

Promoting competition and investment in fibre networks: Telecoms Access Review 2026–31

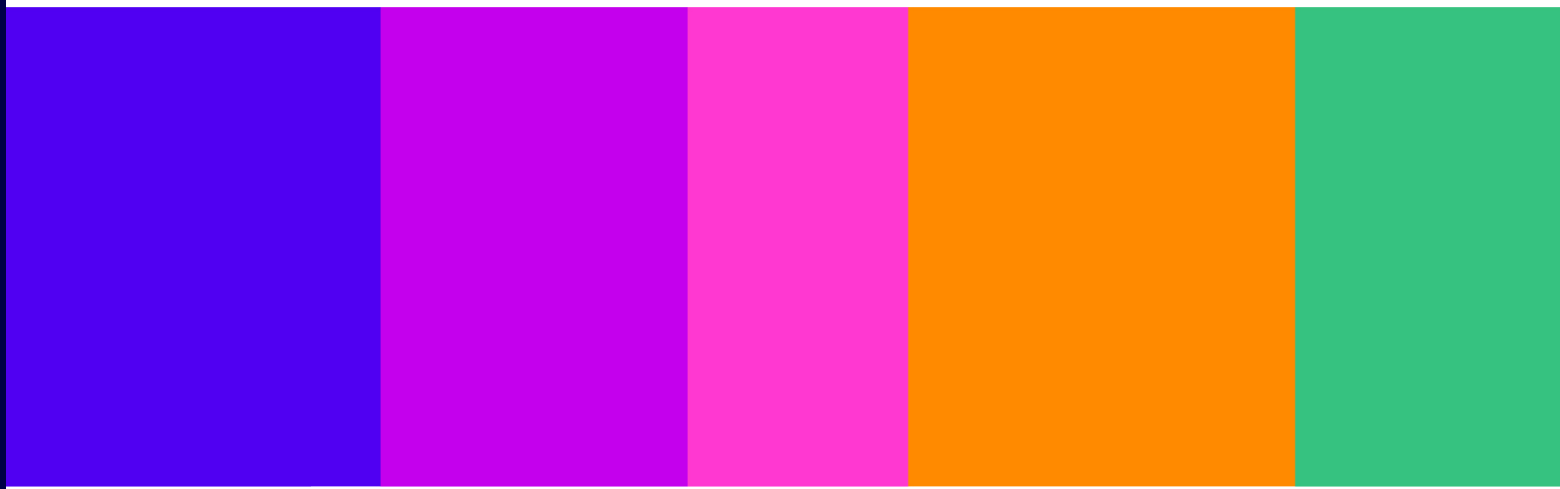
Volume 7 Part F: Legal instruments

Directions on regulatory financial reporting

Statement

Published 17 March 2026

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NOTIFICATION UNDER SECTION 49 OF THE COMMUNICATIONS ACT 2003

Notification of the giving of a Direction under section 49 of the Communications Act 2003 and Condition 11 relating to regulatory financial reporting (“Notification”)

Background

1. On 20 March 2025 Ofcom published a consultation titled “Promoting competition and investment in fibre networks: Telecoms Access Review 2026-31” (“the Consultation”) setting out Ofcom’s proposals to identify markets, make market power determinations and set SMP conditions with respect to BT for the five year period from 1 April 2026 to 31 March 2031.
2. At Volume 7 (Part A) of the Consultation, Ofcom proposed to impose on BT SMP Condition 11 which would impose requirements on BT in relation to regulatory financial reporting.
3. BT would also be required to comply with any direction that Ofcom may make from time to time under SMP Condition 11.
4. In accordance with section 49 and section 49A(3) of the Act, Ofcom proposed to make five directions under SMP Condition 11:
 - a) Direction 1: Direction specifying the Regulatory Accounting Principles;
 - b) Direction 2: Direction setting requirements in relation to preparation, delivery, publication, form and content of the Regulatory Financial Statements;
 - c) Direction 3: Direction specifying the requirements in relation to consistency with regulatory decisions and regulatory asset value adjusted current costs basis;
 - d) Direction 4: Direction setting requirements in relation to the audit opinion for the Regulatory Financial Statements; and
 - e) Direction 5: Direction setting requirements in relation to the change control notification, reconciliation report and accompanying audit opinion.
5. The effect of, and the reasons for giving the proposed directions, were set out in the Consultation, in particular Volume 6.
6. The notification of the proposed Directions was published at Volume 7 (Part F) of the Consultation, and a copy was sent to the Secretary of State under section 49C(1)(a) of the Act. Ofcom invited responses to the consultation by 12 June 2025.
7. Ofcom received several responses in relation to the proposals set out in the Consultation and it carefully considered every such representation. The Secretary of State did not notify Ofcom of any international obligation on the United Kingdom for the purposes of section 49A(6)(b) of the Act.
8. On 17 March 2026, Ofcom published a statement titled “Promoting competition and investment in fibre networks: Telecoms Access Review 2026-31” concluding the review referred to in paragraph 1 above (the “Statement”). In the Statement Ofcom identified the markets,

made the market power determinations and set the SMP conditions set out in Schedule 1 to the 2026 SMP Conditions Notification.

9. The SMP Conditions that are set include SMP Condition 11 (Regulatory Reporting).

Decision to give directions

10. Ofcom has decided, in accordance with section 49 of the Act, to make five directions pursuant to SMP Condition 11, as set out in the Schedule to this Notification relating to regulatory financial reporting (“Directions 1 to 5”).
11. The effect of, and the reasons for giving Directions 1 to 5 are set out in the Statement accompanying this Notification.
12. Directions 1 to 5 shall come in to force on 1 April 2026.

Ofcom’s duties and legal tests

13. Ofcom considers that Directions 1 to 5 comply with the requirements of section 49(2) of the Act, for the reasons set out in the Statement.
14. In giving Directions 1 to 5, Ofcom has considered and acted in accordance with its general duties set out in section 3 of the Act and the six requirements in section 4 of the Act and had regard to both the Statement of Strategic Priorities in accordance with section 2B of the Act, and the desirability of promoting economic growth in accordance with the growth duty set out in section 108 of the Deregulation Act 2015 (c.20).
15. Copies of Directions 1 to 5 have been sent to the Secretary of State in accordance with section 49C(1)(b) of the Act.

Interpretation

16. For the purpose of interpreting this Notification:
 - a) except in so far as the context otherwise requires, words or expressions shall have the meaning assigned to them: (i) in paragraph 17 below; (ii) otherwise, in SMP Condition 11 in Schedule 1 to the 2026 SMP Conditions Notification; and (iii) otherwise, in the Act;
 - b) headings and titles shall be disregarded;
 - c) expressions cognate with those referred to in this Notification shall be construed accordingly; and
 - d) the Interpretation Act 1978 (c. 30) shall apply as if this Notification were an Act of Parliament.
17. In this Notification:
 - a) **“2026 SMP Conditions Notification”** means the notification under sections 48 and 79 of the Act, which is contained in Volume 7 (Part A) of the document entitled “Promoting competition and investment in fibre networks: Telecoms Access Review 2026-31” published by Ofcom on 17 March 2026;
 - b) **“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 1159 of the Companies Act 2006;
- d) **“Gross Replacement Cost”** or **“GRC”** means the cost of replacing an existing tangible fixed asset with an identical or substantially similar new asset having a similar production or service capacity;
- e) **“Mean Capital Employed (MCE)”** means total assets less current liabilities, excluding corporate taxes and dividends payable, and provisions other than those for deferred taxation. The mean is computed from the start and end values for the period, except in the case of short-term investments and borrowings, where daily averages are used in their place;
- f) **“Net Replacement Cost”** or **“NRC”** means the Gross Replacement Cost less accumulated depreciation based on Gross Replacement Cost; and
- g) **“Ofcom”** means the Office of Communications as established pursuant to section 1(1) of the Office of Communications Act 2002 (2002 c. 11).

11. The Schedule to this Notification shall form part of this Notification.

Signed



James Mackley

Director of Financial Analytics, Ofcom

A person duly authorised in accordance with paragraph 18 of the Schedule to the Office of Communications Act 2002

17 March 2026

Schedule

Direction 1: Direction specifying the Regulatory Accounting Principles

Direction 2: Direction setting requirements in relation to preparation, delivery, publication, form and content of the Regulatory Financial Statements

Direction 3: Direction specifying the requirements in relation to consistency with regulatory decisions and regulatory asset value adjusted current costs basis

Direction 4: Direction setting requirements in relation to the audit opinion for the Regulatory Financial Statements

Direction 5: Direction setting requirements in relation to the change control notification, reconciliation report and accompanying audit opinion

Direction 1: Direction specifying the Regulatory Accounting Principles

Background

1. This Direction is made under:
 - a) Section 49 of the Act; and
 - b) SMP condition 11.5.
2. This Direction applies with respect to the following markets (as defined in Table 1A in Schedule 1 to the 2026 SMP Conditions Notification) unless otherwise specified:
 - a) PI;
 - b) WLA Area 2;
 - c) WLA Area 3;
 - d) LLA HNR;
 - e) LLA Area 2;
 - f) LLA Area 3;
 - g) IEC BT Only; and
 - h) IEC BT+1.

Direction

3. Ofcom has decided to direct BT that the Regulatory Accounting Principles for the purposes of SMP Condition 11 shall be those principles specified in the Annex to this Direction.
4. The Annex to this Direction forms part of the Direction.

Annex to Direction 1 - The Regulatory Accounting Principles

A. The Regulatory Accounting Principles which apply for the purposes of preparing and maintaining the Regulatory Financial Statements, the Accounting Methodology Documents, the accounting records and the Regulatory Accounting System are set out below.

B. Where it appears to BT that any of the Regulatory Accounting Principles set out above conflict with each other in a particular case, BT must resolve such conflict by giving priority to them in the order in which they are set out, with a previous principle taking precedence over a later principle.

C. The Regulatory Accounting Principles must be applied to all material items of revenue, costs, assets and liabilities in the Regulatory Financial Statements, or material changes in those items. A material item of revenue, costs, assets or liabilities, or a material change in those items, is one which may reasonably be expected by virtue of its magnitude or nature, to affect the views of any user of the Regulatory Financial Statements.

1. Consistency with regulatory decisions

Regulatory Financial Reporting must be consistent with Ofcom's regulatory decisions as directed by Ofcom.

2. Completeness

Regulatory Financial Reporting must encompass all revenues, costs, assets and liabilities of the Markets, together with residual activities (including wholesale and retail).

