



Regulatory financial reporting obligations on BT

Consultation

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Section 1

Executive Summary

Background

- 1.1 Relevant, reliable and timely regulatory financial information is fundamental to the effective economic regulation of the electronic communications sector.
- 1.2 Ofcom requires regulatory financial information in order to monitor and enforce various obligations that are placed on dominant providers in markets where they are found to have significant market power (“SMP”). The regulatory financial reporting regime also provides confidence to the industry that certain ex-ante obligations are being effectively monitored and enforced.
- 1.3 The current regulatory financial reporting regime for British Telecommunications plc (BT) and Kingston Communications plc (KCL) has evolved over time in response to ongoing changes in the regulatory environment. The last significant consultation on the regime was in 2004¹ (the “2004 Consultation”) in response to the regulatory framework for electronic communications network services that came into effect on 25 July 2003. The regulatory financial statements for the year to 31 March 2005 were the first to take account of the full impact of these changes.
- 1.4 Since the 2004 Consultation, there have been significant changes in the regulatory environment and further changes are in progress, including:
 - changes in the regulatory agenda (following Ofcom’s strategic review of the telecommunications sector);
 - functional changes in the way BT transacts with itself and its competitors (by way of the ongoing implementation of undertakings by BT accepted by Ofcom in lieu of a reference under the Enterprise Act and the creation of Openreach);
 - technological developments, including the prospective build of the next generation network; and
 - developments in the way financial information will be made available to Ofcom (via the implementation of a new data extraction tool).
- 1.5 Ofcom therefore considered that it was appropriate to take a fresh look at the regulatory financial reporting regime. This process started with the consultation document dated 3 May 2006², entitled Regulatory financial reporting obligations on BT (the “May Consultation”).

Scope of consultation

- 1.6 It is helpful to think about the financial reporting framework in four areas, as follows:
 - the information that should be maintained and prepared by BT and KCL;

¹ The regulatory financial reporting obligations on BT and Kingston Communications in markets where SMP has been demonstrated, available at http://www.ofcom.org.uk/consult/condocs/fin_reporting/

² http://www.ofcom.org.uk/consult/condocs/reg_bt/

- the information that should be made available to Ofcom;
 - the information that is made publicly available; and
 - the framework for providing assurance on that information.
- 1.7 This consultation considers each of these aspects. Specifically, this document,
- considers the objectives for the financial reporting regime as a whole;
 - considers the role of the published documents as part of that regime; and
 - makes proposals for a new regime.
- 1.8 As well as making proposals for changes to be reflected in BT's 2005/06 regulatory financial statements, including to specific elements of the reporting obligations and changes to the audit requirements, the May Consultation set out the framework for further consultation on the objectives of good regulatory financial reporting in the new regulatory environment.
- 1.9 Informed by responses to the May Consultation and subsequent discussions with BT, KCL and the UK Competitive Telecommunications Association ("UKCTA"), this consultation sets out proposals for changes to the format and contents of the published financial statements and the requirements for additional financial reporting to Ofcom (consisting of Additional Financial Statements and Additional Financial Information).
- 1.10 In the context of this review, Ofcom has considered if any changes should be proposed for the reporting obligations applicable to KCL at this stage. In particular, Ofcom is required to ensure that the reporting conditions placed on BT are not unduly discriminatory in respect of similar obligations on KCL.
- 1.11 The form and content of KCL's regulatory financial statements already reflects KCL's relative size and complexity compared to BT. Ofcom believe that the form and content changes proposed for BT do not require similar changes to KCL's reporting formats.
- 1.12 Ofcom is not, therefore, proposing any changes to KCL's current reporting obligations. However, Ofcom will continue to discuss with KCL improvements to its regulatory financial statements and expect these discussions to be informed by BT's published 2006/07 regulatory financial statements.

Key findings

- 1.13 The main changes proposed in this consultation relate to the published regulatory financial report, in which respect this review has highlighted the following themes:
- the current reporting requirements result in a lengthy regulatory report - BT's 2005/06 report was over 200 pages long;
 - the information is not widely understood outside of a small regulatory community and is therefore not widely read;
 - BT's ability to generate robust LRIC data for some regulated products is, for the time being at least, constrained by changing technology, yet the regulatory report

includes over 50 pages of detailed calculations to support these estimates. In Ofcom's view, this infers a status on the figures that is not justified and is potentially misleading; and

- some key messages, such as the way in which significant categories of costs are allocated to products and services, are lost in the complexity of the current report.

- 1.14 Ofcom considers that these are important issues that should be addressed. However, any proposals must ensure that BT continues to demonstrate compliance with its obligations to offer cost-orientated charges and not to discriminate unduly. In this respect, discussions within Ofcom and with industry have indicated that much of the detail currently published contributes to an effective regulatory regime.
- 1.15 The proposals set out in this consultation document have been drafted with these issues in mind.

Recommendations

- 1.16 In respect of the published financial statements, the proposals consist primarily of a new format for the published regulatory financial report.
- 1.17 The effect of the proposals will be to reduce the length of the regulatory financial report. The reduction is achieved mainly by simplifying the reporting requirements for each market, with less repetition of supporting analysis and omitting the detailed analysis behind the Long Run Incremental Cost ("LRIC") data.
- 1.18 With the exception of the analysis of LRIC data, very little information that is currently provided will be affected by these proposals. This reflects Ofcom's view that an informed industry contributes to effective and efficient regulation and takes account of examples provided by industry of published information being used by industry in a way that has contributed to effective competition and focussed requests for intervention.
- 1.19 The structure of the report has been improved to make it more accessible to a wider audience without losing the information necessarily used by the regulatory community. Specifically, the structure has been changed along the following lines:
- to provide the regulatory community with evidence of tests of compliance with obligations and sufficient information to understand and challenge this evidence, most of the detailed financial information currently provided will still be required;
 - to provide a wider audience with an understanding of the key issues, the overall performance of BT's regulated activities will be reported and explained at the front of the document;
 - to give all users a better understanding of how costs are shared by products and services, two new schedules will be required to illustrate and explain how significant shared costs are allocated across all markets;
 - to provide key indicators of financial performance and evidence of compliance with first order tests of compliance with BT's obligations to offer cost-orientated charges and not to discriminate unduly, single page statements will be required for all regulated markets;

- to aid understanding, SMP markets will be organised into groups, specifically access markets (primarily provided by Openreach), other wholesale markets (primarily the non- access SMP markets) and retail markets; and
 - to simplify reporting and facilitate comparison of the underlying data across different markets detailed support for the data used in the first order tests for each market will be collated and included in a section towards the back of the report.
- 1.20 In respect of the Secondary Accounting Documents currently published by BT and concerns expressed about the size and complexity of these documents, Ofcom considers that BT's existing obligations allow BT adequate scope to prepare fit for purpose documents which do not place a significant additional burden on BT. No changes to the relevant obligations are being proposed.
- 1.21 In respect of the further financial information provided only to Ofcom, Ofcom's ability to interrogate BT's financial data will be enhanced under existing obligations on BT to introduce a data extraction tool, which will allow Ofcom to extract, sort, analyse and report on BT's cost attribution system including the replication of BT's regulatory Financial Statements and a drill-down facility. Subject to the provision of a satisfactory data file, Ofcom does not consider it necessary for BT to continue to provide the Additional Financial Statements and the requirement to produce Additional Financial Information statements will be reduced.
- 1.22 Nothing in Ofcom's proposals affects BT's obligation to provide information in response to specific requests from Ofcom.
- 1.23 Ofcom considers that the proposed changes to the reporting requirements are consistent with the latest regulatory thinking, including for example, the conclusions in Philip Hampton's 2005 report HM Treasury, "Reducing administrative burdens: effective inspection and enforcement" and specifically the recommendation for regulators to allocate resources to areas where the regulatory risk is greatest, reducing the administrative burden of regulation while maintaining or improving regulatory outcomes.

Section 2

Basis for review of regulatory reporting obligations

Introduction

- 2.1 BT's reporting requirements have developed over time in light of ongoing changes in the regulatory regime. Ofcom therefore considers that it is helpful to return to first principles to establish what the regime is trying to achieve and how it can best achieve it.
- 2.2 Having established the objectives of the regime as a whole, it will then be possible to consider how each element of the regime can best contribute towards meeting that objective, and for example, the role of the published financial statements.
- 2.3 This section considers:
 - the need for a review of the regulatory financial information requirements;
 - the regulatory framework for these requirements;
 - how these requirements have evolved over time; and
 - Ofcom's scope to update these requirements

The need for a review of requirements for regulatory financial information

- 2.4 Ofcom requires regulatory financial information in order to monitor and enforce various obligations that are placed on dominant providers in markets where they have been found to have SMP. These obligations are intended to support competition and prevent dominant providers from abusing their position in the market to the detriment of competitors and end-users.
- 2.5 The requirement on BT to implement well-documented and robust accounting separation and cost accounting policies and procedures helps to ensure that costs are attributed to the various components, services and products in line with the principles set out in the primary accounting documents.
- 2.6 This in turn provides a sound accounting basis to help BT comply with its reporting obligations and provides an important starting point for further analysis to support Ofcom's ongoing market review, investigation and complaints work.
- 2.7 The current regulatory financial reporting regime has evolved over time in response to ongoing changes in the regulatory environment. The last significant consultation on the regime was in 2004 in response to the then new regulatory framework for electronic communications network services that came into effect on 25 July 2003. The regulatory financial statements for the year to 31 March 2005 were the first to take account of the full impact of these changes.
- 2.8 Since these changes were implemented, there have been and will continue to be a number of significant changes in the regulatory environment, including for example, the completion of Ofcom's Strategic Review of Telecommunications, the

implementation of undertakings by BT accepted by Ofcom in lieu of a reference under the Enterprise Act and the creation of Openreach.

- 2.9 Further, Ofcom's ability to interrogate BT's financial data will be enhanced by the introduction of a data extraction tool, which will allow Ofcom to extract, sort, analyse and report on BT's cost attribution system including the replication of BT's regulatory Financial Statements and a drill-down facility. The data extraction tool is currently under development and is scheduled to be operational in 2007.
- 2.10 Ofcom therefore considers that it is appropriate to take a fresh look at the financial reporting regime. This document represents the start of the second stage of a two stage consultation process, which started with the May Consultation.
- 2.11 This review has been informed by BT's proposals for a new format for its published regulatory financial report. These proposals, in the form of an alternative version of BT's 2005/06 regulatory financial report, were developed by BT in response to an invitation from Ofcom and published by BT on a voluntary basis³.
- 2.12 It is expected that any changes to the regime will be implemented in time for the regulatory financial statements for 2006/07.

The regulatory framework

- 2.13 The current regulatory framework for electronic communications networks and services entered into force on 25 July 2003. The framework is designed to create harmonised regulation across Europe and is aimed at reducing entry barriers and fostering prospects for effective competition to the benefit of consumers. The basis for the regulatory framework is five EU Communications Directives:
- Directive 2002/21/EC on a common regulatory framework for electronic communications networks and services (the "Framework Directive");
 - Directive 2002/19/EC on access to, and interconnection of, electronic communications networks and associated facilities (the "Access and Interconnection Directive");
 - Directive 2002/20/EC on the authorisation of electronic communications networks and services (the "Authorisation Directive");
 - Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services, (the "Universal Service Directive"); and
 - Directive 2002/58/EC concerning the processing of personal data and the protection of privacy in the electronic communications sector (the "Privacy Directive").
- 2.14 The Framework Directive provides the overall structure for the new regulatory regime and sets out fundamental rules and objectives which read across all five Directives. Article 8 of the Framework Directive sets out three key policy objectives which have been taken into account in the preparation of this consultation document, namely

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

promotion of competition, development of the internal market and the promotion of the interests of the citizens of the European Union.

- 2.15 The Authorisation Directive establishes a new system whereby any person will be generally authorised to provide electronic communications services and/or networks without prior approval. The general authorisation replaces the former licensing regime.
- 2.16 The Universal Service Directive defines a basic set of services that must be provided to end-users. The Access and Interconnection Directive sets out the terms on which providers may access each others' networks and services with a view to providing publicly available electronic communications services.
- 2.17 These four Directives were implemented in the UK on 25 July 2003. This was achieved via the Communications Act 2003 (the "Act").
- 2.18 The Privacy Directive established users' rights with regard to the privacy of their communications. This Directive was adopted slightly later than the other four Directives and was implemented by Regulations which came into force on 11 December 2003.
- 2.19 The Directives require national regulatory authorities ("NRAs"), such as Ofcom, to carry out reviews of competition in communications markets to ensure that regulation remains appropriate and proportionate in the light of changing market conditions. A series of market reviews has been carried out over the last twelve months.
- 2.20 Each market review has three stages:
 - definition of the relevant market or markets;
 - assessment of competition in each market, in particular whether any undertakings have SMP in a given market; and
 - assessment of appropriate regulatory obligations where there has been a finding of SMP.
- 2.21 Ofcom's ability to impose regulatory financial reporting obligations where there has been a finding of SMP is set out in the Act. In particular, the ability to impose regulatory financial reporting obligations as a type of SMP services condition only arises where an organisation has been found to have SMP, which is akin to the competition law concept of dominance, in a reviewed services market.
- 2.22 Once such SMP has been found, there is a range of remedies available to NRAs to encourage competition in the communications sector and to prevent anti-competitive behaviour by dominant providers. These include:
 - Obligations to offer cost-orientated charges – so that non-dominant communications providers can purchase necessary services from dominant providers at an amount reasonably related to the costs of the dominant provider;
 - Obligations not to discriminate unduly – so that when a vertically integrated dominant provider charges a competing communications provider for a service it is at the same rate that it charges its own downstream business and that quality and other aspects of service are the same; and

- Obligations to cap prices, i.e. price controls – these are designed to prevent a dominant provider from using its position to increase prices to an excessive level. For example, the retail price control, which prevents BT increasing a basket of prices to residential consumers beyond a reasonable level, and the network charge control.
- 2.23 Part 1 of Schedule 1 of the Notifications, set out in the Statement on the regulatory and financial reporting obligations on BT and KCL, issued on 22 July 2004⁴ (the “2004 Statement”) provides the full details of the markets in which Ofcom has imposed cost accounting and/or accounting separation obligations on dominant providers with the exception of the “Inter-tandem conveyance and transit on fixed public telephone networks in the UK excluding the Hull area” market for which BT is no longer notified as having SMP.
- 2.24 This document addresses how regulatory financial reporting obligations should be implemented in specific markets. It does not address whether these obligations should be imposed, the level of regulation in a market or the types of remedies to be employed, which have been addressed in the market reviews.

How the current regime evolved

- 2.25 The requirements on BT to publish current cost information on its network costs reflect the arrangements for the control of its network charges which have applied since 1997. Prior to that time, BT’s network charges had been determined annually by Oftel on the basis of BT’s costs.
- 2.26 The system of RPI-X controls on baskets of charges which replaced annual determinations in 1997 gave BT substantially greater freedom to vary interconnection charges within the network charge controls. Rather than being determined at fully allocated (historical) costs, individual charges were allowed to vary subject to floors and ceilings based on incremental and stand-alone cost respectively. At the same time, in order to provide adequate safeguards that the increased freedom would not be used anti-competitively, BT was placed under a responsibility to be able to demonstrate that any of its charges were reasonably derived from costs and to publish sufficient cost information to provide the necessary transparency for competing operators.
- 2.27 Oftel therefore placed requirements on BT relating to the information to be made available by BT on request, incremental and fully allocated cost information to be published in the financial statements and the information to be contained in published charge lists and network charge change notices.
- 2.28 Oftel also explained that the role of published floors and ceilings was as a first-order test of anti-competitive or excessive charging. Therefore, whilst in the first instance it would be for BT to decide that a charge complied with its obligations, it would be open to another operator, in the event that it had concerns about a charge, to make representations to BT and, if not satisfied, to Ofcom.
- 2.29 Ofcom reviewed and consulted on BT’s financial reporting requirements in 2004. The conclusions of the review were published in the statement “The regulatory financial reporting obligations on BT and Kingston” (July 2004). This statement set out the obligations to be placed on BT and KCL in order to implement the remedies identified by the programme of market reviews required by the EU Directives which came into

⁴ http://www.ofcom.org.uk/consult/condocs/fin_reporting/fin_report_statement/finance_report.pdf

force on 25 July 2003. However, the market reviews and the review of financial reporting largely confirmed the requirements and remedies already in place. The financial reporting requirements were again confirmed in respect of local-tandem conveyance and transit in the 2005 review of BT's network charge controls to apply from 2005, "Explanatory Statement and Notification of decisions on BT's SMP status and charge controls in narrowband wholesale markets".

Scope to revise obligations

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

- access to and use of specific network facilities (Article 12); and
 - price control and accounting obligations (Article 13).
- 2.34 Article 11 of the Access Directive allows an NRA to impose obligations of accounting separation on an operator with SMP in a specific market and Article 13 of the Access Directive allows an NRA to impose cost accounting obligations on that operator.
- 2.35 Ofcom has imposed such obligations on BT under the Access Directives and in reliance of its powers under section 87(8)&(9) of the Communications Act 2003 (the “Communications Act”) in relation to accounting separation and sections 87(9) to 87(11), 91(5)&(6), and 92(2)&(3) of the Communications Act in relation to cost accounting.
- 2.36 Ofcom sets out the requirements for BT to have cost accounting systems and accounting separation in BT’s regulatory financial accounting reporting conditions as set out in the 2004 Statement and the Review of the wholesale access market, dated 16 December 2004.
- 2.37 OA2 and FA10.2 of these conditions provides that Ofcom can make directions as it considers appropriate in relation to BT’s cost accounting system, accounting separation system and BT’s obligations under its regulatory financial accounting reporting conditions.
- 2.38 OA5(d) of the conditions provides that BT shall: “publish the Regulatory Financial Statements and corresponding audit opinion as directed by Ofcom from time to time and in accordance with condition 6(b) and (c).”
- 2.39 Ofcom has adopted directions in accordance with OA2 and OA5 and FA10.2 and FA 10.5, which set out the detail of the regulatory financial statements to be prepared, the mix of statements that make up BT’s regulatory financial statements, the form in which those statements are to be prepared and the requirement that BT publish those statements.
- 2.40 BT’s Current Cost Financial Statements are prepared in accordance with the detail and requirements expressed in its regulatory financial reporting conditions and accompanying directions, including the requirement of publication.
- 2.41 Under Article 9.1 of the Access Directive, an NRA can impose obligations of transparency in relation to interconnection and/or access, requiring operators to make public specified information including accounting information. Article 9.3 gives NRA’s a wide discretion to specify the precise information to be made available, the level of detail required and the manner of publication.
- 2.42 Article 11.2 of the Access Directive provides that in order to facilitate verification of compliance with the obligations of transparency and non-discrimination, NRAs have the power to require that accounting records are provided on request. NRA’s can also publish such information as contributes to an open and competitive market.
- 2.43 Article 13.4 of the Access Directive directs NRAs to ensure that where implementation of a cost accounting system is mandated in support of price controls, a description of the cost accounting system is made publicly available. As a minimum this description must show: the main categories under which costs are grouped; and the rules used for the allocation of costs.

