



Changes to BT and KCOM's regulatory and financial reporting 2009/10 update

Explanatory statement and notification

Statement

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Section 1

Executive Summary

Background

- 1.1 Relevant, reliable and timely regulatory financial information informs many of our decisions. We require this information in order to monitor and enforce various obligations that are placed on providers in markets where they are found to have significant market power ("SMP").
- 1.2 In this statement we set out various changes to enhance the presentation and improve the quality of BT's regulatory financial statements ("RFS") reflecting developments in the regulatory, technological and competitive environment, our ongoing analysis and use of the RFS, comments from users of the RFS and discussions with BT.
- 1.3 We set out our proposals in our consultation published on 12th February 2010 (the "February Consultation"). We formally consulted on five changes, which were concerned with:
 - i) Improving the presentation of the statements including, for example, more transparent and relevant disclosure of Alternative Interface Symmetric Broadband Origination ("AISBO") services; and
 - ii) Implementing decisions from the Fixed Narrowband Retail Services¹ and Fixed Narrowband Wholesale Services² market reviews.
- 1.4 We also set out a range of other changes which enhance the statements. These did not require formal consultation but we believed it was helpful to inform users in advance of publication of the 2009/10 RFS. We have taken into account respondents' comments on these changes and update stakeholders on their implementation.
- 1.5 One of these changes concerns the requirement on BT to report against new markets for some leased line markets and, in particular, how BT will exclude the central and east London area ("CELA") from such markets as a consequence of the Business Connectivity Market Review ("BCMR")³.
- 1.6 The current regulatory financial reporting regime is also applicable to KCOM. This statement addresses relatively minor changes to KCOM's reporting requirements as a consequence of changes to market definitions in the Fixed Narrowband Retail Services and Fixed Narrowband Wholesale Services market reviews.

¹ The Fixed Narrowband Retail Services Market Review, published in September 2009:
http://www.ofcom.org.uk/consult/condocs/retail_markets/statement/statement.pdf

² The Fixed Narrowband Wholesale Services Market Review, published in September 2009:
http://www.ofcom.org.uk/consult/condocs/wnmr_statement_consultation/main.pdf

³ The BCMR, published in December 2008:
http://www.ofcom.org.uk/consult/condocs/bcmr/bcmr_pt1.pdf

Scope of this document and Final Decisions

1.7 This statement sets out our final decisions in respect of the proposals in the February Consultation and provides updates on issues not formally consulted on.

1.8 The tables below summarise the objectives we address in this statement and our final decisions taking full account of the responses to the February Consultation.

A) ITEMS SUBJECT TO FORMAL CONSULTATION (Section 3 & 4)

<i>Proposal</i>	<i>Decision: BT to...</i>
<p>1) Improved disclosure of AISBO Services</p> <p>We proposed a list of AISBO services that BT should report which are consistent with our guidance on materiality thresholds and BT's obligation to demonstrate compliance with its cost orientation and no undue discrimination obligations.</p>	<p>Report the AISBO services that we detailed in our February Consultation which includes Wholesale Extension (WES) 2, Ethernet Backhaul Direct (EBD) and Ethernet Access Direct (EAD) services. Some services may have revenue less than £10m in the year.</p> <p>We reiterate our guidance from our 2005 Consultation that £10m should be used as a guidance threshold. There may be occasions when products with revenue of less than this £10m should be disclosed particularly when the product is of importance to the market (eg where it is new and growing in revenue).</p>
<p>2) Removal of requirement to produce information analysing BT Outpayments to other operators (this information is produced for Ofcom only)</p> <p>We identified one statement analysing BT's outpayments that now has significantly less relevance following the deregulation of retail markets.</p>	<p>No longer provide additional information analysing BT's outpayments to other operators.</p>
<p>3) Changes to the presentation of the RFS</p> <p>We proposed a number of changes to the form and content of the RFS.</p>	<p>Make the presentational changes to Return on Turnover and Internal Sales but not to Depreciation.</p>
<p>4) Implementation of Market Reviews</p> <p>i) Fixed Narrowband Retail Market</p> <p>We proposed that BT no longer report on any specific retail markets and no longer prepare and maintain a retail catalogue.</p> <p>ii) Fixed Narrowband Wholesale Market</p> <p>We proposed that BT prepare market information in line with the new market definitions included in the market review.</p>	<p>i) No longer report any specific retail markets and no longer prepare and maintaining a retail catalogue.</p> <p>ii) Combine residential and business exchange line markets. 09/10 will also be the last reporting year for the local-tandem conveyance and transit market.</p>
<i>Proposal</i>	<i>Decision: KCOM to...</i>
<p>4) Implementation of Market Reviews</p> <p>Fixed Narrowband Wholesale Market</p> <p>We proposed that KCOM prepare market information in line with the new market definitions included in the market review.</p>	<p>Combine residential and business exchange line markets. 09/10 will also be the last reporting year for the local-tandem conveyance and transit market.</p>

B) OTHER REPORTING CHANGES (FOR INFORMATION) (Section 5)

<i>Issue</i>	<i>Changes to be applied in 2009/10</i>
<p>1) Improvements to Leased Line Reporting</p> <p>We identified areas for improved transparency in various leased line and trunk markets.</p>	<p>BT to incorporate the reporting improvements by separately identifying and reporting revenues and/or costs for the four following areas: Support services, Sub 2Mbit trunk reporting in the TISBO market, Enhanced Maintenance reporting in the Trunk market, and Points of Handover.</p>
<p>2) Full implementation of BCMR</p> <p>Two reporting issues were outstanding from the BCMR published in December 2008:</p> <p>i) New Geographic Market Definitions</p> <p>We outlined our initial thinking on the potential methodology that should be followed to identify which TISBO circuits fall within or outside of the CELA area.</p> <p>ii) Netstream reporting</p> <p>We set out our improvements to the reporting of netstream services.</p>	<p>i) BT has informed us that due to limitations to its reporting systems and processes it is unable to report in line with our proposed methodology. BT has therefore proposed an alternative methodology.</p> <p>We accept BT's proposals for 09/10 and have agreed with them to carry out further analysis to ensure the alternative methodology is consistent with our market definitions. The results of this work will be taken into account for the methodology to be used in 2010/11 RFS.</p> <p>ii) BT will report separately seven main netstream services in the relevant business connectivity market.</p>
<p>3) Improvements to Openreach Reporting</p> <p>Our work on the New pricing framework for Openreach Statement (the "Openreach Statement") identified potential improvements to cost attribution methods.</p> <p>The Equality of Access Board ("EAB") has completed a review into BT's compliance with section 5.31 of the Undertakings. Section 5.31 sets out the obligations on BT to prepare regulatory financial statements for Openreach.</p>	<p>BT will incorporate three specific changes to the Openreach cost attribution. These changes address the matters identified in the Openreach statement.</p> <p>All changes will be described in BT's secondary accounting documentation.</p> <p>The EAB's review is now complete and has found BT was not in breach of section 5.31. We will consider this decision in light of the comments made by respondents.</p>
<p>4) Other Items</p> <p>These relate to the attribution of BT's 21CN network costs and updating the cost of capital percentage used in the RFS</p>	<p>BT will use an updated methodology to allocate 21CN network costs in light of BT's 21CN implementation plan. These changes will be fully described in BT's secondary accounting documentation.</p> <p>The current cost of capital % used in the RFS will be updated to be consistent with our latest decisions as set out in the Openreach Statement.</p>

Significant Review

- 1.9 All respondents to our February Consultation noted that although the proposed changes do improve the overall quality of the RFS there remain shortcomings to the current RFS. All respondents underlined the need for a significant review to drive improvements in the quality of regulatory accounting.
- 1.10 During 2010/11 we plan to begin our work on a significant review of this reporting framework and gather stakeholder views on changes that are needed to ensure its ongoing effectiveness.

Section 2

Introduction

Background

- 2.1 Relevant, reliable and timely regulatory financial information is often required to inform many of our decisions. It is essential therefore that the regulatory reporting framework is kept up to date and fit for purpose.
- 2.2 Under sections 87 to 92 of the Communications Act 2003 (the “Act”) there are a range of remedies that can be implemented by Ofcom once it has been determined that an undertaking has SMP in an identified services market. These include obligations:
 - to offer cost-oriented charges;
 - not to discriminate unduly; and
 - to cap prices, i.e. price controls.
- 2.3 When setting SMP conditions, Ofcom must take into account its duties under sections 3 and 4 of the Act. These include the duty to further the interests of consumers in relevant markets by promoting competition and to act in accordance with the six Community requirements, the first of which is to promote competition. Where these obligations have been imposed it is essential that they are monitored and enforced effectively through, in part, an effective regulatory financial reporting framework.
- 2.4 Regulatory financial information is normally prepared either on a regular (e.g. annual) basis for ongoing monitoring purposes or on-request, for example in connection with investigations.
- 2.5 BT's RFS, like any form of business information, evolve over time to reflect a range of internally and externally driven factors. These include changes to accounting policies and standards, improved understanding or knowledge of cost drivers, changes in technologies and business processes and changes in the regulatory environment.

The February Consultation

- 2.6 The February Consultation included proposals for several improvements that Ofcom believed were justified in order to maintain a fit for purpose reporting framework.
- 2.7 Responses to the February Consultation were received from BT, UKCTA, Cable & Wireless plc (C&W) and one confidential respondent. Collectively UKCTA, Cable & Wireless plc (C&W) and the confidential respondent will be referred to as the other communications providers (OCPs) in the rest of this document.
- 2.8 We received a response from KCOM in relation to the changes which relate to them.

- 2.9 We also received confirmation from the European Commission that it has examined the notification (i.e. the February Consultation) and has no comments⁴.
- 2.10 We have taken these responses fully into account in making our decisions on the changes to the RFS set out in this statement.

Structure of the Document

- 2.11 In the February Consultation we invited comments on our proposals by way of questions. This statement sets out these questions as they appeared in the February Consultation, considers the responses received and sets out our final decision.
- 2.12 The statement has been split into three main subject sections as set out below.
- 2.13 In Section 3 we set out our decisions on the proposals raised in the February Consultation for BT to make improvements to the RFS and in relation to which formal consultation was required.
- 2.14 In Section 4 we set out our decisions on the proposals raised to implement the conclusions of the Fixed Narrowband Retail and Fixed Narrowband Wholesale market reviews. These include the deregulation of all retail markets and changes to market definitions in the wholesale markets. The market definition changes impact on both KCOM and BT.
- 2.15 In Section 5 we set out reporting changes BT will implement or develop in 2009/10 but where formal consultation was not required. Here we detail feedback provided by respondents and update stakeholders on the progress of issues.

Legal tests

- 2.16 All legal tests relating to Ofcom's considerations and conclusions are set out in Annex 1.
- 2.17 Annex 1 sets out Ofcom's reasons as to why it considers that the relevant legal tests under the Act are met for the modifications we have made to Directions 3, 4 and the FA10 Direction for BT and Directions 3 and 4 for KCOM. This Annex should be read in the light of relevant considerations and Ofcom's conclusions as set out in this statement.

⁴ Link to the European Commission decision on 24 March 2010:
http://circa.europa.eu/Public/irc/infso/ecctf/library?l=/uk/registerednotifications/uk20101045/uk-2010-1045_endate/ EN_1.0_&a=d

Section 3

Changes which we formally consulted on

Introduction

- 3.1 In the February Consultation we proposed three main improvements to the RFS which required formal consultation. We present our conclusions below having fully taken into account respondents views on these proposals.

Disclosure of AISBO Services

Question 1: *Do you agree with Ofcom's proposed list of disclosed services in the AISBO market?*

Summary

- 3.2 In our February Consultation we proposed a list of AISBO services that BT should report which were consistent with our guidance on materiality thresholds and BT's obligation to demonstrate compliance with its cost orientation and no undue discrimination obligations.
- 3.3 This list of services includes Wholesale Extension (WES) 2, Ethernet Backhaul Direct (EBD) and Ethernet Access Direct (EAD) services.

BT Response

- 3.4 BT has informed us that a number of these services would have revenue below £10m for 2009/10.
- 3.5 BT disagrees with reporting products with revenues less than the £10m reporting guidance threshold and reiterated that it should only separately report products with revenues above £10m.

OCP Responses

- 3.6 All OCP respondents agree with this proposal. The confidential respondent stated that the expanded list is not sufficiently comprehensive and believes that further additional disclosure is required.
- 3.7 In addition all respondents express the desire for an annual audit of the data to gain further assurance that BT is meeting its cost orientation obligations.

Our Decision

- 3.8 Having considered all responses we remain of the position that it is important to increase the level of granularity of services reported in the AISBO market to effectively allow the monitoring of BT's cost orientation obligations.
- 3.9 We have therefore decided to adopt this proposal with no changes and the requirement to produce and publish this information is contained in Annex A to Direction 4 at Annex 4 of this statement.

- 3.10 We reiterate our guidance to BT on the level of granularity appropriate for reporting at a service level as set out in our 2005 Consultation on BT's regulatory reporting framework⁵. This stated that £10m per year should be used as a guidance threshold for reporting low value services. We may, however, require the disclosure of products with revenue less than this £10m guidance threshold level where the product is of importance to the market. We believe it is important therefore that new and growing AISBO services subject to the cost orientation obligation are disclosed in this growing market.
- 3.11 We understand that as a result of this decision there may be some services reported with revenues and costs significantly below the £10m guidance threshold. We therefore anticipate that it may be important to review this output with BT and other stakeholders to ensure the appropriate level of disclosure for 2010/11 and beyond.
- 3.12 The output will be subject to the audit framework common to all reported markets which was implemented following our 2006 Consultation on BT's regulatory reporting framework⁶ (the 2006 Consultation). This approach is consistent across all reported markets.

Removal of requirement for BT to provide analysis of outpayments to other operators (contained in A18)

Question 2: *Do you agree with the proposal to remove BT's requirement to prepare A18?*

Summary

- 3.13 In our February Consultation we identified one AFI statement analysing BT's outpayments that now has significantly less relevance following the deregulation of retail markets. We proposed the requirement to prepare the statement be removed.

Responses

- 3.14 BT and C&W agree with this proposal. Other respondents state that they have not had visibility of this information and are therefore unable to comment on the proposal.
- 3.15 All OCP respondents stress that BT should maintain the relevant data, should it be required in the future.

Our Decision

- 3.16 There are no changes to this proposal and the removal of the requirement to produce and publish this information is contained in Annex A & B to Direction 3 at Annex 3 to this statement and in Annex 3 to Direction 4 at Annex 4 of this statement.

⁵ "Proposed changes to BT's regulatory financial reporting framework" Consultation (Section 6), published June 2005:

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

⁶ "Regulatory financial reporting obligations on BT" Consultation, Section 4, published May 2006:
http://www.ofcom.org.uk/consult/condocs/reg_bt/reg_bt_consult.pdf

Presentational Changes

Question 3: Do you agree with the proposed changes to the presentation of the RFS?

Summary

- 3.17 In our February Consultation we presented a small number of minor changes to the RFS which BT had proposed. These changes alter the form and content of the RFS.

BT Response

- 3.18 BT agrees with the presentational changes to Return on Turnover and Internal Sales.
- 3.19 BT disagrees with the proposed change to the presentation of Depreciation and Supplementary Depreciation as it believes that it is inconsistent with the presentation of Historic Cost Accounting (HCA) and Current Cost Accounting (CCA) costs in the RFS.

OCP Response

- 3.20 All OCP respondents agree with the proposed presentational changes to Return on Turnover and Depreciation.
- 3.21 Respondents do not agree with the presentational change to Internal Sales. Respondents explained that maintaining a separation between internal sales categories remains important in the context of monitoring BT's compliance with its no undue discrimination obligation.

Our Decision

- 3.22 We have decided to adopt the proposed changes which relate to Return on Turnover and Internal Sales, but not to adopt the change to Depreciation and Supplementary Depreciation.
- 3.23 Having considered all respondents' comments, we remain of the position that due to the relatively high number of markets in the RFS with low levels of revenue in the category "Internal Sales – services only provided internally", it is reasonable for BT to amalgamate this category with the "Internal Sales – services also provided externally" category.
- 3.24 For example in the Access and Wholesale markets the majority of markets had zero revenue in the "Internal Sales – services also provided internally" category in the year to 31 March 2009. 15 markets had zero revenue, 3 markets had revenues between zero and £7m and no markets had revenue greater than £7m.
- 3.25 We have decided not to proceed with the proposed change to amalgamate Depreciation and Supplementary Depreciation. Although we do not agree with BT that the change is very likely to confuse readers, we believe that it is unnecessary to force a minor reporting change resulting in reduced information.
- 3.26 These presentational changes are contained in Annex A to Direction 4 at Annex 4 of this document.

Section 4

Outcomes of market reviews concluded in 2009

Introduction

- 4.1 Two market reviews have been concluded that impact the RFS since the publication of the 2009 statement updating the regulatory financial framework⁷ (the 2009 Statement) and BT's 2008/09 RFS. These are the Fixed Narrowband Retail and Fixed Narrowband Wholesale Market Reviews which trigger specific changes to the RFS of BT and KCOM.
- 4.2 This statement is the device by which we implement these changes to BT's and KCOM's regulatory reporting requirements.

