regulatory financial statements for the year to 31 March 2005 were the first to take account of the full impact of these changes.
- 1.4 Since the 2004 Consultation, there have been significant changes in the regulatory environment and further changes are in progress, including:
  - changes in the regulatory agenda (following Ofcom's strategic review of the telecommunications sector);
  - functional 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 developments, including the prospective build of the next generation network; and
  - developments in the way financial information will be made available to Ofcom (via the implementation of a new data extraction tool).
- 1.5 Ofcom therefore considered that it was appropriate to take a fresh look at the regulatory financial reporting regime. This process started with the consultation document dated 3 May 2006<sup>2</sup>, entitled Regulatory financial reporting obligations on BT (the "May Consultation").
- 1.6 The May Consultation as well as making proposals for changes to be reflected in BT's 2005/06 regulatory financial statements, (including specific elements of the reporting obligations and changes to the audit requirements), set out the framework for further consultation on the objectives of good regulatory financial reporting in the new regulatory environment.

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<sup>1</sup> The regulatory financial reporting obligations on BT and Kingston Communications in markets where SMP has been demonstrated, available at [http://www.ofcom.org.uk/consult/condocs/fin\\_reporting/](http://www.ofcom.org.uk/consult/condocs/fin_reporting/)  
<sup>2</sup> [http://www.ofcom.org.uk/consult/condocs/reg\\_bt/](http://www.ofcom.org.uk/consult/condocs/reg_bt/)

## Scope of this document

- 1.7 On 26 January 2007, Ofcom published a further consultation document (the “January Consultation”). This discussed proposals for changes to the format and content of BT’s published financial statements and their requirements for additional financial reporting to Ofcom (consisting of Additional Financial Statements and Additional Financial Information).
- 1.8 This consultation document considered the following areas:
- objectives for the financial reporting regime as a whole;
  - the role of the published documents as part of that regime; and
  - proposals for a new regime.
- 1.9 It did this through consideration of the different aspects of BT’s financial framework as set out below:
- the information that should be maintained and prepared by BT and KCL
  - the information that should be made available to Ofcom;
  - the information that is made publicly available; and
  - the framework for providing assurance on that information.
- 1.10 In the context of this consultation, Ofcom also considered if any changes should be made to the reporting obligations applicable to KCL. In particular, Ofcom was required to ensure that the reporting conditions placed on BT were not unduly discriminatory in respect of similar obligations on KCL.
- 1.11 It was determined however that the form and content of KCL’s regulatory financial statements already reflected KCL’s relative size and complexity compared to BT. Ofcom believed therefore that the reasons for form and content changes proposed for BT did not justify similar changes to KCL’s reporting formats. Hence Ofcom did not propose any changes to KCL’s current reporting obligations.
- 1.12 Ofcom will continue to discuss with KCL improvements to its regulatory financial statements and expect these discussions to be informed by BT’s published 2006/07 regulatory financial statements.

## Final Decisions

- 1.13 This Statement sets out Ofcom’s final decisions in respect of the January Consultation proposals which consist primarily of a new format for the published regulatory financial report.
- 1.14 The structure of the report has been changed to make it more accessible to a wider audience without losing the information necessarily used by the regulatory community. The intention of these changes is to move the key information to the front of the document and push the (simplified) supporting analysis to the back of the report. The main changes can be summarised as follows:

- to provide a wider audience with an understanding of the key issues, the overall performance of BT's regulated activities will be reported and explained at the front of the document (with a focus on the wholesale access markets);
  - to provide the regulatory community with evidence of tests of compliance with obligations and sufficient information to understand and challenge this evidence, most of the detailed financial information currently provided will still be required;
  - to give all users a better understanding of how costs are shared by products and services, new annexes will illustrate and explain how group costs and assets are allocated across all markets;
  - to provide a market by market overview of financial performance and evidence of first order tests of compliance with BT's obligations to offer cost-oriented charges and not to discriminate unduly, key financial data will now be set out on a single page summary for each market;
  - to aid understanding, markets will be organised into groups; and
  - to simplify reporting and facilitate comparison of the underlying data across different markets, detailed support for the data used in the first order tests for each market will be collated and included in a section towards the back of the report.
- 1.15 The effect of these changes will be to reduce the length of the regulatory financial report whilst making sure that, with the exception of some of the LRIC analysis, very little information that is currently provided will be lost. This reflects Ofcom's view that an informed industry contributes to effective and efficient regulation and takes account of examples provided by industry of the ways in which published information has contributed to effective competition and informed, focussed requests for intervention.
- 1.16 In respect of the Secondary Accounting Documents currently published by BT and concerns expressed about the size and complexity of these documents, Ofcom considers that BT's existing obligations allow BT adequate scope to prepare fit for purpose documents which do not place a significant additional burden on BT. No changes to the relevant obligations are being effected.
- 1.17 In respect of the further financial information provided only to Ofcom, Ofcom's ability to interrogate BT's financial data will be enhanced under existing obligations on BT to introduce a data extraction tool, which will allow Ofcom to extract, sort, analyse and report on BT's cost attribution system including the replication of BT's regulatory Financial Statements and a drill-down facility. Subject to the timely provision of a satisfactory data file, Ofcom does not consider it necessary for BT to continue to provide the Additional Financial Statements and the requirement to produce Additional Financial Information statements will be reduced.
- 1.18 Nothing in Ofcom's changes affects BT's obligation to provide information in response to specific requests from Ofcom.
- 1.19 Ofcom considers that these changes to the reporting requirements are consistent with the latest regulatory thinking, including for example, the conclusions in Philip Hampton's 2005 report HM Treasury, "Reducing administrative burdens: effective inspection and enforcement" and specifically the recommendation for regulators to allocate resources to areas where the regulatory risk is greatest, reducing the

BT's regulatory financial reporting requirements

administrative burden of regulation while maintaining or improving regulatory outcomes.

## Section 2

# Basis for review of regulatory reporting obligations

## Introduction

2.1 This section considers:

- the need for a review of the regulatory financial information requirements;
- the regulatory framework for these requirements;
- how these requirements have evolved over time; and
- Ofcom's scope to update these requirements

## The need for a review of requirements for regulatory financial information

- 2.2 Ofcom requires regulatory financial information in order to monitor and enforce various obligations that are placed on dominant providers in markets where they have been found to have SMP. These obligations are intended to support competition and prevent dominant providers from abusing their position in the market to the detriment of competitors and end-users.
- 2.3 The requirement on BT to implement well-documented and robust accounting separation and cost accounting policies and procedures helps to ensure that costs are attributed to the various components, services and products in line with the principles set out in the primary accounting documents.
- 2.4 This in turn provides a sound accounting basis to help BT comply with its reporting obligations and provides an important starting point for further analysis to support Ofcom's ongoing market review, investigation and complaints work.
- 2.5 The current regulatory financial reporting regime has evolved over time in response to ongoing changes in the regulatory environment. The last significant consultation on the regime was in 2004 in response to the then new regulatory framework for electronic communications network services that came into effect on 25 July 2003. The regulatory financial statements for the year to 31 March 2005 were the first to take account of the full impact of these changes.
- 2.6 Since these changes were implemented, there have been and will continue to be a number of significant changes in the regulatory environment, including for example, the completion of Ofcom's Strategic Review of Telecommunications, the implementation of undertakings by BT accepted by Ofcom in lieu of a reference under the Enterprise Act and the creation of Openreach.
- 2.7 Further, Ofcom's ability to interrogate BT's financial data will be enhanced by the introduction of a data extraction tool, which will allow Ofcom to extract, sort, analyse and report on BT's cost attribution system including the replication of BT's regulatory Financial Statements and a drill-down facility. The data extraction tool is currently under development and is scheduled to be operational in 2007.



- 2.8 Ofcom therefore considered that it was appropriate to take a fresh look at the financial reporting regime. This final statement represents the end of the second stage of a two stage consultation process, which started with the May Consultation.
- 2.9 This review has been informed partly by BT's proposals for a new format for its published regulatory financial report. These proposals, in the form of an alternative version of BT's 2005/06 regulatory financial report, were developed by BT in response to an invitation from Ofcom and published by BT on a voluntary basis<sup>3</sup>.
- 2.10 The changes to the regime as outlined in this statement will be implemented in time for the regulatory financial statements for 2006/07.

## **The regulatory framework**

- 2.11 The current regulatory framework for electronic communications networks and services entered into force on 25 July 2003. The framework is designed to create harmonised regulation across Europe and is aimed at reducing entry barriers and fostering prospects for effective competition to the benefit of consumers. The basis for the regulatory framework is five EU Communications Directives:
- Directive 2002/21/EC on a common regulatory framework for electronic communications networks and services (the "Framework Directive");
  - Directive 2002/19/EC on access to, and interconnection of, electronic communications networks and associated facilities (the "Access Directive");
  - Directive 2002/20/EC on the authorisation of electronic communications networks and services (the "Authorisation Directive");
  - Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services , (the "Universal Service Directive"); and
  - Directive 2002/58/EC concerning the processing of personal data and the protection of privacy in the electronic communications sector (the "Privacy Directive").
- 2.12 The Framework Directive provides the overall structure for the new regulatory regime and sets out fundamental rules and objectives which read across all five Directives. Article 8 of the Framework Directive sets out three key policy objectives which have been taken into account in the preparation of this consultation document, namely promotion of competition, development of the internal market and the promotion of the interests of the citizens of the European Union.
- 2.13 The Authorisation Directive establishes a new system whereby any person will be generally authorised to provide electronic communications services and/or networks without prior approval. The general authorisation replaces the former licensing regime.
- 2.14 The Universal Service Directive defines a basic set of services that must be provided to end-users. The Access Directive sets out the terms on which providers may

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<sup>3</sup> BT's proposals can be reviewed at:  
<http://www.btplc.com/Thegroup/Regulatoryinformation/Financialstatements/2006/BTRegulatoryFinancialReport2006.pdf>

access each others' networks and services with a view to providing publicly available electronic communications services.

- 2.15 These four Directives were implemented in the UK on 25 July 2003. This was achieved via the Communications Act 2003 (the "Act").
- 2.16 The Privacy Directive established users' rights with regard to the privacy of their communications. This Directive was adopted slightly later than the other four Directives and was implemented by Regulations which came into force on 11 December 2003.
- 2.17 The Directives require national regulatory authorities ("NRAs"), such as Ofcom, to carry out reviews of competition in communications markets to ensure that regulation remains appropriate and proportionate in the light of changing market conditions. A series of market reviews has been carried out over the last twelve months.
- 2.18 Each market review has three stages:
- definition of the relevant market or markets;
  - assessment of competition in each market, in particular whether any undertakings have SMP in a given market; and
  - assessment of appropriate regulatory obligations where there has been a finding of SMP.
- 2.19 Ofcom's ability to impose regulatory financial reporting obligations only arises where an organisation has been found to have SMP, which is akin to the competition law concept of dominance, in a reviewed services market.
- 2.20 Once such SMP has been found, there is a range of remedies available to NRAs to encourage competition in the communications sector and to prevent anti-competitive behaviour by dominant providers. These include:
- Obligations to offer cost-oriented charges – so that non-dominant communications providers can purchase necessary services from dominant providers at an amount reasonably related to the costs of the dominant provider;
  - Obligations not to discriminate unduly – so that when a vertically integrated dominant provider charges a competing communications provider for a service it is at the same rate that it charges its own downstream business and that quality and other aspects of service are the same; and
  - Obligations to cap prices, i.e. price controls – these are designed to prevent a dominant provider from using its position to increase prices to an excessive level. For example, the retail price control, which prevents BT increasing a basket of prices to residential consumers beyond a reasonable level, and the network charge control.
- 2.21 Part 1 of Schedule 1 of the Notifications, set out in the Statement on the regulatory and financial reporting obligations on BT and KCL, issued on 22 July 2004<sup>4</sup> (the "2004 Statement") provides the full details of the markets in which Ofcom has imposed cost accounting and/or accounting separation obligations on dominant

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<sup>4</sup> [http://www.ofcom.org.uk/consult/condocs/fin\\_reporting/fin\\_report\\_statement/finance\\_report.pdf](http://www.ofcom.org.uk/consult/condocs/fin_reporting/fin_report_statement/finance_report.pdf)

providers with the exception of the "Inter-tandem conveyance and transit on fixed public telephone networks in the UK excluding the Hull area" market for which BT is no longer notified as having SMP.

- 2.22 This document addresses how regulatory financial reporting obligations should be implemented in specific markets. It does not address whether these obligations should be imposed, the level of regulation in a market or the types of remedies to be employed, which have been addressed in the market reviews.

### How the current regime evolved

- 2.23 The requirements on BT to publish current cost information on its network costs reflect the arrangements for the control of its network charges which have applied since 1997. Prior to that time, BT's network charges had been determined annually by Of tel on the basis of BT's costs.
- 2.24 The system of RPI-X controls on baskets of charges which replaced annual determinations in 1997 gave BT substantially greater freedom to vary interconnection charges within the network charge controls. Rather than being determined at fully allocated (historical) costs, individual charges were allowed to vary subject to floors and ceilings based on incremental and stand-alone cost respectively. At the same time, in order to provide adequate safeguards that the increased freedom would not be used anti-competitively, BT was placed under a responsibility to be able to demonstrate that any of its charges were reasonably derived from costs and to publish sufficient cost information to provide the necessary transparency for competing operators.
- 2.25 Of tel therefore placed requirements on BT relating to the information to be made available by BT on request, incremental and fully allocated cost information to be published in the financial statements and the information to be contained in published charge lists and network charge change notices.
- 2.26 Of tel also explained that the role of published floors and ceilings was as a first-order test of anti-competitive or excessive charging. Therefore, whilst in the first instance it would be for BT to decide that a charge complied with its obligations, it would be open to another operator, in the event that it had concerns about a charge, to make representations to BT and, if not satisfied, to Of com.
- 2.27 Of com reviewed and consulted on BT's financial reporting requirements in 2004. The conclusions of the review were published in the statement "The regulatory financial reporting obligations on BT and Kingston" ("2004 Statement"). This statement set out the obligations to be placed on BT and KCL in order to implement the remedies identified by the programme of market reviews required by the EU Directives which came into force on 25 July 2003. However, the market reviews and the review of financial reporting largely confirmed the requirements and remedies already in place. The financial reporting requirements were again confirmed in respect of local-tandem conveyance and transit in the 2005 review of BT's network charge controls to apply from 2005, "Explanatory Statement and Notification of decisions on BT's SMP status and charge controls in narrowband wholesale markets".
- 2.28 The detailed requirements as to what must be published are set out in the Directions to the SMP obligations included in Annex 2 of the final statement, "The regulatory financial reporting obligations on BT and Kingston Communications" issued by

Ofcom in "2004 Statement" as amended by Ofcom's 2006 Statement on Changes to BT's regulatory financial reporting and audit requirements (the "2006 Statement")<sup>5</sup>.

## Scope to revise obligations

- 2.29 Ofcom requires regulatory financial information from a party it has designated as having SMP in an identified services market where that party has:
- obligations to ensure prices are cost oriented;
  - price control obligations; and
  - obligations not to discriminate unduly.
- 2.30 It is therefore necessary to consider what these obligations mean and how compliance with these obligations can be demonstrated.
- 2.31 To inform its interpretation of these obligations, Ofcom has taken account of European Directives, UK Law and other guidance, including the following references:
- EU Access Directives, specifically Article 9: Obligation of transparency, Article 10: Obligation of non-discrimination, Article 11: Obligation of accounting separation and Article 13: Price control and cost accounting obligations;
  - EU Universal Service Directive, specifically Article 17: regulatory controls on retail services;
  - EC Recommendation on cost accounting and accounting separation;
  - UK law, including the requirements of Directives, as reflected in the Communications Act 2003, at Sections 87(9) to 87 (11) re cost accounting for wholesale markets, Sections 91(5) and 91 (6) re cost accounting for retail markets, Sections 92(2) and 92(3) re appropriate conditions, Sections 87(&) and 87(8) re accounting separation in wholesale markets and Section 87(6)(b) re publication of information; and
  - ERG guidance, including ERG "Common Positions" on the Approach to appropriate remedies in the new regulatory framework and "Guidelines for implementing the Commission Recommendation on accounting separation & cost accounting systems.
- 2.32 Under Article 8 of the Access Directive, where an undertaking has been designated to have significant market power ("SMP") in relation to a specific market, a national regulatory authority ("NRA") can impose certain obligations on that Undertaking. These obligations include:
- transparency (Article 9);
  - non-discrimination (Article 10);
  - accounting separation (Article 11);
  - access to and use of specific network facilities (Article 12); and

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<sup>5</sup> [http://www.ofcom.org.uk/consult/condocs/reg\\_bt/statement/](http://www.ofcom.org.uk/consult/condocs/reg_bt/statement/)

- price control and accounting obligations (Article 13).
- 2.33 Article 11 of the Access Directive allows an NRA to impose obligations of accounting separation on an operator with SMP in a specific market and Article 13 of the Access Directive allows an NRA to impose cost accounting obligations on that operator.
- 2.34 Ofcom has imposed such obligations on BT under the Access Directives and in reliance of its powers under section 87(8)&(9) of the Communications Act 2003 (the "Communications Act") in relation to accounting separation and sections 87(9) to 87(11), 91(5)&(6), and 92(2)&(3) of the Communications Act in relation to cost accounting.
- 2.35 Ofcom sets out the requirements for BT to have cost accounting systems and accounting separation in BT's regulatory financial accounting reporting conditions as set out in the 2004 Statement and the Review of the wholesale access market, dated 16 December 2004.
- 2.36 OA2 and FA10.2 of these conditions provide that Ofcom can make directions as it considers appropriate in relation to BT's cost accounting system, accounting separation system and BT's obligations under its regulatory financial accounting reporting conditions.
- 2.37 OA5(d) of the conditions provides that BT shall: "publish the Regulatory Financial Statements and corresponding audit opinion as directed by Ofcom from time to time and in accordance with condition 6(b) and (c)."
- 2.38 Ofcom has adopted directions in accordance with OA2 and OA5 and FA10.2 and FA 10.5, which set out the detail of the regulatory financial statements to be prepared, the mix of statements that make up BT's regulatory financial statements, the form in which those statements are to be prepared and the requirement that BT publish those statements.
- 2.39 BT's Current Cost Financial Statements are prepared in accordance with the detail and requirements expressed in its regulatory financial reporting conditions and accompanying directions, including the requirement of publication.
- 2.40 Under Article 9.1 of the Access Directive, an NRA can impose obligations of transparency in relation to interconnection and/or access, requiring operators to make public specified information including accounting information. Article 9.3 gives NRA's a wide discretion to specify the precise information to be made available, the level of detail required and the manner of publication.
- 2.41 Article 11.2 of the Access Directive provides that in order to facilitate verification of compliance with the obligations of transparency and non-discrimination, NRAs have the power to require that accounting records are provided on request. NRA's can also publish such information as contributes to an open and competitive market.
- 2.42 Article 13.4 of the Access Directive directs NRAs to ensure that where implementation of a cost accounting system is mandated in support of price controls, a description of the cost accounting system is made publicly available. As a minimum this description must show: the main categories under which costs are grouped; and the rules used for the allocation of costs.
- 2.43 In addition, Article 13.4 directs that a statement concerning compliance with cost accounting obligations must also be published annually.