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

The consultation process

- 2.55 The May Consultation raised questions regarding the framework for further consultation on the objectives of good regulatory financial reporting in the new regulatory environment.
- 2.56 Responses to the May Consultation were received from BT, Cable & Wireless plc ("C&W"), Scottish and Southern Energy plc ("SSE") and UKCTA. A confidential response was also received.
- 2.57 These responses have been taken into account by Ofcom in this consultation. Ofcom has also met with BT and UKCTA on a number of occasions to discuss their responses and proposals for revisions to the regulatory reporting regime.
- 2.58 The scope of the review covers the entire regulatory reporting regime and has considered the following:
- information that should be maintained and prepared by BT;
 - information that should be made available to Ofcom; and
 - information that is made publicly available.
- 2.59 Within the reporting regime as a whole, the published financial statements represent the key compliance statements. The detailed requirements as to what must be published are set out in the Directions to the SMP obligations included in Annex 2 of the final statement, "The regulatory financial reporting obligations on BT and Kingston Communications" issued by Ofcom in July 2004⁵ as amended by Ofcom's 2006 Statement on Changes to BT's regulatory financial reporting and audit requirements (the "2006 Statement")⁶.
- 2.60 The latest documents published by BT are available in electronic format on BT's website. The documents, along with a brief description of each, are listed in Annex 6.
- 2.61 Ofcom is not proposing that the accounting separation and cost orientation obligations on BT should change. The need to maintain accurate accounting records for regulated markets, services and products continues to be important, and this must be supported by appropriate rules for preparing the financial information if the regulatory financial statements are to continue to be a sound basis for demonstrating compliance with obligations and for pricing decisions.

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

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

Section 3

Objectives for the financial reporting regime

Introduction

- 3.1 Informed by responses to the May Consultation, Section 3 considers the objectives of the regulatory financial reporting regime and the attributes of effective published financial statements.
- 3.2 The key findings, explained in more detail below, are that
- there is scope to improve the format of the published financial information to make the information easier to use for existing users and more accessible to a wider audience. However, the overriding requirement is for the published information to meet the key regulatory objectives;
 - the primary regulatory objective of the reporting regime is the demonstration of compliance with obligations of cost orientation and non discrimination;
 - the implementation of the data extract tool gives Ofcom the opportunity to reconsider how the regulatory financial information generated by this regime is made available to Ofcom;
 - in determining the level of financial information to be disclosed in the Regulatory Financial Report, it is necessary to assess the nature of the obligations on BT, practical constraints, such as the need for an appropriate level of aggregation of information, BT's concerns regarding the confidentiality of commercially sensitive information and the contribution made by an informed industry to effective and efficient regulation;
 - informed by this assessment, Ofcom considers that the published financial information should include evidence of compliance with first order tests of cost orientation, together with an appropriate level of supporting evidence. This is described in more detail in Section 4;
 - the published financial information should also meet the requirements set out in the undertakings accepted by Ofcom in lieu of a referral to the Competition Commission under the Enterprise Act 2002, specifically the need to disclose the results of Openreach separately;
 - however, the published financial statements need not provide additional information specifically to inform other communication providers' build or buy decisions; and
 - LRIC is, and will continue to be, a fundamental regulatory costing concept. However, for various reasons, the numbers currently produced by BT's LRIC model are becoming less useful.
- 3.3 These findings form the basis for the proposals set out in Section 4.

Objectives for regulatory financial reporting regime

- 3.4 The key objective of the financial reporting regime is to enable BT demonstrate compliance with its obligations of cost orientation and non-discrimination.
- 3.5 Further, Ofcom identified a number of potential attributes of an effective financial reporting regime. For example, Ofcom considers that an effective regime should enable the regulator to:
- obtain common cost allocation data;
 - compare data to allow checks for consistency and observe changes and trends; and
 - have access to information that may assist in investigations.
- 3.6 At present, some of this information is provided to Ofcom in the form of a series of documents known as Additional Financial Statements (“AFSs”) and Additional Financial Information (“AFIs”). These documents are provided to Ofcom by BT on a confidential basis.
- 3.7 AFSs are simple profit and loss accounts and mean capital employed statements at service/product group level. They are prepared to show the financial performance of services/products and that cost orientation and non-discrimination obligations are being applied at the appropriate level of granularity. AFIs are additional and targeted statements for Ofcom use only and focus on information or data required by Ofcom to ensure the regulatory accounting regime is operating effectively. They include, for example, reconciliation statements and further analysis of fixed assets.
- 3.8 In 2005, a new reporting obligation was placed on BT to provide Ofcom with a comprehensive data file of all the transactions that underpin its regulatory financial statements. By importing this data into a data extraction tool it will be possible for Ofcom to interrogate the data at different levels in the costing structure.
- 3.9 Ofcom’s ability to interrogate BT’s financial data in the manner described above will be therefore be significantly enhanced in 2007 by the introduction of this data extraction tool, which will allow Ofcom to extract, sort, analyse and report on BT’s cost attribution system including the replication of BT’s regulatory Financial Statements and a drill-down facility.
- 3.10 The effective implementation of this tool should provide the opportunity for a more flexible regime for formal reporting to Ofcom. In principle, this tool will enable Ofcom to self generate both standard financial reports (e.g. profit and loss accounts, mean capital employed statements) as well as ad-hoc inquiries (e.g. reviewing a detailed cost attribution methodology).
- 3.11 The 2006 Statement stated that the main advantages associated with the provision of this data were:
- access to the same financial information as BT’s auditors use to determine their audit samples which can then be used, for example, to support the initial planning and analysis required for an investigation or policy project;
 - the provision of necessary information on a timely basis, in the required formats and of good quality; and

- access to full BT costing system data which will help Ofcom analyse and assess the objectivity and rationale of BT's costing.
- 3.12 Consequently, Ofcom will get increased access to more detailed financial information maintained by BT.
- 3.13 There is therefore scope to reduce the requirements on BT to provide some of the additional financial information provided that the data extract tool is fully operational for the relevant annual reporting period. Specific proposals are set out in Section 4.

Objectives for published regulatory financial information

- 3.14 To inform Ofcom's proposals for the form and content of the published financial information, this section considers:
- the likely users of the published regulatory financial information;
 - the attributes of good financial reporting;
 - the objectives of regulatory financial reporting; and
 - the appropriate level of supporting information to be made public.
- 3.15 For the purposes of this consultation, the published financial statements are described as the Regulatory Financial Report.

Users of the Regulatory Financial Report

- 3.16 There are many potential users of the Regulatory Financial Report published by BT other than its competitors and customers.
- 3.17 During the course of this consultation process, it was suggested to Ofcom that the Regulatory Financial Report should be drafted to appeal to a wider audience. The May Consultation suggested that potential users of the regulatory financial reports include consumers and consumer representation groups; UK and European government departments; actual or potential investors and their advisors; and employees of BT.
- 3.18 Further discussions with stakeholders during this consultation are consistent with Ofcom's initial view that the extent to which this potential audience refers to the reports is fairly limited, and that this was at least partly due to the complexity and level of detail in the current format of regulatory financial statements.
- 3.19 Informed by responses to the May Consultation, Ofcom has considered the needs of these groups and the extent to which it is appropriate to take them into account when determining the format and extent of the published regulatory financial information.
- 3.20 In response to the May Consultation, BT stated that "the information it is required to publish should address only valid needs relating to the regulatory regime across a wide range of stakeholders". BT also stated that, "Any additional information that these stakeholder groups might wish to have should not be added to the list of required information unless the information is required as part of an appropriate level of assurance".

- 3.21 C&W “strongly disagrees with any attempt to adjust the accounts to meet the needs of other potential users. The Regulatory Accounts were developed and designed to meet regulatory needs. To expand or adjust them to meet the needs of an alternative audience would dilute their ability to meet the original regulatory purpose”.
- 3.22 SSE opined that “it is the needs of market participants – particularly those using BT’s infrastructure to compete in downstream retail markets – that are of over-riding importance. We do not believe there should be specific regulatory action to meet the potential needs of most of the potential users listed at paragraph 5.42 of the [May Consultation] document”.
- 3.23 Ofcom agrees that the publication requirements should be drafted with regulatory objectives, rather than the needs of a wider audience, in mind. However, to the extent that it is possible to meet the regulatory objectives in a way that encourages a wider readership, this is a valid objective. For example, a more widely read regulatory report will help to ensure that the key messages presented in the regulatory accounts are consistent with messages being delivered elsewhere.

Attributes of effective regulatory reporting

- 3.24 As set out in the May Consultation, Ofcom believes that the characteristics to underlie the preparation and presentation of general purpose financial statements, as identified by the Accounting Standards Board in its Statement of Principles for Financial Reporting (specifically: relevance; reliability; comparability; understandability; and materiality), can be equally applied to regulatory financial statements.
- 3.25 The May Consultation also set out some common characteristics of effective compliance statements, as follows: clarity of objectives; transparent reporting; timeliness; clarity of respective responsibilities; good internal control; proportionality; comparability; and appropriate assurance.
- 3.26 BT responded that “the list of characteristics of effective compliance statements that Ofcom set out is useful, and we agree with these characteristics”.
- 3.27 C&W stated that, “Whilst these look fairly sensible C&W would prefer Ofcom use the ones developed by the ERG in response to the Commission Recommendation. C&W note that comparability should be taken to include consistency over time and that it would be useful to add in an additional principle of ‘completeness’ i.e. ‘all information that is material to users for assessing the reporting organisation’s economic, environmental, and social performance should appear in the report in a manner consistent with the declared boundaries, scope, and time period’. The ability to assess BT’s behaviour is entirely material to stakeholders”. UKCTA provided a similar response.
- 3.28 The Commission Recommendation of 19 September 2005 on accounting separation and cost accounting systems⁷ included an annex that provides guidance on reporting requirements and publication of information.
- 3.29 The introductory paragraphs explain that:
- a) cost accounting and accounting separation systems must produce financial information at a level of detail which demonstrates compliance with the principles

⁷ http://eur-lex.europa.eu/LexUriServ/site/en/oj/2005/l_266/l_26620051011en00640069.pdf

of non-discrimination and transparency, adequately identifying and attributing revenues, costs, capital employed and volumes for the various activities performed by an operator; and

- b) good presentation of regulatory accounts ensures that the essential messages of the financial statements are communicated clearly and effectively and is as simple and straightforward a manner as possible.
- 3.30 The Commission also note that regulatory accounting information serves national regulatory authorities and other parties that may be affected by regulatory decisions based on that information, such as competitors, investors and consumers. In this context, publication of information may contribute to an open and competitive market and also add credibility to the regulatory accounting system.
- 3.31 This guidance follows traditional financial reporting formats but may not present the information in a way that easily allows different users to extract key messages on compliance. As set out in Section 4, Ofcom's proposals contain examples of all of this information but the proposed statements are reformatted to provide users with a clearer understanding and allow easier interpretation of this relatively complex information.

Objectives for regulatory reporting

- 3.32 To inform its assessment of stakeholders' needs for regulatory financial information, Ofcom used the May Consultation to ask stakeholders to explain their requirements of the published regulatory financial statements. Ofcom then considered whether these requirements meet valid regulatory requirements.
- 3.33 The May Consultation identified a range of potential questions that stakeholders may like to have answered by the published regulatory statements, as follows:
- prices for wholesale services are fair and comply with explicit wholesale price controls;
 - prices for regulated services are cost-oriented, giving appropriate economic signals regarding, amongst others, build/buy decisions;
 - the regulatory regime is working effectively by preventing a dominant supplier from achieving excessive profits, indicative of abuse of market power;
 - regulated firms have not unfairly discriminated in favour of their downstream divisions by charging less for internal sales of regulated services than for sales to third parties; and
 - users have access to sufficiently detailed information about how prices have been determined so they can make reasonable challenges to the regulated firm or to its regulator if they believe there is inappropriate pricing.
- 3.34 In response, BT stated that it agrees with the compliance indicators described by Ofcom, but argued that the level of detail required can in most areas be simplified to give "headline" indicators rather than detailed information.
- 3.35 Other respondents generally agreed with the compliance issues identified in the consultation and suggested additional requirements, as follows:

- where a product is an SMP product and a key wholesale input there is a need to be able to understand what is driving the price paid and whether there are any aspects that Communication Providers (“CPs”) could do more efficiently themselves;
 - where a product is subject to a charge control there is a need to be able to judge whether the charge control modelling is being done in the most appropriate way and that no extra-ordinary events have affected the cost base during the charge control period;
 - for products where CPs compete with BT there is a need to be able to investigate margin squeeze issues;
 - to investigate issues of suspected discrimination or to assess differences in products supplied externally to those supplied internally;
 - to ensure that the financial aspects of Equivalence are being complied with.
- 3.36 Central to these requirements was a more general need for confidence in the underlying financial data.
- 3.37 Ofcom has considered these potential requirements to determine whether they represent valid objectives for the published financial statements.
- 3.38 As explained below, Ofcom considers that the following requirements are justifiable objectives for the published financial information:
- to provide evidence of compliance with obligations;
 - to provide an understanding of performance, including the underlying basis of how the numbers were prepared;
 - to inform potential complaints based on the underlying data and assumptions;
 - to comply with reporting requirements relating to the Undertakings;
 - allow analysis of the components that form a service to enable CPs determine whether they are only paying for what they use; and
 - to provide confidence in the underlying information.
- 3.39 These issues are considered in turn below

Evidence of compliance with obligations

- 3.40 The burden of proof is on BT to demonstrate that it has complied with the obligations of cost orientation and non-discrimination. As a minimum requirement, the published regulatory financial report should therefore include evidence that BT has met first order tests of cost orientation and non-discrimination. The appropriate level of supporting information to be made public is considered in more detail later in this section.

Understand performance

- 3.41 As noted above, the key characteristics of an effective compliance statement include understandability and transparent reporting. In two key respects, Ofcom considers that the current reporting requirements do not meet these objectives as effectively as they might.
- 3.42 Specifically, Ofcom considers that some of the key messages around the overall performance of the regulated activities (and groups of activities) may be lost in the complexity of the detailed financial reporting. The proposals in Section 4 are therefore aimed at simplifying some of the key schedules.
- 3.43 Further, Ofcom considers that, in order to understand the performance of BT's different activities, it is important to understand how common costs have been shared amongst them. The May Consultation noted that it can be difficult for a user of the accounts to establish which of the numerous attribution bases are the most significant and that it was therefore difficult to get a reasonable overview of the impact of decisions that BT takes regarding its attribution process on the costs of specific products. The May Consultation therefore invited views on the appropriate level of information that should be provided on the attribution of costs and how this might best be presented. Responses related to both the way the attribution bases were defined in the Accounting Documents and how information was presented in the Regulatory Financial Report.
- 3.44 The proposals in Section 4 therefore look at how this information might be presented more effectively.

Compliance with financial aspects of Openreach

- 3.45 In June 2005, BT offered Ofcom a set of undertakings to put in place widespread changes designed to support equivalence at the product level. For example, Access Services (later to become known as Openreach) would manage and sell wholesale products made up from the parts of the network that are enduring economic bottlenecks, and the undertakings contain a number of provisions to protect the independence of this division. These undertakings were offered instead of Ofcom referring them to the Competition Commission under the Enterprise Act 2002.
- 3.46 Undertaking 5.31 states that:
- “With effect from the start of BT's financial year 2006/2007, the regulatory financial statements of BT will also separately present the financial results of AS. The form, content and basis of preparation of the financial results of AS will follow those used in the preparation of the regulatory financial statements of BT except where differences are agreed with Ofcom and properly disclosed in the financial statements and related documentation. Information about the financial results of AS will include the following: headline revenue, cost of sales (or gross margin), SG&A, EBITDA, depreciation, operating profit and capital expenditure, revenues broken down into the broad product groups that the AS provides and further split between internal and external sales, separately identified payments to other parts of BT for products that form inputs to AS products (e.g. electronics); and a commentary that explains any changes in the basis within which the above figures are presented. BT's regulatory financial statements will reconcile AS's revenue and operating profit

(and other such items as may be agreed between BT and Ofcom) with information about AS shown in BT Group plc's annual report and accounts. The independent audit of BT's financial statements will include AS".

- 3.47 Therefore, as well as introducing a new focus on the activities of the markets covered by Openreach, the proposals in Section 4 have been developed with the requirements set out in the undertakings in mind.

Confidence in information

- 3.48 To contribute to a regulatory environment that encourages effective competition, it is essential that users of the published financial statements have confidence in the relevance and reliability of the underlying financial information.
- 3.49 To some extent, this confidence is provided by the report of the regulatory auditors. As explained later in this section, further comfort is provided by the ability to check some of the underlying data.
- 3.50 However, it is essential that the basis of preparation of the underlying data continues to be relevant and reliable and based on robust assumptions. In this respect, Ofcom considers that it is appropriate to revisit the basis of preparation of the LRIC data.
- 3.51 The May Consultation explained that BT is currently required to calculate cost floors and ceilings for SMP services using LRIC methodologies.
- 3.52 To date, Ofcom has considered that this information provides a useful first order test to ascertain whether there appears to be prima facie evidence of compliance with cost orientation obligations. Nevertheless, Ofcom recognises that there are limitations on the reliability of some of this information and that the value of publishing first order tests based on LRIC floors and SAC ceilings may also be limited.
- 3.53 The implementation of BT's Next Generation Network ("NGN") will place further pressure on the robustness of these floors and ceilings as currently calculated as the basis for a first order test of compliance with cost orientation obligations in respect of core network services. As the public switched telephone network is replaced by the NGN, the appropriate definition of network components and the way in which costs vary with volume (which is crucial to the way incremental costs are calculated in the current model) are likely to change. In addition, during the period of transition, PSTN assets are likely to become life expired whilst the NGN will be in the start-up phase, and this may result in floors and ceilings calculated in the usual way becoming harder to interpret.
- 3.54 It was therefore appropriate for Ofcom to consider whether the requirement to publish the information prepared on the current basis at the current granular level should remain. The May Consultation therefore asked for views on whether the publication of LRIC floors and ceilings prepared on their current basis will continue to provide useful and relevant information as BT moves to implement its NGN and asked how the requirements might be updated.
- 3.55 BT responded that:
- "LRIC can be a valid approach for providing Communications Providers with first level assurance that BT's charges are properly

cost-oriented. Comprehensive detail of floors and ceilings is unnecessary, rather exception reporting regarding LRIC floors and ceilings would provide far more useful and relevant information.

The impact of BT's NGN (also known as 21CN) on product costing will be wide-reaching. Many services will be provided over a common IP-based platform and as a consequence the common costs associated with any individual service are likely to dominate the cost stack, making LRIC and other traditional costing approaches far less meaningful concepts. Some of these problems are already evident in BT's existing network configuration, and the adoption of DLRIC and DSAC reflect the fact that LRIC and SAC are less meaningful when fixed and common costs dominate the cost stacks for many core network components.

These issues are extremely complex and in our view beyond the scope of the current consultation to address".

3.56 C&W's response can be summarised as follows:

- the use of LRIC has the potential to provide extra or different cost information than that provided by FAC;
- BT's particular implementation of LRIC does not provide as much value in practice;
- C&W also note that Ofcom itself has chosen to use FAC rather than incremental costs in setting charge controls or ceilings;
- C&W see the area of BT's LRIC costing as an area that Ofcom should review. One option would be for the publication of LRIC floors and ceilings to be replaced by greater detail of the actual costs and cost allocations already done as part of the input into individual component costs;
- however, C&W believe that LRIC costing still has a role to play in the setting of charge controls; and
- if Ofcom intends to continue to use BT's LRIC information as part of its own judgement of BT's compliance with cost orientation obligations, then it is essential that the information remains available to stakeholders.

3.57 The confidential response stated that "The movement to a NGN network will be disruptive for BT operationally and create numerous issues regarding regulatory reporting. However the LRIC floor and ceiling calculations provide an important prima facie test for compliance with cost orientation obligations, albeit in the NGN world the two figures will be closer to each other than previously...Ofcom should only remove the LRIC calculations as the prima facie test for compliance after a detailed consultation with the industry".

3.58 As stated in Ofcom's 2006/07 Annual Plan, Ofcom is considering how telecommunication networks and services are developing and exploring the implications for regulation. One of the objectives for the project will be to understand the implications of changes in cost behaviour as a result of the move to next generation networks in order to develop a new fit for purpose LRIC regime.

