



The regulatory financial reporting obligations on BT and Kingston Communications Final statement and notification

Accounting separation and cost accounting:
Final statement and notification

Issue date: **22 July 2004**

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Section 1

Summary

Scope of this document

- 1.1 This document sets out Ofcom's final decision on the detail of the regulatory financial reporting requirements necessary to implement the remedies identified by the market reviews in a proportionate and appropriate manner.

A new regulatory regime

- 1.2 A new regulatory framework for electronic communications networks and services entered into force in the UK on 25 July 2003. The basis for the new framework is five new EU Communications Directives ("the Directives") that are designed to create harmonised regulation across Europe.
- 1.3 The new Directives require National Regulatory Authorities ("NRAs"), amongst other things, to carry out reviews of competition in communications markets to ensure that regulation remains appropriate in the light of changing market conditions.
- 1.4 As part of this series of reviews, on 8 April 2004 Ofcom published a consultation document entitled The regulatory financial reporting obligations on BT and Kingston Communications where SMP has been demonstrated (the "April consultation" http://www.ofcom.org.uk/consultations/past/fin_reporting/financial_rep/?a=87101);. That document followed an earlier consultation document published on 22 May 2003 (the "May consultation"; http://www.ofcom.org.uk/static/archive/oftel/publications/eu_directives/2003/cost/index.htm) and invited comments on Oftel/Ofcom's proposal for imposing regulatory financial reporting obligations on BT and Kingston Communications ("Kingston") in markets where they had been found to be dominant. The period of consultation for the April consultation closed on 10 May 2004.
- 1.5 As required by the Directives, the draft decision was also sent to the European Commission and to other NRAs as, in Ofcom's opinion, the proposal may have affected trade between Member States. The final decision included in this document is also being communicated to the European Commission and to the NRAs in other Member States in accordance with the scheme of the Directives.

Summary of decision

- 1.6 Having considered all responses to the April consultation document, Ofcom is setting out in the present document its final decision. This is summarised below.

Regulatory remedies

- 1.7 Given the position of significant market power ("SMP") held by BT and Kingston – i.e. their ability to behave, to an appreciable extent, independently of competitors, customers and ultimately consumers, Ofcom concludes that the regulatory financial reporting conditions and directions, described in Section 4 and set out in Annexes 2 and 4 for BT and Annexes 3 and 5 for Kingston, should be imposed on BT and Kingston in the markets identified in the notifications in Annex 2 for BT and Annex 3 for Kingston and summarised below.

- 1.8 This decision on imposing regulatory financial reporting obligations is substantially unchanged from that proposed in the April consultation document. A number of small changes have been made in response to the representations made to the April consultation. These changes are summarised below 1.14 and detailed in Sections 3 and 4. Ofcom does not consider that these changes are material. The detail of the regulatory financial reporting obligations are set out in Section 4 of this document and the notifications, conditions and directions implementing the decisions are set out in Annexes 2 and 4 for BT and Annexes 3 and 5 for Kingston.
- 1.9 The new Directives allow Member States to carry forward some existing regulation until the market reviews have been completed and any new conditions put in place.
- 1.10 Currently, BT and Kingston are required to comply with the following specific obligations in relation to regulatory financial reporting. These are:
- Condition 50: Requirement to have cost accounting systems and accounting separation for interconnection purposes;
 - Condition 55: Leased Lines (including cost accounting obligations); and
 - for BT only, Condition 78: Separate Accounts.
- 1.11 These conditions, including any directions made by the Director General of Telecommunications (the "Director") under these conditions, are currently still in place by way of continuation notices issued to BT and Kingston in July 2003, and hence Ofcom expects that the regulatory accounts for the financial year 2003/2004 will be prepared and presented on this 'old' basis. These conditions will remain in place until Ofcom issues a discontinuation notice in respect of them. Ofcom currently expects to issue relevant discontinuation notices in respect of the old conditions as soon as all documentation required to be provided under them for the 2003/2004 financial year has been received and assessed for compliance with the condition requirements.
- 1.12 Ofcom expects that the 'new' basis for the preparation of regulatory financial accounts will be in place in sufficient time for BT and Kingston to align their reporting systems so as to produce the regulatory financial statements required by the new conditions for the 2004/2005 financial year.

Responses to the April consultation and Ofcom's view

- 1.13 Ofcom received responses to the April consultation from BT, Kingston, the UK Competitive Telecoms Association (UKCTA) and the European Commission. These responses are discussed in detail in Section 3 of this document, along with Ofcom's views on the responses and Ofcom's final decisions.
- 1.14 Taking into account the representations received in response to the April consultation and taking utmost account of the Commission's views, Ofcom has decided to make the following non-material changes to the conditions and directions.
- Ofcom has amended Conditions OA5 and OB5 to clarify that regulatory Financial Statements are to be prepared and published on an annual basis.
 - Ofcom has amended Conditions OA5(f) for BT and OB5(f) for Kingston to include the words "in so far as it is reasonably practicable to monitor the effect of such changes", in order to clarify Ofcom's intention that these conditions are designed to capture material changes caused by changes to processes.

- Ofcom has amended Condition OA25 which applies to BT to include the words “in relation to any specified calendar month or months”. This is to clarify that Ofcom considers that one calendar month should be the shortest period for which on-demand information should be requested.
- In direction 3 in Annex 4, Ofcom has removed the obligation on BT to secure audit opinions for the schedules of additional financial information.
- In direction 3 in Annex 4 and direction 3 in Annex 5, Ofcom has clarified that BT and Kingston will not be expected to secure an audit opinion of the regulatory financial review.
- In direction 3 in Annex 5, Ofcom has reduced the reporting requirement on Kingston in respect of preparing financial statements for products and services within relevant markets.

Markets covered by this statement

- 1.15 A number of the market reviews identified the need for and proposed the imposition of financial reporting obligations (i.e. cost accounting and/or accounting separation) on BT and/or Kingston. The full details of the markets in which Ofcom has proposed these obligations is provided in Schedule 3 of the Notifications at Annexes 2 and 3 (for BT and Kingston respectively). The table below provides a summary of these decisions.

Market review	BT		Kingston	
	A/S	C/A	A/S	C/A
Fixed geographic call termination	Yes	Yes	Yes	Yes
Wholesale international services	Yes	No	No	No
Fixed narrowband wholesale exchange line, call origination, conveyance and transit	Yes	Yes	Yes	Yes
Fixed narrowband retail	No	Yes	No	No
Retail leased lines, symmetric broadband and wholesale trunk segments	Yes	Yes	Yes	Yes
Wholesale broadband access	Yes	No	Yes	No

Accounting Separation (A/S); Cost Accounting (C/A).

This table only reflects those market reviews where some form of regulatory financial reporting was proposed for BT and/or Kingston.

- 1.16 Full details of the conclusions of the narrowband market reviews can be found here: http://www.ofcom.org.uk/legacy_regulators/oftel/narrowband_mkt_rvw/?a=87101. The conclusions of the retail leased lines, symmetric broadband and wholesale trunk segments review can be found here: <http://www.ofcom.org.uk/consultations/past/llmr/statement/>. And the conclusions of the wholesale broadband access review can be found here: http://www.ofcom.org.uk/codes_guidelines/telecoms/netw_intercon_index/wholesalebroadbandreview/.

Section 2

Introduction

A new regulatory regime

- 2.1 A new 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 new regulatory framework is five EC 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”).
- 2.2 The Framework Directive provides the overall structure for the new regulatory regime and sets out fundamental rules and objectives which read across all the new 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. 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. The Universal Service Directive defines a basic set of services that must be provided to end-users. The Access and Interconnection Directive sets out the terms on which providers may access each others' networks and services with a view to providing publicly available electronic communications services. These four Directives were implemented in the UK on 25 July 2003. This was achieved via the Communications Act 2003 (“the Act”). The fifth Directive on Privacy establishes 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.

Implementation

- 2.3 The Act provides for functions, powers and duties to be carried out by Ofcom which include, inter alia, functions, powers and duties flowing from the first four EC Communications Directives referred to above.

Market reviews

- 2.4 The Directives require NRAs such as Ofcom to carry out reviews of competition in communications markets to ensure that regulation remains appropriate in the light of changing market conditions.
- 2.5 More detailed requirements and guidance concerning the conduct of market reviews are provided in the Directives, the Act, and in additional documents issued by the European Commission and Oftel.

Relationship of this final statement to the market review process

- 2.6 This document sets out how regulatory financial reporting obligations will be implemented in specific markets. The decision on whether regulatory financial obligations should be imposed on the dominant providers had already been addressed in each of the market reviews.
- 2.7 Part 1 of Schedule 1 of the Notifications (attached at Annex 2 and Annex 3) provides the full details of the markets in which Ofcom is imposing cost accounting and/or accounting separation obligations on dominant providers. However, to summarise:
- chapter five of the Review of the Fixed Geographic Call Termination Markets (published 28 November 2003) addressed the imposition of cost accounting and accounting separation obligations on BT and Kingston;
 - paragraph 2.55 of the Review of the Wholesale International Services Markets (published 18 November 2003) addressed the imposition of accounting separation obligations on BT;
 - chapter 11 of the Review of the Fixed Narrowband Wholesale Exchange Line, Call Origination, Conveyance and Transit Markets (published 28 November 2003) addressed the imposition of cost accounting and accounting separation obligations on BT and Kingston;
 - paragraphs 4.62 to 4.72 of the Review of the Fixed Narrowband Retail Markets (published 28 November 2003) addressed the imposition of cost accounting obligations on BT;
 - paragraphs 4.178 to 4.187 of the Review of the Wholesale Broadband Access Markets (published 13 May 2004) addressed the imposition of accounting separation obligations on BT and Kingston; and
 - chapter 10 of the Review of the Retail Leased Line, Symmetric Broadband Origination and Wholesale Trunk Segments Markets (published 24 June 2004) addressed the imposition of cost accounting and accounting separation obligations on BT and cost accounting obligations on Kingston.
- 2.8 The processes of regulatory financial reporting are complex and cover many areas such as accounting standards and methodologies, audit, transparency, disaggregation, reconciliation and publication of information. These practical matters are distinct from the questions such as the level of regulation in a market and the types of remedies to be employed, which have been addressed in the market reviews. However, these practical processes should be consistent across all markets susceptible to regulation to ensure that there is certainty for the regulator, dominant providers and other players in the market.

- 2.9 Therefore, the scope of this document is to impose the detailed regulatory financial reporting obligations issues necessary to implement the remedies identified by the market reviews in a proportionate and appropriate manner.

Obligation to inform the Commission and other NRAs

- 2.10 As required by Article 7 of the Framework Directive and section 50 of the Act, the proposals made in the April consultation were sent to the European Commission and to other NRAs as, in Ofcom's opinion, the proposals may have affected trade between Member States. The Commission and other NRAs had one month in which to make comments.

Regulation pending the completion of market reviews

- 2.11 The Directives also allow Member States to carry forward some existing regulation until the market reviews have been completed and new conditions are put in place. Continuation notices have therefore been issued to BT and Kingston to maintain the effect of certain provisions contained in licence conditions that existed under the Telecommunications Act 1984 prior to 25 July 2003 until, inter alia, the market review process is finished. Further details on this continuation regime can be found at: http://www.ofcom.org.uk/static/archive/oftel/publications/eu_directives/cont_notices/index.htm.
- 2.12 Currently, BT and Kingston are required to comply with the following specific obligations in relation to regulatory financial reporting. These are:
- Condition 50: Requirement to have cost accounting systems and accounting separation for interconnection purposes;
 - Condition 55: Leased Lines (including cost accounting obligations); and
 - for BT only, Condition 78: Separate Accounts.
- 2.13 These conditions, including any directions made by the Director under these conditions, are currently still in place by way of continuation notices issued to BT and Kingston July 2003, and hence Ofcom expects that the regulatory accounts for the financial year 2003/2004 will be prepared and presented on this 'old' basis. These conditions will remain in place until Ofcom issues a discontinuation notice in respect of them. Ofcom currently expects to issue relevant discontinuation notices in respect of the old conditions as soon as all documentation required to be provided under them for the 2003/2004 financial year has been received and assessed for compliance with the condition requirements.
- 2.14 Ofcom expects that the 'new' basis for the preparation of regulatory financial accounts will be in place in sufficient time for BT and Kingston to align their reporting systems so as to produce the regulatory financial statements required by the new conditions for the 2004/2005 financial year.

Powers to impose regulatory financial reporting

- 2.15 The Act identifies three types of regulatory financial reporting obligations that Ofcom can impose on dominant providers. These are:
- wholesale cost accounting;
 - retail cost accounting; and

- accounting separation.

Wholesale cost accounting

- 2.16 Under Sections 87(9) to 87(11) of the Act, appropriate cost accounting obligations may be imposed on dominant providers in respect of the provision of network access, the use of the relevant network and the availability of relevant facilities. Appropriate cost accounting rules may be imposed in relation to price, obligations for the recovery of costs and cost-orientation. Section 87(6)(b) of the Act allows Ofcom to require the dominant provider to publish, in such manner as Ofcom may direct, all such information as it may direct for the purpose of securing transparency.

Retail cost accounting

- 2.17 Under Section 91(5) and 91(6) of the Act, Ofcom may apply appropriate regulatory controls in relation to services for end-users where SMP exists. Where Ofcom imposes regulatory controls on tariffs or other matters to which costs are relevant, Ofcom is required to impose appropriate obligations for cost accounting, including requirements to have such regulatory cost accounting systems audited annually by a qualified auditor and the requirement to publish an annual statement of compliance. Ofcom considers that the broad discretion allowed to it in respect of retail regulatory obligations includes the ability to require publication of retail financial information.
- 2.18 Section 92(2) and 92(3) of the Act allows Ofcom to impose appropriate conditions – including cost accounting – for the minimum set of leased lines where there is a dominant provider.

Accounting separation

- 2.19 Under Sections 87(7) and 87(8) of the Act, appropriate accounting separation obligations may be imposed on dominant providers in respect of the provision of network access, the use of the relevant network and the availability of relevant facilities. Accounting separation rules may be made, for example, in order to monitor that there is no undue discrimination. Section 87(6)(b) of the Act allows Ofcom to require the dominant provider to publish, in such manner as Ofcom may direct, all such information as it may direct for the purpose of securing transparency.

Limitations on imposing regulatory financial reporting obligations

- 2.20 It should be noted that the powers to impose regulatory financial reporting obligations (discussed above) are subject to certain limitations. Section 4 describes these limitations and discusses how Ofcom believes that these limitations and tests have been addressed in developing the proposals for the regulatory financial reporting obligations.

The need for regulatory financial information

- 2.21 Regulatory financial information is fundamental to the economic regulation of the electronic communications sector and in particular to many of the decisions of Ofcom.
- 2.22 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-orientated charges – so that non-dominant communications providers can purchase necessary services from dominant providers at charges that do not distort the market by being excessively high or low;
 - 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 applicable to its own downstream business; and
 - obligations to cap prices, i.e. price controls – these are designed to prevent a dominant provider from using its position of significant market power to increase prices beyond what they would be if the market were competitive. For example, the retail price control prevents BT increasing a basket of prices to residential consumers beyond a reasonable level and the charge controls which apply in wholesale markets ensure that BT does not charge too much for network services to its competitors.
- 2.23 These obligations are designed to establish and to maintain a competitive communications sector where there is a dominant provider. And where these obligations have been imposed it is essential that they are monitored and enforced properly. Therefore, it is necessary to have appropriate regulatory financial reporting.
- 2.24 Examples Ofcom requires good-quality financial information from dominant providers, in order to inform decisions and actions, include:
- the need for a dominant provider to demonstrate its compliance with conditions for cost orientation and non-discrimination;
 - investigations into potential breaches of conditions, including potential anti-competitive practices, either based on complaints received or on Ofcom's own initiative;
 - monitoring obligations to ensure compliance with conditions, including deterring anti-competitive practices; and
 - setting and monitoring price controls.
- 2.25 It is important that this information is available both on an annual basis for ongoing compliance purposes and on-demand for ad hoc compliance work and investigations.
- 2.26 It is necessary for Ofcom to be able to establish a financial reporting regime that meets its requirements for regulatory financial information that can be used to make economic regulatory decisions and to monitor compliance with other obligations (including the obligations of dominant providers to be able to demonstrate compliance with, for example, cost orientation). Although the purposes of regulatory information are different, many of the systems, processes and outputs will be similar to those used by the companies for normal commercial reasons. However, internal management information has to date not been able to meet the qualitative criteria and form required by Ofcom.

Costs and benefits of regulatory financial reporting obligations

- 2.27 In the April consultation, Ofcom carried out a Regulatory Impact Assessment (RIA) into the costs and benefits of regulatory financial reporting. At this time, Ofcom noted that it estimated that in the financial year ended 31 March 2003:
- BT had revenues of approximately £11 billion (including external sales and internal transfer charges) in wholesale markets where regulatory financial reporting

obligations were proposed and revenues of approximately £9 billion in retail markets where financial reporting obligations were proposed; and

- Kingston had revenues of approximately £80 million in markets where regulatory financial reporting obligations were proposed.

2.28 Both BT and Kingston had expressed concerns about the costs of the regulatory financial reporting obligations proposed in the May consultation. BT stated that it incurred costs of £7 million annually, and that the proposals in the May consultation would significantly increase this burden.

2.29 Ofcom recognised that as one of the primary purposes of regulatory financial reporting obligations is to prevent the occurrence of anti-competitive practices the benefits can be difficult to quantify. However, Ofcom identified the following benefits of having a rigorous and effective regulatory financial reporting regime:

- non-dominant communications providers have assurance that Ofcom has information to monitor and if necessary enforce obligations for non-discrimination, cost-orientation, etc;
- non-dominant 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;
- disputes and investigations will be resolved more quickly, efficiently and on the basis of more reliable information; and
- competition in the UK communications sector is protected and supported providing benefits for the UK economy as a whole.

2.30 Ofcom considered that regulatory financial reporting obligations were essential given the current state of competition in the UK. Ofcom maintains that its decisions as reflected in this document are objectively justifiable and proportionate.

Section 3

Responses to the consultation

- 3.1 This section summarises the responses received to the April consultation and provides Ofcom's views on the responses. A list of the respondents to the April consultation can be found at Annex 1.

General comments

BT's view

- 3.2 BT noted Ofcom's references to its duty to act in a proportionate manner. BT stated that some of its concerns related to the possibility that the proposed Conditions would be very onerous if interpreted literally. BT stated that these concerns would be mitigated by a more pragmatic (proportionate) interpretation. However, BT maintained that some of what remains is disproportionate and / or not authorised by the EU Directives.

Kingston's view

- 3.3 While agreeing that regulatory accounting is necessary, Kingston stated that any proposals relating to Kingston should take into account that Kingston is less than half of one percent of BT in terms of turnover.
- 3.4 Kingston stated that it was sceptical regarding BT's assertion that regulatory accounting cost it £7 million per year, but noted that on a pro rata basis this would make Kingston's costs of compliance £35,000 per year – a smaller figure than it costs Kingston.

UKCTA's view

- 3.5 UKCTA welcomed Ofcom's proposals, which it said should help underpin the effective enforcement of ex ante obligations. UKCTA stated that it had long argued that fit-for-purpose regulatory accounting is essential for a flourishing competitive communications market. UKCTA also stated that the new regime represents a marked improvement on the current regime and that there should be no doubt over the demand from both within UKCTA and the wider industry for effective regulatory accounting.
- 3.6 UKCTA stated that it was sceptical of BT's claimed costs of 75 full time staff and a budget of £7 million. UKCTA stated that the importance of regulatory accounting is such that the benefits outweigh the costs, even if the costs were more than £20 million per year.
- 3.7 UKCTA urged Ofcom to take an active role in encouraging both Ofcom staff and other communications providers to increase their knowledge of the regulatory accounting information. UKCTA stated that it was keen to make use of the new published information, and to help in ensuring that on-demand information requests are correctly targeted.
- 3.8 UKCTA also stated that it believed that Ofcom should use imputation tests to assess anti-competitive practices in related markets not covered by the current obligations.

Ofcom's view and decision

- 3.9 Ofcom notes with interest the comments on Kingston and UKCTA regarding BT's cost of compliance with the proposals. However, Ofcom considers that the material issue is whether the regulatory financial reporting obligations will be fit-for-purpose, i.e. capable of supporting the monitoring and enforcement of the cost-orientation, cost recovery, price control and no undue discrimination obligations. Ofcom considers that the proposals contained in the April consultation are not only appropriate and proportionate, but also meet the requirements of the EC Directives.
- 3.10 Ofcom believes that it has taken into account Kingston's smaller scale compared to BT in its proposals. Also, Ofcom notes that it would not expect such costs to pro rata downwards in such a way as proposed by Kingston.

Level of detail to be published and/or reported

BT's view

- 3.11 In its response to the April consultation, BT stated that it welcomed some of the changes proposed by Ofcom compared to the Oftel consultation of May 2003. BT noted the reduction in the proposed level of detail to be reported, in particular:
- the reduction in the number of network components, to eliminate those which are not relevant to SMP markets (such as Telex); and
 - the reduction in the number of retail products to be reported, i.e. to the 12 individual product groups are specified in the April consultation; and
 - that no route-by-route reporting would be required for IDD service at either the wholesale or retail levels.
- 3.12 However, BT also stated that the proposed level of detail was still disproportionate. BT stated that whilst such detail might be useful for case-by-case verification of compliance with conditions where a complaint has been made, it did not believe that it should be required to prepare, have audited and publish a significant volume of financial information because it might be used.
- 3.13 In particular, BT stated that the proposals for additional detail (i.e. analysing turnover between gross, discounts and net amounts; analysing operating costs to report separately any category representing more than 10% of the total operating cost, etc) are unjustified. BT asserted that this additional detail would impose a further regulatory cost while serving no specific purpose.
- 3.14 BT also asserted that Ofcom's proposals were not sufficiently sensitive to BT's legitimate concerns as to the commercial damage that BT might suffer as a result of information being published.
- 3.15 BT also objected to the wording of Condition OA5(f), which would require BT to report to Ofcom any changes made to any Process by which the financial statements are prepared that cause any number in any of the financial statements to change by more than 5%. In particular, BT asserted that the wide definition of "process" would if interpreted literally be "practically impossible to comply with". BT suggested that significance should be the trigger rather than a "mechanical 5% trigger". BT proposed that Condition OA5(f) be amended to include the words "in so far as it is reasonably practicable to monitor the effect of such changes".

Kingston's view

- 3.16 Kingston welcomed Ofcom's proposals to not require Kingston to implement a full LRIC methodology and to set a network component list that was appropriate for Kingston.
- 3.17 However, Kingston also stated that the level of detail that Ofcom was proposing be prepared below the market level was excessive. In particular, Kingston stated that the requirement to publish CCA profit and loss (P&L) and mean capital employed (MCE) statements for the constituent segments of services (e.g. call originating local exchange segment, call originating local exchange segment (including operator assistance), call originating local exchange segment (ISDN), etc) was excessive, as this information could be presented elsewhere in Kingston's regulatory financial statements, e.g. in a single statement of activity costs.
- 3.18 Kingston also stated that Ofcom should not require Kingston to produce separate accounting separation and cost accounting information due to its size and diseconomies of scale.

UKCTA's view

- 3.19 UKCTA stated that it was encouraged by Ofcom's deduction that BT will have to produce on demand detailed and accurate cost information for many products, including those in non-SMP areas. However, UKCTA also stated that it was concerned that BT will claim that non-SMP information is not collected, and therefore this will not work in practice.
- 3.20 However, UKCTA stated that it believed that Ofcom could have gone further in requiring a greater level of detail to be published by BT.
- 3.21 Additionally, UKCTA recommended that the network component list should be reviewed every 12 to 18 months so that it remained up to date.

Ofcom's view and decision

- 3.22 Ofcom considers that the level of detail set out for BT in the April consultation is appropriate for the reasons set out in that consultation, i.e. that the level of detail is necessary in order to ensure that BT is meeting its regulatory obligations regarding cost-orientation, no undue discrimination and price controls. Most published accounting information contains analyses sufficient to allow users properly to interpret and use the data. For example, statutory accounts would include notes detailing analysis such as profits by segment or certain operating costs. Regulatory accounting is no different and some analysis of revenues and costs is necessary for Ofcom properly to review the accounts for compliance purposes. The thresholds proposed are aimed at providing a reasonable degree of analysis within materiality limits. Ofcom does not accept BT's view that this requirement may add further regulatory cost because current systems and processes clearly show that information can be prepared at a more granular level.
- 3.23 Ofcom also notes that BT did not provide any evidence of what it believes would be proportionate. Similarly BT has not provided any evidence to support its assertion that Ofcom has not taken into account its "legitimate concerns as to the commercial damage that BT might suffer as a result of information being published". As stated above, Ofcom considers that level of detail proposed in the April consultation is appropriate to BT's position in the markets in which it has SMP. Ofcom also notes

that the level of information required under the proposals is substantially the same as that required under the current regime and considers that if BT had been able to demonstrate that it had been damaged by this it would have provided evidence of this in one of its responses.

- 3.24 However, Ofcom considers that the amendment of Condition OA5(f) proposed by BT is reasonable. Ofcom notes that it had only intended Condition OA5(f) to be implemented in a proportionate and pragmatic manner. However, in order to provide BT with greater certainty, Ofcom is amending the Condition to include the words “in so far as it is reasonably practicable to monitor the effect of such changes”. In order to ensure that the obligations are not unduly discriminatory, Ofcom is also amending Condition OB5(f), which applies to Kingston, in the same way.
- 3.25 Given Kingston’s size relative to BT and its potential impact on the UK telecoms market, Ofcom considers that there is some scope to reduce the level of detail that Kingston is required to prepare, have audited and publish on a regular basis. However, Ofcom notes that it expects Kingston to have processes in place that will enable it to produce this information if required.
- 3.26 Ofcom believes that UKCTA have misinterpreted Ofcom’s intentions regarding the application of regulatory financial reporting obligations to markets in which BT has not been found to have SMP. Ofcom is not imposing regulatory financial reporting obligations on either BT or Kingston except in those markets where they have been found to have SMP and appropriate remedies have been imposed.
- 3.27 Ofcom also agrees that the network component list should be reviewed on a regular basis. Therefore, Ofcom plans to review the network component list on regular basis including a review in advance of the preparation of the 2004/2005 regulatory financial statements.