- 2.44 While only Article 13.4 imposes an obligation on an NRA to make certain information publicly available, Articles 9 and 11 allow NRAs to impose publication obligations on operators with SMP to assist in achieving the objective of transparency.
- 2.45 The UK gives effect to the Access Directives position on publication through sections 87(6)(b) and 91(6)(c) of the Communications Act.
- 2.46 Section 87(6)(b) of the Communications Act allows Ofcom to impose a condition on the dominant provider in a specific market to publish all such information as Ofcom may direct for the purpose of securing transparency. Ofcom relies on this section to impose publication obligations on BT in relation to accounting separation and wholesale cost accounting. The language of this section gives Ofcom the option of choosing publication, which Ofcom has exercised as set out in BT's regulatory financial reporting conditions and directions as referred to below.
- 2.47 Ofcom relies on section 91(6)(c) of the Communications Act to impose a publication obligation on BT with respect to a statement of compliance in relation to retail cost accounting obligations and more broadly to publish more detailed financial information.
- 2.48 The most recent guidance that enforces the link between transparency and publication is the Commission Recommendation of 19 September 2005 on accounting separation and cost accounting systems under the regulatory framework for electronic communications (the "Recommendation").
- 2.49 Recommendation 5 of the Recommendation encourages NRAs to make relevant accounting information from notified operators available to interested parties at a sufficient level of detail. It goes on to state: "In this respect, the publication by the notified operator of sufficiently detailed cost statements.....will increase transparency and raise confidence on the part of competitors that there are no anti-competitive cross-subsidies."
- 2.50 The ERG guidelines on implementing the Recommendation also link publication to transparency and section 7 of the guidelines interprets one of the elements of transparency as providing a level of detail to material so that a suitably informed reader can easily gain a clear understanding of what the material is meant to demonstrate.
- 2.51 There is therefore some guidance in the EU Directives, ERG Recommendations, national law, professional accounting frameworks, Ofcom's own literature and case law. However, these references, either individually or together do not provide definitive guidance as to how demonstration of compliance with these obligations is to be achieved.
- 2.52 Ofcom therefore has some discretion to specify the precise information to be made available, the level of detail required and the manner of publication.
- 2.53 It is therefore helpful to consider the objectives for the reporting regime. The objectives are considered in Section 3 of the consultation.

### **The consultation process**

- 2.54 The January Consultation included proposals for changes to the form and content of BT's published financial statements and their requirements for additional financial reporting to Ofcom.

- 2.55 Responses to the January Consultation were received from BT, Cable & Wireless plc ("C&W"), Kingston Communications Limited ("KCL") and UKCTA.
- 2.56 These responses have been taken into account by Ofcom in finalising the changes set out in this statement. Ofcom has also met with BT and UKCTA to discuss their responses and proposals for revisions to the regulatory reporting regime.
- 2.57 Ofcom is not proposing that the accounting separation and cost orientation obligations on BT should change. The need to maintain accurate accounting records for regulated markets, services and products continues to be important, and this must be supported by appropriate rules for preparing the financial information if the regulatory financial statements are to continue to be a sound basis for demonstrating compliance with obligations and for pricing decisions.

## Section 3

# Objectives for the financial reporting regime

## Introduction

- 3.1 In the January Consultation Ofcom discussed the objectives for a new financial reporting regime by considering:
- the likely users of the published regulatory financial information;
  - the attributes of effective financial reporting;
  - the objectives of regulatory financial reporting; and
  - the appropriate level of supporting information to be made public.
- 3.2 With reference to this analysis and the responses from stakeholders to the May Consultation Ofcom formulated a list of key objectives and general principles that it considered should underlie an effective regulatory reporting regime for BT:
- To demonstrate compliance with obligations of cost orientation and non-discrimination;
  - To provide an understanding of performance, including the underlying basis of how numbers are prepared (this reflects Ofcom's view that an informed industry can contribute to effective and efficient regulation);
  - To dispense of information that does not serve a regulatory purpose (in recognition of BT's understandable wish to maintain confidentiality over its commercially sensitive information);
  - To ensure that published financial information meets the reporting requirements set out in the Undertakings, specifically the need to disclose the results of Openreach separately;
  - To identify a more "fit for purpose" LRIC regime with the move to next generation networks; and
  - To improve the format of published material in order to make the financial information easier to use for existing users and more accessible to a wider audience.
- 3.3 This section collates the responses from Stakeholders to these objectives and general principles and outlines Ofcom's view and final decision with reference to these concerns.



## Stakeholders responses and Ofcom's views

- 3.4 In the main, respondents agreed with the principles as stated above; however BT disagreed in part and both UKCTA and C&W felt that further objectives should have been included.
- 3.5 BT with respect to the primary objective stated that “the issue with reporting is that there will be no ‘proof’ of having met the obligations of cost orientation and non-discrimination. Once this fact has been established, it is then a question of the level of granularity necessary to demonstrate a first order indication of compliance....regulatory reporting can be simplified to give ‘headline’ indicators rather than detailed information and still demonstrate compliance.”
- 3.6 Ofcom does not agree that inherent limitations in the use of financial data by BT to demonstrate compliance with its obligations, supports a move to the provision of less information.
- 3.7 Indeed, as explained in the January Consultation, Ofcom considers that the provision of a granular level of information plays a significant role in helping with the monitoring of BT's compliance with its obligations. Stakeholders have actively used the regulatory statements (at their current level of granularity) to help test and challenge BT's compliance with its cost orientation and non – discrimination obligations.
- 3.8 As set out in the January Consultation, below are examples of how stakeholders have used the regulatory financial information in respect of BT's cost orientation obligations including the following:
- in respect of WLR ISDN2, applying an estimate of the effects of Ofcom statements on BT's cost of copper and cost of capital to the ISDN2 cost base to verify prices remain cost oriented; and
  - in respect of PPC trunk charging, comparing cost recovery and cost attribution assumptions to analyse optimum investment.
- 3.9 In respect of non-discrimination obligations, examples provided by stakeholders of how the published information was used include the following:
- in respect of operator assistance, ensuring BT is treating itself in a non-discriminatory way for call origination compared to charges levied on other operators; and
  - in respect of PPC replicability, analysis of BT's internal and external supply of leased circuit components to ensure compliance with no undue discrimination obligations.
- 3.10 In these cases the financial statements provided an important source of information to:
- analyse underlying service cost data consistent with BT's cost orientation obligations; and
  - understand the financial implications of separating BT's wholesale and retail activities and transfer charging between them in the same way as external sales are treated (the non-discrimination obligation).

- 3.11 Further, the publication of cost and volume data relating to the underlying component parts of the network have provided a useful foundation for several other significant regulatory and competitive developments. For example, the early development of flat rate internet access call origination ("FRIACO") was enabled in significant part by the existence of published costing information that allowed Internet Service Providers and their host network operators to calculate with some confidence the underlying costs of new interconnection services that they had requested in advance of BT's voluntary provision of such information. This undoubtedly triggered faster development and take-up of internet access services than otherwise would have been the case. The economic benefits of the disclosure were therefore significantly greater than the costs of publishing the information.
- 3.12 BT further commented upon Ofcom's view that an informed industry can contribute to efficient and effective regulation stating "It should be Ofcom alone (not industry) that should set regulation and decide upon the appropriate level of financial information to be published by BT (and also the level of detail to be provided to Ofcom on a non – published basis)."
- 3.13 BT went on to comment that "Whilst detailed information should be provided to Ofcom for their use other stakeholders should only be given information that meets BT's reporting obligations in a comprehensive and proportionate way."
- 3.14 Ofcom considers that a regulatory environment where stakeholders are simply informed that the regulator is satisfied that the obligations have been met is likely to be less effective than one where the industry is better informed. Specifically, Ofcom considers that relying solely on the regulator's assessment of whether compliance has been demonstrated carries the risk that either:
- important issues that may have been identified by stakeholders will remain unnoticed; or
  - Ofcom's allocation of scarce resources to important issues will be reduced as it is obliged to consider an increased number of speculative complaints raised by less well informed stakeholders.
- 3.15 It is useful in this context to consider the incremental benefit (or cost) of the proposals to BT against their incremental cost (or benefit) to industry.
- 3.16 In the financial year ended 31 March 2006, BT reported revenues of approximately £6.8 billion (including external sales and internal transfer charges) in wholesale markets where regulatory financial reporting obligations apply and revenues of approximately £3.6 billion in retail markets with financial reporting obligations.
- 3.17 BT has stated to Ofcom that the costs of complying with the required regulatory accounting processes are about £7 million annually, equal to approximately 0.2% of its regulated revenues.
- 3.18 Ofcom considers however that a rigorous and effective regulatory financial reporting regime provides the following benefits:
- non-SMP communications providers have assurance that Ofcom has information to monitor and if necessary enforce obligations for non-discrimination, cost-orientation, etc;

- non-SMP communications providers have greater assurance that prices charged to them by dominant providers are cost-oriented and/or non-discriminatory enabling them to produce business plans and compete more effectively; and
  - disputes and investigations will be resolved more quickly, efficiently and on the basis of more reliable information.
- 3.19 Ofcom therefore considers reducing the published requirements to the extent suggested in “BT’s voluntary Regulatory Finance Review” would cost industry more in the long term than it would save BT in the short term.
- 3.20 UKCTA and C&W, as stated above, agreed with Ofcom’s general principles for a new regulatory reporting regime however felt that further important objectives could be added to the list of specifics. This included the publication of information relating to margin squeeze issues and the implication of EU guidelines in relation to regulatory reporting on this matter and for providing evidence of compliance with the Undertakings, specifically in the realm of equivalence.
- 3.21 C&W stated, “Cable&Wireless does not agree with Ofcom’s conclusion that margin squeeze issues are not a concern of the regulatory financial statements. In particular we draw Ofcom’s attention to paragraph 6) of the EU guidelines on accounting separation and cost accounting which states the systems ‘.... should be specified in a way that encourages efficient investment, identifies potential anticompetitive behaviour, notably margin squeezes, and..’ Ofcom does not explain why it disagrees with this aspect of the EU guidelines and we believe a more extensive discussion on this issue is required before this conclusion can be drawn.”
- 3.22 Ofcom would not dispute that the regulatory financial statements can be a mechanism for monitoring margin squeeze. However, taking a pragmatic view of the likely substantive information requirements to properly investigate an alleged margin squeeze, the additional information available to Ofcom through the data extract file and other Ofcom powers to request detailed information, we remain of the view that the current reporting proposals are balanced and proportionate.
- 3.23 UKCTA stated that, “One of the objectives raised previously has been to provide evidence of the financial aspects of the undertakings, specifically of equivalence. Ofcom has included an objective related to this which is to comply with the reporting requirements relating to the undertakings. UKCTA does not believe this goes far enough. The undertakings, such as those on equivalence, are significantly de-valued if BT’s regulatory financial reporting obligations do not include the requirement to demonstrate compliance with them. Ofcom should amend this objective in the light of this. Alternatively, the objective relating to the provision of evidence of compliance with obligations should be expanded to specifically include obligations arising from the undertakings.”
- 3.24 It should be noted that Ofcom is not required to consult on the Undertakings and hence the inclusion of information relating to the Undertakings as provided in the January Consultation (such as the form and content of the Openreach regulatory statements) was a voluntary addition to benefit interested stakeholders.
- 3.25 Ofcom believe that the Openreach statements have been designed to meet the specific requirements of the relevant Undertakings relating to financial reporting and hence Ofcom do not believe that the proposed objectives need to be altered. Ofcom does however note the comments of UKCTA and C&W which could be helpful in the further development of the Openreach reporting framework.

## **Final objectives**

- 3.26 Ofcom therefore remain of the view that the six objectives outlined in the January Consultation should be the main focus of the regulatory reporting regime for BT. The changes which these bring about are explained and outlined in Section 4.

## Section 4

# Proposals

## Introduction

- 4.1 In the January Consultation Ofcom set out its proposals for a new regulatory reporting regime. These proposals considered the regime in three distinct areas:
- information to be published by BT, including the regulatory financial statements and the accounting documents;
  - information provided only to Ofcom; and
  - audit requirements.
- 4.2 This section will now consider stakeholders' responses to these proposals and outline Ofcom's view and final decision with reference to these concerns.

## Regulatory Financial Statements – Public Information

- 4.3 The January Consultation proposed a range of changes to the requirements for published financial information. These changes consisted primarily of a new format for the regulatory report as set out in a series of annexes to the following directions:
- a 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 and as modified at Annex 2 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 ("Direction 3");
  - a 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 and as modified at Annex 2 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 ("Direction 4");
  - 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 and as modified at Annex 2 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 16 August 2006, (the "Schedule 4 FA10 Direction"); and
  - 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 (the "Schedule 5 FA10 Direction").
- 4.4 The structure of the report was changed to make it more accessible to a wider audience without losing the information necessarily used by the regulatory community. The intention of these changes was to move the key information to the front of the document and push the (simplified) supporting analysis to the back of the report. The main changes can be summarised as follows:

- to provide a wider audience with an understanding of the key issues, the overall performance of BT's regulated activities will be reported and explained at the front of the document (with a focus on the wholesale access markets);
  - to provide the regulatory community with evidence of tests of compliance with obligations and sufficient information to understand and challenge this evidence, most of the detailed financial information currently provided will still be required;
  - to give all users a better understanding of how costs are shared by products and services, new annexes will illustrate and explain how group costs and assets are allocated across all markets;
  - to provide a market by market overview of financial performance and evidence of first order tests of compliance with BT's obligations to offer cost-oriented charges and not to discriminate unduly, key financial data will now be set out on a single page summary for each market;
  - to aid understanding, markets will be organised into groups; and
  - to simplify reporting and facilitate comparison of the underlying data across different markets, detailed support for the data used in the first order tests for each market will be collated and included in a section towards the back of the report.
- 4.5 The January Consultation also explained that Ofcom considers that the concept of LRIC is, and will continue to be, a fundamental regulatory tool but the numbers currently being produced by BT's LRIC model are becoming less relevant to effective regulation and, exacerbated by the move to NGNs, the published LRIC data is becoming less relevant to regulatory decisions. Ofcom therefore proposed that BT should no longer be required to continue to generate and publish LRIC data prepared on the current basis for non access related wholesale services, but instead provide only indicative LRIC figures.
- 4.6 With the exception of the LRIC analysis, very little information that is currently provided will be lost. This reflects Ofcom's view that an informed industry contributes to effective and efficient regulation and takes account of examples provided by industry of the ways in which published information has contributed to effective competition and informed focussed requests for intervention.
- 4.7 BT specified in their response a general concern with Ofcom's proposals to the extent that they believed changes were largely format driven. This was not the 'radical' change they had envisaged at the outset of these two consultation periods.
- 4.8 BT commented that "BT's voluntary Regulatory Finance Review (or the "Blue-sky" report) for 2005/06 attempted to make regulatory accounting more concise, readable and targeted at the relevant "bottleneck" markets. These were principles stated as being important by Ofcom throughout the joint review, but have not been adhered to in the illustrative regulatory accounts for 2006/07."
- 4.9 BT also stated "The continued inclusion of the detailed annexes and information (e.g. the granular component and route factor information) ensures the illustrative regulatory statements will remain a specialist document that few will understand and use."