3. Accuracy

Regulatory Financial Reporting must maintain an adequate degree of accuracy, such that the information included in the Regulatory Financial Statements is free from material errors and double-counting. Materiality must be determined in accordance with paragraph C above.

4. Objectivity

Each element of Regulatory Financial Reporting, so far as is possible, must take account of all the available financial and operational data that is relevant to that element.

Where an element of Regulatory Financial Reporting is based on assumptions, those assumptions must be justified and supported by all available relevant empirical data. The assumptions must not be formulated in a manner which unfairly benefits BT or any other operator or entity or creates undue bias towards any part of BT's or any other operator's business or product.

The Dominant Provider must take account of the way in which services are charged when considering how to attribute costs. In particular, where costs are recovered from upfront revenues, they must not be capitalised and attributed to rental services. Where revenue is allocated to residual, associated costs must not be included in SMP markets.

5. Causality

Regulatory Financial Reporting must ensure that:

- a) revenues (including revenues resulting from transfer charges);
- b) costs (including costs resulting from transfer charges);
- c) assets; and
- d) liabilities

are attributed in accordance with the activities which cause the revenues to be earned, or costs to be incurred, or assets to be acquired, or liabilities to be incurred respectively. Costs attributed to Markets must be relevant to and required by the services provided in those Markets.

6. Compliance with the statutory accounting standards

Regulatory Financial Reporting must comply with the statutory accounting standards applied in BT's statutory financial statements; with the exception of any departures as Ofcom may direct from time to time.

7. Consistency of the Regulatory Financial Statements as a whole and from one period to another

Regulatory Financial Reporting must be applied consistently in all the Regulatory Financial Statements relating to the same period.

Regulatory Financial Reporting must be applied consistently from one period to another.

All the changes in Regulatory Financial Reporting from one period to another must be justified by reference to the Regulatory Accounting Principles.

If there are material changes in Regulatory Financial Reporting from one period to another, BT must restate the previous period's Regulatory Financial Statements, applying the changes to the Regulatory Financial Statements for that period.

Direction 2: Direction setting requirements in relation to preparation, delivery, publication, form and content of the Regulatory Financial Statements

Background

1. This Direction is made under:
 - a) Section 49 of the Act;
 - b) SMP Condition 11.2;
 - c) SMP Condition 11.3; and
 - d) SMP Condition 11.5.
2. This Direction applies with respect to the following markets (as defined in Table 1A in Schedule 1 to the 2026 SMP Conditions Notification) unless otherwise specified:
 - a) PI;
 - b) WLA Area 2;
 - c) WLA Area 3;
 - d) LLA HNR;
 - e) LLA Area 2;
 - f) LLA Area 3;
 - g) IEC BT Only; and
 - h) IEC BT + 1.

Interpretation

3. In this Direction, the following terms have the following meanings:
 - a) "**Market**" means:
 - i) each of the SMP markets identified in the 2026 SMP Conditions Notification; and
 - ii) Cross Market Ancillaries.
 - b) "**PAC**" means a 'previously allocated cost' methodology whereby costs are attributed pro-rata to each cost category which has received an allocation of operating costs, depreciation and return on mean capital employed at the preceding level of the Regulatory Accounting System.

Direction

4. Ofcom has decided to direct BT as follows.
5. BT shall prepare and deliver to Ofcom two weeks before they are published the following statements, in accordance with the obligations in paragraph 6 and 7 below:

- a) Introduction to the Regulatory Financial Statements;
 - b) Basis of Preparation;
 - c) Statement of Responsibility;
 - d) Performance Summary by Market;
 - e) Attribution of Operating Costs;
 - f) Attribution of Mean Capital Employed;
 - g) Reconciliation Statement – Income Statement;
 - h) Reconciliation Statement – Mean Capital Employed;
 - i) Attribution Diagrams for Operating Costs and Mean Capital Employed;
 - j) Market Summaries;
 - k) Analysis of Service Operating Costs and Mean Capital Employed;
 - l) Appendix for Physical Infrastructure Market; and
 - m) Glossary.
6. BT shall publish the statements set out in paragraph 5 of this Direction, and in addition the following statements:
- a) Statement by Ofcom;
 - b) Report of the Regulatory Auditor; and
 - c) within four months after the end of the Financial Year to which they relate.
7. Except where BT is entitled to amend the form and content of the Regulatory Financial Statements, BT shall prepare the statements described in paragraphs 5 and 6 in the form provided for and containing the content specified in Annex A to this Direction.
8. BT shall publish the Regulatory Financial Statements in Excel spreadsheet format as well as in portable document format (“PDF”).
9. BT shall prepare and deliver to Ofcom at the same time it delivers its Regulatory Financial Statements the following additional financial information in respect of each Market in the form and content described in Annex B:
- i) A product-level breakdown of revenue and volume for each service published in BT’s Regulatory Financial Statements;
 - ii) Breakdown of volumes, revenues and costs for all SMP services in BT’s regulatory accounting system;
 - iii) Breakdown of service level operating costs and MCE by component;
 - iv) CCA fixed asset movement statement;
 - v) Data supporting CCA valuations;
 - vi) Asset values and depreciation;
 - vii) Regulatory Asset Value (RAV) adjustment applied to Access Duct;
 - viii) PAC breakdown;
 - ix) Cost component mapping;
 - x) Grant funded assets;

- xi) Exchange exit and closure; and
 - xii) Copper recovery net proceeds.
10. BT shall prepare and deliver to Ofcom at the same time as it delivers its Regulatory Financial Statements the following additional financial information in respect of the PI Market in the form and content described in Annex B:
- i) Costs of lead-in duct and single bore spine duct;
 - ii) Attributions of duct costs to PI services;
 - iii) PI utilisation metrics;
 - iv) PIA ancillaries related to network adjustments and other PIA ancillaries; and
 - v) Mapping physical infrastructure records and financial records.
11. BT shall prepare and deliver to Ofcom at the same time it delivers its Regulatory Financial Statements the following additional financial information in respect of the WLA - Area 2 and WLA – Area 3 Markets in the form and content as described in Annex B:
- i) FTTP investment in Area 2 and Area 3;
 - ii) FTTP homes passed;
 - iii) Time related charges; and
 - iv) Special fault investigations.
12. BT shall prepare and deliver to Ofcom at the same time it delivers its Regulatory Financial Statements the following additional financial information in respect of Leased Lines Access and IEC Markets in the form and content as described in Annex B:
- i) Time related charges;
 - ii) Contractor ECCs;
 - iii) Direct ECCs; and
 - iv) Optical services.
13. BT shall prepare and deliver to Ofcom at the same time it delivers its Regulatory Financial Statements the following additional financial information in respect of Leased Lines Access – Area 3, IEC – BT only and IEC BT+1 Markets in the form and content as described in Annex B:
- i) Dark fibre patch panels, initial testing, Right When Tested (RWT) and cessation.
14. BT shall prepare and deliver to Ofcom at the same time it delivers its Regulatory Financial Statements the following additional financial information in respect of Cross Market Ancillaries in the form and content as described in Annex B:
- i) Electricity Charges.
15. The Annexes to this direction form part of the Direction.

Annex A to Direction 2

Statement by Ofcom

1. The statement provided by Ofcom commenting on the figures in, the notes to, or the presentation of any or all of the Regulatory Financial Statements, in relation to each of the Markets.

Introduction to the Regulatory Financial Statements

2. The Introduction to the Regulatory Financial Statements (RFS) shall be included in the RFS as a separate statement.
3. The Introduction must include a summary of the Dominant Provider's financial performance in a way which helps the reader to understand the RFS. The summary must include a brief but complete commentary on its financial performance in relation to each Market separately, prepared on an objective basis.
4. The Introduction should also set out an analysis of the changes and developments affecting each Market, including changes in market conditions, the introduction or announcement of new services, new and discontinued activities and relevant acquisitions and disposals.

Basis of Preparation

5. The RFS shall contain, as a separate statement, explanations based on generally accepted accounting principles (GAAP), to assist the user in the interpretation of the RFS.
6. The explanations must address issues necessary to ensure the proper preparation of the RFS (in accordance with the requirement to obtain an audit to "properly prepared in accordance with" standard). They should set out to the extent necessary the basis of accounting, accounting policies, changes for restatement, non-compliance with the International Accounting Standards and any other information that will enable users to properly understand the RFS.
7. The explanations should make clear issues of comparability that assist the reader's understanding of the RFS and highlight accounting policies that are key to the understanding of performance, focusing on those which have required the particular exercise of judgement in their application and those accounting policies which have changed in the year.

Statement of Responsibility

8. The statement provided by the board of directors of BT shall set out the basis of preparation of the RFS and confirm the approval of the RFS by BT's board of directors.

Report of the Regulatory Auditor

9. The statement by the Regulatory Auditor shall set out the duties and responsibilities of BT and of the Regulatory Auditor, the basis of audit opinion in accordance with current auditing standards, to whom a duty of care is owed and their opinion in respect of each Regulatory Financial Statement.

Performance Summary by Market

10. The Performance Summary by Market schedule shall be in the form specified below, and contain the information required by the column and row headings.

Performance Summary by Market 20XX
For the year ended 31 March 20XX

		Openreach				Rest of BT	BT Group			
		Physical Infrastructure	SMP markets (additional column for each market)	Non-SMP	Eliminations	Total	Total	Eliminations	Roundings	Total
PI revenues										
External purchases	£m									
Internal purchases	£m									
Inputs to downstream services	£m									
Total PI revenues	£m									
Other revenues										
External revenue	£m									
Internal revenue	£m									
Total other revenues	£m									
Total revenue	£m									
Attribution of PI costs										
Operating costs	£m									
Depreciation	£m									
Specific items	£m									
Total HCA operating costs	£m									
CCA adjustments	£m									
Total CCA operating costs	£m									
CCA Return	£m									
Mean capital employed	£m									
Return on MCE %	%									

Notes to be reported below the Performance Summary by Market schedule

- i) Specific items: BT must include a schedule showing which specific items reported in the BT Group statutory financial statements have been attributed to SMP markets.
- ii) Attribution of PI costs: BT must explain the reason for any allocation of PI costs outside of Openreach.
- iii) Main link: BT must explain how it has determined whether to report main link in LLA Area 2, LLA Area3, LLA HNR, IEC BT Only and IEC BT+1 (where applicable). BT can include this explanation in its Accounting Methodology Document.