Retail publication

BT’s view

- 3.28 In its response, BT states that there is no provision for publication of retail information in the Act and that such information would be commercially sensitive.
- 3.29 BT does not believe Ofcom has made the case for delivery of retail level information. BT stated that it was only necessary that when next set of market reviews takes place BT will be able to provide the information required by Ofcom for assessing the retail markets.
- 3.30 BT argued that when Section 87(6)(b) of the Act refers to “requiring the dominant provider to publish, in such manner as Ofcom may from time to time direct, all such information as they may direct for the purpose of securing transparency in relation to such matters”, it is referring only to matters connected with network access. BT states that none of this covers publication of financial statements in relation to services for end-users, i.e. retail services. SMP conditions about regulation of such services are dealt with by Section 91 of the Act, which BT contends contains no authority for requiring publication of information and nothing equivalent to Section 87(6)(b).

UKCTA's view

- 3.31 UKCTA stated that the provision of information for retail markets is essential given the price control and the incentive regulation related to WLR2 and the fit-for-purpose test. UKCTA states that information on retail markets is necessary for policing margin squeezes and other instances of anti-competitive behaviour. UKCTA stated that information on retail markets is particularly important regarding retail bundling.

Ofcom's view and decision

- 3.32 Ofcom agrees with BT that the April consultation could have been clearer that Section 87 of the Act concerns remedies in wholesale markets, whereas Section 91 concerns remedies in the retail market. Therefore, for the purposes of clarification, Ofcom is not requiring publication of financial statements for retail services under Section 87 of the Act; Ofcom is requiring publication of financial statements for retail services under Section 91 of the Act.
- 3.33 Ofcom does not agree with BT that the broad scope of Section 91 of the Act should be narrowed by the wording of Section 87. Ofcom considers that Section 91(5) authorises Ofcom to impose such regulatory controls as Ofcom may from time to time direct in the relation to the provision of retail services. This allows Ofcom broad discretion as to the type of retail SMP conditions that it may set, subject to other provisions in the Act that Ofcom must satisfy, e.g. the tests in Sections 91(2) and 47(2), neither of which would prevent a publication obligation. Ofcom considers that this broad discretion is not narrowed by the provision of Section 91(6) that requires Ofcom to impose certain cost accounting obligations where Ofcom have set a price control on retail services. Therefore, Ofcom considers that publication of cost accounting information for retail services is still an allowable obligation under Section 91(5) even though it is not specifically required to be imposed under Section 91(6). Ofcom considers that this position is consistent with the relevant provisions of the Universal Service Directive.
- 3.34 Ofcom also notes that the proposals in the April consultation already represented a reduction in the amount of information that BT will be required to prepare and publish compared to both the current regulatory accounting regime and the initial proposals made in May 2003.
- 3.35 Ofcom also notes that the EC did not comment on this issue in its response to the April consultation.
- 3.36 Therefore, Ofcom considers that BT should be obliged to prepare, have audited, deliver to Ofcom and publish financial statements for retail services as set out in direction 3 of Annex 4.

Audit issues

BT's view

- 3.37 BT welcomed Ofcom's proposals to reduce the proposed scope of the regulatory audit, i.e. individual products and services to a properly prepared in accordance with (PPIA) standard rather than a fairly presents in accordance with (FPIA) standard.
- 3.38 However, BT also stated that the audit proposals still go much further than set out in Ofcom and BT's side letter agreement to C78.14 direction.

- 3.39 In particular, BT stated that the additional financial information (AFI) schedules should not be audited. BT's rationale was that the AFI schedules are not currently audited and that the type of information included in the AFI schedules is not appropriate for audit.
- 3.40 Additionally, BT stated that it was not clear whether Ofcom expected the regulatory financial review and statement of responsibility to be audited. BT stated that this type of information is not normally audited.
- 3.41 BT also noted that it was working with Ofcom on formalising the arrangements that will result in a duty of care being owed by the regulatory auditor to Ofcom, in line with the ICAEW guidance of October 2003.

UKCTA's view

- 3.42 UKCTA stated that it was concerned that the duty of care to Ofcom could lead to conflicts due to shared duty of care. UKCTA also expressed an interest in how the duty of care would work in practice. UKCTA supported the option of Ofcom being able to require the appointment of a new regulatory auditor if it believes that the current regulatory auditor is unsatisfactory.

European Commission's view

- 3.43 The European Commission noted BT and Kingston are required to ensure that they prepare regulatory financial statements in respect of these statements and deliver and publish both sets of documents. The Commission reminded Ofcom that to comply with Article 13(4) of Directive 2002/19/EC¹⁰ it is necessary for a statement concerning compliance with the cost accounting system to be published annually, following verification by a qualified independent body.

Ofcom's view and decision

- 3.44 Ofcom would first note that the C78.14 direction and side-letter were established by Oftel in the context that regulatory financial reporting was to be fully reviewed as part of the market review exercise. Therefore, it is clear to Ofcom that the C78.14 direction and side-letter were not intended to be the final position on regulatory financial reporting. Ofcom's proposals have been based on the findings of the market reviews and comprised what Ofcom considered necessary appropriately to implement regulatory financial reporting under the new Directives.
- 3.45 Ofcom considers that there is some merit in BT's views on the audit of the schedules of additional financial information, the regulatory financial review and the statements of responsibility. Therefore, Ofcom will not require BT to have the schedules of additional financial information, the regulatory financial reviews and the statements of responsibility audited. However, Ofcom expects that the regulatory auditor will consider the schedules of additional financial information, the regulatory financial reviews and statements of responsibility in giving its audit opinions in a manner similar to that applied to additional information published alongside statutory financial statements.
- 3.46 With regard to the Commission's comments, Ofcom considers that the proposals required BT and Kingston to prepare accounting documentation, which must include a description of the cost accounting system, on an annual basis. The audit of the annual regulatory financial statements requires the regulatory auditor (a qualified independent body) to confirm that the regulatory financial statements comply with the

accounting documentation. Therefore, Ofcom considered that its proposals met the requirement highlighted by the Commission. However, Ofcom also recognises the benefit of making more explicit the requirement to prepare regulatory financial statements and have these audited on an annual basis. Therefore, Ofcom has amended Conditions OA5 and OB5 to add the phrase “for each Financial Year”.

- 3.47 Ofcom continues to discuss with BT and PricewaterhouseCoopers (BT’s current statutory and regulatory auditors) the precise terms and conditions of an arrangement where PwC is prepared to accept responsibility for its audit work and report to Ofcom as well as BT. This arrangement will be conditional on a number of issues such as a capped limitation on auditor liabilities and a disclaimer of rights to third parties. Ofcom considers that this is appropriate and is in line with the guidance issued by the Institute of Chartered Accountants in England and Wales (ICAEW).

Accounting documentation

BT’s view

- 3.48 BT stated that it was not entirely clear from Ofcom’s proposals whether Ofcom envisaged the “complete restatement” of prior year financial statements in accordance with the current year documentation to apply in respect of the high-level accounting documents only (i.e. the Primary Accounting Documents), or to all the more detailed documentation (i.e. also the Secondary Accounting Documents). BT stated that if Ofcom intended it to address all the accounting documentation it would require dual record-keeping of each year’s transactions. BT stated that it already restates the prior year results to make them consistent with the current year basis of preparation where any change of methodology or data source is significant.
- 3.49 BT suggested that a practical solution could be to have a consistent high-level framework described in the Accounting Documents (i.e. the Primary Accounting Documents) to which two sets of more detailed documentation can apply.

Kingston’s view

- 3.50 Kingston welcomed Ofcom’s proposals regarding accounting documentation being defined by type of information provided rather than specific documents.

UKCTA’s view

- 3.51 UKCTA stated that Ofcom’s proposals will go some way to making regulatory accounting information more accessible to a variety of stakeholders who are likely to benefit from the availability of this data. UKCTA also recognised that it will take some time before individual companies and indeed Ofcom are able to make full use of the information.
- 3.52 UKCTA stated that the format of the accounting documentation could be improved to make it more user friendly. UKCTA stated that this would assist non-accounting professionals in their efforts to make active use of the documentation.

Ofcom’s view and decision

- 3.53 Ofcom remains of the view that the regulatory financial statements for a particular period, including the comparative data, should be prepared in accordance with one set of Accounting Documents and supporting documentation. This is important for transparency and consistency of reporting. Where, for example, the Detailed

Attribution Methodology (DAM) has changed between years then this would be documented and explained in one document, i.e. there may be separate paragraphs or sections of the DAM that set out the differing methodologies used in different years, but this could all be included in the single DAM.

- 3.54 Ofcom considers that the transparency principle (see direction 3 at Annexes 4 and 5) ensures that BT and Kingston are required to make their accounting documentation transparent. The test included in the transparency principle will enable other communications providers to assess whether the accounting documentation is fit-for-purpose.

On-demand reporting

BT's view

- 3.55 BT welcomed Ofcom's useful clarification of the intended scope of on-demand reporting, i.e. that Ofcom would expect on-demand financial information to be comparable in quality to good quality management reporting information, not audited but with transparent bases of preparation, and for a minimum time period of one calendar month.
- 3.56 However, BT maintained that on-demand reporting was unnecessary, unreliable, irrelevant and disproportionate. BT stated that the obligation was being proposed by Ofcom just in case there is an investigation. BT also stated that it had been subject to a number of Competition Act cases and had been able to respond with appropriate financial information.
- 3.57 BT suggested that Condition OA25 be amended to formalise Ofcom's explanation of on-demand reporting. That is, BT suggested that the phrase "where period is defined as being any period comprising one or more specified calendar months" was added to the condition.

Kingston's view

- 3.58 Kingston welcomed Ofcom's proposal that Kingston should not be required to have an on-demand reporting functionality.

UKCTA's view

- 3.59 UKCTA stated that it was encouraged that BT will have to produce on-demand detailed and accurate cost information. UKCTA stated that it is keen to assist Ofcom in the process of its investigations by targeting the use of Ofcom's on-demand information gathering powers to ensure that the relevant information is extracted in a timely fashion and that Ofcom's resources aren't side tracked.

Ofcom's view and decision

- 3.60 As stated in the April consultation, Ofcom considers that on-demand financial information is necessary. As stated in paragraph 7.63 of the April consultation, Ofcom considers that both on-demand and annual reporting are necessary in order for the appropriate obligations to be monitored and enforced effectively on an ongoing basis. Also, Ofcom would reiterate the point it made in paragraph 7.62 of the April consultation that in the past BT has had difficulty in providing robust regulatory financial information in a timely manner.

- 3.61 In the interests of clarity, Ofcom is willing to implement BT's suggestion that Condition OA25 is amended to formalise Ofcom's explanation of on-demand reporting. That is, Ofcom is adding the phrase "in relation to any specified calendar month or months" to the condition.

Timescales for implementation

Kingston's view

- 3.62 Kingston stated that moving to this new regime will be a lengthy process. Kingston stated that it cannot commit to any timescale until it has had more detailed discussions with Ofcom.

UKCTA's view

- 3.63 UKCTA proposed that BT should be fully compliant with the new regime by April 2005. UKCTA also stated that it was aware of industry dissatisfaction over the regulatory accounting information since the late 1990s and hoped that BT takes the new obligations seriously and that Ofcom will operate a strict enforcement policy and take rapid action if necessary.

Ofcom's view and decision

- 3.64 Ofcom is aware that the implementation of the new regulatory financial reporting regime may take a significant amount of work. Therefore, Ofcom will be pragmatic in enforcing the implementation of the new regime.
- 3.65 Ofcom is planning to issue a consent to BT with regards to the obligation to be able to provide regulatory financial information on demand. This consent will provide BT with regulatory certainty whilst setting a deadline for the work to be completed.

EU harmonisation and competition law

BT's view

- 3.66 BT stated that one of the objectives of the Directives was to ensure the development of consistent regulatory practice and a consistent application of the Directives. BT stated that it saw value in the preparation and publication of relevant regulatory financial information by operators in wholesale markets in which they have been found to have SMP. BT stated it expected to see a much greater extent of published regulatory financial information and the bases of its preparation across the EU.
- 3.67 However, BT noted that regulatory financial reporting obligations in the UK have been greater than elsewhere in the EU. BT stated that it believed that Ofcom's proposals would exacerbate the differences between the UK and the rest of the EU.
- 3.68 BT also stated that it believed Ofcom was confusing ex ante and ex post powers. That is, BT believed that Ofcom's proposals required them to make routinely available an extensive volume of information that would otherwise have to be made available only as a result of an investigation under the Competition Act. BT stated that this was "wholly disproportionate".
- 3.69 BT also stated that competition authorities would not expect to find the type of information proposed by Ofcom readily available in the companies that they investigate. Furthermore, BT stated that neither the Competition Act nor any other

relevant UK or European competition legislation imposes any obligation on companies to hold, have audited, provide to a competition authority or publish financial information relating to the separate activities of that company in the absence of any alleged breach of the legislation. BT added that even in the event of an established breach of the legislation it is unusual for a financial reporting requirement to be imposed. BT stated that “it is not unreasonable to suppose that competition law questions do not generally correspond to internal information requirements and that it is therefore usually necessary to allow some time for companies under investigation to prepare the information relevant to the case in question.”

UKCTA’s view

- 3.70 UKCTA stated that in its view Ofcom should lobby for more powers or favourable interpretation of the Directives from the European Commission to allow it to impose regulatory financial reporting across the entirety of BT’s activities.

Ofcom’s view and decision

- 3.71 Ofcom considers that the proposals in the April consultation were in accordance with both the letter and intent of the EC Directives. Ofcom considers that this view is supported by the Commission’s response to the consultation, of which Ofcom has taken the utmost account. Ofcom does not consider that it is its remit to determine how NRAs in other EU states interpret their obligations under the Directives and how regulatory financial reporting obligations should be imposed in these states.
- 3.72 The European Regulators Group (ERG) has recently undertaken a consultation on updating the Commission Recommendation (98/322 – a guidance paper on accounting separation and cost accounting) to align it with the new regulatory framework. Ofcom is of the view that the regulatory financial reporting framework set out in this final statement is consistent with the more detailed implementation issues set out in the ERG opinion. Indeed, BT responded to this ERG consultation stating that “...BT recognises that there is value to both regulator and regulatee in the preparation and delivery of audited regulatory financial information of the kind proposed in the draft Opinion, in establishing both confidence in the application of regulatory remedies and certainty as to their effectiveness”.
- 3.73 With regard to BT’s comments regarding the interaction of regulatory financial reporting and the Competition Act, Ofcom considers that BT is confusing the issues of ex ante and ex post regulation. The regulatory financial reporting obligations are ex ante obligations that will be imposed under Sections 87(9) to 81(11) for wholesale cost accounting, 91(5) and 91(6) for retail cost accounting and 87(7) and 87(8) for accounting separation of the Act. The regulatory financial reporting obligations are being imposed by Ofcom to monitor and enforce other ex ante obligations, i.e. cost orientation, cost recovery, price controls and no undue discrimination obligations with which BT has an obligation to demonstrate compliance.
- 3.74 The regulatory financial reporting obligations are not being imposed for the purpose of providing information to Competition Act investigations. However, Ofcom would expect that the processes and procedures implemented by BT in order to comply with its ex ante obligations may well be useful to BT in complying with any future information requests made by Ofcom pursuant to its Competition Act powers. Ofcom does not consider that this potential result affects the proportionality of the obligations it is imposing.

Section 4

The conditions and directions

- 4.1 This section highlights the changes made to the conditions and directions in light of the responses received to the April consultation. Ofcom does not consider that any of these changes are material. This section also summarises the conditions and directions as they will apply to BT and Kingston and how the conditions and directions meet the tests set out in the Communications Act.

Summary of changes to the conditions and directions

- 4.2 Taking into account the representations received in response to the April consultation and taking utmost account of the Commission's views, Ofcom has decided to make the following non-material changes to the conditions and directions.
- Ofcom has amended Conditions OA5 and OB5 to clarify that regulatory Financial Statements are to be prepared and published on an annual basis.
 - Ofcom has amended Conditions OA5(f) for BT and OB5(f) for Kingston to include the words "in so far as it is reasonably practicable to monitor the effect of such changes", in order to clarify Ofcom's intention that these conditions are designed to capture material changes caused by changes to processes.
 - Ofcom has amended Condition OA25 which applies to BT to include the words "in relation to any specified calendar month or months". This is to clarify that Ofcom considers that one calendar month should be the shortest period for which on-demand information should be requested.
 - In direction 3 in Annex 4, Ofcom has removed the obligation on BT to secure audit opinions for the schedules of additional financial information.
 - In direction 3 in Annex 4 and direction 3 in Annex 5, Ofcom has clarified that BT and Kingston will not be expected to secure an audit opinion of the regulatory financial review.
 - In direction 3 in Annex 5, Ofcom has reduced the reporting requirement on Kingston in respect of preparing financial statements for products and services within relevant markets.

BT's regulatory financial reporting conditions

General requirements

- 4.3 Condition OA1 states that BT must act in the manner set out in the conditions.
- 4.4 Condition OA2 gives Ofcom the power to make directions under the conditions.
- 4.5 Condition OA3 obliges BT to comply with any direction made by Ofcom under the conditions.
- 4.6 Condition OA4 describes what is meant by publication under the conditions.

Preparation, audit, delivery and publication of the regulatory financial statements

- 4.7 Condition OA5 requires BT, on an annual basis, to prepare regulatory financial statements, secure an audit opinion on them, deliver the regulatory financial statements to Ofcom (along with audit opinions and a report detailing any changes leading to a 5 per cent change – where it is reasonably practicable to do so) and publish the regulatory financial statements.
- 4.8 Condition OA6 requires BT to deliver copies of the regulatory financial statements to Ofcom at least two weeks before publication and publish these financial statements together with any written statement made by Ofcom.
- 4.9 Condition OA7 requires BT to make necessary changes to the form and content of the regulatory financial statements and to inform Ofcom of such changes upon delivery of these financial statements to Ofcom.
- 4.10 Condition OA8 requires BT to prepare the regulatory financial statements on a CCA basis.
- 4.11 Condition OA9 requires BT to ensure that accounting policies are applied consistently within the same regulatory financial statements, and between regulatory financial statements for the same financial year and from one year to the next. It also requires BT to include prior year comparatives prepared on the same basis as the current year in each regulatory financial statement.
- 4.12 Condition OA10 requires BT to ensure that sufficient checks, controls and meaningful reconciliations are performed on the figures in the regulatory financial statements.
- 4.13 Condition OA11 requires BT to preserve accounting records that can explain each regulatory financial statement for a period of six years following delivery to Ofcom.

Audit of the regulatory financial statements

- 4.14 Condition OA12 states that the Regulatory Auditor appointed by BT must be satisfactory to Ofcom at all times.
- 4.15 Condition OA13 allows Ofcom to require BT to appoint an Alternative Regulatory Auditor if – in the opinion of Ofcom – the existing Regulatory Auditor is unsatisfactory.
- 4.16 Condition OA14 requires BT to extend reasonable assistance and co-operation to the Alternative Regulatory Auditor.
- 4.17 Condition OA15 requires BT's letter of engagement appointing the Regulatory Auditor to include provisions acknowledging duties and responsibilities to Ofcom in line with the guidance issued by the Institute of Chartered Accountants in England and Wales (ICAEW).
- 4.18 Condition OA16 requires BT to use its best endeavours to obtain any further explanation and clarification needed from the Regulatory Auditor regarding audit opinions they have given.

Primary and Secondary accounting documents

- 4.19 Condition OA17 requires BT to review its Primary Accounting Documents and – within four months of the condition coming into force – make any changes necessary to make them compliant with the condition.
- 4.20 Condition OA18 requires BT – following the review of the Primary Accounting Documents - to prepare the Secondary Accounting Documents in accordance with the Primary Accounting Documents and the conditions, within at least eight months of the condition coming into force.
- 4.21 Condition OA19 requires BT to publish the Primary Accounting Documents within four months of the condition coming into force and publish the Secondary Accounting Documents on or prior to the date of the publication of the financial statements. This condition also requires BT to publish and deliver to Ofcom any amendments subsequently made to these documents.
- 4.22 Condition OA20 sets out the hierarchy of the Primary Accounting Documents for the circumstance where they may conflict.

Up-dating systems, accounting documents and form and content

- 4.23 Condition OA21 requires BT to make necessary amendments to the regulatory accounting system, the accounting documentation and the form and content of the regulatory financial statements to ensure they are consistent with any changes to any of the SMP conditions, any formal undertakings given by BT and/or any directions, enforcement notifications, consents and/or determinations given or made by Ofcom.

Deficiencies in the regulatory financial statements and the accounting documents

- 4.24 Condition OA22 requires BT to amend accounting documentation and/or restate, have reaudited and republish regulatory financial statements where Ofcom believes them to be deficient.

Maintenance of sufficient accounting records

- 4.25 Condition OA23 requires BT to keep accounting records – on both a Current Cost basis and Historical Cost basis – that enables markets, wholesale segments, wholesale services, wholesale activities, network services and network activities to be separately identified.
- 4.26 Condition OA24 requires BT to maintain the accounting records in accordance with the Accounting Documents and the conditions; sufficient to allow for an audit opinion to be expressed; and sufficient to demonstrate non-discrimination.

On-demand reporting

- 4.27 Condition OA25 requires BT to ensure that its accounting and reporting arrangements are sufficient to enable it to provide regulatory financial statements at all times for any period, where that period is of one or more specified calendar months.

Preparation and maintenance of a Wholesale Catalogue

- 4.28 Condition OA26 requires BT to identify and describe wholesale services, wholesale activities and network services in a Wholesale Catalogue.
- 4.29 Condition OA27 requires BT to deliver the Wholesale Catalogue to Ofcom as soon as possible after the condition coming into force, or at the latest four months after that date.
- 4.30 Condition OA28 requires BT to ensure that the Wholesale Catalogue is kept current and amended as necessary.

Preparation and maintenance of a Retail Catalogue

- 4.31 Condition OA29 requires BT to identify and describe retail activities, retail products and retail support activities in a Retail Catalogue.
- 4.32 Condition OA30 requires BT to deliver the Retail Catalogue to Ofcom as soon as possible after the condition coming into force, or at the latest four months after that date.
- 4.33 Condition OA31 requires BT to ensure that the Retail Catalogue is kept current and amended as necessary.

Further accounting separation requirements

- 4.34 Condition OA32 requires BT to maintain a separation for accounting purposes of the Accounting Separation Market Activities from other activities and of Accounting Separation Activities from other activities.

Demonstration of non-discrimination

- 4.35 Condition OA33 requires BT to be able to demonstrate – at any time – that transfer charges are non-discriminatory in respect of wholesale services.
- 4.36 Condition OA34 requires BT to be able to demonstrate – at any time – that transfer charges are non-discriminatory in respect of retail services.

The six directions

- 4.37 Direction 1 sets out a list of network components that BT must report on under the regulatory financial reporting obligation and in its reference offers as set out by SMP services conditions AA1 to AA12, BA1 to BA6, G1 to G9, GG1 to GG9, H1 to H8 and HH1 to HH8.
- 4.38 Direction 2 imposes a transparency principle on BT in relation to the accounting documentation.
- 4.39 Direction 3 sets out the regulatory financial statements that should be prepared, delivered to Ofcom and published, and the level of audit opinion that should be secured for each statement.
- 4.40 Direction 4 sets out the required form and content of the different types of regulatory financial statements required under Direction 3.

- 4.41 Direction 5 sets out the detailed form of the Fairly Presents in Accordance with (FPIA) audit opinion required under Direction 3.
- 4.42 Direction 6 sets out the detailed form of the Properly Prepared in Accordance with (PPIA) audit opinion required under Direction 3.

Kingston's regulatory financial reporting condition

General requirements

- 4.43 Condition OB1 states that Kingston must act in the manner set out in the conditions.
- 4.44 Condition OB2 gives Ofcom the power to make directions under the conditions.
- 4.45 Condition OB3 obliges Kingston to comply with any direction made by Ofcom under the conditions.
- 4.46 Condition OB4 describes what is meant by publication under the conditions.

Preparation, audit, delivery and publication of the regulatory financial statements

- 4.47 Condition OB5 requires Kingston to, on an annual basis, prepare regulatory financial statements, secure an audit opinion on them, deliver the regulatory financial statements to Ofcom (along with audit opinions and a report detailing any changes leading to a 5 per cent change – where it is reasonably practicable to do so) and publish the regulatory financial statements.
- 4.48 Condition OB6 requires Kingston to deliver copies of the regulatory financial statements to Ofcom at least two weeks before publication and publish these financial statements together with any written statement made by Ofcom.
- 4.49 Condition OB7 requires Kingston to make necessary changes to the form and content of the regulatory financial statements and to inform Ofcom of such changes upon delivery of these financial statements to Ofcom.
- 4.50 Condition OB8 requires Kingston to prepare the regulatory financial statements on a CCA basis.
- 4.51 Condition OB9 requires Kingston to ensure that accounting policies are applied consistently within the same regulatory financial statements, between regulatory financial statements for the same financial year and from one year to the next. It also requires Kingston to include prior year comparatives prepared on the same basis as the current year in each regulatory financial statement.
- 4.52 Condition OB10 requires Kingston to ensure that sufficient checks, controls and meaningful reconciliations are performed on the figures in the regulatory financial statements.
- 4.53 Condition OB11 requires Kingston to preserve accounting records that can explain each regulatory financial statement for a period of six years following delivery to Ofcom.

Audit of the regulatory financial statements

- 4.54 Condition OB12 states that the Regulatory Auditor appointed by Kingston must be satisfactory to Ofcom at all times.
- 4.55 Condition OB13 allows Ofcom to require Kingston to appoint an Alternative Regulatory Auditor if the existing Regulatory Auditor is in the opinion of Ofcom unsatisfactory.
- 4.56 Condition OB14 requires Kingston to extend reasonable assistance and co-operation to the Alternative Regulatory Auditor.
- 4.57 Condition OB15 requires Kingston's letter of engagement appointing the Regulatory Auditor to include provisions acknowledging duties and responsibilities to Ofcom in line with the guidance issued by the Institute of Chartered Accountants in England and Wales (ICAEW).
- 4.58 Condition OB16 requires Kingston to use its best endeavours to obtain any further explanation and clarification needed from the Regulatory Auditor regarding audit opinions they have given.

Primary and Secondary accounting documents

- 4.59 Condition OB17 requires Kingston to review its Primary Accounting Documents and – within four months of the condition coming into force – make any changes necessary to make them compliant with the conditions.
- 4.60 Condition OB18 requires Kingston – following the review of the Primary Accounting Documents - to prepare the Secondary Accounting Documents in accordance with the Primary Accounting Documents and the conditions, within at least eight months of the condition coming into force.
- 4.61 Condition OB19 requires Kingston to publish the Primary Accounting Documents within four months of the condition coming into force and publish the Secondary Accounting Documents on or prior to the date of the publication of the financial statements. This condition also requires Kingston to publish and deliver to Ofcom any amendments subsequently made to these documents.
- 4.62 Condition OB20 sets out the hierarchy of the Primary Accounting Documents for the circumstance where they may conflict.