- 4.10 Ofcom understands that BT believes that the “proposed format of the published financial information could still be improved by means of a far more focussed and high level report” and that “the proposed 06/07 format requires BT to publish a level of detail that is far in excess of what is needed to provide appropriate assurance of BT’s compliance with its regulatory obligation.” However, while BT’s voluntary financial report did illustrate the level of detail it considered to provide appropriate evidence of compliance it did not explain why this level of disclosure would provide such compliance with its obligations.
- 4.11 Any reduction in regulatory information must be justifiable to all stakeholders. The key stakeholders in this instance are BT’s customers and competitors who have during this consultation period generally responded positively to the proposed changes. UKCTA commented that the proposals are a step forward and welcomed Ofcom’s efforts to improve the format of the reports. C&W stated “The proposals made by Ofcom look likely to result in a format that will be easier to use while, most importantly, retaining the detailed information that is fundamental to the usefulness of the reports.”
- 4.12 As explained earlier in Section 3 Ofcom sees the importance of an informed industry in efficient and effective regulation. Ofcom has shown through examples how industry in the past have used existing regulatory reporting information to analyse BT’s compliance with cost orientation and non-discrimination obligations and to help develop new services such as FRIACO.
- 4.13 Further to this Ofcom has also outlined the cost versus benefit of not withdrawing regulatory information. Although not strictly quantifiable this analysis illustrates some of the benefits of this information. Ofcom therefore considers that if such financial information were withdrawn the cost to industry would significantly exceed the savings that might be made by BT in the short term.
- 4.14 Therefore Ofcom does not consider that the responses to the January Consultation materially impact upon its assessment of the appropriate level of published information.
- 4.15 As stated above the changes made to the Regulatory Financial Statements have largely been welcomed by UKCTA and C&W. Indeed only one issue was raised by C&W “The one change that would be very useful would be for the reports to also be published in spreadsheet format. The examples of regulatory use of the reports that stakeholders have provided show the requirement to do further analysis on the information provided and that would be made easier by such a development.”
- 4.16 Ofcom feel that this is a reasonable request and may even help to reduce BT’s burden in terms of providing documentary information and answering Stakeholder queries. We therefore encourage BT to consider this development on a voluntary basis for the 06/07 reporting implementation.

## **Detailed Proposals**

- 4.17 It is therefore appropriate to consider the responses to the specific proposals relating to the form and content of the new annexes that are to make up the financial statements.
- 4.18 These proposals were set out in the new annexes to Direction 4 and the Schedule 5 FA10 Direction within the January Consultation. These new annexes will replace the existing annexes to an annex to Direction 4 and the Schedule 5 FA10 Direction. For

clarity below, but not in the Directions, these “annexes to the annex” to Direction 4 are described as Sub-Annexes. Explanations of the purpose of each new Sub-Annex were provided in the January Consultation and are included here again at Annex 2.

- 4.19 The new annex to Direction 3 and the Schedule 4 FA10 Direction was also set out in the January Consultation. This new annex matched the reporting obligations to specific markets whereby documents that need to be published are denoted by a letter “P,” whilst documents that need to be produced but need not be published are denoted by a letter “N”. Again this new annex is provided within this Statement at Annex 4.
- 4.20 A number of comments were received with respect to the precise form and content of these new Sub-Annexes.
- 4.21 The table below summarises these key responses together with Ofcom’s comments and any modifications to the final Sub-Annexes as outlined at Annex 5 to this Statement.

Sub - Annex	Comment	Ofcom Response	Action
5 & 6	BT stated that they were unclear as to the level of detail required for the notes disclosure at the bottom of these statements since very detailed information about these key drivers and allocations are available in the Secondary Accounting documents e.g. DAM.	The purpose of these statements is to give greater visibility as to how costs are attributed hence it is imperative for a descriptive summary of these attributions to be shown on the face of the statements so that they make full sense to the reader. These notes do not need to be extensive but in sufficient detail to give an understanding to the reader of the key cost drivers.	No change to original template.
5 & 6	BT also stated that they believed that the purpose of this statement i.e. to give greater understanding to the allocation of costs in SMP markets could be satisfied through the provision of Additional Financial Information or the Flat File.	Additional Financial Information and the Flat File serve a different purpose to that of the published regulatory financial statements. The purpose of this statement is to improve the visibility of how costs are attributed to SMP markets in order to improve the relevance and readability for users of the Financial Statements. Since this statement is largely re-formatting information that BT already provides publicly (albeit in a less aggregated format) and furthermore is information which is easily accessible to BT we do not believe that this statement should be solely provided to Ofcom.	No change to original template.
5	BT suggested that in order to ensure consistency year on year in the viewing of upstream markets that separate Wholesale and Retail Cost Cascades should be published. This is because the categories of costs differ between these two areas.	This statement is aiming to gain visibility over the cost cascade for the main activities within the SMP markets. The aggregation shown at Retail Level is therefore detailed enough to provide this information. However given the practical problems in categorising cost between Retail and Wholesale categories, BT can provide a separate Retail Statement so as to simplify the process.	Separate Wholesale and Retail Cost Cascades to be included as Sub Annex 5A & 5B and 6A and 6B. (NB: Sub - Annex 9 has now been removed for retail markets as would duplicate material held in Retail Cost Cascades).



11	BT stated "Page 89 of the January consultation document suggests that BT is required to publish Annex 11 for Retail SMP Markets. It is unclear why this has changed in 2006/07 when BT has no obligation to publish this information. BT proposes this proposal is amended to apply only to markets where cost accounting obligations apply."	Ofcom agrees with this analysis.	The index detailing obligations has been amended.
12	BT stated "Annex 12 has not provided details of the purpose of the Annex in the title. The proposed Annex appears to show columns for non-discriminations test but exclude the volume, unit and average prices column. Page 62 of the January consultation however describes the purpose of Annex 12 to apply to markets that only have only cost orientation obligations. BT proposes that the title of Annex 12 and index (as in Annex 7 of the January Consultation) be amended to show that this Annex only applies for non - discrimination."	Ofcom agrees with this analysis.	Sub - Annex 12 has been updated with the requisite title and volume, unit and average prices columns. The index has been amended to reflect the correct obligation.
13	BT suggested that the title should refer to time gradient to differentiate purpose of Annex 13 to Annex 11.	Ofcom agrees with this analysis.	Title to Sub - Annex 13 has been updated to say "where a cost gradient applies."
15,16, 17	BT commented "BT understands that the cost orientation obligations are met by Annex 11 & 13 and that further information to aid Ofcom's understanding can be provided by Additional Financial Information or the Flat File. BT does not understand the regulatory purpose or necessity for these Annexes to be published."	These Statements aim to increase the visibility and understanding of how component costs are distributed and allocated to SMP products and services. Ofcom has already outlined how this level of granular information has proved helpful to Stakeholders in the past to assess and challenge BT's compliance with its regularity obligations. Furthermore since these Statements are largely re-formatting information that BT already provides publicly (previously such information was replicated for each market thus this aggregation reduces the length of documentation) and is information which is easily accessible to BT we do not believe that this statement should be solely provided to Ofcom.	No change to original template. It should be noted that further information has been added to Annex 16 in order to show how the component fully allocated cost is calculated using average cost per units and usage factors.
17	BT stated "It is unclear why Ofcom have proposed a column for Residual in the proposed statement went the purpose of the statement is a summary of "all wholesale markets where there are costs accounting obligation." BT proposes that this column should be re-titled "non cost accounting, roundings and residual.""	Ofcom agrees with this analysis.	Sub - Annex 17 has been amended so that the Residual column is titled "non cost accounting, roundings and residuals."

17	BT stated "It is unclear why there is a 'P' against Retail SMP markets to prepare the proposed Annex 17 which represents a statement for "all wholesale markets with Cost Accounting Obligations.""	Ofcom agrees with this analysis.	The index detailing obligations has been amended.
18	BT stated that the purpose of this statement was unclear since it replicated information already available in Annex 5 and 19.	Ofcom proposed the inclusion of this statement as a clear audit trail to the reconciliation of the group profit and loss to the annual statutory accounts which is provided at Annex 19. However Ofcom agree that to a certain extent this is replication of existing material and hence will remove the statement.	This template has been removed from the Sub Annexes.
21	BT commented "BT believes that the information in this Annex is already published and further information to aid Ofcom's understanding can be provided by Additional Financial Information or the Flat File. BT does not understand the regulatory purpose or necessity for this Annex to be published."	This is a very useful Statement as it allows the reader to see how the Retail and Wholesale Markets interact in a one page summary. Since this statement is largely re-formatting information that BT already provides publicly and furthermore is information which is easily accessible to BT we do not believe that this statement should be solely provided to Ofcom.	No change to original template.
21	BT stated that it required clarity as to whether prior year comparatives were required for this statement.	These comparatives are not required.	No change to original template.
26	BT stated "Annex C in the Consultation document suggests radical changes to the Additional Information BT provide Ofcom compared to previous years, in particular AFI 5, 6, 10 and 11. Annex 26 introduces further uncertainty rather than clarifying matters. BT is as unclear if the changes suggested is what Ofcom intend and as such require clarification from Ofcom to understand the benefits in changing these requirements e.g. such as suggesting BT provide CCA information by each service."	We do not believe that there have been radical changes to the Additional Information which BT provides to Ofcom. Annex 26 which is part of Annex C to the modified Direction 3 to the FA10 Direction states the same obligations as shown in previous statements but in a different format. Hence the information which BT are required to produce stays the same.	No change.

4.22 None of these modifications is considered material in the context of this consultation. There may have been some small presentational changes to the Sub – Annexes which have not been described here but are included in Annex 5 to this statement; this may also be the case upon final publication.

4.23 These final Annexes, modified as described above (as set out in Annex 5 to this statement) will become the new Annexes to Direction 4 and the Schedule 5 FA10 direction.

### Legal tests relating to publication requirements

4.24 The section below sets out Ofcom's reasons as to why it considers that the relevant legal tests under the Act are met for the modifications outlined in this section relating to the following Direction 3, Direction 4, the Schedule 4 FA10 Direction and the Schedule 5 FA10 Direction.

- 4.25 This section should be read in the light of relevant considerations and Ofcom's conclusions as set out in this statement.

### **Relevant tests**

- 4.26 Ofcom is required to be satisfied that the modification of directions is in accordance with the requirements of section 49(2) of the Act. Ofcom also has to consider and act in accordance with its general duties in section 3 of the Act and the six Community requirements in section 4 of the Act.

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

- 4.27 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.
- 4.28 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.
- 4.29 As part of the EU market review process, Ofcom imposed wholesale and retail cost accounting and accounting separation obligations (conditions and directions) on BT in specific markets; as appropriate remedies to its SMP in these markets. The individual market reviews have already assessed whether these obligations meet the tests outlined in Sections 3 and 4 of the Communications Act.
- 4.30 Ofcom considers that the modifications contained within this section are consistent with the SMP obligations flowing from these markets reviews and, therefore, also meet the tests set out in Sections 3 and 4 of the Act.

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

- 4.31 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) have 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.
- 4.32 Ofcom considers that the proposed modifications to Direction 3 and the Schedule 4 FA10 Direction meet the tests under section 49(2) for the following reasons:

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

- 4.33 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.4 objectively justifiable as the proposed regulatory reporting requirements will continue to meet the primary objectives of the reporting regime in a simpler and more easily understood format with greater focus on the key issues.

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

- 4.34 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.4 is not unduly discriminatory.
- 4.35 BT and KCL are the only communications providers in the fixed communications market to have SMP in multiple markets and therefore can be treated as a class of communications provider. As a consequence of having SMP in multiple markets they are the only providers in respect of which Ofcom imposes reporting obligations and are therefore the only providers with audit requirements.
- 4.36 The form and content of KCL's financial reporting obligations already reflect KCL's relative size and complexity compared to BT. The scale and scope of current requirements on KCL are less extensive than for BT and will continue to be so after the proposed changes. Ofcom therefore does not consider its review of the requirements for BT's regulatory financial information only is unduly discriminatory against either BT or KCL.

Proportionate to what it is intended to achieve

- 4.37 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.4 is proportionate in that the proposals will continue to deliver the increased understanding of the key issues at little or no cost to BT and, in the longer term, may allow for a simplification of BT's reporting regime which could result in cost savings.

Transparent in relation to what it is intended to achieve

- 4.38 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.4 is transparent in that its effect is clearly set out in this document and the draft modification of Direction 3 and the Schedule 4 FA10 Direction is set out at Annex 4.
- 4.39 Ofcom considers that the proposed modifications to Direction 4 and the Schedule 5 FA10 Direction meet the tests under section 49(2) for the following reasons:

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

- 4.40 Ofcom considers that modifying Direction 4 and the Schedule 5 FA10 Direction in the manner described in paragraph 4.4 is objectively justifiable as the proposed regulatory reporting requirements will continue to meet the primary objectives of the reporting regime in a simpler and more easily understood format with greater focus on the key issues.

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

- 4.41 Ofcom considers that modifying Direction 4 and the Schedule 5 FA10 Direction in the manner described in paragraph 4.4 is not unduly discriminatory.
- 4.42 BT and KCL are the only communications providers in the fixed communications market to have SMP in multiple markets and therefore can be treated as a class of communications provider. As a consequence of having SMP in multiple markets they are the only providers in respect of which Ofcom imposes reporting obligations and are therefore the only providers with audit requirements.
- 4.43 The form and content of KCL's financial reporting obligations already reflect KCL's relative size and complexity compared to BT. The scale and scope of current requirements on KCL are less extensive than for BT and will continue to be so after the proposed changes. Ofcom therefore does not consider its review of the requirements for BT's regulatory financial information only is unduly discriminatory against either BT or KCL.

### Proportionate to what it is intended to achieve

- 4.44 Ofcom considers that modifying Direction 4 and the Schedule 5 FA10 Direction in the manner described in paragraph 4.4 is proportionate in that the proposals will continue to deliver the increased understanding of the key issues at little or no cost to BT and, in the longer term, may allow for a simplification of BT's reporting regime which could result in cost savings.

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

- 4.45 Ofcom considers that modifying Direction 4 and the Schedule 5 FA10 Direction in the manner described in paragraph 4.4 is transparent because Ofcom has explained and consulted on each change and provided background explanatory material where appropriate.

### **Clarification of LRIC objectives and proposals**

- 4.46 An area where respondents largely agreed was the objective surrounding LRIC and the implementation of a more "fit for purpose" regime. There was also general agreement around Ofcom's proposals to publish only un-audited indicative LRIC data within the new reporting regime. However it was also apparent within this agreement that there was some uncertainty amongst the respondents about these proposals and the ongoing future of the LRIC Model.
- 4.47 C&W stated that Ofcom should be more specific on what is proposed and how those proposals will be taken forward if it decides to implement them.
- 4.48 UKCTA commented that, "We would however welcome a firm commitment from Ofcom to revert back to fully audited LRIC reporting at some point in the future. We would also welcome a clear timetable for the reintroduction of LRIC. At this stage we would like to gain a better understanding from Ofcom as to the impact of removing audited LRIC on Ofcom's ability to monitor SMP obligations, many of which specifically refer to LRIC. "
- 4.49 BT also stated that the proposed LRIC reporting requirements require greater clarity.

- 4.50 In light of these comments Ofcom seeks to clarify further its position on the use of the LRIC model both within the new reporting regime and in the future.
- 4.51 The basic premise behind Ofcom's proposals for "indicative" LRIC data is that the demise of traditional PSTN technologies makes the outputs from top-down LRIC models unreliable and less relevant as good indicators of forward looking costs. However, there should be no impact on the LRIC outputs for access services where there is no PSTN switching activity. Therefore, "indicative" LRIC data should be provided for all non-access services but complete floor and ceiling data should still be provided for wholesale access services.
- 4.52 In terms of presentation "indicative" LRIC data for non access wholesale markets should be shown in the following manner:
- Where charges are less than or equal to the FAC (Fully Allocated Cost), only the "indicative" floor (incremental cost) should be shown; or
  - Where the FAC (Fully Allocated Cost) is less than or equal to charges only the "indicative" ceiling (stand alone cost) should be shown.
- For wholesale access markets both floor and ceiling data should be shown.
- 4.53 Audit requirements have been removed on all LRIC data whether indicative or not. Given the inherent limitations on the robustness of any LRIC estimates described above, Ofcom considers that the audit of these estimates adds little additional assurance. However, we understand that the audit the LRIC model represents a significant proportion of the cost of the regulatory audit.
- 4.54 As proposed in the January Consultation, BT's auditor will, therefore, not be required to opine on the LRIC data published under the above proposals. To enable the scope of the audit to be defined with this in mind, the requirement for BT to secure appropriate audit opinions, set out in Direction 3 and the Schedule 4 FA10 Direction, will be modified to include the words "and to the satisfaction of Ofcom".
- 4.55 Ofcom recognise that LRIC remains an important economic concept within regulatory analysis however Ofcom believe that the practical application of LRIC models to top-down accounting data whilst legacy PSTN networks are operational should be treated cautiously. Ofcom will keep this position under review as next generation networks are rolled out.