Fixed Narrowband Retail and Wholesale Market Reviews

Question 4: Do you think we have fairly reflected the decisions of the relevant market reviews in the form and content of the RFS

Implications for BT

- 4.3 BT and the confidential respondent agree that we have correctly reflected the decisions in the market reviews. There were no comments in relation to this point from other stakeholders.
- 4.4 The confidential respondent also expressed the view that BT should retain any information in relation to these markets, should it be required in the future.
- 4.5 There are no changes to this proposal. The changes to Directions 3 and 4 to take account of the revised market definitions are at Annexes 3 and 4 of this document.

Implications for KCOM

- 4.6 The Fixed Narrowband Wholesale Market review triggers changes to KCOM's regulatory reporting requirements.
- 4.7 KCOM agree that we have correctly reflected the decisions in the market review. There were no comments in relation to this point from other stakeholders.

There are no changes to this proposal. The changes to Directions 3 and 4 to take account of the revised market definitions are at Annexes 5 and 6 of this document.

⁷ "Changes to BT and KCOM's regulatory financial reporting – 2008/09 update" Statement, published in June 2009: http://www.ofcom.org.uk/consult/condocs/btkcom09/statement/btkcom_statement.pdf

Potential future reporting changes from other market reviews

- 4.8 Since our February Consultation we published our consultations on the wholesale broadband access (the “WBA Consultation”)⁸ and wholesale local access (the “WLA Consultation”)⁹ markets. These reviews may impact regulatory reporting in those markets.
- 4.9 In particular we are proposing in the WLA Consultation to bring any reporting requirements in WLA currently contained in SMP condition FA10 and the Directions made under that condition under the “OA” SMP conditions and the Directions made under those conditions.

⁸ “Review of the wholesale broadband access markets” Consultation, published 23 March 2010: <http://www.ofcom.org.uk/consult/condocs/wba/wbacondoc.pdf>

⁹ “Review of the wholesale local access market” Consultation, published 23 March 2010: <http://www.ofcom.org.uk/consult/condocs/wla/wlacondoc.pdf>

Section 5

Items for information – other improvements to reporting in the RFS

Introduction

- 5.1 This section sets out a number of reporting improvements (planned for implementation in 2009/10 or possible impact in later years) where formal consultation was not required. These areas fall into four broad categories: improvements to leased line reporting, implementation of the findings of the BCMR, improvements to Openreach reporting, and other items.
- 5.2 In this section we detail feedback provided by respondents and update stakeholders on the implementation of these changes.

IMPROVEMENTS TO LEASED LINE REPORTING

Separate identification and reporting of costs in respect of support services

Summary of improvement

- 5.3 In our February Consultation we detailed the four following areas where BT would improve the level of reporting:
- Support services;
 - Sub 2Mbit trunk reporting in the Traditional Interface Symmetric Broadband Origination (“TISBO”) market;
 - Enhanced Maintenance reporting in the Trunk market; and
 - Points of Handover.

Responses

- 5.4 All OCP respondents support these changes. In relation to several areas OCP respondents expressed the desire to take several improvements further. We take note of these points and will work with BT and UKCTA to agree the appropriate level of reporting going forward.
- 5.5 C&W and UKCTA also explained that there remain several outstanding issues from the Leased Line Charge Control (LLCC) to be addressed in relation to the quality of leased line reporting. The LLCC is currently under Appeal and we anticipate a determination from the Competition Commission in the summer. Following this we will work with BT and UKCTA to address any outstanding issues.
- 5.6 BT made no comments in respect of these improvements.

Changes to be applied in 2009/10

- 5.7 BT will incorporate the reporting improvements by separately identifying and reporting revenues and/or costs for the four areas.

IMPLEMENTATION OF THE BUSINESS CONNECTIVITY MARKET REVIEW

Reporting the new market definition

Summary of improvement

- 5.8 In the 2009 Consultation we consulted on the revised market definition, as set out in the BCMR (published in December 2008).
- 5.9 The BCMR found, amongst others, that BT has SMP in the markets for TISBO with a bandwidth capacity above 8Mbit/s and up to and including 45Mbit/s and with a capacity above 45 Mbit/s and up to and including 155Mbit/s in the UK excluding the Hull Area and Central and East London Area (CELA). As a result BT is required to prepare financial statements which exclude CELA from the relevant markets.
- 5.10 Due to the timing of the BCMR, BT was unable to implement this geographical reporting change in time for the publication of the 2008/09 RFS. In the June 2009 Statement we therefore explained that we would be working with BT to implement this change in the 2009/10 RFS and that we intended to consult on the form and content of this revised geographical reporting.
- 5.11 In our February Consultation we explained that we were discussing with BT how to implement the reporting of the new market definitions. In particular we discussed the principles that should be followed to identify which TISBO circuits fall within or outside of the CELA.
- 5.12 At the time we set out our current thinking on these principles prior to being finalised.

OCP Response

- 5.13 The confidential respondent supports our proposed methodology and stresses the importance that BT retains data in relation to the CELA, should it be required in the future.
- 5.14 C&W and UKCTA believe this approach requires more consideration and would benefit from being subject to a formal consultation around the methodology applied.

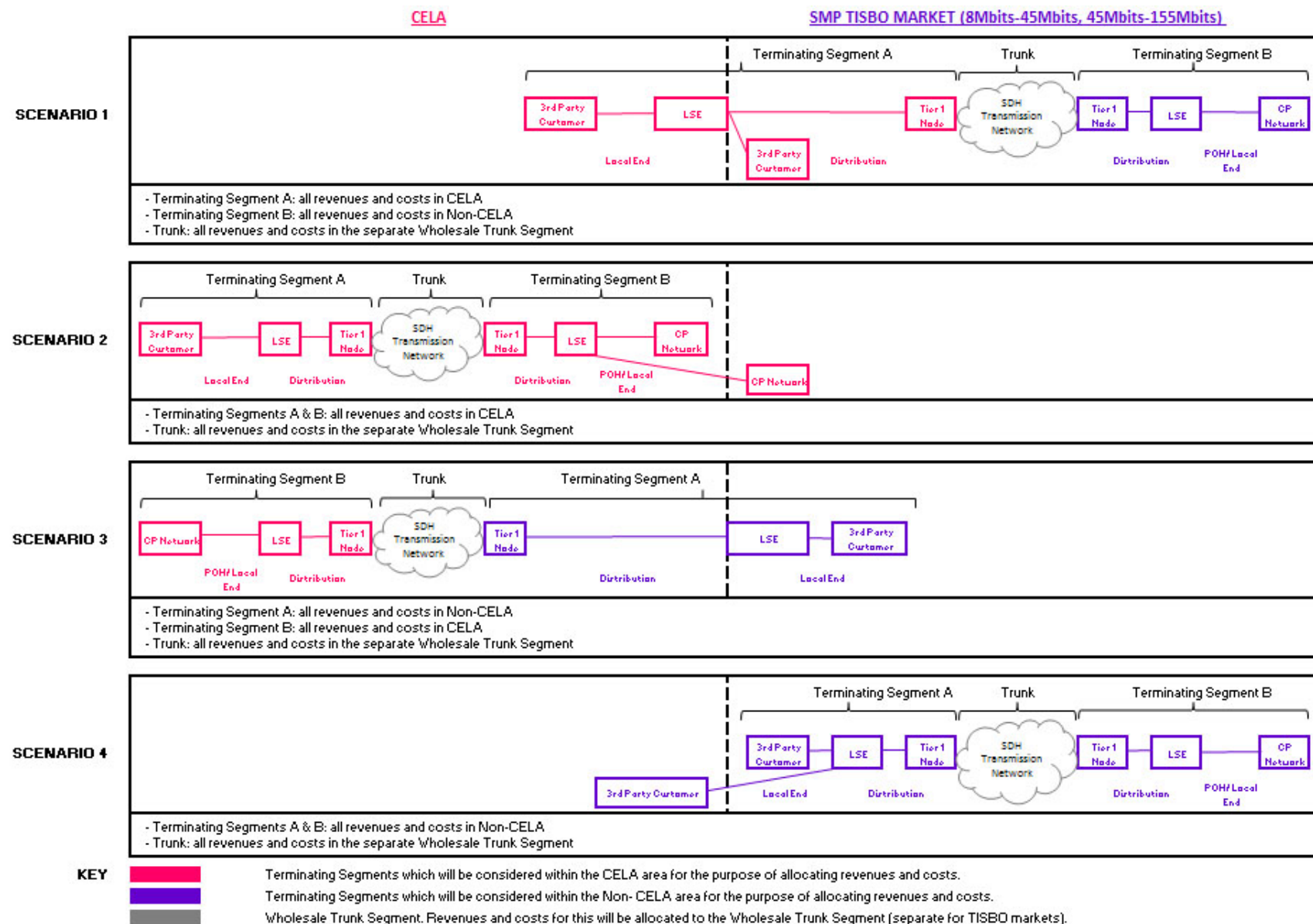
BT Response

- 5.15 BT has informed us that due to limitations to its reporting systems and processes it is unable to report in line with our proposed methodology in a timely manner for the 2009/10 RFS. BT has therefore proposed an alternative methodology.
- 5.16 This alternative methodology is based on the location of Local Serving Exchange (LSE) rather than the methodology in our February Consultation which is based on the location of Third Party Premises and Point of Handover (POH).
- 5.17 The diagram on page 16 illustrates BT's alternative methodology. In summary BT proposes the following principles for the allocation of revenue and costs:

- If the LSE is based in the CELA the Terminating Segment A is attributed to the CELA (Scenario's 1 and 2 in the diagram)
- If the LSE is based outside the CELA the Terminating Segment A is attributed to the SMP TISBO market (Scenario's 3 and 4 in the diagram)
- In respect of the POH the costs and revenues will be dependent on the location of the LSE
- Wholesale Trunk is separate from the TISBO market for all circuits and therefore wholly allocated to the separate Wholesale Trunk Segment.

Changes to be applied in 2009/10

- 5.18 Having taken account of the reporting limitations BT has outlined to us we believe it is reasonable for BT to report in 2009/10 using the methodology it has proposed.
- 5.19 These changes to the methodology will be appropriately described in BT's accounting documents.
- 5.20 It is important to ensure that BT's alternative methodology is consistent with our market definitions. It appears that there may be inconsistency in relation to Scenario 4 in our diagram. Using BT's methodology some circuits may be considered outside the CELA which, using our market definition should be considered within the CELA. BT has informed us that approximately a quarter of all customers located within the CELA are connected to a LSE positioned outside the CELA.
- 5.21 We have therefore agreed additional work with BT to take place following the preparation of the 2009/10 RFS. This will investigate whether BT's alternative methodology will produce a significantly different result from our proposed methodology and whether further changes are required. The results of this work will be taken into account for the methodology to be used in the 2010/11 RFS.
- 5.22 OCP respondents commented that further consideration to the methodology is required and we believe the agreement with BT to carry out further analysis following the preparation of the 2009/10 RFS will inform further development of this cost attribution method. Although formal consultation is not required for this approach, we do recognise the importance of a robust and transparent methodology.



Reporting of netstream sales

Summary of improvement and responses

- 5.23 In our February Consultation we detailed improvements to netstream reporting.
- 5.24 C&W welcomes this improvement. No other comments were received from other stakeholders.

Changes to be applied in 2009/10

- 5.25 BT will incorporate the reporting improvements as set out in the February Consultation.

IMPROVEMENTS TO OPENREACH REPORTING

Cost Attribution Methodology

Summary of improvement

- 5.26 In our February Consultation we explained that following conclusions from the Openreach Statement BT was in the process of reviewing the attribution of costs between Openreach regulated and non-regulated services on a product by product basis.

OCP Response

- 5.27 The confidential respondent supports this review and C&W were broadly supportive.
- 5.28 C&W and UKCTA both raised concerns about the level of discretion that BT has when allocating costs. They also raised questions about the audit approach of this data.

BT Response

- 5.29 BT has identified several cost categories where an improved attribution methodology would provide a more objective allocation between regulated and non-regulated services.
- 5.30 BT's changes apply to the three following cost categories:
- Time Related Charges (TRC): this relates to work carried out on new Housing Association sites;
 - Special Fault Investigations (SFI): this work occurs when Openreach engineers test to find a fault on a LLU line, following a request by a CP, but no fault is discovered; and
 - Redcare: this work relates to the section of BT Retail which deals with security systems and CCTV.
- 5.31 As a result of these changes a higher proportion of these three cost categories will be allocated to non-regulated services in the Openreach accounts.

Changes to be applied in 2009/10

- 5.32 BT will incorporate these changes to the costing methodology for 2009/10. All changes will be appropriately described in BT's secondary accounting documents.
- 5.33 These changes address the matters identified in the Openreach Statement relating to the appropriate allocation of costs.
- 5.34 In relation to the audit approach we believe the current structure is appropriate. The audit framework, established in the 2006 Consultation requires that the auditor provides an audit opinion to the 'Fairly Presents' standard. This is the highest level of opinion that can be obtained for the RFS.

Treatment of Low User Scheme (LUS) transfer charge

Summary of issue

- 5.35 In our February Consultation we explained that we believed BT was not meeting its reporting obligations in respect of its treatment of LUS costs in the Openreach accounts.
- 5.36 BT's reporting obligations under the Undertakings is set out in section 5.31. In February the EAB was in the process of considering BT's compliance with this section. This review was still continuing and we therefore were awaiting formal notice of its findings.

Responses

- 5.37 C&W and UKCTA expressed their view that the current attribution is inappropriate and request that Ofcom intervenes to ensure a fair methodology is adopted.
- 5.38 We received no comments from BT.

Changes to be applied in 2009/10

- 5.39 The EAB's review is now complete and has found BT was not in breach of section 5.31. We will consider this decision in light of the comments made by respondents.

OTHER ITEMS

21 CN cost attribution

Summary of improvement

- 5.40 In our February Consultation we explained that BT was in the process of reviewing the costing methodologies currently used to attribute 21CN network costs taking account of its latest 21CN deployment plans.
- 5.41 We explained that it was important BT maintained costing methodologies that are consistent with the principles of cost causality and objectivity.

Responses

- 5.42 The confidential respondent supports this approach.
- 5.43 BT has informed us that following its review it has decided to modify the costing methodology to reflect changes in 21CN deployment and, in particular, the fact that voice mass migration from PSTN to 21CN is not likely to start until c2014.
- 5.44 This new methodology is based on migrated volumes from a future point in time. Disclosure of this methodology will be made in BT's secondary accounting documents.

Changes to be applied in 2009/10

- 5.45 BT will report in the 2009/10 RFS using this revised methodology.
- 5.46 As a result of this change a relatively small proportion of 21CN costs will now be attributed to voice services in the short to medium term.

Cost of capital information

Summary of improvement and Responses

- 5.47 In our February Consultation we explained that BT will update the cost of capital percentage used in the RFS so that it is consistent with our latest decisions in the Openreach Statement, published in May 2009.
- 5.48 BT correctly noted that the Cost of Capital % we cited in the Consultation was incorrectly transposed.

Changes to be applied in 2009/10

- 5.49 The correct revised cost of capital percentages to be used by BT are follows:
- 10.1% for Openreach copper services; and
 - 11% for all other regulated services
- 5.50 BT has agreed to update this key parameter in the reporting of network service costs in the RFS accordingly.

Annex 1

Legal Tests

Introduction

- A1.1 This annex sets out how Ofcom has satisfied the legal tests to amend the regulatory financial accounting obligations applying to BT and KCOM.
- A1.2 For each item we show how we consider our duties have been met under Sections 3, 4, and 49(2) of the Communications Act.

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

- A1.3 Section 3 of the Act sets out the duties of Ofcom in carrying out its functions, in particular that it furthers the interests of citizens in relation to communications and furthers the interests of consumers in relevant markets.
- A1.4 Section 4 of the Act requires that Ofcom acts in accordance with the six Community requirements concerning: the promotion of competition; the development of the European internal market; the promotion of the interests of all EU citizens; non-discrimination; promoting efficiency and sustainable competition and the maximum benefit for consumers; and facilitating service interoperability and securing freedom of choice for consumers.

Section 49(2) tests

- A1.5 Ofcom has the ability to modify a direction that gives effect to an SMP obligation under section 49 of the Act but only where it is satisfied that the tests under section 49(2) has been met. The tests are that the modification of the direction is:
- a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
 - b) not unduly discriminatory against particular persons or against a particular description of persons;
 - c) proportionate to what it is intended to achieve; and
 - d) transparent in relation to what it is intended to achieve.

Proposals relating to BT

1) Disclosure of AISBO Services

Legal tests

- A1.6 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Direction 4 under SMP condition OA2 as set out in paragraphs 3.2 to 3.11 and Annex 4 are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this statement.

Section 3 and 4

- A1.7 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews determined that these regulatory accounting obligations fulfilled the relevant duties outlined in Sections 3 and 4 of the Act. The changes to Direction 4 under SMP condition OA2 are designed to enable BT to more effectively fulfil the purpose for which these particular obligations were imposed (i.e. demonstrate cost orientation and non-discrimination) by disclosing AISBO services in a way that aligns with the charges levied by BT on the other communication providers. In consequence Ofcom believes the amendments to Direction 4 under SMP condition fulfilled the duties in Sections 3 and 4.