Up-dating systems, accounting documents and form and content

- 4.63 Condition OB21 requires Kingston to make necessary amendments to the regulatory accounting system, the Accounting Documents and the form and content of the regulatory financial statements to ensure they are consistent with any changes to any of the SMP conditions, any formal undertakings given by Kingston and/or any directions, enforcement notifications, consents and/or determinations given or made by Ofcom.

Deficiencies in the regulatory financial statements and the accounting documents

- 4.64 Condition OB22 requires Kingston to amend accounting documentation and/or restate, have reaudited and republish regulatory financial statements where Ofcom believes them to be deficient.

Maintenance of sufficient accounting records

- 4.65 Condition OB23 requires Kingston to keep accounting records – on both a Current Cost basis and Historical Cost basis – that enables markets, wholesale segments, wholesale services, wholesale activities, network services and network activities to be separately identified.
- 4.66 Condition OB24 requires Kingston to maintain the accounting records in accordance with the Accounting Documents and the conditions; sufficient to allow for an audit opinion to be expressed; and sufficient to demonstrate non-discrimination.

Preparation and maintenance of a Wholesale Catalogue

- 4.67 Condition OB25 requires Kingston to identify and describe wholesale services, wholesale activities and network services in a Wholesale Catalogue.
- 4.68 Condition OB26 requires Kingston to deliver the Wholesale Catalogue to Ofcom as soon as possible after the condition comes into force, or at the latest four months after that date.
- 4.69 Condition OB27 requires Kingston to ensure that the Wholesale Catalogue is kept current and amended as necessary.

Preparation and maintenance of a Retail Catalogue

- 4.70 Condition OB28 requires Kingston to identify and describe retail activities, retail products and retail support activities in a Retail Catalogue.
- 4.71 Condition OB29 requires Kingston to deliver the Retail Catalogue to Ofcom as soon as possible after the condition comes into force, or at the latest four months after that date.
- 4.72 Condition OB30 requires Kingston to ensure that the Retail Catalogue is kept current and amended as necessary.

Further accounting separation requirements

- 4.73 Condition OB31 requires Kingston to maintain a separation for accounting purposes of the Accounting Separation Market Activities from other activities and of Accounting Separation Activities from other activities.

Demonstration of non-discrimination

- 4.74 Condition OB32 requires Kingston to be able to demonstrate – at any time – that transfer charges are non-discriminatory in respect of wholesale services.
- 4.75 Condition OB33 requires Kingston to be able to demonstrate – at any time – that transfer charges are non-discriminatory in respect of retail services.

Implementing directions

- 4.76 Direction 1 sets out a list of network components that Kingston must report on under the regulatory financial reporting obligation and in its reference offers as set out by SMP services conditions AB1 to AB6, BB1 to BB5, GA1 to GA5, GGA1 to GGA5 and HA1 to HA5.

- 4.77 Direction 2 imposes a transparency principle on Kingston in relation to the accounting documentation.
- 4.78 Direction 3 sets out the regulatory financial statements that should be prepared, delivered to Ofcom and published, and the level of audit opinion that should be secured for each statement.
- 4.79 Direction 4 sets out the required form and content of the different types of regulatory financial statements required by Direction 3.
- 4.80 Direction 5 sets out the detailed form of the Fairly Presents in Accordance with (FPIA) audit opinion required by Direction 3.
- 4.81 Direction 6 sets out the detailed form of the Properly Prepared in Accordance with (PPIA) audit opinion required by Direction 3.

Communications Act tests

- 4.82 The powers to impose regulatory financial reporting obligations are described in section one. It should be noted that these powers are subject to certain limitations. This section sets out these limitations and discusses how Ofcom considers that these limitations and tests have been addressed regarding the implementation of the regulatory financial reporting obligations.

Tests that must be met

- 4.83 Section 3 of the Act sets out the general duties of Ofcom. Ofcom is required by this section to carry out its functions in line with these duties.
- 4.84 Section 4 of the Act requires Ofcom to act in accordance with the six European Community requirements for regulation. In summary these requirements are to:
- promote competition in the provision of electronic communications networks and services, associated facilities and the supply of directories;
 - contribute to the development of the European internal market;
 - promote the interests of all persons who are citizens of the European Union;
 - not favour one form of or means of providing electronic communications networks or services, i.e. to be technologically neutral;
 - to encourage the provision of network access and service interoperability for the purpose of securing:
 - efficient and sustainable competition; and
 - the maximum benefit for customers of communications providers;
 - encourage compliance with certain standards in order to facilitate service interoperability and secure freedom of choice for the customers of communications providers.
- 4.85 Respectively, Sections 47 and 49 of the Act require Ofcom to ensure that any condition it sets or direction it gives is:
- objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;

- not unduly discriminatory against particular persons or against a particular description of persons;
 - proportionate to what it is intended to achieve; and
 - transparent in relation to what it is intended to achieve.
- 4.86 According to Section 88 of the Act, conditions derived from Section 87(9) (i.e. relating to price controls and cost accounting in wholesale markets) may not be imposed except where:
- it appears from the market analysis that there is a relevant risk of adverse effects arising from price distortion; and
 - it also appears that the condition is appropriate for the purposes of:
 - promoting efficiency;
 - promoting sustainable competition; and
 - conferring the greatest possible benefit on the end-users of public electronic communications services.
- 4.87 Section 91(2) states that Ofcom may only impose conditions on dominant providers in markets for end-users if it is unable to perform its duties by imposing obligations in wholesale markets.

How the tests are met

- 4.88 As part of the EU market review process, Ofcom proposed the imposition of wholesale and retail cost accounting and accounting separation obligations (conditions and directions) on BT and Kingston in specific identified markets. Therefore, the market reviews have already assessed whether the proposals to impose:
- wholesale cost accounting meet the tests outlined in Sections 4 and 88 of the Act and the tests in Section 47(2)(a) and (b);
 - retail cost accounting meet the tests outlined in Sections 4, 91 and 92 of the Act and the tests in Section 47(2)(a) and (b); and
 - accounting separation meet the tests outlined in Sections 4, 87(7) and 87(8) of the Act and the tests in Section 47(2)(a) and (b).
- 4.89 The justification of the imposition of regulatory financial reporting obligations on dominant providers in the light of these tests is set out in detail in each of the market reviews. Ofcom considers that the tests have been met for each market where retail cost accounting, wholesale cost accounting and/or accounting separation obligations have been proposed.
- 4.90 In particular, Section 4 is met by the imposition of regulatory financial reporting obligations because the obligations of cost orientation, cost recovery, price controls and non-discrimination are important in ensuring that dominant providers do not abuse their power in markets. The regulatory financial reporting obligations assist Ofcom in monitoring and enforcing cost orientation, cost recovery and non-discrimination obligations; and inform the review of price controls. Therefore, the regulatory financial reporting obligations assist in the promotion of competition by restraining the market power of dominant providers. Additionally, reliable cost-

orientation, price controls and non-discrimination assist in encouraging network access for the purpose of securing efficient and sustainable competition and the maximum benefit for customers of communications providers.

4.91 The following list identifies these documents and the sections relating to regulatory financial reporting:

- chapter five of the Review of the Fixed Geographic Call Termination Markets (published 28 November 2003) addressed the imposition of cost accounting and accounting separation obligations on BT and Kingston;
- paragraph 2.55 of the Review of the Wholesale International Services Markets (published 18 November 2003) addressed the imposition of accounting separation obligations on BT;
- chapter 11 of the Review of the Fixed Narrowband Wholesale Exchange Line, Call Origination, Conveyance and Transit Markets (published 28 November 2003) addressed the imposition of cost accounting and accounting separation obligations on BT and Kingston;
- paragraphs 4.62 to 4.72 of the Review of the Fixed Narrowband Retail Markets (published 28 November 2003) addressed the imposition of cost accounting obligations on BT;
- paragraphs 4.178 to 4.187 of the Review of the Wholesale Broadband Access Markets (published 13 May 2004) addressed the imposition of accounting separation obligations on BT and Kingston; and
- chapter 10 of the Review of the Retail Leased Line, Symmetric Broadband Origination and Wholesale Trunk Segments Markets (published 24 June 2004) addressed the imposition of cost accounting and accounting separation obligations on BT and just cost accounting obligations on Kingston.

Assessment of implementation

4.92 Ofcom considers that measures set out in this document meet the tests included in Sections 47 and 49 of the Act of being objectively justifiable, proportionate, transparent and not unduly discriminatory.

4.93 Ofcom considers that these measures are objectively justifiable because the maintenance of accounting systems; preparation, audit, delivery and publication of regulatory financial statement; transparent accounting documentation; and reasonable amendment powers are necessary for Ofcom to effectively monitor and enforce compliance of BT and Kingston's obligations for non-discrimination, cost-orientation, cost recovery and price controls.

4.94 Ofcom considers that the measures are proportionate because they are no more than is necessary for securing these objectives as discussed in detail in the two preceding consultation documents (see paragraph 1.4). That is:

- the obligations to maintain accounting records and systems are proportionate because they are no more than Ofcom considers necessary for the purpose of being able to provide information to allow the monitoring and enforcing BT and Kingston's obligations for non-discrimination, cost orientation, cost recovery and price controls;

- the obligations to prepare, deliver and publish regulatory financial statements are proportionate because the level of information is no more than Ofcom considers necessary for Ofcom to monitor and enforce BT and Kingston's obligations non-discrimination, cost orientation, cost recovery and price controls;
 - the obligations to have transparent accounting documentation are proportionate because the level of accounting documentation is no more than Ofcom considers necessary for the purpose of ensuring the consistent and comparable preparation of regulatory financial statements and the adequate disclosure of the bases of preparation of these; and
 - the obligations regarding the audit of regulatory financial statements are proportionate because they are no more than Ofcom considers necessary for ensuring that an appropriate level of assurance is provided regarding the regulatory financial statements.
- 4.95 Ofcom considers that these measures are transparent because they have been consulted upon widely, and responses to this consultation have been transparently taken into account and addressed in this document.
- 4.96 Ofcom considers that these measures are not unduly discriminatory because they apply to both BT and Kingston, except where it would be disproportionate and/or not justifiable for the proposals to be the same, e.g. on-demand reporting. Furthermore, BT and Kingston 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.

Annex 1

Respondents to the consultation

The following organisations responded to the consultation:

- BT;
- European Commission;
- Kingston Communications; and
- UK Competitive Telecommunications Association (UKCTA).

Annex 2

Notification to BT

NOTIFICATION UNDER SECTIONS 48(1) AND 86(1) OF THE COMMUNICATIONS ACT 2003

Notification setting further SMP services conditions on BT in relation to regulatory accounting in respect of various markets

WHEREAS

- A. OFCOM issued a notification pursuant to section 48(2) and 86(1) of the Act setting out their proposals for the setting of further SMP services conditions in relation to BT on 8 April 2004 ('the First Notification');
- B. A copy of the First Notification was sent to the Secretary of State in accordance with section 50(1)(a), the European Commission and to the regulatory authorities of every other Member State in accordance with section 50(3) of the Act;
- C. In the First Notification and accompanying explanatory statement, OFCOM invited representations about any of the proposals set out therein by 10 May 2004;
- D. By virtue of section 48(5) of the Act, OFCOM may give effect to any proposals to set SMP services conditions set out in the First Notification, with or without modification, where:
 - i. they have considered every representation about the proposals made to them within the period specified in the First Notification; and
 - ii. (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;
- E. OFCOM received responses to the First Notification and have considered every such representation made to them in respect of the proposals set out in the First Notification and the accompanying explanatory statement; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

THEREFORE

- 1. OFCOM, in accordance with sections 48(1) and 86(1) of the Act, hereby set further SMP services conditions by reference to market power determinations made in relation to markets in which OFCOM are satisfied there has been no material change since those determinations were made.
- 2. The SMP services conditions set by this Notification are further to the market power determinations made in the Notifications made under section 79 of the Act by the Director or Ofcom (as appropriate) as set out in Schedule 1 to this Notification.
- 3. By virtue of the Transitional Provisions, the market power determinations made by the Director set out in Schedule 1 to this Notification are to have effect as if made by OFCOM.

4. OFCOM are setting further SMP services conditions on BT as follows:
 - a. in respect of the wholesale markets:
 - i. numbered 1, 3, 4, 6 to 10, and 14 to 17 set out in Part 1 of Schedule 1 to this Notification, the SMP services conditions as set out in Schedule 2 to this Notification, excluding conditions OA29 to OA31 and OA34;
 - ii. numbered 2, 5, 11, 12 and 13 set out in Part 1 of Schedule 1 to this Notification, the SMP services condition as set out in Schedule 2 to this Notification, excluding subparagraphs (a) to (c) and (f) of condition OA23, conditions OA29 to OA31, and condition OA34; and
 - b. in respect of the retail markets set out in Part 2 of Schedule 1 to this Notification, the SMP services conditions as set out in Schedule 2 to this Notification, excluding subparagraphs (b), (d) and (e) of condition OA23, conditions OA26 to OA28 and conditions OA32 to OA33.
5. OFCOM consider that the SMP services conditions referred to in paragraph 4 above comply with the requirements of sections 45 to 50 and sections 78 to 92 of the Act, as appropriate and relevant to each such SMP services condition.
6. In setting the SMP services conditions by way of this Notification, OFCOM have considered and acted in accordance with their general duties in section 3 of the Act and the six Community requirements in section 4 of the Act.
7. Copies of this Notification and the accompanying explanatory statement have been sent to the Secretary of State in accordance with section 50(1)(a) of the Act, and to the European Commission in accordance with section 50(2) of the Act.
8. In this Notification (not including the Schedules) -
 - a. 'the Act' means the Communications Act 2003;
 - b. 'BT' means British Telecommunications plc, whose registered company number is 1800000, and any British Telecommunications plc subsidiary or holding company, or any subsidiary of that holding company, all as defined by Section 736 of the Companies Act 1985 as amended by the Companies Act 1989;
 - c. 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
 - d. 'OFCOM' means the Office of Communications;
 - e. '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) Order 2003 and Communications Act 2003 (Commencement No 2) Order 2003; and
 - f. except as otherwise defined in this Notification, words or expressions used shall have the same meaning as in the Act.

DAVID K S THOMAS
DIRECTOR OF REGULATORY FINANCE

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

22 July 2004

SCHEDULE 1

Market Power Determinations made by OFCOM or the Director General of Telecommunications in respect of BT to which the further SMP services conditions apply in accordance with the Notification

In this Schedule:

- a. 'the Act' means the Communications Act 2003;
- b. 'BT' means British Telecommunications plc, whose registered company number is 1800000, and any British Telecommunications plc subsidiary or holding company, or any subsidiary of that holding company, all as defined by Section 736 of the Companies Act 1985 as amended by the Companies Act 1989;
- c. 'Category A calls' and 'Category B calls' mean calls to the international destinations as are set out respectively in Part 3 of this Schedule;
- d. 'Hull Area' means the area defined as the 'Licensed Area' in the licence granted on 30 November 1987 by the Secretary of State under section 7 of the Telecommunications Act 1984 to Kingston upon Hull City Council and Kingston Communications (Hull) plc;
- e. 'UK' means the United Kingdom as defined in the Interpretation Act 1973.

Part 1: Wholesale Markets

Market identified and in which BT found to have SMP in previous Notification pursuant to section 79 of the Act	Date
1. Wholesale residential analogue exchange line services in the UK excluding the Hull Area	28.11.03
2. Wholesale residential ISDN2 exchange line services in the UK excluding the Hull Area	As above
3. Wholesale business analogue exchange line services in the UK excluding the Hull Area	As above
4. Wholesale business ISDN2 exchange line services in the UK excluding the Hull Area	As above
5. Wholesale ISDN30 exchange line services in the UK excluding the Hull Area	As above
6. Call origination on fixed public narrowband networks in the UK excluding the Hull Area	As above
7. Local-tandem conveyance and transit on fixed public telephone networks in the UK excluding the Hull Area	As above
8. Inter-tandem conveyance and transit on fixed public telephone networks in the UK excluding the Hull Area	As above
9. Single transit on fixed public narrowband networks in the UK excluding the Hull Area	As above
10. Fixed geographic call termination provided by BT	28.11.03
11. Wholesale international call conveyance from the United Kingdom to each of the countries, territories or satellite services set out in Category B at Part 3 of this Schedule on a route by route basis such that each route from the United Kingdom to one of those countries, territories or satellite services constitutes a separate market	18.11.03
12. Asymmetric broadband origination in the UK excluding the Hull Area	13.05.04

13. Broadband conveyance in the UK	As above
14. Provision of traditional interface symmetric broadband origination with a bandwidth capacity up to and including eight megabits per second within the UK but not including the Hull Area	24.06.04
15. Provision of traditional interface symmetric broadband origination with a bandwidth capacity above eight megabits per second and up to and including one hundred and fifty five megabits per second within the UK but not including the Hull Area	As above
16. Provision of alternative interface symmetric broadband origination at all bandwidths within the UK but not including the Hull Area	As above
17. Provision of wholesale trunk segments at all bandwidths within the UK	As above

Part 2: Retail Markets

Market identified and in which BT found to have SMP in previous Notification pursuant to section 79 of the Act	Date
18. Residential analogue exchange line services in the UK excluding the Hull Area	28.11.03
19. Residential local calls in the UK excluding the Hull Area	As above
20. Residential national calls in the UK excluding the Hull Area	As above
21. Residential calls to mobiles in the UK excluding the Hull Area	As above
22. Residential operator assisted calls in the UK excluding the Hull Area	As above
23. Residential IDD Category A calls in the UK excluding the Hull Area	As above
24. Residential IDD Category B calls (on a route by route basis) in the UK excluding the Hull Area	As above
25. Provision of traditional interface retail leased lines up to and including a bandwidth capacity of eight megabits per second within the UK but not including the Hull Area	24.06.04

Part 3: International routes

Category A

Andorra
 Antigua and Barbuda
 Argentina
 Australia
 Austria
 Azerbaijan
 Bahamas
 Bahrain
 Bangladesh
 Barbados
 Belarus
 Belgium

Belize
Bermuda
Bolivia
Botswana
Brazil
Brunei Darussalam
Bulgaria
Canada
Cayman Islands
Chile
China
Colombia
Costa Rica
Croatia
Cyprus
Czech Republic
Denmark
Dominica
Dominican Republic
Ecuador
Egypt
El Salvador
Estonia
Falkland Islands
Finland
France
French Guiana
Gambia
Germany
Ghana
Gibraltar
Greece
Grenada
Guadeloupe
Guatemala
Guyana
Hong Kong
Hungary
Iceland
India
Indonesia
Iran
Ireland
Israel
Italy
Jamaica
Japan
Jordan
Kazakhstan
Kenya
Korea (South)
Kuwait
Laos
Latvia
Luxembourg

Macau
Malaysia
Maldives
Malta
Martinique
Mexico
Monaco
Mongolia
Morocco
Nepal
Netherlands
Netherlands Antilles
New Zealand
Nicaragua
Nigeria
Norwa
Oman
Pakistan
Panama
Paraguay
Peru
Philippines
Poland
Portugal
Qatar
Reunion
Russian Federation
Saint Helena
Saint Lucia
Saint Vincent & the Grenadines
Saudi Arabia
Singapore
Slovak Republic
Slovenia
South Africa
Spain
Sri Lanka
Sweden
Switzerland
Syria
Taiwan
Tanzania
Thailand
Tunisia
Turkey
Ukraine
United Arab Emirates
Uruguay
USA
Venezuela
Vietnam
Virgin Islands (UK)
Yemen
Yugoslavia

Zambia
Zimbabwe

Category B

Afghanistan
Albania
Algeria
American Samoa
Angola
Anguilla
Antarctica Australian Territory
Armenia
Aruba
Benin
Bhutan
Bosnia and Herzegovina
Burkina Faso
Burundi
Cambodia
Cameroon
Cape Verde
Central African Republic
Chad
Comoros
Congo
Congo, DR
Cook Islands
Côte d'Ivoire
Cuba
Djibouti
East Timor
Equatorial Guinea
Eritrea
Ethiopia
Faroe Islands
Fiji
French Polynesia
Gabon
Georgia
Greenland
Guam
Guinea
Guinea Bissau
Haiti
Honduras
Iraq
Kiribati
Korea, PDR
Kirgizstan
Lebanon

Lesotho
Liberia
Libya
Liechtenstein
Lithuania
Macedonia
Madagascar
Malawi
Mali
Marshall Islands
Mauritania
Mauritius
Mayotte
Micronesia
Midway Islands
Moldova
Mozambique
Myanmar
Namibia
Nauru
New Caledonia
Niger
Niue
Norfolk Island
Northern Marianas
Palau
Papua New Guinea
Puerto Rico
Rodriguez Islands
Romania
Rwanda
Saint Kitts & Nevis
Saint Pierre & Miquelon
Samoa
San Marino
Sao Tome and Principe
Senegal
Seychelles
Sierra Leone
Solomon Islands
Somalia
Sudan
Suriname
Swaziland
Tajikistan
Togo
Tokelau
Tonga
Trinidad & Tobago
Tristan Da Cunha
Turkmenistan
Tuvalu
Uganda
Uzbekista

The regulatory financial reporting obligations on BT and Kingston Communications Final statement and notification

Vanuatu
Virgin Islands (US)
Wake Island
Wallis & Futuna

Emsat
Inmarsat
Iridium
Thuraya

SCHEDULE 2

The further conditions to be imposed on BT under sections 45 and 87 of the Communications Act 2003

Part 1: Definitions and Interpretation of these conditions

1. These conditions shall apply to the markets as described in Schedule 1 of this notification, in accordance with paragraph 4 of this notification, under sections 45 and 87 of the Communications Act 2003 and to the following technical areas:
Interconnection Circuits and Interconnection Services.
2. For the purpose of interpreting these conditions the following definitions shall apply:
 - 'Accounting Documents' means together the Primary Accounting Documents, the Secondary Accounting Documents, and either the Wholesale Catalogue or the Retail Catalogue as appropriate, all as amended from time to time in accordance with these conditions;
 - 'Accounting Policies' means the manner in which the requirements of the Companies Act 1985 as amended by the Companies Act 1989, the Accounting Standards and the accounting policies whenever not superseded by the Regulatory Accounting Principles, are applied by BT in each of the Regulatory Financial Statements;
 - 'Accounting Separation Activities' means Wholesale Services and those Wholesale Activities, Network Services and Network Activities used directly or indirectly in the course of supplying Wholesale Services;
 - 'Accounting Separation Attribution' means the totality of all apparatus, data, procedures and activities which BT uses or holds for use to determine the costs, revenues, assets and liabilities to be attributed to an activity, either based upon data recorded by an Accounting Separation Measuring System or otherwise;
 - 'Accounting Separation Market Activities' means all of the Wholesale Services supplied in the Market or Technical Area (as applicable) and all of the Wholesale Activities, Network Services and Network Activities used directly or indirectly in the course of supplying those Wholesale Services;
 - 'Accounting Separation Measuring System' means the totality of all apparatus, systems, data, procedures and activities which BT uses or holds for use to determine the extent to which costs, revenues, assets and liabilities are to be attributed to activities related to Network Access;
 - 'Accounting Separation System' means the Accounting Separation Attribution and Accounting Separation Measuring System taken together;
 - 'Accounting Standards' means the accounting standards by reference to which BT are required to prepare the Statutory Financial Statements;
 - 'Act' means the Communications Act 2003;

‘Alternative Regulatory Auditor’ means any Auditor not for the time being appointed as BT’s Regulatory Auditor;

‘Attribution Methods’ means the practices used by BT to attribute revenue (including appropriate Transfer Charges), costs (including appropriate Transfer Charges), assets and liabilities to activities or, insofar as those activities have been aggregated into Wholesale Segments or Retail Segments in a given Market or Technical Area (as applicable), to each Wholesale Segment or Retail Segment;

‘Auditing Standards’ means the standards required to be applied by the Statutory Auditor for the purpose of auditing the Statutory Financial Statements;

‘Auditor’ means any auditor which could be appointed as BT’s auditor in accordance with the requirements of the Companies Act 1985 as amended by the Companies Act 1989;

‘BT’ means British Telecommunications plc, whose registered company number is 1800000, and any British Telecommunications plc subsidiary or holding company, or any subsidiary of that holding company, all as defined by Section 736 of the Companies Act 1985 as amended by the Companies Act 1989;

‘Cost Accounting Attribution’ means the totality of all apparatus, data, procedures and activities which BT uses or holds for use to determine the costs, revenues, assets and liabilities to be attributed to an activity, either based upon data recorded by a Cost Accounting Measuring System or otherwise;

‘Cost Accounting Measuring System’ means the totality of all apparatus, systems, data, procedures and activities which BT uses or holds for use to determine the extent to which costs, revenues, assets and liabilities are to be attributed to an activity related to Network Access or the provision of services to End-Users (as appropriate);

‘Cost Accounting System’ means Cost Accounting Attribution and Cost Accounting Measuring System taken together;

‘Current Year Figures’ means, in relation to any set of Financial Statements, the amounts relating to the Financial Year to which the accounts relate;

‘Disaggregated Activities’ means, in respect of a Market or Technical Area, the Wholesale Segments, Wholesale Services, Wholesale Activities, Network Services, Network Activities, Retail Segments, Retail Products, Retail Activities and/or Retail Support Activities used or carried out in the Market or Technical Area, as appropriate;

‘External Wholesale Services’ means services supplied or offered to any Communications Provider other than BT;

‘External Wholesale Services List’ means the list of External Wholesale Services prepared under condition OA26 as amended from time to time under condition OA28;

‘Financial Year’ means a financial year of BT in respect of which annual statutory accounts are required to be (or to have been) prepared and audited in accordance with the requirements of the Companies Act 1985 as amended by the Companies Act 1989;

‘GAAP’ (Generally Accepted Accounting Practice(s)) means United Kingdom or international (as appropriate) conventions, rules and procedures that define currently accepted accounting practice (including, for the avoidance of doubt, not only broad guidelines of general application but also any detailed practices and procedures);

‘ICAEW Guidance’ means the technical release titled “Reporting to Regulators of Regulated Entities: Audit 05/03” issued by the Audit and Assurance Faculty of the Institute of Chartered Accountants in England & Wales in October 2003;

‘Interconnection Circuits’ shall have the meaning attributed to it for the purposes of SMP services conditions AA1 to AA12 set out in the notification pursuant to sections 48(1) and 79 of the Act made by the Director General of Telecommunications on 27 November 2003;