Notes for completing the Performance Summary by Market schedule

- PI revenues: these rows should only be completed for the PI market.
- Other revenues: these rows should be completed for all columns except that relating to the PI market.
- Attribution of PI costs: this row should be completed for all columns except that relating to the PI market. The total in this row should reconcile to the row called 'inputs to downstream services.'
- All other rows: these should be completed for all columns.

Within Openreach, "SMP markets" must include a separate column for each of:

- Wholesale local access – Area 2;
- Wholesale local access – Area 3;
- Leased lines access – Area 2;
- Leased lines access – Area 3;
- Leased lines access – High Network Reach;
- IEC – BT only exchanges;
- IEC – BT + 1 exchanges; and
- Cross market ancillaries.

Attribution of Operating Costs

11. The Attribution of Operating Costs schedule shall be in the form specified below, and contain the information required by the column and row headings.

(ii) Operating costs by division

£m

Openreach					RoBT	BT Group		
Physical Infrastructure	SMP markets (additional column for each market)	Non-SMP	Eliminations	Total	Total	Eliminations	Roundings	Total

EOI input prices (if applicable)

Attribution of PI costs

Openreach

Service and network delivery

Openreach support functions

Openreach total

Rest of BT

Group centre

Property and facilities

Technology

Consumer and Business

Rest of BT total

Operating costs before depreciation

Notes for completing the 'Attribution of Operating Costs' schedule:

- The operating cost categories used in the '(i) Operating costs by type schedule between 'wages and salaries' and 'other operating income', inclusive, must align with those presented in the 'operating costs' note to the financial statements presented in the BT Group annual report in the corresponding financial year.
- BT can change the row names in the (ii) Operating costs by division schedule to align with the names of its divisions. Any changes to row names to reflect changes to the names of divisions must be explained in a note to this schedule.
- The Openreach SLG payments row can be omitted where BT presents SLG payments by service in a separate schedule in the RFS.

Within Openreach, "SMP markets" must include a separate column for each of:

- Wholesale local access – Area 2
- Wholesale local access – Area 3

- Leased lines access – Area 2
- Leased lines access – Area 3
- Leased lines access – High Network Reach
- IEC – BT only exchanges
- IEC – BT + 1 exchanges
- Cross market ancillaries

Attribution of Mean Capital Employed

12. The Attribution of Mean Capital Employed schedule shall be in the form specified below, and contain the information required by the column and row headings.

Attribution of Mean Capital Employed XX For the year ended 31 March 20XX

£m	Openreach					RoBT	BT Group		
	Physical Infrastructure	SMP markets (additional column for each market)	Non-SMP	Eliminations	Total	Total	Eliminations	Roundings	Total
Non-current assets									
- Duct									
- Poles									
- Copper									
- Fibre									
- Electronics									
- Software									
- Land and buildings									
- Right of use assets									
- Other assets									
- Less funded assets (BDUK, etc)									
Total non-current assets									
Current assets									
Current liabilities									
Provisions									
Roundings									
Total MCE									

Notes for completing the 'Attribution of Wholesale Current Cost Mean Capital Employed' schedule:

BT must provide an explanation below the schedule for any duct and pole assets reported outside of the PI market.

Within Openreach, "SMP markets" must include a separate column for each of:

- Wholesale local access – Area 2
- Wholesale local access – Area 3
- Leased lines access – Area 2
- Leased lines access – Area 3
- Leased lines access – High Network Reach
- IEC – BT only exchanges
- IEC – BT + 1 exchanges
- Cross market ancillaries

Reconciliation Statement - Income Statement

13. The Reconciliation Statement - Income Statement schedule shall be in the form specified below, and contain the information required by the column and row headings.

Reconciliation Statement - Income Statement 20XX

For the year ended 31 March 20XX

	Openreach			BT Group plc		
	Revenue	Operating Cost	Return or operating profit	Revenue	Operating Cost	Return or operating profit
	£m	£m	£m	£m	£m	£m
As in the Annual Report						
<u>Adjustments</u>						
Specific items						
Use of Technology Assets						
Other trading differences						
Net short term interest						
Share of post tax loss of associated and joint ventures						
Installations costs treated as operating expenses						
CCA adjustments						
Roundings						
As in the RFS						

Note on completion of Reconciliation Statement – Income Statement/Profit and Loss Account

Below the 'Reconciliation Statement – Income Statement' schedule, BT must show a breakdown of the Openreach operating cost adjustment for 'Other trading differences'.

- This breakdown must use the cost categories from the 'Attribution of Operating Costs' schedule – specifically those headings between 'wages and salaries' and 'other operating income' inclusive.

- BT must also explain the main differences in accounting treatment between the RFS and annual report driving the 'Other trading differences' reconciling item.

BT may add or remove rows under the 'adjustments' heading where it reasonably considers they are required to respond to changes in BT's business. A description of any such changes must be published in the RFS.

BT must include a brief description of each adjustment in the RFS.

Reconciliation Statement – Mean Capital Employed

14. The Reconciliation Statement – Mean Capital Employed schedule shall be in the form specified below, and contain the information required by the column and row headings.

Reconciliation Statement - MCE - BT Group 20XX

For the year ended March 20XX

MCE - BT Group plc	20XX	20XX-1	20XX	20XX-1
	£m	£m	£m	£m
Total assets less current liabilities in the Annual Report				
Adjustments				
Corporate taxes				
Deferred taxes				
Derivative financial instruments				
Loans due within one year				
Provisions				
Retirement benefits surplus				
Capital costs treated as operating expenses				
IFRS16				
Closing HCA capital employed at 31 March				
CCA adjustments				
Roundings				
Closing CCA capital employed at 31 March				
Opening CCA capital employed at 1 April				
Total CCA MCE in the RFS				
Openreach				
Market 1				
Market 2, etc				
Total Openreach SMP				
Openreach non-SMP				
Rest of BT				
Eliminations				
Roundings				
Total CCA MCE in the RFS				

Note on completion of Reconciliation Statement – Mean Capital Employed

BT may add or remove rows under the 'adjustments' heading where it reasonably considers they are required to respond to changes in BT's business. A description of any changes must be published in the RFS.

BT must include a brief description of each adjustment.

Attribution Diagrams for Operating Costs and Mean Capital Employed

15. For each operating cost and asset category reported in the Attribution of Operating Costs and Attribution of Mean Capital Employed schedules BT must publish a diagram showing the following:

- The key allocation stages. As a minimum, this must include the following allocation stages:
 - > Initial cost of the cost category
 - > Activity group and/or plant group
 - > Network Component
 - > SMP and non-SMP markets (each SMP market must be identified);
- At each allocation stage (including the initial cost of the cost category), either the 5 largest cost pools, or any cost pool representing 20% or more of the total cost associated with the relevant operating cost or asset category of that allocation stage. Other cost pools can be aggregated together into an 'other' cost pool;
- The cost drivers associated with each identified cost pool at each stage;
- The percentage allocation using those cost drivers at each stage; and
- The percentage of cost allocated to each Openreach SMP market, Openreach residual and rest of BT.

Notes on preparing these diagrams

For the 'Fibre' asset category, where BT categorises this as access, backhaul or core fibre in its Regulatory Accounting System, the attribution diagram must illustrate how each of access, backhaul and core fibre is attributed.

These diagrams may be published as a separate appendix to the RFS on BT's website.

BT must publish a narrative alongside these diagrams explaining how to interpret the diagrams and where to find information on each cost driver in the Accounting Methodology Document. Any assumptions made when preparing these diagrams must be published.

BT can omit a diagram in the following cases, but where it does so it must set out the reason:

- Where 100% of the operating cost or asset category in the current and prior year is attributed to Rest of BT.
- Where there are no costs associated with the operating cost or asset category in the current and prior year.

- Where there are significant negative balances within the operating cost or asset category that would distort the diagram.
- Where Ofcom has agreed a diagram can be omitted.

BT can combine some SMP markets where they individually receive a small allocation of cost. Where this is done, BT must clearly indicate which markets have been combined and explain the reason in a note to the diagram.

Market Summaries

16. BT must publish the schedules set out in this section:

- i) PI Summary with Notes on a) network adjustments above and below the financial Limit, b) lead-in duct kilometres, c) number of poles, d) Ancillary charges, e) volume metrics explanation, and f) Derivation of 'inputs to downstream services' ;
- ii) Wholesale Local Access – Area 2 Summary;
- iii) Wholesale Local Access – Area 3 Summary with Note on FTTP homes passed in Area 3;
- iv) Leased Lines Access – Area 2 Summary;
- v) Leased Lines Access – Area 3 Summary;
- vi) Leased Lines Access – High Network Reach Summary;
- vii) IEC – BT Only Summary;
- viii) IEC – BT + 1 Summary; and
- ix) Cross market ancillaries.

17. Each schedule shall be in the form specified for it below, and contain the information required by the column and row headings. In each schedule, BT can include additional rows i) where required to ensure total revenues or costs reconcile to the Performance Summary by Market schedule or ii) where these row items would be better presented in the Market Summary schedules than in the Reconciliation Statements. For example, in relation to IFRS15 (relating to revenue from contracts with customers) BT can include rows such as:

- IFRS15 Deferred Revenue;
- IFRS15 Outpayments required to be treated as a credit to revenue (e.g. in relation to SLGs);
- SLGs – Where SLG's are included within the service breakdown, the IFRS Outpayment note can be omitted.

18. BT may, with agreement from Ofcom, aggregate and disclose service level information in an alternative way but must include a note to the relevant Market Summary explaining what it has done and why.