Section 49(2) tests

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

- A1.8 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraphs 3.2 to 3.11 and Annex 4 is objectively justifiable because it is necessary to allow us to monitor that BT is complying with its non-discrimination and cost orientation obligations in this particular market.

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

- A1.9 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraphs 3.2 to 3.11 and Annex 4 is not unduly discriminatory against BT. We note that KCOM, the only other communications provider with similar obligations, does not provide these or similar services externally.

Proportionate to what it is intended to achieve

- A1.10 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraph 3.2 to 3.11 and Annex 4 is proportionate. It is no more than necessary to meet the aim of ensuring sufficient clarity of services and costings. It enables BT to demonstrate compliance with its obligations in the AISBO market as well as providing assurance to market participants that products and services are not being provided on discriminatory terms.

Transparent in relation to what it is intended to achieve

- A1.11 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraph 3.2 to 3.11 and Annex 4 is transparent because Ofcom has explained and consulted on this change.

2) Removal of requirement for BT to provide analysis of outpayments to other operators (contained in AI8)

Legal tests

- A1.12 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Directions 3 and 4 and the FA10 Preparation, audit and delivery Direction and FA10 Form and content Direction under SMP conditions OA2 and FA10.2 as set out in paragraphs 3.12 to 3.15 and Annexes 3 and 4 are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this statement.

Section 3 and 4

- A1.13 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews determined that these regulatory accounting obligations fulfilled the relevant duties outlined in Sections 3 and 4 of the Act. In this case Ofcom believes the information disclosed in the AI has significantly less value following deregulation of BT's retail narrowband markets and therefore an annual requirement to prepare and submit this data to Ofcom is no longer beneficial.
- A1.14 In consequence Ofcom believes the amendments to Direction 3 under SMP condition OA2 and to the FA10 Form and content Direction under SMP condition FA10.2 meet the tests in Sections 3 and 4.

Section 49(2) tests

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

- A1.15 Ofcom considers that the modifications as described in paragraph 3.12 to 3.15 and Annexes 3 and 4 are objectively justifiable because AI 8 has been identified as having significantly less relevance following the deregulation of retail markets.

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

- A1.16 Ofcom considers that the modifications as described in paragraph 3.12 to 3.15 and Annexes 3 and 4 are not unduly discriminatory. We note that KCOM, the only other communications provider with similar obligations, does not currently have the obligation to provide this AI.

Proportionate to what it is intended to achieve

- A1.17 Ofcom considers that the modifications as described in paragraph 3.12 to 3.15 and Annexes 3 and 4 are proportionate because this change reduces the level of information that BT will provide to Ofcom, reflecting that this information is no longer relevant.

Transparent in relation to what it is intended to achieve

- A1.18 Ofcom considers that the modifications as described in paragraph 3.12 to 3.15 and Annexes 3 and 4 are transparent because Ofcom has explained and consulted on this change.

3) Presentational Changes

Legal tests

- A1.19 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Direction 4 and the FA10 Form and content Direction under SMP condition OA2 and FA10.2 as set out in paragraphs 3.16 to 3.25 and Annex 4 are met. BT is not required to do any additional reporting as a result of the proposed modification to the FA10 Form and content Direction. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this statement.

Section 3 and 4

- A1.20 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews determined that these regulatory accounting obligations fulfilled the relevant duties outlined in Sections 3 and 4 of the Act. In this case Ofcom believes the changes improve the presentation and usefulness of the RFS and in consequence Ofcom believes the amendments fulfilled the duties in Sections 3 and 4.

Section 49(2) tests

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

- A1.21 Ofcom considers that modifying Direction 4 and the FA10 Form and content Directions under SMP conditions OA2 and FA10.2 in the manner described in paragraph 3.16 to 3.25 and Annex 4 is objectively justifiable because these changes simplify the form and content of the market level profit and loss statements.

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

- A1.22 Ofcom considers that modifying Direction 4 and the FA10 Form and content Direction under SMP conditions OA2 and FA10.2 in the manner described in paragraph 3.16 to 3.25 and Annex 4 is not unduly discriminatory against BT. We note that KCOM, the only other communications provider with similar obligations, does not have such extensive or detailed reporting requirements and is not subject to the majority of changes in this statement.

Proportionate to what it is intended to achieve

- A1.23 Ofcom considers that modifying Direction 4 and the FA10 Form and content Direction under SMP conditions OA2 and FA10.2 in the manner described in

paragraph 3.16 to 3.25 and Annex 4 is proportionate because these changes simplify the form and content of the market level profit and loss statements.

Transparent in relation to what it is intended to achieve

- A1.24 Ofcom considers that modifying Direction 4 and the FA10 Form and content Direction under SMP conditions OA2 and FA10.2 in the manner described in paragraph 3.16 to 3.25 and Annex 4 is transparent because Ofcom has explained and consulted on this change.

4) Fixed Narrowband Retail Market review

Legal tests

- A1.25 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Directions 3 and 4 under SMP condition OA2 as set out in paragraphs 4.3 to 4.5 and Annexes 3 and 4 are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this statement.

Section 3 and 4

- A1.26 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews determined that these regulatory accounting obligations fulfilled the relevant duties outlined in Sections 3 and 4 of the Act. The proposed changes to Directions 3 and 4 under SMP condition OA2 are designed to enable BT to more effectively fulfil the purpose for which these particular obligations were imposed (i.e. demonstrate cost orientation and non-discrimination). In consequence Ofcom believes the amendments to Directions 3 and 4 condition fulfilled the duties in Sections 3 and 4.

Section 49(2) tests

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

- A1.27 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.3 to 4.5 and Annexes 3 and 4 is objectively justifiable because the changes are necessary to reflect our findings that BT no longer has SMP in the fixed narrowband retail market.

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

- A1.28 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.3 to 4.5 and Annexes 3 and 4 is not unduly discriminatory against BT. We note that KCOM, the only other communications provider with similar obligations, is not affected by the changes resulting from the fixed narrowband retail market review.

Proportionate to what it is intended to achieve

- A1.29 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.3 to 4.5 and Annexes 3 and 4 is proportionate. This is because it secures the necessary adjustment to obligate on BT following a finding that BT no longer has market power in this market. This enables the RFS to remain fit for purpose while adequately reflecting the market review.

Transparent in relation to what it is intended to achieve

- A1.30 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.3 to 4.5 and Annexes 3 and 4 is transparent because Ofcom has explained and consulted on this change.

5) Fixed Narrowband Wholesale Market review

Legal tests

- A1.31 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Directions 3 and 4 under SMP condition OA2 as set out in paragraphs 4.3 to 4.5 and Annexes 3 and 4 are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this statement.

Section 3 and 4

- A1.32 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews determined that these regulatory accounting obligations fulfilled the relevant duties outlined in Sections 3 and 4 of the Act. The proposed changes to Directions 3 and 4 under SMP condition OA2 are designed to enable BT to more effectively fulfil the purpose for which these particular obligations were imposed (i.e. demonstrate cost orientation and non-discrimination). In consequence Ofcom believes the proposed amendments to Directions 3 and 4 fulfilled the duties in Sections 3 and 4.

Section 49(2) tests

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

- A1.33 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.3 to 4.5 and Annexes 3 and 4 is objectively justifiable because the changes are necessary to reflect our findings in the fixed narrowband wholesale market review.

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

- A1.34 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.3 to 4.5 and Annexes 3 and 4 is not unduly discriminatory because we also make the relevant changes for KCOM, the only other communications provider with similar obligations, as per the most recent market review.

Proportionate to what it is intended to achieve

- A1.35 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.3 to 4.5 and Annexes 3 and 4 is proportionate. This is because it secures the necessary adjustment to obligate on BT following a finding that BT no longer has market power in this market. This enables the RFS to remain fit for purpose while adequately reflecting the market review.

Transparent in relation to what it is intended to achieve

- A1.36 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.3 to 4.5 and Annexes 3 and 4 is transparent because Ofcom has explained and consulted on this change.

Proposals relating to KCOM

5) Fixed Narrowband Wholesale Market review

Legal tests

- A1.37 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Directions 3 and 4 under SMP condition OB2 as set out in paragraphs 4.6 to 4.7 and Annexes 5 and 6 are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

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

- A1.38 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on KCOM in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews determined that these regulatory accounting obligations fulfilled the relevant duties outlined in Sections 3 and 4 of the Act. The proposed changes to Directions 3 and 4 under SMP condition OB2 are designed to enable KCOM to more effectively fulfil the purpose for which these particular obligations were imposed (i.e. demonstrate cost orientation and non-discrimination). In consequence Ofcom believes the proposed amendments to Directions 3 and 4 under SMP condition OB2 fulfilled the duties in Sections 3 and 4.

Section 49(2) tests

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

- A1.39 Ofcom considers that modifying Directions 3 and 4 under SMP condition OB2 in the manner described in paragraph 4.6 to 4.7 and Annexes 5 and 6 is objectively justifiable because the changes are necessary to reflect our findings in the fixed narrowband wholesale market review.

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

- A1.40 Ofcom considers that modifying Directions 3 and 4 under SMP condition OB2 in the manner described in paragraph 4.6 to 4.7 and Annexes 5 and 6 is not unduly discriminatory because we also make the relevant changes for BT, the only other

communications provider with similar obligations, as per the most recent market review.

Proportionate to what it is intended to achieve

- A1.41 Ofcom considers that modifying Directions 3 and 4 under SMP condition OB2 in the manner described in paragraph 4.6 to 4.7 and Annexes 5 and 6 is proportionate. This is because it secures the necessary adjustment to obligate on KCOM following a finding that KCOM no longer has market power in this market. This enables the RFS to remain fit for purpose while adequately reflecting the market review.

Transparent in relation to what it is intended to achieve

- A1.42 Ofcom considers that modifying Direction 3 and 4 under SMP condition OB2 in the manner described in paragraph 4.6 to 4.7 and Annexes 5 and 6 is transparent because Ofcom has explained and consulted on this change.

Annex 2

SMP Service Market Tables

For ease of reference we have reproduced a current consolidated version of the tables setting out the markets for which BT and KCOM are required to prepare regulatory financial reports and the respective regulatory reporting rules that apply to those markets¹⁰.

These markets were first identified in the notifications set out in Annex 2 and Annex 3 of “The regulatory financial reporting obligations on BT and Kingston Communications Final statement and notification”, issued on 22 July 2004 (the “July 2004 Notification”).

However, the July 2004 Notification has been amended on a number of occasions, in particular as a result of a number of further market reviews we have completed since July 2004, in particular:

- The review of wholesale international services markets
Statement of 7 July 2006 available at
<http://www.ofcom.org.uk/consult/condocs/wsidd/statement/statement.pdf>
Please refer to the notification at page 14
- The review of the wholesale broadband access markets
Statement of 21 May 2008 available at
<http://www.ofcom.org.uk/consult/condocs/wbamr07/statement/statement.pdf>
Please refer to the notification at page 55
- The business connectivity market review
Statements of 8 December 2008 and 13 February 2009 available at
<http://www.ofcom.org.uk/consult/condocs/bcmr08/bcmr08.pdf>
<http://www.ofcom.org.uk/consult/condocs/bcmr08/statement/statement.pdf>
Please refer to the notification at page 364 of the 8 December 2008 statement
- The review of the fixed narrowband services wholesale markets
Statement of 15 September 2009 and 5 February 2010 available at
http://www.ofcom.org.uk/consult/condocs/wnmr_statement_consultation/main.pdf
http://www.ofcom.org.uk/consult/condocs/wnmr_statement_consultation/statement
Please refer to the notification at page 235 of the 15 September 2009 Statement and the notification at page 65 of the 5 February 2010 Statement
- The review of the fixed narrowband retail services markets
Statement of 15 September 2009 available at
http://www.ofcom.org.uk/consult/condocs/retail_markets/statement/statement.pdf
Please refer to the notification at page 96

¹⁰ It is recommended that you consult the relevant notification(s) for the SMP services conditions as these contain an explanation of the reasons for the decision to amend and the specific modifications that have been made. While every reasonable effort is made to ensure that the information provided in the tables is accurate, no guarantees for the currency or accuracy of information are made. The original notification and the subsequent modifying notifications are signed by an authorised person, and the definitive version is that which has been so signed and which is the original printed version held by Ofcom. For the avoidance of doubt, in the case of any difference between texts, the signed version held by Ofcom shall take precedence over the electronic or printed version.

It should be noted that the July 2004 Notification may further be amended as a consequence of:

- Further findings in relation to the final outstanding elements of the fixed narrowband services wholesale markets; and
- The recent WLA and WBA Consultations. With respect to WLA, the regulatory reporting obligations that apply to the WLA markets are the same as the July 2004 reporting obligations, however they were separately notified in the Review of the wholesale local access market explanatory statement and notification of 16 December 2004¹¹ as the so-called "FA10" conditions. In the WLA Consultation we have proposed to make an amendment to apply the "OA" conditions to the WLA markets in order to bring all regulated markets under the one regulatory reporting framework.

BT

- BT's regulatory financial reporting obligations are as follows:
 - (a) in respect of the wholesale markets:
 - (i) numbered 1, 4, 6, 7, 9, 10, and 14 to 17 and 17a set out in Table 1 below SMP services conditions as set out in Schedule 2 of the July 2004 Notification, excluding conditions OA29 to OA31 and OA34;
 - (ii) numbered 5, 12 and 13 set out in the Table 1 below, SMP services conditions as set out in Schedule 2 of the July 2004 Notification, excluding subparagraphs (a) to (c) and (f) of condition OA23, conditions OA29 to OA31, and condition OA34; and
 - (b) in respect of the retail market set out in Table 2 below, SMP services conditions as set out in Schedule 2 to the July 2004 Notification, excluding subparagraphs (b), (d) and (e) of condition OA23, conditions OA26 to OA28 and conditions OA32 to OA33.

¹¹ Available at <http://www.ofcom.org.uk/consult/condocs/rwlam/statement/rwlam161204.pdf>

Table 1: Wholesale Markets

Market identified and in which BT found to have SMP in previous Notification pursuant to section 79 of the Act	Date
1. Wholesale analogue exchange line services in the UK excluding the Hull Area	15.09.09
2.	
3.	
4. Wholesale ISDN2 exchange line services in the UK excluding the Hull Area	As above
5. Wholesale ISDN30 exchange line services in the UK excluding the Hull Area	As above ¹²
6. Wholesale call origination on a fixed narrowband network, in the UK excluding the Hull Area	As above ¹³
7. Local-tandem conveyance and transit on fixed public telephone networks in the UK excluding the Hull Area (SMP conditions in Schedule 2 to be revoked from 31.07.10 for this market)	18.08.05
8.	
9. Single transit on fixed public narrowband networks in the UK excluding the Hull Area	5.02.10
10. Wholesale fixed geographic call termination on each individual network provided by BT	15.09.09
11.	
12. Wholesale Broadband Access in Market 1 as defined in OFCOM's Notification published on 21 May 2008	21.05.08
13. Wholesale Broadband Access in Market 2 as defined in OFCOM's Notification published on 21 May 2008	As above
14. Provision of traditional interface symmetric broadband origination with a bandwidth capacity up to and including eight megabits per second within the United Kingdom but not including the Hull Area	8.12.08
15. Provision of traditional interface symmetric broadband origination with a bandwidth capacity above eight megabits per second and up to and including forty five megabits per second within the UK but not including the Hull Area and the Central East London Area (as defined in OFCOM's notification published on 8 December 2008)	8.12.08
16. Provision of alternative interface symmetric broadband origination with a bandwidth capacity up to and including one gigabit per second within the United Kingdom but not including the Hull Area	8.12.08
17. Provision of wholesale trunk segments at all bandwidths within the UK	8.12.08
17a. Provision of traditional interface symmetric broadband origination with a bandwidth capacity above forty five megabits per second and up to and including one hundred and fifty five megabits per second within the United Kingdom but not including the Hull Area and the Central and East London Area (as defined in OFCOM's notification published on 8 December 2008)	8.12.08

¹² This should read "28.11.03"¹³ This should read "15.09.09"

Table 2: Retail Markets

Market identified and in which BT found to have SMP in previous Notification pursuant to section 79 of the Act	Date
18.	
19.	
20.	
21.	
22.	
23.	
24.	
25. Provision of traditional interface retail leased lines up to and including a bandwidth capacity of eight megabits per second within the UK but not including the Hull Area	8.12.08

KCOM

KCOM's regulatory financial reporting obligations are as follows:

in respect of the wholesale markets:

- (i) numbered 1, 4, 6, and 7 set out in Table 1 below, SMP services conditions as set out in the July 2004 Notification, excluding conditions OB28 to OB30 and condition OB33;
- (ii) numbered 9 to 12 set out in Table 1 below, SMP services conditions as set out in the July 2004 Notification, excluding conditions (d) and (e) of condition OB23, conditions OB28 to OB31 and condition OB33; and
- (iii) numbered 5 and 8 set out in Table 1 below, SMP services conditions as set out in the July 2004 Notification, excluding (a) to (c) and (f) of condition OB23, conditions OB28 to OB30 and condition OB33.