‘Interconnection Services’ mean In-Span Handover (“ISH”), Customer-Sited Handover (“CSH”), ISH extension circuits, Synchronous Transfer Mode-1/ISH handover, and Synchronous Transfer Mode-1/CSH handover;

‘Internal Wholesale Services’ means services equivalent to the External Wholesale Services which, in the absence of horizontal or vertical integration, could be supplied within BT;

‘Internal Wholesale Services List’ means the list of Internal Wholesale Services prepared under condition OA26 as amended from time to time under condition OA28;

‘Long Run Incremental Cost Methodology’ means the long run incremental cost principles, procedures and processes which form the framework under which long run incremental costs are determined by BT;

‘Market’ means the market to which these conditions apply in accordance with paragraph 4 of this notification;

‘Network Activities’ means any activities related to Network Access used directly or indirectly (or which in the absence of horizontal or vertical integration would be used directly or indirectly) in the course of supplying Wholesale Services and any activities used in the course of such activities, excluding those activities which are Wholesale Activities;

‘Network Component’ means, to the extent they are used in the Market or Technical Area (as applicable), the network components specified in any direction given by Ofcom from time to time for the purposes of these conditions;

‘Network Services’ means those groups of Network Activities used directly (or which in the absence of horizontal or vertical integration would be used directly) in the course of supplying Wholesale Services;

‘Primary Accounting Documents’ means documentation setting out the Accounting Policies, the Attribution Methods, the Regulatory Accounting Principles, the Transfer Charge System Methodology and the Long Run Incremental Cost Methodology;

‘Prior Year Comparatives’ means, in relation to any set of Financial Statements, the amounts relating to the Financial Year immediately preceding the Financial Year to

which the accounts relate, re-evaluated if necessary to ensure that such figures are comparable to the Current Year Figures;

‘Process’ means the series of inter-related activities or actions to obtain, record or hold data or information or to carry out any operation or set of operations on the data or information, including:

- i. organisation, storage, adaptation, or alteration of the data or information;
- ii. retrieval, consultation, computation or use of the data or information;
- iii. disclosure of the data or information by transmission, dissemination, or otherwise making available; or
- iv. alignment, combination, blocking, erasing or destruction of the data or information;

‘Regulatory Accounting Principles’ means the principles applied or used by BT in the preparation of the Regulatory Financial Statements;

‘Regulatory Auditor’ means the Auditor for the time being appointed by BT in accordance with these conditions;

‘Regulatory Financial Statement’ means any financial statement in respect of a Financial Year prepared or required to be prepared by BT in accordance with these conditions;

‘Relevant Financial Year’ means the Financial Year in relation to which any given set of Regulatory Financial Statements are required;

‘Retail Activities’ means any activities wholly and exclusively carried out (or which in the absence of horizontal or vertical integration would wholly and exclusively be carried out) in the course of supplying Retail Products and any activities wholly and exclusively carried out in the course of such activities, excluding those activities which are Wholesale Services;

‘Retail Catalogue’ means the documentation required to be produced by BT under condition OA29 as amended from time to time in accordance with condition OA31;

‘Retail Products’ means services used by or offered to any End Users (including BT);

‘Retail Segments’ means groups of Retail Products;

‘Retail Support Activities’ means any activities carried out directly or indirectly (or which in the absence of horizontal or vertical integration would be carried out directly or indirectly) in the course of supplying Retail Products and any activities directly or indirectly carried out in the course of such activities, excluding those activities which are Retail Activities or Wholesale Services;

‘Secondary Accounting Documents’ means documentation setting out details of the policies, methodologies, systems, processes and procedures for deriving or calculating the costs, revenues, assets and liabilities (including detailed attribution methods, detailed valuation methodology and details of long run incremental cost

models) used by BT in addition to the Primary Accounting Documents, the Wholesale Catalogue and the Retail Catalogue to prepare the Regulatory Financial Statements;

‘Statutory Auditor’ means the Auditor for the time being appointed by BT in accordance with the requirements of the Companies Act 1985 as amended by the Companies Act 1989;

‘Statutory Financial Statements’ means any annual account required to be prepared by BT in accordance with the requirements of the Companies Act 1985 as amended by the Companies Act 1989;

‘Technical Areas’ means either Interconnection Circuits or Interconnection Services which are subject to SMP Conditions by virtue of a market power determination in an identified services market;

‘Transfer Charge’ means the charge or price that is applied, or deemed to be applied, by BT to itself for the use or provision of an activity or group of activities. For the avoidance of doubt, such activities or group of activities include, amongst other things, products and services provided from, to or within the Market or Technical Area (as applicable) and the use of Network Components in the Market or Technical Area (as applicable);

‘Transfer Charge System Methodology’ means the methodology of the system employed by BT which enables an activity to use a service or good from another activity and to account for it as though it had purchased that service or good from an unrelated party (including accounting for it at an appropriate amount);

‘Usage Factor’ means the average usage by any Communications Provider (including BT itself) of each Network Component in using or providing a particular product or service or carrying out a particular activity;

‘Wholesale Activities’ means any activities wholly and exclusively carried out (or which in the absence of horizontal or vertical integration would wholly and exclusively be carried out) in the course of supplying Wholesale Services and any activities wholly and exclusively carried out in the course of such activities;

‘Wholesale Catalogue’ means the documentation required to be produced by BT under condition OA26 as amended from time to time in accordance with condition OA29;

‘Wholesale Segments’ means groups of Wholesale Services;

‘Wholesale Services’ means services related to Network Access used by or offered to any Communications Provider (including BT).

3. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them and otherwise any word or expression shall have the same meaning as it has in the Act.
4. The Interpretation Act 1978 shall apply as if each of the conditions were an Act of Parliament.

5. Headings and titles shall be disregarded.

Part 2: The Conditions – Requirements to have cost accounting systems and accounting separation

General requirements

OA1 Except in so far as Ofcom may consent otherwise in writing, BT shall act in the manner set out in these conditions.

OA2 Ofcom may from time to time make such directions as they consider appropriate in relation to BT's Cost Accounting System, Accounting Separation System and its obligations under these conditions.

OA3 BT shall comply with any direction Ofcom may make from time to time under these conditions.

OA4 For the purpose of these conditions, publication shall be effected by

- a. placing a copy of the relevant information on any relevant website operated or controlled by BT; and
- b. sending a copy of the relevant information to any person at that person's written request.

Requirements relating to the preparation, audit, delivery and publication of the Regulatory Financial Statements

OA5 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;
- c. deliver to Ofcom the Regulatory Financial Statements and corresponding audit opinion identified as directed by Ofcom from time to time and in accordance with condition OA6(a);
- d. publish the Regulatory Financial Statements and corresponding audit opinion as directed by Ofcom from time to time and in accordance with condition OA6(b) and (c);
- e. ensure that any Regulatory Financial Statement and corresponding audit opinion that it delivers to Ofcom and/or publishes are fit for such purpose (or purposes), if any, as notified by Ofcom in writing; and
- f. in so far as it is reasonably practicable to monitor the effect of such changes, deliver to Ofcom a report detailing any changes in the Accounting Documents, any Process and any other methodology which caused any figure presented on any one of the Regulatory Financial Statements to

change by more than 5% from the figure that would have been presented had such a change not been made. Any such report shall include details sufficient to render transparent such changes in accordance with any relevant direction Ofcom may make from time to time.

OA6 BT shall:

- a. deliver to Ofcom copies of the Regulatory Financial Statements and any corresponding audit opinion, each and all of which shall be in the form in which they are ultimately to be published, at least two weeks before they are required to be published;
- b. publish the Regulatory Financial Statements and any corresponding audit opinions within 4 months after the end of the period to which they relate; and
- c. publish with the Regulatory Financial Statements any written statement made by Ofcom and provided to BT commenting on the data in, the notes to or the presentation of any or all of the Regulatory Financial Statements and/or the Accounting Documents.

OA7 BT shall make such amendments to the form and content of the Regulatory Financial Statements as are necessary to give effect fully to the requirements of these conditions. BT shall provide to Ofcom particulars of any such amendment, the reasons for it and its effect, when it delivers the Regulatory Financial Statements to Ofcom.

OA8 BT shall prepare all Regulatory Financial Statements, explanations or other information required by virtue of these conditions on a current cost basis and shall be capable of doing so in relation to any period. Such Regulatory Financial Statements, explanations or other information shall be, in the opinion of Ofcom, meaningfully reconcilable to the Statutory Financial Statements.

OA9 BT shall ensure that Accounting Policies shall be applied consistently within the same Regulatory Financial Statements, between Regulatory Financial Statements for the same Financial Year and from one Financial Year to the next. Each Regulatory Financial Statement shall include Prior Year Comparatives which shall be prepared on a basis consistent with Current Year Figures. BT may depart from this requirement in preparing the Regulatory Financial Statements for a Financial Year if there are reasons for doing so provided that the particulars of the departure, the reasons for it and its effect are stated in a note in the Regulatory Financial Statements in accordance with Accounting Standards and GAAP.

OA10 BT shall secure that sufficient checks, controls and meaningful reconciliations are performed between figures contained in the Regulatory Financial Statements and the accounting records (or between figures supplied by either the Cost Accounting System or the Accounting Separation System upon which the Regulatory Financial Statements rely and (i) other figures supplied by either the Cost Accounting System or the Accounting Separation System and/or (ii) the accounting records) to:

- a. enable the Regulatory Auditor to conclude that, in its opinion, both the Cost Accounting System and the Accounting Separation System complies with the Accounting Documents; and
- b. enable the Regulatory Financial Statements to be audited and an audit opinion expressed upon them in accordance with any relevant direction of Ofcom under these conditions.

OA11 BT shall preserve records sufficient to provide an adequate explanation of each Regulatory Financial Statement for a period of six years from the date on which each Regulatory Financial Statement is delivered to Ofcom.

Requirements relating to audit of the Regulatory Financial Statements

OA12 The Regulatory Auditor that BT from time to time appoints shall at all times be satisfactory to Ofcom having regard to such matters as Ofcom consider appropriate. BT shall notify Ofcom in writing of the Auditor appointed to secure compliance with these conditions before the Auditor carries out any work for that purpose. BT shall notify Ofcom of any proposed change of Regulatory Auditor 28 days before effect is given to that change.

OA13 In the event that the Regulatory Auditor is in the opinion of Ofcom unsatisfactory, BT shall appoint and instruct an Alternative Regulatory Auditor that is at all times satisfactory to Ofcom having regard to such matters as Ofcom consider appropriate. BT shall ensure that the Alternative Regulatory Auditor:

- a. carries out such on going duties as are required to secure compliance with these conditions;
- b. carries out work or further work, in addition to that performed by the Statutory Auditor and/or by the former Regulatory Auditor, in relation to such matters connected to compliance with these conditions as are of concern to Ofcom and notified to BT in writing; and/or
- c. re-performs work previously performed by the Statutory Auditor and/or by the former Regulatory Auditor in relation to such matters connected to compliance with this Condition as are of concern to Ofcom and notified to BT in writing.

OA14 BT shall extend to the Alternative Regulatory Auditor such assistance and co-operation as would be extended to the Statutory Auditor and/or to the Regulatory Auditor and, to the extent similar assistance and co-operation may be required from the Statutory Auditor and/or from the former Regulatory Auditor, BT shall use its best endeavours to secure such assistance and co-operation.

OA15 BT's letter of engagement appointing the Regulatory Auditor shall include such provisions acknowledging the acceptance by the Regulatory Auditor of duties and responsibilities to Ofcom in respect of its audit work, audit report and audit opinion as are consistent with the ICAEW Guidance.

OA16 BT shall use its best endeavours to obtain from the Regulatory Auditor any further explanation and clarification of any audit opinion required under these conditions and any other information in respect of the matters which are the subject of that audit opinion as Ofcom shall require.

Requirements relating to the Primary and Secondary Accounting Documents

OA17 BT shall review the Primary Accounting Documents as they exist before the coming into force of these conditions, and to the extent these documents do not comply with these conditions, BT shall by four months after the date on which these conditions come into force make changes to the Primary Accounting Documents to render them compliant. Such changes shall be delivered to Ofcom on or before four months after the date on which these conditions comes into force together with a copy of the Primary Accounting Documents

marked up to show the effect of such changes. All such changes shall take effect on the date on which they are delivered to Ofcom.

OA18 Following the review of the Primary Accounting Documents in accordance with condition OA17, BT shall prepare the Secondary Accounting Documents in accordance with the Primary Accounting Documents and the requirements of these conditions. The Secondary Accounting Documents shall be delivered to Ofcom eight months after the date on which these conditions come into force.

OA19 BT shall,

- a. publish the Primary Accounting Documents on or by four months after the date on which these conditions come into force following their first review in accordance with condition OA17;
- b. publish the Secondary Accounting Documents following their first review in accordance with condition OA18 on or prior to the date of publication of the Regulatory Financial Statements in accordance with conditions OA5 and OA6; and
- c. thereafter publish, and deliver to Ofcom, details of any amendment to the Accounting Documents as soon as practicable, and in any event within 28 days of the incorporation of such an amendment into the Accounting Documents. Such amendments shall take effect when delivered to Ofcom.

OA20 Insofar as there is any inconsistency between any or all of the Primary Accounting Documents, the Primary Accounting Documents shall have the following order of priority:

- a. the Regulatory Accounting Principles;
- b. the Attribution Methods;
- c. the Transfer Charge System Methodology;
- d. the Accounting Policies;
- e. the Long Run Incremental Cost Methodology.

Requirements relating to the up-dating of systems, Accounting Documents and form and content

OA21 BT shall make such amendments as are from time to time required to:

- a. the Cost Accounting System and the Accounting Separation System;
- b. the Accounting Documents; and
- c. the form and content of the Financial Statements,

in order to ensure that they are consistent with, and give effect fully to:

- i. any modifications of any SMP conditions;
- ii. any formal undertakings given by BT to Ofcom following investigations by them into possible contraventions by BT of any SMP conditions or

any provisions of the Act and following any dispute considered by Ofcom under the Act; and

- iii. any enforcement notifications, directions, consents and determinations given or made by Ofcom from time to time under any SMP condition or under the Act or in relation to any dispute considered by Ofcom under the Act,

and BT shall make such amendments, and notify Ofcom in writing of such amendments, within three months of the modifications, formal undertakings, enforcement notifications, directions, consents and determinations having been made, provided that the requirements of this paragraph shall be suspended pending the final disposal of any proceedings seeking to have any such modifications, enforcement notifications, directions, consents, or determinations, quashed, set aside, modified or varied.

Requirements relating to deficiencies in the Regulatory Financial Statements and the Accounting Documents

OA22 Where Ofcom have reasonable grounds to believe that any or all of the Regulatory Financial Statements and/or Accounting Documents are deficient, BT shall, where directed by Ofcom:

- a. amend the Accounting Documents in order to remedy the deficiencies identified by Ofcom;
- b. restate the Regulatory Financial Statements identified by Ofcom as requiring restatement in accordance with the Accounting Documents which have, where necessary, been amended pursuant to subparagraph (a);
- c. secure in accordance with any relevant direction of Ofcom under this Condition the expression of an audit opinion on the restated Regulatory Financial Statements;
- d. deliver to Ofcom the restated Regulatory Financial Statements and corresponding audit opinion; and
- e. publish the restated Regulatory Financial Statements and corresponding audit opinion.

Requirements relating to the maintenance of sufficient accounting records

OA23 BT shall maintain accounting records in a form which, on a historical cost basis and on a current cost basis:

- a. enables the Market, Technical Areas, and the Disaggregated Activities (as applicable) to be separately identified; and the costs, revenues, assets and liabilities of the Market, Technical Areas and the Disaggregated Activities (as applicable) to be separately attributable;
- b. enables the Network Services, and, insofar as they have been disaggregated in terms of Network Activities, each of the Network Activities, to be separately identified; and the costs, revenues, assets and liabilities of the Network Services, and, insofar as they have been disaggregated in

terms of Network Activities, each of the Network Activities, to be separately attributable;

- c. shows and explains the transactions of each of the Market, Technical Areas, and Disaggregated Activities (as applicable); and
- d. enables the Accounting Separation Market Activities and, insofar as these comprise or use Accounting Separation Activities, each of the Accounting Separation Activities, to be separately identified; and the revenues, costs, assets and liabilities of the Accounting Separation Market Activities and, insofar as these comprise or use Accounting Separation Activities, the revenues, costs, assets and liabilities of each of those Accounting Separation Activities, to be separately attributable;
- e. shows and explains the transactions of the Accounting Separation Market Activities and, insofar as these comprise or use Accounting Separation Activities, the transactions of each of the Accounting Separation Activities; and
- f. enables BT to prepare Regulatory Financial Statements (including any disaggregation inherent therein) which comply with the requirements of these conditions both on a historical cost basis and on a current cost basis.

OA24 The accounting records referred to in condition OA23 and all associated documentation shall be, as appropriate:

- a. maintained in accordance with the Accounting Documents;
- b. maintained in order to ensure compliance with these conditions;
- c. sufficient to enable the Regulatory Financial Statements to have expressed upon them any relevant audit opinion required under these conditions;
- d. sufficient to ensure that charges for Network Access can be shown to be fair and reasonable and not to be unduly discriminatory; and
- e. sufficient to provide a complete justification of BT's charges for Network Access; and
- f. sufficient to provide a complete justification of BT's charges for the provision of services to End Users.

Requirement to facilitate on-demand reporting

OA25 BT shall ensure that its accounting and reporting arrangements (including Processes and Cost Accounting System) are sufficient to enable BT, at all times, to be capable of preparing in relation to any specified calendar month or months a financial statement in accordance with the Accounting Documents.

Requirements relating to the preparation and maintenance of a Wholesale Catalogue

OA26 BT shall ensure that by three months after the date on which these conditions come into force,

- a. all of its Wholesale Services as at the date on which these conditions come into force are identified as either External Wholesale Services and placed on the External Wholesale Services List or Internal Wholesale Services and placed on the Internal Wholesale Services List or, where appropriate, are identified as being both External Wholesale Services and Internal Wholesale Services and place on both the External Wholesale Services List and the Internal Wholesale Services List;
- b. an accurate description is prepared of all BT's Internal Wholesale Services, External Wholesale Services and Wholesale Activities as at the date these conditions come into force sufficient in the opinion of Ofcom to enable them to determine whether these activities have been appropriately identified and sufficiently described; and
- c. an accurate description is prepared of all of BT's Network Services and the extent to which these activities are used in the course of supplying Wholesale Services as at the date these conditions come into force sufficient in the opinion of Ofcom to enable them to determine whether these activities and their use have been appropriately identified and adequately described.

OA27 The Wholesale Catalogue shall be delivered to Ofcom as soon as practicable after the date on which these conditions come into force and in any event by four months after that date.

OA28 BT shall ensure that when from time to time Wholesale Activities and Network Activities used in the course of supplying Wholesale Services vary from those as at the date on which these conditions come into force (including, amongst other changes, new activities and the cessation of former activities) it shall within 28 days of such variation:

- d. amend the Wholesale Catalogue to reflect such variation; and
- e. deliver to Ofcom the amended version of the Wholesale Catalogue marked up to show those amendments.

The revised version of the Wholesale Catalogue shall be sufficient to enable Ofcom to determine whether such activities have been identified appropriately and their use categorised correctly.

Requirements relating to the preparation and maintenance of a Retail Catalogue

OA29 BT shall ensure that by three months after the date on which these conditions come into force,

- a. all of its Retail Activities, Retail Products and Retail Support Activities as at the date on which these conditions come into force are identified as Retail Products, Retail Activities and Retail Support Activities;
- b. an accurate description is prepared of all of BT's Retail Activities and Retail Products as at the date on which these conditions come into force sufficient in the opinion of Ofcom to enable them to determine whether these activities have been appropriately identified and sufficiently described; and
- c. an accurate description is prepared of all BT's Retail Support Activities and the extent to which these activities are used in the course of supplying Retail Products as at the date on which these conditions come into force, sufficient

in the opinion of Ofcom to enable them to determine whether these activities and their use have been appropriately identified and adequately described.

OA30 The Retail Catalogue shall be delivered to Ofcom as soon as practicable after the date on which these conditions come into force and in any event by four months after that date.

OA31 BT shall ensure that when from time to time Retail Activities, Retail Products or Retail Support Activities vary from those as at the date on which these conditions come into force (including, amongst other changes, new activities and the cessation of former activities) it shall within 28 days of such variation:

- a. amend the Retail Catalogue to reflect such variation; and
- b. deliver to Ofcom the amended version of the Retail Catalogue marked up to show those amendments.

The revised version of the Retail Catalogue shall be sufficient to enable Ofcom to determine whether such activities have been identified appropriately and their use attributed accurately.

Further accounting separation requirements

OA32 BT shall maintain a separation for accounting purposes of the Accounting Separation Market Activities from other activities and of Accounting Separation Activities from other activities, so as to:

- a. identify all elements of revenue, cost, assets and liabilities, with the basis of their calculation and the detailed attribution methods used, related to the Accounting Separation Market Activities and Accounting Separation Activities including an itemised breakdown of fixed assets; and
- b. ensure that Accounting Separation Market Activities and Accounting Separation Activities are identified and are recorded at an appropriate amount in accordance with the Accounting Documents.

Requirements relating to the demonstration of non-discrimination

OA33 BT shall ensure it is able to demonstrate that at any point in time:

- a. where a Network Service or combination of Network Services is used by BT in providing Internal Wholesale Services, the amount applied and incorporated in the Transfer Charge for the Internal Wholesale Service in respect of the use of the Network Services is equivalent to the amount applied and incorporated for the use of the Network Services or combination of Network Services in the charge payable for an equivalent External Wholesale Service;
- b. the same amount as applied and incorporated in the Transfer Charge for the Internal Wholesale Service in subparagraph (a) in respect of the use of the Network Services is applied to the Network Service or combination of Network Services whenever it is used by BT in providing an Internal Wholesale Service; and
- c. the same amount as applied and incorporated in the Transfer Charge for the equivalent External Wholesale Service in subparagraph (a) in respect of the use of the Network Services is applied to the Network Service or

combination of Network Services whenever it is used by BT in providing an External Wholesale Service;

- d. the amount applied and incorporated in the Transfer Charge for the Internal Wholesale Service in subparagraph (a) in respect of the use of the Network Services shall be the cost of those Network Services unless the Network Service concerned is one of the Accounting Separation Activities.

OA34 BT shall ensure it is able to demonstrate that at any point in time:

- a. where a Retail Support Activity or combination of Retail Support Activities is used by BT in providing Retail Products, the same amount is applied and incorporated in the charge for the Retail Products whenever the Retail Support Activity or combination of Retail Support Activities is used by BT in the course of supplying Retail Products;
- b. where a Wholesale Service or combination of Wholesale Services is used by BT in providing Retail Products, the same amount is applied and incorporated in the charge for the Retail Products whenever the Wholesale Service or combination of Wholesale Services is used by BT in the course of supplying Retail Products; and
- c. the amount applied and incorporated in the charge for Retail Products in respect of the use of Wholesale Services shall be the Transfer Charge of those Wholesale Services unless no Transfer Charge exists in which event it shall be the cost of those Wholesale Services.

Annex 3

Notification to Kingston

NOTIFICATION UNDER SECTIONS 48(1) AND 86(1) OF THE COMMUNICATIONS ACT 2003

Notification setting further SMP services conditions on Kingston in relation to regulatory accounting in respect of various markets

WHEREAS

- A. OFCOM issued a notification pursuant to section 48(2) and 86(1) of the Act setting out their proposals for the setting of further SMP services conditions in relation to Kingston on 8 April 2004 ('the First Notification');
- B. A copy of the First Notification was sent to the Secretary of State in accordance with section 50(1)(a), the European Commission and to the regulatory authorities of every other Member State in accordance with section 50(3) of the Act;
- C. In the First Notification and accompanying explanatory statement, OFCOM invited representations about any of the proposals set out therein by 10 May 2004;
- D. By virtue of section 48(5) of the Act, OFCOM may give effect to any proposals to set SMP services conditions set out in the First Notification, with or without modification, where:
 - i. they have considered every representation about the proposals made to them within the period specified in the First Notification; and
 - ii. 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;
- E. OFCOM received responses to the First Notification and have considered every such representation made to them in respect of the proposals set out in the First Notification and the accompanying explanatory statement; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

THEREFORE

- 1. OFCOM, in accordance with sections 48(1) and 86(1) of the Act, hereby set further SMP services conditions by reference to market power determinations made in relation to markets in which OFCOM are satisfied there has been no material change since those determinations were made.
- 2. The SMP services conditions set by this Notification are further to the market power determinations made in the Notifications made under section 79 of the Act by the Director or Ofcom (as appropriate) as set out in Schedule 1 to this Notification.
- 3. By virtue of the Transitional Provisions, the market power determinations made by the Director set out in Schedule 1 to this Notification are to have effect as if made by OFCOM.

4. OFCOM are proposing to set further SMP services conditions on Kingston as follows:
 - a. in respect of the wholesale markets:
 - i. numbered 1, 3, 4, 6, and 7 set out in Part 1 of Schedule 1 to this Notification, the SMP services conditions as set out in Schedule 2 to this Notification, excluding conditions OB28 to OB30 and condition OB33;
 - ii. numbered 9 to 11 set out in Part 1 of Schedule 1 to this Notification, the SMP services conditions as set out in Schedule 2 to this Notification, excluding conditions (d) and (e) of condition OB23, conditions OB28 to OB31 and condition OB33;
 - iii. numbered 2, 5 and 8 set out in Part 1 of Schedule 1 to this Notification, the SMP services conditions as set out in Schedule 2 to this Notification, excluding (a) to (c) and (f) of condition OB23, conditions OB28 to OB30 and condition OB33; and
 - b. in respect of the retail markets set out in Part 2 of Schedule 1 to this Notification, the SMP services conditions as set out in Schedule 2 to this Notification, excluding (b), (d) and (e) of condition OB23, conditions OB25 to OB27, condition OB31 and condition OB32.
5. OFCOM consider that the SMP services conditions referred to in paragraph 4 above comply with the requirements of sections 45 to 50 and sections 78 to 92 of the Act, as appropriate and relevant to each such SMP services condition.
6. In setting the SMP services conditions by way of this Notification, OFCOM have considered and acted in accordance with their general duties in section 3 of the Act and the six Community requirements in section 4 of the Act.
7. Copies of this Notification and the accompanying explanatory statement have been sent to the Secretary of State in accordance with section 50(1)(a) of the Act, and to the European Commission in accordance with section 50(2) of the Act.
8. In this Notification (not including the Schedules) -
 - a. 'the Act' means the Communications Act 2003;
 - b. 'Kingston' means Kingston Communications (Hull) plc, whose registered company number is 2150618, and any Kingston Communications (Hull) plc subsidiary or holding company, or any subsidiary of that holding company, all as defined by Section 736 of the Companies Act 1985 as amended by the Companies Act 1989;
 - c. 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
 - d. 'OFCOM' means the Office of Communications;
 - e. '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) Order 2003 and Communications Act 2003 (Commencement No 2) Order 2003; and

- f. except as otherwise defined in this Notification, words or expressions used shall have the same meaning as in the Act.