19. BT may include other notes under each Market Summary schedule to help users of the RFS understand the schedules.

i) PI Summary

Physical Infrastructure Summary 20XX

For the year ended 31 March 20XX

Detailed service analysis

	Internal Revenue	External Revenue	Total Revenue	Internal Volume	External Volume	Measure	Internal Average Price	External Average Price	Internal opex	External opex	Internal MCE	External MCE	Internal ROCE	External ROCE
	£m	£m	£m				£	£	£m	£m	£m	£m	%	%
Inputs to downstream services														
Lead-in duct														
Spine duct - 1 bore														
Spine duct - 2 bore														
Spine duct - 3+ bore														
Footway box - manholes														
Footway box - joint boxes														
Poles - multi-end-user attachment														
Poles - single-end-user attachment														
Other PI rentals (if applicable)														
Total														
PI Rentals														
Lead-in duct														
Spine duct - 1 bore														
Spine duct - 2 bore														
Spine duct - 3+ bore														
Footway box - manholes														
Footway box - joint boxes														
Poles - multi-end-user attachment														
Poles - single-end-user attachment														
Other PI rentals (if applicable)														
Total														
Ancillary Charges (excl. network adjustments)														
Network adjustments above financial limit														
Other PI Charges (if applicable)														
Total Physical Infrastructure														

Below the PI Summary schedule BT must include the following notes:

- a) Network adjustments above and below the financial limit

	Internal opex £'m	External opex £'m	Internal MCE £'m	External MCE £'m
Gross network adjustments				
Less network adjustments above financial limit				
Network adjustments below the limit				
- of which, included in downstream services				
- of which included in PI rentals				

- b) Lead-in duct kilometres – set out the kilometres of lead-in duct
- c) Number of poles - set out the number of poles
- d) Ancillary charges - explain what internal and external ancillary charges (excl. network adjustments) relate to
- e) Volume metrics explanation – explain what the internal and external PI volume metrics represent
- f) Derivation of ‘inputs to downstream services’ – explain how the amounts presented under the ‘inputs to downstream services’ line were derived.

ii) Wholesale Local Access – Area 2 Summary

X.X.X Wholesale Local Access - Area 2 20XX

For the year ended 31 March 20XX

Detailed service analysis

Service	Internal	External	Total Revenue	Internal	External	Measure	Internal	External	Internal	External	Internal	External	Internal	External
	Revenue	Revenue		Volume	Volume		Average	Average						
	£m	£m	£m				£	£	£m	£m	£m	£m	%	%
MPF rentals (SML1) (charge controlled only)														
MPF other rentals														
FTTC 80/20 rentals (charge controlled only)														
FTTC other rentals														
FTTP 80/20 rentals (charge controlled, where applicable)														
FTTP 80/20 rentals (non-charge controlled, where applicable)														
FTTP other rentals														
SOGEA 80/20 rentals (charge controlled)														
SOGEA other rentals														
FTTP 80/20 standard connections (charge controlled)														
FTTP 80/20 premium and advanced connections (charge controlled)														
FTTP other connections														
Other WLA services (split between rental and connections where applicable)														
Rounding														
Total WLA Area 2														

Notes on completion of ii) Wholesale Local Access – Area 2 Summary

- Other WLA services (split between rentals and connections where applicable) – these rows should capture any WLA services that BT is not required to separately report in other service categories set out in the schedule.

iii) Wholesale Local Access – Area 3 Summary

X.X.X Wholesale Local Access - Area 3 20XX

For the year ended 31 March 20XX

Detailed service analysis

Service	Internal Revenue	External Revenue	Total Revenue	Internal Volume	External Volume	Measure	Internal Average	External Average	Internal	External	Internal	External	Internal	External
	£m	£m		£m	Price		Price	opex	opex	MCE	MCE	ROCE	ROCE	
							£	£	£m	£m	£m	£m	%	%
MPF rentals (SML1) (charge controlled only)														
MPF other rentals														
FTTC 80/20 rentals (charge controlled only)														
FTTC other rentals														
FTTP 80/20 rentals (charge controlled, where applicable)														
FTTP 80/20 rentals (non-charge controlled, where applicable)														
FTTP other rentals														
SOGEA 80/20 rentals (charge controlled)														
SOGEA other rentals														
FTTP 80/20 standard connections (charge controlled)														
FTTP 80/20 premium and advanced connections (charge controlled)														
FTTP other connections														
Other WLA services (split between rental and connections where applicable)														
Rounding														
Total WLA Area 3														

Notes on completion of iii) Wholesale Access – Area 3 Summary:

- Other WLA services (split between rentals and connections where applicable) – these rows should capture any WLA services that BT is not required to separately report in other service categories set out in the schedule).

Note on FTTP homes passed in Area 3 this note should appear below the Wholesale Local Access – Area 3 Summary schedule.

Note on FTTP rollout in WLA Area 3

	Measure	Additions for the year	Cumulative total as at 31 March 20XX
Non-subsidised homes passed with FTTP	000s		

Notes on completion of ‘Note on FTTP homes passed in Area 3’:

- BT must include as a note below the schedule the definition of ‘premises passed by FTTP’. A premise is passed by FTTP if Openreach’s GEA FTTP product is available for connection and supply at that premise. Where this definition is different from the way in which BT holds data, BT may provide information as held by it relating to premises passed by FTTP but must explain any differences between the definition and the data provided.
- ‘Non-subsidised homes passed with FTTP’ means homes passed which have not been wholly or partly funded through Government grants or other subsidies.

iv) Leased Lines Access – Area 2 Summary

LLA Area 2

X.X.X Leased Lines Access - Area 2 Summary 20XX

For the year ended 31 March 20XX

Detailed service analysis

Service	Internal	External	Total	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Revenue	Revenue	Revenue	Volume	Volume	Average	Average	opex	opex	MCE	MCE	ROCE	ROCE
	£m	£m	£m		Measure	£	£	£m	£m	£m	£m	%	%

Ethernet services basket

Low bandwidth services

Connections

EAD rentals

EAD LA rentals

Other rentals

Main link

Other services (if applicable)

Total low bandwidth services

High bandwidth services

Connections

EAD 10Gbit/s rentals

Other EAD rentals

EAD LA 10Gbit/s rentals

Other EAD LA rentals

Other rentals

Main link

Other services (if applicable)

Total high bandwidth services

Total Ethernet services basket

Optical services - rentals

Optical services - connections

Optical services - main link

Other services (if applicable)

Total

Notes on completion of iv) Leased Lines Access – Area 2 Summary

- 'Ethernet services basket' means the services included in the Ethernet (all bandwidths) Basket as defined in section 1 of the Annex to Condition 12E.

v) Leased Lines Access – Area 3 Summary

LLA Area 3

X.X.X Leased Lines Access - Area 3

For the year ended 31 March 20XX

Detailed service analysis

Service	Internal Revenue £m	External Revenue £m	Total Revenue £m	Internal Volume	External Volume Measure	Internal Average Price £	External Average Price £	Internal opex £m	External opex £m	Internal MCE £m	External MCE £m	Internal ROCE %	External ROCE %
Dark fibre services													
Connections - single fibre													
Connections - dual fibre													
Rentals - single fibre													
Rentals - dual fibre													
Main link													
Patch panels - customer premises													
Patch panels - exchanges													
Initial testing													
Cessation charges													
Right when tested charges													
Low bandwidth services basket													
Connections													
EAD rentals													
EAD LA rentals													
Other rentals													
Main link													
Other services (if applicable)													
Total low bandwidth services basket													
High bandwidth services basket													
Connections													
EAD 10Gbit/s rentals													
Other EAD rentals													
EAD LA 10Gbit/s rentals													
Other EAD LA rentals													
Other rentals													
Main link													
Other services (if applicable)													
Total high bandwidth services basket													
Optical services - rentals													
Optical services - connections													
Optical services - main link													
Other services (if applicable)													
Total													

Note on completion of v) Leased Lines Access – Area 3 Summary

- 'Low bandwidth services basket' means the services included in the Ethernet (1Gbit/s and below) Basket as defined in section 3 of the Annex to Condition 12E.
- 'High bandwidth services basket' means the services included in the Ethernet (over 1Gbit/s) Basket as defined in section 2 of the Annex to Condition 12E.

vi) Leased Lines Access – High Network Reach Area Summary

LLA HNR

X.X.X Leased lines access - High Network Reach Summary 20XX

For the year ended 31 March 20XX

Detailed service analysis

Service	Internal	External	Total	Internal	External	Internal Average Price	External Average Price
	Revenue	Revenue	Revenue	Volume	Volume Measure		
	£m	£m	£m			£	£
Low bandwidth services							
Connections							
EAD rentals							
EAD LA rentals							
Other rentals							
Main link							
Other services (if applicable)							
Total low bandwidth services							
High bandwidth services							
Connections							
EAD 10Gbit/s rentals							
Other EAD rentals							
EAD LA 10Gbit/s rentals							
Other EAD LA rentals							
Other rentals							
Main link							
Other services (if applicable)							
Total high bandwidth services							
Optical services - rentals							
Optical services - connections							
Optical services - main link							
Direct ECCs							
Contractor ECCs							
Time related charges							
Ancillaries (list each ancillary where revenue > £5m)							
Ancillaries (aggregated where each service is < £5m)							
Other services (if applicable)							
Total							

Note on completion of vi) Leased Lines Access – High Network Reach Area Summary

- 'Ancillaries (list each ancillary where revenue > £5m)' means that each ancillary with total revenue exceeding £5m in the HNR area , should be reported on a separate row. Ancillaries where total revenue is less than £5m in the HNR area, can be aggregated and reported together.

vii) IEC – BT Only Summary

IEC BT only

X.X.X IEC (BT Only) Summary 20XX

For the year ended 31 March 20XX

Detailed se	Internal	External	Total	Internal	External	Measure	Internal	External	Internal	External	Internal	External	Internal	External
	Revenue	Revenue	Revenue	Volume	Volume		Average	Average	opex	opex	MCE	MCE	ROCE	ROCE
Service	£m	£m	£m				£	£	£m	£m	£m	£m	%	%
Dark fibre services														
Connections - single fibre														
Connections - dual fibre														
Rentals - single fibre														
Rentals - dual fibre														
Main link														
Patch panels - customer premises														
Patch panels - exchanges														
Initial testing														
Cessation charges														
Right when tested charges														
Ethernet services basket														
Low bandwidth services														
Connections														
EAD rentals														
EAD LA rentals														
Other rentals														
Main link														
Other services (if applicable)														
Total low bandwidth services														
High bandwidth services														
Connections														
EAD 10Gbit/s rentals														
Other EAD rentals														
EAD LA 10Gbit/s rentals														
Other EAD LA rentals														
Other rentals														
Main link														
Other services (if applicable)														
Total high bandwidth services														
Total Ethernet services basket														
Optical services - rentals														
Optical services - connections														
Optical services - main link														
Other services (if applicable)														
Total														

Note on completion of vii) IEC – BT Only Summary

- ‘Ethernet basket’ means the services included in the Ethernet (IEC) Basket as defined in section 4 of the Annex to Condition 12E.
- Where services listed in this schedule are not applicable to the IEC – BT only market, BT may omit them from this schedule.