## **Legal tests relating to audit of LRIC information**

- 4.56 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act are met for the modifications outlined in this section relating to Direction 3 and the Schedule 4 FA10 Direction. This section should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

## **Relevant tests**

- 4.57 Ofcom is required to be satisfied that the modification of directions is in accordance with the requirements of section 49(2) of the Act. Ofcom also has to consider and act in accordance with its general duties in section 3 of the Act and the six Community requirements in section 4 of the Act.

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

- 4.58 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.
- 4.59 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.
- 4.60 As part of the EU market review process, Ofcom imposed wholesale and retail cost accounting and accounting separation obligations (conditions and directions) on BT in specific markets; as appropriate remedies to its SMP in these markets. The individual market reviews have already assessed whether these obligations meet the tests outlined in Sections 3 and 4 of the Communications Act.
- 4.61 Ofcom considers that the modifications contained within this section are consistent with the SMP obligations flowing from these markets reviews and, therefore, also meet the tests set out in Sections 3 and 4 of the Act.

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

- 4.62 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) have 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**

- 4.63 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.54 is objectively justifiable because the level of additional assurance provided by the audit of these estimates is not currently considered to be sufficient to justify the additional cost of providing that assurance.

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

- 4.64 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.54 is not unduly discriminatory.
- 4.65 BT and KCL are the only communications providers in the fixed communications market to have SMP in multiple markets and therefore can be treated as a class of

communications provider. As a consequence of having SMP in multiple markets they are the only providers in respect of which Ofcom imposes reporting obligations and are therefore the only providers with audit requirements.

- 4.66 The form and content of KCL's financial reporting obligations already reflect KCL's relative size and complexity compared to BT. The scale and scope of current audit requirements on KCL are less extensive than for BT and will continue to be so after the proposed changes. Ofcom therefore does not consider its review of the requirements for the audit of BT's LRIC data only is unduly discriminatory against either BT or KCL.

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

- 4.67 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.54 is proportionate because the level of additional assurance provided by the audit of these estimates is currently insufficient to justify the additional cost of providing that assurance.

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

- 4.68 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.54 is transparent because Ofcom has explained and consulted on each change and provided background explanatory material where appropriate.

### **Other Proposals**

- 4.69 Within the January Consultation Ofcom considered whether to develop proposals regarding exception reporting, increased reliance on internal controls, the introduction of a director's compliance statement and the inclusion of forward looking cost information. Informed by stakeholders' responses from the May Consultation Ofcom concluded that such new reporting obligations would not be included within the scope of the new reporting regime.
- 4.70 Responses to the January Consultation agreed in the main with this conclusion. However BT felt that there was still a justification for exception reporting to be applied where appropriate. They believed that "The use of exception reporting should be used to supplement and explain the type of high level, focussed information that we were proposing in the "Blue-sky" Financial Statements Format published 2006 alongside the 2006 Current Cost Financial Statements. We believe that this approach would make unnecessary much of the detailed reporting currently required."
- 4.71 An exception report as outlined in the May and January Consultations would comment on exceptions identified (with respect to Floors and Ceilings) and resolved during the year and could be extended to include items that fall within but close to the limits of the range. The report could be accompanied by a commentary on the possible reasons why the costs might be outside the range and what management is doing to address the exceptions.
- 4.72 Although Ofcom notes that a commentary on exceptions would be valuable we do not think that publication of exceptions alone is adequate. The floors and ceilings are a first order test only; a price that falls between the floor and ceiling may be non-compliant in the same way that an exception is not necessarily evidence of non-compliance.



- 4.73 Also, publication of exceptions does not demonstrate that other charges are compliant or indicate whether the charge is close to the limits of an acceptable range. In addition, such a report would not show the trend over a period of years for charges that may rise from close to a LRIC floor up to a ceiling and vice versa.
- 4.74 The illustrative justifications for the exceptions, as set out in BT's proposed new format for the regulatory report discloses another problem with relying solely on exception reporting; it is difficult to define an obligation to report on the underlying reasons why the exception may have occurred and the reason given may too often be simply to refer to the limitations of the first order tests as evidence of compliance with the underlying obligations.
- 4.75 Both UKCTA and C&W make a further point "Exception reporting relies on LRIC floors and ceilings whereas these proposals contain a reduction in the requirements to produce LRIC data that will result in the floors and ceilings becoming less reliable in the future. It would not be sensible to put even more importance on these figures by adopting exception reporting at the same time as the emphasis on them is being temporarily reduced."
- 4.76 Therefore, in order to provide the necessary context of the data, Ofcom does not consider that exception reporting alone provides adequate information to demonstrate compliance with obligations.
- 4.77 Hence Ofcom again concludes that an exception report will not be included in the new reporting regime.

### **Information provided only to Ofcom**

- 4.78 To satisfy itself that BT has fully met its reporting obligations Ofcom requires detailed and often commercially sensitive data. This information is used to carry out an analytical review of BT's regulatory financial statements, inform ongoing improvement processes and highlight potential areas for further development.
- 4.79 Ofcom's requirements for regulatory financial information are currently met in part by a series of documents known as Additional Financial Statements ("AFSs") and Additional Financial Information ("AFIs"). These documents are provided to Ofcom by BT on a confidential basis.
- 4.80 In 2005, a new reporting obligation was placed on BT to provide Ofcom with a comprehensive data file of all the transactions that underpin its regulatory financial statements. By importing this data into a powerful database tool it will be possible for Ofcom to interrogate the data at different levels in the costing structure. Ofcom will therefore get increased access to more detailed financial information maintained by BT.
- 4.81 Ofcom considers that the requirements for BT to provide AFSs and some AFIs can be satisfied through the provision of this data extract tool. Ofcom therefore states that the provision by BT of individual AFSs and some AFIs will not be required if the data extract tool is demonstrated by BT, to Ofcom's satisfaction, to be capable of generating the equivalent information, on a statement by statement basis, for the relevant annual reporting period promptly after the publication of the main statements.
- 4.82 The obligation to provide the information is not being withdrawn. Ofcom asserts only that provision of a satisfactory data extract tool may be considered, on a case by

case basis, to represent delivery of that information. The requirements for AFSs and AFIs are set out in the annex to Direction 3 and the Schedule 4 FA10 Direction. No further modification to the Directions is therefore required.

4.83 Potentially, BT will be able to satisfy most of its obligations to provide the information set out in the AFIs and AFSs by delivering an effective data extract tool. However, in the short term, Ofcom expects that the following AFIs will fall into this category:

- AFI 7 – analysis of total mean capital employed and detailed activity analysis for all network components;
- AFI 8 – analysis by type of product group and by type of operator of costs, mean capital employed and transfer charges to disaggregated activities in relation to Outpayments to other operators; and
- AFI 9 – detailed network activity analysis of mean capital employed for all network components

4.84 Although the reporting of some residential retail markets will remain for 2006/07, along with the lifting of formal price controls in these markets, the requirement to prepare “AFI 12 - Marketing expenditure analysis of BT’s top ten campaigns” is to be withdrawn.

4.85 It should be emphasised that the requirement to deliver the AFIs and AFSs in documentary form will remain if BT fails to provide a satisfactory data extract tool to the agreed standard and within pre-defined delivery dates. Furthermore, nothing in Ofcom’s changes will affect BT’s obligation to provide information in response to specific requests from Ofcom.

4.86 BT responded to this proposal by asserting that “BT has previously agreed with Ofcom’s proposal to accept the delivery from BT of a comprehensive data file of transactions that underpin the regulatory accounts to use in an operational data extract tool.”

4.87 UKCTA’s response to the proposal was “UKCTA agrees with Ofcom’s proposal regarding the delivery of an operational data extract tool, however the emphasis must be on “Operational”. The onus is on BT to assist in ensuring that the data extract tool is fit-for-purpose for their reporting obligations to decrease.”

4.88 However, BT commented further stating that “As indicated by Ofcom, the provision of this data is a very material increase in regulatory information provided by BT to Ofcom. The original BT view was that the provision of the data extract tool would be the catalyst to radically review the regulatory reporting information both annually published and also sent to Ofcom in the form of AFSs and AFIs. In light of the level of increase in information provided to Ofcom in the form of the data extract tool, BT would like a fundamental review of all other information currently provided to Ofcom to assess whether those requirements continue to be necessary or proportionate.”

4.89 Ofcom should point out that the delivery of the Flat File is an obligation upon BT which serves a different purpose from that of the published accounts. Once the Data Extract Tool is in operation and shown to be working Ofcom has stated that they will consider on a case by case basis the delivery of the Flat File as delivery of the additional unpublished material. This in itself can be seen as a positive step to reducing the documentary burden for BT.

- 4.90 BT also commented “As a result of the experience in constructing the data files and tool that are necessary to provide Ofcom this data extract tool, the resultant size and scale of the data make producing this information more frequently than the production of the regulatory accounts an impractical proposition.”
- 4.91 Ofcom agree with this point and believe that the provision of the data file on an annual basis will be sufficient for the tool to provide relevant and useful regulatory analysis. We will therefore remove the requirement for the provision of a data file on a quarterly basis from AFI 15 as outlined in Annex 5 to this Statement.
- 4.92 However Ofcom does not agree with BT’s belief that “the successful provision of the data extract tool should remove the need and therefore the obligation on BT for ‘on-demand’ reporting.” This supposition by BT misunderstands the key requirement of this particular obligation which requires up to date regulatory information to be maintained and delivered by BT so that they can demonstrate compliance throughout the year and not just at the point of publication of the annual regulatory statements.
- 4.93 The operation of a Data Extract Tool is not linked to this obligation and hence the provision by BT of the data file on an annual basis will not fulfil the On-Demand Reporting obligation.

### Openreach Reporting

- 4.94 Ofcom has accepted a range of undertakings provided by BT which includes explicit reference to the preparation and publication of accounting information relating to the Access Services division (known as Openreach). Undertaking 5.31 refers to the regulatory financial statements also presenting separately the financial results of Openreach.
- 4.95 Although no formal consultation is required on this undertaking, Ofcom believed that it would be helpful to include in the January Consultation document the pro-forma profit & loss account, mean capital employed statement and reconciliation statements that were currently proposed.
- 4.96 Both UKCTA and C&W expressed opinions about issues with which they would like this reporting to address.
- 4.97 UKCTA stated “In respect of the undertakings and regulatory accounting and reporting, three key issues arise: Reporting can help to prove adherence to the equivalence principle in operation, CPs can be presented with something to compare with their own data to assist in this and auditing may be adapted to address the specifics of equality of access and the undertakings.”
- 4.98 Whilst C&W added “Analysis of the internal trading, both from and to Openreach, will be a vital part of the reports”. They continue “The introduction of Openreach statements should not result in any of the detailed cost breakdown or product usage information being omitted.”
- 4.99 As mentioned in Section 3 the draft Openreach statements were provided in the January Consultation to help inform interested parties of their likely form and content in advance of publication. Ofcom believes these statements meet the specific requirements of the relevant Undertakings relating to financial reporting. However, Ofcom notes the comments of UKCTA and C&W which could help further development of the Openreach reporting framework.

- 4.100 BT also had concerns in this area stating that "BT believes that Ofcom's proposed statements for the publication of Openreach in the regulatory accounts do not provide the right balance between transparency and clarity for the 'broad product groups' noted above. In particular where there is an SMP market shared between Openreach and Wholesale, the publication of these 'part markets' will cause more confusion than clarity. BT believe that an appropriate level of aggregation in the reconciliation will give the users of the accounts sufficient detail on the trading of Openreach for the 'broad product grouping' as outlined in the BT Undertakings agreed with Ofcom. Furthermore, BT does not believe the level of detail for the Mean Capital Employed ('MCE') at SMP level and especially the MCE reconciliation is required. This MCE reconciliation is not stated in the Undertakings as being necessary. Furthermore, the production of product level MCE statements is not how Openreach manages its business or balance sheet. The information on the balance sheet should be aggregated to a more appropriate level."
- 4.101 BT also had specific comments and queries on the proforma statements voicing concern over the level of granularity of the MCE Reconciliation and the horizontal segmental analysis.
- 4.102 Ofcom include within this statement a revised version of the Openreach financial statements taking account of all comments made by respondents (refer to Annex 3). Ofcom believes that these revised formats meet the requirements of the Undertakings and are sufficiently granular to provide stakeholders with a clear overall picture of Openreach's financial performance from a regulatory perspective. This will be the first year that this information is published and Ofcom will review the statements to ensure they are fit for purpose going forward.

## Audit requirements

- 4.103 As explained in the August Statement, Ofcom considers that an independent audit of the published regulatory financial statements is important to provide reasonable assurance to Ofcom and other stakeholders that the financial statements have been prepared using the agreed principles and policies and that, for key statements, the results are fairly presented.
- 4.104 The requirement for an audit opinion is set out in Condition OA5 of BT's regulatory financial reporting obligations, which states that:
- "BT shall in respect of the Market, Technical Areas and the Disaggregated Activities (as applicable) for each Financial Year:
- a. prepare such Regulatory Financial Statements as directed by Ofcom from time to time in accordance with the Accounting Documents (the relevant Accounting Documents to be identified in the Regulatory Financial Statements by reference to their date);
- b. secure the expression of an audit opinion upon the Regulatory Financial Statements as directed by Ofcom from time to time;"
- 4.105 The form and meaning of audit opinions relating to regulatory financial statements are subject to Directions, issued by Ofcom in July 2004 under OA2<sup>6</sup>. Direction 5 describes the "Fairly presented in accordance with" ("FPIA") opinion, whereas Direction 6 describes the "Properly prepared in accordance with" ("PPIA") opinion.

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<sup>6</sup> [http://www.ofcom.org.uk/consult/condocs/fin\\_reporting/fin\\_report\\_statement/finance\\_report.pdf](http://www.ofcom.org.uk/consult/condocs/fin_reporting/fin_report_statement/finance_report.pdf)

- 4.106 A PPIA opinion provides reasonable assurance that a statement, taken as a whole, has been prepared, in all material respects, in accordance with the detailed procedures described in the Accounting Documents. The opinion does not consider explicitly the estimates and judgements made by BT in selecting the detailed methodologies in accordance with the principles set out in the Accounting Documents.
- 4.107 An FPIA opinion provides reasonable assurance that a financial statement, taken as a whole, has been prepared in accordance with the principles described in the Accounting Documents and, in the context of that framework, are free from material misstatement. They include an assessment of the significant estimates and judgements made by BT in the preparation of the statements. Unlike a PPIA opinion, an FPIA opinion therefore includes consideration of objectivity.
- 4.108 As set out in the August Statement, Ofcom introduced a requirement for a FPIA opinion over the financial statements as a whole instead of the previous requirement for opinions on each market and service statement and introduced a framework for identifying the information that warrants additional assurance to be set annually by Ofcom outside of the Directions.
- 4.109 As a result, Direction 3 to BT's regulatory financial reporting obligations was modified to direct that:
- "BT shall, for the purposes of Condition OA5 and as appropriate, prepare, deliver to Ofcom and publish the Regulatory Financial Statements in accordance with Annexes A, B and C to this Direction."
- 1A. BT shall, for the purposes of condition OA5 secure an appropriate audit opinion on an FPIA basis in respect of the published Regulatory Financial Statements as a whole.
- 1B. BT shall, for the purposes of condition OA5 secure an appropriate audit opinion in respect of each Regulatory Financial Statement, either on an FPIA or PPIA basis as shall be notified in writing to BT from time to time by Ofcom."
- 4.110 In light of the revised structure for the regulatory financial report, with increased focus on groups of markets, such as those relating to access markets, Ofcom considers that the ability to require audit opinions for groups of markets would allow for greater flexibility and focussing of the audit effort.
- 4.111 Ofcom therefore has modified Direction 3 and the Schedule 4 FA10 Direction to require BT to secure such opinions as required on groups of markets.
- 4.112 Both C&W and BT voiced concerns over audit requirements with respect to groups of markets. C&W stipulated "Ofcom's proposal appears to lack any of the details that would allow stakeholders to judge the proposal. Therefore, while in general we support the idea that audit opinions should be required on groups of markets we are unable to support this proposal." They also state "Cable & Wireless does not agree that audit requirements are a matter for BT and Ofcom alone"
- 4.113 Whilst BT stated "This depends on the detailed requirements of Ofcom's proposal for audit opinion at the level of groups of markets. This has not been detailed in the Consultation Document. BT's view remains that one overall opinion is sufficient in

providing adequate assurance for users provided it is driven by an audit approach that is structured in an appropriate way.”

- 4.114 Annex 6 to this statement sets out the audit opinions which will be required for the 2006/07 Regulatory Statements. It lays out the groups of markets where audit opinions will be sought, the type of opinion sought and also the individual market opinions that will also still be required. This approach has been discussed and agreed with BT and their auditors, PWC.
- 4.115 Ofcom welcomes stakeholder interest in this area and believes that the details provided in Annex 6 will now give stakeholders the relevant information to assess the scope and impact of these changes.
- 4.116 Ofcom does not share BT's view that one overall opinion will provide sufficient assurance and hence this is why we wish to maintain individual opinions on significant markets and have developed FPIA opinions over groups of markets. However in saying this Ofcom also wish to stress that the audit approach taken and requirements imposed on BT is a matter for discussion between BT, Ofcom and PWC under the tripartite agreement. Hence whilst listening to stakeholders views the determination of an audit approach and form and scope of opinion is outside the remit of this consultation and final statement.