DAVID K S THOMAS
DIRECTOR OF REGULATORY FINANCE

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

22 July 2004

SCHEDULE 1

Market Power Determinations made by Ofcom or the Director General of Telecommunications in respect of Kingston Communications (Hull) plc to which the further SMP services conditions apply in accordance with the Notification

In this Schedule:

- a. 'the Act' means the Communications Act 2003;
- b. 'Category A calls' and 'Category B calls' mean calls to the international destinations as are set out respectively in Part 3 of this Schedule;
- c. 'Hull Area' means the area defined as the 'Licensed Area' in the licence granted on 30 November 1987 by the Secretary of State under section 7 of the Telecommunications Act 1984 to Kingston upon Hull City Council and Kingston Communications (Hull) plc;
- d. 'Kingston' means Kingston Communications (Hull) plc, whose registered company number is 2150618, and any Kingston Communications (Hull) plc subsidiary or holding company, or any subsidiary of that holding company, all as defined by Section 736 of the Companies Act 1985 as amended by the Companies Act 1989;
- e. 'UK' means the United Kingdom as defined in the Interpretation Act 1973.

Part 1: Wholesale Markets

Market identified and in which Kingston found to have SMP in previous Notification pursuant to section 79 of the Act	Date
1. Wholesale residential analogue exchange line services in the Hull Area	28.11.03
2. Wholesale residential ISDN2 exchange line services in the Hull Area	As above
3. Wholesale business analogue exchange line services in the Hull Area	As above
4. Wholesale business ISDN2 exchange line services in the Hull Area	As above
5. Wholesale ISDN30 exchange line services in the Hull Area	As above
6. Call origination on fixed public narrowband networks in the Hull Area	As above
7. Fixed geographic call termination provided by Kingston	28.11.03
8. Asymmetric broadband origination in the Hull Area	13.05.04
9. Provision of traditional interface symmetric broadband origination with a bandwidth capacity up to and including eight megabits per second within the Hull Area	24.06.04
10. Provision of traditional interface symmetric broadband origination with a bandwidth capacity above eight megabits per second and up to and including one hundred and fifty five megabits per second within the Hull Area	As above
11. Provision of alternative interface symmetric broadband origination at all bandwidths within the Hull Area	As above

Part 2: Retail Markets

Market identified and in which Kingston found to have SMP in previous Notification pursuant to section 79 of the Act	Date
12. Provision of traditional interface retail leased lines up to and including a bandwidth capacity of eight megabits per second within the Hull Area	24.06.04

Part 3: International routes

Category A

Andorra
 Antigua and Barbuda
 Argentina
 Australia
 Austria
 Azerbaijan
 Bahamas
 Bahrain
 Bangladesh
 Barbados
 Belarus
 Belgium
 Belize
 Bermuda
 Bolivia
 Botswana
 Brazil
 Brunei Darussalam
 Bulgaria
 Canada
 Cayman Islands
 Chile
 China
 Colombia
 Costa Rica
 Croatia
 Cyprus
 Czech Republic
 Denmark
 Dominica
 Dominican Republic
 Ecuador
 Egypt
 El Salvador
 Estonia
 Falkland Islands
 Finland
 France
 French Guiana
 Gambia
 Germany
 Ghana

Gibraltar
Greece
Grenada
Guadeloupe
Guatemala
Guyana
Hong Kong
Hungary
Iceland
India
Indonesia
Iran
Ireland
Israel
Italy
Jamaica
Japan
Jordan
Kazakhstan
Kenya
Korea (South)
Kuwait
Laos
Latvia
Luxembourg
Macau
Malaysia
Maldives
Malta
Martinique
Mexico
Monaco
Mongolia
Morocco
Nepal
Netherlands
Netherlands Antilles
New Zealand
Nicaragua
Nigeria
Norwa
Oman
Pakistan
Panama
Paraguay
Peru
Philippines
Poland
Portugal
Qatar
Reunion
Russian Federation
Saint Helena
Saint Lucia
Saint Vincent & the Grenadines

Saudi Arabia
Singapore
Slovak Republic
Slovenia
South Africa
Spain
Sri Lanka
Sweden
Switzerland
Syria
Taiwan
Tanzania
Thailand
Tunisia
Turkey
Ukraine
United Arab Emirates
Uruguay
USA
Venezuela
Vietnam
Virgin Islands (UK)
Yemen
Yugoslavia
Zambia
Zimbabwe

Category B

Afghanistan
Albania
Algeria
American Samoa
Angola
Anguilla
Antarctica Australian Territory
Armenia
Aruba
Benin
Bhutan
Bosnia and Herzegovina
Burkina Faso
Burundi
Cambodia
Cameroon
Cape Verde
Central African Republic
Chad
Comoros
Congo
Congo, DR
Cook Islands
Côte d'Ivoire
Cuba
Djibouti

East Timor
Equatorial Guinea
Eritrea
Ethiopia
Faroe Islands
Fiji
French Polynesia
Gabon
Georgia
Greenland
Guam
Guinea
Guinea Bissau
Haiti
Honduras
Iraq
Kiribati
Korea, PDR
Kirgizstan
Lebanon
Lesotho
Liberia
Libya
Liechtenstein
Lithuania
Macedonia
Madagascar
Malawi
Mali
Marshall Islands
Mauritania
Mauritius
Mayotte
Micronesia
Midway Islands
Moldova
Mozambique
Myanmar
Namibia
Nauru
New Caledonia
Niger
Niue
Norfolk Island
Northern Marianas
Palau
Papua New Guinea
Puerto Rico
Rodriguez Islands
Romania
Rwanda
Saint Kitts & Nevis
Saint Pierre & Miquelon
Samoa
San Marino

Sao Tome and Principe
Senegal
Seychelles
Sierra Leone
Solomon Islands
Somalia
Sudan
Suriname
Swaziland
Tajikistan
Togo
Tokelau
Tonga
Trinidad & Tobago
Tristan Da Cunha
Turkmenistan
Tuvalu
Uganda
Uzbekista
Vanuatu
Virgin Islands (US)
Wake Island
Wallis & Futuna

Emsat
Inmarsat

Iridium
Thuraya

SCHEDULE 2

The further conditions to be imposed on Kingston under sections 45 and 87 of the Communications Act 2003

Part 1: Definitions and Interpretation of these conditions

1. These conditions shall apply to the markets as described in Schedule 1 of this notification, in accordance with paragraph 4 of this notification, under sections 45 and 87 of the Communications Act 2003 and to the following technical areas: in-span Interconnection links and Interconnection Services.

2. For the purpose of interpreting these conditions the following definitions shall apply:

‘Accounting Documents’ means together the Primary Accounting Documents, the Secondary Accounting Documents, and either the Wholesale Catalogue or the Retail Catalogue as appropriate, all as amended from time to time in accordance with these conditions;

‘Accounting Policies’ means the manner in which the requirements of the Companies Act 1985 as amended by the Companies Act 1989, the Accounting Standards and the accounting policies whenever not superseded by the Regulatory Accounting Principles, are applied by Kingston in each of the Regulatory Financial Statements;

‘Accounting Separation Activities’ means Wholesale Services and those Wholesale Activities, Network Services and Network Activities used directly or indirectly in the course of supplying Wholesale Services;

‘Accounting Separation Attribution’ means the totality of all apparatus, data, procedures and activities which Kingston uses or holds for use to determine the costs, revenues, assets and liabilities to be attributed to an activity, either based upon data recorded by an Accounting Separation Measuring System or otherwise;

‘Accounting Separation Market Activities’ means all of the Wholesale Services supplied in the Market or Technical Area (as applicable) and all of the Wholesale Activities, Network Services and Network Activities used directly or indirectly in the course of supplying those Wholesale Services;

‘Accounting Separation Measuring System’ means the totality of all apparatus, systems, data, procedures and activities which Kingston uses or holds for use to determine the extent to which costs, revenues, assets and liabilities are to be attributed to activities related to Network Access;

‘Accounting Separation System’ means the Accounting Separation Attribution and Accounting Separation Measuring System taken together;

‘Accounting Standards’ means the accounting standards by reference to which Kingston are required to prepare the Statutory Financial Statements;

‘Act’ means the Communications Act 2003;

‘Alternative Regulatory Auditor’ means any Auditor not for the time being appointed as Kingston’s Regulatory Auditor;

‘Attribution Methods’ means the practices used by Kingston to attribute revenue (including appropriate Transfer Charges), costs (including appropriate Transfer Charges), assets and

liabilities to activities or, insofar as those activities have been aggregated into Wholesale Segments or Retail Segments in a given Market or Technical Area (as applicable), to each Wholesale Segment or Retail Segment;

‘Auditing Standards’ means the standards required to be applied by the Statutory Auditor for the purpose of auditing the Statutory Financial Statements;

‘Auditor’ means any auditor which could be appointed as Kingston’s auditor in accordance with the requirements of the Companies Act 1985 as amended by the Companies Act 1989;

‘Cost Accounting Attribution’ means the totality of all apparatus, data, procedures and activities which Kingston uses or holds for use to determine the costs, revenues, assets and liabilities to be attributed to an activity, either based upon data recorded by a Cost Accounting Measuring System or otherwise;

‘Cost Accounting Measuring System’ means the totality of all apparatus, systems, data, procedures and activities which Kingston uses or holds for use to determine the extent to which costs, revenues, assets and liabilities are to be attributed to an activity related to Network Access or the provision of services to End-Users (as appropriate);

‘Cost Accounting System’ means Cost Accounting Attribution and Cost Accounting Measuring System taken together;

‘Current Year Figures’ means, in relation to any set of Financial Statements, the amounts relating to the Financial Year to which the accounts relate;

‘Disaggregated Activities’ means, in respect of a Market or Technical Area, the Wholesale Segments, Wholesale Services, Wholesale Activities, Network Services, Network Activities, Retail Segments, Retail Products, Retail Activities and/or Retail Support Activities used or carried out in the Market or Technical Area, as appropriate;

‘External Wholesale Services’ means services supplied or offered to any Communications Provider other than Kingston;

‘External Wholesale Services List’ means the list of External Wholesale Services prepared under condition OB25 as amended from time to time under condition OB27;

‘Financial Year’ means a financial year of Kingston in respect of which annual statutory accounts are required to be (or to have been) prepared and audited in accordance with the requirements of the Companies Act 1985 as amended by the Companies Act 1989;

‘GAAP’ (Generally Accepted Accounting Practice(s)) means United Kingdom or international (as appropriate) conventions, rules and procedures that define currently accepted accounting practice (including, for the avoidance of doubt, not only broad guidelines of general application but also any detailed practices and procedures);

‘ICAEW Guidance’ means the technical release titled “Reporting to Regulators of Regulated Entities: Audit 05/03” issued by the Audit and Assurance Faculty of the Institute of Chartered Accountants in England & Wales in October 2003;

‘Interconnection Services’ means In-Span Handover (“ISH”), Customer-Sited Handover (“CSH”), ISH extension circuits, Synchronous Transfer Mode-1/ISH handover, and Synchronous Transfer Mode-1/CSH handover;

'Internal Wholesale Services' means services equivalent to the External Wholesale Services which, in the absence of horizontal or vertical integration, could be supplied within Kingston;

'Internal Wholesale Services List' means the list of Internal Wholesale Services prepared under condition OB25 as amended from time to time under condition OB27;

'Kingston' means Kingston Communications (Hull) plc, whose registered company number is 2150618, and any Kingston Communications (Hull) plc subsidiary or holding company, or any subsidiary of that holding company, all as defined by Section 736 of the Companies Act 1985 as amended by the Companies Act 1989;

'Market' means the market to which these conditions apply in accordance with paragraph 4 of this notification;

'Network Activities' means any activities related to Network Access used directly or indirectly (or which in the absence of horizontal or vertical integration would be used directly or indirectly) in the course of supplying Wholesale Services and any activities used in the course of such activities, excluding those activities which are Wholesale Activities;

'Network Component' means, to the extent they are used in the Market or Technical Area (as applicable), the network components specified in any direction given by Ofcom from time to time for the purposes of these conditions;

'Network Services' means those groups of Network Activities used directly (or which in the absence of horizontal or vertical integration would be used directly) in the course of supplying Wholesale Services;

'Primary Accounting Documents' means documentation setting out the Accounting Policies, the Attribution Methods, the Regulatory Accounting Principles, and the Transfer Charge System Methodology;

'Prior Year Comparatives' means, in relation to any set of Financial Statements, the amounts relating to the Financial Year immediately preceding the Financial Year to which the accounts relate, re-evaluated if necessary to ensure that such figures are comparable to the Current Year Figures;

'Process' means the series of inter-related activities or actions to obtain, record or hold data or information or to carry out any operation or set of operations on the data or information, including:

- i. organisation, storage, adaptation, or alteration of the data or information;
- ii. retrieval, consultation, computation or use of the data or information;
- iii. disclosure of the data or information by transmission, dissemination, or otherwise making available; or
- iv. alignment, combination, blocking, erasing or destruction of the data or information;

'Regulatory Accounting Principles' means the principles applied or used by Kingston in the preparation of the Regulatory Financial Statements;

'Regulatory Auditor' means the Auditor for the time being appointed by Kingston in accordance with these conditions;

'Regulatory Financial Statement' means any financial statement in respect of a Financial Year prepared, or required to be prepared by Kingston in accordance with these conditions;

'Relevant Financial Year' means the Financial Year in relation to which any given set of Regulatory Financial Statements are required;

'Retail Activities' means any activities wholly and exclusively carried out (or which in the absence of horizontal or vertical integration would wholly and exclusively be carried out) in the course of supplying Retail Products and any activities wholly and exclusively carried out in the course of such activities, excluding those activities which are Wholesale Services;

'Retail Catalogue' means the documentation required to be produced by Kingston under condition OB28 as amended from time to time in accordance with condition OB30;

'Retail Products' means services used by or offered to any End Users (including Kingston);

'Retail Segments' means groups of Retail Products;

'Retail Support Activities' means any activities carried out directly or indirectly (or which in the absence of horizontal or vertical integration would be carried out directly or indirectly) in the course of supplying Retail Products and any activities directly or indirectly carried out in the course of such activities, excluding those activities which are Retail Activities or Wholesale Services;

'Secondary Accounting Documents' means documentation setting out details of the policies, methodologies, systems, processes and procedures for deriving or calculating the costs, revenues, assets and liabilities (including detailed attribution methods and detailed valuation methodology) used by Kingston in addition to the Primary Accounting Documents, the Wholesale Catalogue and the Retail Catalogue to prepare the Regulatory Financial Statements;

'Statutory Auditor' means the Auditor for the time being appointed by Kingston in accordance with the requirements of the Companies Act 1985 as amended by the Companies Act 1989;

'Statutory Financial Statements' means any annual report required to be prepared by Kingston in accordance with the requirements of the Companies Act 1985 as amended by the Companies Act 1989;

'Technical Areas' means either in-span Interconnection links or Interconnection Services which are subject to SMP Conditions by virtue of a market power determination in an identified services market;

'Transfer Charge' means the charge or price that is applied, or deemed to be applied, by Kingston to itself for the use or provision of an activity or group of activities. For the avoidance of doubt, such activities or group of activities include, amongst other things, products and services provided from, to or within the Market or Technical Area (as applicable) and the use of Network Components in the Market or Technical Area (as applicable);

'Transfer Charge System Methodology' means the methodology of the system employed by Kingston which enables an activity to use a service or good from another activity and to

account for it as though it had purchased that service or good from an unrelated party (including accounting for it at an appropriate amount);

‘Usage Factor’ means the average usage by any Communications Provider (including Kingston itself) of each Network Component in using or providing a particular product or service or carrying out a particular activity;

‘Wholesale Activities’ means any activities wholly and exclusively carried out (or which in the absence of horizontal or vertical integration would wholly and exclusively be carried out) in the course of supplying Wholesale Services and any activities wholly and exclusively carried out in the course of such activities;

‘Wholesale Catalogue’ means the documentation required to be produced by Kingston under condition OB25 as amended from time to time in accordance with condition OB27;

‘Wholesale Segments’ means groups of Wholesale Services;

‘Wholesale Services’ means services related to Network Access used by or offered to any Communications Provider (including Kingston).

3. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them and otherwise any word or expression shall have the same meaning as it has in the Act.
4. The Interpretation Act 1978 shall apply as if each of the conditions were an Act of Parliament.
5. Headings and titles shall be disregarded.

Part 2: The Conditions – Requirements to have cost accounting systems and accounting separation

General requirements

OB1 Except in so far as Ofcom may consent otherwise in writing, Kingston shall act in the manner set out in these conditions.

OB2 Ofcom may from time to time make such directions as they consider appropriate in relation to Kingston's Cost Accounting System, Accounting Separation System and its obligations under these conditions.

OB3 Kingston shall comply with any direction Ofcom may make from time to time under these conditions.

OB4 For the purpose of these conditions, publication shall be effected by

- a. placing a copy of the relevant information on any relevant website operated or controlled by Kingston; and
- b. sending a copy of the relevant information to any person at that person's written request.

Requirements relating to the preparation, audit, delivery and publication of the Regulatory Financial Statements

OB5 Kingston 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;
- c. deliver to Ofcom the Regulatory Financial Statements and corresponding audit opinion identified as directed by Ofcom from time to time and in accordance with condition OB6(a);
- d. publish the Regulatory Financial Statements and corresponding audit opinion as directed by Ofcom from time to time and in accordance with condition OB6(b) and (c);
- e. ensure that any Regulatory Financial Statements and corresponding audit opinion that it delivers to Ofcom and/or publishes are fit for such purpose (or purposes), if any, as notified by Ofcom in writing; and
- f. in so far as it is reasonably practicable to monitor the effect of such changes, deliver to Ofcom a report detailing any changes in the Accounting Documents, any Process and any other methodology which caused any figure presented on any one of the Regulatory Financial Statements to change by more than 5% from the figure

that would have been presented had such a change not been made. Any such report shall include details sufficient to render transparent such changes in accordance with any relevant direction Ofcom may make from time to time.

OB6 Kingston shall:

- a. deliver to Ofcom copies of the Regulatory Financial Statements and any corresponding audit opinion, each and all of which shall be in the form in which they are ultimately to be published, at least two weeks before they are required to be published;
- b. publish the Regulatory Financial Statements and any corresponding audit opinions within 4 months after the end of the period to which they relate; and
- c. publish with the Regulatory Financial Statements any written statement made by Ofcom and provided to Kingston commenting on the data in, the notes to or the presentation of any or all of the Regulatory Financial Statements and/or the Accounting Documents.

OB7 Kingston shall make such amendments to the form and content of the Regulatory Financial Statements as are necessary to give effect fully to the requirements of these conditions. Kingston shall provide to Ofcom particulars of any such amendment, the reasons for it and its effect, when it delivers the Regulatory Financial Statements to Ofcom.

OB8 Kingston shall prepare all Regulatory Financial Statements, explanations or other information required by virtue of these conditions on a current cost basis and shall be capable of doing so in relation to any period. Such Financial Statements, explanations or other information shall be, in the opinion of Ofcom, meaningfully reconcilable to the Statutory Financial Statements.

OB9 Kingston shall ensure that Accounting Policies shall be applied consistently within the same Regulatory Financial Statements, between Regulatory Financial Statements for the same Financial Year and from one Financial Year to the next. Each Regulatory Financial Statement shall include Prior Year Comparatives which shall be prepared on a basis consistent with Current Year Figures. Kingston may depart from this requirement in preparing the Regulatory Financial Statements for a Financial Year if there are reasons for doing so provided that the particulars of the departure, the reasons for it and its effect are stated in a note in the Regulatory Financial Statements in accordance with Accounting Standards and GAAP.

OB10 Kingston shall secure that sufficient checks, controls and meaningful reconciliations are performed between figures contained in the Regulatory Financial Statements and the accounting records (or between figures supplied by either the Cost Accounting System or the Accounting Separation System upon which the Regulatory Financial Statements rely and (i) other figures supplied by either the Cost Accounting System or the Accounting Separation System and/or (ii) the accounting records) to:

- a. enable the Regulatory Auditor to conclude that, in its opinion, both the Cost Accounting System and the Accounting Separation System complies with the Accounting Documents; and

- b. enable the Regulatory Financial Statements to be audited and an audit opinion expressed upon them in accordance with any relevant direction of Ofcom under these conditions.

OB11 Kingston shall preserve records sufficient to provide an adequate explanation of each Regulatory Financial Statement for a period of six years from the date on which each Regulatory Financial Statement is delivered to Ofcom.

Requirements relating to audit of the Regulatory Financial Statements

OB12 The Regulatory Auditor that Kingston from time to time appoints shall at all times be satisfactory to Ofcom having regard to such matters as Ofcom consider appropriate. Kingston shall notify Ofcom in writing of the Auditor appointed to secure compliance with these conditions before the Auditor carries out any work for that purpose. Kingston shall notify Ofcom of any proposed change of Regulatory Auditor 28 days before effect is given to that change.

OB13 In the event that the Regulatory Auditor is in the opinion of Ofcom unsatisfactory, Kingston shall appoint and instruct an Alternative Regulatory Auditor that is at all times satisfactory to Ofcom having regard to such matters as Ofcom consider appropriate. Kingston shall ensure that the Alternative Regulatory Auditor:

- a. carries out such on going duties as are required to secure compliance with these conditions;
- b. carries out work or further work, in addition to that performed by the Statutory Auditor and/or by the former Regulatory Auditor, in relation to such matters connected to compliance with these conditions as are of concern to Ofcom and notified to Kingston in writing; and/or
- c. re-performs work previously performed by the Statutory Auditor and/or by the former Regulatory Auditor in relation to such matters connected to compliance with this Condition as are of concern to Ofcom and notified to Kingston in writing.

OB14 Kingston shall extend to the Alternative Regulatory Auditor such assistance and co-operation as would be extended to the Statutory Auditor and/or to the Regulatory Auditor and, to the extent similar assistance and co-operation may be required from the Statutory Auditor and/or from the former Regulatory Auditor, Kingston shall use its best endeavours to secure such assistance and co-operation.

OB15 Kingston's letter of engagement appointing the Regulatory Auditor shall include such provisions acknowledging the acceptance by the Regulatory Auditor of duties and responsibilities to Ofcom in respect of its audit work, audit report and audit opinion as are consistent with the ICAEW Guidance.

OB16 Kingston shall use its best endeavours to obtain from the Regulatory Auditor any further explanation and clarification of any audit opinion required under these conditions and any other information in respect of the matters which are the subject of that audit opinion as Ofcom shall require.

Requirements relating to the Primary and Secondary Accounting Documents

OB17 Kingston shall review the Primary Accounting Documents as they exist before the coming into force of these conditions, and to the extent these documents do not comply with

these conditions, Kingston shall by four months after the date on which these conditions come into force make changes to the Primary Accounting Documents to render them compliant. Such changes shall be delivered to Ofcom on or before four months after the date on which these conditions come into force together with a copy of the Primary Accounting Documents marked up to show the effect of such changes. All such changes shall take effect on the date on which they are delivered to Ofcom.

OB18 Following the review of the Primary Accounting Documents in accordance with condition OB17, Kingston shall prepare the Secondary Accounting Documents in accordance with the Primary Accounting Documents and the requirements of these conditions. The Secondary Accounting Documents shall be delivered to Ofcom eight months after the date on which these conditions come into force.

OB19 Kingston shall,

- a. publish the Primary Accounting Documents on or by four months after the date on which these conditions come into force following their first review in accordance with condition OB17;
- b. publish the Secondary Accounting Documents following their first review in accordance with condition OB18 on or prior to the date of publication of the Regulatory Financial Statements in accordance with conditions OB5 and OB6; and
- c. thereafter publish, and deliver to Ofcom, details of any amendment to the Accounting Documents as soon as practicable, and in any event within 28 days of the incorporation of such an amendment into the Accounting Documents. Such amendments shall take effect when delivered to Ofcom.

OB20 Insofar as there is any inconsistency between any or all of the Primary Accounting Documents, the Primary Accounting Documents shall have the following order of priority:

- a. the Regulatory Accounting Principles;
- b. the Attribution Methods;
- c. the Transfer Charge System Methodology;
- d. the Accounting Policies.

Requirements relating to the up-dating of systems, Accounting Documents and form and content

OB21 Kingston shall make such amendments as are from time to time required to:

- a. the Cost Accounting System and the Accounting Separation System;
- b. the Accounting Documents; and
- c. the form and content of the Financial Statements,

in order to ensure that they are consistent with, and give effect fully to:

- i. any modifications of any SMP conditions;

- ii. any formal undertakings given by Kingston to Ofcom following investigations by them into possible contraventions by Kingston of any SMP conditions or any provisions of the Act and following any dispute considered by Ofcom under the Act; and
- iii. (any enforcement notifications, directions, consents and determinations given or made by Ofcom from time to time under any SMP condition or under the Act or in relation to any dispute considered by Ofcom under the Act,

and Kingston shall make such amendments, and notify Ofcom in writing of such amendments, within three months of the modifications, formal undertakings, enforcement notifications, directions, consents and determinations having been made, provided that the requirements of this paragraph shall be suspended pending the final disposal of any proceedings seeking to have any such modifications, enforcement notifications, directions, consents, or determinations, quashed, set aside, modified or varied.

Requirements relating to deficiencies in the Regulatory Financial Statements and the Accounting Documents

OB22 Where Ofcom have reasonable grounds to believe that any or all of the Regulatory Financial Statements and/or Accounting Documents are deficient, Kingston shall, where directed by Ofcom,

- a. amend the Accounting Documents in order to remedy the deficiencies identified by Ofcom;
- b. restate the Regulatory Financial Statements identified by Ofcom as requiring restatement in accordance with the Accounting Documents which have, where necessary, been amended pursuant to subparagraph (a);
- c. secure in accordance with any relevant direction of Ofcom under this Condition the expression of an audit opinion on the restated Regulatory Financial Statements;
- d. deliver to Ofcom the restated Regulatory Financial Statements and corresponding audit opinion; and
- e. publish the restated Regulatory Financial Statements and corresponding audit opinion.