viii) IEC – BT + 1 Summary

IEC BT+1

X.X.X IEC (BT +1) Summary 20XX

For the year ended 31 March 20XX

Detailed se Service	Internal	External	Total	Internal	External	Measure	Internal	External	Internal	External	Internal	External	Internal	External
	Revenue	Revenue	Revenue	Volume	Volume		Average	Average	opex	opex	MCE	MCE	ROCE	ROCE
	£m	£m	£m				£	£	£m	£m	£m	£m	%	%
Dark fibre services														
Connections - single fibre														
Connections - dual fibre														
Rentals - single fibre														
Rentals - dual fibre														
Main link														
Patch panels - customer premises														
Patch panels - exchanges														
Initial testing														
Cessation charges														
Right when tested charges														
Ethernet services basket														
Low bandwidth services														
Connections														
EAD rentals														
EAD LA rentals														
Other rentals														
Main link														
Other services (if applicable)														
Total low bandwidth services														
High bandwidth services														
Connections														
EAD 10Gbit/s rentals														
Other EAD rentals														
EAD LA 10Gbit/s rentals														
Other EAD LA rentals														
Other rentals														
Main link														
Other services (if applicable)														
Total high bandwidth services														
Total Ethernet services basket														
Optical services - rentals														
Optical services - connections														
Optical services - main link														
Other services (if applicable)														
Total														

Note on completion of viii) IEC – BT + 1 Summary

- 'Ethernet basket' means the services included in the Ethernet (IEC) Basket as defined in section 4 of the Annex to Condition 12E.
- Where services listed in this schedule are not applicable to the IEC – BT only market, BT can omit them from this schedule.

ix) Cross Market Ancillaries

X.X.X Cross Market Ancillaries Summary 20XX

For the year ended 31 March 20XX

Detailed service analysis

Service	Internal Revenue	External Revenue	Total Revenue	Internal Volume	External Volume	Measure	Internal Average Price	External Average Price	Internal opex	External opex	Internal MCE	External MCE	Internal ROCE	External ROCE
	£m	£m	£m				£	£	£m	£m	£m	£m	%	%
Cross market ancillaries														
Cablelink														
Accommodation services (separately list each service where total revenue > £5m)														
Accommodation services (aggregated total of services with revenue of < £5m)														
Accommodation comingling services														
Electricity charges														
WLA ancillaries														
WLA ancillaries (CPI-0%) (separately list each ancillary where revenue > £5m)														
WLA ancillaries(CPI-0%) (aggregated total of ancillaries with revenue of < £5m)														
WLA ancillaries (£0 cap) (aggregated in a single line)														
Other WLA ancillaries														
LLA and IEC market ancillaries														
Direct ECC basket														
Contractor ECCs														
Ethernet Time Related Charges														
Other ancillaries (separately list each ancillary where revenue > £5m)														
Other ancillaries (aggregated total of other ancillaries with revenue of < £5m)														

Note on completion of ix) Cross Market Ancillaries

- ‘Cablelink’ means the services included in the definition of Cablelink Services Basket in section 3 of the Annex to Condition 12F.
- ‘Accommodation services’ means the services included in (i) the definition of that term in section 1 of the Annex to Condition 12F.BT should separately report each accommodation service where total revenue exceeds £5m. Accommodation services with revenue below £5m can be aggregated and reported together.
- ‘Accommodation comingling services’ means the services included in the definition of Co-Mingling New Provide and Rental Services in section 4 of Annex 1 to Condition 12B. The amounts reported in this row should include those relating to services in the Co-Mingling New Provide and Rental Services basket (which applies to WLA services) and equivalent services in the Overlapping Accommodation Services (see section 2 of Condition 12F), which applies to LLA and IEC services.

- Electricity charges means Electricity Charge as defined in Condition 6.4.
- WLA ancillaries (CPI-0%) (separately list each ancillary where revenue > £5m) means that each WLA ancillary subject to a CPI-0% control with total revenue (i.e. the sum of internal and external revenue) exceeding £5m should be reported on a separate row. WLA ancillaries where total revenue is less than £5m can be aggregated and reported together in the row 'WLA ancillaries (CPI-0%) (aggregated total of ancillaries with revenue of < £5m)'.
- WLA ancillaries (£0 cap) (aggregated in a single line) means that WLA ancillaries subject to a £0 cap should be aggregated and reported in this row.
- Other WLA ancillaries. This row should capture the aggregate total of any other WLA ancillaries that BT is not required to separately report in the categories above.
- 'Direct ECC basket' means the services included in the Direct ECC Services Basket as defined in section 1 of the Annex to Condition 12G.
- Contractor ECCs means the services subject to a basis of charges obligation as defined in section 2 of the Annex to Condition 12G.
- Ancillaries (list each ancillary where revenue > £5m)' means that each ancillary with total revenue exceeding £5m across all regulated LLA and IEC markets, should be reported on a separate row. Ancillaries where total revenue is less than £5m across all regulated LLA and IEC markets, can be aggregated and reported together.
- Ethernet Time Related Charges means charges for Standard Chargeable Visit, Additional Hour, Supplementary Charges (Per Visit) and Supplementary Charges (Per Hour) as defined in Condition 12H.11.
- Other ancillaries (separately list each ancillary where revenue > £5m) means that each ancillary with total revenue exceeding £5m across all regulated LLA and IEC markets, should be reported on a separate row. Ancillaries where total revenue is less than £5m across all regulated LLA and IEC markets, can be aggregated and reported together in the row 'Other ancillaries (aggregated total of other ancillaries with revenue of < £5m)'.

Analysis of Service Operating Costs and Mean Capital Employed

20. Immediately after each Market Summary schedule listed below, BT must also publish the following schedules:

- Analysis of Service Operating Costs; and
- Analysis of Service MCE.

21. Each such schedule must include a column for each service/basket required in the Market Summary schedule concerned.

22. The Market Summary schedules in relation to which this requirement applies are:

- i) PI Summary;
- ii) WLA – Area 2 Summary;
- iii) WLA – Area 3 Summary;
- iv) LLA – Area 2 Summary;
- v) LLA – Area 3 Summary;
- vi) IEC – BT Only Summary;
- vii) IEC – BT + 1 Summary; and
- viii) Cross Market Ancillaries Summary.

a) Analysis of Service Operating Costs

23. The Analysis of Service Operating Costs schedule shall be in the form specified below, and contain the information required by the column and row headings.

Operating costs by type	
£m	
	Total
Include column for each service/basket published in market summary for internal and external	
EOI input prices (if applicable)	
Attribution of PI costs	
Wages and salaries	
Social security costs	
Other pension costs	
Share-based payment expense	
Own work capitalised	
Net indirect labour costs	
Product costs	
Sales commissions	
Payments to telecommunications operators	
Property & energy costs	
Network operating and IT costs	
TV programme rights charges	
Provision and Installation	
Marketing and sales	
Net impairment of losses on TR and contract sales	
Other operating costs	
Other operating income	
Total operating costs before depreciation	
Depreciation	
Duct	
Poles	
Copper	
Fibre	
Electronics	
Software	
Right of use assets	
Land and buildings	
Other assets	
Less funded assets (BDUK, etc)	
Total depreciation	
Specific items	
Total HCA operating costs	
CCA adjustments	
- Holding gains	
- Supplementary depreciation	
- Other CCA adjustments	
Roundings	
Total CCA operating costs	
Total CCA operating costs includes the following:	
Cumulo charges	
Openreach SLGs	
Leaver costs	

Operating costs by division		
£m	Include column for each service/basket published in market summary for internal and external	Total
Section		
EOI input prices (if applicable)		
Attribution of PI costs		
Openreach		
Service and network delivery		
Openreach support functions		
Openreach total		
Rest of BT		
Group centre		
Property and facilities		
Technology		
Consumer & Business		
Rest of BT total		
Operating costs before depreciation		

Notes for completing the Analysis of Service Operating Costs schedules.

- A column must be included for each service published in the Market Summary, with separate columns for internal and external services.
- Row headings must be consistent with those in the Attribution of Operating Cost schedule.
- The Openreach SLG payments row can be omitted where BT presents SLG payments by service in a separate schedule in the RFS.

b) Analysis of Service MCE

24. The Analysis of Service MCE schedule shall be in the form specified below, and contain the information required by the column and row headings.

£'m	Include column for each service/basket published in market summary for internal and external	Total
Non-current assets		
- Duct		
- Poles		
- Copper		
- Fibre		
- Electronics		
- Software		
- Land and buildings		
- Right of use assets		
- Other assets		
- Less funded assets (BDUK, etc)		
Total non-current assets		
Current assets		
Current liabilities		
Provisions		
Roundings		
Total MCE		

Notes for completing the 'Analysis of Service MCE' schedule

A column must be included for each service published in the Market Summary, with separate columns for internal and external services.

Row headings must be consistent with those in the Attribution of MCE schedule.

Appendices for Physical Infrastructure Market

25. Appendices for the Physical Infrastructure Market should be published after the PI Market Summary schedule. They shall be in the form specified below, and contain the information required by the column and row headings.

Appendix 1: Network adjustments restated on an MCE basis

Network adjustments restated on an MCE basis

For the year ended 31 March 20XX

	MCE £m		
	Internal	External	Total
Above the financial limit			
Below the financial limit			
Total			

Appendix 2: Allocation of PI costs to downstream markets

	WLA Area 2 £'m	WLA Area 3 £'m	LLA Area 2 £'m	LLA Area 3 £'m	LLA HNR £'m	IEC BT Only £'m	IEC BT+1 £'m	Cross market ancillaries £'m	Total SMP £'m	Openreach Non SMP £'m	Rest of BT £'m	Total £'m
Lead-in duct												
Spine duct - 1 bore												
Spine duct - 2 bore												
Spine duct - 3+ bore												
Footway box - manholes												
Footway box - joint boxes												
Poles - multi-end-user attachment												
Poles - single-end-user attachment												
Other PI rentals (if applicable)												
Total												
% allocation												

Internal volumes	WLA Area 2	WLA Area 3	LLA Area 2	LLA Area 3	LLA HNR	IEC BT Only	IEC BT+1	Cross market ancillaries	Total SMP	Openreach Non SMP	Rest of BT	Total int. volume
Lead-in duct												
Spine duct - 1 bore												
Spine duct - 2 bore												
Spine duct - 3+ bore												
Footway box - manholes												
Footway box - joint boxes												
Poles - multi-end-user attachment												
Poles - single-end-user attachment												
Other PI rentals (if applicable)												
Total												
% allocation												

Glossary

26. The Glossary shall be included in the RFS as a separate statement.
27. The Glossary must include definitions of financial and non-financial terms used in the RFS as necessary to secure that it is reasonable to consider that a person with an understanding of regulatory accounting principles has sufficient information, clearly enough presented, to understand the RFS.