### **Legal tests relating to audit requirements**

- 4.117 The section below sets out Ofcom's reasons as to why it considers that the relevant legal tests under the Act for the modification of Direction 3 and the Schedule 4 FA10 Direction as explained in this section are met.

### **Relevant tests**

- 4.118 Ofcom is required to be satisfied that the modification of directions is in accordance with the requirements of section 49(2) of the Act. Ofcom also has to consider and act in accordance with its general duties in section 3 of the Act and the six Community requirements in section 4 of the Act.

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

- 4.119 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.
- 4.120 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.
- 4.121 As part of the EU market review process, Ofcom imposed wholesale and retail cost accounting and accounting separation obligations (conditions and directions) on BT in specific markets; as appropriate remedies to its SMP in these markets. The individual market reviews have already assessed whether these obligations meet the tests outlined in Sections 3 and 4 of the Communications Act.

- 4.122 Ofcom considers that the modifications contained within this section are consistent with the SMP obligations flowing from these markets reviews and, therefore, also meet the tests set out in Sections 3 and 4 of the Act.

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

- 4.123 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) have 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**

- 4.124 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.111 is objectively justifiable as it allows Ofcom greater flexibility to
- obtain an appropriate level of assurance on financial statements for particular markets; and
  - reduce unnecessary regulatory burdens on BT and reducing the costs that are incurred by BT in satisfying regulatory financial reporting obligations where it is appropriate to do so.

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

- 4.125 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.111 is not unduly discriminatory.
- 4.126 BT and KCL are the only communications providers in the fixed communications market to have SMP in multiple markets and therefore can be treated as a class of communications provider. As a consequence of having SMP in multiple markets they are the only providers in respect of which Ofcom imposes reporting obligations and are therefore the only providers with audit requirements.
- 4.127 The form and content of KCL's financial reporting obligations already reflect KCL's relative size and complexity compared to BT. Ofcom is not currently reviewing KCL's audit regime as the scale and scope of current requirements on KCL are less extensive than for BT. Ofcom therefore does not consider its review of the requirements for the audit of BT's regulatory financial information only is unduly discriminatory against either BT or KCL.

### Proportionate to what it is intended to achieve

- 4.128 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.111 is proportionate in that it does not introduce any additional regulatory or financial burden on BT but rather has the potential to decrease such burdens without affecting the integrity of the assurance regime.

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

- 4.129 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.111 is transparent because Ofcom has explained and consulted on each change and provided background explanatory material where appropriate.

### **Other responses**

- 4.130 Both UKCTA and C&W brought up issues outside of the direct scope of the January Consultation but which they considered relevant to the overall review of the financial reporting regime.
- 4.131 Each stakeholder had specific concerns with the reporting regime for the following specific SMP sectors - Leased Lines, Alternative Interface Symmetric Broadband Origination and Assymetric Wholesale Broadband Origination.
- 4.132 Furthermore both expressed concern over the impact of geographic markets and the treatment of 21CN both of which might require further changes to the regulatory reports.
- 4.133 UKCTA stated "Over the coming years the need to reflect the Openreach business, the impact of geographic markets and the treatment of 21CN will require further changes to the regulatory reports. These must be considered now because they are complex issues and will require significant time to implement in BT systems and processes. Ofcom will also have to make more use of its powers to mandate BT to provide information for markets where it does not have SMP where that is required to complete the picture. This is particularly likely to be the case if the finding of geographic markets results in BT eventually being found not to have SMP in certain geographies."
- 4.134 Ofcom recognises the importance of an ongoing review and improvement process with the aim of maintaining the relevance and reliability of these financial statements. Ofcom believe that the current arrangements for BT/UKCTA forums, regular discussions between Ofcom and BT regulatory finance teams, outcomes from other Ofcom projects or investigations and formal consultations on the regulatory accounting regime are sufficient to meet these aims.



## Annex 1

# Documents published by BT

A1.1 The latest documents published by BT are made available in electronic format on BT's website. The documents, along with a brief description of each, are listed in the table below:

Name	Description
Current Cost Financial Statements	Main financial statements, including Profit and Loss and Mean Capital Employed statements for all 26 SMP markets, along with statements of costs and charges for internal and external services.
Primary Accounting Documents (PAD)	Description of the accounting policies and principles used in regulatory accounting, including transfer charging policies and attribution methodologies.
Detailed Attribution Methods (DAM)	Description of the cost allocation methods used by BT in determining the Fully Allocated Costs of the components used in providing regulated services, with a description of the systems and processes that support this.
Detailed Valuation Methodology (DVM)	Description of how BT values all fixed asset categories for the purposes of the Current Cost Accounting regulatory financial statements
Long Run Incremental Cost Model: Relationships & Parameters (R&P)	Description of how BT determines the Long Run Incremental Costs for regulated services, including how Cost/Volume Relationships (CVRs) are determined, with details of all CVRs used.
BT Retail Catalogue	Brief description of all regulated Retail services, with links to BT's published price list
BT Wholesale Catalogue	Brief description of all regulated Wholesale services, with links to BT's published price list



## Annex 2

# Regulatory Financial Statements - summary

A2.1 In respect of the regulatory report, the changes consist primarily of a new format for the regulatory report as defined by a series of annexes to Direction 4 and the Schedule 5 FA10 Direction. These are provided in Annex 5 to this consultation document. A summary of the annexes to Direction 4 is provided below.

Annex	Description	Comments
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. The requirement is unchanged from the existing annex 1.
Annex 2	Statement of responsibility	The Board of Directors 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. The requirement is unchanged from the existing annex 3.
Annex 3	Consolidated performance summary	Annex 4 provides a high level summary of the financial performance within key groups of regulated markets (specifically, access, wholesale SMP and retail), cross referenced to the relevant section of the report. It is a new requirement but includes information currently provided in annexes 5, 15 and 27.
Annex 4	Regulatory financial review	BT is required to prepare a regulatory financial review to summarise the financial performance across all markets for which cost accounting and/or accounting separation obligations apply as a whole. The requirement is similar to the existing annex 2 but is for a more summary level review and will be supported by additional regulatory financial reviews at market group and market levels, as listed below.
Annex 5A & 6A	Attribution of wholesale current costs/Mean Capital employed	These schedules aim to provide an overview of how key cost and asset categories are attributed to markets and a high level summary of the basis for these key attributions.
Annex 5B & 6B	Attribution of retail current costs/Mean Capital Employed	These schedules aim to provide an overview of how key cost and asset categories are attributed to markets and a high level summary of the basis for these key attributions.

<b>Annex</b>	<b>Description</b>	<b>Comments</b>
Annex 7	Financial performance in access markets	Annex 7 provides a tabular summary of the financial performance in the wholesale access markets and provides an introduction to the detailed information provided for each market in the following section of the report.
Annex 8	Financial performance in other wholesale SMP markets	Annex 8 provides a tabular summary of the financial performance in wholesale markets other than wholesale access markets and provides an introduction to the detailed information provided for each market in the following section of the report.
<del>Annex 9</del>	<del>Financial performance in Retail SMP markets</del>	<del>Annex 9 provides a tabular summary of the financial performance in the regulated retail markets and provides an introduction to the detailed information provided for each market in the following section of the report.</del>
Annex 10	Market Group level Financial Review	Annex 10 requires a narrative summary of the performance across each of the groups of markets (ie wholesale access, other wholesale SMP markets and Retail SMP) when considered as a whole and will be read in conjunction with Annexes 7, 8 and 9 respectively. The requirement is similar to the existing annex 2 but is for a more summary level review and will be supported by additional regulatory financial reviews at market group and market levels, as listed below.
Annex 11	Market summary (cost orientation and non discrimination)	A market summary statement will be required for each market to provide more detail of the financial performance for each market and first order tests of compliance with cost orientation and non-discrimination obligations, as appropriate. Annex 11 will apply for markets with cost orientation and non-discrimination obligations. Annex 12 will be required for markets with cost orientation obligations only. Annex 13 will be required for markets where a time of day gradient applies.
Annex 12	Market summary (non discrimination only)	See Annex 11.
Annex 13	Market summary (time of day gradient)	See Annex 11.

<b>Annex</b>	<b>Description</b>	<b>Comments</b>
Annex 16	Calculation of FAC based on component costs and usage factors	Annex 16 shows how the unit costs for products are calculated by applying usage factors to the component costs calculated in Annex 15 (Network Activity Statement). It includes cost information currently provided on a market by market basis in, for example, annex 34.
Annex 17	BT Network Services Reconciliation	Annex 17 shows how the total cost of each component, extracted from Annex 15, are allocated to each market. It is similar to the existing annex 39.
Annex 18	<del>Consolidated P&amp;L</del>	<del>Annex 18 consolidates the current costs P&amp;Ls of the groups of SMP markets (wholesale access, other wholesale SMP and Retail, with the residual markets. It forms the starting point for the reconciliation in Annex 19.</del>
Annex 19	BT Reconciliation Statement – P&L	Annex 19 reconciles the consolidated current cost P&L to the results reported in the statutory accounts.
Annex 20	BT Reconciliation statement - MCE	Annex 20 reconciles the consolidated current cost P&L to the results reported in the statutory accounts.
Annex 21	BT Inter-market turnover reconciliation	Annex 22 shows how the internal transactions can be traced from wholesale to retail markets. It is similar to the existing annex 33.
Annex 22	Notes to the Financial Statements	These will include notes modelled on statutory accounting conventions to assist the user in the interpretation of the individual statements. Annex 23 therefore supersedes the existing annex 23.
Annex 23	Report of the Regulatory Auditors	The statement by the regulatory auditor shall set out the responsibilities of the 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. The requirement replaces the same requirement set out in the existing annex 4.
Annex 24 & Annex 25	Price controls in wholesale markets	Annex 25 will provide a narrative explanation of BT's compliance with its price controls as illustrated in Annex 24. It is not subject to audit.
Annex 26	Additional Information by way of notes	Replaces current annex 42, and subject to revision on successful introduction of data extract tool.

A2.2 The precise structure of the Regulatory Financial Report will be subject to discussion with BT. However at this stage Ofcom envisages that the structure may be along the following lines:

Section	Objective	Contents
1	Introduction to accounts	Introduction to purpose and contents of Regulatory Financial Statements Annex 2: Statement of responsibility
2	Summary of financial performance	Annex 3 Consolidated performance summary Annex 4 Regulatory financial review Annex 5A Attribution of wholesale current costs Annex 6A Attribution of wholesale current cost mean capital employed
3	Review of Access Markets	Annex 7 Financial performance in access markets Annex 10 Market Level Group Review Annexes 11/12/, Annex 14 Market summary and review for each market
4	Review of other wholesale SMP markets	Annex 8 Financial performance in other wholesale SMP markets Annex 10 Market Level Group Review Annexes 11/12//13, Annex 14 Market summary and review for each market
5	Review of Retail markets	<del>Annex 9 Financial performance in Retail SMP markets</del> Annex 5B Attribution of retail current cost cascade Annex 6B Attribution of retail current cost mean capital employed Annex 10 Market Level Group Review Annex 14 Market summary and review for each market
6	Other Information	Annex 15 BT Statement of costs on a current cost basis Annex 16 Calculation of FAC based on component costs and usage factors Annex 17 BT Network Services Reconciliation
7	Reconciliations	<del>Annex 18 Consolidated P&amp;L</del> Annex 19 BT Reconciliation Statement – P&L Annex 20 BT Reconciliation statement - MCE Annex 21 BT Inter-market turnover reconciliation
8	Notes to the financial report	Annex 22 Notes to the Financial Statements

9	Audit Report	Annex 23 Report of the Regulatory Auditors
10	Price Controls	Annex 24 Price controls in wholesale markets (table) Annex 25 Price controls in wholesale markets (narrative)
11	Openreach information	Publication of information required under the terms of the undertakings, including reconciliations.

A2.3 While not directly comparable, the information provided by the existing annexes can be mapped onto the new annexes roughly as follows:

<b>Annex</b>	<b>Description</b>	<b>Source in new Annexes</b>
Annex 1	Statement by Ofcom	1
Annex 2	Regulatory financial review	4, 10, 11
Annex 3	Statement of responsibility	3
Annex 4	Report of the Regulatory Auditors	23
Annex 5	Wholesale Markets Consolidation Profit and Loss (P&L) Statement	48
Annex 6	Wholesale Markets Consolidation Mean Capital Employed (MCE) Statement	6, 20
Annex 7	Wholesale Summary narrowband P&L statement	5A, 7 – 8
Annex 8	Wholesale Summary narrowband MCE statement	6A
Annex 9	Wholesale market P&L loss statement	5A, 7 - 8
Annex 10	Wholesale market MCE statement	6A
Annex 11	Wholesale segment P&L statement	5A, 7 - 8
Annex 12	Wholesale segment MCE statement	6A
Annex 13	Wholesale service P&L statement	5A, 7 - 8
Annex 14	Wholesale service MCE statement	6A
Annex 15	Retail Markets Consolidation P&L Statement	5B
Annex 16	Retail Markets Consolidation MCE Statement	6B
Annex 17	Retail summary narrowband P&L statement	5B
Annex 18	Retail summary narrowband MCE statement	6B
Annex 19	Retail market P&L loss statement	5B
Annex 20	Retail market MCE statement	6B
Annex 21	Retail product group P&L statement	5B
Annex 22	Retail product group MCE statement	6B
Annex 23	Notes to financial statements	22
Annex 24	Wholesale sales by market statement, external sales	13



<b>Annex</b>	<b>Description</b>	<b>Source in new Annexes</b>
Annex 26	Retail markets purchase statement	21
Annex 27	Reconciliation statement, P&L	19
Annex 28	Reconciliation statement, MCE	20
Annex 29	Wholesale residual activities statement, P&L	5A,19
Annex 30	Wholesale residual activities statement, MCE	6A
Annex 31	Retail residual activities statement, P&L	19
Annex 32	Retail residual activities statement, MCE	6B,19
Annex 33	Inter-market turnover (reconciliation)	21
Annex 34	Statements of costs and charges for internal and external wholesale services	7
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## Annex 3

# Accounting information relating to Openreach

- A3.1 Ofcom has accepted a range of undertakings provided by BT which includes explicit reference to the preparation and publication of accounting information relating to the Access Services division (now known as “Openreach”). Undertaking 5.31 refers to the regulatory financial statements also presenting separately the financial results of Openreach.
- A3.2 Although no formal consultation is required on this undertaking, Ofcom believed it would be helpful to include in the January consultation document the pro-forma profit & loss account, mean capital employed statement and reconciliation statements that are currently proposed. These statements will also be subject to independent audit.
- A3.3 Pro-formas of these statements are again set out below with revised formats as explained in Section 4 of this Statement.