Requirements relating to the maintenance of sufficient accounting records

OB23 Kingston shall maintain accounting records in a form which, on a historical cost basis and on a current cost basis:

- a. enables the Market, Technical Areas, and the Disaggregated Activities (as applicable) to be separately identified; and the costs, revenues, assets and liabilities of the Market, Technical Areas and the Disaggregated Activities (as applicable) to be separately attributable;
- b. enables the Network Services, and, insofar as they have been disaggregated in terms of Network Activities, each of the Network

Activities, to be separately identified; and the costs, revenues, assets and liabilities of the Network Services, and, insofar as they have been disaggregated in terms of Network Activities, each of the Network Activities, to be separately attributable;

- c. shows and explains the transactions of each of the Market, Technical Areas, Network Services and Disaggregated Activities (as applicable); and
- d. enables the Accounting Separation Market Activities and, insofar as these comprise or use Accounting Separation Activities, each of the Accounting Separation Activities, to be separately identified; and the revenues, costs, assets and liabilities of the Accounting Separation Market Activities and, insofar as these comprise or use Accounting Separation Activities, the revenues, costs, assets and liabilities of each of those Accounting Separation Activities, to be separately attributable;
- e. shows and explains the transactions of the Accounting Separation Market Activities and, insofar as these comprise or use Accounting Separation Activities, the transactions of each of the Accounting Separation Activities; and
- f. enables Kingston to prepare Regulatory Financial Statements (including any disaggregation inherent therein) which comply with the requirements of these conditions both on a historical cost basis and on a current cost basis.

OB24 The accounting records referred to in condition OB23 and all associated documentation shall be, as appropriate:

- a. maintained in accordance with the Accounting Documents;
- b. maintained in order to ensure compliance with these conditions;
- c. sufficient to enable the Regulatory Financial Statements to have expressed upon them any relevant audit opinion required under these conditions;
- d. sufficient to ensure that charges for Network Access can be shown to be fair and reasonable and not to be unduly discriminatory; and
- e. sufficient to provide a complete justification of Kingston's charges for Network Access; and
- f. sufficient, to provide a complete justification of Kingston's charges for the provision of services to End Users.

Requirements relating to the preparation and maintenance of a Wholesale Catalogue

OB25 Kingston shall ensure that by three months after the date on which these conditions come into force,

- a. all of its Wholesale Services as at the date on which these conditions come into force are identified as either External

Wholesale Services and placed on the External Wholesale Services List or Internal Wholesale Services and placed on the Internal Wholesale Services List or, where appropriate, are identified as being both External Wholesale Services and Internal Wholesale Services and place on both the External Wholesale Services List and the Internal Wholesale Services List;

- b. an accurate description is prepared of all Kingston's Internal Wholesale Services, External Wholesale Services and Wholesale Activities as at the date these conditions come into force sufficient in the opinion of Ofcom to enable them to determine whether these activities have been appropriately identified and sufficiently described; and
- c. an accurate description is prepared of all of Kingston's Network Services and the extent to which these activities are used in the course of supplying Wholesale Services as at the date these conditions comes into force sufficient in the opinion of Ofcom to enable them to determine whether these activities and their use have been appropriately identified and adequately described.

OB26 The Wholesale Catalogue shall be delivered to Ofcom as soon as practicable after the date on which these conditions come into force and in any event by four months after that date.

OB27 Kingston shall ensure that when from time to time Wholesale Activities and Network Activities used in the course of supplying Wholesale Services vary from those as at the date on which these conditions comes into force (including, amongst other changes, new activities and the cessation of former activities) it shall within 28 days of such variation:

- a. amend the Wholesale Catalogue to reflect such variation; and
- b. deliver to Ofcom the amended version of the Wholesale Catalogue marked up to show those amendments.

The revised version of the Wholesale Catalogue shall be sufficient to enable Ofcom to determine whether such activities have been identified appropriately and their use categorised correctly.

Requirements relating to the preparation and maintenance of a Retail Catalogue

OB28 Kingston shall ensure that by three months after the date on which these conditions come into force,

- a. all of its Retail Activities, Retail Products and Retail Support Activities as at the date on which these conditions come into force are identified as Retail Products, Retail Activities and Retail Support Activities;
- b. an accurate description is prepared of all of Kingston's Retail Activities and Retail Products as at the date on which these conditions come into force sufficient in the opinion of Ofcom to enable them to determine whether these activities have been appropriately identified and sufficiently described; and

- c. an accurate description is prepared of all Kingston's Retail Support Activities and the extent to which these activities are used in the course of supplying Retail Products as at the date on which these conditions come into force, sufficient in the opinion of Ofcom to enable them to determine whether these activities and their use have been appropriately identified and adequately described.

OB29 The Retail Catalogue shall be delivered to Ofcom as soon as practicable after the date on which these conditions come into force and in any event by four months after that date.

OB30 Kingston shall ensure that when from time to time Retail Activities, Retail Products or Retail Support Activities vary from those as at the date on which these conditions come into force (including, amongst other changes, new activities and the cessation of former activities) it shall within 28 days of such variation:

- a. amend the Retail Catalogue to reflect such variation; and
- b. deliver to Ofcom the amended version of the Retail Catalogue marked up to show those amendments.

The revised version of the Retail Catalogue shall be sufficient to enable Ofcom to determine whether such activities have been identified appropriately and their use attributed accurately.

Further accounting separation requirements

OB31 Kingston shall maintain a separation for accounting purposes of the Accounting Separation Market Activities from other activities and of Accounting Separation Activities from other activities, so as to:

- a. identify all elements of revenue, cost, assets and liabilities, with the basis of their calculation and the detailed attribution methods used, related to the Accounting Separation Market Activities and Accounting Separation Activities including an itemised breakdown of fixed assets; and
- b. ensure that Accounting Separation Market Activities and Accounting Separation Activities are identified and are recorded at an appropriate amount in accordance with the Accounting Documents.

Requirements relating to the demonstration of non-discrimination

OB32 Kingston shall ensure it is able to demonstrate that at any point in time:

- a. where a Network Service or combination of Network Services is used by Kingston in providing Internal Wholesale Services, the amount applied and incorporated in the Transfer Charge for the Internal Wholesale Service in respect of the use of the Network Services is equivalent to the amount applied and incorporated for the use of the Network Services or combination of Network Services in the charge payable for an equivalent External Wholesale Service;
- b. the same amount as applied and incorporated in the Transfer Charge for the Internal Wholesale Service in subparagraph (a) in respect of the use of the Network Services is applied to the Network

Service or combination of Network Services whenever it is used by Kingston in providing an Internal Wholesale Service; and

- c. the same amount as applied and incorporated in the Transfer Charge for the equivalent External Wholesale Service in subparagraph (a) in respect of the use of the Network Services is applied to the Network Service or combination of Network Services whenever it is used by Kingston in providing an External Wholesale Service;
- d. the amount applied and incorporated in the Transfer Charge for the Internal Wholesale Service in subparagraph (a) in respect of the use of the Network Services shall be the cost of those Network Services unless the Network Service concerned is one of the Accounting Separation Activities.

OB33 Kingston shall ensure it is able to demonstrate that at any point in time:

- a. where a Retail Support Activity or combination of Retail Support Activities is used by Kingston in providing Retail Products, the same amount is applied and incorporated in the charge for the Retail Products whenever the Retail Support Activity or combination of Retail Support Activities is used by Kingston in the course of supplying Retail Products;
- b. where a Wholesale Service or combination of Wholesale Services is used by Kingston in providing Retail Products, the same amount is applied and incorporated in the charge for the Retail Products whenever the Wholesale Service or combination of Wholesale Services is used by Kingston in the course of supplying Retail Products; and
- c. the amount applied and incorporated in the charge for Retail Products in respect of the use of Wholesale Services shall be the Transfer Charge of those Wholesale Services unless no Transfer Charge exists in which event it shall be the cost of those Wholesale Services.

Annex 4

Directions for BT

Direction 1 for BT: Network Components

Direction under SMP Services Condition OA2 specifying network components for the purposes of SMP Services Conditions OA1 to OA34, AA1 to AA12, BA1 to BA6, G1 to G9, GG1 to GG9, H1 to H8 and HH1 to HH8.

WHEREAS-

- A. As a result of various market analyses carried out by the Director and OFCOM in accordance with section 79 of the Act, BT has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;
- B. As a result of such SMP designations, BT has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including:
 - a. conditions OA1 to OA34, imposing obligations on BT in respect of wholesale cost accounting, retail cost accounting and accounting separation in relation to BT's activities in those markets where BT has been designated as having SMP; and
 - b. conditions AA1 to AA12; BA1 to BA6; G1 to G9; GG1 to GG9; H1 to H8 and HH1 to HH8 imposing, amongst other things, obligations on BT in respect of the publication of reference offers and the notification of prices in relation to BT's activities in those markets where BT has been designated as having SMP;
- C. In the SMP services conditions referred to in paragraph B above, 'Network Components' are defined to mean the network components specified in any direction given by the Director or OFCOM (as appropriate) from time to time for the purpose of those conditions;
- D. By virtue of the Transitional Provisions, references to the Director in any of those SMP services conditions should be read as references to OFCOM;
- E. Condition OA2 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;
- F. This Direction relates to BT's obligations under SMP services conditions OA1 to OA34, in that it specifies the network components which apply for the purposes of those conditions;
- G. This Direction also serves to specify the network components which apply for the purposes of other SMP services conditions set out at paragraph B(b) above;
- H. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that this Direction is:
 - a. objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;

- b. not such as to discriminate unduly against particular persons or against a particular description of persons;
 - c. proportionate to what it is intended to achieve; and
 - d. in relation to what it is intended to achieve, transparent;
- I. IFor the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that they acted in accordance with the relevant duties set out in Sections 3 and 4 of the Act in giving this Direction;
- J. A notification of a proposal to give this Direction was given under section 49(4) of the Act on 8 April 2004 (the 'Notification');
- K. A copy of the Notification was sent to the Secretary of State in accordance with section 50(1)(b) of the Act;
- L. In the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 10 May 2004;
- 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 received responses to the Notification and have considered every such representation made to them within the period specified in the Notification and accompanying explanatory statement and these representations are discussed in Chapter 3 of the Statement accompanying this 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 CONDITION OA2, OFCOM HEREBY DIRECT THAT-

- 1. The network components which apply for the time being for the purposes of SMP services conditions OA1 to OA34, AA1 to AA12, BA1 to BA6, G1 to G9, GG1 to GG9, H1 to H8 and HH1 to HH8 are those specified at Annex A to this Direction.
- 2. In this Direction-
 - a. 'the Act' means the Communications Act 2003;
 - 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. the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
 - d. 'OFCOM' means the Office of Communications;
 - e. '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 where otherwise defined or in so far as the context otherwise requires, any word or expression shall have the same meaning as it has in the Act.
- 4. The Interpretation Act 1978 shall apply as if this Direction were an Act of Parliament.
- 5. Headings and titles shall be disregarded.

DAVID K S THOMAS
Director of Regulatory Finance, Ofcom

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

22 July 2004

Annex A

List of Network Components

1. Local exchange concentrator
2. Local exchange call set up
3. Local exchange call duration
4. Main exchange call set up
5. Main exchange call duration
6. Remote-local transmission link
7. Remote-local transmission length
8. Local-tandem transmission link
9. Local-tandem transmission length
10. Inter-tandem transmission link
11. Inter-tandem transmission length
12. Product management, policy & planning for narrowband call services
13. National operator assistance
14. International operator assistance
15. Outpayments: geographic calls
16. Outpayments: non geographic calls
17. Outpayments: calls to mobile
18. Outpayments: international
19. Outpayments: other
20. International network
21. Copper access lines
22. Fibre access lines
23. Network terminating equipment (not elsewhere identified) for copper lines
24. CWSS network terminating equipment & serving exchange equipment
25. DWSS network terminating equipment & serving exchange equipment
26. PDH multiplexors at third party site
27. SDH multiplexors at third party site
28. SDH (MSH) multiplexors at third party site
29. PDH multiplexors
30. SDH mutliplexors
31. SDH cross connection/grooming equipment
32. Tributary card for SDH network by size
33. SDH (MSH) mutliplexors
34. SDH (MSH) cross connection/grooming equipment
35. Tributary card for SDH (MSH) network by size
36. Transmission links over fibre
37. Transmission links over radio
38. In-building links
39. ATM switches
40. Third party facing ATM tributary cards by size
41. Network facing ATM tributary cards by size
42. Signalling links
43. Network research and development
44. Guarantee schemes
45. Infrastructure returns
46. PSTN (analogue) specific
47. Passive optical network
48. ISDN 2 specific

49. ISDN 30 specific
50. Carrier Pre Selection System Set-Up
51. Carrier Pre Selection Operator Set-Up
52. Carrier Pre Selection Customer Set-Up
53. Carrier Pre Selection in life management
54. IN platform
55. Copper loop line information & testing
56. Copper cabling within exchange buildings
57. Copper cabling from within exchange buildings to outside
58. Operational buildings– electricity
59. Operational buildings – space
60. Operational buildings – other
61. Operational buildings – modifications (including for co-location)
62. Bespoke network build – copper
63. Bespoke network rearrangement – copper
64. Product management, policy & planning for narrowband access services
65. Private circuit specific
66. Product management, policy & planning for partial private circuits
67. Alternative interface symmetric broadband origination specific
68. xDSL specific
69. Product management, policy & planning for xDSL interconnect services
70. Wholesale bad debts

Direction 2 for BT: Transparency

Direction under SMP Services Condition OA2 specifying the transparency requirements for the purposes of preparing and maintaining the accounting records, Accounting Documents, and Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

WHEREAS-

- A. As a result of various market analyses carried out by 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 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, BT is required to prepare and maintain various documentation, including accounting records, Accounting Documents and Regulatory Financial Statements;
- D. Condition OA2 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 condition OA1 to OA34;
- E. This Direction relates to BT's obligations under SMP services conditions OA1 to OA34, in that it specifies the level of transparency required to be met by BT in preparing and maintaining the various documentation required by those conditions;
- F. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that this Direction is:
 - a. (a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
 - b. (a) not such as to discriminate unduly against particular persons or against a particular description of persons;
 - c. (b) proportionate to what it is intended to achieve; and
 - d. (c) in relation to what it is intended to achieve, transparent;
- G. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that they acted in accordance with the relevant duties set out in Sections 3 and 4 of the Act in giving this Direction;
- H. A notification of a proposal to give this Direction was given under section 49(4) of the Act on 8 April 2004 (the 'Notification');
- I. A copy of the Notification was sent to the Secretary of State in accordance with section 50(1)(b) of the Act;

- J. In the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 10 May 2004;
- K. 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;
- L. OFCOM received responses to the Notification and have considered every such representation made to them within the period specified in the Notification and accompanying explanatory statement and these representations are discussed in Chapter 3 of the Statement accompanying this 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 CONDITION OA2, OFCOM HEREBY DIRECT THAT-

- 1. BT shall ensure that any data, information, description, material or explanatory document prepared under Conditions OA1 to OA34 in respect of accounting and other methods used in the preparation of the accounting records and Regulatory Financial Statements shall be sufficiently transparent and prepared such that a suitably informed reader can gain a clear understanding of such data, information, description, material or explanatory document, and, if necessary, the overall structure of BT's financial and information systems from which regulatory accounting data is derived and in particular the sequence of the processing and 'cascade' effect of the intermediate cost centres; gain a detailed understanding of all the material, methodologies and drivers (e.g. systems, Processes and procedures) applied in the preparation of regulatory accounting data; and make their own judgement as to the reasonableness of these methodologies and driver data and any changes to them.
- 2. In this Direction-
 - a. 'Accounting Documents' shall have the meaning ascribed to it in Conditions OA1 to OA34;
 - b. 'the Act' means the Communications Act 2003;
 - c. '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;
 - d. 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
 - e. 'OFCOM' means the Office of Communications; and

- f. 'Process' shall have the meaning ascribed to it in Conditions OA1 to OA34;
 - g. 'Regulatory Financial Statement' shall have the meaning ascribed to it in Conditions OA1 to OA34.
- 3. Except where otherwise defined or in so far as the context otherwise requires, any word or expression shall have the same meaning as it has in the Act.
- 4. The Interpretation Act 1978 shall apply as if this Direction were an Act of Parliament.
- 5. Headings and titles shall be disregarded.

DAVID K S THOMAS
Director of Regulatory Finance, Ofcom

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

22 July 2004

Direction 3 for BT: Preparation, audit, delivery and publication of Regulatory Financial Statements

Direction under SMP Services Condition OA2 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 various market analyses carried out by 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 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, BT is required to:
 - 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. Condition OA2 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;
- E. This Direction 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;
- F. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that this Direction is:
 - a. objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
 - b. not such as to discriminate unduly against particular persons or against a particular description of persons;
 - c. proportionate to what it is intended to achieve; and
 - d. in relation to what it is intended to achieve, transparent;

- G. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that they acted in accordance with the relevant duties set out in Sections 3 and 4 of the Act in giving this Direction;
- H. A notification of a proposal to give this Direction was given under section 49(4) of the Act on 8 April 2004 (the 'Notification');
- I. A copy of the Notification was sent to the Secretary of State in accordance with section 50(1)(b) of the Act;
- J. In the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 10 May 2004;
- K. 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;
- L. OFCOM received responses to the Notification and have considered every such representation made to them within the period specified in the Notification and accompanying explanatory statement and these representations are discussed in Chapter 3 of the Statement accompanying this 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 CONDITION OA2, OFCOM HEREBY DIRECT THAT-

- 1. BT shall, for the purposes of condition OA5 and as appropriate, prepare, secure an appropriate audit opinion in respect of, deliver to OFCOM and publish the Regulatory Financial Statements in accordance with Annexes A, B and C to this Direction.
- 2. In this Direction-
 - a. 'the Act' means the Communications Act 2003;
 - 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. 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
 - d. 'OFCOM' means the Office of Communications;
 - e. 'Regulatory Financial Statement' shall have the meaning ascribed to it in Conditions OA1 to OA34.

The regulatory financial reporting obligations on BT and Kingston Communications Final statement and notification

3. Except where otherwise defined or in so far as the context otherwise requires, any word or expression shall have the same meaning as it has in the Act.
4. The Interpretation Act 1978 shall apply as if this Direction were an Act of Parliament.
5. Headings and titles shall be disregarded.

DAVID K S THOMAS
Director of Regulatory Finance, Ofcom

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

22 July 2004

Annex A to direction 3

Wholesale Cost Accounting Financial Statements

For the purposes of this annex the following abbreviations are used, the scope of these statements is set out in the matrix of obligations that follows; references to annexes are to the form and content direction attached at Schedule 4 to the Notification dated 8 April 2004. In the table below, X means that the financial statement set out at the head of the column is required for the market or service on that row.

Please note, the separation of the tables into Parts A to F is purely for presentational purposes.

- CCPS = 'current cost primary statements', current cost profit and loss statement (CC P&L) and statement of current cost mean capital employed (CC MCE), as set out in Annexes 13 & 14 in relation to wholesale services, Annexes 11 & 12 in relation to wholesale segments (when designated), Annexes 9 & 10 in relation to individual wholesale markets;
- RTW = 'reconciliation to wholesale', reconciliation of CC P&L and CC MCE to wholesale level - consolidation across group of markets covered by review (as set out in Annexes 7 & 8 for wholesale markets), followed by consolidation of these consolidations, to give consolidated CC P&L and CC MCE for wholesale markets subject to cost accounting (as set out in Annexes 5 & 6);
- RTSA = 'reconciliation to statutory accounts', reconciliation of consolidated CC P&L and CC MCE for wholesale markets subject to cost accounting to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 27 & 28, supported by annexes 29, 30, 31 & 32);
- SoCC Ext = statement of costs and charges for wholesale service supplied in the market, other than those which are only Internal Wholesale Services (as set out in annex 34);
- SoCC Int = statement of costs and charges for wholesale service supplied in the market, which are only Internal Wholesale Services (as set out in annex 35);
- SoAC FA = statement of activity costs on a current fully allocated cost basis for the market (as set out in Annexes 38), supported by consolidated statement of activity costs on a current fully allocated cost basis (as set out in Annexes 37);
- NCR FA = attribution of activity costs on a current fully allocated cost basis for the market (as set out in annex 40), supported by consolidated attribution of activity costs on a current fully allocated cost basis (as set out in annex 39);
- SoAC IC = consolidated statement of activity costs on a incremental and standalone cost basis (as set out in Annex 41);
- RFR – regulatory financial review, as set out in annex 2 [NB – no audit opinion is required for the RFR];
- SDR – statement of responsibility, as set out in annex 3 [NB – no audit opinion is required for the SDR];
- FPIA – Audit Opinion required for statements, for inclusion in audit report as set out in annex 4;
- PPIA – Audit opinion required for statements, for inclusion in audit report as set out in annex 4;

- Notes – notes to the financial statements, as set out in annex 23;
- RMP – retail markets purchase statement, as set out in annex 26;
- SPS – summary, for reconciliation purposes, of profitability by wholesale service (as set out in annex 36) [NB – the SPS should not be published];
- AFI (a) – cost category analysis AI-1 and summarised activity analysis AI-3 (as set out in annex 42);
- AFI (b) – cost category analysis AI-4 and summarised activity analysis AI-2 (as set out in annex 42);
- AFI (c) – analysis of depreciation charge and CCA adjustments AI-5 and CCA fixed asset movement statement AI – 6 (as set out in annex 42);
- AFI (d) – operator assistance combinatorial tests AI-7 (as set out in annex 42);
- AFI (e) – mean capital employed and summarised activity analysis for all network components AI – 8 and network activity analysis of mean capital employed for all network components AI –10 (as set out in annex 42);
- AFI (f) – analysis of outpayments AI – 9 (as set out in annex 42);
- AFI (g) – revenue analysis by tariff option AI-11 and revenue analysis by customer option AI-12 (as set out in annex 42);
- AFI (h) – indices applied for CCA revaluation AI-13 (as set out in annex 42);
- AFI (i) – assets valuation and useful economic life analysis AI-14 (as set out in annex 42);
- AFI (j) – marketing expenditure analysis AI-15 (as set out in annex 42);
- AFI (k) – operating cost and mean capital employed by plant group AI-16 (as set out in annex 42);
- AFI (l) – fixed fee revenues by tariff AFI 17 (as set out in annex 42);
- AFI (m) – analysis of asset transfers AI-18 (as set out in annex 42);
- AFI (n) – CPS set up costs AI-19 (as set out in annex 42).

The regulatory financial reporting obligations on BT and Kingston Communications Final statement and notification

	Financial statements					Audit		Published
Wholesale market and illustrative services	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Wholesale residential analogue exchange line services	X	X	X			X		X
- wholesale service A	X			X			X	
- wholesale service B ...	X				X		X	
Wholesale business analogue exchange line services	X	X	X			X		X
- wholesale service A	X			X			X	
- wholesale service B ...	X				X		X	
Wholesale business ISDN2 exchange line services	X	X	X			X		X
- wholesale service A	X			X			X	
- wholesale service B	X				X		X	
Call origination on fixed public narrowband networks	X	X	X			X		X
- WS Call originating local exchange segment	X			X			X	
- WS Call originating local exchange segment (incl Operator Assistance)	X			X			X	
- WS Call originating local exchange segment (ISDN)	X			X			X	
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)	X			X			X	
- WS Call origination local exchange Stick	X				X		X	
- WS Call origination local exchange Stick (ISDN)	X				X		X	
- WS Local exchange call origination circuit excluding FRIACO port	X			X			X	
- WS FRIACO port at the local exchange	X			X			X	
- WS PPP for FRIACO	X			X			X	
- NTS retailing services	X			X			X	

Part A**Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation**

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Wholesale market and illustrative services								
Inter-tandem conveyance and transit on fixed public narrowband networks	X	X	X			X		X
- WS Inter-tandem conveyance short	X			X			X	
- WS Inter-tandem conveyance medium	X			X			X	
- WS Inter-tandem conveyance long	X			X			X	
- WS Inter-tandem conveyance short (ISDN)	X			X			X	
- WS Inter-tandem conveyance medium (ISDN)	X			X			X	
- WS Inter-tandem conveyance long (ISDN)	X			X			X	
- WS Inter-tandem conveyance for IDD	X			X			X	
- WS Inter-tandem transmission for IDD	X			X			X	
- WS Inter-tandem conveyance for IDD (ISDN)	X			X			X	
- WS Inter-tandem transmission for IDD (ISDN)	X			X			X	
- WS Inter-tandem transit short	X			X			X	
- WS Inter-tandem transit medium	X			X			X	
- WS Inter-tandem transit long	X			X			X	
Local-tandem conveyance and transit on fixed public narrowband networks	X	X	X			X		X
- WS Local-tandem conveyance segment	X			X			X	
- WS Local-tandem conveyance segment (ISDN)	X			X			X	
- WS LTT Stick	X				X		X	
- WS LTT Stick (ISDN)	X				X		X	
- WS Local-tandem circuit excluding FRIACO port at tandem exchange	X			X			X	
- WS FRIACO port at the tandem exchange	X			X			X	
Single transit on fixed public narrowband networks	X	X	X			X		X
- WS Single transit segment	X			X			X	
- WS Single transit segment (ISDN)	X			X			X	

	Financial statements					Audit		Published
Wholesale market and illustrative services	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Technical areas	X	X	X			X		X
- WS standard CSI connection	X			X			X	
- WS standard CSI rental - fixed	X			X			X	
- WS standard CSI rental per km	X			X			X	
- WS high performance CSI connection	X			X			X	
- WS high performance CSI rental - fixed	X			X			X	
- WS high performance CSI rental per km	X			X			X	
- WS ISI connection	X			X			X	
- WS ISI rental per 100m	X			X			X	
- WS IEC connection	X			X			X	
- WS IEC rental - fixed	X			X			X	
- WS IEC rental – per km	X			X			X	
- WS intra-building circuits connection	X			X			X	
- WS intra-building circuits rental	X			X			X	
- WS rearrangements	X			X			X	
- WS path protection connection per 34 Mbits/s	X			X			X	
- WS path protection connection per 140 Mbits/s	X			X			X	
- WS path protection rental per 34 Mbits/s	X			X			X	
- WS path protection rental per 140 Mbits/s	X			X			X	

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Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
Wholesale market and illustrative services	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Fixed geographic call termination	X	X	X			X		X
- WS Call termination local exchange segment	X			X			X	
- WS Call termination local exchange segment (ISDN)	X			X			X	
- WS Call termination local exchange stick	X				X		X	
- WS Call termination local exchange stick (ISDN)	X				X		X	

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
Wholesale markets and illustrative services	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Traditional interface symmetric broadband origination (up to and including 8Mbit/s);	X	X	X			X		X
- WS service A	X			X			X	
- WS service B	X				X		X	
Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);	X	X	X			X		X
- WS service A	X			X			X	
- WS service B	X				X		X	
Alternative interface symmetric broadband origination (all bandwidths)	X	X	X			X		X
- WS service A	X			X			X	
- WS service B	X				X		X	
Wholesale trunk segments (including Kingston upon Hull)	X	X	X			X		X
- WS service A	X			X			X	