Annex B to Direction 2

Reference	Additional Financial Information	Description
A) Additional Financial Information to be provided in respect of each Market		
(i)	Product level breakdown of revenues and volumes	For each service in the published RFS, a product level breakdown of volumes and revenues. Where the breakdown does not reconcile to the revenue and volume information in the published RFS, BT should explain why.
(ii)	Breakdown of revenue and costs for all SMP services in BT's regulatory accounting system	<p>For each SMP service in BT's regulatory accounting system:</p> <ul style="list-style-type: none"> • Service identifiers (service name symbol, market code, service code, wholesale catalogue number); • Volumes (split by internal and external); • Revenues (split by internal and external); • CCA operating costs split by operating cost category (split by internal and external); and • MCE split by asset type (split by internal and external). <p>Total revenues, CCA operating costs and MCE should reconcile to the published RFS.</p> <p>BT should explain:</p> <ul style="list-style-type: none"> • Where any figures do not reconcile to the RFS. • Where costs have been estimated outside of BT's regulatory accounting system.
(iii)	Breakdown of service level operating costs and MCE by component for all SMP services in BT's regulatory accounting system	<p>For each SMP service included in AFI A(ii):</p> <ul style="list-style-type: none"> • CCA operating costs split by network cost component (split by internal and external); and • MCE split by network cost component (split by internal and external).

(iv)	CCA fixed asset movement statement	<ul style="list-style-type: none"> • For each asset category for BT Group: <ul style="list-style-type: none"> a) gross replacement costs brought forward, additions (including capex and assets in the course of construction)/disposals/transfers, holdings gains/(loss), gross replacement costs carried forward; and b) gross depreciation brought forward, HCA depreciation charge, supplementary CCA depreciation, disposals/transfers/other movements, holding gains/(loss), gross depreciation carried forward). • A reconciliation to the HCA fixed assets movement statement in the BT Group statutory financial statements.
(v)	Data supporting CCA valuations	Tabular data showing the indices, index weightings and composite indices used by BT to revalue assets onto a current cost basis, stating, in relation to each index, the assets in relation to which it is used.
(vi)	Asset values and depreciation	<p>For each asset category:</p> <ul style="list-style-type: none"> • Asset life; • Valuation basis (e.g. HCA or CCA); • Depreciation basis; • Description of index used for CCA valuations; • Description of samples or surveys used to determine asset value, if used; • HCA and CCA depreciation (including information on supplementary depreciation and holding gains/losses for CCA depreciation); • Gross Book Value (GBV) by year of acquisition; • Gross Replacement Cost (GRC); and • Net Replacement Cost (NRC).
(vii)	Regulatory Asset Value (RAV) adjustment applied to Access Duct	<p>The following information, including all formulae:</p> <ol style="list-style-type: none"> 1) A breakdown of the GBV and NBV of duct, including all annual changes (including capital expenditure, disposals and assets in the course of construction);

		<p>2) A breakdown of the CCA valuation of duct, showing the valuation of pre- and post-1997 Access Duct consistent with Schedule A of Direction 3, as well as non-Access Duct;</p> <p>3) The RAV adjustment made to the valuation of duct in the RFS (and a reconciliation to duct values in the RFS); and</p> <p>4) An explanation of how this information has been used to attribute duct costs to PI services.</p>
(viii)	PAC breakdown	<p>A breakdown of costs attributed using PAC methodologies (e.g. BT Group PAC, Openreach PAC, Technology PAC) by two-digit OUC (Organisation Unit Code along with a description of the activities undertaken by each OUC.</p> <p>(In this direction, OUC has the meaning it is given in BT's accounting systems as at the date of this notification)</p>
(ix)	Cost component mapping	<p>A mapping between the operating cost and MCE of each Network Component and the operating cost and MCE cost categories from the Attribution of Wholesale Current Costs and Attribution of Wholesale Current Cost Mean Capital Employed schedules.</p>
(x)	Grant funded assets	<p>The following information on all grant funded investments:</p> <ul style="list-style-type: none"> • Total expenditure funded by grant, both in the year and on a cumulative basis, split by asset type and a reconciliation to where this information is reported in the RFS; • Total grant funding in the year and on a cumulative basis, split by the asset types to which the funding has been allocated and a reconciliation to where this information is reported in the RFS; and • Explanation of the grant funding arrangements.
(xi)	Exchange exit and closure	<p>Provide the following information on exchange exit and closure (i.e. vacating and returning an exchange building to Telereal or another third party):</p>

		<p>1) Total income and costs (including movements in provisions) associated with exchange exit and closure, broken down by the amount allocated to each SMP market and non-SMP markets. Provide an explanation of what is included in income and costs;</p> <p>2) Details of any provisions and contingent liabilities associated with exchange exit and closure which have been included in BT's statutory accounts but not included in the RFS.</p>
(xii)	Copper recovery net proceeds	Details of total net proceeds from copper recovery, broken down by the amount allocated to each SMP market and non-SMP markets.

B) Additional Financial Information to be provided in respect of the PI Market		
(i)	Costs of lead-in duct and single bore spine duct	<ul style="list-style-type: none"> The unit cost estimates of lead-in and single bore spine duct, used to prepare the information on the costs of these services reported in the PI market summary. Any assumptions made when estimating these unit costs, and evidence relied on in preparing those assumptions.
(ii)	Attributions of duct costs to PI services	<p>A schedule showing how duct costs have been attributed to PI services, including:</p> <ul style="list-style-type: none"> How pre- and post- March 2018 duct has been attributed; Any assumptions made; and A reconciliation of duct costs in the PIA Market to duct costs in the RAV schedule.
(iii)	PI utilisation metrics	<p>The following information, as at 30 September each year:</p> <ul style="list-style-type: none"> Kilometres of lead-in duct; Average occupancy (per 25mm sub-duct equivalent) for spine duct single bore, 2 bores and 3+ bores; Average number of sub-ducts crossing i) a joint box and ii) a manhole;

		<ul style="list-style-type: none"> • Number of pure and mixed DP poles; • Number of pure and mixed feeder poles; • Number of cable poles; • Number of single and multi-premise attachments for i) cable poles ii) pure DP poles iii) mixed DP poles iv) pure feeder poles and v) mixed feeder poles; • Average number of cables up a pole for all poles; and • Number of manifold attachments for all poles. <p>BT must state any assumptions made to derive this information.</p>
(iv)	PIA ancillaries related to network adjustments and other PIA ancillaries	<p>For each PIA ancillary related to network adjustments and any other PIA ancillary provide the following unit costs:</p> <ul style="list-style-type: none"> i) Third-party charges; ii) Other third-party direct costs (e.g. stores); iii) Overheads for third-party charges; iv) Direct Openreach labour costs; v) Overheads on direct Openreach labour costs; vi) Working capital employed; vii) Fully allocated cost (estimated from items (i) to (vi) above); and viii) Price (provide each price prevailing during the year). <p>This information does not have to be generated from the cost attribution system. Any assumptions, judgements, calculations or estimates made when providing this information must be explained. This must include the following:</p> <ul style="list-style-type: none"> • an explanation of the source data for each item (i) to (vii) above; • an explanation of how Overheads on direct Openreach labour costs (item (v) above) have been estimated using information from the Regulatory Accounting System; • a comparison of how the percentage uplift for Overheads on direction Openreach

		<p>labour costs (item (v) above) compares to other ancillary services reported in other SMP markets in the RFS; and</p> <ul style="list-style-type: none"> an explanation must be given where costs for any service cannot be provided.
(v)	Mapping physical infrastructure records and financial records	<p>The following schedules showing a mapping of duct and pole asset additions to physical infrastructure records and financial records:</p> <ol style="list-style-type: none"> Physical infrastructure records schedule: Provide an estimate of unit costs and total costs associated with duct and pole asset additions during the year, using volumes from physical infrastructure records. Additions must be broken down by the services appearing in the PI market summary. Information from planning systems can be used to derive cost estimates. Fixed asset register schedule: Using information from BT's fixed asset register, provide a breakdown of total cost associated with duct and pole asset additions during the year. Additions must be broken down by class of work and other relevant costs (providing a breakdown of any cost category greater than £10m). <p>BT must provide reasons for any difference in total duct costs and total pole costs between the Physical infrastructure records schedule and the Fixed asset register schedule.</p> <p>BT must state any assumptions made to prepare this information.</p>

C) Additional Financial Information to be provided in respect of WLA Markets

C) Additional Financial Information to be provided in respect of WLA Markets		
i)	FTTP investment in Area 2 and Area 3	<p>Provide information on incremental FTTP investment in each of Area 2 and Area 3 on an annual and cumulative basis, including:</p> <ul style="list-style-type: none"> capital costs (by asset type e.g. lead-in duct, single bore spine duct, poles and fibre) and operating costs; grants and other subsidies used to fund FTTP investment;

		<ul style="list-style-type: none"> • FTTP revenues; and • FTTP connections, showing movements in total connections each year. <p>Provide details of any assumptions used to split revenues or investment costs between Area 2 and Area 3.</p>
(ii)	FTTP homes passed	<p>Provide full details and calculations behind the FTTP homes passed figures published in the RFS, including:</p> <ul style="list-style-type: none"> • total FTTP homes passed in each of WLA Area 2 and WLA Area 3, along with any assumptions used to split FTTP homes passed by WLA Area 2 and WLA Area 3; • FTTP homes passed funded by government subsidies and other grants in each of WLA Area 2 and WLA Area 3, including details of the subsidies and grants which have funded FTTP roll out; • non-subsidised homes passed in each of WLA Area 2 and WLA Area 3; and • a breakdown of homes passed with FTTP by exchange area. <p>The definition of FTTP homes passed must correspond to that published in the RFS.</p>
(iii)	Time related charges	Provide hourly costs for TRCs, split by direct and overhead costs.
(iv)	Special fault investigations	Provide hourly costs for SFIs, split by direct and overhead costs, and total costs for each SFI module.