- 3.59 Meanwhile, LRIC is, and will continue to be, a fundamental regulatory costing methodology. However, the numbers currently produced by BT's LRIC model are becoming less relevant to effective regulation. These numbers rely on the application of the forward looking concept of LRIC to historical data that is based on assumptions relating to soon to be replaced technology. In addition, it is run on a model that was developed some time ago using certain assumptions that may no longer be relevant.
- 3.60 Further, NGN will now have fundamental implications for future regulatory decisions including the meaning of cost orientation and the calculation of LRIC. Published LRIC data is therefore becoming less relevant to regulatory decisions and is rarely accepted by Ofcom as definitive evidence of compliance. Discussions with industry indicate that they accept that if the published data is not used by Ofcom, they have little use for it. However, the 2005/06 Regulatory Financial report included over 50 pages of LRIC data.
- 3.61 Given the limitations on the value of the LRIC information currently reported, Ofcom is of the view that a simplified version of reported LRIC information is appropriate until a more fit for purpose regime is developed.
- 3.62 Section 4 sets out Ofcom's proposals to simplify disclosure of LRIC information while a more fit for purpose regime is being developed. In the meanwhile, Ofcom will continue to require BT to provide LRIC data for specific investigations on an as-needed basis.

Charge control information

- 3.63 The primary purpose of the regulatory financial statements is to demonstrate compliance with cost orientation and non-discrimination obligations. A separate monitoring process exists for ensuring compliance with price controls. The financial statements already provide limited but useful insight into the underlying costs of regulated services.
- 3.64 Although there is no strict regulatory basis for requiring BT to include evidence of compliance with charge controls in its Regulatory Financial Report, Ofcom considers that it should be relatively straightforward to provide valuable information in this respect.
- 3.65 Further, BT's proposals for the new format Regulatory Financial Report included proposals for a statement reporting on compliance with charge controls.
- 3.66 The proposals set out in Section 4 therefore provide for including a schedule similar to that proposed by BT. However, the published information will not be subject to audit.

Inform make or buy decisions

- 3.67 In respect of other communication providers' wish for information to inform make or buy decisions, the financial reporting obligations that support BT's cost-orientation conditions may provide some useful information to inform other operators' business decisions but the primary purpose of the financial statements is for compliance purposes. Ofcom therefore does not propose to introduce or retain publication requirements with this specific objective in mind.

Investigate margin squeeze issues

- 3.68 Although margin squeeze is a key concern of stakeholders, margin squeeze is a form of anti-competitive behaviour that is best assessed through the provisions of the Competition Act relating to abuse of a dominant position.
- 3.69 The regulatory financial statements are directed principally at ensuring wholesale SMP conditions can be effectively monitored and compliance tested. As such, this may limit the ability of other operators to look at margin squeeze issues using this data alone. The Regulatory Financial Report will provide information relevant to margin squeeze tests but the complexity of the issues means that a full Ofcom investigation into alleged unfair margin squeeze behaviour is likely to require much more extensive and granular data than that normally available in a set of regulatory accounts.

Determining the level of information to be made public

- 3.70 The published statements must have regard to practical constraints (such as the need for an appropriate level of aggregation of information to ensure that any report is not too vast or impenetrable) and potential issues around the confidentiality of BT's financial information.
- 3.71 This section therefore considers:
- the level of detail to be made public; and
 - distribution channels.

Level of detail

- 3.72 Ofcom understands BT's concerns regarding the confidentiality of commercially sensitive information but must also have regard to the need for transparency.
- 3.73 In its response to the May Consultation, BT stated that it "should only be required to publish information sufficient to provide appropriate levels of assurance of key aspects of compliance, which is the primary purpose of regulatory financial statements".
- 3.74 To a large extent, Ofcom agrees with this statement from BT. BT should only be required to publish information sufficient to provide appropriate levels of assurance of key aspects of compliance, and the proposals set out in Section 4 reflect Ofcom's assessment of the level of information required to provide this assurance. It may of course be that some of the information provided on this basis also has a commercial value to BT's competitors. However, this is not a reason for not providing the information.
- 3.75 BT stated in its response that "it is Ofcom alone that should decide upon the appropriate level of financial information to be made available by BT since it is the regulator's role to monitor compliance with the obligations that it has imposed. The proportionality test should limit the information required to be published to that needed to provide appropriate assurance of compliance which requires far less detail than is currently published".
- 3.76 Ofcom agrees that it is for Ofcom to decide on the appropriate level of disclosure. Further, this decision should be based on the information deemed necessary to

demonstrate compliance with the underlying obligations of cost orientation and non-discrimination. However, as explained below, Ofcom considers that in deciding where to draw the line between public and private financial information it is important to weigh the regulatory benefit of making the information public against the cost of doing so.

- 3.77 C&W believe that “the industry can provide a complementary approach to Ofcom when investigating the regulatory accounts and will always have more technical expertise and hands on knowledge of telecommunications networks and products than BT’s auditors. [Communication Providers (“CPs”)] will ask questions of BT regulatory staff on a specific issue who will go away and investigate this by digging into the accounts. Industry has brought several complaints to Ofcom on this basis”.
- 3.78 Further, C&W suggest that “It would be unreasonable for Ofcom to insist on having evidence before it opened an investigation if it took a significant evidential source away from CPs”.
- 3.79 The confidential response noted the respondent’s view that “those undertaking the audit are not close enough to the BT network design and the markets in which they operate. As network owners and operators, we understand more fully the network design and allocation principles that may apply and so utilise this knowledge and experience before acting upon the data in either consultation responses, business planning or proactive regulatory challenges”. SSE suggested that “It will naturally be those players with greatest involvement and investment in the telecoms markets that are in a position to scrutinise the financial information published by BT”.
- 3.80 UKCTA responded that “Stakeholder scrutiny is essential because it will be directed towards the elements of BT’s regulated activity where failure to meet its obligations will have the greatest detrimental impact. By interrogating the data themselves, industry is able to lighten the burden on both Ofcom and BT. Without access to detailed regulatory financial reporting, stakeholders may approach Ofcom more often to investigate elements of the regulated accounts. Such approaches are likely to be more speculative and unfocussed”.
- 3.81 Ofcom considers that its assessment of the appropriate level of information to be published depends on whether it is sufficient for industry to be informed that BT has demonstrated compliance with its obligations to the satisfaction of Ofcom or whether there is a role to be played by industry in reviewing, challenging and potentially using this information to stimulate effective regulation, competition and innovation.
- 3.82 To inform its assessment, Ofcom invited stakeholders to provide Ofcom with examples of instances where the ability to access the detailed information provided in the regulatory financial statements as currently published has proved helpful in testing or challenging BT’s compliance with its cost orientation and non-discrimination obligations.
- 3.83 Examples of how stakeholders have used the regulatory financial information in respect of BT’s cost orientation obligations included the following:
- in respect of WLR ISDN2, applying an estimate of the effects of Ofcom statements on BT’s cost of copper and cost of capital to the ISDN2 cost base to verify prices remain cost orientated; and
 - in respect of PPC trunk charging, comparing cost recovery and cost attribution assumptions to analyse optimum investment.

- 3.84 In respect of non-discrimination obligations, examples provided by stakeholders of how the published information was used included the following:
- in respect of operator assistance, ensuring BT is treating itself in a non-discriminatory way for call origination compared to charges levied on other operators; and
 - in respect of PPC replicability, analysis of BT's internal and external supply of leased circuit components to ensure compliance with no undue discrimination obligations.
- 3.85 In these cases the financial statements provided an important source of information to:
- analyse underlying service cost data consistent with BT's cost orientation obligations; and
 - understand the financial implications of separating BT's wholesale and retail activities and transfer charging between them in the same way as external sales are treated (the non-discrimination obligation).
- 3.86 Further, the publication of cost and volume data relating to the underlying component parts of the network have provided a useful foundation for several other significant regulatory and competitive developments. For example, the early development of flat rate internet access call origination ("FRIACO") was enabled in significant part by the existence of published costing information that allowed Internet Service Providers and their host network operators to calculate with some confidence the underlying costs of new interconnection services that they had requested in advance of BT's voluntary provision of such information. This undoubtedly triggered faster development and take-up of internet access services than otherwise would have been the case. The economic benefits of the disclosure were therefore significantly greater than the costs of publishing the information.
- 3.87 Informed by responses to the May Consultation and the historical use of the published information, Ofcom considers that a regulatory environment where stakeholders are simply informed that the regulator is satisfied that the obligations have been met is likely to be less effective than one where the industry is better informed. Disputes and investigations will be resolved more quickly, efficiently and on the basis of more reliable information. Specifically, Ofcom considers that relying solely on the regulator's assessment of whether compliance has been demonstrated carries the risk that either:
- Important issues that may have been identified by stakeholders will remain unnoticed; or
 - Ofcom's allocation of scarce resources to important issues will be reduced as it is obliged to consider an increased number of speculative complaints raised by less well informed stakeholders.
- 3.88 The potential cost to industry of the withdrawal of information must therefore be considered alongside the cost to BT of publishing it. The proposals in section 4 have been drafted with this assessment in mind.

Distribution channels

- 3.89 The May Consultation considered whether information might be provided by BT on request and that this might reduce the need for publication of detailed information. Stakeholders were therefore asked to identify the factors that should be taken into account when determining whether information should be published or made available on request.
- 3.90 BT stated that “It would be inappropriate to oblige BT to provide information on request to any body other than Ofcom. BT may, at its own discretion, choose voluntarily to provide information if it believes it would allow better understanding of the published information, for example via regular “transparency workshops”.
- 3.91 Annual statements should be primarily published on BT's web site so that all stakeholders and other interested parties have access to them at the same time. BT will consider the practicalities of presenting highlights of the results to industry members at the regular transparency workshops that we have committed to”.
- 3.92 C&W noted that “Several complaints and disputes have been brought by members of industry as a result of considering the accounts. If all the data was only available on request the process of investigating BT's costs would be more arduous. C&W believe that the costs to BT of producing the accounts in their current format is entirely proportionate.
- 3.93 BT has proposed that many of the stakeholders' requirements can best be addressed through regular workshops with CPs where industry members and their representatives will have the opportunity to discuss the costs of the services they buy from BT. BT has already initiated a series of these workshops, which Ofcom considers to have the potential to provide a useful route for stakeholders to obtain much of the information they require.
- 3.94 However, C&W are “not clear that industry workshops could in any way replace publication of the accounts and supporting documentation in their current format”.
- 3.95 SSE noted that they “would be wary of any move to reduce the level of information that is currently published in the various channels such as BT's website. If some level of information was only to be made available by BT “on request” then this could, as Ofcom has recognised, signal to BT that an interested party was gathering material with intent to launch a complaint. Third parties could also be subject to delays by BT in providing requested information”.
- 3.96 The confidential response identified two key factors that should be taken into account when considering whether information should be published or available on request: timing and confidentiality.
- 3.97 In respect of timing, the respondent argued that, “the timely provision of accounting data is as relevant to regulatory as statutory accounting. Senior management within the organisation may have queries relating to markets which require data from the regulatory accounts. As such, the time delay through the need to issue a ‘data request’ to Ofcom or BT may be particularly significant. [The respondent] believes that whilst a data request service may be of use to some stakeholders it is unlikely to be suitable for operators whose business models are strongly linked to BT's SMP wholesale products. Whilst this may be addressed by such as Service Level Agreements, delay will still have a significant impact.”

- 3.98 In respect of confidentiality, the respondent argued that, “the content of requests supplies BT with information regarding its competitors’ intentions within a certain market. This may have the result of strengthening BT’s power in the market and/or providing BT with advance warning of disputes that operators may be about to raise. This is counter to the objectives of effective regulation.”
- 3.99 Ofcom considers that there is significant value in the informal route to information offered by the workshops held by BT. However, for the reasons set out above, notably the fact that different stakeholders will need access to different information relatively quickly and at different times, possibly without wanting to signal any concerns that they may have, Ofcom does not consider that these workshops can be relied upon to meet stakeholders’ information requirements, whether or not the decision whether to provide the information is a matter for BT’s discretion.

Section 4

Proposals

Introduction

- 4.1 The objectives for the regulatory financial reporting regime are considered in Section 3.
- 4.2 Informed by these objectives, Section 4 sets out Ofcom's proposals relating to BT's objectives in respect of:
- information provided only to Ofcom
 - information to be published by BT, including the regulatory financial statements and the accounting documents; and
 - audit requirements.

Information provided only to Ofcom

- 4.3 To satisfy itself that BT has fully met its reporting obligations Ofcom requires detailed and often commercially sensitive data. This information is used to carry out an analytical review of BT's regulatory financial statements, inform ongoing improvement processes and highlight potential areas for further development.
- 4.4 This information is particularly helpful in identifying key trends and material costing methodologies. For example the LRIC output schedules and the asset movement schedules provide important information about the impact of BT's 21CN investment. The product profitability statements also provide valuable information about trends in the regulated economic markets and the impact of regulatory intervention.
- 4.5 As explained in Section 3, Ofcom's requirements for regulatory financial information are currently met in part by a series of documents known as Additional Financial Statements ("AFSs") and Additional Financial Information ("AFIs"). These documents are provided to Ofcom by BT on a confidential basis.
- 4.6 In 2005, a new reporting obligation was placed on BT to provide Ofcom with a comprehensive data file of all the transactions that underpin its regulatory financial statements. By importing this data into a powerful database tool it will be possible for Ofcom to interrogate the data at different levels in the costing structure. Ofcom will therefore get increased access to more detailed financial information maintained by BT.
- 4.7 Ofcom considers that the requirements for BT to provide AFSs and AFIs can be satisfied through the provision of this data extract tool. Ofcom therefore proposes that the provision by BT of individual AFSs and AFIs will not be required if the data extract tool is demonstrated by BT, to Ofcom's satisfaction, to be capable of generating the equivalent information, on a statement by statement basis, for the relevant annual reporting period promptly after the publication of the main statements.
- 4.8 The obligation to provide the information is not being withdrawn. The proposal is only that provision of a satisfactory data extract tool may be considered by Ofcom, on

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

- 4.9 Potentially, BT will be able to satisfy all of its obligations to provide the information set out in the AFIs and AFSs by delivering an effective data extract tool. However, in the short term, Ofcom expects that the following AFIs will fall into this category:
- AFI 7 – analysis of total mean capital employed and detailed activity analysis for all network components;
 - AFI 8 – Analysis by type of product group and by type of operator of costs, mean capital employed and transfer charges to disaggregated activities in relation to Outpayments to other operators; and
 - AFI 9 – detailed network activity analysis of mean capital employed for all network components
- 4.10 Although the reporting of some residential retail markets will remain for 2006/07, along with the lifting of formal price controls in these markets, it is proposed to withdraw the requirement to prepare “AFI 12 - Marketing expenditure analysis of BT’s top ten campaigns”.
- 4.11 The requirement to deliver the AFIs and AFSs in documentary form will remain if BT fails to provide a satisfactory data extract tool to the agreed standard and within pre-defined delivery dates.
- 4.12 Ofcom will continue to review the specific requirements for regulatory financial information necessary to meet its regulatory objectives.

Question 1 Do you agree with Ofcom’s proposal to accept the delivery of an operational data extract tool as satisfaction of the requirement to deliver AFIs and AFSs?

Published information

- 4.13 Proposals made in this section relate to:
- the regulatory financial report; and
 - the accounting documents.
- 4.14 These have been drafted by Ofcom to meet the objectives described in Section 3.

Regulatory financial report

- 4.15 The proposals consist primarily of a new format for the regulatory report as set out in a series of annexes to the following directions:
- a Direction given under SMP Services Condition OA2 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 and as modified at Annex 2 of the Changes to BT’s Regulatory Financial Reporting and Audit Requirements, dated 16 August

2006, which relates to BT's obligations under SMP services conditions OA1 to OA34 ("Direction 3")

- a Direction given under SMP Services Condition OA2 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 and as modified at Annex 2 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 16 August 2006, which relates to BT's obligations under SMP services conditions OA1 to OA34 ("Direction 4")
 - a Direction given under SMP Services Condition FA10.2 at Schedule 4 to the Notification set out in Annex 2 of the Review of the wholesale local access market, dated 16 December 2004 and as modified at Annex 2 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 16 August 2006, (the "Schedule 4 FA10 Direction");
 - A Direction given under SMP Services Condition FA10.2 at Schedule 5 to the Notification set out in Annex 2 of the Review of the wholesale local access market, dated 16 December 2004 (the "Schedule 5 FA10 Direction").
- 4.16 The new annexes to Direction 4 and the Schedule 5 FA10 Direction are set out in Annex 10 to this consultation document. A copy of the annexes in the form of an Excel spreadsheet can be obtained from david.brown@ofcom.org.uk. These new annexes will replace the existing annexes to an annex to Direction 4 and the Schedule 5 FA10 Direction. For clarity below, but not in the Directions, these "annexes to the annex" to Direction 4 are described as Sub-Annexes, and are referred to below as "new Sub- Annexes" or "existing Sub Annexes" respectively. Explanations of the purpose of each new Sub Annex are provided in Annex 7 to this Consultation Document.
- 4.17 The new annex to Direction 3 and the Schedule 4 FA10 Direction is set out in Annex 9 to this consultation document. The annex matches the reporting obligations to specific markets. Documents that must be published are denoted by a letter "P". Documents that must be produced but need not be published (ie the AFSs and AFIs) are denoted by a letter "N".
- 4.18 The proposals have been drafted with the objectives described in Section 3 in mind. Specifically:
- the proposed regulatory reporting requirements will continue to meet the primary objective of the reporting regime: to demonstrate compliance with obligations of cost orientation and non-discrimination;
 - the proposals reflect Ofcom's view that an informed industry can contribute to effective and efficient regulation, weighed against a recognition of BT's understandable wish to maintain confidentiality over its commercially sensitive information;
 - information that does not serve a regulatory purpose is not required;
 - the published financial information should meet the reporting requirements set out in the Undertakings, specifically the need to disclose the results of openreach separately;

- Ofcom will take the opportunity afforded by the move to next generation networks to look for a more fit for purpose LRIC regime. In the meanwhile BT will not be required to generate the data. Instead, BT will provide indicative LRIC data plus sufficient cost information to allow the user of the accounts to form a reasonable view of the likely order of the LRIC floors and ceilings; and
 - the format of the published financial information will be improved to make the information easier to use for existing users and more accessible to a wider audience.
- 4.19 The effect of the proposals will be to reduce the length of the regulatory financial report. The reduction is achieved mainly by simplifying the reporting requirements for each market, with less repetition of supporting analysis and omitting the detailed analysis behind the LRIC data.
- 4.20 With the exception of the LRIC analysis, very little information that is currently provided will be lost. This reflects Ofcom's view that an informed industry contributes to effective and efficient regulation and takes account of examples provided by industry of the ways in which published information has contributed to effective competition and informed focussed requests for intervention.
- 4.21 The structure of the report has been improved to make it more accessible to a wider audience without losing the information necessarily used by the regulatory community. This has been achieved by moving the key information to the front of the document and pushing the (simplified) supporting analysis to the back of the report. Specifically, the structure has been changed as set out below:
- to provide the regulatory community with evidence of tests of compliance with obligations and sufficient information to understand and challenge this evidence, most of the detailed financial information currently provided will still be required;
 - to provide a wider audience with an understanding of the key issues, the overall performance of BT's regulated activities will be reported and explained at the front of the document (with a focus on the wholesale access markets). Relevant Sub-Annexes include the new Sub-Annexes 3,4 and 7;
 - to give all users a better understanding of how costs are shared by products and services, two new Sub-Annexes (numbers 5 and 6), will be required to illustrate and explain how group costs and assets are allocated across all markets;
 - to provide key indicators of financial performance and evidence of compliance with first order tests of compliance with BT's obligations to offer cost-orientated charges and not to discriminate unduly, single page statements (such as new Sub-Annex 10 and 11) will be required for each market;
 - to aid understanding, markets will be organised into groups, specifically Openreach markets, other wholesale markets (primarily the non- access SMP markets) and retail markets. The proposed structure for the Regulatory Financial Report is set out in annex 7 to this consultation document; and
 - to simplify reporting and facilitate comparison of the underlying data across different markets, detailed support for the data used in the first order tests for each market will be collated and included in a section towards the back of the report, including Sub Annexes 15 to 17.