	Financial statements					Audit		Published
Wholesale markets and illustrative services	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
- WS service B	X				X		X	
Technical areas (as necessary, including fixed and per km variants)	X	X	X			X		X
- In Span Handover ("ISH")	X			X			X	
- Customer Sited Handover ("CSH");	X			X			X	
- ISH extension circuits	X			X			X	
- Synchronous Transfer Mode ("STM")-1 ISH and CSH handover	X			X			X	

Part B

Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements					Audit		Published
Wholesale market and illustrative services	SoAC FA	NCR FA	SoAC IC	RFR	SDR	FPIA	PPIA	
Wholesale residential analogue exchange line services	X	X	X	X	X	X		X
- wholesale service A					X		X	
- wholesale service B ...					X		X	
Wholesale business analogue exchange line services	X	X	X	X	X	X		X
- wholesale service A					X		X	
- wholesale service B ...					X		X	
Wholesale business ISDN2 exchange line services	X	X	X	X	X	X		X
- wholesale service A					X		X	
- wholesale service B					X		X	

	Financial statements					Audit		Published
Wholesale market and illustrative services	SoAC FA	NCR FA	SoAC IC	RFR	SDR	FPIA	PPIA	
Call origination on fixed public narrowband networks	X	X	X	X	X	X		X
- WS Call originating local exchange segment					X		X	
- WS Call originating local exchange segment (incl Operator Assistance)					X		X	
- WS Call originating local exchange segment (ISDN)					X		X	
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)					X		X	
- WS Call origination local exchange Stick					X		X	
- WS Call origination local exchange Stick (ISDN)					X		X	
- WS Local exchange call origination circuit excluding FRIACO port					X		X	
- WS FRIACO port at the local exchange					X		X	
- WS PPP for FRIACO					X		X	
- NTS retailing services					X		X	
Inter-tandem conveyance and transit on fixed public narrowband networks	X	X	X	X	X	X		X
- WS Inter-tandem conveyance short					X		X	
- WS Inter-tandem conveyance medium					X		X	
- WS Inter-tandem conveyance long					X		X	
- WS Inter-tandem conveyance short (ISDN)					X		X	
- WS Inter-tandem conveyance medium (ISDN)					X		X	
- WS Inter-tandem conveyance long (ISDN)					X		X	
- WS Inter-tandem conveyance for IDD					X		X	
- WS Inter-tandem transmission for IDD					X		X	
- WS Inter-tandem conveyance for IDD (ISDN)					X		X	
- WS Inter-tandem transmission for IDD (ISDN)					X		X	
- WS Inter-tandem transit short					X		X	
- WS Inter-tandem transit medium					X		X	

	Financial statements					Audit		Published
Wholesale market and illustrative services	SoAC FA	NCR FA	SoAC IC	RFR	SDR	FPIA	PPIA	
- WS Inter-tandem transit long					X		X	
Local-tandem conveyance and transit on fixed public narrowband networks	X	X	X	X	X	X		X
- WS Local-tandem conveyance segment					X		X	
- WS Local-tandem conveyance segment (ISDN)					X		X	
- WS LTT Stick					X		X	
- WS LTT Stick (ISDN)					X		X	
- WS Local-tandem circuit excluding port at tandem exchange					X		X	
- WS FRIACO port at the tandem exchange					X		X	
Single transit on fixed public narrowband networks	X	X	X	X	X	X		X
- WS Single transit segment					X		X	
- WS Single transit segment (ISDN)					X		X	
Technical areas	X	X	X	X	X	X		X
- WS standard CSI connection					X		X	
- WS standard CSI rental - fixed					X		X	
- WS standard CSI rental per km					X		X	
- WS high performance CSI connection					X		X	
- WS high performance CSI rental - fixed					X		X	
- WS high performance CSI rental per km					X		X	
- WS ISI connection					X		X	
- WS ISI rental per 100m					X		X	
- WS IEC connection					X		X	
- WS IEC rental - fixed					X		X	

	Financial statements					Audit		Published
Wholesale market and illustrative services	SoAC FA	NCR FA	SoAC IC	RFR	SDR	FPIA	PPIA	
- WS IEC rental – per km					X		X	
- WS intra-building circuits connection					X		X	
- WS intra-building circuits rental					X		X	
- WS rearrangements					X		X	
- WS path protection connection per 34 Mbits/s					X		X	
- WS path protection connection per 140 Mbits/s					X		X	
- WS path protection rental per 34 Mbits/s					X		X	
- WS path protection rental per 140 Mbits/s					X		X	

Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
Wholesale market and illustrative services	SoAC FA	NCR FA	SoAC IC	RFR	SDR	FPIA	PPIA	
Fixed geographic call termination	X	X	X	X	X	X		X
- WS Call termination local exchange segment					X		X	
- WS Call termination local exchange segment (ISDN)					X		X	
- WS Call termination local exchange stick					X		X	
- WS Call termination local exchange stick (ISDN)					X		X	

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SoAC IC	RFR	SDR	FPIA	PPIA	
Wholesale markets and illustrative services								
Traditional interface symmetric broadband origination (up to and including 8Mbit/s);	X	X	X	X	X	X		X
- WS service A					X		X	
- WS service B					X		X	
Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);	X	X	X	X	X	X		X
- WS service A					X		X	
- WS service B					X		X	
Alternative interface symmetric broadband origination (all bandwidths);	X	X	X	X	X	X		X
- WS service A					X		X	
- WS service B					X		X	
Wholesale trunk segments (including Kingston upon Hull)	X	X	X	X	X	X		X
- WS service A					X		X	
- WS service B					X		X	
Technical areas (as necessary, including fixed and per km variants)	X	X	X	X	X	X		X
- In Span Handover ("ISH")					X		X	
- Customer Sited Handover ("CSH");					X		X	
- ISH extension circuits					X		X	
- Synchronous Transfer Mode ("STM")-1 ISH and CSH handover					X		X	

Part C**Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation**

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Wholesale market and illustrative services								
Wholesale residential analogue exchange line services	X		X				X	X
- wholesale service A	X						X	
- wholesale service B ...	X						X	
Wholesale business analogue exchange line services	X		X				X	X
- wholesale service A	X						X	
- wholesale service B ...	X						X	
Wholesale business ISDN2 exchange line services	X		X				X	X
- wholesale service A	X						X	
- wholesale service B	X						X	
Call origination on fixed public narrowband networks	X		X				X	X
- WS Call originating local exchange segment	X						X	
- WS Call originating local exchange segment (incl Operator Assistance)	X						X	
- WS Call originating local exchange segment (ISDN)	X						X	
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)	X						X	
- WS Call origination local exchange Stick	X						X	
- WS Call origination local exchange Stick (ISDN)	X						X	
- WS Local exchange call origination circuit excluding FRIACO port	X						X	
- WS FRIACO port at the local exchange	X						X	
- WS PPP for FRIACO	X						X	
- NTS retailing services	X						X	

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Wholesale market and illustrative services								
Inter-tandem conveyance and transit on fixed public narrowband networks	X		X				X	X
- WS Inter-tandem conveyance short	X						X	
- WS Inter-tandem conveyance medium	X						X	
- WS Inter-tandem conveyance long	X						X	
- WS Inter-tandem conveyance short (ISDN)	X						X	
- WS Inter-tandem conveyance medium (ISDN)	X						X	
- WS Inter-tandem conveyance long (ISDN)	X						X	
- WS Inter-tandem conveyance for IDD	X						X	
- WS Inter-tandem transmission for IDD	X						X	
- WS Inter-tandem conveyance for IDD (ISDN)	X						X	
- WS Inter-tandem transmission for IDD (ISDN)	X						X	
- WS Inter-tandem transit short	X						X	
- WS Inter-tandem transit medium	X						X	
- WS Inter-tandem transit long	X						X	
Local-tandem conveyance and transit on fixed public narrowband networks	X		X				X	X
- WS Local-tandem conveyance segment	X						X	
- WS Local-tandem conveyance segment (ISDN)	X						X	
- WS LTT Stick	X						X	
- WS LTT Stick (ISDN)	X						X	
- WS Local-tandem circuit excluding FRIACO port at tandem exchange	X						X	
- WS FRIACO port at the tandem exchange	X						X	
Single transit on fixed public narrowband networks	X		X				X	X

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Wholesale market and illustrative services								
- WS Single transit segment	X						X	
- WS Single transit segment (ISDN)	X						X	
Technical areas	X		X				X	X
- WS standard CSI connection	X						X	
- WS standard CSI rental - fixed	X						X	
- WS standard CSI rental per km	X						X	
- WS high performance CSI connection	X						X	
- WS high performance CSI rental - fixed	X						X	
- WS high performance CSI rental per km	X						X	
- WS ISI connection	X						X	
- WS ISI rental per 100m	X						X	
- WS IEC connection	X						X	
- WS IEC rental - fixed	X						X	
- WS IEC rental – per km	X						X	
- WS intra-building circuits connection	X						X	
- WS intra-building circuits rental	X						X	
- WS rearrangements	X						X	
- WS path protection connection per 34 Mbits/s	X						X	
- WS path protection connection per 140 Mbits/s	X						X	
- WS path protection rental per 34 Mbits/s	X						X	
- WS path protection rental per 140 Mbits/s	X						X	

Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Wholesale market and illustrative services								
Fixed geographic call termination	X		X				X	X
- WS Call termination local exchange segment	X						X	
- WS Call termination local exchange segment (ISDN)	X						X	
- WS Call termination local exchange stick	X						X	
- WS Call termination local exchange stick (ISDN)	X						X	

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Wholesale markets and illustrative services								
Traditional interface symmetric broadband origination (up to and including 8Mbit/s);	X		X				X	X
- WS service A	X						X	
- WS service B	X						X	
Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);	X		X				X	X
- WS service A	X						X	
- WS service B	X						X	
Alternative interface symmetric broadband origination (all bandwidths);	X		X				X	X
- WS service A	X						X	
- WS service B	X						X	
Wholesale trunk segments (including Kingston upon Hull)	X		X				X	X
- WS service A	X						X	

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	Financial statements					Audit		Published
Wholesale markets and illustrative services	Notes	RMP	SPS			FPIA	PPIA	
- WS service B	X						X	
Technical areas (as necessary, including fixed and per km variants)	X		X				X	X
- In Span Handover ("ISH")	X						X	
- Customer Sited Handover ("CSH");	X						X	
- ISH extension circuits	X						X	
- Synchronous Transfer Mode ("STM")-1 ISH and CSH handover	X						X	

Part D

Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements					Audit		Published
Wholesale market and illustrative services	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
Wholesale residential analogue exchange line services								
- wholesale service A	X	X	X	X	X			
- wholesale service B ...	X	X	X	X	X			
Wholesale business analogue exchange line services								
- wholesale service A	X	X	X	X	X			
- wholesale service B ...	X	X	X	X	X			
Wholesale business ISDN2 exchange line services								
- wholesale service A	X	X	X	X	X			
- wholesale service B	X	X	X	X	X			
Call origination on fixed public narrowband networks								
- WS Call originating local exchange segment	X	X	X	X	X			

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
Wholesale market and illustrative services								
- WS Call originating local exchange segment (incl Operator Assistance)	X	X	X	X	X			
- WS Call originating local exchange segment (ISDN)	X	X	X	X	X			
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)	X	X	X	X	X			
- WS Call origination local exchange Stick	X	X	X	X	X			
- WS Call origination local exchange Stick (ISDN)	X	X	X	X	X			
- WS Local exchange call origination circuit excluding FRIACO port	X	X	X	X	X			
- WS FRIACO port at the local exchange	X	X	X	X	X			
- WS PPP for FRIACO	X	X	X	X	X			
- NTS retailing services	X	X	X	X	X			
Inter-tandem conveyance and transit on fixed public narrowband networks								
- WS Inter-tandem conveyance short	X	X	X	X	X			
- WS Inter-tandem conveyance medium	X	X	X	X	X			
- WS Inter-tandem conveyance long	X	X	X	X	X			
- WS Inter-tandem conveyance short (ISDN)	X	X	X	X	X			
- WS Inter-tandem conveyance medium (ISDN)	X	X	X	X	X			
- WS Inter-tandem conveyance long (ISDN)	X	X	X	X	X			
- WS Inter-tandem conveyance for IDD	X	X	X	X	X			
- WS Inter-tandem transmission for IDD	X	X	X	X	X			
- WS Inter-tandem conveyance for IDD (ISDN)	X	X	X	X	X			
- WS Inter-tandem transmission for IDD (ISDN)	X	X	X	X	X			
- WS Inter-tandem transit short	X	X	X	X	X			
- WS Inter-tandem transit medium	X	X	X	X	X			
- WS Inter-tandem transit long	X	X	X	X	X			

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
Wholesale market and illustrative services								
Local-tandem conveyance and transit on fixed public narrowband networks								
- WS Local-tandem conveyance segment	X	X	X	X	X			
- WS Local-tandem conveyance segment (ISDN)	X	X	X	X	X			
- WS LTT Stick	X	X	X	X	X			
- WS LTT Stick (ISDN)	X	X	X	X	X			
- WS Local-tandem circuit excluding FRIACO port at tandem exchange	X	X	X	X	X			
- WS FRIACO port at the tandem exchange	X	X	X	X	X			
Single transit on fixed public narrowband networks								
- WS Single transit segment	X	X	X	X	X			
- WS Single transit segment (ISDN)	X	X	X	X	X			
Technical areas								
- WS standard CSI connection	X	X	X	X	X			
- WS standard CSI rental - fixed	X	X	X	X	X			
- WS standard CSI rental per km	X	X	X	X	X			
- WS high performance CSI connection	X	X	X	X	X			
- WS high performance CSI rental - fixed	X	X	X	X	X			
- WS high performance CSI rental per km	X	X	X	X	X			
- WS ISI connection	X	X	X	X	X			
- WS ISI rental per 100m	X	X	X	X	X			
- WS IEC connection	X	X	X	X	X			
- WS IEC rental - fixed	X	X	X	X	X			
- WS IEC rental – per km	X	X	X	X	X			
- WS intra-building circuits connection	X	X	X	X	X			
- WS intra-building circuits rental	X	X	X	X	X			
- WS rearrangements	X	X	X	X	X			

	Financial statements					Audit		Published
Wholesale market and illustrative services	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
- WS path protection connection per 34 Mbits/s	X	X	X	X	X			
- WS path protection connection per 140 Mbits/s	X	X	X	X	X			
- WS path protection rental per 34 Mbits/s	X	X	X	X	X			
- WS path protection rental per 140 Mbits/s	X	X	X	X	X			

Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
Wholesale market and illustrative services	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
Fixed geographic call termination								
- WS Call termination local exchange segment	X	X	X	X	X			
- WS Call termination local exchange segment (ISDN)	X	X	X	X	X			
- WS Call termination local exchange stick	X	X	X	X	X			
- WS Call termination local exchange stick (ISDN)	X	X	X	X	X			

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
Wholesale markets and illustrative services	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
Traditional interface symmetric broadband origination (up to and including 8Mbit/s);								
- WS service A	X	X	X	X	X			
- WS service B	X	X	X	X	X			
Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);								

	Financial statements					Audit		Published
Wholesale markets and illustrative services	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
- WS service A	X	X	X	X	X			
- WS service B	X	X	X	X	X			

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
Wholesale markets and illustrative services								
Alternative interface symmetric broadband origination (all bandwidths);								
- WS service A	X	X	X	X	X			
- WS service B	X	X	X	X	X			
Wholesale trunk segments (including Kingston upon Hull)								
- WS service A	X	X	X	X	X			
- WS service B	X	X	X	X	X			
Technical areas (as necessary, including fixed and per km variants)								
- In Span Handover ("ISH")	X	X	X	X	X			
- Customer Sited Handover ("CSH");	X	X	X	X	X			
- ISH extension circuits	X	X	X	X	X			
- Synchronous Transfer Mode ("STM")-1 ISH and CSH handover	X	X	X	X	X			

Part E

Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements					Audit		Published
Wholesale market and illustrative services	AFI (f)	AFI (g)	AFI (h)	AFI (i)	AFI (j)	FPIA	PPIA	
Wholesale residential analogue exchange line services			X	X				
- wholesale service A								
- wholesale service B ...								
Wholesale business analogue exchange line services			X	X				
- wholesale service A								
- wholesale service B ...								
Wholesale business ISDN2 exchange line services			X	X				
- wholesale service A								
- wholesale service B								
Call origination on fixed public narrowband networks			X	X				
- WS Call originating local exchange segment								
- WS Call originating local exchange segment (incl Operator Assistance)								
- WS Call originating local exchange segment (ISDN)								
- WS Call originating local exchange segment (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								
- NTS retailing services								

	Financial statements					Audit		Published
Wholesale market and illustrative services	AFI (f)	AFI (g)	AFI (h)	AFI (i)	AFI (j)	FPIA	PPIA	
Inter-tandem conveyance and transit on fixed public narrowband networks			X	X				
- WS Inter-tandem conveyance short								
- WS Inter-tandem conveyance medium								
- WS Inter-tandem conveyance long								
- WS Inter-tandem conveyance short (ISDN)								
- WS Inter-tandem conveyance medium (ISDN)								
- WS Inter-tandem conveyance long (ISDN)								
- WS Inter-tandem conveyance for IDD								
- WS Inter-tandem transmission for IDD								
- WS Inter-tandem conveyance for IDD (ISDN)								
- WS Inter-tandem transmission for IDD (ISDN)								
- WS Inter-tandem transit short								
- WS Inter-tandem transit medium								
- WS Inter-tandem transit long								
Local-tandem conveyance and transit on fixed public narrowband networks			X	X				
- WS Local-tandem conveyance segment								
- WS Local-tandem conveyance segment (ISDN)								
- WS LTT Stick								
- WS LTT Stick (ISDN)								
- WS Local-tandem circuit excluding FRIACO port at tandem exchange								
- WS FRIACO port at the tandem exchange								
Single transit on fixed public narrowband networks			X	X				
- WS Single transit segment								

	Financial statements					Audit		Published
Wholesale market and illustrative services	AFI (f)	AFI (g)	AFI (h)	AFI (i)	AFI (j)	FPIA	PPIA	
- WS Single transit segment (ISDN)								
Technical areas			X	X				
- WS standard CSI connection								
- WS standard CSI rental – fixed								
- WS standard CSI rental per km								
- WS high performance CSI connection								
- WS high performance CSI rental – fixed								
- WS high performance 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 path protection connection per 34 Mbits/s								
- WS path protection connection per 140 Mbits/s								
- WS path protection rental per 34 Mbits/s								
- WS path protection rental per 140 Mbits/s								

Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
Wholesale market and illustrative services	AFI (f)	AFI (g)	AFI (h)	AFI (i)	AFI (j)	FPIA	PPIA	
Fixed geographic call termination			X	X				
- 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)								

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
Wholesale markets and illustrative services	AFI (f)	AFI (g)	AFI (h)	AFI (i)	AFI (j)	FPIA	PPIA	
Traditional interface symmetric broadband origination (up to and including 8Mbit/s);			X	X				
- WS service A								
- WS service B								
Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);			X	X				
- WS service A								
- WS service B								
Alternative interface symmetric broadband origination (all bandwidths);			X	X				
- WS service A								
- WS service B								
Wholesale trunk segments (including Kingston upon Hull)			X	X				
- WS service A								

	Financial statements					Audit		Published
Wholesale markets and illustrative services	AFI (f)	AFI (g)	AFI (h)	AFI (i)	AFI (j)	FPIA	PPIA	
- WS service B								
Technical areas (as necessary, including fixed and per km variants)			X	X				
- In Span Handover ("ISH")								
- Customer Sited Handover ("CSH");								
- ISH extension circuits								
- Synchronous Transfer Mode ("STM")-1 ISH and CSH handover								

Part F

Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements					Audit		Published
Wholesale market and illustrative services	AFI (k)	AFI (l)	AFI (m)	AFI (n)		FPIA	PPIA	
Wholesale residential analogue exchange line services	X	X	X					
- wholesale service A	X							
- wholesale service B ...	X							
Wholesale business analogue exchange line services	X		X					
- wholesale service A	X							
- wholesale service B ...	X							
Wholesale business ISDN2 exchange line services	X		X					
- wholesale service A	X							
- wholesale service B	X							

	Financial statements					Audit		Published
	AFI (k)	AFI (l)	AFI (m)	AFI (n)		FPIA	PPIA	
Wholesale market and illustrative services								
Call origination on fixed public narrowband networks	X		X	X				
- WS Call originating local exchange segment	X			X				
- WS Call originating local exchange segment (incl Operator Assistance)	X			X				
- WS Call originating local exchange segment (ISDN)	X			X				
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)	X			X				
- WS Call origination local exchange Stick	X			X				
- WS Call origination local exchange Stick (ISDN)	X			X				
- WS Local exchange call origination circuit excluding FRIACO port	X							
- WS FRIACO port at the local exchange	X							
- WS PPP for FRIACO	X							
- NTS retailing services	X							
Inter-tandem conveyance and transit on fixed public narrowband networks	X		X					
- WS Inter-tandem conveyance short	X							
- WS Inter-tandem conveyance medium	X							
- WS Inter-tandem conveyance long	X							
- WS Inter-tandem conveyance short (ISDN)	X							
- WS Inter-tandem conveyance medium (ISDN)	X							
- WS Inter-tandem conveyance long (ISDN)	X							
- WS Inter-tandem conveyance for IDD	X							
- WS Inter-tandem transmission for IDD	X							
- WS Inter-tandem conveyance for IDD (ISDN)	X							
- WS Inter-tandem transmission for IDD (ISDN)	X							
- WS Inter-tandem transit short	X							
- WS Inter-tandem transit medium	X							
- WS Inter-tandem transit long	X							

	Financial statements					Audit		Published
	AFI (k)	AFI (l)	AFI (m)	AFI (n)		FPIA	PPIA	
Wholesale market and illustrative services								
Local-tandem conveyance and transit on fixed public narrowband networks	X		X					
- WS Local-tandem conveyance segment	X							
- WS Local-tandem conveyance segment (ISDN)	X							
- WS LTT Stick	X							
- WS LTT Stick (ISDN)	X							
- WS Local-tandem circuit excluding FRIACO port at tandem exchange	X							
- WS FRIACO port at the tandem exchange	X							
Single transit on fixed public narrowband networks	X		X					
- WS Single transit segment	X							
- WS Single transit segment (ISDN)	X							
Technical areas	X		X					
- WS standard CSI connection	X							
- WS standard CSI rental - fixed	X							
- WS standard CSI rental per km	X							
- WS high performance CSI connection	X							
- WS high performance CSI rental - fixed	X							
- WS high performance CSI rental per km	X							
- WS ISI connection	X							
- WS ISI rental per 100m	X							
- WS IEC connection	X							
- WS IEC rental - fixed	X							
- WS IEC rental – per km	X							
- WS intra-building circuits connection	X							
- WS intra-building circuits rental	X							

	Financial statements					Audit		Published
Wholesale market and illustrative services	AFI (k)	AFI (l)	AFI (m)	AFI (n)		FPIA	PPIA	
- WS rearrangements	X							
- WS path protection connection per 34 Mbits/s	X							
- WS path protection connection per 140 Mbits/s	X							
- WS path protection rental per 34 Mbits/s	X							
- WS path protection rental per 140 Mbits/s	X							

Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
Wholesale market and illustrative services	AFI (k)	AFI (l)	AFI (m)	AFI (n)		FPIA	PPIA	
Fixed geographic call termination	X		X					
- WS Call termination local exchange segment	X							
- WS Call termination local exchange segment (ISDN)	X							
- WS Call termination local exchange stick	X							
- WS Call termination local exchange stick (ISDN)	X							

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
Wholesale markets and illustrative services	AFI (k)	AFI (l)	AFI (m)	AFI (n)		FPIA	PPIA	
Traditional interface symmetric broadband origination (up to and including 8Mbit/s);	X		X					
- WS service A	X							
- WS service B	X							

	Financial statements					Audit		Published
	AFI (k)	AFI (l)	AFI (m)	AFI (n)		FPIA	PPIA	
Wholesale markets and illustrative services								
Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);	X		X					
- WS service A	X							
- WS service B	X							
Alternative interface symmetric broadband origination (all bandwidths);	X		X					
- WS service A	X							
- WS service B	X							
Wholesale trunk segments (including Kingston upon Hull)	X		X					
- WS service A	X							
- WS service B	X							
Technical areas (as necessary, including fixed and per km variants)	X		X					
- In Span Handover ("ISH")	X							
- Customer Sited Handover ("CSH");	X							
- ISH extension circuits	X							
- Synchronous Transfer Mode ("STM")-1 ISH and CSH handover	X							

Annex B to direction 3

Accounting Separation Financial Statements

For the purposes of this annex the following abbreviations are used, the scope of these statements is set out in the matrix of obligations that follows; references to annexes are to the form and content direction attached at Schedule 4 to the Notification dated 8 April 2004. In the table below, X means that the financial statement set out at the head of the column is required for the market or service on that row.

Please note, the separation of the tables into Parts A to B is purely for presentational purposes.

- TS - turnover statements: sales of External Wholesale Services (as set out in annex 24) and sales of Internal Wholesale Services (as set out in annex 25);
- SOS – notes to the financial statements (as set out in annex 23) in relation to sufficiency of separation, in particular assurance that activities to which accounting separation applies have been sufficiently separated from each other and from activities to which separation does not apply;
- IMT – Inter-market turnover, reconciliation of the source and destination of inter market turnover, to verify that transfer charges are self cancelling overall (as set out in annex 33);
- RFR – regulatory financial review, as set out in annex 2 [NB – no audit opinion is required for the RFR];
- SDR – statement of responsibility, as set out in annex 3 [NB – no audit opinion is required for the SDR];
- FPIA – Audit Opinion required for required statements, for inclusion in audit report as set out in annex 4;
- PPIA – Audit opinion required for required statements, for inclusion in audit report as set out in annex 4;
- CCPS = ‘current cost primary statements’, to demonstrate sufficiency of separation where CCPS not required for cost accounting purposes – current cost profit and loss statement and statement of current cost mean capital employed, as set out in Annexes 13 & 14 in relation to wholesale services, Annexes 11 & 12 in relation to wholesale segments (when designated), Annexes 9 & 10 in relation to individual wholesale markets;
- RTW = ‘reconciliation to wholesale’, reconciliation of CC P&L and CC MCE to wholesale level, to demonstrate sufficiency of separation where for cost accounting purposes RTW not required – consolidation across group of markets covered by review (as set out in Annexes 7 & 8 for wholesale markets), followed by consolidation of these consolidations, to give consolidated CC P&L and CC MCE for wholesale markets subject to accounting separation (as set out in annex 5 & 6);
- RTSA = ‘reconciliation to statutory accounts’, reconciliation of consolidated CC P&L and CC MCE for wholesale markets subject to accounting separation to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 27 & 28, supported by annexes 29, 30,

31 & 32), to demonstrate sufficiency of separation where RTSA not already required for cost accounting purposes.