## BT's regulatory financial reporting requirements

<b>Openreach Financial Statement 2007</b>									
<b>Purpose of statement: to meet the financial statement reporting obligations as set out in BT's Undertakings</b>									
<b>CURRENT COST PROFIT AND LOSS ACCOUNT</b>									
for the year ended 31 March 2007									
	Full service provision								
	Residential analogue exchange line services	Business analogue exchange line services	Residential ISDN2 exchange line services	Business ISDN2 exchange line services	Alternative interface symmetric broadband origination	Wholesale local access	Sub-total: Full service provision markets	Other Openreach markets & Activities	TOTAL Openreach
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Turnover</b>									
Internal sales									
- service(s) which are also available externally	x	x	x	x	x	x	x	x	x
- service(s) provided internally only:									
- e-PPCs									
- Internal LLU equivalent	x	x	x	x	x	x	x	x	x
- Other (analysis required where material)	x	x	x	x	x	x	x	x	x
External sales	x	x	x	x	x	x	x	x	x
Roundings	x	x	x	x	x	x	x	x	x
<b>Total turnover</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>
<b>HCA Operating costs:</b>									
<b>Charges from BT Wholesale</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>
<b>Operating costs:</b>									
Provision/maintenance	x	x	x	x	x	x	x	x	x
Network support	x	x	x	x	x	x	x	x	x
General support	x	x	x	x	x	x	x	x	x
General management	x	x	x	x	x	x	x	x	x
Finance & billing	x	x	x	x	x	x	x	x	x
Accommodation	x	x	x	x	x	x	x	x	x
Bad debts	x	x	x	x	x	x	x	x	x
Other costs	x	x	x	x	x	x	x	x	x
Depreciation									
- land & buildings	x	x	x	x	x	x	x	x	x
- Access	x	x	x	x	x	x	x	x	x
- Switch & transmission	x	x	x	x	x	x	x	x	x
- Other	x	x	x	x	x	x	x	x	x
<b>Sub total HCA operating costs</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>
<b>CCA adjustments:</b>									
Holding (gain)/loss	x	x	x	x	x	x	x	x	x
Supplementary depreciation	x	x	x	x	x	x	x	x	x
Other adjustments	x	x	x	x	x	x	x	x	x
Roundings	x	x	x	x	x	x	x	x	x
<b>Total CCA Operating Costs</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>
<b>Return</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>
<b>RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER</b>									
for the year ended 31 March 2007									
<b>Return on mean capital employed %</b>									
<b>Return on turnover %</b>									
<b>Notes:</b>									

BT's regulatory financial reporting requirements

Openreach Financial Statement 2007									
Purpose of statement: to meet the financial statement reporting obligations as set out in BT's Undertakings									
STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED									
for the year ended 31 March 2007									
	Full service provision								
	Residential analogue exchange line services	Business analogue exchange line services	Residential ISDN2 exchange line services	Business ISDN2 exchange line services	Alternative interface symmetric broadband origination	Wholesale local access	Sub-total: Full service provision markets	Other Openreach markets & Activities	TOTAL: Openreach
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Fixed assets:</b>									
Land & buildings	x	x	x	x	x	x	x	x	x
Access - Copper	x	x	x	x	x	x	x	x	x
Access - Fibre	x	x	x	x	x	x	x	x	x
Access - Duct	x	x	x	x	x	x	x	x	x
Switch and transmission	x	x	x	x	x	x	x	x	x
Other	x	x	x	x	x	x	x	x	x
<b>Total fixed assets</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>
<b>Current assets:</b>									
Stocks	x	x	x	x	x	x	x	x	x
Debtors									
- internal	x	x	x	x	x	x	x	x	x
- external	x	x	x	x	x	x	x	x	x
<b>Total current assets</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>
<b>Creditors: amounts falling due within one year</b>									
Other creditors									
- internal	x	x	x	x	x	x	x	x	x
- external	x	x	x	x	x	x	x	x	x
<b>Total creditors: amounts falling due within one year</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>
<b>Net current assets</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>
Total assets less current liabilities	x	x	x	x	x	x	x	x	x
Provisions for liabilities and charges	x	x	x	x	x	x	x	x	x
Roundings	x	x	x	x	x	x	x	x	x
<b>Mean capital employed</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>
<b>Notes:</b>									

<b>Openreach Financial Statement 2007</b>							
<b>Purpose of statement: to meet the financial statement reporting obligations as set out in BT's Undertakings</b>							
<b>RECONCILIATION OF PROFIT &amp; LOSS ACCOUNT</b>							
for the year ended 31 March 2007							
		HCA			CCA		
			Operating		Holding	Supplementary	
		Turnover	Cost	Return	gain /(loss) and	depreciation	Return
	Note	£m	£m	£m	other adjustments	£m	£m
Regulatory entity (Xref to P&L page)		x	x	x	x	x	x
<i>Reconciliation differences:</i>							
<i>...to be detailed if material</i>	a	x	x	x			
	b	x	x	x			
	c	x	x	x			
<b>As per published Annual Report</b>		x	x	x			
<b>Notes:</b>							

Openreach Financial Statement 2007						
Purpose of statement: to meet the financial statement reporting obligations as set out in BT's Undertakings						
RECONCILIATION OF MEAN CAPITAL EMPLOYED						
for the year ended 31 March 2007						
		HCA		CCA		
		Segmental analysis		Holding	Supplementary	
		Assets	Liabilities	gain /(loss) and	depreciation	MCE
	Note	£m	£m	other adjustments	£m	£m
<b>Total fixed assets</b>		x				
<b>Total current assets</b>		x				
<b>Total creditors</b>			x			
<b>Provisions for liabilities and charges</b>			x			
<b>Regulatory entity (Xref to MCE page)</b>		x	x	x	x	x
<i>Reconciliation differences:</i>						
...to be detailed for material items	a	x	x			
	b	x	x			
	c	x	x			
<b>Adjusted MCE</b>						
Daily averaging adjustment	d	x	x			
<b>As per published Annual Report</b>		x	x			
Notes:						

## Annex 4

# Notification of Modification to Direction 3 and the FA10 Direction

## NOTIFICATION UNDER SECTION 49 OF THE COMMUNICATIONS ACT 2003

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

### WHEREAS:

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

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

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

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

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

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

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

(F) this modified Direction modifies:

- i. Direction 3 given under SMP Services Condition OA2 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 and as modified at Annex 2 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 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 and as modified at Annex 2 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 16 August 2006 (the "FA10 Direction"), 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 25 January 2007, Ofcom published a notification of the proposed modified Direction 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 23 March 2007;

(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 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. Direction 3 and the FA10 Direction shall be modified as set out in annexes A, B, C and D 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 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 this modified Direction:

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

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

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

**Craig Lonie**

**Director of Regulatory Finance, Ofcom**

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

**30 May 2007**

## **ANNEX A**

### **Direction 3 is hereby amended as follows:**

1. In paragraph 1A of Direction 3 insert the words “and to the satisfaction of Ofcom” after the words “for the purpose of the condition OA5”.
2. In paragraph 1B of Direction 3 insert the words “and to the satisfaction of Ofcom” after the words “for the purpose of the condition OA5”.
3. Insert a new paragraph in Direction 3, following paragraph 1B as follows:

”1C. BT shall, for the purposes of condition OA5 and to the satisfaction of Ofcom, secure an appropriate audit opinion in respect groups of Regulatory Financial Statements, either on an FPIA or PPIA basis as specified by Ofcom and as shall be notified in writing to BT from time to time by Ofcom.”

## **ANNEX B**

### **The FA10 Direction is hereby amended as follows:**

1. In paragraph 1A of the FA10 Direction insert the words “and to the satisfaction of Ofcom” after the words “for the purpose of the condition OA5”.
2. In paragraph 1B of the FA10 Direction insert the words “and to the satisfaction of Ofcom” after the words “for the purpose of the condition OA5”.
3. Insert a new paragraph in the FA10 Direction, following paragraph 1B as follows:

”1C. BT shall, for the purposes of condition FA10.5 and to the satisfaction of Ofcom, secure an appropriate audit opinion in respect groups of Regulatory Financial Statements, either on an FPIA or PPIA basis as specified by Ofcom and as shall be notified in writing to BT from time to time by Ofcom.”

## **ANNEX C**

**Annexes A, B and C to Direction 3 are deleted in their entirety and replaced by the following.**

<b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		Wholesale residential 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 1	Statement by Ofcom	P			P			P		
Annex 2	Statement of responsibility	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	N	P	N	N	P	N	N
Annex 5B	Attribution of Retail current costs									
Annex 6A	Attribution of Wholesale Current Cost Mean Capital Employed	P	N	N	P	N	N	P	N	N
Annex 6B	Attribution of Retail Current Cost Mean Capital Employed									
Annex 7	Financial performance in Access markets	P			P			P		
Annex 8	Financial performance in other wholesale SMP markets									
<del>Annex 9</del>	<del>Financial performance in Retail SMP markets</del>									
Annex 10	Market Group Financial Review	P			P			P		
Annex 11	Market summary	P			P			P		
Annex 12	Market summary									
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		
<del>Annex 18</del>	<del>Consolidated P&amp;L</del>	<del>P</del>			<del>P</del>			<del>P</del>		
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
Annex 23	Report of the Regulatory Auditors	P			P			P		
Annex 24	Price controls in wholesale markets	P			P			P		
Annex 25	Price controls in wholesale markets	P			P			P		

<b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		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 1	Statement by Ofcom	P															
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	P	P	P	P	P	P	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	N	N	N	N	N	N	N	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	N	N	N	N	N	N	N	N	N	N	N	N	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																
<del>Annex 9</del>	<del>Financial performance in Retail SMP markets</del>																
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															
<del>Annex 18</del>	<del>Consolidated P&amp;L</del>	<del>P</del>															
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	P	P	P	P	P	P	P	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P															
Annex 24	Price controls in wholesale markets	P															
Annex 25	Price controls in wholesale markets	P															

<b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		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 1	Statement by Ofcom	P								
Annex 2	Statement of responsibility	P	P	P	P	P	P	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	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	N	N	N	N	N	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									
<del>Annex 9</del>	<del>Financial performance in Retail SMP markets</del>									
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								
<del>Annex 18</del>	<del>Consolidated P&amp;L</del>	<del>P</del>								
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	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P								
Annex 24	Price controls in wholesale markets	P								
Annex 25	Price controls in wholesale markets	P								

<b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		Alternative interface symmetric broadband origination (all bandwidths);	WVS service A	WVS 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 1	Statement by Ofcom	P					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	P		
Annex 4	Regulatory financial review	P					P		P	P		
Annex 5A	Attribution of Wholesale current costs	P	N	N	N	N	P	N	P	N	P	N
Annex 5B	Attribution of Retail current costs											
Annex 6A	Attribution of Wholesale Current Cost Mean Capital Employed	P	N	N	N	N	P	N	P	N	P	N
Annex 6B	Attribution of Retail Current Cost Mean Capital Employed											
Annex 7	Financial performance in Access markets	P					P		P	P		
Annex 8	Financial performance in other wholesale SMP markets											
<del>Annex 9</del>	<del>Financial performance in Retail SMP markets</del>											
Annex 10	Market Group Financial Review	P					P		P	P		
Annex 11	Market summary	P					P			P		
Annex 12	Market summary								P			
Annex 13	Market summary (ToD)											
Annex 14	Market Level Financial Review	P					P		P	P		
Annex 15	Network Activity Statement	P					P		P	P		
Annex 16	Calculation of FAC based on component costs and usage factors	P					P		P	P		
Annex 17	BT Network Services Reconciliation	P					P		P	P		
<del>Annex 18</del>	<del>Consolidated P&amp;L</del>	<del>P</del>					<del>P</del>		<del>P</del>	<del>P</del>		
Annex 19	BT Reconciliation Statement - P&L	P					P		P	P		
Annex 20	BT Reconciliation statement -MCE	P					P		P	P		
Annex 21	BT Inter-market turnover reconciliation	P					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	P		
Annex 24	Price controls in wholesale markets	P					P		P	P		
Annex 25	Price controls in wholesale markets	P					P		P	P		



<b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		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 1	Statement by Ofcom	P				P	
Annex 2	Statement of responsibility	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P				P	
Annex 4	Regulatory financial review	P				P	
Annex 5A	Attribution of Wholesale current costs	P	N	N	N	P	N
Annex 5B	Attribution of Retail current costs						
Annex 6A	Attribution of Wholesale Current Cost Mean Capital Employed	P	N	N	N	P	N
Annex 6B	Attribution of Retail Current Cost Mean Capital Employed						
Annex 7	Financial performance in Access markets	P				P	
Annex 8	Financial performance in other wholesale SMP markets						
<del>Annex 9</del>	<del>Financial performance in Retail SMP markets</del>						
Annex 10	Market Group Financial Review	P				P	
Annex 11	Market summary						
Annex 12	Market summary	P				P	
Annex 13	Market summary (ToD)						
Annex 14	Market Level Financial Review	P				P	
Annex 15	Network Activity Statement	P				P	
Annex 16	Calculation of FAC based on component costs and usage factors	P				P	
Annex 17	BT Network Services Reconciliation	P				P	
<del>Annex 18</del>	<del>Consolidated P&amp;L</del>	<del>P</del>				<del>P</del>	
Annex 19	BT Reconciliation Statement - P&L	P				P	
Annex 20	BT Reconciliation statement -MCE	P				P	
Annex 21	BT Inter-market turnover reconciliation	P				P	
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P				P	
Annex 24	Price controls in wholesale markets	P				P	
Annex 25	Price controls in wholesale markets	P				P	

<b>Note:"P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		<b>Call origination on fixed public narrowband networks</b>	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 1	Statement by Ofcom	P									
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	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	N	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	N	N	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									
<del>Annex 9</del>	<del>Financial performance in Retail SMP markets</del>										
Annex 10	Market Group Financial Review	P									
Annex 11	Market summary										
Annex 12	Market summary										
Annex 13	Market summary (ToD)	P									
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									
<del>Annex 18</del>	<del>Consolidated P&amp;L</del>	<del>P</del>									
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	P	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P									
Annex 24	Price controls in wholesale markets	P									
Annex 25	Price controls in wholesale markets	P									

<b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		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 1	Statement by Ofcom	P					P	
Annex 2	Statement of responsibility	P	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P					P	
Annex 4	Regulatory financial review	P					P	
Annex 5A	Attribution of Wholesale current costs	P	N	N	N	N	P	N
Annex 5B	Attribution of Retail current costs							
Annex 6A	Attribution of Wholesale Current Cost Mean Capital Employed	P	N	N	N	N	P	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	
<del>Annex 9</del>	<del>Financial performance in Retail SMP markets</del>							
Annex 10	Market Group Financial Review	P					P	
Annex 11	Market summary							
Annex 12	Market summary							
Annex 13	Market summary (ToD)	P					P	
Annex 14	Market Level Financial Review	P					P	
Annex 15	Network Activity Statement	P					P	
Annex 16	Calculation of FAC based on component costs and usage factors	P					P	
Annex 17	BT Network Services Reconciliation	P					P	
<del>Annex 18</del>	<del>Consolidated P&amp;L</del>	<del>P</del>					<del>P</del>	
Annex 19	BT Reconciliation Statement - P&L	P					P	
Annex 20	BT Reconciliation statement -MCE	P					P	
Annex 21	BT Inter-market turnover reconciliation	P					P	
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P					P	
Annex 24	Price controls in wholesale markets	P					P	
Annex 25	Price controls in wholesale markets	P					P	

		Technical areas														
		WS standard CSI connection	WS standard CSI rental fixed	WS standard CSI rental per km	WS ISI connection	WS ISI rental per 100m	WS IEC connection	WS IEC rental fixed	WS IEC rental per km	WS intra-building circuits connection	WS intra-building circuits rental	WS rearrangements	WS Connection (£ per 2Mbit/s per year)	WS Rental fixed (£ per 2Mbit/s per year)	WS Rental per km (£ per 2Mbit/s per year)	DA4WS Re-arrangements (£ per occasion)
<b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>																
Annex 1	Statement by Ofcom	P														
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	P	P	P	P	P	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	N	N	N	N	N	N	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	N	N	N	N	N	N	N	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														
Annex 9	Financial performance in Retail 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 18	Consolidated P&L	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	P	P	P	P	P	P	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P														
Annex 24	Price controls in wholesale markets	P														
Annex 25	Price controls in wholesale markets	P														

<b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		Broadband 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 34/45mbit/s trunk	Partial and Private circuits 140/155mbit/s trunk	Partial and Private circuits 622mbit/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
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
Annex 5B	Attribution of Retail current costs										
Annex 6A	Attribution of Wholesale Current Cost Mean Capital Employed	P	N	P	N	P	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						
<del>Annex 9</del>	<del>Financial performance in Retail SMP markets</del>										
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						
<del>Annex 18</del>	<del>Consolidated P&amp;L</del>	<del>P</del>		<del>P</del>	<del>P</del>						
Annex 19	BT Reconciliation Statement - P&L	P		P	P						
Annex 20	BT Reconciliation statement -MCE	P		P	P						
Annex 21	BT Inter-market turnover reconciliation	P		P	P						
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P		P	P						
Annex 24	Price controls in wholesale markets	P		P	P						
Annex 25	Price controls in wholesale markets	P		P	P						

<b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		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 1	Statement by Ofcom	P				
Annex 2	Statement of responsibility	P	P	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	N	N
Annex 5B	Attribution of Retail current costs					
Annex 6A	Attribution of Wholesale Current Cost Mean Capital Employed	P	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				
<del>Annex 9</del>	<del>Financial performance in Retail SMP markets</del>					
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				
<del>Annex 18</del>	<del>Consolidated P&amp;L</del>	<del>P</del>				
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	P	P
Annex 23	Report of the Regulatory Auditors	P				
Annex 24	Price controls in wholesale markets	P				
Annex 25	Price controls in wholesale markets	P				

<b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		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 1	Statement by Ofcom	P		P		P		P	
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P		P		P		P	
Annex 4	Regulatory financial review	P		P		P		P	
Annex 5A	Attribution of Wholesale current costs								
Annex 5B	Attribution of Retail current costs	P	N	P	N	P	N	P	N
Annex 6A	Attribution of Wholesale Current Cost Mean Capital Employed								
Annex 6B	Attribution of Retail Current Cost Mean Capital Employed	P	N	P	N	P	N	P	N
Annex 7	Financial performance in Access markets								
Annex 8	Financial performance in other wholesale SMP markets								
Annex 9	Financial performance in Retail SMP markets	P		P		P		P	
Annex 10	Market Group Financial Review	P		P		P		P	
Annex 11	Market summary								
Annex 12	Market summary								
Annex 13	Market summary (ToD)								
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 18	Consolidated P&L	P		P		P		P	
Annex 19	BT Reconciliation Statement - P&L	P		P		P		P	
Annex 20	BT Reconciliation statement - MCE	P		P		P		P	
Annex 21	BT Inter-market turnover reconciliation	P		P		P		P	
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P		P		P		P	
Annex 24	Price controls in wholesale markets								
Annex 25	Price controls in wholesale markets								