- 4.22 Nothing in Ofcom's proposals affects BT's obligation to provide information in response to specific requests from Ofcom.

Legal tests relating to publication requirements

- 4.23 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act are met for the modifications proposed in this section relating to the following Direction 3, Direction 4, the Schedule 4 FA10 Direction and the Schedule 5 FA10 Direction.
- 4.24 This section should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

Relevant tests

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

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

- 4.26 Section 3 of the Act sets out the duties of Ofcom in carrying out its functions, in particular that it furthers the interests of citizens in relation to communications and furthers the interests of consumers in relevant markets.
- 4.27 Section 4 of the Act requires that Ofcom acts in accordance with the six Community requirements concerning: the promotion of competition; the development of the European internal market; the promotion of the interests of all EU citizens; non-discrimination; promoting efficiency and sustainable competition and the maximum benefit for consumers; and facilitating service interoperability and securing freedom of choice for consumers.
- 4.28 As part of the EU market review process, Ofcom imposed wholesale and retail cost accounting and accounting separation obligations (conditions and directions) on BT in specific markets; as appropriate remedies to its SMP in these markets. The individual market reviews have already assessed whether these obligations meet the tests outlined in Sections 3 and 4 of the Communications Act.
- 4.29 Ofcom considers that the modifications contained within this section are consistent with the SMP obligations flowing from these markets reviews and, therefore, also meet the tests set out in Sections 3 and 4 of the Act.

Section 49(2) tests

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

- c) proportionate to what it is intended to achieve; and
- d) transparent in relation to what it is intended to achieve.

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

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

4.32 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.21 is objectively justifiable as the proposed regulatory reporting requirements will continue to meet the primary objectives of the reporting regime in a simpler and more easily understood format with greater focus on the key issues.

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

- 4.33 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.21 is not unduly discriminatory.
- 4.34 BT and KCL are the only communications providers in the fixed communications market to have SMP in multiple markets and therefore can be treated as a class of communications provider. As a consequence of having SMP in multiple markets they are the only providers in respect of which Ofcom imposes reporting obligations and are therefore the only providers with audit requirements.
- 4.35 The form and content of KCL's financial reporting obligations already reflect KCL's relative size and complexity compared to BT. The scale and scope of current requirements on KCL are less extensive than for BT and will continue to be so after the proposed changes. Ofcom therefore does not consider its review of the requirements for BT's regulatory financial information only is unduly discriminatory against either BT or KCL.

Proportionate to what it is intended to achieve

4.36 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.21 is proportionate in that the proposals will continue to deliver the increased understanding of the key issues at little or no cost to BT and, in the longer term, may allow for a simplification of BT's reporting regime which could result in cost savings.

Transparent in relation to what it is intended to achieve

- 4.37 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.21 is transparent in that its effect is clearly set out in this document and the draft modification of Direction 3 and the Schedule 4 FA10 Direction is set out at Annex 9.
- 4.38 Ofcom considers that the proposed modifications to Direction 4 and the Schedule 5 FA10 Direction meet the tests under section 49(2) for the following reasons:

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

- 4.39 Ofcom considers that modifying Direction 4 and the Schedule 5 FA10 Direction in the manner described in paragraph 4.21 is objectively justifiable as the proposed regulatory reporting requirements will continue to meet the primary objectives of the reporting regime in a simpler and more easily understood format with greater focus on the key issues.

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

- 4.40 Ofcom considers that modifying Direction 4 and the Schedule 5 FA10 Direction in the manner described in paragraph 4.21 is not unduly discriminatory.
- 4.41 BT and KCL are the only communications providers in the fixed communications market to have SMP in multiple markets and therefore can be treated as a class of communications provider. As a consequence of having SMP in multiple markets they are the only providers in respect of which Ofcom imposes reporting obligations and are therefore the only providers with audit requirements.
- 4.42 The form and content of KCL's financial reporting obligations already reflect KCL's relative size and complexity compared to BT. The scale and scope of current requirements on KCL are less extensive than for BT and will continue to be so after the proposed changes. Ofcom therefore does not consider its review of the requirements for BT's regulatory financial information only is unduly discriminatory against either BT or KCL.

Proportionate to what it is intended to achieve

- 4.43 Ofcom considers that modifying Direction 4 and the Schedule 5 FA10 Direction in the manner described in paragraph 4.21 is proportionate in that the proposals will continue to deliver the increased understanding of the key issues at little or no cost to BT and, in the longer term, may allow for a simplification of BT's reporting regime which could result in cost savings.

Transparent in relation to what it is intended to achieve

- 4.44 Ofcom considers that modifying Direction 4 and the Schedule 5 FA10 Direction in the manner described in paragraph 4.21 is transparent in that its effect is clearly set out in this document and the draft modification of Direction 4 and the Schedule 5 FA10 Direction is set out at Annex 10.

Question 2 Do you agree with the general objectives of the changes to the financial reporting requirements, as described in Section 4 and, if not, how should they be updated and why?

Question 3 Do you consider that the scope, content and/or presentation of any of the annexes that form the basis of the published financial information requirements, could be modified to better address the objectives described in Section 4, and if so how and why would the change be appropriate?

Question 4 Do you consider that the scope, content and/or presentation of any of the annexes that define the information to be provided to Ofcom (in the form of

AFIs and AFSs), could be modified to better address the objectives described in Section 4, and if so how and why would the change be appropriate?

- 4.45 The main changes to the reporting requirements relate to the level of detail required relating to LRIC information and the basis of preparation of that information.
- 4.46 The May Consultation raised a number of other potential changes to the reporting requirements, including exception reporting, increased reliance on internal controls, the introduction of a director's compliance statement and the inclusion of forward looking cost information. These preliminary proposals are not being taken forward in this consultation.
- 4.47 The changes relating to LRIC and the other changes considered but not taken forward are considered in more detail below.

Openreach reporting

- 4.48 Ofcom has accepted a range of undertakings provided by BT which includes explicit reference to the preparation and publication of accounting information relating to the Access Services division (known as Openreach). Undertaking 5.31 refers to the regulatory financial statements also presenting separately the financial results of Openreach.
- 4.49 Although no formal consultation is required on this undertaking, Ofcom believes it would be helpful to include in this consultation document the pro-forma profit & loss account, mean capital employed statement and reconciliation statements that are currently proposed. Pro-formas of these statements are set out in Annex 8. These statements will also be subject to independent audit.

Question 5 Do you have any comments on the proposed form and content of the Openreach financial statements to be included in the published regulatory financial statements?

LRIC reporting

- 4.50 BT is currently required to prepare statements of Long Run Incremental Costs. The LRIC model: Relationships & Parameters (R&P) describes in detail how BT has applied the methodologies⁸.
- 4.51 The LRIC model calculates the LRIC of an increment by deducting the cost driver volume of the increment being measured from the cost driver volume of the whole of BT. By sliding down the cost volume relationship curve to this lower volume, the model calculates by how much costs would fall if this increment was no longer provided, which is the LRIC calculation.
- 4.52 The LRIC model takes six key inputs (BT group costs, cost category links, cost volume relationships, cost drivers volumes, assumptions and increments to be measured) in order to generate the provision of defined increments of output of the network (i.e. in the network components such as local exchange concentrator).

⁸ Document can be seen at;
<http://www.btplc.com/Thegroup/Regulatoryinformation/Financialstatements>.

- 4.53 Each year the assumptions used to assist in the construction of the LRIC model are reassessed by BT. These assumptions include; Scorched Node (BT maintains its existing geographical coverage in terms of customer access and connectivity), Thinning (existing transmission routes are required to provide connectivity between network nodes independent of the scale), Service levels, Constant mix assumption, and Cost of Capital.
- 4.54 BT has informed Ofcom that the scale and complexity of the model is increased by the volume of increments and the requirement to run the model for distributed LRIC (which calculates the increments but includes an intra core element of fixed common costs), stand alone costs (which captures all costs of producing an output independently of other outputs) and distributed stand alone costs (which uses equal proportionate mark-ups to distribute the fixed common costs shared across the components).
- 4.55 As noted in Section 3, Ofcom considers that the concept of LRIC is, and will continue to be, a fundamental regulatory tool but the numbers currently being produced by BT's LRIC model are becoming less relevant to effective regulation and, exacerbated by the move to NGNs, the Published LRIC data is becoming less relevant to regulatory decisions. There is therefore the need to review the LRIC regime. However, ahead of this review, it is appropriate to consider whether the existing requirements for publication of LRIC data prepared on its current basis should continue or whether something else should take its place.
- 4.56 Where Ofcom has set an SMP obligation in relation to the basis of charging for a service, it has expressed such an obligation in terms that unless Ofcom otherwise directs, the Dominant Provider shall secure and shall be able to demonstrate to Ofcom's satisfaction that each and every charge offered, payable or proposed for that service is reasonably derived from the costs of provision based on a forward looking long run incremental cost approach and allowing an appropriate mark up for the recovery of common costs including an appropriate return on capital employed.
- 4.57 As part of the requirements to demonstrate that this LRIC cost approach has been complied with to the satisfaction of Ofcom BT is required to prepare, deliver to Ofcom and publish its Regulatory Financial Statements, including Wholesale Cost Accounting Financial Statements, in accordance with Direction 3 and the Schedule 4 FA10 Direction.
- 4.58 Should Ofcom be satisfied that the preparation of such financial statements in a different manner still serves the purpose of demonstrating to Ofcom's satisfaction that the charges for the relevant service are reasonably derived from the costs of provision based on the LRIC cost approach as described above, Ofcom can achieve this change by modifying Direction 3 and the Schedule 4 FA10 Direction where appropriate and so long as it satisfies the tests set out in section 49(2) of the Act. The relevant changes to Direction 3 and the Schedule 4 FA10 Direction are encompassed by the changes described above at paragraph 4.21, followed by a review of the tests set out in section 49(2).
- 4.59 Ofcom has considered three possible approaches to generating and publishing LRIC data, as follows:
- continue with current requirements to generate LRIC numbers based on BT's LRIC model;
 - end all requirements to publish LRIC data;

- replace existing requirements with requirement for estimated or “Indicative” LRIC data
- 4.60 Ofcom sees little value in requiring BT to generate and publish LRIC data that is prepared on a basis that is no longer considered to represent a robust approach for determining a forward looking LRIC. Further, as explained in Section 3, Ofcom is concerned that a requirement to publish detailed calculations prepared on a basis that is becoming less relevant risks inferring an unwarranted status on these numbers, is potentially misleading and is likely to reduce users’ confidence in the reliability of the statements as a whole.
- 4.61 Ofcom also considered the possibility of not publishing any LRIC data. However, as noted above, where Ofcom has set an SMP obligation in relation to the basis of charging for a service, BT is currently obliged to demonstrate that charges are reasonably derived from the costs of provision based on a forward looking long run incremental cost approach. Ofcom considers FAC data alone, even where reasonably robust, does not allow for a fully informed assessment of whether this obligation has been met. Given that charges will frequently not be equal to FAC, it is necessary to understand whether the charges are within a reasonable range of that FAC; LRIC floors and ceilings provide that range although, as explained below these measures may have limited use for certain services and may even misinform the reader.
- 4.62 Ofcom therefore proposes that BT should no longer be required to continue to generate and publish LRIC data prepared on the current basis for non access related wholesale services. Instead it will be required to provide an Indicative LRIC figure.
- 4.63 Ofcom asked BT to suggest how these “Indicative LRIC” numbers might be practically generated and audited. The four options considered by BT were as follows:
- not running LRIC at all (Option 1);
 - amend LRIC model for service level data (Option 2);
 - running LRIC with minimum update (Option 3); and
 - running LRIC with an update for access (Option 4); and
- 4.64 BT has informed Ofcom that it considers that the option of not running LRIC at all is precluded by its need to maintain and run LRIC for potential future investigations which may require a formal LRIC test and BT’s own commercial needs for future pricing requirements to meet the regulatory framework.
- 4.65 Ofcom has therefore considered the other options raised by BT plus a further option; the use of historical average ranges from FAC. It has also considered the appropriate level of audit assurance over these figures.
- 4.66 Currently the LRIC model produces information at a component level which is then converted to service floors and ceilings via the Statement of Costs and Charges. Under Option 2, as these are no longer proposed options BT suggested that variants of the above could be explored to directly produce LRIC information at a service level without this intermediary step. However, Ofcom does not consider that preparing LRICs for detailed services necessarily provides the relevant increments for our

analysis because it departs significantly from the agreed increments established when BT first introduced its LRIC model.

- 4.67 BT's third option is for the LRIC model to be run without updating any of the Cost Volume Relationships ("CVRs") so that only new volumes and cost are driven through existing components. Option 4 is broadly same as Option 3 except that those CVRs and components that relate to access markets would be updated.
- 4.68 As indicated above the main driver for proposing changes to LRIC reporting is BT's planned next generation network which, amongst other things, will eventually replace traditional PSTN technologies. Therefore cost data from BT's accounting records are now not seen as relevant for the purposes of determining long run incremental costs in the "core" network. However, the potential impact of BT's investment in NGN technologies does not appear to have any significant (if any impact) on access network costs. Ofcom therefore believe that the LRIC model remains an important tool for calculating LRIC data for access services.
- 4.69 A further option is to base the Indicative LRIC numbers on an average of LRIC numbers generated by BT's LRIC model the last, for example, three years.
- 4.70 To determine whether the approaches described above are capable of providing a reasonable basis, Ofcom has compared how the relationship between LRIC floors and ceilings and FACs has changed over the last five years has changed for a sample of components and products. The results indicate that, when expressed as a proportion of FAC, LRIC estimates are reasonably stable.
- 4.71 For non-access services, the current "top-down" costs used to populate BT's LRIC model are unlikely to reflect to long run costs of a next generation network. However, BT has only just started its NGN deployment and it will be a number of years before top-down cost data and an updated LRIC model could be used to calculate robust floor and ceiling data. In the meantime additional reliance will be placed on FAC data for the purposes of ensuring BT's compliance with its cost orientation obligations.
- 4.72 On this basis, Ofcom proposes that:
- the LRIC model should be run, updated for all CVRs as well as new volumes and costs that impact on access services;
 - for services other than access services, the stand alone cost (SAC) based on costs derived from the use of obsolescent technologies seems to have little value in forward looking regulatory decisions and therefore Ofcom proposes that no SAC data is published; and
 - where the charge exceeds the FAC then Ofcom believes that this indicates that the incremental floor is below the charge and no disclosure of the floor is necessary. Where the charge is below FAC then Ofcom propose an "indicative" floor is published based on the average range derived from the three most recent year's data.
- 4.73 The indicative nature of the LRIC estimates should be made clear in the financial statements.

Question 6 Do you agree with Ofcom's proposals to replace the current requirements for published LRIC data for non-access services with a requirement for

“indicative” LRIC floor data to be provided only where the charge is less than FAC (as described in Section 4)?

- 4.74 BT’s independent auditor (currently PricewaterhouseCoopers LLP (“PWC”)) provides its opinion to BT and Ofcom as to whether the financial statements for each market are fairly presented in accordance with the Accounting Documents and also whether each of the statements of costs and charges of wholesale services has been properly prepared in accordance with this framework. The Accounting Documents consist of the Primary Accounting Documents (which set out the framework for the preparation of the financial statements) and the Secondary Accounting Documents (which include the document: Long Run Incremental Costs: Relationships and Parameters).
- 4.75 Given the inherent limitations on the robustness of any LRIC estimates described above, Ofcom considers that the audit of these estimates adds little additional assurance. However, we understand that the audit the LRIC model represents a significant proportion of the cost of the regulatory audit.
- 4.76 Ofcom therefore proposes that the BT’s auditor will not be required to opine on the Indicative LRIC data published under the above proposals.
- 4.77 As set out in Annex 9, to enable the scope of the audit to be defined with this in mind, requirement for BT to secure appropriate audit opinions, set out in Direction 3 and the Schedule 4 FA10 Direction, will be modified to include the words “and to the satisfaction of Ofcom”.

Legal tests relating to audit of LRIC information

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

Relevant tests

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

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

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

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

Section 49(2) tests

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

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

- 4.85 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.77 is objectively justifiable because the level of additional assurance provided by the audit of these estimates is not currently considered to be sufficient to justify the additional cost of providing that assurance.

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

- 4.86 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.77 is not unduly discriminatory.
- 4.87 BT and KCL are the only communications providers in the fixed communications market to have SMP in multiple markets and therefore can be treated as a class of communications provider. As a consequence of having SMP in multiple markets they are the only providers in respect of which Ofcom imposes reporting obligations and are therefore the only providers with audit requirements.
- 4.88 The form and content of KCL's financial reporting obligations already reflect KCL's relative size and complexity compared to BT. The scale and scope of current audit requirements on KCL are less extensive than for BT and will continue to be so after the proposed changes. Ofcom therefore does not consider its review of the requirements for the audit of BT's LRIC data only is unduly discriminatory against either BT or KCL.

Proportionate to what it is intended to achieve

- 4.89 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.77 is proportionate because the level of additional assurance provided by the audit of these estimates is currently insufficient to justify the additional cost of providing that assurance.

Transparent in relation to what it is intended to achieve

- 4.90 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.77 is transparent in that its effect is clearly set out in this document and the draft modification of the Schedule 4 FA10 Direction is set out at Annex 9.

Question 7 Do you agree with Ofcom's proposal that Indicative LRIC data does not need to be audited?

Exception reporting

- 4.91 BT's regulatory financial statements provide information to allow the reader of the accounts to determine, within the SMP markets, whether BT has complied with its reporting obligations and that the information is consistent with a number of first order tests of compliance with main underlying obligations of cost-orientation and non-discrimination.
- 4.92 The most relevant information is probably in respect of the unit costs of services that fall outside (or near to the limits) of these ranges and the reasons why this may be the case, together with what is being done to address the issue.
- 4.93 At present, there are relatively few services where unit costs fall outside the ranges presented. There is currently no particular focus or commentary on these exceptions, explanation of why the costs might be outside the range or narrative on management action to address the exceptions. Further, the use of annual data provides only limited insight in to what may have happened during the year.
- 4.94 The May Consultation suggested that this information might be presented more clearly by BT identifying and commenting on the costs that fall outside of the range, by way of an exception report. It was suggested that the report might comment on exceptions identified and resolved during the year and could be extended to include items that fall within but close to the limits of the range. The report could be accompanied by a commentary on the possible reasons why the costs might be outside the range and what management is doing to address the exceptions.
- 4.95 BT stated that it, "strongly support[s] the use of exception-based reporting, to supplement and explain the type of high level, focussed information that we are proposing should be included in the new format of annual report. For example, we are proposing that prices that fall outside the cost floor/ceiling range should be identified and explained. We firmly believe that this approach makes unnecessary much of the detailed reporting currently required".
- 4.96 The C&W response stated that "Cable & Wireless agree that a commentary on why costs fall outside their ranges would be useful. However, this should be in addition to the information we currently receive, as otherwise we would have no context to assess the importance of the information provided to us". UKCTA stated that, "There may be merit in devising a system that reports on compliance by exception. The

parameters of what would be classed as an exception need to be refined to ensure that all items of interest are adequately captured and reported. We believe that this information should be provided in addition to the detail currently published to preserve the overall context of the data”.