Table 1: Wholesale Markets

Market identified and in which Kingston found to have SMP in previous Notification pursuant to section 79 of the Act	Date
1. Wholesale analogue exchange line services in the Hull Area	15.9.09
2.	
3.	
4. Wholesale ISDN2 exchange line services in the Hull Area	As above
5. Wholesale ISDN30 exchange line services in the Hull Area	As above ¹⁴
6. Wholesale call origination on a fixed narrowband network, in Hull Area	As above ¹⁵
7. Wholesale fixed geographic call termination on each individual network provided by KCOM ¹⁶	15.9.09
8. Wholesale Broadband Access in the Hull Area	21.05.08
9. Provision of traditional interface symmetric broadband origination with a bandwidth capacity up to and including eight megabits per second within the Hull Area	8.12.08
10. Provision of traditional interface symmetric broadband origination with a bandwidth capacity above eight megabits per second and up to and including forty five megabits per second within the Hull Area	8.12.08
11. Provision of traditional interface symmetric broadband origination with a bandwidth capacity above forty five megabits per second and up to and including one hundred and fifty five megabits per second within the Hull Area	8.12.08
12. Provision of alternative interface symmetric broadband origination with a bandwidth capacity of up to and including one gigabit per second within the Hull Area	8.12.08

¹⁴ This should read 28.11.03

¹⁵ This should read 15.09.09

¹⁶ Note that the obligation to prepare RFS only relates to Wholesale fixed geographic call termination on each individual network provided by KCOM in the Hull Area.

Table 2: Retail Markets

None

Annex 3

Notification of modification to Direction 3 and the FA10 Preparation, audit and delivery Direction (BT)

Notification under section 49 of the Communications Act 2003

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

WHEREAS:

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

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

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

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

the regulatory financial statements as directed by OFCOM from time to time.

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

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

(F) this modified Direction modifies:

- i. Direction 3 which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out an amendment to the regulatory financial statements which are required to be prepared, audited (including the level of audit), delivered to OFCOM and/or published by BT under condition OA5; and

- ii. The FA10 Preparation, audit and delivery Direction, in that it sets out an amendment to the Regulatory Financial Statements which are required to be prepared, audited (including the level of audit), delivered to OFCOM and/or published by BT under condition FA10.5;

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

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

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

(I) on 12 February 2010, OFCOM published a notification of the proposed modified Direction in accordance with section 49 of the Act (the 'First Notification');

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

(M) in the First Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 5pm on 26 March 2010;

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

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

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

NOW, therefore, pursuant to section 49 of the Act and Condition OA2 and FA10.2 OFCOM hereby gives the following modification to Direction 3:

1. Direction 3 shall be modified as set out in Annex A to this modified Direction.
2. The FA10 Preparation, audit and delivery Direction shall be modified as set out in Annex B to this modified Direction.
3. For the purpose of interpreting this modified Direction, the following definitions shall apply:
 - a) "Act" means the Communications Act 2003 (c. 21);
 - b) "BT" means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 1159 of the Companies Act 2006;
 - c) "Direction 3" means the Original Direction 3 and the following modifying Directions: at Annex 2 of the *Changes to BT's regulatory financial reporting framework, dated 31 August 2005*; at Annex 3 of the *Changes to BT's regulatory financial reporting and audit requirements, dated 16 August 2006*; at Annex 4 of *BT's regulatory financial reporting requirements dated 30 May 2007*; at Annex 4 of *Changes to BT's 2007/08 regulatory financial statements, dated 26 June 2008*; and at Annex 4 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update*, which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out requirements for the preparation, audit and delivery of regulatory financial statements in respect of wholesale cost accounting, accounting separation and retail cost accounting;
 - d) "Director" means the Director General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
 - e) "FA10 Preparation, audit and delivery Direction" means the Original FA10 Preparation, audit and delivery Direction and the following modifying Directions: at Annex 2 of the *Changes to BT's regulatory financial reporting framework, dated 31 August 2005*; at Annex 3 of the *Changes to BT's regulatory financial reporting and audit requirements, dated 16 August 2006*; at Annex 4 of *BT's regulatory financial reporting requirements dated 30 May 2007*; at Annex 4 of *Changes to BT's 2007/08 regulatory financial statements, dated 26 June 2008*; and at Annex 4 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update dated 15 June 2009*, which relates to BT's obligations under SMP services condition FA10, in that it sets out requirements for the preparation, audit and delivery of regulatory financial statements in respect of wholesale cost accounting, accounting separation and retail cost accounting;
 - f) "Notification" means the notifications which set in place the obligations on BT referred to in recital (B) of this modified Direction above;
 - g) "OFCOM" means the Office of Communications;
 - h) "Original Direction 3" means the Direction given under SMP Services Condition OA2 at Annex 4 of *The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004*

- i) "Original FA10 Preparation, audit and delivery Direction" means the Direction given under SMP Services Condition FA10.2 at Schedule 4 of Annex 2 of the *Review of the wholesale local access market, dated 16 December 2004*; and
- j) "Transitional Provisions" means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003 and the Office of Communications Act 2002 (Commencement No. 3) and Communications Act 2003 (Commencement No. 2) Order 2003.

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

4. For the purpose of interpreting this modified Direction:

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

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

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

Craig Lonie

Director of Competition Finance, Ofcom

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

4 June 2010

Annex A

Direction 3 is modified as shown below in that the words underlined are inserted and the words struck through are deleted.

Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.		Wholesale residential- analogue exchange line services	wholesale service A	wholesale service B ...	Wholesale business- analogue exchange line- services	wholesale service A	wholesale service B ...	Wholesale business ISDN2 exchange line services	wholesale service A	wholesale service B
Annex 1	Statement by Ofcom	P			P			P		
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P			P			P		
Annex 4	Regulatory financial review	P			P			P		
Annex 5A	Attribution of Wholesale current costs	P	N	N	P	N	N	P	N	N
Annex 5B	Attribution of Retail current costs									
Annex 6A	Attribution of Wholesale Current Cost Mean Capital Employed	P	N	N	P	N	N	P	N	N
Annex 6B	Attribution of Retail Current Cost Mean Capital Employed									
Annex 7	Financial performance in Access markets	P			P			P		
Annex 8	Financial performance in other wholesale SMP markets									
Annex 10	Market Group Financial Review	P			P			P		
Annex 11	Market summary	P			P			P		
Annex 12	Market summary									
Annex 13	Market summary (ToD)									
Annex 14	Market Level Financial Review	P			P			P		
Annex 15	Network Activity Statement	P			P			P		
Annex 16	Calculation of FAC based on component costs and usage factors	P			P			P		
Annex 17	BT Network Services Reconciliation	P			P			P		
Annex 19	BT Reconciliation Statement - P&L	P			P			P		
Annex 20	BT Reconciliation statement -MCE	P			P			P		
Annex 21	BT Inter-market turnover reconciliation	P			P			P		
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P			P			P		
Annex 24	Price controls in wholesale markets	P			P			P		
Annex 25	Price controls in wholesale markets	P			P			P		

	Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.	Traditional interface symmetric broadband origination (up to and including 8Mbit/s);	WS service A	WS service B	Partial and Private Circuits 64kbit/s connection	Partial and Private Circuits 64kbit/s link	Partial and Private Circuits 64kbit/s transmission	Partial and Private Circuits 64kbit/s local end	Partial and Private Circuits 2mbit/s connection	Partial and Private Circuits 2mbit/s link	Partial and Private Circuits 2mbit/s distribution	Partial and Private Circuits 2mbit/s local end	RBS Backhaul sub 2mb rental	RBS Backhaul sub 2mb connection	RBS Backhaul 2mb rental	RBS Backhaul 2mb connection	SDSL
Annex 1	Statement by Ofcom	P															
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P															
Annex 4	Regulatory financial review	P															
Annex 5A	Attribution of Wholesale current costs	P	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Annex 5B	Attribution of Retail current costs																
Annex 6A	Attribution of Wholesale Current Cost Mean Capital Employed	P	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Annex 6B	Attribution of Retail Current Cost Mean Capital Employed																
Annex 7	Financial performance in Access markets	P															
Annex 8	Financial performance in other wholesale SMP markets																
Annex 10	Market Group Financial Review	P															
Annex 11	Market summary	P															
Annex 12	Market summary																
Annex 13	Market summary (ToD)																
Annex 14	Market Level Financial Review	P															
Annex 15	Network Activity Statement	P															
Annex 16	Calculation of FAC based on component costs and usage factors	P															
Annex 17	BT Network Services Reconciliation	P															
Annex 19	BT Reconciliation Statement - P&L	P															
Annex 20	BT Reconciliation statement - MCE	P															
Annex 21	BT Inter-market turnover reconciliation	P															
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P															
Annex 24	Price controls in wholesale markets	P															
Annex 25	Price controls in wholesale markets	P															

BT and KCOM's regulatory financial reporting

	Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.	Traditional interface symmetric broadband origination in the UK excluding the Hull area and the Central and East London Area (above 8Mbit/s and up to and incl.	wholesale service A	wholesale service B	Partial and Private Circuits 34/45mbit/s -link	Partial and Private Circuits 34/45mbit/s - distribution	Partial and Private Circuits 34/45mbit/s -local end	Traditional interface symmetric broadband origination in the UK excluding the Hull Area and the Central and East London Area (above 45 Mbit/s and up to and incl. 155Mbit/s)	WS service A	WS service B	Partial and Private Circuits 140/155mbit/s link	Partial and Private Circuits 140/155mbit/s distribution	Partial and Private Circuits 140/155mbit/s local end	Alternative interface symmetric broadband origination in the UK excluding the Hull Area (up to and including 1Gbit)	WS service A	WS service B	WES/LES	BES
Annex 1	Statement by Ofcom	P						P						P				
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P						P						P				
Annex 4	Regulatory financial review	P						P						P				
Annex 5A	Attribution of Wholesale current costs	P	N	N	N	N	N	P	N	N	N	N	N	P	N	N	N	N
Annex 5B	Attribution of Retail current costs																	
Annex 6A	Attribution of Wholesale Current Cost Mean Capital Employed	P	N	N	N	N	N	P	N	N	N	N	N	P	N	N	N	N
Annex 6B	Attribution of Retail Current Cost Mean Capital Employed																	
Annex 7	Financial performance in Access markets	P						P						P				
Annex 8	Financial performance in other wholesale SMP markets																	
Annex 10	Market Group Financial Review	P						P						P				
Annex 11	Market summary	P						P						P				
Annex 12	Market summary																	
Annex 13	Market summary (ToD)																	
Annex 14	Market Level Financial Review	P						P						P				
Annex 15	Network Activity Statement	P						P						P				
Annex 16	Calculation of FAC based on component costs and usage factors	P						P						P				
Annex 17	BT Network Services Reconciliation	P						P						P				
Annex 19	BT Reconciliation Statement - P&L	P						P						P				
Annex 20	BT Reconciliation statement -MCE	P						P						P				
Annex 21	BT Inter-market turnover reconciliation	P						P						P				
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P						P						P				
Annex 24	Price controls in wholesale markets	P						P						P				
Annex 25	Price controls in wholesale markets	P						P						P				

	Note "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes a statement to be produced and provided to Ofcom but need not be published.	Technical areas	Point of Handover	Wholesale Broadband Access	WS service A	WS service B	Wholesale local access market	wholesale service A	wholesale service B etc	Wholesale business ISDN30 exchange line services	wholesale service A
Annex 1	Statement by Ofcom	P		P			P			P	
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P		P			P			P	
Annex 4	Regulatory financial review	P		P			P			P	
Annex 5A	Attribution of wholesale current costs	P	N	P	N	N	P	N	N	P	N
Annex 5B	Attribution of retail current costs										
Annex 6A	Attribution of wholesale current cost mean capital employed	P	N	P	N	N	P	N	N	P	N
Annex 6B	Attribution of retail current cost mean capital employed										
Annex 7	Financial performance in Access markets	P		P			P			P	
Annex 8	Financial performance in other wholesale SMP markets										
Annex 10	Market Group Financial Review	P		P			P			P	
Annex 11	Market summary	P					P				
Annex 12	Market summary			P						P	
Annex 13	Market summary (ToD)										
Annex 14	Market Level Financial Review	P		P			P			P	
Annex 15	Network Activity Statement	P		P			P			P	
Annex 16	Calculation of FAC based on component costs and usage factors	P		P			P			P	
Annex 17	BT Network Services Reconciliation	P		P			P			P	
Annex 19	BT Reconciliation Statement - P&L	P		P			P			P	
Annex 20	BT Reconciliation statement -MCE	P		P			P			P	
Annex 24	BT inter market turnover reconciliation	P		P			P			P	
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P		P			P			P	
Annex 24	Price controls in wholesale markets	P		P			P			P	
Annex 25	Price controls in wholesale markets	P		P			P			P	

BT and KCOM's regulatory financial reporting

	Note "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes a statement to be produced and provided to Ofcom but need not be published.	Call origination on fixed public narrowband networks	WS Call originating local exchange segment PSTN and ISDN (excluding Operator Assistance)	WS Call originating local exchange segment (incl Operator Assistance)	WS Call originating local exchange segment ISDN (including Operator Assistance)	WS Call originating local exchange segment PSTN and ISDN (incl Operator Assistance)	WS Call origination local exchange Stick	WS Call origination local exchange Stick (ISDN)	WS local exchange Call origination circuit excluding FRIACO port	Local-tandem conveyance and transit on fixed public narrowband networks	WS local-tandem conveyance segment	WS local-tandem conveyance segment (ISDN)	WS LTT Stick	WS LTT Stick (ISDN)	Single transit on fixed public narrowband networks	WS Single transit segment PSTN and ISDN
Annex 1	Statement by Ofcom	P								P					P	
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P								P					P	
Annex 4	Regulatory financial review	P								P					P	
Annex 5A	Attribution of Wholesale current costs	P	N	N	N	N	N	N	N	P	N	N	N	N	P	N
Annex 5B	Attribution of Retail current costs															
Annex 6A	Attribution of Wholesale Current Cost Mean Capital Employed	P	N	N	N	N	N	N	N	P	N	N	N	N	P	N
Annex 6B	Attribution of Retail Current Cost Mean Capital Employed															
Annex 7	Financial performance in Access markets															
Annex 8	Financial performance in other wholesale SMP markets	P								P					P	
Annex 10	Market Group Financial Review	P								P					P	
Annex 11	Market summary															
Annex 12	Market summary															
Annex 13	Market summary (ToD)	P								P					P	
Annex 14	Market Level Financial Review	P								P					P	
Annex 15	Network Activity Statement	P								P					P	
Annex 16	Calculation of FAC based on component costs and usage factors	P								P					P	
Annex 17	BT Network Services Reconciliation	P								P					P	
Annex 19	BT Reconciliation Statement - P&L	P								P					P	
Annex 20	BT Reconciliation statement -MCE	P								P					P	
Annex 21	BT Inter-market turnover reconciliation	P								P					P	
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P								P					P	
Annex 24	Price controls in wholesale markets	P								P					P	
Annex 25	Price controls in wholesale markets	P								P					P	

	Note "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes a statement to be produced and provided to Ofcom but need not be published.	Technical areas	WS standard CSI connection	WS standard CSI rental fixed	WS standard CSI rental per km	WS ISI connection	WS ISI rental per 100m	WS IEC connection	WS IEC rental fixed	WS IEC rental per km	WS intra-building circuits connection	WS intra-building circuits rental	WS rearrangements	WS Connection (£ per 2Mbps per year)	WS Rental fixed (£ per 2Mbps per year)	WS Rental per km (£ per 2Mbps per year)	DAAWS Re-arrangements (£ per occasion)
Annex 1	Statement by Ofcom	P															
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P															
Annex 4	Regulatory financial review	P															
Annex 5A	Attribution of Wholesale current costs	P	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Annex 5B	Attribution of Retail current costs																
Annex 6A	Attribution of Wholesale Current Cost Mean Capital Employed	P	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Annex 6B	Attribution of Retail Current Cost Mean Capital Employed																
Annex 7	Financial performance in Access markets																
Annex 8	Financial performance in other wholesale SMP markets	P															
Annex 10	Market Group Financial Review	P															
Annex 11	Market summary	P															
Annex 12	Market summary																
Annex 13	Market summary (ToD)																
Annex 14	Market Level Financial Review	P															
Annex 15	Network Activity Statement	P															
Annex 16	Calculation of FAC based on component costs and usage factors	P															
Annex 17	BT Network Services Reconciliation	P															
Annex 19	BT Reconciliation Statement - P&L	P															
Annex 20	BT Reconciliation statement -MCE	P															
Annex 21	BT Inter-market turnover reconciliation	P															
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P															
Annex 24	Price controls in wholesale markets	P															
Annex 25	Price controls in wholesale markets	P															