D) Additional Financial Information to be provided in respect of the Leased Lines Access and Inter-exchange connectivity services markets

(i)	Time related charges	Provide hourly costs for TRCs, split by direct and overhead costs.
(ii)	Contractor ECCs	<p>For each contractor ECC provide the following unit costs:</p> <ul style="list-style-type: none"> i) Third-party charges;

		<ul style="list-style-type: none"> ii) Other third-party direct costs (e.g. stores); iii) Overheads for third-party charges; iv) Direct Openreach labour costs; v) Overheads on direct Openreach labour costs; vi) Working capital employed; vii) Fully allocated cost (estimated from items (i) to (vi) above); and viii) Price (provide each price prevailing during the year). <p>This information does not have to be generated from the cost attribution system. Any assumptions, judgements, calculations or estimates made when providing this information must be explained. This must include the following:</p> <ul style="list-style-type: none"> • an explanation of the source data for each item (i) to (vii) above; • an explanation of how Overheads on direct Openreach labour costs (item (v) above) have been estimated using information from the Regulatory Accounting System; and • a comparison of how the percentage uplift for Overheads on direction Openreach labour costs (item (v) above) compares to other ancillary services reported in other SMP markets in the RFS. <p>An explanation must be given where costs for any service cannot be provided.</p>
(iii)	Direct ECCs	<p>For each Direct ECC provide:</p> <ul style="list-style-type: none"> i) volumes; ii) revenues; iii) operating costs; and iv) MCE <p>Where possible, operating costs categories should be split between Openreach direct labour, third party charges and overheads (where applicable).</p> <p>This information should be reconciled to the RFS. Where this not possible and / or where the</p>

		<p>required information is not available from BT's regulatory accounting system, BT must explain how it has estimated the required data or explain why it cannot be provided.</p> <p>Any assumptions, judgements, calculations or estimates made when providing this information must be explained.</p>
(iv)	Optical services	<p>1. Provide a breakdown of the volumes and revenues, of rental, connection and main link optical services published in the RFS by reference to the following categories: Optical Spectrum Access (OSA), Optical Spectrum Extended Access (OSEA), Optical Spectrum Access Filter Connect (OSA Filter Connect), Optical Spectrum Extended Access Filter Connect (OSEA Filter Connect) and other optical services.</p> <p>2. Provide an analysis of cost and profitability of the largest modular components and/or most common combinations of modular components in each of the categories listed above. This analysis does not need to be derived from the regulatory accounting system. As a minimum an analysis for bearer and wavelength modules in these categories should be provided. BT must explain how it has estimated the information provided in 1) and 2) or explain why it cannot be provided.</p>

E) Additional Financial Information to be provided in respect of the Leased Lines Access – Area 3, IEC-BT only and IEC BT+1 markets

(i)	Dark fibre patch panels, initial testing, Right When Tested (RWT) and cessation	<p>Provide the following information in relation to the costs of patch panels reported in the Regulatory Financial Statements. This information can be derived from an apportionment approach where necessary.</p> <ul style="list-style-type: none"> • The cost of patch panels equipment at exchanges and customer premises. • The cost of labour to install patch panels, split by hourly engineering pay and the average time taken to install
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		<p>patch panels at exchanges and customer premises.</p> <ul style="list-style-type: none"> • Any differences in labour costs between single and dual fibre. • Depreciation associated with patch panels. • Other costs associated with patch panels. <p>Provide the following information in relation to the costs of initial testing, RWT and cessation reported in the Regulatory Financial Statements. This information can be derived from an apportionment approach where necessary.</p> <ul style="list-style-type: none"> • The cost of labour associated with each of these services, split by hourly engineering pay and the average time taken to perform the task. • Any differences in labour costs between single and dual fibre. • Other costs associated with each of these services.
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F) Additional Financial Information to be provided in respect of Cross Market Ancillaries

(i)	Electricity Charges	<p>Provide information setting out the calculation of Electricity Charges including the precise level of BT's Mark up on the purchase of electricity costs which is reconciled to the published Regulatory Financial Statements. The information should include the following, where relevant:</p> <ul style="list-style-type: none"> • Commodity electricity trades (for each trade exceeding 5% of annual commodity electricity trades – set out the strike date, delivery dates, volume and strike price); • Environmental taxes and levies; • Distribution costs; • Transmission costs;
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		<ul style="list-style-type: none">• Systems and capacity costs;• Feed in tariff;• Contract differences;• Hedging losses or gains;• Other costs; and• Reconciling differences (explain what these represent).
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Direction 3: Direction specifying the requirements in relation to consistency with regulatory decisions and regulatory asset value adjusted current costs basis

Background

1. This Direction is made under:
 - a) Section 49 of the Act;
 - b) SMP Condition 11.2;
 - c) SMP Condition 11.3;
 - d) SMP Condition 11.5; and
 - e) SMP Condition 11.12.
2. This Direction applies with respect to the following markets (as defined in Table 1A in Schedule 1 to the 2026 SMP Conditions Notification) unless otherwise specified:
 - i) PI;
 - ii) WLA Area 2;
 - iii) WLA Area 3;
 - iv) LLA HNR;
 - v) LLA Area 2;
 - vi) LLA Area 3;
 - vii) IEC BT only; and
 - viii) IEC BT+1.

Direction

3. Ofcom has decided to direct BT as set out in Annexes A and B.

Annex A to Direction 3

1. In this Annex A, the following terms shall have the following meanings:
 - a) **“Access Ducts”** means the underground pipes which hold copper and fibre lines, and which are used in the part of BT’s network which connects directly to customers from the local telephone exchange;
 - b) **“Retail Prices Index”** means the measure of inflation which is published monthly by the Office for National Statistics;
 - c) **“Access Fibre Cable”** means the fibre cable from BT exchange to the end user’s premises. This includes fibre assets from the following Classes of Work:
 - i) LFSC Local Line Of Spine Cable;
 - ii) LFDC Local Line Of Distribution Cable; and
 - iii) CJF Junction Cable Optical Fibre.
 - d) **“Copper”** means the overhead and underground copper cables that connect BT’s exchanges to distribution points and main socket on an end user’s property; and
 - e) **“Poles”** means the poles which carry overhead copper and fibre cables between customer premises, distribution points and the spine network.
2. In preparing the Regulatory Financial Statements, explanations and other required information on a regulatory asset value adjusted current costs basis, BT shall value assets as follows:
 - a) Access Ducts capitalised prior to 1 August 1997: on the basis of the closing historical cost on 31 March 2005 which is indexed by the Retail Price Index from 31 March 2005 to 31 March 2026, and by 3% per annum from 1 April 2026;
 - b) Access Ducts capitalised on or after 1 August 1997 on the basis of the closing historical cost indexed by the Retail Prices Index until 31 March 2026 and by 3% from 1 April 2026;
 - c) All non-Access Ducts: on the basis of the closing historical cost indexed by the Retail Prices Index until 31 March 2026 and by 3% from 1 April 2026;
 - d) Access Fibre Cable: on the basis of the closing historical cost;
 - e) Copper: on the basis of the closing historical cost index by the Retail Prices Index until 31 March 2026 and by 3% from 1 April 2026;
 - f) Poles: on the basis of the closing historical cost indexed by the Retail Prices Index until 31 March 2026 and by 3% from 1 April 2026.

Annex B to Direction 3

Part 1: Definitions and interpretation

1. For the purposes of Part 2 of this Annex:
 - a) **“Fixed Asset Register”** means a list of assets held by BT, including their location, description, gross book values (GBV) and accumulated depreciation;
 - b) **“Network Adjustment”** means:
 - i) for third parties, PIA Adjustment Services; and
 - ii) for BT, activities the same as or equivalent to PIA Adjustment Services undertaken by BT for itself; and
 - c) **“PIPeR”** (Physical Inventory Planning E-Records) means the database held within Openreach that holds all Openreach external inventories of duct, copper and fibre assets.

Part 2: Requirements to ensure the Regulatory Financial Statements are consistent with regulatory decisions made by Ofcom

Services included in BT’s regulatory accounting system

2. BT must separately identify in its regulatory reporting system:
 - i) All services in SMP markets that it is required to publish in the RFS (as set out in Direction 2); and
 - ii) Any other services directed by or otherwise agreed with Ofcom.
3. In its regulatory accounting system, BT must allocate costs and revenues to:
 - i) All services captured by 2(i); and
 - ii) All services captured by 2(ii) unless Ofcom has agreed that alternative estimates can be provided.

Externally funded network build

4. BT must ensure that externally-funded assets, and the funding associated with these assets, are separately identified and accounted for in its Regulatory Accounting System.

SLG payments

5. BT must ensure that Service Level Guarantee (SLG) payments associated with each service reported in the RFS are separately presented in the Regulatory Financial Statements.

Copper Recovery

6. BT must separately identify any revenues and costs associated with copper recovery in its regulatory accounting system.

PI requirements

7. The following paragraphs 8 to 13 shall apply with respect to the PI Market.

8. BT shall separately identify and record Network Adjustment costs both above and below the PIA Adjustment Limit in BT's Regulatory Financial Reporting System. However, this shall not apply with respect to Network Adjustments BT undertakes for itself where there are objectively justifiable reasons why this is not possible.
9. BT shall ensure that any costs it incurs for Network Adjustments requested by third parties that are below the Financial Limit are appropriately capitalised within the PI Market and attributed to Wholesale Services that use the Physical Infrastructure.
10. BT shall ensure that costs it incurs for Network Adjustments BT undertakes for itself that are below the PIA Adjustment Limit are appropriately capitalised within the PI market and attributed to Wholesale Services that use the Physical Infrastructure. However, this shall not apply with respect to Network Adjustments BT undertakes for itself where there are objectively justifiable reasons why this is not possible.
11. In the case of costs incurred for Network Adjustments requested by third parties above the PIA Adjustment Limit that BT recovers separately from the third party requesting the Network Adjustment, BT shall ensure that these Network Adjustments costs above the PIA Adjustment Limit are treated as an operating cost in the PI Market and the recovery of these costs from third parties is treated as an operating income in the PI Market.
12. In the case of costs incurred for Network Adjustments that BT undertakes for itself that are above the PIA Adjustment Limit, BT shall ensure that all these Network Adjustments costs above the PIA Adjustment Limit are treated as an operating cost in the PI Market and the recovery of these cost from BT is treated as an operating income in the PI Market. However, this shall not apply with respect to Network Adjustments BT undertakes for itself where there are objectively justifiable reasons why this is not possible.
13. BT must attribute to pole services all costs of Network Adjustments undertaken to provide capacity on poles or to make poles useable for dropwires and ensure that these Network Adjustments can be separately identified.

Fixed Asset Mapping

14. In relation to duct and pole assets, BT must ensure that annual additions to physical records can be mapped to financial records on its Fixed Asset Register.

Poles

15. BT must allocate costs associated with cable up a pole and pole top equipment to pole attachment services in proportion to the volume of pole attachment services.