- 4.97 Ofcom agrees that a commentary on exceptions would be valuable but does not think that publication of exceptions alone is adequate. The floors and ceilings are a first order test only; a price that falls between the floor and ceiling may be non-compliant in the same way that an exception is not necessarily evidence of non-compliance. Also, publication of exceptions does not demonstrate that other charges are compliant or indicate whether the charge is close to the limits of an acceptable range. The illustrative justifications for the exceptions, as set out in BT’s proposed new format for the regulatory report illustrates another problem with relying solely on exception reporting; it is difficult to define an obligation to report on the underlying reasons why the exception may have occurred and the reason given may too often be simply to refer to the limitations of the first order tests as evidence of compliance with the underlying obligations.
- 4.98 Therefore, in order to provide the necessary context of the data, Ofcom does not consider that exception reporting alone provides adequate information to demonstrate compliance with obligations.

Reliance on internal controls

- 4.99 Linked to the idea of exception reporting, the May consultation raised the possibility of increasing reliance on internal controls to allow for a relaxation of scope of publication of regulatory financial reporting.
- 4.100 However, responses to the May Consultation indicated that there was little interest in this approach. For example, BT suggested that the existence of controls may contribute to the extent to which the auditors need to do detailed transactions testing, but ultimately the publication of substantive evidence is what matters. Cable & Wireless stated that they strongly disagree with any approach which would rely more heavily on internal controls and less on external scrutiny. UKCTA believes that knowledge of any controls in place to ensure compliance with cost and non-discrimination obligations is desirable but should not change current publication requirements.
- 4.101 On this basis, Ofcom does not intend to develop its analysis of the use of internal controls at this stage. None of the proposals set out in Section 4 is contingent on increased reliance on internal controls.

Directors’ compliance statement

- 4.102 As explained in the May Consultation document, Ofcom has considered whether there may be a form of compliance statement that directors would be prepared to sign.
- 4.103 As explained in the May Consultation, the provision of assurance from directors that the company complied with its reporting obligations and with the regulatory obligations would provide significant additional assurance to the current report, but, because compliance (or non-compliance) is only truly determined as a result of an investigation and potentially challenge through the courts, Ofcom therefore did not consider it likely a directors’ compliance statement would add much value if indeed it was practicable.

- 4.104 In response to the May consultation, C&W noted that they did not believe that any form of directors' compliance statement could provide a useful alternative to the current regime. One respondent noted that it could not identify any value in the inclusion of a director's compliance statement, over and above the audit opinion, particularly if it would only cover certain items or features of the accounts and suggested that the costs involved in agreeing the content of such a statement, through the use of lawyers both on Ofcom and BT's side would likely outweigh the benefits received.
- 4.105 UKCTA responded that a directors' compliance statement as proposed may be able to provide some useful assurance, but this would be limited in scope. As Ofcom suggests, certain aspects of regulatory obligations would not be feasible for sign-off by directors. As true assurance on many or most obligations is only ever achieved after investigation, it would not be appropriate for directors to make assurances that breaches had not occurred in advance of such an examination.
- 4.106 BT suggested that "The provision of a statement of compliance with cost oriented prices and no undue discrimination might, *prima facie*, appear useful. However, such a statement could not be a substitute for the first order evidence presented in the regulatory financial statements, as it is only through *ex post* assessment that prices set on a forward-looking basis can be determined to have been either cost-oriented or non-discriminatory.
- 4.107 BT also stated that "No case has been made for the imposition of such an obligation, and we do not believe it could be objectively justified".
- 4.108 Informed by the responses to the May Consultation, Ofcom does not propose to introduce a requirement for a directors' compliance statement.

Forward looking cost information

- 4.109 As explained in the May Consultation, the Current Cost Financial Statements are, by nature backward looking, reporting on a two-year period that ended up to six months prior to publication. This information is important as it helps to ensure that costs are attributed to the various components, services and products in line with the principles set out in the primary accounting documents. This in turn provides a sound accounting basis on which BT can comply with its reporting obligations and an important starting point for further analysis to support Ofcom's ongoing market review, investigation and complaints work.
- 4.110 However, the information is less relevant for the purposes of forward looking pricing decisions. In this context, it was suggested in the May Consultation that more forward-looking current cost information, for example in connection with asset values, may be useful.
- 4.111 The confidential response to the May Consultation stated that the respondent welcomed the provision of forward looking cost information as it would strengthen financial planning, particularly with the move to NGN.
- 4.112 However, the respondent suggested that Ofcom was "challenging operators to justify their request that the current level of regulatory accounting data remains in the public domain, whilst offering operators the opportunity to access forward-looking data, not necessarily justified on regulatory compliance grounds".

- 4.113 C&W explained that “C&W can understand why Ofcom considers that such forward looking costs could be of interest but there are strong arguments against going down this route. First, such regulatory accounts would not reconcile to the financial accounts and this would potentially reduce confidence in them. Second, there will be practical difficulties developing robust forward looking costs on the detailed basis required given all the changes taking place within the industry. C&W believe that such cost information will be irrelevant to CPs needs, except in relation to price control data”.
- 4.114 UKCTA noted that, “While UKCTA understands the benefits of having forward looking information, any information provided on a forward looking context is unlikely to be robust enough to rely on (as it will be heavily dependent on forecast volumes & previous costs). From a practical perspective, BT is unlikely to be able to accommodate any forward looking costs information without a significant amount of additional work, and as stated above, any output is not likely to be without flaws”.
- 4.115 BT responded that, “The primary purpose of an annual report is as a backward looking review, to give assurance that, during the period in question, BT complied with its accounting, reporting and other relevant obligations. The annual report is not a suitable tool to gauge forward-looking aspects of the regulatory regime. Where forward-looking prices are set, either by BT or, during a price control review, by Ofcom, assumptions about future costs need to be made, but we do not believe such information is appropriate material for annual regulatory financial statements”.
- 4.116 Informed by the responses to the May Consultation and Ofcom’s own assessment of the purpose of the Regulatory Financial Statements, Ofcom does not propose to change BT’s reporting obligations to require BT to publish more forward looking cost information at this stage.

Question 8 Do you agree with Ofcom’s decision not to develop proposals regarding exception reporting, increased reliance on internal controls, the introduction of a director’s compliance statement and the inclusion of forward looking cost information?

Accounting Documents

- 4.117 In response to the May Consultation, BT stated that

“BT believes that, while the supporting documents (The Primary Accounting Documents (PAD), Detailed Attribution Methods (DAM), Detailed Valuation Methodology (DVM), LRIC model relationships and parameters, BT Retail Catalogue, BT Wholesale Catalogue) are important sources of procedure and controls for the audit of the published statements, they are not appropriate for general publication. The fact that they are produced is useful for key stakeholders as assurance that BT is under appropriate scrutiny, but we do not believe there is any merit in publishing them”.

“Furthermore, we believe there is scope for radical simplification of the supporting documents whether or not they are published. The current documents are at a level of detail that is, if viewed objectively, unreasonable and impracticable to maintain or audit. The overriding principle, for the production and publication of these supporting documents is to make the accounts transparent. At

present these documents achieve almost the opposite effect, due to their length and detail”.

- 4.118 BT also stated that “there is little additional value to be provided from a detailed explanation of how costs are attributed, such as in the DAM or DVM⁹. The regulatory financial statements are built on an audited accounting “engine”¹⁰ and it should not be necessary to provide more than a high level description of this engine for users to gain assurance of the suitability of the allocation of costs across BT’s accounts”.
- 4.119 UKCTA responded that “the DAM and the DVM in their current form are difficult to use and hence are not used to their full potential. Nonetheless they remain important documents which could be re-worked at a summary level to improve usability and user understanding (with the bulk of the main reference data unpublished, but accessible to both Ofcom and other stakeholders on request)”.
- 4.120 Ofcom has therefore considered if the requirements relating to the publication of the Accounting Documents needs to be reassessed.
- 4.121 The transparency principle was introduced in 2004 to set a quality threshold for BT’s published documents. It has since been suggested to Ofcom that this principle equates to an obligation to ensure that the accounts can “easily be produced by a suitably informed reader”. This was not the intention of the requirement and Ofcom does not agree that such an interpretation can be read into the direction, which refers only to gaining “an understanding” of the data and the ability to judge the reasonableness of the methodologies used.
- 4.122 The transparency principle, as set out in BT’s regulatory reporting obligations, is as follows:

“BT shall ensure that any data, information, description, material or explanatory document prepared under Conditions OA1 to OA34 in respect of accounting and other methods used in the preparation of the accounting records and Regulatory Financial Statements shall be sufficiently transparent and prepared such that a suitably informed reader can gain a clear understanding of such data information, description, material or explanatory document, and, if necessary, the overall structure of BT’s financial and information systems from which regulatory accounting data is derived and in particular the sequence of the processing and ‘cascade’ effect of the intermediate cost centres; gain a detailed understanding of all the material methodologies and drivers (e.g. systems, Processes and procedures) applied in the preparation of regulatory accounting data; and make their own judgement as to the reasonableness of these methodologies and driver data and any changes to them”.

⁹ The cost allocation methods used by BT in determining the Fully Allocated Costs of the components used in providing regulated services, are defined in the Detailed Attribution Methods (“DAM”), together with a description of the supporting systems and processes. A description of how BT values all fixed asset categories for the purposes of the Current Cost Accounting regulatory financial statements is set out in the Detailed Valuation Methodology (“DVM”).

¹⁰ Ofcom does not agree that the accounting “engine” is audited in the manner suggested by BT. The audit opinion only comments on the outputs from the costing systems and processes, not on whether those systems and processes are fit for purpose or is capable of delivering robust outputs.

- 4.123 Ofcom does not accept BT's view that the requirement to provide the majority of the documentation is a direct result of Ofcom's interpretation of the transparency principle.
- 4.124 Regardless of any audit or publication requirement, BT would need to maintain an up to date manual of its attribution methodologies in order to run its costing model. Also, Ofcom considers that the complexity of the supporting documentation is driven by the complexity of the underlying systems, not the publication requirements.
- 4.125 In any event, Ofcom considers that the direction as currently drafted allows BT significant scope to simplify the accounting documents, if it wishes to do so. As part of any review of the accounting documents, BT may wish to consider the complexity of the underlying systems and methodologies, although this is a matter for BT and not for Ofcom.
- 4.126 BT will also need to have regard to its audit requirements. In contrast to a traditional set of financial accounts that are audited according to a set of formal standards, BT's regulatory accounts are audited according to the principles outlined within the Primary Accounting Documents; under the current audit arrangements, the Accounting Documents must therefore be both a) sufficiently detailed to be used as the reference point for an audit and b) published, as they are referred to in the published audit opinion.

Audit requirements

- 4.127 As explained in the August Statement, Ofcom considers that an independent audit of the published regulatory financial statements is important to provide reasonable assurance to Ofcom and other stakeholders that the financial statements have been prepared using the agreed principles and policies and that, for key statements, the results are fairly presented.
- 4.128 The requirement for an audit opinion is set out in Condition OA5 of BT's regulatory financial reporting obligations, which states that:
- "BT shall in respect of the Market, Technical Areas and the Disaggregated Activities (as applicable) for each Financial Year:
- a. prepare such Regulatory Financial Statements as directed by Ofcom from time to time in accordance with the Accounting Documents (the relevant Accounting Documents to be identified in the Regulatory Financial Statements by reference to their date);
- b. secure the expression of an audit opinion upon the Regulatory Financial Statements as directed by Ofcom from time to time;"
- 4.129 The form and meaning of audit opinions relating to regulatory financial statements are subject to Directions, issued by Ofcom in July 2004 under OA2¹¹. Direction 5 describes the "Fairly presented in accordance with" ("FPIA") opinion, whereas Direction 6 describes the "Properly prepared in accordance with" ("PPIA") opinion..
- 4.130 A PPIA opinion provides reasonable assurance that a statement, taken as a whole, has been prepared, in all material respects, in accordance with the detailed procedures described in the Accounting Documents. The opinion does not consider

¹¹ http://www.ofcom.org.uk/consult/condocs/fin_reporting/fin_report_statement/finance_report.pdf

explicitly the estimates and judgements made by BT in selecting the detailed methodologies in accordance with the principles set out in the Accounting Documents.

- 4.131 An FPIA opinion provides reasonable assurance that a financial statement, taken as a whole, has been prepared in accordance with the principles described in the Accounting Documents and, in the context of that framework, are free from material misstatement. They include an assessment of the significant estimates and judgements made by BT in the preparation of the statements. Unlike a PPIA opinion, an FPIA opinion therefore includes consideration of objectivity.
- 4.132 As set out in the August Statement, Ofcom introduced a requirement for a FPIA opinion over the financial statements as a whole instead of the previous requirement for opinions on each market and service statement and introduced a framework for identifying the information that warrants additional assurance to be set annually by Ofcom outside of the Directions.
- 4.133 As a result, Direction 3 to BT's regulatory financial reporting obligations was modified to direct that:

"BT shall, for the purposes of Condition OA5 and as appropriate, prepare, deliver to Ofcom and publish the Regulatory Financial Statements in accordance with Annexes A, B and C to this Direction."

1A. BT shall, for the purposes of condition OA5 secure an appropriate audit opinion on an FPIA basis in respect of the published Regulatory Financial Statements as a whole.

1B. BT shall, for the purposes of condition OA5 secure an appropriate audit opinion in respect of each Regulatory Financial Statement, either on an FPIA or PPIA basis as shall be notified in writing to BT from time to time by Ofcom."

- 4.134 In light of the revised structure for the regulatory financial report, with increased focus on groups of markets, such as those relating to access markets, Ofcom considers that the ability to require audit opinions for groups of markets would allow for greater flexibility and focussing of the audit effort.
- 4.135 Ofcom therefore proposes that Direction 3 and the Schedule 4 FA10 Direction should be modified to allow for Ofcom to require BT to secure such opinions as required on groups of markets.

Legal tests relating to audit requirements

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

Relevant tests

- 4.137 Ofcom is required to be satisfied that the modification of directions is in accordance with the requirements of section 49(2) of the Act. Ofcom also has to consider and act

in accordance with its general duties in section 3 of the Act and the six Community requirements in section 4 of the Act.

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

- 4.138 Section 3 of the Act sets out the duties of Ofcom in carrying out its functions, in particular that it furthers the interests of citizens in relation to communications and furthers the interests of consumers in relevant markets.
- 4.139 Section 4 of the Act requires that Ofcom acts in accordance with the six Community requirements concerning: the promotion of competition; the development of the European internal market; the promotion of the interests of all EU citizens; non-discrimination; promoting efficiency and sustainable competition and the maximum benefit for consumers; and facilitating service interoperability and securing freedom of choice for consumers.
- 4.140 As part of the EU market review process, Ofcom imposed wholesale and retail cost accounting and accounting separation obligations (conditions and directions) on BT in specific markets; as appropriate remedies to its SMP in these markets. The individual market reviews have already assessed whether these obligations meet the tests outlined in Sections 3 and 4 of the Communications Act.
- 4.141 Ofcom considers that the modifications contained within this section are consistent with the SMP obligations flowing from these markets reviews and, therefore, also meet the tests set out in Sections 3 and 4 of the Act.

Section 49(2) tests

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

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

- 4.143 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.135 is objectively justifiable as it allows Ofcom greater flexibility to
- obtain an appropriate level of assurance on financial statements for particular markets; and
 - reduce unnecessary regulatory burdens on BT and reducing the costs that are incurred by BT in satisfying regulatory financial reporting obligations where it is appropriate to do so.

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

- 4.144 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.135 is not unduly discriminatory.
- 4.145 BT and KCL are the only communications providers in the fixed communications market to have SMP in multiple markets and therefore can be treated as a class of communications provider. As a consequence of having SMP in multiple markets they are the only providers in respect of which Ofcom imposes reporting obligations and are therefore the only providers with audit requirements.
- 4.146 The form and content of KCL's financial reporting obligations already reflect KCL's relative size and complexity compared to BT. Ofcom is not currently reviewing KCL's audit regime as the scale and scope of current requirements on KCL are less extensive than for BT. Ofcom therefore does not consider its review of the requirements for the audit of BT's regulatory financial information only is unduly discriminatory against either BT or KCL.

Proportionate to what it is intended to achieve

- 4.147 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.135 is proportionate in that it does not introduce any additional regulatory or financial burden on BT but rather has the potential to decrease such burdens without affecting the integrity of the assurance regime.

Transparent in relation to what it is intended to achieve

- 4.148 Ofcom considers that modifying Direction 3 and the Schedule 4 FA10 Direction in the manner described in paragraph 4.135 is transparent in that its effect is clearly set out in this document and the draft modification of Direction 3 and the Schedule 4 FA10 Direction is set out at Annex 9.

Question 9 Do you agree with Ofcom's proposal to allow Ofcom to require audit opinions at the level of groups of markets?

Annex 1

Responding to this consultation

How to respond

- A1.1 Ofcom invites written views and comments on the issues raised in this document, to be made **by 5pm on 23 March 2007**. The consultation period is shorter than ten weeks as Ofcom has already been involved in an informal consultation process with stakeholders in respect many of the proposals described in this document, and takes account of the benefits of effecting the final changes in time to be implemented in BT's 2006/07 regulatory financial report.
- A1.2 Ofcom strongly prefers to receive responses using the online web form at <http://www.ofcom.org.uk/consult/condocs/obligations/howtorespond/form>, as this helps us to process the responses quickly and efficiently. We would also be grateful if you could assist us by completing a response cover sheet (see Annex 3), to indicate whether or not there are confidentiality issues. This response coversheet is incorporated into the online web form questionnaire.
- A1.3 For larger consultation responses - particularly those with supporting charts, tables or other data - please email David.Brown@ofcom.org.uk attaching your response in Microsoft Word format, together with a consultation response coversheet.
- A1.4 Responses may alternatively be posted or faxed to the address below, marked with the title of the consultation.
- David Brown
Floor 4
Riverside House
2A Southwark Bridge Road
London SE1 9HA
- Fax: 020 7783 4103
- A1.5 Note that we do not need a hard copy in addition to an electronic version. Ofcom will acknowledge receipt of responses if they are submitted using the online web form but not otherwise.
- A1.6 It would be helpful if your response could include direct answers to the questions asked in this document, which are listed together at Annex 4. It would also help if you can explain why you hold your views and how Ofcom's proposals would impact on you.

Further information

- A1.7 If you want to discuss the issues and questions raised in this consultation, or need advice on the appropriate form of response, please contact David Brown on 020 7981 3718.

Confidentiality

- A1.8 We believe it is important for everyone interested in an issue to see the views expressed by consultation respondents. We will therefore usually publish all

responses on our website, www.ofcom.org.uk, ideally on receipt. If you think your response should be kept confidential, can you please specify what part or whether all of your response should be kept confidential, and specify why. Please also place such parts in a separate annex.

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

Next steps

- A1.11 Following the end of the consultation period, Ofcom intends to publish a statement around the end of April or early May 2007.
- A1.12 Please note that you can register to receive free mail Updates alerting you to the publications of relevant Ofcom documents. For more details please see: http://www.ofcom.org.uk/static/subscribe/select_list.htm

Ofcom's consultation processes

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

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

Tel: 0141 229 7401
Fax: 0141 229 7433

Email vicki.nash@ofcom.org.uk

Annex 2

Ofcom's consultation principles

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

Before the consultation

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

During the consultation

- A2.3 We will be clear about who we are consulting, why, on what questions and for how long.
- A2.4 We will make the consultation document as short and simple as possible with a summary of no more than two pages. We will try to make it as easy as possible to give us a written response. If the consultation is complicated, we may provide a shortened version for smaller organisations or individuals who would otherwise not be able to spare the time to share their views.
- A2.5 We will normally allow ten weeks for responses to consultations on issues of general interest.
- A2.6 There will be a person within Ofcom who will be in charge of making sure we follow our own guidelines and reach out to the largest number of people and organizations interested in the outcome of our decisions. This individual (who we call the consultation champion) will also be the main person to contact with views on the way we run our consultations.
- A2.7 If we are not able to follow one of these principles, we will explain why. This may be because a particular issue is urgent. If we need to reduce the amount of time we have set aside for a consultation, we will let those concerned know beforehand that this is a 'red flag consultation' which needs their urgent attention.