BT and KCOM's regulatory financial reporting

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

	Note "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes a statement to be produced and provided to Ofcom but need not be published.	Residential analogue exchange-line services in the UK	Retail-segments	Residential local calls in the UK	Retail-segments	Residential national call in the UK	Retail-segments	Residential IDD calls category A routes (retail IDD routes which are competitive at WTS) in the UK	Retail-segments	Residential calls to mobiles in the UK	Retail-segments
Annex 1	Statement by Ofcom	P		P		P		P		P	
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P	P	P	P	P	P	P	P	P	P
Annex 4	Regulatory financial review	P				P		P		P	
Annex 5A	Attribution of wholesale current costs							P		P	
Annex 5B	Attribution of retail current costs	P	N	P	N	P	N	P	N	P	N
Annex 6A	Attribution of Wholesale Current Cost Mean Capital Employed										
Annex 6B	Attribution of Retail Current Cost Mean Capital Employed	P	N	P	N	P	N	P	N	P	N
Annex 7	Financial performance in Access markets										
Annex 8	Financial performance in other wholesale SMP markets										
Annex 10	Market Group Financial Review	P		P		P		P		P	
Annex 11	Market summary										
Annex 12	Market summary										
Annex 13	Market summary (ToD)										
Annex 14	Market Level Financial Review										
Annex 15	Network Activity Statement										
Annex 16	Calculation of FAC based on component costs and usage factors										
Annex 17	BT Network Services Reconciliation										
Annex 19	BT Reconciliation Statement - P&L	P		P		P		P		P	
Annex 20	BT Reconciliation statement -MCE	P		P		P		P		P	
Annex 21	BT Inter-market turnover reconciliation	P		P		P		P		P	
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P		P		P		P		P	
Annex 24	Price controls in wholesale markets										
Annex 25	Price controls in wholesale markets										

Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.		Wholesale residential- analogue exchange line services	wholesale service A	wholesale service B ...	Wholesale business- analogue exchange line- services	wholesale service A	wholesale service B ...	Wholesale business ISDN2 exchange line services	wholesale service A	wholesale service B
Annex 26	Additional Information by way of notes									
AI-1	Cost category analysis for network components, increments and common cost		N	N		N	N		N	N
AI-2	Summarised activity analysis of components		N	N		N	N		N	N
AI-3	Cost category analysis for network components and increments		N	N		N	N		N	N
AI-4	Summarised activity analysis for network components and increments		N	N		N	N		N	N
AI-5	Analysis by asset category and network activities		N	N		N	N		N	N
AI-6	CCA fixed asset movement statement		N	N		N	N		N	N
AI-7	Total mean capital employed and detailed activity analysis		N	N		N	N		N	N
AI-8 Analysis by type of product group and by type of OLO										
AI-9	Detailed Network activity analysis of mean capital employed		N	N		N	N		N	N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N			N			N		
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N			N			N		
AI-13	Total operating costs & mean capital employed costs for each plant group	N	N	N	N	N	N	N	N	N
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis									
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets	N	N	N	N	N	N	N	N	N
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N	N	N
AI-22	Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue									
AI-23	Cost data for plant group to service for the PPC services and technical areas									
AI-24	Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis									
AI-25	Analysis of input costs from the business connectivity markets to downstream (retail) activities									
AI-26	Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately									
AI-27	Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES									

Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.		Traditional interface symmetric broadband origination (up to and including 8Mbit/s);	WS service A	WS service B	Partial and Private Circuits 64kbit/s connection	Partial and Private Circuits 64kbit/s link	Partial and Private Circuits 64kbit/s transmission	Partial and Private Circuits 64kbit/s local end	Partial and Private Circuits 2mbit/s connection	Partial and Private Circuits 2mbit/s link	Partial and Private Circuits 2mbit/s distribution	Partial and Private Circuits 2mbit/s local end	RBS Backhaul sub 2mb rental connection	RBS Backhaul sub 2mb connection	RBS Backhaul 2mb rental	RBS Backhaul 2mb connection	SDSL
Annex 26	Additional Information by way of notes																
AI-1	Cost category analysis for network components, increments and common cost		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-2	Summarised activity analysis of components		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-3	Cost category analysis for network components and increments		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-4	Summarised activity analysis for network components and increments		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-5	Analysis by asset category and network activities		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-6	CCA fixed asset movement statement		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-7	Total mean capital employed and detailed activity analysis		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-8 Analysis by type of product group and by type of OLO																	
AI-9	Detailed Network activity analysis of mean capital employed		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N															
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N															
AI-13	Total operating costs & mean capital employed costs for each plant group	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis																
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-22	Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue	N															
AI-23	Cost data for plant group to service for the PPC services and technical areas	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
AI-24	Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis																
AI-25	Analysis of input costs from the business connectivity markets to downstream (retail) activities	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-26	Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
AI-27	Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N

Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.		Traditional interface symmetric broadband origination in the UK excluding the Hull area and the Central and East London Area (above 8Mbit/s and up to and incl. 34/45mbit/s)	WS service A	WS service B	Partial and Private Circuits 34/45mbit/s link	Partial and Private Circuits 34/45mbit/s distribution	Partial and Private Circuits 34/45mbit/s - local end	Traditional interface symmetric broadband origination in the UK excluding the Hull Area and the Central and East London Area (above 45 Mbit/s and up to and incl. 155Mbit/s)	WS service A	WS service B	Partial and Private Circuits 140/155mbit/s link	Partial and Private Circuits 140/155mbit/s distribution	Partial and Private Circuits 140/155mbit/s local end
Annex 26	Additional Information by way of notes												
AI-1	Cost category analysis for network components, increments and common cost		N	N	N	N	N		N	N			
AI-2	Summarised activity analysis of components		N	N	N	N	N		N	N			
AI-3	Cost category analysis for network components and increments		N	N	N	N	N		N	N			
AI-4	Summarised activity analysis for network components and increments		N	N	N	N	N		N	N			
AI-5	Analysis by asset category and network activities		N	N	N	N	N		N	N			
AI-6	CCA fixed asset movement statement		N	N	N	N	N		N	N			
AI-7	Total mean capital employed and detailed activity analysis		N	N	N	N	N		N	N			
AI-8	Analysis by type of product group and by type of OLO		N	N	N	N	N		N	N			
AI-9	Detailed Network activity analysis of mean capital employed		N	N	N	N	N		N	N			
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N						N					
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N						N					
AI-13	Total operating costs & mean capital employed costs for each plant group							N					
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis												
AI-15	Provision of BT 'Data File'												
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets	N	N	N	N	N	N	N	N	N	N	N	N
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N	N	N	N	N	N
AI-22	Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue	N						N					
AI-23	Cost data for plant group to service for the PPC services and technical areas	P	P	P	P	P	P	P	P	P	P	P	P
AI-24	Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis												
AI-25	Analysis of input costs from the business connectivity markets to downstream (retail) activities	N	N	N	N	N	N	N	N	N	N	N	N
AI-26	Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately	P	P	P	P	P	P	P	P	P	P	P	P
AI-27	Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES	N	N	N	N	N	N	N	N	N	N	N	N

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Annex 26	Additional Information by way of notes													
AI-1	Cost category analysis for network components, increments and common cost		N	N	N	N		N					N	N
AI-2	Summarised activity analysis of components		N	N	N	N		N					N	N
AI-3	Cost category analysis for network components and increments		N	N	N	N		N					N	N
AI-4	Summarised activity analysis for network components and increments		N	N	N	N		N					N	N
AI-5	Analysis by asset category and network activities		N	N	N	N		N					N	N
AI-6	CCA fixed asset movement statement		N	N	N	N		N					N	N
AI-7	Total mean capital employed and detailed activity analysis		N	N	N	N		N					N	N
AI-8	Analysis by type of product group and by type of OLO													
AI-9	Detailed Network activity analysis of mean capital employed		N	N	N	N		N					N	N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N					N					N		
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N					N					N		
AI-13	Total operating costs & mean capital employed costs for each plant group	N	N	N	N	N	N	N				N	N	N
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis													
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N	N	N			N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets	N	N	N	N	N						N	N	N
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N	N			N	N	N
AI-22	Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue						N							
AI-23	Cost data for plant group to service for the PPC services and technical areas						P	P						
AI-24	Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis								N					
AI-25	Analysis of input costs from the business connectivity markets to downstream (retail) activities	N	N	N	N	N	N	N						
AI-26	Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately	P	P	P	P	P	P	P				P	P	P
AI-27	Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES	N	N	N	N	N	N	N				N	N	N

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Annex 26	Additional Information by way of notes						
AI-1	Cost category analysis for network components, increments and common cost		N	N	N		N
AI-2	Summarised activity analysis of components		N	N	N		N
AI-3	Cost category analysis for network components and increments		N	N	N		N
AI-4	Summarised activity analysis for network components and increments		N	N	N		N
AI-5	Analysis by asset category and network activities		N	N	N		N
AI-6	CCA fixed asset movement statement		N	N	N		N
AI-7	Total mean capital employed and detailed activity analysis		N	N	N		N
AI-8	Analysis by type of product group and by type of OLO						
AI-9	Detailed Network activity analysis of mean capital employed		N	N	N		N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N				N	
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N				N	
AI-13	Total operating costs & mean capital employed costs for each plant group	N	N	N	N	N	N
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis						
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets	N	N	N	N	N	N
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N
AI-22	Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue						
AI-23	Cost data for plant group to service for the PPC services and technical areas						
AI-24	Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis						
AI-25	Analysis of input costs from the business connectivity markets to downstream (retail) activities						
AI-26	Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately						
AI-27	Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES						

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Annex 26	Additional Information by way of notes										
AI-1	Cost category analysis for network components, increments and common cost		N	N	N	N	N	N	N	N	N
AI-2	Summarised activity analysis of components		N	N	N	N	N	N	N	N	N
AI-3	Cost category analysis for network components and increments		N	N	N	N	N	N	N	N	N
AI-4	Summarised activity analysis for network components and increments		N	N	N	N	N	N	N	N	N
AI-5	Analysis by asset category and network activities		N	N	N	N	N	N	N	N	N
AI-6	CCA fixed asset movement statement		N	N	N	N	N	N	N	N	N
AI-7	Total mean capital employed and detailed activity analysis		N	N	N	N	N	N	N	N	N
AI-8	Analysis by type of product group and by type of OLO										
AI-9	Detailed Network activity analysis of mean capital employed		N	N	N	N	N	N	N	N	N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N									
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N									
AI-13	Total operating costs & mean capital employed costs for each plant group	N	N	N	N	N	N	N	N	N	N
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis										
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets										
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N	N	N	N
AI-22	Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue										
AI-23	Cost data for plant group to service for the PPC services and technical areas										
AI-24	Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis										
AI-25	Analysis of input costs from the business connectivity markets to downstream (retail) activities										
AI-26	Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately										
AI-27	Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES										

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Annex 26	Additional Information by way of notes							
AI-1	Cost category analysis for network components, increments and common cost		N	N	N	N		N
AI-2	Summarised activity analysis of components		N	N	N	N		N
AI-3	Cost category analysis for network components and increments		N	N	N	N		N
AI-4	Summarised activity analysis for network components and increments		N	N	N	N		N
AI-5	Analysis by asset category and network activities		N	N	N	N		N
AI-6	CCA fixed asset movement statement		N	N	N	N		N
AI-7	Total mean capital employed and detailed activity analysis		N	N	N	N		N
AI-8	Analysis by type of product group and by type of OLO							
AI-9	Detailed Network activity analysis of mean capital employed		N	N	N	N		N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N					N	
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N					N	
AI-13	Total operating costs & mean capital employed costs for each plant group	N	N	N	N	N	N	N
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis							
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets							
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N
AI-22	Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue							
AI-23	Cost data for plant group to service for the PPC services and technical areas							
AI-24	Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis							
AI-25	Analysis of input costs from the business connectivity markets to downstream (retail) activities							
AI-26	Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately							
AI-27	Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES							

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		WS standard CSI connection	WS standard CSI rental fixed	WS standard CSI rental per km	WS ISI connection	WS ISI rental per 100m	WS IEC connection	WS IEC rental fixed	WS IEC rental per km	WS intra-building circuits connection	WS intra-building circuits rental	WS rearrangements	WS Connection (£ per 2Mbit/s per year)	WS Rental fixed (£ per 2Mbit/s per year)	WS Rental per km (£ per 2Mbit/s per year)	DA4WS Re-arrangements (£ per occasion)
Annex 26	Additional Information by way of notes															
AI-1 Cost category analysis for network components, increments and common cost		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-2 Summarised activity analysis of components		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-3 Cost category analysis for network components and increments		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-4 Summarised activity analysis for network components and increments		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-5 Analysis by asset category and network activities		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-6 CCA fixed asset movement statement		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-7 Total mean capital employed and detailed activity analysis		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-8 Analysis by type of product group and by type of OLO																
AI-9 Detailed Network activity analysis of mean capital employed		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-10 Graphs over time of the various raw indices, index weightings & composite indices		N														
AI-11 Estimated economic useful lives, valuation and depreciation basis etc		N														
AI-13 Total operating costs & mean capital employed costs for each plant group		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-14 CPS set up costs and their recovery over time on a discounted cash flow basis																
AI-15 Provision of BT 'Data File'		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-20 CCA information to allow Ofcom to re-calculate the RAV for copper assets																
AI-21 Comprehensive analysis of the transfer charges		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-22 Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue																
AI-23 Cost data for plant group to service for the PPC services and technical areas		P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
AI-24 Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis																
AI-25 Analysis of input costs from the business connectivity markets to downstream (retail) activities		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-26 Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately		P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
AI-27 Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N

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Annex 26	Additional Information by way of notes							
AI-1	Cost category analysis for network components, increments and common cost		N	N	N	N	N	N
AI-2	Summarised activity analysis of components		N	N	N	N	N	N
AI-3	Cost category analysis for network components and increments		N	N	N	N	N	N
AI-4	Summarised activity analysis for network components and increments		N	N	N	N	N	N
AI-5	Analysis by asset category and network activities		N	N	N	N	N	N
AI-6	CCA fixed asset movement statement		N	N	N	N	N	N
AI-7	Total mean capital employed and detailed activity analysis		N	N	N	N	N	N
AI-8	Analysis by type of product group and by type of OLO							
AI-9	Detailed Network activity analysis of mean capital employed		N	N	N	N	N	N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N						
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N						
AI-13	Total operating costs & mean capital employed costs for each plant group	N	N	N	N	N	N	N
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis							
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets							
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N
AI-22	Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue	N						
AI-23	Cost data for plant group to service for the PPC services and technical areas	P	P	P	P	P	P	P
AI-24	Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis							
AI-25	Analysis of input costs from the business connectivity markets to downstream (retail) activities	N	N	N	N	N	N	N
AI-26	Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately							
AI-27	Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES							

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Annex 26	Additional Information by way of notes					
AI-1	Cost category analysis for network components, increments and common cost		N	N	N	N
AI-2	Summarised activity analysis of components		N	N	N	N
AI-3	Cost category analysis for network components and increments		N	N	N	N
AI-4	Summarised activity analysis for network components and increments		N	N	N	N
AI-5	Analysis by asset category and network activities		N	N	N	N
AI-6	CCA fixed asset movement statement		N	N	N	N
AI-7	Total mean capital employed and detailed activity analysis		N	N	N	N
AI-8	Analysis by type of product group and by type of OLO					
AI-9	Detailed Network activity analysis of mean capital employed		N	N	N	N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N				
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N				
AI-13	Total operating costs & mean capital employed costs for each plant group	N	N	N	N	N
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis					
AI-15	Provision of BT 'Data File'	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets					
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N
AI-22	Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue					
AI-23	Cost data for plant group to service for the PPC services and technical areas					
AI-24	Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis					
AI-25	Analysis of input costs from the business connectivity markets to downstream (retail) activities					
AI-26	Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately					
AI-27	Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES					

Note:"P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.		Residential analogue exchange-line services in the UK	Retail Segments	Residential local calls in the UK	Retail Segments	Residential national calls in the UK	Retail Segments	Residential IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK	Retail Segments
Annex 26	Additional Information by way of notes								
AI-1	Cost category analysis for network components, increments and common cost								
AI-2	Summarised activity analysis of components								
AI-3	Cost category analysis for network components and increments								
AI-4	Summarised activity analysis for network components and increments								
AI-5	Analysis by asset category and network activities								
AI-6	CCA fixed asset movement statement								
AI-7	Total mean capital employed and detailed activity analysis								
AI-8	Analysis by type of product group and by type of OLO	N	N	N		N		N	
AI-9	Detailed Network activity analysis of mean capital employed								
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N		N		N		N	
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N		N		N		N	
AI-13	Total operating costs & mean capital employed costs for each plant group								
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis								
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets								
AI-21	Comprehensive analysis of the transfer charges								
AI-22	Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue								
AI-23	Cost data for plant group to service for the PPC services and technical areas								
AI-24	Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis								
AI-25	Analysis of input costs from the business connectivity markets to downstream (retail) activities								
AI-26	Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately								
AI-27	Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES								

Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.		Retail IDD calls to category-B routes (retail IDD routes which are not competitive at WS) in the UK	Retail Segments	Residential calls to mobiles in the UK	Retail Segments	Residential operator-assisted calls in the UK	Retail Segments
Annex 26	Additional Information by way of notes						
AI-1	Cost category analysis for network components, increments and common cost						
AI-2	Summarised activity analysis of components						
AI-3	Cost category analysis for network components and increments						
AI-4	Summarised activity analysis for network components and increments						
AI-5	Analysis by asset category and network activities						
AI-6	CCA fixed asset movement statement						
AI-7	Total mean capital employed and detailed activity analysis						
AI-8	<u>Analysis by type of product group and by type of OLO</u>	Y		Y	Y	Y	Y
AI-9	Detailed Network activity analysis of mean capital employed						
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N		N		N	
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N		N		N	
AI-13	Total operating costs & mean capital employed costs for each plant group						
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis						
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets						
AI-21	Comprehensive analysis of the transfer charges						
AI-22	Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue						
AI-23	Cost data for plant group to service for the PPC services and technical areas						
AI-24	Wholesale broadband access geographic analysis of costs and assets on an cost accounting and EOI basis						
AI-25	Analysis of input costs from the business connectivity markets to downstream (retail) activities						
AI-26	Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately						
AI-27	Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES						

Annex B

The FA10 Preparation, audit and delivery Direction is modified as shown below in that the words underlined are inserted and the words struck through are deleted.