Duct

16. BT must separately identify the net replacement cost and associated depreciation of duct installed before and after 31 March 2018.
17. BT must attribute costs associated with pre-March 2018 duct to PI assets using the following percentages:

- lead-in duct 9.35%
- Spine duct – single bore 36.63%

- Spine duct – 2 bores 9.66%
- Spine duct 3+ bores 15.29%
- Joint boxes 17.40%
- Manholes 11.67%

18. BT must attribute costs associated with post-March 2018 duct to PI services in proportion to the estimated standard cost of each PI service, which estimation must be done by reference to standard unit costs and volumes associated with PI services. The standard unit cost of duct bore variants (single bore, 2 bore, 3+bores) must be consistent with how these are charged: for example the standard unit cost of 2 bore duct should reflect that some of the volume consists of two single bore sections of duct. This analysis must be updated each year to take account of long-term changes in the mix of jobs.

19. BT must attribute costs associated with pole top equipment and cable up a pole to pole attachment services.

FTTC, FTTP and SOGEA connection services

20. In WLA markets, BT must separately identify in its regulatory reporting system, unless otherwise agreed with Ofcom, revenues and costs associated with:

- i) start of stopped lines, transfers, CP to CP migrations and working line takeovers (and other similar services); and
- ii) other connections, BT must allocate costs and revenues to all such services in its regulatory accounting system, unless agreed with Ofcom.

Preparation of costs for geographic markets

21. The following paragraph 22 shall apply with respect to the following markets:

- a) WLA – Area 2;
- b) WLA – Area 3;
- c) Leased Lines Access – Area 2;
- d) Leased Lines Access – Area 3;
- e) Leased Lines Access – High Network Reach;
- f) IEC – BT only exchanges; and
- g) IEC – BT+1 exchanges.

22. BT must prepare unit costs by reference to national unit costs. ‘National unit costs’ means a unit cost per service that does not take account of any differences in circuit lengths. Total costs will represent the national unit cost per service multiplied by the volume of services in the geographic market.

Dark fibre

23. The following paragraph 24 shall apply with respect to the following markets:

- a) Leased Lines Access - Area 3;

b) IEC -BT only markets; and

c) IEC BT+1 markets.

24. BT must separately identify the following inputs to the initial testing, RWT and cessation costs reported in the Regulatory Financial Statements. These can be derived from an apportionment approach where necessary.

- The cost of labour associated with each of these services, split by hourly engineering pay and the average time taken to perform the task.
- Any differences in labour costs between single and dual fibre.
- Other costs included in reported costs for these services.

Direction 4: Direction setting requirements in relation to the audit opinion for the Regulatory Financial Statements

Background

1. This Direction is made under:
 - a) Section 49 of the Act; and
 - b) SMP Condition 11.5, having regard to the requirement imposed by SMP Condition 11.10(c).
2. This Direction applies with respect to the following markets (as defined in Table 1A in Schedule 1 to the 2026 SMP Conditions Notification):
 - a) PI;
 - b) WLA Area 2;
 - c) WLA Area 3;
 - d) LLA HNR;
 - e) LLA Area 2;
 - f) LLA Area 3;
 - g) IEC; and
 - h) IEC BT + 1.

Direction

3. Ofcom has decided to direct BT as follows.
4. BT shall secure, to the satisfaction of Ofcom, an appropriate audit opinion in respect of the published Regulatory Financial Statements as a whole, in respect of each Regulatory Financial Statement and in respect of groups of Regulatory Financial Statement, to the “properly prepared in accordance with” (“**PPIA**”) standard, as determined following consultation with Ofcom and the Regulatory Auditor.
5. BT shall ensure that the Regulatory Auditor shall state whether in their opinion:
 - a) each Regulatory Financial Statement has been properly prepared in accordance with the applicable SMP services conditions, the Regulatory Accounting Principles, and the Accounting Methodology Documents, including the Prior Year Comparatives; and
 - b) anything has come to their attention that would lead them to conclude that the applicable SMP services conditions, the Regulatory Accounting Principles and the Accounting Methodology 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.

6. Where the Regulatory Auditor is unable to give an opinion on any of the matters in paragraph 5(a) because to do so would conflict with relevant audit standards, the reasons for this must be reported in the Regulatory Financial Statements.

Direction 5: Direction setting requirements in relation to the change control notification, reconciliation report and accompanying audit opinion

Background

1. This Direction is made under:
 - a) Section 49 of the Act; and
 - b) SMP Condition 11.5, having regard to the requirements imposed by SMP Conditions 11.10(b), 11.10(d), 11.28, 11.31 and 11.32.
2. This Direction applies with respect to the following markets (as defined in Table 1A in Schedule 1 to the 2026 SMP Conditions Notification):
 - a) PI;
 - b) WLA Area 2;
 - c) WLA Area 3;
 - d) LLA HNR;
 - e) LLA Area 2;
 - f) LLA Area 3;
 - g) IEC BT Only; and
 - h) IEC BT + 1.

Interpretation

3. In this Direction the following terms shall have the following meanings:
 - a) **“Audit and Risk Committee”** means the committee of the board of directors of BT whose principal duties include financial reporting, internal controls, risk management and audit and includes any committee or unit established from time to time by the board of directors of BT to perform such duties;
 - b) **“Change Control Notification”** means a list of changes to the Regulatory Accounting Methodology which BT is required to publish and deliver to Ofcom by 31 March of the Financial Year in which the change to the Regulatory Accounting Methodology is to be made;
 - c) **“Markets Level”** means the level at which total costs, total revenue and total assets are reported for each separate Market;
 - d) **“Material Change”** means a change to any figure (be it positive or negative) published in the Performance Summary by Market schedule (Direction 2, paragraph 5(d)) or a Market Summary schedule (Direction 2, paragraph 5(j)) in the Regulatory Financial Statements which exceeds the higher of 5% or £5 million. The percentage change in a figure shall be calculated by taking the value of the affected figure before the change in the Regulatory Accounting Methodology is applied, and subtracting from it the value of the same figure

after the change in the Regulatory Accounting Methodology is applied, and then dividing this result by the former value;

- e) **“Material Error”** means an error which:
- i) results in a correction (be it positive or negative) to any figure published in the Performance Summary by Market schedule (Direction 2, paragraph 5(d)) or a Market Summary schedule (Direction 2, paragraph 5(j)) in the Regulatory Financial Statements which exceeds the higher of 5% or £5 million. The percentage correction in a figure shall be calculated by taking the value of the affected figure in the Regulatory Financial Reporting before the error is corrected, and subtracting from it, the value of the same figure after the error is corrected, and then dividing this result by the former value; and
 - ii) fulfils at least one of the following conditions:
 - (1) the error has arisen within the Regulatory Attribution System;
 - (2) the error has been brought to the attention of the Audit and Risk Committee by the Regulatory Auditor;
- f) **“Regulatory Attribution System”** means the set of computerised and manual accounting methods, procedures, Processes and controls established to attribute the costs, revenues, assets and liabilities and summarise, interpret, and present the resultant financial data in an accurate and timely manner for the purposes of the whole of the Regulatory Financial Statements, the Accounting Methodology Documents, the accounting records and the Regulatory Accounting System; and
- g) **“Regulatory Financial Reporting”** means the whole of the Regulatory Financial Statements, the Accounting Methodology Documents, the accounting records and the Regulatory Accounting System.

Direction

4. Ofcom has decided to direct BT as follows.
5. The Change Control Notification must include a list of the following changes to the Regulatory Accounting Methodology:
 - a) any Material Change;
 - b) any changes to the Network Component List; and
 - c) any change where the impact on the previous Financial Year figures cannot be estimated.
6. The reconciliation report must set out, unless otherwise agreed with Ofcom:
 - a) in relation to changes to the Regulatory Accounting Methodology:
 - i) the impact at the Markets Level of Material Changes included in the Change Control Notification, by setting out, on an aggregated basis, the difference between the Current Year Figures and the Current Year Figures had such changes not been made, expressed as an absolute amount;
 - ii) For any Material Change not published in the Change Control Notification, a description of the change and its impact at the Markets Level, by setting out, for each change separately, the difference between the Current Year Figures and the

- Current Year Figures had such a change not been made, expressed as an absolute amount;
- iii) the impact at the Markets Level of changes which are not Material Changes, by setting out, on an aggregated basis, the difference between the Current Year Figures and the Current Year Figures had such changes not been made, expressed as an absolute amount; and
 - iv) where BT is unable to estimate the impact of any changes in a(i), a(ii) and/or a(iii) it must state the reason why in the reconciliation report.
- b) in relation to Material Errors identified since the publication of the previous Financial Year's Regulatory Financial Statements:
- i) for each Material Error, a description of the Material Error, the circumstances of discovery of the Material Error, the reason for the Material Error, and whether such Material Error has been corrected in the restated Prior Year Comparatives;
 - ii) the impact of each Material Error presented in the Regulatory Financial Statements for the previous Financial Year, by setting out:
 - 1) the Current Year Figures set out in the Regulatory Financial Statements for the previous Financial Year had such Material Errors been corrected in the previous Financial Year ("the Corrected Previous Year Figures"); and
 - 2) the difference as an absolute amount between the Current Year Figures set out in the Regulatory Financial Statements for the previous Financial Year and the Corrected Previous Year Figures.
- c) the impact of each Material Error at the Markets Level, by setting out, for each Material Error, the difference as an absolute amount between:
- i) the Current Year Figures set out in the Regulatory Financial Statements for the previous Financial Year; and
 - ii) the Current Year Figures set out in the Regulatory Financial Statements for the previous Financial Year had such Material Error been corrected in the previous Financial Year.
7. BT must obtain an audit opinion on the reconciliation report which must set out:
- a) whether all Material Changes were included in the Change Control Notification. Where this is not the case, the audit opinion must report whether Material Changes other than those included in the Change Control Notification were made as a result of an audit requirement made following delivery of the Change Control Notification or otherwise;
 - b) whether the description of each of the Material Changes provided by BT in the Change Control Notification is accurate;
 - c) whether BT included each and every Material Change in the reconciliation report and correctly calculated the impact of all changes presented in the Regulatory Financial Statements in accordance with paragraph 6(a)(i) and 6(a)(ii) above;
 - d) whether the description of each of the Material Errors provided by BT in the reconciliation report is accurate; and
 - e) whether the Corrected Previous Year Figures set out in the reconciliation report in accordance with paragraph 6(b)(ii)(1) above are properly prepared in accordance with the

Accounting Methodology Documents for the previous Financial Year had these Accounting Methodology Documents not included these Material Errors.

8. BT must ensure it maintains the data to enable it to compile a report which sets out the impact of all changes on all figures presented in the Regulatory Financial Statements, by setting out, on an aggregated basis, the difference between the Current Year Figures and the Current Year Figures had such a change not been made expressed as an absolute amount and as a percentage.