After the consultation

- A2.8 We will look at each response carefully and with an open mind. We will give reasons for our decisions and will give an account of how the views of those concerned helped shape those decisions.

Annex 3

Consultation response cover sheet

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

Cover sheet for response to an Ofcom consultation

BASIC DETAILS

Consultation title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

CONFIDENTIALITY

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

Nothing

☐

Name/contact details/job title

☐

Whole response

☐

Organisation

☐

Part of the response

☐

If there is no separate annex, which parts?

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

DECLARATION

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

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

☐

Name

Signed (if hard copy)

Annex 4

Consultation questions

Question 1 Do you agree with Ofcom’s proposal to accept the delivery of an operational data extract tool as satisfaction of the requirement to deliver AFIs and AFSs?

Question 2 Do you agree with the general objectives of the changes to the financial reporting requirements, as described in Section 4 and, if not, how should they be updated and why?

Question 3 Do you consider that the scope, content and/or presentation of any of the annexes that form the basis of the published financial information requirements, could be modified to better address the objectives described in Section 4, and if so how and why would the change be appropriate?

Question 4 Do you consider that the scope, content and/or presentation of any of the annexes that define the information to be provided to Ofcom (in the form of AFIs and AFSs), could be modified to better address the objectives described in Section 4, and if so how and why would the change be appropriate?

Question 5 Do you have any comments on the proposed form and content of the Openreach financial statements to be included in the published regulatory financial statements?

Question 6 Do you agree with Ofcom’s proposals to replace the current requirements for published LRIC data for non-access services with a requirement for “indicative” LRIC floor data to be provided only where the charge is less than FAC (as described in Section 4)?

Question 7 Do you agree with Ofcom’s proposal that Indicative LRIC data does not need to be audited?

Question 8 Do you agree with Ofcom’s decision not to develop proposals regarding exception reporting, increased reliance on internal controls, the introduction of a director’s compliance statement and the inclusion of forward looking cost information?

Question 9 Do you agree with Ofcom’s proposal to allow Ofcom to require audit opinions at the level of groups of markets?

Annex 5

Impact Assessment

Introduction

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

Proposals and intended effect

The citizen and/or consumer interest

- A5.4 The consultation relates to regulatory financial information provided to Ofcom and the published regulatory financial statements. Ofcom requires regulatory financial information in order to monitor and enforce various obligations that are placed on dominant providers in markets where they are found to have significant market power. The regulatory financial reporting regime also provides confidence to the industry that certain ex-ante obligations are being effectively monitored and enforced.
- A5.5 These proposals have only limited direct impact on individual consumers. However, to the extent that an effective financial reporting regime contributes to a competitive telecommunications market, there will be a benefit to citizens and consumers.

Ofcom's policy objective

- A5.6 The purpose of this consultation is to ensure that BT's regulatory financial reporting obligations continue to meet Ofcom's and industry's requirements for regulatory financial information in an effective but proportionate manner.

Options considered

- A5.7 Ofcom considers that the proposals set out in this consultation are necessary and appropriate because they represent amendments and enhancements necessary to maintain the relevance and usefulness of the financial statements. Ofcom does not expect the proposals to have a significant impact on the costs to BT of complying

with its obligations, although there may be a small cost saving in future years, once the changes have been effected.

A5.8 The proposals consist primarily of a series of annexes that will form the basis of the annual regulatory financial report to be published by BT.

A5.9 Specifically,

- The proposed regulatory reporting requirements will continue to meet the primary objective of the reporting regime: to demonstrate compliance with obligations of cost orientation and non-discrimination;
- The proposals reflect Ofcom's view that an informed industry can contribute to effective and efficient regulation, weighed against a recognition of BT's understandable wish to maintain confidentiality over its commercially sensitive information;
- Information that does not serve a regulatory purpose is not required;
- The published financial information should meet the reporting requirements set out in the Undertakings, specifically the need to disclose the results of Openreach separately.
- Ofcom will take the opportunity afforded by the move to next generation networks to look for a more fit for purpose LRIC regime. In the meanwhile BT will not be required to generate the data. Instead, BT will provide indicative LRIC data plus sufficient cost information to allow the user of the accounts to form a reasonable view of the likely order of the LRIC floors and ceilings.
- the format of the published financial information will be improved to make the information easier to use for existing users and more accessible to a wider audience.

A5.10 The effect of the proposals will be to significantly reduce the length of the regulatory financial report. The reduction is achieved mainly by simplifying the reporting requirements for each market, with less repetition of supporting analysis and omitting the detailed analysis behind the LRIC estimates.

A5.11 With the exception of the LRIC analysis, very little information that is currently provided will be lost. This reflects Ofcom's view that an informed industry contributes to effective and efficient regulation and takes account of examples provided by industry of the ways in which published information has contributed to effective competition and informed focussed requests for intervention.

A5.12 The structure of the report has been improved to make it more accessible to a wider audience without losing the information necessarily used by the regulatory community. This has been achieved by moving the key information to the front of the document and pushing the (simplified) supporting analysis to the back of the report. Specifically, the structure has been changed as set out below.

- To provide the regulatory community with evidence of tests of compliance with obligations and sufficient information to understand and challenge this evidence, most of the detailed financial information currently provided will still be required;

- To provide a wider audience with an understanding of the key issues, the overall performance of BT's regulated activities will be reported and explained at the front of the document.
- To give all users a better understanding of how costs are shared by products and services, two new schedules will be required to illustrate and explain how group costs are allocated across all markets.
- To provide key indicators of financial performance and evidence of compliance with first order tests of compliance with BT's obligations to offer cost-orientated charges and not to discriminate unduly, single page statements will be required for each market.
- To aid understanding, markets will be organised into groups, specifically Openreach markets, other wholesale markets (primarily the non- access SMP markets) and retail markets.
- To simplify reporting and facilitate comparison of the underlying data across different markets, detailed support for the data used in the first order tests for each market will be collated and included in a section towards the back of the report.

A5.13 Nothing in Ofcom's proposals affects BT's obligation to provide information in response to specific requests from Ofcom.

A5.14 Other options considered were:

- To continue with the current reporting requirements;
- To make more extensive reductions to the level of information to be provided to Ofcom, similar to those proposed by BT

Analysis of the different options

A5.15 Ofcom must therefore consider the incremental benefit (or cost) of the proposals to BT (and potentially to KCL) against their incremental cost (or benefit) to industry.

A5.16 It is therefore helpful to put the costs to BT and KCL of having regulatory financial reporting obligations into context. In the financial year ended 31 March 2005, BT reported revenues of approximately £6.8 billion (including external sales and internal transfer charges) in wholesale markets where regulatory financial reporting obligations apply and revenues of approximately £3.8 billion in retail markets with financial reporting obligations. Ofcom's 2006 report on the Communications Market estimated that total telecommunications revenue reached £46.6 billion in 2005.

A5.17 BT has stated to Ofcom that the costs of complying with the required regulatory accounting processes are about £7 million annually, equal to approximately 0.2% of its regulated revenues.

A5.18 As one of the primary purposes of regulatory financial reporting obligations is to prevent the occurrence of anti-competitive practices the impact of other proposals can be more difficult to quantify. However, Ofcom considers a rigorous and effective regulatory financial reporting regime provides the following benefits:

- non-SMP communications providers have assurance that Ofcom has information to monitor and if necessary enforce obligations for non-discrimination, cost-orientation, etc;
- non-SMP communications providers have greater assurance that prices charged to them by dominant providers are cost-oriented and/or non-discriminatory enabling them to produce business plans and compete more effectively; and
- disputes and investigations will be resolved more quickly, efficiently and on the basis of more reliable information.

A5.19 Many of the proposals made in the consultation document, such as those with the objectives of providing a wider audience with an understanding of the key issues, the overall performance of BT's regulated activities will be reported and explained at the front of the document and how costs are shared by products and services should benefit stakeholders at little or no cost to BT. The simplification of some of the reporting requirements could result in a small cost saving to BT. Therefore the option of continuing with current reporting requirements would miss the opportunity to improve the usefulness of BT's regulatory financial reporting and possibly reduce costs in the process.

A5.20 The option to make more extensive reductions to the level of information to be provided to Ofcom, similar to those proposed by BT, could result in a significant, if not fundamental reduction in BT's regulatory costs each year.

A5.21 However, while difficult to assess the potential cost to stakeholders of no longer having access to that information in any one year, Ofcom considers it likely that over the course of a few years, the cost of will significantly exceed the savings that might be made by BT. For example, the early development of FRIACO was enabled in significant part by the existence of published costing information that allowed Internet Service Providers and their host network operators to calculate with some confidence the underlying costs of new interconnection services that they had requested in advance of BT's voluntary provision of such information.

The preferred option

A5.22 As explained in Section 4 of this consultation, the effect of the proposals will be to significantly reduce the length of the regulatory financial report. However, the reduction is achieved mainly by simplifying the reporting requirements for each market, with less repetition of supporting analysis and omitting the detailed analysis behind the LRIC estimates and, with the exception of the LRIC analysis, very little information that is currently provided will be lost.

A5.23 Ofcom considers that the proposed changes to the reporting requirements are consistent with the latest regulatory thinking, including for example, the conclusions in Philip Hampton's 2005 report HM Treasury, "Reducing administrative burdens: effective inspection and enforcement" and specifically the recommendation for regulators to allocate resources to areas where the regulatory risk is greatest, reducing the administrative burden of regulation while maintaining or improving regulatory outcomes.

Annex 6

Documents published by BT

A6.1 The latest documents published by BT are made available in electronic format on BT's website. The documents, along with a brief description of each, are listed in the table below:

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

Annex 7

Regulatory Financial Statements - summary

A7.1 In respect of the regulatory report, the proposals consist primarily of a new format for the regulatory report as defined by a series of annexes to Direction 4 and the Schedule 5 FA10 Direction. These are provided in Annex 10 to this consultation document. A summary of the annexes to Direction 4 is provided below.

Annex	Description	Comments
Annex 1	Statement by Ofcom	Ofcom is entitled under Condition OA6(c) to comment on the data in the notes to, or the presentation of, any of the financial statements in relation to each of the markets. The requirement is unchanged from the existing annex 1.
Annex 2	Statement of responsibility	The Board of Directors have responsibility for setting out the basis of preparation of the Financial Statements, confirming compliance with its responsibilities under the Conditions, and any other information relevant to carrying out its obligations under those conditions. The requirement is unchanged from the existing annex 3.
Annex 3	Consolidated performance summary	Annex 4 provides a high level summary of the financial performance within key groups of regulated markets (specifically, access, wholesale SMP and retail), cross referenced to the relevant section of the report. It is a new requirement but includes information currently provided in annexes 5, 15 and 27.
Annex 4	Regulatory financial review	BT is required to prepare a regulatory financial review to summarise the financial performance across all markets for which cost accounting and/or accounting separation obligations apply as a whole. The requirement is similar to the existing annex 2 but is for a more summary level review and will be supported by additional regulatory financial reviews at market group and market levels, as listed below.

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

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

A7.2 Ofcom envisages that the Regulatory Financial Report will be structured along the following lines:

Section	Objective	Contents
1	Introduction to accounts	Introduction to purpose and contents of Regulatory Financial Statements Annex 2: Statement of responsibility
2	Summary of financial performance	Annex 3 Consolidated performance summary Annex 4 Regulatory financial review Annex 5 Current cost cascade Annex 6 Allocation of Current Cost Mean Capital Employed
3	Review of Access Markets	Annex 7 Financial performance in access markets Annex 10 Market Level Group Review Annexes 11/12//13, Annex 14 Market summary and review for each market
4	Review of other wholesale SMP markets	Annex 8 Financial performance in other wholesale SMP markets Annex 10 Market Level Group Review Annexes 11/12//13, Annex 14 Market summary and review for each market
5	Review of Retail markets	Annex 9 Financial performance in Retail SMP markets Annex 10 Market Level Group Review Annexes 11/12//13, Annex 14 Market summary and review for each market
7	Reconciliations	Annex 18 Consolidated P&L Annex 19 BT Reconciliation Statement – P&L Annex 20 BT Reconciliation statement - MCE Annex 21 BT Inter-market turnover reconciliation
8	Notes to the financial report	Annex 22 Notes to the Financial Statements
9	Audit Report	Annex 23 Report of the Regulatory Auditors
10	Other information	Annex 24 Price controls in wholesale markets (table) Annex 25 Price controls in wholesale markets (narrative)
11	Openreach information	Publication of information required under the terms of the undertakings, including reconciliations.

A7.3 While not directly comparable, the information provided by the existing annexes can be mapped onto the proposed Annexes roughly as follows:

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

Annex	Description	Source in proposed Annexes
Annex 26	Retail markets purchase statement	21
Annex 27	Reconciliation statement, P&L	19
Annex 28	Reconciliation statement, MCE	20
Annex 29	Wholesale residual activities statement, P&L	5,19
Annex 30	Wholesale residual activities statement, MCE	6
Annex 31	Retail residual activities statement, P&L	19
Annex 32	Retail residual activities statement, MCE	6,19
Annex 33	Inter-market turnover (reconciliation)	21
Annex 34	Statements of costs and charges for internal and external wholesale services	7
Annex 35	Statements of costs and charges for internal only wholesale services	15,16
Annex 36	Consolidated profitability and MCE statement by wholesale service	15,16
Annex 37	Consolidated statement of costs on a current cost basis, network activity statement	15,16
Annex 38	Market statement of costs on a current cost basis, network activity statement	15,16
Annex 39	Consolidated network services reconciliation statement	17
Annex 40	Market network services reconciliation statement	17
Annex 41	Network component statement on incremental cost basis (reconciliation)	
Annex 42	Additional information by way of notes	26

Annex 8

Accounting information relating to Openreach

- A8.1 Ofcom has accepted a range of undertakings provided by BT which includes explicit reference to the preparation and publication of accounting information relating to the Access Services division (now known as “Openreach”). Undertaking 5.31 refers to the regulatory financial statements also presenting separately the financial results of Openreach.
- A8.2 Although no formal consultation is required on this undertaking, Ofcom believes it would be helpful to include in this consultation document the pro-forma profit & loss account, mean capital employed statement and reconciliation statements that are currently proposed. These statements will also be subject to independent audit.
- A8.3 Pro-formas of these statements are set out below.

Regulatory financial reporting obligations on BT

Openreach Financial Statement 2006														
Purpose of statement: to meet the financial statement reporting obligations as set out in BT's Undertakings														
CURRENT COST PROFIT AND LOSS ACCOUNT														
for the year ended 31 March 2006														
	Full service provision							Part service provision				W/sale	Retail	TOTAL
	Mkt 1	Mkt 2	Mkt 3	Mkt 4	Mkt 5	Mkt 6	Mkt 7	Mkt 8	Mkt 9	Mkt 10	Mkt 11	Residual	Residual	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Turnover														
Internal sales														
- service(s) which are also available externally	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
- service(s) provided internally only	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
External sales	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
Roundings	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
Total turnover	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
HCA Operating costs:														
Charges from BT Wholesale	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
Operating costs:														
Provision/maintenance	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
Network support	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
General support	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
General management	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
Finance & billing	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
Accommodation	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
Bad debts	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
Other costs	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
Depreciation	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
Sub total HCA operating costs	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
CCA adjustments:														
Holding (gain)/loss	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
Supplementary depreciation	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
Other adjustments	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
Roundings	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
Total CCA Operating Costs	x	x	x	x	x	x	x	x	x	x	x	x	x	xx
Return	x	x	x	x	x	x	x	x	x	x	x	x	x	xx

Openreach Financial Statement 2006															
Purpose of statement: to meet the financial statement reporting obligations as set out in BT's Undertakings															
STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED															
for the year ended 31 March 2006															
	Full service provision							Part service provision				W/sale	Retail	TOTAL	
	Mkt 1	Mkt 2	Mkt 3	Mkt 4	Mkt 5	Mkt 6	Mkt 7	Mkt 8	Mkt 9	Mkt 10	Mkt 11	Residual	Residual		
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Fixed assets:															
Tangible fixed assets															
- land & buildings	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
- Access - Copper	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
- Fibre	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
- Duct	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
- Switch and transmission - switch	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
- transmission	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
- Other	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
Investments	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
Total fixed assets	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
Current assets:															
Stocks	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
Debtors															
- internal	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
- external	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
Total current assets	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
Creditors: amounts falling due within one year															
Other creditors															
- internal	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
- external	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
Total creditors: amounts falling due within one year	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
Net current assets	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
Total assets less current liabilities	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
Provisions for liabilities and charges	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
Roundings	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
Mean capital employed	x	x	x	x	x	x	x	x	x	x	x	x	x	xx	
Key to markets:															
Full service provision - where Openreach provides all services within defined market				Part service provision - where Openreach provides partial inputs to services within defined markets provided out of BT Wholesale											
Mkt 1 - Wholesale residential analogue exchange line services				Mkt 8 - TISBO up to and including 8Mbps											
Mkt 2 - Wholesale business analogue exchange line services				Mkt 9 - TISBO above 8Mbps up to and including 155Mbps											
Mkt 3 - Wholesale business ISDN2 exchange line services				Mkt 10 - Technical areas (interconnection circuits)											
Mkt 4 - Wholesale residential ISDN2 exchange line services				Mkt 11 - Asymmetric broadband origination in the UK											
Mkt 5 - Wholesale business ISDN30 exchange line services															
Mkt 6 - Alternative interface symmetric broadband origination															
Mkt 7 - Wholesale local access															

Openreach Financial Statement 2006							
Purpose of statement: to meet the financial statement reporting obligations as set out in BT's Undertakings							
RECONCILIATION OF PROFIT & LOSS ACCOUNT							
for the year ended 31 March 2006							
		HCA			CCA		
		Turnover	Operating Cost	Return	Holding gain /(loss) and other adjustments	Supplementary depreciation	Return
	Note	£m	£m	£m	£m	£m	£m
Regulatory entity (Xref to P&L page)		x	x	x	x	x	x
<i>Reconciliation differences:</i>							
Northern Ireland	a	x	x	x			
Line cards/electronics	b	x	x	x			
Other	c	x	x	x			
As per published Annual Report							
		x	x	x			
Notes:							
a) Northern Ireland - represents costs and revenues incurred in BT's Northern Ireland unit which is separate to the reported Openreach "line of business".							
b) Linecards/electronics - these assets are booked to the BT Wholesale line of business in BT's Annual Report and this item refers to the internal mean capital employed charge levied by BT Wholesale on Openreach in BT's management accounts.							