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

Note:"P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.			
	Wholesale local access market	wholesale service A	wholesale service B etc
AI-1 Cost category analysis for network components, increments and common cost		N	N
AI-2 Summarised activity analysis of components		N	N
AI-3 Cost category analysis for network components and increments		N	N
AI-4 Summarised activity analysis for network components and increments		N	N
AI-5 Analysis by asset category and network activities		N	N
AI-6 CCA fixed asset movement statement		N	N
AI-7 Total mean capital employed and detailed activity analysis		N	N
AI-8 Analysis by type of product group and by type of OLO			
AI-9 Detailed Network activity analysis of mean capital employed		N	N
AI-10 Graphs over time of the various raw indices, index weightings & composite indices	N		
AI-11 Estimated economic useful lives, valuation and depreciation basis etc	N		
AI-13 Total operating costs & mean capital employed costs for each plant group	N	N	N
AI-14 CPS set up costs and their recovery over time on a discounted cash flow basis			
AI-15 Provision of BT 'Data File'	N	N	N
AI-20 CCA information to allow Ofcom to re-calculate the RAV for copper assets	N	N	N
AI-21 Comprehensive analysis of the transfer charges	N	N	N
AI-22 Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue			
AI-23 Cost data for plant group to service for the PPC services and technical areas			
AI-24 Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis			
AI-25 Analysis of input costs from the business connectivity markets to downstream (retail) activities			
AI-26 Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately	P	P	P
AI-27 Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES	N	N	N

Annex 4

Notification of modification to Direction 4 and the FA10 Form and Content Direction (BT)

Notification under section 49 of the Communications Act 2003

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

WHEREAS:

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

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

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

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

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

(F) this modified Direction modifies:

- i. Direction 4 which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out the form and content to be applied by BT in preparing certain Regulatory Financial Statements required by virtue of condition OA5 and Direction 3; and
- ii. the FA10 Form and Content Direction, in that it sets out the form and content to be applied by BT in preparing certain Regulatory Financial Statements required by virtue of condition FA10.5 and the FA10 Preparation, audit and delivery Direction;

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

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

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

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

(J) on 12 February 2010, OFCOM published a notification of the proposed modified Direction in accordance with section 49 of the Act (the 'First Notification');

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

(L) in the First Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 5pm on 26 March 2010;

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

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

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

NOW, therefore, pursuant to section 49 of the Act and Conditions OA2 and FA10.2, OFCOM hereby gives the following modification to Direction 4 and the FA 10 Form and content Direction:

1. The form and content of the Regulatory Financial Statements set out in the Direction 4 and the FA10 Form and Content Direction shall be amended as follows in Annex A to this modified Direction.
2. The form and content of the Regulatory Financial Statements set out in Direction 4 and applying to the following market: provision of alternative interface symmetric broadband origination with a bandwidth capacity up to and including one gigabit per second within the United Kingdom but not including the Hull Area, shall be amended as follows in Annex B to this modified Direction.
3. The Additional Information set out in Annex 26 to Direction 4 and the FA10 Form and Content Direction shall be amended as follows in Annex C to this modified Direction.
4. For the purpose of interpreting this modified Direction, the following definitions shall apply:
 - a) "Act" means the Communications Act 2003 (c. 21);
 - b) "BT" means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 1159 of the Companies Act 2006;
 - c) "Director" means the Director General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
 - d) "Direction 3" means the Original Direction 3 and the following modifying Directions: at Annex 2 of the *Changes to BT's regulatory financial reporting framework, dated 31 August 2005*; at Annex 3 of the *Changes to BT's regulatory financial reporting and audit requirements, dated 16 August 2006*; at Annex 4 of *BT's regulatory financial reporting requirements dated 30 May 2007*; at Annex 4 of *Changes to BT's 2007/08 RFS, dated 26 June 2008*; and at Annex 4 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update, dated 15 June 2009*, which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out requirements for the preparation, audit and delivery of RFS in respect of wholesale cost accounting, accounting separation and retail cost accounting;
 - e) "Direction 4" means the Original Direction 4 and the following modifying Directions: at Annex 3 of the *Changes to BT's regulatory financial reporting framework, dated 31 August 2005*; at Annex 4 of the *Changes to BT's regulatory financial reporting and audit requirements, dated 16 August 2006*; at Annex 5 of *BT's regulatory financial reporting requirements dated 30 May 2007*; at Annex 5 of *Changes to BT's 2007/08 RFS, dated 26 June 2008*; and at Annex 5 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update, dated 15 June 2009*, which relates to BT's obligations in that it sets out the form and content to be applied by BT in preparing certain RFS required by virtue of condition OA5 and Direction 3;
 - f) "FA10 Form and content Direction" means the Original Direction at Schedule 5 to the FA10 Direction and the following modifying Directions: at Annex 3 of the *Changes to BT's regulatory financial reporting framework, dated 31 August 2005*;

at Annex 4 of the *Changes to BT's regulatory financial reporting and audit requirements, dated 16 August 2006*; at Annex 5 of *BT's regulatory financial reporting requirements dated 30 May 2007*; at Annex 5 of *Changes to BT's 2007/08 RFS, dated 26 June 2008*; and at Annex 5 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update, dated 15 June 2009*, which relates to BT's obligations in that it sets out the form and content to be applied by BT in respect of preparing certain RFS required by virtue of condition FA10.5 and the FA10 Direction Preparation, audit and delivery Direction;

- g) "FA10 Preparation, audit and delivery Direction" means the Original FA10 Preparation, audit and delivery Direction and the following modifying Directions: at Annex 2 of the *Changes to BT's regulatory financial reporting framework, dated 31 August 2005*; at Annex 3 of the *Changes to BT's regulatory financial reporting and audit requirements, dated 16 August 2006*; at Annex 4 of *BT's regulatory financial reporting requirements dated 30 May 2007*; at Annex 4 of *Changes to BT's 2007/08 Regulatory Financial Statements, dated 26 June 2008*; and at Annex 4 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update, dated 15 June 2009*, which relates to BT's obligations under SMP services conditions FA10, in that it sets out requirements for the preparation, audit and delivery of RFS in respect of wholesale cost accounting, accounting separation and retail cost accounting;
- h) "Notification" means the notifications which set in place the obligations on BT referred to in recital (B) of this modified Direction above;
- i) "Original Direction 3" means the Direction given under SMP Services Condition OA2 at Annex 4 of *The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004*;
- j) "Original Direction 4" means Direction 4 given under SMP Services Condition OA2 at Annex 4 of *The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004*;
- k) "Original FA10 Form and content Direction" means the Direction given under SMP Services Condition FA10.2 at Schedule 5 of Annex 2 of the *Review of the wholesale local access market, dated 16 December 2004*;
- l) "Original FA10 Preparation, audit and delivery Direction" means the Direction given under SMP Services Condition FA10.2 at Schedule 4 of Annex 2 of the *Review of the wholesale local access market, dated 16 December 2004*;
- m) "OFCOM" means the Office of Communications;
- n) 'Transitional Provisions' means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003, and the Office of Communications Act 2002 (Commencement No. 3) and Communications Act 2003 (Commencement No. 2) Order 2003.

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

12. For the purpose of interpreting this modified Direction:

a) headings and titles shall be disregarded; and

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

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

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

Craig Lonie

Director of Competition Finance, Ofcom

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

4 June 2010

Annex A

The form and content of the Regulatory Financial Statements set out in Direction 4 and the FA10 Form and content Direction are modified as shown below in that the words underlined are inserted and the words struck through are deleted.

Annex 3

Consolidated performance summary

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

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

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

BT and KCOM's regulatory financial reporting

Annex 5A

Attribution of wholesale current costs

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

for the year ended 31 March 200x

	Residential analogue exchange line services £m	Business analogue exchange line services £m	Business ISDN exchange line services £m	TISBO (up to and incl. 8Mbit/s) £m	TISBO (above 8Mbit/s and up to and incl. 45Mbit/s) ¹ £m	TISBO (above 45 Mbit/s and up to and incl. 155Mbit/s) £m	ALISBO (up to and including 1Gb/s) £m	Business ISDN30 exchange line services £m	Wholesale local access £m	Total Access markets £m	Call origination on fixed public narrowband networks £m	Local tandem conveyance and transit on fixed public narrowband networks £m	Single transit on fixed public narrowband networks £m	Technical areas (Interconnect Circles) £m	Fixed call termination £m	Wholesale trunk segments £m	Technical areas (Point of handover) £m	Sub-total Other Wholesale & SMP National Markets £m	WBA Market 1 £m	WBA Market 2 £m	WBA Non-Geographical Costs and Market 3 £m	Sub-total Other Wholesale & SMP Geographic Markets £m	Total Other Wholesale & SMP Markets £m	Wholesale residual markets £m	Total wholesale £m	
Operating Costs of Wholesale Services:																										
Provision / Maintenance	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Network Support	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
General Support	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
General Management	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Finance and Billing	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Accommodation	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Bad Debts	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Other Costs	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Depreciation - Land & Building	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
- Access	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
- Switch and Transmission	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
- Other related	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Sub total Depreciation	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Sub total HCA Operating Costs	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
CCA adjustments:																										
Holding (gain)/loss	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Supplementary depreciation	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Other adjustments	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Roundings	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Total CCA Operating Costs	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£

Notes:

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

Repeat analysis for prior year

For each category of costs, include a note summarising:

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

Annex 5B

Financial performance & attribution of retail current costs

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

for the year ended 31 March 200x

	Residential analogue- exchange line services in- the UK £m	Residential local calls in- the UK £m	Residential national calls- in the UK £m	Residential HDD calls- category A routes £m	Residential calls to- mobiles in the UK £m	BT Retail Markets- consolidation £m	Retail Residual £m	Total Retail Markets &- Activities £m
Turnover	£	£	£	£	£	£	£	£
HCA Operating Costs of Retail Markets								
Charges from Wholesale Markets	£	£	£	£	£	£	£	£
Outpayments	£	£	£	£	£	£	£	£
Marketing and Sales	£	£	£	£	£	£	£	£
Finance and Billing	£	£	£	£	£	£	£	£
Computing	£	£	£	£	£	£	£	£
Customer Service	£	£	£	£	£	£	£	£
General Management	£	£	£	£	£	£	£	£
Messaging Payments	£	£	£	£	£	£	£	£
Bad Debts	£	£	£	£	£	£	£	£
Other Costs	£	£	£	£	£	£	£	£
Sub-total HCA Operating Costs	£	£	£	£	£	£	£	£
CCA adjustments:								
Holding (gain)/loss	£	£	£	£	£	£	£	£
Supplementary depreciation	£	£	£	£	£	£	£	£
Other adjustments	£	£	£	£	£	£	£	£
Roundings	£	£	£	£	£	£	£	£
Total CCA Operating Costs	£	£	£	£	£	£	£	£
Return	£	£	£	£	£	£	£	£
Return on Mean Capital Employed	%	%	%	%	%	%	%	%
Return on Turnover	%	%	%	%	%	%	%	%

BT and KCOM's regulatory financial reporting

Annex 6A

Allocation of Wholesale Current Cost Mean Capital Employed

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

for the year ended 31 March 200x

	Residential analogue exchange line services £m	Business analogue exchange-line services £m	Business ISDN2 exchange line services £m	TISBO (up to and incl. 8Mbit/s)	TISBO (above 8Mbit/s and up to and incl. 45Mbit/s)	TISBO (above 45 Mbit/s and up to and incl. 155Mbit/s)	AISBO (up to and including 1Gbit/s)	Business ISDN30 exchange line services £m	Wholesale local access £m	Total Access markets £m	Call origination on fixed public narrowband networks £m	Local tandem conveyance and transit on fixed public narrowband networks £m	Single transit on fixed public narrowband networks £m	Technical areas (Interconnect Circuits) £m	Fixed call termination £m	Wholesale trunk segments £m	Technical areas (Point of handover) £m	Sub-total Other Wholesale & SMP National Markets £m	WBA Market 1 £m	WBA Market 2 £m	WBA Non-Geographical MCE and Market 3 £m	Sub-total Other Wholesale & SMP Geographic Markets £m	Total Other Wholesale & SMP Markets £m	Wholesale residual markets £m	Total wholesale £m
Fixed assets																									
Land & Buildings	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Access - Copper	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Access - Fibre	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Access Duct	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Switch	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Transmission	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Other	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Investments	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Total Fixed Assets	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Current assets																									
Stocks	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Debtors	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Internal	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
External	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Total current assets	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Creditors falling due within one year																									
Other creditors	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Internal	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
External	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Total Creditors falling due within one year	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Net current assets	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Total assets less current liabilities	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Provisions for liabilities & charges & roundings	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Roundings	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Mean Capital Employed	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£

Notes:

Repeat analysis for prior year

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

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

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

2: significant changes in allocation bases during the year

Annex 6B

Allocation of Retail Current Cost Mean Capital Employed

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

for the year ended 31 March 200x

	Residential analogue- exchange line services in the UK £m	Residential local calls in- the UK £m	Residential national calls- in the UK £m	Residential IDD calls- category A routes £m	Residential calls to- mobiles in the UK £m	BT Retail Markets- consolidation £m	Retail Residual £m	Total Retail Markets &- Activities £m
Fixed-assets								
Accommodation Land & Buildings	£	£	£	£	£	£	£	£
Motor Transport	£	£	£	£	£	£	£	£
General Computers	£	£	£	£	£	£	£	£
Software	£	£	£	£	£	£	£	£
—International Transmission	£	£	£	£	£	£	£	£
—Other	£	£	£	£	£	£	£	£
Investments	£	£	£	£	£	£	£	£
Total Fixed Assets	£	£	£	£	£	£	£	£
Current-assets								
Stocks	£	£	£	£	£	£	£	£
Debtors	£	£	£	£	£	£	£	£
—Internal	£	£	£	£	£	£	£	£
—External	£	£	£	£	£	£	£	£
Total current assets	£	£	£	£	£	£	£	£
Creditors falling due within one year								
Other creditors	£	£	£	£	£	£	£	£
—Internal	£	£	£	£	£	£	£	£
—External	£	£	£	£	£	£	£	£
Total Creditors falling due within one year	£	£	£	£	£	£	£	£
Net-current assets	£	£	£	£	£	£	£	£
Total assets less current liabilities	£	£	£	£	£	£	£	£
Provisions for liabilities & charges & roundings	£	£	£	£	£	£	£	£
Roundings	£	£	£	£	£	£	£	£
Mean Capital Employed	£	£	£	£	£	£	£	£

Annex 7

Financial performance in Access markets

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

for the year ended 31 March 200x

	Turnover				HCA costs	CCA adjustments	Roundings	Total CCA operating costs	Return	Return on turnover	Mean Capital Employed	Return on MCE
	Internal	External	Roundings	Total								
<u>Wholesale residential analogue exchange line services</u>	£	£	£	£	£	£	£	£	£	%	£	%
<u>Wholesale business analogue exchange line services</u>	£	£	£	£	£	£	£	£	£	%	£	%
<u>Wholesale business ISDN2 exchange line services</u>	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale business ISDN30 exchange line services	£	£	£	£	£	£	£	£	£	%	£	%
TISBO (up to and including 8Mbits)	£	£	£	£	£	£	£	£	£	%	£	%
TISBO (above 8 Mbits and up to and including 45 Mbits)	£	£	£	£	£	£	£	£	£	%	£	%
TISBO (above 45 Mbits and up to and including 155 Mbits)	£	£	£	£	£	£	£	£	£	%	£	%
AISBO (up to and including 1 Gbit)	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale local access	£	£	£	£	£	£	£	£	£	%	£	%
	£	£	£	£	£	£	£	£	£	%	£	%

for the year ended 31 March 200y

	Turnover				HCA costs	CCA adjustments	Roundings	Total CCA operating costs	Return	Return on turnover	Mean Capital Employed	Return on MCE
	Internal	External	Roundings	Total								
<u>Wholesale residential analogue exchange line services</u>	£	£	£	£	£	£	£	£	£	%	£	%
<u>Wholesale business analogue exchange line services</u>	£	£	£	£	£	£	£	£	£	%	£	%
<u>Wholesale business ISDN2 exchange line services</u>	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale business ISDN30 exchange line services	£	£	£	£	£	£	£	£	£	%	£	%
TISBO (up to and including 8Mbits)	£	£	£	£	£	£	£	£	£	%	£	%
TISBO (above 8Mbits and up to and including 45Mbits)	£	£	£	£	£	£	£	£	£	%	£	%
TISBO (above 45Mbits and up to and including 155Mbits)	£	£	£	£	£	£	£	£	£	%	£	%
AISBO (up to and including 1Gbit)	£	£	£	£	£	£	£	£	£	%	£	%
Wholesale local access	£	£	£	£	£	£	£	£	£	%	£	%
	£	£	£	£	£	£	£	£	£	%	£	%