<b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		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 1	Statement by Ofcom	P		P		P	
Annex 2	Statement of responsibility	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						
Annex 5B	Attribution of Retail current costs	P	N	P	N	P	N
Annex 6A	Attribution of Wholesale Current Cost Mean Capital Employed						
Annex 6B	Attribution of Retail Current Cost Mean Capital Employed	P	N	P	N	P	N
Annex 7	Financial performance in Access markets						
Annex 8	Financial performance in other wholesale SMP markets						
Annex 9	Financial performance in Retail SMP markets	P		P		P	
Annex 10	Market Group Financial Review	P		P		P	
Annex 11	Market summary						
Annex 12	Market summary						
Annex 13	Market summary (ToD)						
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 18	Consolidated P&L	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
Annex 23	Report of the Regulatory Auditors	P		P		P	
Annex 24	Price controls in wholesale markets						
Annex 25	Price controls in wholesale markets						



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

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Annex 26	<b>Additional Information by way of notes</b>																
AI-1	Cost category analysis for network components, increments and common cost		N	N	N	N	N	N	N	N	N	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

<b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		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	<b>Additional Information by way of notes</b>									
AI-1	Cost category analysis for network components, increments and common cost		N	N	N	N	N	N	N	N
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

<b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		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	<b>Additional Information by way of notes</b>											
AI-1	Cost category analysis for network components, increments and common cost		N	N	N	N		N			N	N
AI-2	Summarised activity analysis of components		N	N	N	N		N			N	N
AI-3	Cost category analysis for network components and increments		N	N	N	N		N			N	N
AI-4	Summarised activity analysis for network components and increments		N	N	N	N		N			N	N
AI-5	Analysis by asset category and network activities		N	N	N	N		N			N	N
AI-6	CCA fixed asset movement statement		N	N	N	N		N			N	N
AI-7	Total mean capital employed and detailed activity analysis		N	N	N	N		N			N	N
AI-8	Analysis by type of product group and by type of OLO											
AI-9	Detailed Network activity analysis of mean capital employed		N	N	N	N		N			N	N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N					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

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

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

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

<b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		Technical areas	WS standard CSI connection	WS standard CSI rental fixed	WS standard CSI rental per km	WS ISI connection	WS ISI rental per 100m	WS IEC connection	WS IEC rental fixed	WS IEC rental per km	WS intra-building circuits connection	WS intra-building circuits rental	WS rearrangements	WS Connection (£ per 2Mbit/s per year)	WS Rental fixed (£ per 2Mbit/s per year)	WS Rental per km (£ per 2Mbit/s per year)	DA4WS Re-arrangements (£ per occasion)
Annex 26	<b>Additional Information by way of notes</b>																
AI-1	Cost category analysis for network components, increments and common cost		N	N	N	N	N	N	N	N	N	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																
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N



<b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		Broadband 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 34/45mbit/s trunk	Partial and Private circuits 140/155mbit/s trunk	Partial and Private circuits 622mbit/s trunk
Annex 26	<b>Additional Information by way of notes</b>										
AI-1	Cost category analysis for network components, increments and common cost		N		N	N	N	N	N	N	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		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

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

<b>Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		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	<b>Additional Information by way of notes</b>								
AI-1 Cost category analysis for network components, increments and common cost									
AI-2 Summarised activity analysis of components									
AI-3 Cost category analysis for network components and increments									
AI-4 Summarised activity analysis for network components and increments									
AI-5 Analysis by asset category and network activities									
AI-6 CCA fixed asset movement statement									
AI-7 Total mean capital employed and detailed activity analysis									
AI-8 Analysis by type of product group and by type of OLO		N	N	N		N		N	
AI-9 Detailed Network activity analysis of mean capital employed									
AI-10 Graphs over time of the various raw indices, index weightings & composite indices		N		N		N		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									

<b>Note:"P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</b>		Retail IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the Retail Segments	Residential calls to mobiles in the UK Retail Segments	Residential operator assisted calls in the UK Retail Segments
Annex 26	<b>Additional Information by way of notes</b>			
AI-1	Cost category analysis for network components, increments and common cost			
AI-2	Summarised activity analysis of components			
AI-3	Cost category analysis for network components and increments			
AI-4	Summarised activity analysis for network components and increments			
AI-5	Analysis by asset category and network activities			
AI-6	CCA fixed asset movement statement			
AI-7	Total mean capital employed and detailed activity analysis			
AI-8	Analysis by type of product group and by type of OLO	N	N	N
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
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets			
AI-21	Comprehensive analysis of the transfer charges			

## Annex 5

# Notification of Modification to Direction 4 and the FA10 Direction

## NOTIFICATION UNDER SECTION 49 OF THE COMMUNICATIONS ACT 2003

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

### WHEREAS:

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

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

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

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

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

(F) this Modified Direction modifies:

- i. Direction 4 given under SMP Services Condition OA2 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 and as modified at Annex 2 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 sets out the form and content to be applied by BT in preparing certain Regulatory Financial Statements required by virtue of condition OA5 and 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 (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 25 January 2007, 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 23 March 2007;

(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. Except where BT is entitled to amend the form and content of the Regulatory Financial Statements in accordance with conditions OA7 and OA21 and FA10.7 and FA10.21, BT shall ensure that the Regulatory Financial Statements required by conditions OA5 and FA10.5 and Direction 3 and the FA10 Direction (both as amended) shall be prepared, as appropriate, as to form and content in the manner set out in Direction 4 and the FA10 Direction as modified by the Annexes A and B to this 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) '**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, 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.
3. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them in this notification and otherwise any word or expression shall have the same meaning as it has in the Notification and otherwise any word or expression shall have the same meaning as it has in the Act.
4. For the purpose of interpreting this modified Direction:
  - a) headings and titles shall be disregarded; and
  - b) the Interpretation Act 1978 (c. 30) shall apply as if this Direction were an Act of Parliament.

5. This Direction shall take effect on the day it is published.
6. The Schedule to this modified Direction shall form part of this modified Direction.

**Craig Lonie**

**Director of Regulatory Finance, Ofcom**

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

**30 May 2007**



## **ANNEX A**

The Annexes to Direction 4 are deleted in their entirety and replaced by the following.

<b>Index of form and content annexes</b>	
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 5B	Retail Current cost cascade
Annex 6A	Allocation of Wholesale Current Cost Mean Capital Employed
Annex 6B	Allocation of Retail Current Cost Mean Capital Employed
Annex 7	Financial performance in Access markets
Annex 8	Financial performance in other wholesale SMP markets
<del>Annex 9</del>	<del>Financial performance in Retail SMP markets</del>
Annex 10	Market Group Financial Review
Annex 11	Wholesale Market summary
Annex 12	Wholesale Market summary
Annex 13	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
<del>Annex 18</del>	<del>Consolidated P&amp;L</del>
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 Auditor
Annex 24	Price controls in wholesale markets
Annex 25	Price controls in wholesale markets
Annex 26	Additional information by the 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**

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.

<b>Annex 3</b>								
<b>Consolidated performance summary</b>								
Purpose of statement: to provide overview of performance and identify links to other sections of this report								
<b>For the year ended 2007</b>		Turnover	CCA operating costs	CCA return before taxation	Return on Turnover	MCE	Return on MCE	Supporting information
<b>Markets</b>		£m	£m	£m	%	£m	%	
Access Markets		£	£	£	%	£	%	
Wholesale Markets		£	£	£	%	£	%	
Retail Markets		£	£	£	%	£	%	
		£	£	£	%	£	%	
<b>Residual Activities</b>								
Wholesale residual activities		£	£	£	%	£	%	
Retail residual activities		£	£	£	%	£	%	
		£	£	£	%	£	%	
Adjustments		£	£	£	%	£	%	
<b>Total Markets</b>		£	£	£	%	£	%	
<b>For the year ended 2006</b>		Turnover	CCA operating costs	CCA return before taxation	Return on Turnover	MCE	Return on MCE	Supporting information
<b>Markets</b>		£m	£m	£m	%	£m	%	
Access Markets		£	£	£	%	£	%	
Wholesale Markets		£	£	£	%	£	%	
Retail Markets		£	£	£	%	£	%	
		£	£	£	%	£	%	
<b>Residual Activities</b>								
Wholesale residual activities		£	£	£	%	£	%	
Retail residual activities		£	£	£	%	£	%	
		£	£	£	%	£	%	
Adjustments		£	£	£	%	£	%	
<b>Total Markets</b>		£	£	£	%	£	%	

## **Annex 4**

### **Regulatory Financial Review (BT)**

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

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

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

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

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

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

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

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

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

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

## BT's regulatory financial reporting requirements

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 2007																						
	Residential analogue exchange line services £m	Business analogue exchange line services £m	Business ISDN2 exchange line services £m	TISBO (up to and inc. 8Mbit/s) £m	TISBO (above 8Mbit/s and up to and inc. 155Mbit/s) £m	AISBO (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	Wholesale IDD to category B £m	ASBO in the UK Broadband conveyance in the UK £m	Total Other Wholesale SMP Markets £m	Wholesale Residual £m	Total Wholesale £m
Operating Costs of Wholesale Service:																						
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																						

BT's regulatory financial reporting requirements

Annex 5B											
<b>Attribution of Retail current costs</b>											
Purpose of statement: to provide an understanding of how costs have been allocated to each market											
For the year ended 31 March 2007											
	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	Residential IDD calls category B routes	Residential calls to mobiles in the UK	Residential operator assisted calls in the UK	BT Retail Markets consolidation	Retail Residual	Total Retail Markets and Activities	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
<b>HCA Operating Costs of Retail Markets:</b>											
Charges from Wholesale Markets	£	£	£	£	£	£	£	£	£	£	
Outpayments	£	£	£	£	£	£	£	£	£	£	
Marketing and Sales	£	£	£	£	£	£	£	£	£	£	
Finance and Billing	£	£	£	£	£	£	£	£	£	£	
Computing	£	£	£	£	£	£	£	£	£	£	
Customer Service	£	£	£	£	£	£	£	£	£	£	
General Management	£	£	£	£	£	£	£	£	£	£	
Messaging Payments	£	£	£	£	£	£	£	£	£	£	
Bad Debts	£	£	£	£	£	£	£	£	£	£	
Other Costs	£	£	£	£	£	£	£	£	£	£	
<b>Sub total HCA Operating Costs</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	
<b>CCA adjustments:</b>											
Holding (gain)/loss	£	£	£	£	£	£	£	£	£	£	
Supplementary depreciation	£	£	£	£	£	£	£	£	£	£	
Other adjustments	£	£	£	£	£	£	£	£	£	£	
Roundings	£	£	£	£	£	£	£	£	£	£	
<b>Total CCA Operating Costs</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	
<b>Return</b>											
<b>Return on Mean Capital Employed</b>	%	%	%	%	%	%	%	%	%	%	
<b>Return on Turnover</b>	%	%	%	%	%	%	%	%	%	%	



BT's regulatory financial reporting requirements

Annex 6A																					
Attribution 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 2007																					
	Residential analogue exchange line services	Business analogue exchange line services	Business ISDN2 exchange line services	TISBO (up to and inc. 8Mbit/s)	TISBO (above 8Mbit/s and up to and inc. 155Mbit/s)	AISBO (all bandwidths)	Residential ISDN2 exchange line services	Business ISDN30 exchange line services	Wholesale local access	Total Access Markets	Call origination on fixed public narrowband networks and transit on fixed public narrowband networks	Single transit on fixed public narrowband networks	Technical areas (Interconnect Circuits)	Fixed call termination	Wholesale trunk segments Technical areas (Point of Handover)	Wholesale IDD to category B	ASBO in the UK	Broadband conveyance in the UK	Total Other Wholesale SMP Markets	Wholesale Residual	Total Wholesale
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£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 mark2: significant changes in allocation bases during the year																					

BT's regulatory financial reporting requirements

Annex 6B										
<b>Attribution of Retail Current Cost Mean Capital Employed</b>										
Purpose of statement: to provide an understanding of how assets have been allocated to each market										
For the year ended 31 March 2007										
	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	Residential IDD calls category B routes	Residential calls to mobiles in the UK	Residential operator assisted calls in the UK	BT Retail Markets consolidation	Retail Residual	Total Retail Markets and Activities
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Fixed assets</b>										
Accommodation Land & Buildings	£	£	£	£	£	£	£	£	£	£
Motor Transport	£	£	£	£	£	£	£	£	£	£
General Computers	£	£	£	£	£	£	£	£	£	£
Software	£	£	£	£	£	£	£	£	£	£
International Transmission	£	£	£	£	£	£	£	£	£	£
Other	£	£	£	£	£	£	£	£	£	£
Investments	£	£	£	£	£	£	£	£	£	£
<b>Total Fixed Assets</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Current assets</b>										
Stocks	£	£	£	£	£	£	£	£	£	£
Debtors	£	£	£	£	£	£	£	£	£	£
- Internal	£	£	£	£	£	£	£	£	£	£
- External	£	£	£	£	£	£	£	£	£	£
<b>Total Current Assets</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Creditors falling due within one year</b>										
Other Creditors	£	£	£	£	£	£	£	£	£	£
-Internal	£	£	£	£	£	£	£	£	£	£
-External	£	£	£	£	£	£	£	£	£	£
<b>Total Creditors falling due within one year</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Net current assets</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Total assets less current liabilities</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Provisions for liabilities & charges & roundings	£	£	£	£	£	£	£	£	£	£
Roundings	£	£	£	£	£	£	£	£	£	£
<b>Mean Capital Employed</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>

## 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 2007

	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 8Mbps)	£	£	£	£	£	£	£	£	£	%	£	%
TISBO (above 8Mbps and up to and including 8Mbps)	£	£	£	£	£	£	£	£	£	%	£	%
AISBO (all bandwidths)	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale local access	£	£	£	£	£	£	£	£	£	%	£	%
	£	£	£	£	£	£	£	£	£	%	£	%

for the year ended 31 March 2006

	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 8Mbps)	£	£	£	£	£	£	£	£	£	%	£	%
TISBO (above 8Mbps and up to and including 8Mbps)	£	£	£	£	£	£	£	£	£	%	£	%
AISBO (all bandwidths)	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale local access	£	£	£	£	£	£	£	£	£	%	£	%
	£	£	£	£	£	£	£	£	£	%	£	%

## Annex 8

## Financial performance in other wholesale SMP markets

Purpose of statement: to provide summary of financial performance in regulated wholesale markets, other than access markets

for the year ended 31 March 2007

	Turnover				HCA costs	CCA adjustments	Roundings	Total CCA operating costs	Return	Return on turnover	Mean Capital Employed	Return on MCE
	Internal	External	Roundings	Total								
Call origination on FPN networks	£	£	£	£	£	£	£	£	£	%	£	%
Local tandem conveyance and transit on FPN network	£	£	£	£	£	£	£	£	£	%	£	%
Single transit on FPN networks	£	£	£	£	£	£	£	£	£	%	£	%
Technical areas (interconnect circuits)	£	£	£	£	£	£	£	£	£	%	£	%
Fixed call termination	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale trunk segments	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale IDD to category B	£	£	£	£	£	£	£	£	£	%	£	%
Asymmetric Broadband origination	£	£	£	£	£	£	£	£	£	%	£	%
Technical areas (point of handover)	£	£	£	£	£	£	£	£	£	%	£	%
Broadband conveyance in the UK	£	£	£	£	£	£	£	£	£	%	£	%
	£	£	£	£	£	£	£	£	£	%	£	%

for the year ended 31 March 2006

	Turnover				HCA costs	CCA adjustments	Roundings	Total CCA operating costs	Return	Return on turnover	Mean Capital Employed	Return on MCE
	Internal	External	Roundings	Total								
Call origination on FPN networks	£	£	£	£	£	£	£	£	£	%	£	%
Local tandem conveyance and transit on FPN network	£	£	£	£	£	£	£	£	£	%	£	%
Single transit on FPN networks	£	£	£	£	£	£	£	£	£	%	£	%
Technical areas (interconnect circuits)	£	£	£	£	£	£	£	£	£	%	£	%
Fixed call termination	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale trunk segments	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale IDD to category B	£	£	£	£	£	£	£	£	£	%	£	%
Asymmetric Broadband origination	£	£	£	£	£	£	£	£	£	%	£	%
Technical areas (point of handover)	£	£	£	£	£	£	£	£	£	%	£	%
Broadband conveyance in the UK	£	£	£	£	£	£	£	£	£	%	£	%
	£	£	£	£	£	£	£	£	£	%	£	%

<b>Annex 10</b>									
<b>Financial Review at Market Group level</b>									
<p>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.</p> <p>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.</p> <p>The Financial Review should focus on those matters which are relevant to the users of the information, be clearly written and readily understandable</p> <p>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.</p> <p>The information and analysis contained within the Financial Review should be complete and free from bias</p> <p>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</p> <p>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</p> <p>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.</p> <p>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.</p> <p>The Financial Review 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.</p>									