Part A

Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
Wholesale market and illustrative services						
Wholesale residential analogue exchange line services	X	X	X	X		X
- wholesale service A		X			X	
- wholesale service B ...		X			X	
Wholesale residential ISDN2 exchange line services	X	X	X	X		X
- wholesale service A		X			X	
- wholesale service B ...		X			X	
Wholesale business analogue exchange line services	X	X	X	X		X
- wholesale service A		X			X	
- wholesale service B ...		X			X	
Wholesale business ISDN2 exchange line services	X	X	X	X		X
- wholesale service A		X			X	
- wholesale service B		X			X	
Wholesale business ISDN30 exchange line services	X	X	X	X		X
- wholesale service A		X			X	
Call origination on fixed public narrowband networks	X	X	X	X		X
- WS Call originating local exchange segment		X			X	
- WS Call originating local exchange segment (incl Operator Assistance)		X			X	
- WS Call originating local exchange segment (ISDN)		X			X	
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)		X			X	
- WS Call origination local exchange Stick		X			X	

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
Wholesale market and illustrative services						
- WS Call origination local exchange Stick (ISDN)		X			X	
- WS Local exchange call origination circuit excluding FRIACO port		X			X	
- WS FRIACO port at the local exchange		X			X	
- WS PPP for FRIACO		X			X	
- NTS retailing services		X			X	
Local-tandem conveyance and transit on fixed public narrowband networks	X	X	X	X		X
- WS Local-tandem conveyance segment		X			X	
- WS Local-tandem conveyance segment (ISDN)		X			X	
- WS LTT Stick		X			X	
- WS LTT Stick (ISDN)		X			X	
- WS Local-tandem circuit excluding FRIACO port at tandem exchange		X			X	
- WS FRIACO port at the tandem exchange		X			X	
Inter-tandem conveyance and transit on fixed public narrowband networks	X	X	X	X		X
- WS Inter-tandem conveyance short		X			X	
- WS Inter-tandem conveyance medium		X			X	
- WS Inter-tandem conveyance long		X			X	
- WS Inter-tandem conveyance short (ISDN)		X			X	
- WS Inter-tandem conveyance medium (ISDN)		X			X	
- WS Inter-tandem conveyance long (ISDN)		X			X	
Single transit on fixed public narrowband networks	X	X	X	X		X
- WS Single transit segment		X			X	
- WS Single transit segment (ISDN)		X			X	
Interconnection	X	X	X	X		X

	Financial statements			Audit		Published
Wholesale market and illustrative services	TS	SOS	IMT	FPIA	PPIA	
- WS Connection (£ per 2Mbit/s per year)		X			X	
- WS Rental – fixed (£ per 2Mbit/s per year)		X			X	
- WS Rental – per km (£ per 2Mbit/s per year)		X			X	
- WS Re-arrangements (£ per occasion)		X			X	

Review of the fixed geographic call termination markets

	Financial statements			Audit		Published
Wholesale market and illustrative services	TS	SOS	IMT	FPIA	PPIA	
Fixed geographic call termination	X	X	X	X		X
- WS Call termination local exchange segment		X			X	
- WS Call termination local exchange segment (ISDN)		X			X	
- WS Call termination local exchange stick		X			X	
- WS Call termination local exchange stick (ISDN)		X			X	

Review of International Wholesale Services

	Financial statements			Audit		Published
Wholesale market and illustrative services	TS	SOS	IMT	FPIA	PPIA	
Wholesale IDD to category B (per attached list)	X	X	X	X		X

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements			Audit		Published
Wholesale markets and illustrative services	TS	SOS	IMT	FPIA	PPIA	
Traditional interface symmetric broadband origination (up to and including 8Mbit/s); - WS service A	X	X X	X	X	X	X

	Financial statements			Audit		Published
Wholesale markets and illustrative services - WS service B	TS	SOS X	IMT	FPIA	PPIA X	
Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s); - WS service A - WS service B	X	X X X	X	X	X X	X
Alternative interface symmetric broadband origination (all bandwidths); - WS service A - WS service B	X	X X X	X	X	X X	X
Wholesale trunk segments (including Kingston upon Hull) - WS service A - WS service B	X	X X X	X	X	X X	X
Technical areas (as necessary, including fixed and per km variants) - In Span Handover ("ISH") - Customer Sited Handover ("CSH"); - ISH extension circuits - Synchronous Transfer Mode ("STM")-1 ISH and CSH handover	X	X X X X X	X	X	X X X X	X

Review of the wholesale broadband access market

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
Wholesale markets and illustrative services						
Asymmetric broadband origination in the UK excluding the Hull area	X	X	X	X		X
Broadband conveyance in the UK	X	X	X	X		X
- WS ATM Interconnection		X			X	

Part B**Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation**

	Financial statements			Audit		Published
Wholesale market and illustrative services	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Wholesale residential analogue exchange line services	X	X	X	X		X
- wholesale service A		X			X	
- wholesale service B ...		X			X	
Wholesale residential ISDN2 exchange line services	X	X	X	X		X
- wholesale service A		X			X	
- wholesale service B ...		X			X	
Wholesale business analogue exchange line services	X	X	X	X		X
- wholesale service A		X			X	
- wholesale service B ...		X			X	
Wholesale business ISDN2 exchange line services	X	X	X	X		X
- wholesale service A		X			X	
- wholesale service B		X			X	
Wholesale business ISDN30 exchange line services	X	X	X	X		X
- wholesale service A		X			X	
Call origination on fixed public narrowband networks	X	X	X	X		X
- WS Call originating local exchange segment		X			X	
- WS Call originating local exchange segment (incl Operator Assistance)		X			X	
- WS Call originating local exchange segment (ISDN)		X			X	

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Wholesale market and illustrative services						
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)		X			X	
- WS Call origination local exchange Stick		X			X	
- WS Call origination local exchange Stick (ISDN)		X			X	
- WS Local exchange call origination circuit excluding FRIACO port		X			X	
- WS FRIACO port at the local exchange		X			X	
- WS PPP for FRIACO		X			X	
- NTS retailing services		X			X	
Local-tandem conveyance and transit on fixed public narrowband networks	X	X	X	X		X
- WS Local-tandem conveyance segment		X			X	
- WS Local-tandem conveyance segment (ISDN)		X			X	
- WS LTT Stick		X			X	
- WS LTT Stick (ISDN)		X			X	
- WS Local-tandem circuit excluding FRIACO port at tandem exchange		X			X	
- WS FRIACO port at the tandem exchange		X			X	
Inter-tandem conveyance and transit on fixed public narrowband networks	X	X	X	X		X
- WS Inter-tandem conveyance short		X			X	
- WS Inter-tandem conveyance medium		X			X	
- WS Inter-tandem conveyance long		X			X	
- WS Inter-tandem conveyance short (ISDN)		X			X	
- WS Inter-tandem conveyance medium (ISDN)		X			X	
- WS Inter-tandem conveyance long (ISDN)		X			X	

	Financial statements			Audit		Published
Wholesale market and illustrative services	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Single transit on fixed public narrowband networks	X	X	X	X		X
- WS Single transit segment		X			X	
- WS Single transit segment (ISDN)		X			X	
Interconnection	X	X	X	X		X
- WS Connection (£ per 2Mbit/s per year)		X			X	
- WS Rental – fixed (£ per 2Mbit/s per year)		X			X	
- WS Rental – per km (£ per 2Mbit/s per year)		X			X	
- WS Re-arrangements (£ per occasion)		X			X	

Review of the fixed geographic call termination markets

	Financial statements			Audit		Published
Wholesale market and illustrative services	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Fixed geographic call termination	X	X	X	X		X
- WS Call termination local exchange segment		X			X	
- WS Call termination local exchange segment (ISDN)		X			X	
- WS Call termination local exchange stick		X			X	
- WS Call termination local exchange stick (ISDN)		X			X	

Review of International Wholesale Services

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Wholesale market and illustrative services						
Wholesale IDD to category B (per attached list)	X	X	X	X		X

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Wholesale markets and illustrative services						
Traditional interface symmetric broadband origination (up to and including 8Mbit/s);	X	X	X	X		X
- WS service A		X			X	
- WS service B		X			X	
Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);	X	X	X	X		X
- WS service A		X			X	
- WS service B		X			X	
Alternative interface symmetric broadband origination (all bandwidths);	X	X	X	X		X
- WS service A		X			X	
- WS service B		X			X	
Wholesale trunk segments (including Kingston upon Hull)	X	X	X	X		X
- WS service A		X			X	
- WS service B		X			X	

	Financial statements			Audit		Published
Wholesale markets and illustrative services	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Technical areas (as necessary, including fixed and per km variants)	X	X	X	X		X
- In Span Handover ("ISH")		X			X	
- Customer Sited Handover ("CSH");		X			X	
- ISH extension circuits		X			X	
- Synchronous Transfer Mode ("STM")-1 ISH and CSH handover		X			X	

Review of the wholesale broadband access market

	Financial statements			Audit		Published
Wholesale markets and illustrative services	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Asymmetric broadband origination in the UK excluding the Hull area	X	X	X	X		X
Broadband conveyance in the UK	X	X	x	X		X
- WS ATM Interconnection		X			X	

Annex C to direction 3

Retail Cost Accounting Financial Statements

For the purposes of this annex the following abbreviations are used, the scope of these statements is set out in the matrix of obligations that follows; references to annexes are to the form and content direction attached at Schedule 4 to the Notification dated 8 April 2004. In the table below, X means that the financial statement set out at the head of the column is required for the market or service on that row.

Please note, the separation of the tables into Parts A to F is purely for presentational purposes.

- CCPS = 'current cost primary statements', current cost profit and loss statement (CC P&L) and statement of current cost mean capital employed (CC MCE), as set out in Annexes 21 & 22 in relation to retail product segments, Annexes 19 & 20 in relation to individual retail markets;
- RTR = 'reconciliation to retail', reconciliation of CC P&L and CC MCE to retail level - consolidation across group of markets covered by review (as set out in annexes 17 & 18 for retail markets), followed by consolidation of these consolidations, to give consolidated CC P&L and CC MCE for retail markets subject to cost accounting (as set out in annexes 15 & 16);
- RTSA = 'reconciliation to statutory accounts', reconciliation of consolidated CC P&L and CC MCE for retail markets subject to cost accounting to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 27 & 28, supported by annexes 29, 30, 31 & 32);
- SoCC Ext = statement of costs and charges for wholesale service supplied in the market, other than those which are only Internal Wholesale Services (as set out in annex 34);
- SoCC Int = statement of costs and charges for wholesale service supplied in the market, which are only Internal Wholesale Services (as set out in annex 35);
- SoAC FA = statement of activity costs on a current fully allocated cost basis for the market (as set out in Annexes 38), supported by consolidated statement of activity costs on a current fully allocated cost basis (as set out in Annexes 37);
- NCR FA = attribution of activity costs on a current fully allocated cost basis for the market (as set out in annex 40), supported by consolidated attribution of activity costs on a current fully allocated cost basis (as set out in annex 39);
- SoAC IC = consolidated statement of activity costs on an incremental and standalone cost basis (as set out in Annex 41).
- RFR – regulatory financial review, as set out in annex 2 [NB – no audit opinion is required for the RFR];
- SDR – statement of responsibility, as set out in annex 3 [NB – no audit opinion is required for the SDR];
- FPIA – Audit Opinion required for required statements, for inclusion in audit report as set out in annex 4;
- PPIA – Audit opinion required for required statements, for inclusion in audit report as set out in annex 4;
- Notes – notes to the financial statements, as set out in annex 23;
- RMP – retail markets purchase statement, as set out in annex 26;

- SPS – summary, for reconciliation purposes, of profitability by wholesale service (as set out in annex 36) [NB – the SPS should not be published];

Part A

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
Retail market and illustrative services	CCPS	RTR	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Traditional interface retail leased lines (up to and including 8Mbit/s);	X	X	X			X		X

Part B

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments market

	Financial statements					Audit		Published
Wholesale markets, retail market and illustrative services	SoAC FA	NCR FA	SoAC IC	RFR	SDR	FPIA	PPIA	
Traditional interface retail leased lines (up to and including 8Mbit/s);				X	X	X		X

Part C

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
Wholesale markets, retail market and illustrative services	Notes	RMP	SPS			FPIA	PPIA	
Traditional interface retail leased lines (up to and including 8Mbit/s);	X					X		X

Direction 4 for Kingston: Form and content of Regulatory Financial Statements

Direction under SMP Services Condition OB2 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 various market analyses carried out by the Director and OFCOM in accordance with section 79 of the Act, Kingston 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, Kingston has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OB1 to OB33 imposing obligations on Kingston in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to Kingston's activities in those markets where Kingston has been designated as having SMP;
- C. In complying with the SMP services conditions referred to in paragraph B above, and in particular condition OB5, Kingston is required to prepare such Regulatory Financial Statements as directed by OFCOM from time to time;
- D. Condition OB2 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 Kingston's obligations under conditions OB1 to OB33;
- E. OFCOM have, on 22 July 2004, made a direction under condition OB2 specifying requirements for the preparation the Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting ('Direction 3');
- F. This Direction further relates to Kingston's obligations under SMP services conditions OB1 to OB33, 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 OB5 and Direction 3;
- G. Kingston is entitled to depart from the form and content set out in this Direction in certain circumstances in accordance with conditions OB7 and OB20;
- H. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that this Direction is:
 - a. objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
 - b. not such as to discriminate unduly against particular persons or against a particular description of persons;
 - c. proportionate to what it is intended to achieve; and
 - d. in relation to what it is intended to achieve, transparent;
- I. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that they acted in accordance with the relevant duties set out in Sections 3 and 4 of the Act in giving this Direction;

- J. A notification of a proposal to give this Direction was given under section 49(4) of the Act on 8 April 2004 (the 'Notification');
- K. A copy of the Notification was sent to the Secretary of State in accordance with section 50(1)(b) of the Act;
- L. In the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 10 May 2004;
- 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 received responses to the Notification and have considered every such representation made to them within the period specified in the Notification and accompanying explanatory statement and these representations are discussed in Chapter 3 of the Statement accompanying this 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 CONDITION OB2, OFCOM HEREBY DIRECT THAT-

- 1. Except where Kingston is entitled to amend the form and content of the Regulatory Financial Statements in accordance with conditions OB7 and OB20, Kingston shall ensure that the Regulatory Financial Statements required by condition OB5 and Direction 3 shall be prepared, as appropriate, as to form and content in the manner set out in the Annex to this Direction.
- 2. In this Direction-
 - a. 'the Act' means the Communications Act 2003;
 - b. 'Kingston' means Kingston Communications (Hull) plc, whose registered company number is 2150618, 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. 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
 - d. 'OFCOM' means the Office of Communications; and
 - e. 'Regulatory Financial Statement' shall have the meaning ascribed to it in conditions OB1 to OB33.
- 3. Except where otherwise defined or in so far as the context otherwise requires, any word or expression shall have the same meaning as it has in the Act.

4. The Interpretation Act 1978 shall apply as if this Direction were an Act of Parliament.
5. Headings and titles shall be disregarded.

DAVID K S THOMAS
Director of Regulatory Finance, Ofcom

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

22 July 2004

Annexes to Direction 4

The 36 annexes to this Direction are contained in a Microsoft Excel file. Therefore, they are not published here, but can be obtained by e-mailing bill.fell@ofcom.org.uk. (See below for an index to these form and content annexes.)

Index of form and content annexes for Kingston

Annex 1 – Statement by Ofcom

Annex 2 – Regulatory financial review

Annex 3 – Statement of responsibility

Annex 4 – Report of the Regulatory Auditors

Annex 5 – Wholesale Markets Consolidation Profit and Loss (P&L) Statement

Annex 6 – Wholesale Markets Consolidation Mean Capital Employed (MCE) Statement

Annex 7 – Wholesale Summary narrowband P&L statement

Annex 8 – Wholesale Summary narrowband MCE statement

Annex 9 – Wholesale market P&L loss statement

Annex 10 – Wholesale market MCE statement

Annex 11 – Wholesale segment P&L statement

Annex 12 – Wholesale segment MCE statement

Annex 13 – Wholesale service P&L statement

Annex 14 – Wholesale service MCE statement

Annex 15 – Retail market P&L loss statement

Annex 16 – Retail market MCE statement

Annex 17 – Retail product group P&L statement

Annex 18 – Retail product group MCE statement

Annex 19 – Notes to financial statements

Annex 20 – Wholesale sales by market statement, external sales

Annex 21 – Wholesale sales by market statement, internal sales

Annex 22 – Retail markets purchase statement

Annex 23 – Reconciliation statement, P&L

Annex 24 – Reconciliation statement, MCE

Annex 25 – Wholesale residual activities statement, P&L

Annex 26 – Wholesale residual activities statement, MCE

Annex 27 – Retail residual activities statement, P&L

Annex 28 – Retail residual activities statement, MCE

Annex 29 – Inter-market turnover (reconciliation)

Annex 30 – Statements of costs and charges for internal and external wholesale services

Annex 31 – Statements of costs and charges for internal only wholesale services

Annex 32 – Consolidated profitability and MCE statement by wholesale service

Annex 33 – Consolidated statement of costs on a current cost basis, network activity statement

Annex 34 – Market statement of costs on a current cost basis, network activity statement

Annex 35 – Consolidated network services reconciliation statement

Annex 36 – Market network services reconciliation statement

Direction 5 for Kingston: Form of the 'FPIA' opinion for Financial Statements

Direction under SMP Service Condition OB2 specifying requirements for the 'FPIA' audit of Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

WHEREAS-

- A. As a result of various market analyses carried out by the Director and OFCOM in accordance with section 79 of the Act, Kingston 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, Kingston has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OB1 to OB33 imposing obligations on Kingston in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to Kingston's activities in those markets where Kingston has been designated as having SMP;
- C. In complying with the SMP services conditions referred to in paragraph B above, and in particular condition OB5, Kingston is required to secure the expression of an audit opinion upon the Regulatory Financial Statements as directed by OFCOM from time to time;
- D. Condition OB2 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 Kingston's obligations under those conditions;
- E. OFCOM have, on 22 July 2004, made a direction under condition OB2 specifying requirements for the preparation, audit and delivery of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting ('Direction 3');
- F. Direction 3 requires, in respect of certain Regulatory Financial Statements, Kingston to secure an audit opinion on those Regulatory Financial Statements to 'fairly presents in accordance with' ('FPIA') standards;
- G. This Direction further relates to Kingston's obligations under SMP services conditions OB1 to OB33, in that it details the level of audit which must be secured by Kingston in obtaining an audit to FPIA standards;
- H. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that this Direction is:
 - a. objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
 - b. not such as to discriminate unduly against particular persons or against a particular description of persons;
 - c. proportionate to what it is intended to achieve; and
 - d. in relation to what it is intended to achieve, transparent;

- I. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that they acted in accordance with the relevant duties set out in Sections 3 and 4 of the Act in giving this Direction;
- J. A notification of a proposal to give this Direction was given under section 49(4) of the Act on 8 April 2004 (the 'Notification');
- K. A copy of the Notification was sent to the Secretary of State in accordance with section 50(1)(b) of the Act;
- L. In the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 10 May 2004;
- 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 received responses to the Notification and have considered every such representation made to them within the period specified in the Notification and accompanying explanatory statement and these representations are discussed in Chapter 3 of the Statement accompanying this 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 CONDITION OB2, OFCOM HEREBY DIRECT THAT-

- 1. Where Kingston is required by any direction of OFCOM to secure the expression of an audit opinion to FPIA standards upon any Regulatory Financial Statement, Kingston shall ensure that the Regulatory Auditor shall state whether in his opinion:
 - a. each Regulatory Financial Statement complies with the requirements of condition OB5;
 - b. each Regulatory Financial Statement fairly presents in accordance with the Primary Accounting Documents:
 - i. in the case of the profit and loss account and profit and loss reconciliation statements, the results in the relevant Market, Disaggregated Activities and/or Accounting Separation Activities (as appropriate) for the Relevant Financial Year and Prior Year Comparatives;
 - ii. in the case of the statement of mean capital employed and mean capital employed reconciliation statements, the mean capital employed in the relevant Market, Disaggregated Activities and/or Accounting Separation Activities (as appropriate) for the Relevant Financial Year and Prior Year Comparatives; and

- iii. in the case of the other statements of revenues, costs, assets, liabilities and other quantities, the revenues, costs, assets, liabilities and other quantities incurred or employed in the relevant Market, Disaggregated Activities and/or Accounting Separation Activities (as appropriate) for the Relevant Financial Year and Prior Year Comparatives;
 - c. the Secondary Accounting Documents at the date of the audit opinion are appropriate to implement the Primary Accounting Documents.
- 2. In this Direction-
 - a. 'Accounting Separation Activities' shall have the meaning ascribed to it in conditions OB1 to OB33;
 - b. 'the Act' means the Communications Act 2003;
 - c. 'Kingston' means Kingston Communications (Hull) plc, whose registered company number is 2150618, 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;
 - d. 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
 - e. 'Disaggregated Activities' shall have the meaning ascribed to it in conditions OB1 to OB33;
 - f. 'Market' shall have the meaning ascribed to it in conditions OB1 to OB33;
 - g. 'OFCOM' means the Office of Communications;
 - h. 'Primary Accounting Documents' shall have the meaning ascribed to it in conditions OB1 to OB33;
 - i. 'Prior Year Comparatives' shall have the meaning ascribed to it in conditions OB1 to OB33;
 - j. 'Regulatory Auditor' shall have the meaning ascribed to it in conditions OB1 to OB33;
 - k. 'Regulatory Financial Statement' shall have the meaning ascribed to it in conditions OB1 to OB33;
 - l. 'Relevant Financial Year' shall have the meaning ascribed to it in conditions OB1 to OB33.
- 3. Except where otherwise defined or in so far as the context otherwise requires, any word or expression shall have the same meaning as it has in the Act.
- 4. The Interpretation Act 1978 shall apply as if this Direction were an Act of Parliament.
- 5. Headings and titles shall be disregarded.

DAVID K S THOMAS
Director of Regulatory Finance, Ofcom

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

22 July 2004

Direction 6 for Kingston: Form of the 'PPIA' opinion for Financial Statements

Direction under SMP Service Condition OB2 specifying requirements for the 'PPIA' audit of Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

WHEREAS-

- A. As a result of various market analyses carried out by the Director and OFCOM in accordance with section 79 of the Act, Kingston 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, Kingston has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OB1 to OB33 imposing obligations on Kingston in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to Kingston's activities in those markets where Kingston has been designated as having SMP;
- C. In complying with the SMP services conditions referred to in paragraph B above, and in particular condition OB5, Kingston is required to secure the expression of an audit opinion upon the Regulatory Financial Statements as directed by OFCOM from time to time;
- D. Condition OB2 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 Kingston's obligations under conditions OB1 to OB33;
- E. OFCOM have, on 22 July 2004, made a direction under condition OB2 specifying requirements for the preparation, audit and delivery of Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting ('Direction 3');
- F. Direction 3 requires, in respect of certain Regulatory Financial Statements, Kingston to secure an audit opinion of those Financial Statements to 'properly prepared in accordance with' ('PPIA') standards;
- G. This Direction further relates to Kingston's obligations under SMP services conditions OB1 to OB33, in that it details the level of audit which must be secured by Kingston in obtaining an audit to PPIA standards;
- H. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that this Direction is:
 - a. objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
 - b. not such as to discriminate unduly against particular persons or against a particular description of persons;
 - c. proportionate to what it is intended to achieve; and
 - d. in relation to what it is intended to achieve, transparent;

- I. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that they acted in accordance with the relevant duties set out in Sections 3 and 4 of the Act in giving this Direction;
- J. A notification of a proposal to give this Direction was given under section 49(4) of the Act on 8 April 2004 (the 'Notification');
- K. A copy of the Notification was sent to the Secretary of State in accordance with section 50(1)(b) of the Act;
- L. In the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 10 May 2004;
- 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 received responses to the Notification and have considered every such representation made to them within the period specified in the Notification and accompanying explanatory statement and these representations are discussed in Chapter 3 of the Statement accompanying this 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 CONDITION OB2, OFCOM HEREBY DIRECT THAT-

- 1. Where Kingston is required by any direction of OFCOM to secure the expression of an audit opinion to PPIA standards upon any Regulatory Financial Statements, Kingston shall ensure that the Regulatory Auditor shall state whether in his opinion:
 - a. each Regulatory Financial Statement complies with the requirements of condition OB5;
 - b. each Regulatory Financial Statement has been properly prepared in accordance with the Accounting Documents, including the Prior Year Comparatives;
 - c. having reviewed the Accounting Documents in forming his opinion under (b) above, anything has come to his attention that would lead him to conclude that the Accounting Documents have not been properly applied in the preparation of the relevant Regulatory Financial Statement, disclosing where practicable any adjustments he considers to be required in respect of any such matter; and
 - d. having reviewed the Accounting Documents, nothing has come to his attention that would lead him to conclude that the Secondary Accounting Documents are unreasonable in the context of the Primary Accounting Documents.

2. In this Direction-

- a. 'Accounting Documents' shall have the meaning ascribed to it in conditions OB1 to OB33;
 - b. 'the Act' means the Communications Act 2003;
 - c. 'Kingston' means Kingston Communications (Hull) plc, whose registered company number is 2150618, 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;
 - d. 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
 - e. 'OFCOM' means the Office of Communications;
 - f. 'Primary Accounting Documents' shall have the meaning ascribed to it in conditions OB1 to OB33;
 - g. 'Prior Year Comparatives' shall have the meaning ascribed to it in conditions OB1 to OB33;
 - h. 'Regulatory Financial Statement' shall have the meaning ascribed to it in conditions OB1 to OB33;
 - i. 'Secondary Accounting Documents' shall have the meaning ascribed to it in conditions OB1 to OB33.
3. Except where otherwise defined or in so far as the context otherwise requires, any word or expression shall have the same meaning as it has in the Act.
4. The Interpretation Act 1978 shall apply as if this Direction were an Act of Parliament.
5. Headings and titles shall be disregarded.

DAVID K S THOMAS
Director of Regulatory Finance, Ofcom

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

22 July 2004