Annex 11

Market summary

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

Summary

	Internal Sales £m	Internal Sales - services also provided internally £m	Internal Sales - services also provided externally £m	External Sales £m	Turnover (see note 1) £m	Operating costs £m	CCA Depreciation £m	Holding gain/(loss) £m	Supplementary depreciation £m	Other adjustments £m	Roundings £m	Total CCA operating costs £m	Return £m	Return on turnover %	Mean capital employed £m	Return on mean capital employed %
200x	£	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%
200y	£	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%

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

Non-discrimination										Cost orientation				
for the year ended 31 March 200x	Internal Sales £m	Internal Sales - services also provided externally £m	Internal Sales - services only provided internally £m	External Sales £m	Turnover £m	Volume	Unit	Average price £	FAC (see Section 5) £	Indicative LRIC floors & ceilings as multiple of FAC	Average price/FAC			
	£m	£m	£m	£m	£m			£	£					
Service														
Service 1 Internal	£	£	£		£		x	£	£	x.xx	x.xx	x.xx		
Service 1 External				£	£		x	£	£	x.xx	x.xx	x.xx		
Service 2 Internal	£	£	£		£		x	£	£	x.xx	x.xx	x.xx		
Service 2 External etc														
Provisions and other accounting adjustments	£	£		£	£									
Unidentified immaterial services	£	£		£	£									
Impact of differences between calculated and ledgered volumes	£	£		£	£									
Other	£	£		£	£									
	£	£	£	£	£									
for the year ended 31 March 200y	Internal Sales £m	Internal Sales - services also provided externally £m	Internal Sales - services only provided internally £m	External Sales £m	Turnover £m	Volume	Unit	Average price £	FAC (see Section 5) £	Indicative LRIC floors & ceilings as multiple of FAC	Average price/FAC			
Service														
Service 1 Internal	£	£	£		£		x	£	£	x.xx	x.xx	x.xx		
Service 1 External				£	£		x	£	£	x.xx	x.xx	x.xx		
Service 2 Internal	£	£	£		£		x	£	£	x.xx	x.xx	x.xx		
Service 2 External etc														
Provisions and other accounting adjustments	£	£		£	£									
Unidentified immaterial services	£	£		£	£									
Impact of differences between calculated and ledgered volumes	£	£		£	£									
Other	£	£		£	£									
	£	£	£	£	£									

Annex 12
Market summary

Summary

	Internal Sales £m	Internal Sales— services only— provided internally £m	Internal Sales— services also provided externally £m	External Sales £m	Turnover (see note 1) £m	Operating costs £m	CCA Depreciation £m	Holding gain/(loss) £m	Supplementary depreciation £m	Other adjustments £m	Roundings £m	Total CCA operating costs £m	Return £m	Return on turnover %	Mean capital employed £m	Return on mean capital employed %
200x	£	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%
200y	£	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%

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

for the year ended 31 March 200x

Service

Service 1 Internal
Service 1 External

Service 2 Internal
Service 2 External
etc

Provisions and other accounting adjustments
Unidentified immaterial services
Impact of differences between calculated and ledgered volumes
Other

Non- discrimination									
Internal Sales £m	Internal Sales— services also provided externally £m	Internal Sales— services only— provided internally £m	External Sales £m	Turnover £m	Volume	Unit	Average price £		
£	£			£		x	£		
			£	£		x	£		
£	£			£		x	£		
£	£	£	£	£					
£	£	£	£	£					
£	£	£	£	£					
£	£	£	£	£					
£	£	£	£	£					

Internal Sales £m	Internal Sales— services also provided externally £m	Internal Sales— services only— provided internally £m	External Sales £m	Turnover £m	Volume	Unit	Average price £		
£	£			£		x	£		
			£	£		x	£		
£	£			£		x	£		
£	£	£	£	£					
£	£	£	£	£					
£	£	£	£	£					
£	£	£	£	£					
£	£	£	£	£					

for the year ended 31 March 200y

Service

Service 1 Internal
Service 1 External

Service 2 Internal
Service 2 External
etc

Provisions and other accounting adjustments
Unidentified immaterial services
Impact of differences between calculated and ledgered volumes
Other

Annex 13

Market summary

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

Summary

	Internal Sales - services only provided internally £m	Internal Sales - services also provided externally £m	External Sales £m	Rounding	Turnover (see note 1) £m	Operating costs £m	CCA Depreciation £m	Holding gain/(loss) £m	Supplementary depreciation £m	Other adjustments £m	Roundings £m	Total CCA operating costs £m	Return £m	Return on turnover %	Mean capital employed £m	Return on mean capital employed %
200x	£	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%
200y	£	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%

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

Non- discrimination

Cost orientation

NCC traffic minutes (mm)										Average NCC rates (ppm)					Indicative floors & ceilings as multiple of FAC	Average price/FAC
Internal Sales – services also provided externally	Internal Sales – services only provided internally	External Sales	Turnover	Day	Evening	Weekend	24 hours	Day	Evening	Weekend	Weighted Average	FAC				
													ppm	ppm		
for the year ended 31 March 200x																
Service	£m	£m	£m	£m												
Service 1	£			£	m	m	m	m	p	p	p	p p		x-y	x.xx	
Service 1			£	£	m	m	m	m	p	p	p	p p		x-y	x.xx	
Service 2	£			£	m	m	m	m	p	p	p	p p		x-y	x.xx	
Service 2			£	£	m	m	m	m	p	p	p	p p		x-y	x.xx	
Service 3	£			£	m	m	m	m	p	p	p	p p		x-y	x.xx	
Service 4		£		£	m	m	m	m	p	p	p	p p				
Service 5	£			£	m	m	m	m	p	p	p	p p			x.xx	
Service 5			£	£	m	m	m	m	p	p	p	p p			x.xx	
	£	£	£	£												

NCC traffic minutes (mm)										Average NCC rates (ppm)					Indicative floors & ceilings as multiple of FAC	Average price/FAC
Internal Sales – services also provided externally	Internal Sales – services only provided internally	External Sales	Turnover	Day	Evening	Weekend	24 hours	Day	Evening	Weekend	Weighted Average	FAC				
													ppm	ppm		
for the year ended 31 March 200y																
Service	£m	£m	£m	£m												
Service 1	£			£	m	m	m	m	p	p	p	p p		x-y	x.xx	
Service 1			£	£	m	m	m	m	p	p	p	p p		x-y	x.xx	
Service 2	£			£	m	m	m	m	p	p	p	p p		x-y	x.xx	
Service 2			£	£	m	m	m	m	p	p	p	p p		x-y	x.xx	
Service 3	£			£	m	m	m	m	p	p	p	p p		x-y	x.xx	
Service 4		£		£	m	m	m	m	p	p	p	p p				
Service 5	£			£	m	m	m	m	p	p	p	p p			x.xx	
Service 5			£	£	m	m	m	m	p	p	p	p p			x.xx	
	£	£	£	£												

Annex 19

BT Reconciliation Statement

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

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

Annex 20**BT Reconciliation statement****200x****200y
(comparative)****Consolidated mean capital employed**

For the year ended 31 March 200x

£m**£m**Shareholders' funds as in the Annual Report
CCA adjustments**Adjustments**Corporation taxes payable
Provision for dividends payable
Deferred tax /(ACT recoverable)
Long term borrowing:
 Due in less than one year
 Due in more than one year
Adjustments to closing capital employed
Goodwill
Minority interestsClosing CCA capital employed at 31 March
Opening CCA capital employed at 1 April
Adjustment to opening capital employed
Revised opening CCA capital employed at 1 April
Average CCA capital employedDaily averaging adjustment
Deferred costs**Total CCA mean capital employed****Mean capital employed of SMP Markets**

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

Retail Markets (where cost accounting obligations apply)

Sub total markets**Residual activities**- Wholesale residual activity
- Retail residual activity
Sub Total Residual ActivitiesAdjustments
 Wholesale~~Retail~~

Sub Total Adjustments

Total CCA mean capital employed

Annex 21

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

Charges from Wholesale residual to Retail markets are not shown on the face of the Retail market P&L account as charges from Wholesale markets	Other wholesale services (combined) £m	Residential analogue exchange line services in the UK £m	Residential local calls in the UK £m	Residential national calls in the UK £m	Residential IDD calls category A routes (retail IDD routes which are competitive) in the UK £m	Residential calls to mobiles in the UK £m	Retail residual £m	Total 200x £m
Turnover originating in:								
Wholesale residential analogue exchange line services								
Wholesale business analogue exchange line services								
Wholesale business ISDN2 exchange line services								
Call origination on fixed public narrowband networks								
Local tandem conveyance and transit on fixed public telephone networks								
Single transit on fixed public narrowband networks								
Technical areas (Interconnect Circuits)								
Fixed call termination								
Traditional interface symmetric broadband origination (up to and including 8Mbit/s)								
Traditional interface symmetric broadband origination (above 8Mbit/s and up to and incl. 45Mbit/s) ¹								
Traditional interface symmetric broadband origination (above 45Mbit/s and up to and incl. 155Mbit/s) ¹								
Alternative interface symmetric broadband origination (up to and including 1Gbit)								
Wholesale trunk segments								
Technical areas (Point of Handover)								
Wholesale Broadband Access (markets 1, 2 & 3)								
Wholesale business ISDN30 exchange line services								
Wholesale local access								
Wholesale residual								
Residential analogue exchange line services in the UK								
Residential local calls in the UK								
Residential national calls in the UK								
Residential IDD calls category A routes (retail IDD routes which are competitive) in the UK								
Residential calls to mobiles in the UK								
Retail residual								
Total 200x								

¹Due to the timing of the BCMR statement we are reporting the national market for 2008/09 and the CELA is not excluded. Geographic reporting will be implemented in 2009/10

Annex B

The form and content of the Regulatory Financial Statements set out in Direction 4 and applying to the following market: provision of alternative interface symmetric broadband origination with a bandwidth capacity up to and including one gigabit per second within the United Kingdom but not including the Hull Area, is specified as shown below with the specified services underlined.

Annex 11

Market summary

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

Alternative interface symmetric broadband origination (up to and including 1Gbit)

Summary

	Internal Sales £m	External Sales £m	Turnover (see note 1) £m	Operating costs £m	CCA Depreciation £m	Holding gain/(loss) £m	Supplementary depreciation £m	Other adjustments £m	Roundings £m	Total CCA operating costs £m	Return £m	Mean capital employed £m	Return on mean capital employed %
200x	£	£	£	£	£	£	£	£	£	£	£	£	%
200y	£	£	£	£	£	£	£	£	£	£	£	£	%

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

Service	Non- discrimination					Cost orientation				
	Internal Sales £m	External Sales £m	Turnover £m	Volume	Unit	Average price	FAC (see Section 5) £	Unaudited LRIC Floor £	Unaudited LRIC Ceiling £	Average price/FAC
Wholesale Extension Services (WES)										
<u>Rental</u>										
Internal WES 10 Mbits	£		£	Y	X	£	£	X.XX	X.XX	X.XX
External WES 10 Mbits		£	£	Y	X	£	£	X.XX	X.XX	X.XX
				Y						
Internal WES 100 Mbits	£		£	Y	X	£	£	X.XX	X.XX	X.XX
External WES 100 Mbits		£	£	Y	X	£	£	X.XX	X.XX	X.XX
				Y						
Internal WES 1000 Mbits	£		£	Y	X	£	£	X.XX	X.XX	X.XX
External WES 1000 Mbits		£	£	Y	X	£	£	X.XX	X.XX	X.XX
				Y						
Internal WES other bandwidth	£		£	Y	X	£	£	X.XX	X.XX	X.XX
External WES other bandwidth		£	£	Y	X	£	£	X.XX	X.XX	X.XX
				Y						
<u>Connection</u>										
Internal WES 10 Mbits	£		£	Y	X	£	£	X.XX	X.XX	X.XX
External WES 10 Mbits		£	£	Y	X	£	£	X.XX	X.XX	X.XX
				Y						
Internal WES 100 Mbits	£		£	Y	X	£	£	X.XX	X.XX	X.XX
External WES 100 Mbits		£	£	Y	X	£	£	X.XX	X.XX	X.XX
				Y						
Internal WES 1000 Mbits	£		£	Y	X	£	£	X.XX	X.XX	X.XX
External WES 1000 Mbits		£	£	Y	X	£	£	X.XX	X.XX	X.XX
				Y						
Internal WES other bandwidth	£		£	Y	X	£	£	X.XX	X.XX	X.XX
External WES other bandwidth		£	£	Y	X	£	£	X.XX	X.XX	X.XX
				Y						

Backhaul Extension Services (BES)									
<u>Rental</u>									
External BES 100 Mbit/s	£	£	Y X	£	£	X.XX	X.XX	X.XX	
External BES 1000 Mbit/s	£	£	Y X	£	£	X.XX	X.XX	X.XX	
External BES other bandwidth	£	£	Y X	£	£	X.XX	X.XX	X.XX	
<u>Connection</u>									
External BES 100 Mbit/s	£	£	Y X	£	£	X.XX	X.XX	X.XX	
External BES 1000 Mbit/s	£	£	Y X	£	£	X.XX	X.XX	X.XX	
External BES other bandwidth	£	£	Y X	£	£	X.XX	X.XX	X.XX	
Ethernet Backhaul Direct (EBD)									
<u>Rental</u>									
External EBD 1000 Mbit/s	£	£	Y X	£	£	X.XX	X.XX	X.XX	
<u>Connection</u>									
External EBD 1000 Mbit/s	£	£	Y X	£	£	X.XX	X.XX	X.XX	
Ethernet Access Direct (EAD)									
<u>Rental</u>									
Internal EAD all bandwidth	£	£	Y X	£	£	X.XX	X.XX	X.XX	
External EAD all bandwidth	£	£	Y X	£	£	X.XX	X.XX	X.XX	
<u>Connection</u>									
Internal EAD all bandwidth	£	£	Y X	£	£	X.XX	X.XX	X.XX	
External EAD all bandwidth	£	£	Y X	£	£	X.XX	X.XX	X.XX	
Main Link									
<u>Rental</u>									
Internal Main Link charges	£	£	Y X	£	£	X.XX	X.XX	X.XX	
External Main Link charges	£	£	Y X	£	£	X.XX	X.XX	X.XX	
			Y						
Backhaul Network Services (BNS)									
<u>Rental</u>									
External BNS all bandwidth	£	£	Y X	£	£	X.XX	X.XX	X.XX	
<u>Connection</u>									
External BNS all bandwidth	£	£	Y X	£	£	X.XX	X.XX	X.XX	
Excess Construction Charges									
Internal Excess Construction Charges	£	£	(ux)	(sx)	£	X.XX	X.XX	X.XX	
External Excess Construction Charges	£	£	(ux)	(sx)	£	X.XX	X.XX	X.XX	
Other Services									
<u>Service 1 Internal</u>									
Service 1 Internal	£	£	Y X	£	£	X.XX	X.XX	X.XX	
Service 1 External	£	£	Y X	£	£	X.XX	X.XX	X.XX	
			Y						
<u>Service 2 Internal</u>									
Service 2 Internal	£	£	Y X	£	£	X.XX	X.XX	X.XX	
Service 2 External	£	£	Y X	£	£	X.XX	X.XX	X.XX	
			Y						
	£	£	£						

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

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

Annex C

The Additional Information set out in Annex 26 to Direction 4 and the FA10 Form and content Direction are modified as shown below in that the words struck through are deleted.

Annex 26

Additional information by way of notes

AI - 8	Analysis by type of product group and by type of OLO of costs, mean capital employed and transfer charges to disaggregated activities (and associated volumes) in relation to outpayments to other licensed operators (OLOs)	<ul style="list-style-type: none"> • review how outpayments are accounted for • review fast growing segment of wholesale call market • review the impact of outpayments on BT's network cost base, for example, for different call types • enable trend analysis of outpayment costs and volume breakdowns to be undertaken • assist in dealing with investigations 	CA & R
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Annex 5

Notification of modification to Direction 3 (KCOM)

Notification under section 49 of the Communications Act 2003

Direction modifying Directions under section 49 of the Communications Act 2003 and SMP Services Conditions OB2 specifying requirements for the preparation, audit and delivery of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

WHEREAS:

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

(B) as a result of such SMP designations, KCOM has been subjected to various SMP Services Conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OB1 to OB33 imposing obligations on KCOM in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to KCOM's activities in those markets where KCOM has been designated as having SMP;

(C) in complying with the SMP services conditions referred to in paragraph B above, and in particular conditions OB5, KCOM is required to, amongst other things:

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

the regulatory financial statements as directed by OFCOM from time to time.