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	Internal Sales - services also provided externally	External Sales	Turnover (see note 1)	Operating costs	Depreciation	Holding gain/(loss)	Supplementary depreciation	Other adjustments	Roundings	Total CCA operating costs	Return	Return on turnover	Mean capital employed	Return on mean capital employed	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	£m	%	
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	Internal Sales - services only provided internally	External Sales	Turnover	Volume	Unit	Average price	FAC (see Section 5)	Indicative LRIC floors & ceilings as multiple of FAC		Average price:FAC	
					£m	£m	£m	£m			£	£				
for the year ended 31 March 2007																
Service																
Service 1 Internal					£			£		x	£	£	x.xx	x.xx	x.xx	
Service 1 External							£	£		x	£	£	x.xx	x.xx	x.xx	
Service 2 Internal					£			£		x	£	£	x.xx	x.xx	x.xx	
Service 2 External																
etc					£	£	£	£								
for the year ended 31 March 2006																
Service																
Service 1 Internal					£			£		x	£	£	x.xx	x.xx	x.xx	
Service 1 External							£	£		x	£	£	x.xx	x.xx	x.xx	
Service 2 Internal					£			£		x	£	£	x.xx	x.xx	x.xx	
Service 2 External																
etc					£	£	£	£								

<b>Annex 12</b>																	
<b>Market summary</b>																	
<b>Purpose of statement: to provide more detail on financial performance and first order tests of compliance with non-discrimination obligations</b>																	
<b>Summary</b>																	
	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	£	£	£	£	£	£	£	£		£	£	£	£	%	£	%	
<b>Note 1:</b>																	
<div> <div>←</div> <div>Non- discrimination</div> <div>→</div> </div>																	
	Internal Sales - services also provided externally £m	Internal Sales - services only provided internally £m	External Sales £m	Turnover £m		Volume	Unit	Average price £									
<b>for the year ended 31 March 2007</b>																	
<b>Service</b>																	
Service 1 Internal	£			£			x	£									
Service 1 External			£	£			x	£									
Service 2 Internal	£			£			x	£									
Service 2 External																	
etc	£	£	£	£													
<b>for the year ended 31 March 2006</b>																	
<b>Service</b>																	
Service 1 Internal	£			£			x	£									
Service 1 External			£	£			x	£									
Service 2 Internal	£			£			x	£									
Service 2 External																	
etc	£	£	£	£													

BT's regulatory financial reporting requirements

Annex 13																						
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 where a cost gradient applies																						
Summary																						
	Internal Sales - services only provided internally £m	Internal Sales - services also provided externally £m	External Sales £m	Rounding	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						
2006	£	£	£	£	£	£	£	£		£	£	£	£	%	£	%						
2005	£	£	£	£	£	£	£	£		£	£	£	£	%	£	%						
Note 1: Comparison of Average internal and external charges with each other and with FAC					Non-discrimination														Cost orientation			



## **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.

## Annex 15

### BT Statement of Costs on a Current Cost Basis

#### Network Activity Statement

for year ended 31st March 2007

#### Network Activity Statement - Consolidated

	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
Fully Allocated Cost										
<b>Components</b>										
Local exchange concentrator										
Local exchange call set up										
Local exchange call duration										
:										
<b>per component list</b>										
:										
xDSL specific										
Product management, policy & planning for xDSL interconnect services										
Wholesale bad debts										
<b>Totals</b>										

**Annex 16****Calculation of FAC based on component costs and usage factors****for the year ended 31st March 2007**

		Market A			Market B			etc					
	Average cost per unit (from annex 15)	internal service connections	internal service rentals	external service rentals	internal service connections	internal service takeovers	external service connections	external service transfers	internal service rentals	external service rentals	etc	etc	etc
Fully Allocated Cost (£m)													
<b>Components</b>													
Local exchange concentrator	x.xx												
Local exchange call set up	x.xx												
Local exchange call duration	x.xx												
⋮	x.xx												
<b>per component list</b>	x.xx												
⋮	x.xx												
xDSL specific	x.xx												
Product management, policy & planning for xDSL inte	x.xx												
Wholesale bad debts	x.xx												
<b>FAC</b>		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					
<b>BT Network Services Reconciliation</b>					
<b>for year ended 31st March 2007</b>					
<b>Consolidation Statement (a summary of all wholesale markets where there are cost accounting obligations)</b>					
<b>Fully Allocated Cost</b>	<b>Total (from Annex 15)</b>	<b>Market A</b>	<b>Market B</b>	<b>Market C</b>	<b>Non cost accounting, roundings and residuals</b>
Local exchange concentrator					
Local exchange call set up					
Local exchange call duration					
:					
<b>per component list</b>					
:					
xDSL specific					
Product management, policy & planning for xDSL interconnect services					
Wholesale bad debts					

Annex 19										
<b>BT Reconciliation Statement</b>										
<b>Consolidated profit and loss account</b>										
<b>For the year ended 31 March 2007</b>										
						HCA Return or Profit before taxation	Holding gain/(loss) and other Adjustments	Supple- mentary depreciation	CCA Return or Profit Before Taxation	
				Turnover	Operating	£m	£m	£m	£m	
				£m	£m	£m	£m	£m	£m	
<b>Market/Area</b>										
Wholesale Markets (Access and Other - where cost accounting and/or accounting separation obligations apply)										
Retail Markets (where cost accounting obligations apply)										
Sub Total SMP Markets										
Residual activities										
- Wholesale residual activities										
- Retail residual activities										
Sub Total Residual Activities										
Adjustments										
- Wholesale										
- Retail										
Sub Total Adjustments										
<b>Total</b>										
<b>Adjustments (as necessary)</b>										
Elimination of Inter Business turnover and costs										
Other operating income										
Goodwill										
Group's share of profits of associates and joint ventures										
Profit on sale of fixed asset investments										
Profit on sale of Group undertakings										
Amounts written off investments										
Profit on sale of property fixed assets before exceptional items										
Profit on sale of property fixed assets										
Net short term interest payable										
Long term interest payable										
<b>As in the Annual Report</b>										

# BT's regulatory financial reporting requirements

Annex 20						
				2007		2006
<b>BT Reconciliation statement</b>						
<b>Consolidated mean capital employed</b>						
For the year ended 31 March 2007				£m		£m
Shareholders' funds as in the Annual Report						
CCA adjustments						
<b>Adjustments</b>						
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						
<b>Total CCA mean capital employed</b>						
<b>Mean capital employed of SMP Markets</b>						
Wholesale Markets (Access and Other - where cost accounting and/or accounting separation obligations apply)						
Retail Markets (where cost accounting obligations apply)						
<b>Sub total markets</b>						
<u>Residual activities</u>						
- Wholesale residual activity						
- Retail residual activity						
Sub Total Residual Activities						
<u>Adjustments</u>						
- Wholesale						
- Retail						
Sub Total Adjustments						
<b>Total CCA mean capital employed</b>						

## BT's regulatory financial reporting requirements

Annex 21										
<b>BT Inter-market turnover reconciliation</b>										
<b>for year ended 31st March 2007</b>										
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 2007 £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)										
Wholesale IDD to category B										
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 2007										

## **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



BT's regulatory financial reporting requirements

## **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 2006/07	Average Charges 2005/06	% Change relative to RPI		NCC Control X factor	Average charges 2006/07	Average Charges 2005/06	% Change relative to RPI
Basket									
Basket 1	RPI -x%	measure	measure		Basket 10	RPI -x%	measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 2	RPI -x%	measure	measure		Basket 11	RPI -x%	measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 3	RPI -x%	measure	measure		Basket 12	RPI -x%	measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 4	RPI -x%	measure	measure		Basket 13	RPI -x%	measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 5	RPI -x%	measure	measure		Basket 14	RPI -x%	measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 6	RPI -x%	measure	measure		Basket 15		measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 7	RPI -x%	measure	measure		Basket 16		measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 8	RPI -x%	measure	measure						
- Internal		x.xx	x.xx	x.x%					
- External		x.xx	x.xx	x.x%					
Basket 9	RPI -x%	measure	measure						
- Internal		x.xx	x.xx	x.x%					
- External		x.xx	x.xx	x.x%					

## **Annex 25**

# **Price controls in wholesale markets**

[narrative]

Annex 26

## Additional information by way of notes

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

<b>Reference</b>	<b>Additional Financial Information</b>	<b>Description</b>	<b>Purpose (AS, CA or Reconciliation)</b>
<b>AI - 2</b>	Summarised activity analysis of components for network activities, increments and the relevant layers of common cost (LRIC basis)	<ul style="list-style-type: none"> <li>review the outputs of BT's LRIC model by activity analysis for network components, increments and the layers of common costs</li> <li>identify all relevant layers of common costs separately for network activities</li> <li>enable trend analysis of this breakdown to be undertaken</li> <li>provide input into network price control reviews</li> <li>ensure LRIC model reconciles to the total cost and asset &amp; liability base for BT's network activities</li> </ul>	<b>CA &amp; R</b>
<b>AI – 3</b>	Cost category (as used within regulatory LRIC model) analysis for network components and increments	<ul style="list-style-type: none"> <li>similar to AI-1 but on a fully allocated cost basis</li> </ul>	<b>CA &amp; R</b>
<b>AI – 4</b>	Summarised activity analysis for network components and increments	<ul style="list-style-type: none"> <li>similar to AI-2 but on a fully allocated cost basis</li> </ul>	<b>CA &amp; R</b>
<b>AI – 5</b>	<p>Analysis by asset category and network activities, of the depreciation charge for the year and impact of CCA valuation adjustments on costs for the year: -</p> <p>e.g.</p> <ul style="list-style-type: none"> <li>HCA depreciation</li> <li>CCA supplementary depreciation</li> <li>Holding gain</li> <li>Other CCA adjustments</li> </ul>	<ul style="list-style-type: none"> <li>impact on profit and loss cost base of the application of CCA methodologies</li> <li>enable trend analysis of this breakdown to be undertaken</li> <li>provides sub-analysis (for the cost/gain line items left) of the asset movement statement in relation to network components</li> <li>provide input into network price control reviews</li> </ul>	<b>CA &amp; R</b>

<b>Reference</b>	<b>Additional Financial Information</b>	<b>Description</b>	<b>Purpose (AS, CA or Reconciliation)</b>
<b>AI – 6</b>	CCA fixed asset movement statement a) gross replacement costs brought forward, additions/disposals/transfers, holdings gains/(loss), gross replacement costs carried forward and b) gross depreciation brought forward, HCA depreciation charge, supplementary CCA depreciation, disposals/transfers/other movements, holding gains/(loss), gross depreciation carried forward) by asset category for BT Group plus reconciliation to HCA fixed assets movement statement in the group statutory accounts	<ul style="list-style-type: none"> <li>• review the breakdown of asset costs between principal asset categories and how such CCA asset values have moved in the year</li> <li>• enable trend analysis of CCA asset values to be undertaken</li> <li>• provide input into network price control reviews</li> </ul>	<b>CA &amp; R</b>
<b>AI – 7</b>	Total mean capital employed and detailed activity analysis for all network components	<ul style="list-style-type: none"> <li>• review network component costs</li> <li>• enable trend analysis of these breakdowns to be undertaken</li> <li>• provide input into price control reviews</li> <li>• assist in dealing with investigations</li> <li>• ensure summarised activity analysis presented elsewhere reconciles to BT's network activities cost base</li> </ul>	<b>CA</b>

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

<b>Reference</b>	<b>Additional Financial Information</b>	<b>Description</b>	<b>Purpose (AS, CA or Reconciliation)</b>
<b>AI – 11</b>	Estimated economic useful lives, valuation and depreciation basis, survey used for valuation or index used to revalue, historical cost accounting (HCA) & current cost accounting (CCA) depreciation, gross book values (GBV) by year of acquisition, gross replacement costs (GRC) & net replacement costs (NRC) across asset categories	<ul style="list-style-type: none"> <li>• review the nature and relative distribution of BT's asset base</li> <li>• evaluate BT's chosen asset lives for individual asset categories</li> <li>• review the relationship between gross HCA and CCA valuations</li> <li>• evaluate the appropriateness of the CCA valuation basis for each asset category</li> <li>• evaluate the appropriateness of the CCA depreciation methodology for each asset category</li> <li>• review the impact of CCA accounting on the cost base</li> <li>• enable trend analysis of CCA costs to be undertaken</li> <li>• provide input into network price control reviews</li> </ul>	<b>CA &amp; R</b>
<b>AI – 13</b>	Total operating costs & mean capital employed costs (and associated volumes) for each plant group and their individual exhaustion, including the disclosure of relevant usage factors, onto each network activity and/or (sub) component	<ul style="list-style-type: none"> <li>• review the breakdown of costs to all the different components and sub-components within BT's network activities</li> <li>• enable trend analysis of this breakdown to be undertaken</li> <li>• provide input into network price control reviews</li> <li>• ensure total plant group costs reconcile to the cost base for BT's network activities</li> </ul>	<b>CA &amp; R</b>



<b><i>Reference</i></b>	<b><i>Additional Financial Information</i></b>	<b><i>Description</i></b>	<b>Purpose (AS, CA or Reconciliation)</b>
<b>AI – 14</b>	CPS set up costs and their recovery over time on a discounted cash flow basis	<ul style="list-style-type: none"> <li>ascertain the extent of these costs</li> <li>enable Oftel to review the recovery of these costs over time</li> <li>provide a reconciliation between the costs disclosed in the CCA Financial Statements and the cash flows used to determine cost recovery</li> </ul>	<b>CA</b>

<b>Reference</b>	<b>Additional Financial Information</b>	<b>Description</b>	<b>Purpose (AS, CA or Reconciliation)</b>
<b>AI – 15</b>	Provision of BT 'Data File'	<ul style="list-style-type: none"> <li>• Delivery of "data file" in prescribed format containing all records from cost attribution system. Format of file to allow for identification of sources of data, data flows (from the input sources at F8 code level through to products and services) and attribution bases.</li> </ul> <p>The data would as a minimum, be able to replicate the outputs of the financial statements, and therefore would include transfer charges and CCA adjustments, and be able to identify the attribution bases to those described in the DAM. The basis of preparation, must be consistent with the Primary Accounting Documents</p> <p>The information to be provided annually within 10 days of the publication of the regulatory accounts. The outputs of the annual file would be consistent with published audited information.</p> <p>BT to maintain file in format consistent with Ofcom/3<sup>rd</sup> party import routine, accompanied by provision of control totals, and any technical advice which allows seamless data transfers and it should be updated where appropriate. In consultation with Ofcom, BT shall procure an appropriate audit opinion in relation to the data file.</p>	<b>AS, CA &amp; R</b>

<b>Reference</b>	<b>Additional Financial Information</b>	<b>Description</b>	<b>Purpose (AS, CA or Reconciliation)</b>
<b>AI - 20</b>	CCA information to allow Ofcom to re-calculate the regulatory asset value (RAV) for copper assets used in BT's access network.	<ul style="list-style-type: none"> <li>• Breakdown of the following information <ul style="list-style-type: none"> <li>– Full CCA on an actual price index basis</li> <li>– Pre 1997 assets on an RPI basis</li> <li>– Post 1997 assets on an actual price index basis.</li> </ul> </li> <li>• Enable Ofcom to re-calculate and monitor the affect of this going forward.</li> </ul>	<b>CA</b>
<b>AI - 21</b>	Comprehensive analysis of the transfer charges where this information is summarised in the published statements because there are a significant number of variants with different charging bases.	<ul style="list-style-type: none"> <li>• Allow Ofcom to check that material items have been separately disclosed in the published Regulatory Accounts.</li> <li>• Allows BT to demonstrate compliance with its non-discrimination obligations.</li> </ul>	<b>AS</b>

## Annex 6

# Audit opinions required for 2006/07

The tables below set out the opinions required for the 2006/07 Regulatory Financial Statements. As explained within Section 4 opinions will now cover groups of markets with only some markets still receiving individual opinions.

## Wholesale Markets

Market	2006/07 Opinion
<b>Wholesale Access Group</b>	FPIA
Wholesale residential analogue exchange line services	PPIA
Wholesale business analogue exchange line services	PPIA
Wholesale business ISDN2 exchange line services	
Traditional interface symmetric broadband origination (up to and inc. 8Mbit/s)	
Traditional interface symmetric broadband origination (above 8mbit/s up to and inc. 155Mbit/s)	PPIA
Alternative interface symmetric broadband origination (all bandwidths)	PPIA
Wholesale residential ISDN2 exchange line services	
Wholesale business ISDN30 exchange line services	
Wholesale local access	PPIA

Market	2006/07 Opinion
<b>Wholesale Other Group</b>	FPIA
Call origination on fixed public narrowband networks	
Local-tandem conveyance & transit on public n/band networks	
Single transit on fixed public n/band networks	
Technical areas	
Fixed call termination	
Wholesale trunk segments	PPIA

Technical areas	
Wholesale IDD to category B	
Asymmetric broadband origination	PPIA
Broadband conveyance	PPIA

## Retail Markets

<b>Market</b>	<b>2006/07 Opinion</b>
<b><i>Retail Group</i></b>	FPIA
Residential analogue exchange line services	PPIA
Residential local calls	
Residential national calls	
Residential IDD calls (Category A)	
Residential IDD calls (Category B)	
Residential calls to mobiles	
Residential operator assisted calls	

## Openreach Statements

As set out in Annex 3 Openreach Statements will receive one FPIA opinion for 2006/07.