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

(E) condition OB2 includes, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to BT's obligations under conditions OB1 to OB33;

(F) this modified Direction modifies Direction 3 which relates to KCOM's obligations under SMP services conditions OB1 to OB33, in that it sets out an amendment to the regulatory financial statements which are required to be prepared, audited (including the level of audit), delivered to OFCOM and/or published by KCOM under condition OB5.

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

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

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

(I) on 12 February 2010, OFCOM published a notification of the proposed modified Direction in accordance with section 49 of the Act (the 'First Notification');

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

(K) in the First Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 5pm on 26 March 2010;

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

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

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

NOW, therefore, pursuant to section 49 of the Act and Condition OB2, OFCOM hereby gives the following modification to Direction 3.

1. Direction 3 shall be modified as set out in Annex A to this modified Direction.
2. For the purpose of interpreting this modified Direction, the following definitions shall apply:
 - a) "Act" means the Communications Act 2003 (c. 21);
 - b) "KCOM" means KCOM Group plc, whose registered company number is 2150618, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 1159 of the Companies Act 2006;
 - c) "Direction 3" means the Original Direction 3 as modified at Annex 6 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update dated 15 June 2009*, which relate to KCOM's obligations under SMP services conditions OB1 to OB33, in that it sets out requirements for the preparation, audit and delivery of regulatory financial statements in respect of wholesale cost accounting, accounting separation and retail cost accounting;
 - d) "Director" means the Director General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
 - e) "Notification" means the notifications which set in place the obligations on KCOM referred to in recital (B) of this modified Direction above;
 - f) "OFCOM" means the Office of Communications;
 - g) "Original Direction 3" means the Direction given under SMP Services Condition OB2 at Annex 5 of *The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004*; and
 - h) "Transitional Provisions" means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003 and the Office of Communications Act 2002 (Commencement No. 3) and Communications Act 2003 (Commencement No. 2) Order 2003.
3. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them in this notification and otherwise any word or expression shall have the same meaning as it has in the Notification and otherwise any word or expression shall have the same meaning as it has in the Act.
4. For the purpose of interpreting this modified Direction:
 - a) headings and titles shall be disregarded; and
 - b) the Interpretation Act 1978 (c. 30) shall apply as if this Direction were an Act of Parliament.
5. This Direction shall take effect on the day it is published.
6. The Schedule to this modified Direction shall form part of this modified Direction.

Craig Lonie
Director of Competition Finance, Ofcom
A person authorised by Ofcom under paragraph 18 of the Schedule to the Office of
Communications Act 2002
4 June 2010

Annex A

Direction 3 is modified as shown below in that the words underlined are inserted and the words struck through are deleted.

Annex A to direction 3

Wholesale Cost Accounting Financial Statements

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

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

- CCPS = 'current cost primary statements', current cost profit and loss statement (CC P&L) and statement of current cost mean capital employed (CC MCE), as set out in Annexes 13 & 14 in relation to wholesale services, Annexes 11 & 12 in relation to wholesale segments (when designated) and Annexes 9 & 10 in relation to individual wholesale markets;
- RTW = 'reconciliation to wholesale', reconciliation of CC P&L and CC MCE to wholesale level - consolidation across group of markets covered by review (as set out in Annexes 7 & 8 for wholesale markets), followed by consolidation of these consolidations, to give consolidated CC P&L and CC MCE for wholesale markets subject to cost accounting (as set out in annex 5 & 6);
- RTSA = 'reconciliation to statutory accounts', reconciliation of consolidated CC P&L and CC MCE for wholesale markets subject to cost accounting to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 23 & 24, supported by annexes 25, 26, 27 & 28);
- SoCC Ext = statement of costs and charges for wholesale service supplied in the market, other than those which are only Internal Wholesale Services (as set out in annex 30);
- SoCC Int = statement of costs and charges for wholesale service supplied in the market, which are only Internal Wholesale Services (as set out in annex 31);
- SoAC FA = statement of activity costs on a current fully allocated cost basis for the market (as set out in Annexes 34), supported by consolidated statement of activity costs on a current fully allocated cost basis (as set out in Annexes 33);
- NCR FA = attribution of activity costs on a current fully allocated cost basis for the market (as set out in annex 36), supported by consolidated attribution of activity costs on a current fully allocated cost basis (as set out in annex 35);
- RFR – regulatory financial review, as set out in annex 2 [NB – no audit opinion is required for the RFR];
- SDR – statement of responsibility, as set out in annex 3 [NB – no audit opinion is required for the SDR];
- FPIA – Audit Opinion required for required statements, for inclusion in audit report as set out in annex 4;
- PPIA – Audit opinion required for required statements, for inclusion in audit report as set out in annex 4;
- Notes – notes to the financial statements, as set out in annex 19;
- RMP – retail markets purchase statement, as set out in annex 22;
- SPS – summary, for reconciliation purposes, of profitability by wholesale service (as set out in annex 32) [NB – the SPS should not be published].

Part A

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

	Financial statements					Audit		Published
Wholesale market and illustrative services	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Wholesale residential analogue exchange line services	X	X	X			X		X
Wholesale business analogue exchange line services	X	X	X			X		X
Wholesale business ISDN2 exchange line services	X	X	X			X		X
Call origination on fixed public narrowband networks	X	X	X			X		X

Part B

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

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SoAC IC	RFR	SDR	FPIA	PPIA	
Wholesale market and illustrative services								
Wholesale residential analogue exchange line services	X	X	X	X	X	X		X
Wholesale business analogue exchange line services	X	X	X	X	X	X		X
Wholesale business ISDN2 exchange line services	X	X	X	X	X	X		X
Call origination on fixed public narrowband networks	X	X	X	X	X	X		X
Technical areas (as necessary)	X	X	X	X	X	X		X

Part C

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

	Financial statements					Audit		Published
Wholesale market and illustrative services	Notes	RMP	SPS			FPIA	PPIA	
Wholesale residential analogue exchange line services	X		X				X	X
Wholesale business analogue exchange line services	X		X				X	X
Wholesale business ISDN2 exchange line services	X		X				X	X
Call origination on fixed public narrowband networks	X		X				X	X
Technical areas (as necessary)	X		X				X	X

Annex B to direction 3

Accounting Separation Financial Statements

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

- TS – turnover statements: sales of External Wholesale Services (as set out in annex 20) and sales of Internal Wholesale Services (as set out in annex 21);
- SOS – notes to the financial statements (as set out in annex 19) in relation to sufficiency of separation, in particular assurance that activities to which accounting separation applies have been sufficiently separated from each other and from activities to which separation does not apply;
- IMT - Inter-market turnover, reconciliation of the source and destination of inter market turnover, to verify that transfer charges are self cancelling overall (as set out in annex 29);
- RFR – regulatory financial review, as set out in annex 2 [NB – no audit opinion is required for the RFR];
- SDR – statement of responsibility, as set out in annex 3 [NB – no audit opinion is required for the SDR];
- FPIA – Audit Opinion required for required statements, for inclusion in audit report as set out in annex 4;
- PPIA – Audit opinion required for required statements, for inclusion in audit report as set out in annex 4;
- CCPS = 'current cost primary statements', to demonstrate sufficiency of separation where CCPS not required for cost accounting purposes - current cost profit and loss statement and statement of current cost mean capital employed, as set out in Annexes 13 & 14 in relation to wholesale services, Annexes 11 & 12 in relation to wholesale segments (when designated) and Annexes 9 & 10 in relation to individual wholesale markets;
- RTW = 'reconciliation to wholesale', reconciliation of CC P&L and CC MCE to wholesale level, to demonstrate sufficiency of separation where RTW not required for cost accounting purposes - consolidation across group of markets covered by review (as set out in Annexes 7 & 8 for wholesale markets), followed by consolidation of these consolidations, to give consolidated CC P&L and CC MCE for wholesale markets subject to cost accounting (as set out in annex 5 & 6);
- RTSA = 'reconciliation to statutory accounts', reconciliation of consolidated CC P&L and CC MCE for wholesale markets subject to accounting separation to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 23 & 24 supported by annexes 25, 26, 27 & 28), to demonstrate sufficiency of separation where RTSA not required for cost accounting purposes.

Part A

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

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
Wholesale market and illustrative services						
Wholesale residential analogue exchange line services	X	X	X	X		X
Wholesale residential ISDN2 exchange line services	X	X	X	X		X
Wholesale business analogue exchange line services	X	X	X	X		X
Wholesale business ISDN2 exchange line services	X	X	X	X		X
Wholesale business ISDN30 exchange line services	X	X	X	X		X
Call origination on fixed public narrowband networks	X	X	X	X		X
Technical areas – interconnection	X	X	X	X		X

Part B

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

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Wholesale market and illustrative services						
Wholesale residential analogue exchange line services	X	X	X	X		X
Wholesale residential ISDN2 exchange line services	X	X	X	X		X
Wholesale business analogue exchange line services	X	X	X	X		X
Wholesale business ISDN2 exchange line services	X	X	X	X		X
Wholesale business ISDN30 exchange line services	X	X	X	X		X
Call origination on fixed public narrowband networks	X	X	X	X		X
Technical areas – interconnection	X	X	X	X		X

Annex 6

Notification of modification to Direction 4 (KCOM)

Notification under section 49 of the Communications Act 2003

Direction modifying a Direction under section 49 of the Communications Act 2003 and SMP Services Condition OB2 specifying requirements for the form and content of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

WHEREAS:

- (A) as a result of a market analysis carried out by the Director General of Telecommunications (the 'Director') and OFCOM in accordance with section 79 of the Act, KCOM has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;
- (B) as a result of such SMP designations, KCOM has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OB1 to OB33 imposing obligations on KCOM in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to KCOM's activities in those markets where KCOM has been designated as having SMP;
- (C) in complying with the SMP services conditions referred to in paragraph B above, and in particular condition OB5, KCOM is required to prepare such regulatory financial statements as directed by OFCOM from time to time;
- (D) by virtue of the Transitional Provisions, references to the Director in any of those SMP services conditions should be read as references to OFCOM;
- (E) condition OB2 includes, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to KCOM's obligations under conditions OB1 to OB33;
- (F) this modified Direction modifies Direction 4 given under SMP Services Condition OB2 at Annex 5 of *The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004* which relates to KCOM's obligations under SMP services conditions OB1 to OB33, in that it sets out the form and content to be applied by KCOM in preparing certain regulatory financial statements required by virtue of condition OB5 and Direction 3 (as modified);
- (G) KCOM is entitled to depart from the form and content set out in this Direction in certain circumstances in accordance with conditions OB7 and OB20;
- (H) for the reasons set out in the explanatory statement accompanying this modified Direction, OFCOM are satisfied that, in accordance with section 49(2) of the Act, this Direction is:
 - (i) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;

- (ii) not such as to discriminate unduly against particular persons or against a particular description of persons;
- (iii) proportionate to what it is intended to achieve; and
- (iv) in relation to what it is intended to achieve, transparent;

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

(J) on 12 February 2010, OFCOM published a notification of the proposed modified Direction in accordance with section 49 of the Act (the 'First Notification');

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

(L) in the First Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 5pm on 26 March 2010;

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

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

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

NOW, therefore, pursuant to section 49 of the Act and Condition OB2, OFCOM hereby gives the following modification to the Original Direction 4:

1. Direction 4 shall be modified as set out in Annex A to this modified Direction.
2. For the purpose of interpreting this modified Direction, the following definitions shall apply:
 - a) "Act" means the Communications Act 2003 (c. 21);
 - b) "Director" means the Director General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
 - c) "Direction 3" means the Original Direction 3 as modified at Annex 6 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update dated 15 June 2009*, which relate to KCOM's obligations under SMP services conditions OB1 to OB33, in that it sets out requirements for the preparation, audit and delivery of regulatory financial statements in respect of wholesale cost accounting, accounting separation and retail cost accounting.
 - d) "KCOM" means KCOM Group plc, whose registered company number is 2150618, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 1159 of the Companies Act 2006;
 - e) "Direction 4" means the Original Direction 4 as modified at Annex 7 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update dated 15 June 2009*, which relate to KCOM's obligations under SMP services conditions OB1 to OB33, in that it sets out the form and content to be applied by BT in preparing certain RFS required by virtue of condition OA5 and Direction 3;
 - f) "Notification" means the notifications which set in place the obligations on BT referred to in recital (B) of this modified Direction above;
 - g) "Original Direction 3" means the Direction given under SMP Services Condition OB2 at Annex 5 of *The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004*;
 - h) "Original Direction 4" means Direction 4 given under SMP Services Condition OB2 at Annex 5 of *The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004*;
 - i) "OFCOM" means the Office of Communications; and
 - j) 'Transitional Provisions' means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003, and the Office of Communications Act 2002 (Commencement No. 3) and Communications Act 2003 (Commencement No. 2) Order 2003.
3. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them in this notification and otherwise any word or expression shall have the same meaning as it has in the Notification and otherwise any word or expression shall have the same meaning as it has in the Act.
4. For the purpose of interpreting this modified Direction:

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

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

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

Craig Lonie

Director of Competition Finance, Ofcom

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

4 June 2010

Annex A

Direction 4 is modified as shown below in that the words underlined are inserted and the words struck through are deleted.

Annex 29

KCOM Inter Market Turnover (Reconciliation)
for year ended 31st March 200x

	Wholesale residential analogue exchange line services in the Hull Area	Wholesale residential ISDN2 exchange line services in the Hull Area	Wholesale business analogue exchange line services in the Hull Area	Wholesale business ISDN2 exchange line services in the Hull Area	Wholesale ISDN30 exchange line services in the Hull Area	Call origination on fixed public narrowband networks in the Hull Area	Fixed geographic call termination provided by KCOM	Wholesale unmetered narrowband internet termination	Wholesale Broadband Access in the Hull Area	Provision of traditional interface symmetric broadband origination with a bandwidth capacity up to and including 8 megabits	Provision of traditional interface symmetric broadband origination (above 8 megabits up to and including 45 megabits)	Provision of traditional interface symmetric broadband origination (above 45 megabits up to and including 155 megabits)	Alternative interface symmetric broadband origination (up to and including 1Gbit/s)	Residential analogue exchange line services in the UK in the Hull Area	Residential ISDN2 exchange line services in the Hull Area	Business analogue exchange line services in the Hull Area	Business ISDN2 exchange line services in the Hull Area	Business ISDN30 exchange line services in the Hull Area	Residential local calls in the Hull Area	Residential national calls originating in the Hull Area	Residential calls to mobiles originating in the Hull Area	Residential operator assisted calls originating in the Hull Area	Residential IDD Category A calls originating in the Hull Area	Residential IDD Category B calls (on a route by route basis) originating in the Hull Area	Business local calls in the Hull Area	Business national calls originating in the Hull Area	Business calls to mobiles originating in the Hull Area	Business operator assisted calls originating in the Hull Area	Business IDD Category A calls originating in the Hull Area	Business IDD Category B calls (on a route by route basis) originating in the Hull Area	[any other market for which cost accounting and/or accounting separation obligations apply]	Residual Wholesale	Residual Retail	Total 200x		
Turnover originating in:																																				
Wholesale residential analogue exchange line services in the Hull Area	-																																			
Wholesale residential ISDN2 exchange line services in the Hull Area		-																																		
Wholesale business analogue exchange line services in the Hull Area			-																																	
Wholesale business ISDN2 exchange line services in the Hull Area				-																																
Wholesale ISDN30 exchange line services in the Hull Area					-																															
Call origination on fixed public narrowband networks in the Hull Area						-																														
Fixed geographic call termination provided by KCOM							-																													
Wholesale unmetered narrowband internet termination								-																												
Wholesale Broadband Access in the Hull Area									-																											
Provision of traditional interface symmetric broadband origination with a bandwidth capacity up to and including 8 megabits										-																										
Provision of traditional interface symmetric broadband origination (above 8 megabits up to and including 45 megabits)											-																									
Provision of traditional interface symmetric broadband origination (above 45 megabits up to and including 155 megabits)												-																								
Alternative interface symmetric broadband origination (up to and including 1Gbit/s)													-																							
Residential analogue exchange line services in the UK in the Hull Area														-																						
Residential ISDN2 exchange line services in the Hull Area															-																					
Business analogue exchange line services in the Hull Area																-																				
Business ISDN2 exchange line services in the Hull Area																	-																			
Business ISDN30 exchange line services in the Hull Area																		-																		
Residential local calls in the Hull Area																			-																	
Residential national calls originating in the Hull Area																				-																
Residential calls to mobiles originating in the Hull Area																					-															
Residential operator assisted calls originating in the Hull Area																						-														
Residential IDD Category A calls originating in the Hull Area																							-													
Residential IDD Category B calls (on a route by route basis) originating in the Hull Area																								-												
Business local calls in the Hull Area																									-											
Business national calls originating in the Hull Area																										-										
Business calls to mobiles originating in the Hull Area																											-									
Business operator assisted calls originating in the Hull Area																												-								
Business IDD Category A calls originating in the Hull Area																													-							
Business IDD Category B calls (on a route by route basis) originating in the Hull Area																														-						
[any other market for which cost accounting and/or accounting separation obligations apply]																																				