Openreach Financial Statement 2006						
Purpose of statement: to meet the financial statement reporting obligations as set out in BT's Undertakings						
RECONCILIATION OF MEAN CAPITAL EMPLOYED						
for the year ended 31 March 2006						
		HCA		CCA		
		Segmental analysis		Holding gain/(loss) and other adjustments	Supplementary depreciation	MCE
		Assets	Liabilities			
	Note	£m	£m	£m	£m	£m
Fixed assets:						
Tangible fixed assets						
- land & buildings		x		x	x	x
- Access - Copper		x		x	x	x
- Fibre		x		x	x	x
- Duct		x		x	x	x
- Switch and transmission - switch		x		x	x	x
- transmission		x		x	x	x
- Other		x		x	x	x
Investments		x				
Total fixed assets		x				
Total current assets		x				
Total creditors			x			
Provisions for liabilities and charges			x			
Regulatory entity (Xref to MCE page)		x	x	x	x	x
<i>Reconciliation differences:</i>						
Northern Ireland	a	x	x			
Line cards/electronics	b	x	x			
Other	c	x	x			
Adjusted MCE						
Daily averaging adjustment	d	x	x			
As per published Annual Report		x	x			
Notes:						
a) Northern Ireland - represents MCE attributable to BT's Northern Ireland unit which is separate to the reported Openreach "line of business".						
b) Linecards/electronics - these assets are booked to the BT Wholesale line of business in BT's Annual Report						

Annex 9

Notification and Proposed Amendments to Direction 3 and the FA10 Direction

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

Proposal for modifying Directions given under SMP Services Condition OA2 and FA10.2 specifying requirements for the preparation, audit and delivery of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

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

- i. Direction 3 given under SMP Services Condition OA2 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004, and as modified at Annex 2 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 16 August 2006, specifying requirements for the preparation, audit and delivery of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting; and
- ii. A Direction given under SMP Services Condition FA10.2 at Schedule 4 to the Notification set out in Annex 2 of the Review of the wholesale local access market, dated 16 December 2004, and as modified at Annex 2 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 16 August 2006, specifying requirements for the preparation, audit and delivery of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting.

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

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

4. Representation may be made to Ofcom about the proposed draft modification to the Direction by 5 pm on 23 March 2007.

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

Craig Lonie

Director of Regulatory Finance, Ofcom

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

25 January 2007

Schedule

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

WHEREAS:

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

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

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

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

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

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

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

(F) this modified Direction modifies:

- i. Direction 3 given under SMP Services Condition OA2 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 and as modified at Annex 2 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 16 August 2006, which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out an amendment to the Regulatory Financial Statements which are required to be prepared, audited (including the level of audit), delivered to OFCOM and/or published by BT under condition OA5; and
- ii. a Direction given under SMP Services Condition FA10.2 at Schedule 4 to the Notification set out in Annex 2 of the Review of the wholesale local access market, dated 16 December 2004 and as modified at Annex 2 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 16

August 2006 (the “FA10 Direction”), which relates to BT’s obligations under SMP services condition FA10, in that it sets out an amendment to the Regulatory Financial Statements which are required to be prepared, audited (including the level of audit), delivered to OFCOM and/or published by BT under condition FA10.5;

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

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

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

(I) on 25 January 2007, Ofcom published a notification of the proposed modified Direction in accordance with section 49 of the Act (the ‘Notification’);

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

(K) in the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 23 March 2007;

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

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

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

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

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

2. For the purpose of interpreting this modified Direction, the following definitions shall apply:

- a) "Act" means the Communications Act 2003 (c. 21);

- b) "BT" means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;
- c) "Director" means the Director General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
- d) "OFCOM" means the Office of Telecommunications;
- e) "Notification" means the Notifications which set in place the obligations on BT referred to in recital (B) of this modified Direction above; and
- f) "Transitional Provisions" means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003, and the Office of Communications Act 2002 (Commencement No. 3) and Communications Act 2003 (Commencement No. 2) Order 2003.

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

4. For the purpose of interpreting this modified Direction:

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

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

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

[Name]

[Title]

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

[Date]

ANNEX A

Direction 3 is hereby amended as follows:

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

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

ANNEX B

The FA10 Direction is hereby amended as follows:

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

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

ANNEX C

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

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 ...	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 5	Attribution of current costs	P	N	N	P	N	N	P	N	N
Annex 6	Attribution of Current Cost Mean Capital Employed	P	N	N	P	N	N	P	N	N
Annex 7	Financial performance in Access markets	P			P			P		
Annex 8	Financial performance in other wholesale SMP markets									
Annex 9	Financial performance in Retail 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 18	Consolidated P&L	P			P			P		
Annex 19	BT Reconciliation Statement - P&L	P			P			P		
Annex 20	BT Reconciliation statement -MCE	P			P			P		
Annex 21	BT Inter-market turnover reconciliation	P			P			P		
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	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 5	Attribution of current costs	P	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Annex 6	Attribution of Current Cost Mean Capital Employed	P	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Annex 7	Financial performance in Access markets	P															
Annex 8	Financial performance in other wholesale SMP markets																
Annex 9	Financial performance in Retail SMP markets																
Annex 10	Market Group Financial Review	P															
Annex 11	Market summary	P															
Annex 12	Market summary																
Annex 13	Market summary (ToD)																
Annex 14	Market Level Financial Review	P															
Annex 15	Network Activity Statement	P															
Annex 16	Calculation of FAC based on component costs and usage factors	P															
Annex 17	BT Network Services Reconciliation	P															
Annex 18	Consolidated P&L	P															
Annex 19	BT Reconciliation Statement - P&L	P															
Annex 20	BT Reconciliation statement -MCE	P															
Annex 21	BT Inter-market turnover reconciliation	P															
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P	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.		Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);	WS service A	WS service B	Partial and Private Circuits 34/45mbit/s link	Partial and Private Circuits 34/45mbit/s distribution	Partial and Private Circuits 34/45mbit/s -local end	Partial and Private Circuits 140/155mbit/s link	Partial and Private Circuits 140/155mbit/s distribution	Partial and Private Circuits 140/155mbit/s local end
Annex 1	Statement by Ofcom	P								
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P								
Annex 4	Regulatory financial review	P								
Annex 5	Attribution of current costs	P	N	N	N	N	N	N	N	N
Annex 6	Attribution of Current Cost Mean Capital Employed	P	N	N	N	N	N	N	N	N
Annex 7	Financial performance in Access markets	P								
Annex 8	Financial performance in other wholesale SMP markets									
Annex 9	Financial performance in Retail SMP markets									
Annex 10	Market Group Financial Review	P								
Annex 11	Market summary	P								
Annex 12	Market summary									
Annex 13	Market summary (ToD)									
Annex 14	Market Level Financial Review	P								
Annex 15	Network Activity Statement	P								
Annex 16	Calculation of FAC based on component costs and usage factors	P								
Annex 17	BT Network Services Reconciliation	P								
Annex 18	Consolidated P&L	P								
Annex 19	BT Reconciliation Statement - P&L	P								
Annex 20	BT Reconciliation statement -MCE	P								
Annex 21	BT Inter-market turnover reconciliation	P								
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P	P	P
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.		Alternative interconnect symmetric broadband origination (all bandwidths);	WS service A	WS service B	WES/LES	BES	Technical areas	Point of Handover	Asymmetric broadband origination in the UK excluding the Hull area	Wholesale local access market	wholesale service A	wholesale service B etc
Annex 1	Statement by Ofcom	P					P		P	P		
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P					P		P	P		
Annex 4	Regulatory financial review	P					P		P	P		
Annex 5	Attribution of current costs	P	N	N	N	N	P	N	P	N	P	N
Annex 6	Attribution of Current Cost Mean Capital Employed	P	N	N	N	N	P	N	P	N	P	N
Annex 7	Financial performance in Access markets	P					P		P	P		
Annex 8	Financial performance in other wholesale SMP markets											
Annex 9	Financial performance in Retail SMP markets											
Annex 10	Market Group Financial Review	P					P		P	P		
Annex 11	Market summary	P					P			P		
Annex 12	Market summary								P			
Annex 13	Market summary (ToD)											
Annex 14	Market Level Financial Review	P					P		P	P		
Annex 15	Network Activity Statement	P					P		P	P		
Annex 16	Calculation of FAC based on component costs and usage factors	P					P		P	P		
Annex 17	BT Network Services Reconciliation	P					P		P	P		
Annex 18	Consolidated P&L	P					P		P	P		
Annex 19	BT Reconciliation Statement - P&L	P					P		P	P		
Annex 20	BT Reconciliation statement -MCE	P					P		P	P		
Annex 21	BT Inter-market turnover reconciliation	P					P		P	P		
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P	P	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		

Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.		Wholesale residential ISDN2 exchange line services	Residential ISDN2 internal service connections	Residential ISDN2 internal service rental	Residential ISDN2 external service rental	Wholesale business ISDN30 exchange line services	wholesale service A
Annex 1	Statement by Ofcom	P				P	
Annex 2	Statement of responsibility	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P				P	
Annex 4	Regulatory financial review	P				P	
Annex 5	Attribution of current costs	P	N	N	N	P	N
Annex 6	Attribution of Current Cost Mean Capital Employed	P	N	N	N	P	N
Annex 7	Financial performance in Access markets	P				P	
Annex 8	Financial performance in other wholesale SMP markets						
Annex 9	Financial performance in Retail SMP markets						
Annex 10	Market Group Financial Review	P				P	
Annex 11	Market summary						
Annex 12	Market summary	P				P	
Annex 13	Market summary (ToD)						
Annex 14	Market Level Financial Review	P				P	
Annex 15	Network Activity Statement	P				P	
Annex 16	Calculation of FAC based on component costs and usage factors	P				P	
Annex 17	BT Network Services Reconciliation	P				P	
Annex 18	Consolidated P&L	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	
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P				P	
Annex 24	Price controls in wholesale markets	P				P	
Annex 25	Price controls in wholesale markets	P				P	

Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.		Call origination on fixed public narrowband networks	WS Call originating local exchange segment PSTN and ISDN (excluding Operator Assistance)	WS Call originating local exchange segment (incl Operator Assistance)	WS Call originating local exchange segment ISDN (including Operator Assistance)	WS Call originating local exchange segment PSTN and ISDN (incl Operator Assistance)	WS Call origination local exchange Stick	WS Call origination local exchange Stick (ISDN)	WS local exchange Call origination circuit excluding FRIACO port	WS FRIACO port at the local exchange	WS PPP for FRIACO
Annex 1	Statement by Ofcom	P									
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P									
Annex 4	Regulatory financial review	P									
Annex 5	Attribution of current costs	P	N	N	N	N	N	N	N	N	N
Annex 6	Attribution of Current Cost Mean Capital Employed	P	N	N	N	N	N	N	N	N	N
Annex 7	Financial performance in Access markets										
Annex 8	Financial performance in other wholesale SMP markets	P									
Annex 9	Financial performance in Retail SMP markets										
Annex 10	Market Group Financial Review	P									
Annex 11	Market summary										
Annex 12	Market summary										
Annex 13	Market summary (ToD)	P									
Annex 14	Market Level Financial Review	P									
Annex 15	Network Activity Statement	P									
Annex 16	Calculation of FAC based on component costs and usage factors	P									
Annex 17	BT Network Services Reconciliation	P									
Annex 18	Consolidated P&L	P									
Annex 19	BT Reconciliation Statement - P&L	P									
Annex 20	BT Reconciliation statement -MCE	P									
Annex 21	BT Inter-market turnover reconciliation	P									
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P	P	P	P
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.		conveyance and transit on fixed public narrowband networks	WS local-tandem conveyance segment	WS local-tandem conveyance segment (ISDN)	WS LTT Stick	WS LTT Stick (ISDN)	Single transit on fixed public narrowband networks	WS Single transit segment PSTN and ISDN
Annex 1	Statement by Ofcom	P					P	
Annex 2	Statement of responsibility	P	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P					P	
Annex 4	Regulatory financial review	P					P	
Annex 5	Attribution of current costs	P	N	N	N	N	P	N
Annex 6	Attribution of Current Cost Mean Capital Employed	P	N	N	N	N	P	N
Annex 7	Financial performance in Access markets							
Annex 8	Financial performance in other wholesale SMP markets	P					P	
Annex 9	Financial performance in Retail SMP markets							
Annex 10	Market Group Financial Review	P					P	
Annex 11	Market summary							
Annex 12	Market summary							
Annex 13	Market summary (ToD)	P					P	
Annex 14	Market Level Financial Review	P					P	
Annex 15	Network Activity Statement	P					P	
Annex 16	Calculation of FAC based on component costs and usage factors	P					P	
Annex 17	BT Network Services Reconciliation	P					P	
Annex 18	Consolidated P&L	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	
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P					P	
Annex 24	Price controls in wholesale markets	P					P	
Annex 25	Price controls in wholesale markets	P					P	

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.		Technical areas														
		WS standard CSI connection	WS standard CSI rental fixed	WS standard CSI rental per km	WS ISI connection	WS ISI rental per 100m	WS IEC connection	WS IEC rental fixed	WS IEC rental per km	WS intra-building circuits connection	WS intra-building circuits rental	WS rearrangements	WS Connection (£ per 2Mbit/s per year)	WS Rental fixed (£ per 2Mbit/s per year)	WS Rental per km (£ per 2Mbit/s per year)	DA4WS Re-arrangements (£ per occasion)
Annex 1	Statement by Ofcom	P														
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P														
Annex 4	Regulatory financial review	P														
Annex 5	Attribution of current costs	P	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Annex 6	Attribution of Current Cost Mean Capital Employed	P	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Annex 7	Financial performance in Access markets															
Annex 8	Financial performance in other wholesale SMP markets	P														
Annex 9	Financial performance in Retail SMP markets															
Annex 10	Market Group Financial Review	P														
Annex 11	Market summary	P														
Annex 12	Market summary															
Annex 13	Market summary (ToD)															
Annex 14	Market Level Financial Review	P														
Annex 15	Network Activity Statement	P														
Annex 16	Calculation of FAC based on component costs and usage factors	P														
Annex 17	BT Network Services Reconciliation	P														
Annex 18	Consolidated P&L	P														
Annex 19	BT Reconciliation Statement - P&L	P														
Annex 20	BT Reconciliation statement -MCE	P														
Annex 21	BT Inter-market turnover reconciliation	P														
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P														
Annex 24	Price controls in wholesale markets	P														
Annex 25	Price controls in wholesale markets	P														

Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.		Broadband conveyance in the UK	WS ATM Interconnection	Wholesale IDD to category B	Wholesale trunk segments (including Kingston upon Hull)	WS service A	WS service B	Partial and Private circuits 2mbit/s trunk	Partial and Private circuits 34/45mbit/s trunk	Partial and Private circuits 140/155mbit/s trunk	Partial and Private circuits 622mbit/s trunk
Annex 1	Statement by Ofcom	P		P	P						
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P		P	P						
Annex 4	Regulatory financial review	P		P	P						
Annex 5	Attribution of current costs	P	N	P	N	P	N	N	N	N	N
Annex 6	Attribution of Current Cost Mean Capital Employed	P	N	P	N	P	N	N	N	N	N
Annex 7	Financial performance in Access markets										
Annex 8	Financial performance in other wholesale SMP markets	P		P	P						
Annex 9	Financial performance in Retail SMP markets										
Annex 10	Market Group Financial Review	P		P	P						
Annex 11	Market summary				P						
Annex 12	Market summary	P		P							
Annex 13	Market summary (ToD)										
Annex 14	Market Level Financial Review	P		P	P						
Annex 15	Network Activity Statement	P		P	P						
Annex 16	Calculation of FAC based on component costs and usage factors	P		P	P						
Annex 17	BT Network Services Reconciliation	P		P	P						
Annex 18	Consolidated P&L	P		P	P						
Annex 19	BT Reconciliation Statement - P&L	P		P	P						
Annex 20	BT Reconciliation statement -MCE	P		P	P						
Annex 21	BT Inter-market turnover reconciliation	P		P	P						
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	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.		Fixed geographic call termination	WS Call termination local exchange segment	WS Call termination local exchange segment (ISDN)	WS Call termination local exchange Stick	WS Call termination local exchange Stick (ISDN)
Annex 1	Statement by Ofcom	P				
Annex 2	Statement of responsibility	P	P	P	P	P
Annex 3	Consolidated performance summary	P				
Annex 4	Regulatory financial review	P				
Annex 5	Attribution of current costs	P	N	N	N	N
Annex 6	Attribution of Current Cost Mean Capital Employed	P	N	N	N	N
Annex 7	Financial performance in Access markets					
Annex 8	Financial performance in other wholesale SMP markets	P				
Annex 9	Financial performance in Retail SMP markets					
Annex 10	Market Group Financial Review	P				
Annex 11	Market summary	P				
Annex 12	Market summary					
Annex 13	Market summary (ToD)					
Annex 14	Market Level Financial Review	P				
Annex 15	Network Activity Statement	P				
Annex 16	Calculation of FAC based on component costs and usage factors	P				
Annex 17	BT Network Services Reconciliation	P				
Annex 18	Consolidated P&L	P				
Annex 19	BT Reconciliation Statement - P&L	P				
Annex 20	BT Reconciliation statement -MCE	P				
Annex 21	BT Inter-market turnover reconciliation	P				
Annex 22	Notes to the Financial Statements	P	P	P	P	P
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.		Residential analogue exchange line services in the UK	Retail Segments	Residential local calls in the UK	Retail Segments	Residential national calls in the UK	Retail Segments	Residential IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK	Retail Segments
Annex 1	Statement by Ofcom	P		P		P		P	
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P		P		P		P	
Annex 4	Regulatory financial review	P		P		P		P	
Annex 5	Attribution of current costs	P	N	P	N	P	N	P	N
Annex 6	Attribution of Current Cost Mean Capital Employed	P	N	P	N	P	N	P	N
Annex 7	Financial performance in Access markets								
Annex 8	Financial performance in other wholesale SMP markets								
Annex 9	Financial performance in Retail SMP markets	P		P		P		P	
Annex 10	Market Group Financial Review	P		P		P		P	
Annex 11	Market summary	P		P		P		P	
Annex 12	Market summary								
Annex 13	Market summary (ToD)								
Annex 14	Market Level Financial Review								
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 18	Consolidated P&L	P		P		P		P	
Annex 19	BT Reconciliation Statement - P&L	P		P		P		P	
Annex 20	BT Reconciliation statement -MCE	P		P		P		P	
Annex 21	BT Inter-market turnover reconciliation	P		P		P		P	
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P		P		P		P	
Annex 24	Price controls in wholesale markets								
Annex 25	Price controls in wholesale markets								

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 1	Statement by Ofcom	P		P		P	
Annex 2	Statement of responsibility	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P		P		P	
Annex 4	Regulatory financial review	P		P		P	
Annex 5	Attribution of current costs	P	N	P	N	P	N
Annex 6	Attribution of Current Cost Mean Capital Employed	P	N	P	N	P	N
Annex 7	Financial performance in Access markets						
Annex 8	Financial performance in other wholesale SMP markets						
Annex 9	Financial performance in Retail SMP markets	P		P		P	
Annex 10	Market Group Financial Review	P		P		P	
Annex 11	Market summary	P		P		P	
Annex 12	Market summary						
Annex 13	Market summary (ToD)						
Annex 14	Market Level Financial Review						
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 18	Consolidated P&L	P		P		P	
Annex 19	BT Reconciliation Statement - P&L	P		P		P	
Annex 20	BT Reconciliation statement -MCE	P		P		P	
Annex 21	BT Inter-market turnover reconciliation	P		P		P	
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P		P		P	
Annex 24	Price controls in wholesale markets						
Annex 25	Price controls in wholesale markets						

<p>Note:"P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</p>		Wholesale residential analogue exchange line services	wholesale service A	wholesale service B ...	Wholesale business analogue exchange line services	wholesale service A	wholesale service B ...	ISDN2 exchange line services	wholesale service A	wholesale service B
Annex 26	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

Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.		Traditional interface symmetric broadband origination (up to and including 8Mbit/s);	WS service A	WS service B	Partial and Private Circuits 64kbit/s connection	Partial and Private Circuits 64kbit/s link	Partial and Private Circuits 64kbit/s transmission	Partial and Private Circuits 64kbit/s local end	Partial and Private Circuits 2mbit/s connection	Partial and Private Circuits 2mbit/s link	Partial and Private Circuits 2mbit/s distribution	Partial and Private Circuits 2mbit/s local end	RBS Backhaul sub 2mb rental	RBS Backhaul sub 2mb connection	RBS Backhaul 2mb rental	RBS Backhaul 2mb connection	SDSL
Annex 26	Additional Information by way of notes																
AI-1	Cost category analysis for network components, increments and common cost		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-2	Summarised activity analysis of components		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-3	Cost category analysis for network components and increments		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-4	Summarised activity analysis for network components and increments		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-5	Analysis by asset category and network activities		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-6	CCA fixed asset movement statement		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-7	Total mean capital employed and detailed activity analysis		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-8	Analysis by type of product group and by type of OLO																
AI-9	Detailed Network activity analysis of mean capital employed		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N															
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N															
AI-13	Total operating costs & mean capital employed costs for each plant group	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis																
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N

Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.		Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);	WS service A	WS service B	Partial and Private Circuits 34/45mbit/s link	Partial and Private Circuits 34/45mbit/s distribution	Partial and Private Circuits 34/45mbit/s -local end	Partial and Private Circuits 140/155mbit/s link	Partial and Private Circuits 140/155mbit/s distribution	Partial and Private Circuits 140/155mbit/s local end
Annex 26	Additional Information by way of notes									
AI-1	Cost category analysis for network components, increments and common cost		N	N	N	N	N	N	N	N
AI-2	Summarised activity analysis of components		N	N	N	N	N	N	N	N
AI-3	Cost category analysis for network components and increments		N	N	N	N	N	N	N	N
AI-4	Summarised activity analysis for network components and increments		N	N	N	N	N	N	N	N
AI-5	Analysis by asset category and network activities		N	N	N	N	N	N	N	N
AI-6	CCA fixed asset movement statement		N	N	N	N	N	N	N	N
AI-7	Total mean capital employed and detailed activity analysis		N	N	N	N	N	N	N	N
AI-8	Analysis by type of product group and by type of OLO									
AI-9	Detailed Network activity analysis of mean capital employed		N	N	N	N	N	N	N	N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N								
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N								
AI-13	Total operating costs & mean capital employed costs for each plant group									
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis									
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets	N	N	N	N	N	N	N	N	N
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N	N	N

Note: "P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.		Alternative interface symmetric broadband origination (all	WS service A	WS service B	WES/LES	BES	Technical areas	Point of Handover	Asymmetric broadband origination in the UK excluding the Hull area	Wholesale local access market	wholesale service A	wholesale service B etc
Annex 26	Additional Information by way of notes											
AI-1	Cost category analysis for network components, increments and common cost		N	N	N	N		N			N	N
AI-2	Summarised activity analysis of components		N	N	N	N		N			N	N
AI-3	Cost category analysis for network components and increments		N	N	N	N		N			N	N
AI-4	Summarised activity analysis for network components and increments		N	N	N	N		N			N	N
AI-5	Analysis by asset category and network activities		N	N	N	N		N			N	N
AI-6	CCA fixed asset movement statement		N	N	N	N		N			N	N
AI-7	Total mean capital employed and detailed activity analysis		N	N	N	N		N			N	N
AI-8	Analysis by type of product group and by type of OLO											
AI-9	Detailed Network activity analysis of mean capital employed		N	N	N	N		N			N	N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N					N			N		
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N					N			N		
AI-13	Total operating costs & mean capital employed costs for each plant group	N	N	N	N	N	N	N		N	N	N
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis											
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets	N	N	N	N	N				N	N	N
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N	N	N	N	N

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

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

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

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.		Technical areas	WS standard CSI connection	WS standard CSI rental fixed	WS standard CSI rental per km	WS ISI connection	WS ISI rental per 100m	WS IEC connection	WS IEC rental fixed	WS IEC rental per km	WS intra-building circuits connection	WS intra-building circuits rental	WS rearrangements	WS Connection (£ per 2Mbit/s per year)	WS Rental fixed (£ per 2Mbit/s per year)	WS Rental per km (£ per 2Mbit/s per year)	DA4WS Re-arrangements (£ per occasion)
Annex 26	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																
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N

<p>Note:"P" denotes a statement that must be produced and published as part of the Regulatory Financial Report. "N" denotes statement to be produced and provided to Ofcom but need not be published.</p>		Broadband conveyance in the UK	WS ATM Interconnection	Wholesale IDD to category B		Wholesale trunk segments (including Kingston upon Hull)	WS service A	WS service B	Partial and Private circuits 2mbit/s trunk	Partial and Private circuits 34/45mbit/s trunk	Partial and Private circuits 140/155mbit/s trunk	Partial and Private circuits 622mbit/s trunk
Annex 26	Additional Information by way of notes											
AI-1	Cost category analysis for network components, increments and common cost		N		N		N	N	N	N	N	N
AI-2	Summarised activity analysis of components		N		N		N	N	N	N	N	N
AI-3	Cost category analysis for network components and increments		N		N		N	N	N	N	N	N
AI-4	Summarised activity analysis for network components and increments		N		N		N	N	N	N	N	N
AI-5	Analysis by asset category and network activities		N		N		N	N	N	N	N	N
AI-6	CCA fixed asset movement statement		N		N		N	N	N	N	N	N
AI-7	Total mean capital employed and detailed activity analysis		N		N		N	N	N	N	N	N
AI-8	Analysis by type of product group and by type of OLO											
AI-9	Detailed Network activity analysis of mean capital employed		N		N		N	N	N	N	N	N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N		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	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											
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N	N	N	N	N

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

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									

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 Retail Segments	Residential calls to mobiles in the UK Retail Segments	Residential operator assisted calls in the UK Retail Segments
Annex 26	Additional Information by way of notes			
AI-1	Cost category analysis for network components, increments and common cost			
AI-2	Summarised activity analysis of components			
AI-3	Cost category analysis for network components and increments			
AI-4	Summarised activity analysis for network components and increments			
AI-5	Analysis by asset category and network activities			
AI-6	CCA fixed asset movement statement			
AI-7	Total mean capital employed and detailed activity analysis			
AI-8	Analysis by type of product group and by type of OLO	N	N	N
AI-9	Detailed Network activity analysis of mean capital employed			
AI-10	Graphs over time of the various raw indices, index weightings & composite indices	N	N	N
AI-11	Estimated economic useful lives, valuation and depreciation basis etc	N	N	N
AI-13	Total operating costs & mean capital employed costs for each plant group			
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis			
AI-15	Provision of BT 'Data File'	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets			
AI-21	Comprehensive analysis of the transfer charges			

Annex 10

Draft Notification and Proposed Amendments to Direction 4 and the FA10 Direction

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

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

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

- i. Direction 4 given under SMP Services Condition OA2 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 and as modified at Annex 3 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 16 August 2006, specifying requirements for the form and content of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting; and
- ii. a Direction given under SMP Services Condition FA10.2 at Schedule 5 to the Notification set out in Annex 2 of the Review of the wholesale local access market, dated 16 December 2004 and as modified at Annex 3 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 16 August 2006, specifying requirements for the form and content of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting;

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

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

4. Representation may be made to Ofcom about the proposed draft modification to the Direction by 5 pm on 23 March 2007.

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

Craig Lonie

Director of Regulatory Finance, Ofcom

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

25 January 2007

Schedule

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

WHEREAS:

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

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

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

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

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

(F) this Modified Direction modifies:

- i. Direction 4 given under SMP Services Condition OA2 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 and as modified at Annex 2 of the Changes to BT's Regulatory Financial Reporting and Audit Requirements, dated 16 August 2006, which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out the form and content to be applied by BT in preparing certain Regulatory Financial Statements required by virtue of condition OA5 and Direction 4; and
- ii. A Direction given under SMP Services Condition FA10.2 at Schedule 5 to the Notification set out in Annex 2 of the Review of the wholesale local access market, dated 16 December 2004 (the "FA10 Direction"), which relates to BT's obligations under SMP services condition FA10, in that it sets out the form and content to be applied by BT in preparing certain Regulatory Financial Statements required by virtue of condition FA10.5 and the FA10 Direction;

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

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

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

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

(J) on 25 January 2007, Ofcom published a notification of the proposed modified Direction in accordance with section 49 of the Act (the 'Notification');

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

(L) in the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 23 March 2007;

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

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

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

NOW, therefore, pursuant to section 49 of the Act and Condition OA2, OFCOM hereby gives the following modification to Direction 4 and the FA10 Direction:

1. Except where BT is entitled to amend the form and content of the Regulatory Financial Statements in accordance with conditions OA7 and OA21 and FA10.7 and FA10.21, BT shall ensure that the Regulatory Financial Statements required by conditions OA5 and FA10.5 and Direction 3 and the FA10 Direction (both as amended) shall be prepared, as appropriate, as to form and content in the manner set out in Direction 4 and the FA10 Direction as modified by the Annexes A and B to this Direction;
2. For the purpose of interpreting this modified Direction, the following definitions shall apply:
 - a) "**Act**" means the Communications Act 2003 (c. 21);
 - b) "**BT**" means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;
 - c) "**Director**" means the Director General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
 - d) '**Direction 3**' means this Modified Direction given under SMP Services Condition OA2 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004, which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out the Regulatory Financial Statements which are required to be prepared, audited (including the level of audit), delivered to OFCOM and/or published by BT under condition OA5 as modified;
 - e) '**OFCOM**' means the Office of Telecommunications;
 - f) "**Notification**" means the Notifications which set in place the obligations on BT referred to in recital (B) of this modified Direction above; and
 - g) '**Transitional Provisions**' means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003, and the Office of Communications Act 2002 (Commencement No. 3) and Communications Act 2003 (Commencement No. 2) Order 2003.
3. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them in this notification and otherwise any word or expression shall have the same meaning as it has in the Notification and otherwise any word or expression shall have the same meaning as it has in the Act.
4. For the purpose of interpreting this modified Direction:
 - a) headings and titles shall be disregarded; and
 - b) the Interpretation Act 1978 (c. 30) shall apply as if this Direction were an Act of Parliament.

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

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

[Name]

[Title]

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

[Date]

ANNEX A

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

Index of form and content annexes

Annex 1	Statement by Ofcom
Annex 2	Statement of responsibility
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Annex 5	Attribution of current costs
Annex 6	Attribution of Current Cost Mean Capital Employed
Annex 7	Financial performance in Access markets
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Annex 21	BT Inter-market turnover reconciliation
Annex 22	Notes to the Financial Statements
Annex 23	Report of the Regulatory Auditors
Annex 24	Price controls in wholesale markets
Annex 25	Price controls in wholesale markets
Annex 26	Additional information by way of notes

Annex 1

Statement by Ofcom

Ofcom is entitled, under Condition OA6(c) to comment on the data in, the notes to, or the presentation of any of the Financial Statements, in relation to each of the markets.

Annex 2

Statement of Responsibility

The Board of Directors of the dominant provider (or if this includes a group of companies, the ultimate holding company) have responsibility for setting out the basis of preparation of the Financial Statements, confirming compliance with its responsibilities under the Conditions, and any other information relevant to carrying out its obligations under those conditions.

Annex 3

Consolidated performance summary

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

For the year ended 31 March 2007	Regulated markets				Residual Activities			
	Access	Wholesale SMP	Retail Markets	Total	Wholesale	Retail	Total	Total
					residual	Residual		
					activities	activities		
					£m	£m	£m	£m
Turnover	£	£	£	£	£	£	£	£
CCA operating costs	£	£	£	£	£	£	£	£
CCA return before taxation	£	£	£	£	£	£	£	£
MCE	£	£	£	£	£	£	£	£
Return on Turnover	%	%	%	%	%	%	%	%
Return on MCE	%	%	%	%	%	%	%	%

Supporting information

[include x-ref to relevant section of statement]

[include x-ref to
relevant section
of statement]

[include x-ref to relevant section of statement]

For the year ended 31 March 2006	Regulated markets				Residual Activities			
	Access	Wholesale SMP	Retail Markets	Total	Wholesale residual activities £m	Retail Residual activities £m	Total £m	Total £m
Turnover	£	£	£	£	£	£	£	£
CCA operating costs	£	£	£	£	£	£	£	£
CCA return before taxation	£	£	£	£	£	£	£	£
MCE	£	£	£	£	£	£	£	£
Return on Turnover	%	%	%	%	%	%	%	%
Return on MCE	%	%	%	%	%	%	%	%

Annex 4

Regulatory Financial Review (BT)

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

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

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

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

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

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

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

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

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

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

Regulatory financial reporting obligations on BT

Annex 5														
Current cost cascade														
Purpose of statement: to provide an understanding of how costs have been allocated to each market														
for the year ended 31 March 2007														
	Total	Residential analogue exchange line services	Business analogue exchange line services	...	ASBO in the UK	Total Access	Call origination on fixed public narrowband networks	Local-tandem conveyance and transit on fixed public narrowband networks	...	Wholesale IDD to category B	Wholesale SMP	Wholesale residual markets	Retail SMP markets	Retail residual markets
	£m	£m	£m		£m	£m	£m	£m		£m	£m	£m	£m	£m
Revenue	£	£	£		£	£	£	£		£	£	£	£	£
Percentage of total revenue generated by each market	100%	%	%		%	%	%	%		%	%	%	%	%
Operating Costs of Service:														
Provision / Maintenance	£	£	£		£	£	£	£		£	£	£	£	£
Percentage of total cost allocated to each market	100%	%	%		%	%	%	%		%	%	%	%	%
Network Support	£	£	£		£	£	£	£		£	£	£	£	£
	100%	%	%		%	%	%	%		%	%	%	%	%
General Support	£	£	£		£	£	£	£		£	£	£	£	£
	100%	%	%		%	%	%	%		%	%	%	%	%
General Management	£	£	£		£	£	£	£		£	£	£	£	£
	100%	%	%		%	%	%	%		%	%	%	%	%
Finance and Billing	£	£	£		£	£	£	£		£	£	£	£	£
	100%	%	%		%	%	%	%		%	%	%	%	%
Accommodation	£	£	£		£	£	£	£		£	£	£	£	£
	100%	%	%		%	%	%	%		%	%	%	%	%
Dad Debts	£	£	£		£	£	£	£		£	£	£	£	£
	100%	%	%		%	%	%	%		%	%	%	%	%
Other Costs	£	£	£		£	£	£	£		£	£	£	£	£
	100%	%	%		%	%	%	%		%	%	%	%	%
Depreciation - Land & Building	£	£	£		£	£	£	£		£	£	£	£	£
	100%	%	%		%	%	%	%		%	%	%	%	%
- Access	£	£	£		£	£	£	£		£	£	£	£	£
	100%	%	%		%	%	%	%		%	%	%	%	%
- Switch and Transmission	£	£	£		£	£	£	£		£	£	£	£	£
	100%	%	%		%	%	%	%		%	%	%	%	%
- Other related	£	£	£		£	£	£	£		£	£	£	£	£
	100%	%	%		%	%	%	%		%	%	%	%	%
Sub total Depreciation	£	£	£		£	£	£	£		£	£	£	£	£
	100%	%	%		%	%	%	%		%	%	%	%	%
Sub total HCA Operating Costs	£	£	£		£	£	£	£		£	£	£	£	£
	100%	%	%		%	%	%	%		%	%	%	%	%
CCA adjustments:														
Holding (gain)/loss	£	£	£		£	£	£	£		£	£	£	£	£
	100%	%	%		%	%	%	%		%	%	%	%	%
Supplementary depreciation	£	£	£		£	£	£	£		£	£	£	£	£
	100%	%	%		%	%	%	%		%	%	%	%	%
Other adjustments	£	£	£		£	£	£	£		£	£	£	£	£
	100%	%	%		%	%	%	%		%	%	%	%	%
Roundings	£	£	£		£	£	£	£		£	£	£	£	£
Total CCA Operating Costs	£	£	£		£	£	£	£		£	£	£	£	£
	100%	%	%		%	%	%	%		%	%	%	%	%
Notes:														
Repeat analysis for prior year														
For each category of cost 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 6													
Allocation of Current Cost Mean Capital Employed													
Purpose of statement: to provide an understanding of how assets have been allocated to each market													
for the year ended 31 March 2007													
	Total	Residential analogue exchange line services	Business analogue exchange line services	...	ASBO in the UK	Total Access	Call origination on fixed public narrowband networks	...	Wholesale IDD to category B	Wholesale SMP	Wholesale residual markets	Retail SMP markets	Retail residual markets
	£m	£m	£m		£m	£m	£m		£m	£m	£m	£m	£m
Fixed assets													
Land & Buildings	£	£	£		£	£	£		£	£	£	£	£
Percentage of total asset value allocated to each market	%	%	%		%	%	%		%	%	%	%	%
Access - Copper	£	£	£		£	£	£		£	£	£	£	£
	%	%	%		%	%	%		%	%	%	%	%
Access - Fibre	£	£	£		£	£	£		£	£	£	£	£
	%	%	%		%	%	%		%	%	%	%	%
Access Duct	£	£	£		£	£	£		£	£	£	£	£
	%	%	%		%	%	%		%	%	%	%	%
Switch	£	£	£		£	£	£		£	£	£	£	£
	%	%	%		%	%	%		%	%	%	%	%
Transmission	£	£	£		£	£	£		£	£	£	£	£
	%	%	%		%	%	%		%	%	%	%	%
Other	£	£	£		£	£	£		£	£	£	£	£
	%	%	%		%	%	%		%	%	%	%	%
	£	£	£		£	£	£		£	£	£	£	£
	%	%	%		%	%	%		%	%	%	%	%
Current assets													
	£	£	£		£	£	£		£	£	£	£	£
	%	%	%		%	%	%		%	%	%	%	%
Creditors falling due within one year	£	£	£		£	£	£		£	£	£	£	£
	%	%	%		%	%	%		%	%	%	%	%
Net current assets	£	£	£		£	£	£		£	£	£	£	£
	%	%	%		%	%	%		%	%	%	%	%
Provisions for liabilities & charges & roundings													
	£	£	£		£	£	£		£	£	£	£	£
	%	%	%		%	%	%		%	%	%	%	%
Mean Capital Employed	£	£	£		£	£	£		£	£	£	£	£
	%	%	%		%	%	%		%	%	%	%	%
Notes:													
Repeat analysis for prior year													
For each category of fixed asset include a note summarising the nature of the assets involved													
For all categories of asset and liability include a note summarising:													
1: the key drivers behind the allocation of MCE to the markets													
2: significant changes in allocation bases during the year													

Annex 7**Financial performance in Access markets****Purpose of statement: to provide summary of financial performance in Access markets****for the year ended 31 March 2007**

	Turnover			HCA costs	CCA adjustments	CCA operating costs	Return	Return on turnover	Mean Capital Employed	Return on MCE
	Internal	External	Total							
Wholesale residential analogue exchange line services	£	£	£	£	£	£	£	%	£	%
Wholesale business analogue exchange line services	£	£	£	£	£	£	£	%	£	%
Wholesale business ISDN2 exchange line services	£	£	£	£	£	£	£	%	£	%
Wholesale residential ISDN2 exchange line services	£	£	£	£	£	£	£	%	£	%
Wholesale business ISDN30 exchange line services	£	£	£	£	£	£	£	%	£	%
TISBO (up to and including 8Mbits)	£	£	£	£	£	£	£	%	£	%
TISBO (above 8Mbits and up to and including 8Mbits)	£	£	£	£	£	£	£	%	£	%
AISBO (all bandwidths)	£	£	£	£	£	£	£	%	£	%
Wholesale local access	£	£	£	£	£	£	£	%	£	%
	£	£	£	£	£	£	£	%	£	%

for the year ended 31 March 2006

	Turnover			HCA costs	CCA adjustments	CCA operating costs	Return	Return on turnover	Mean Capital Employed	Return on MCE
	Internal	External	Total							
Wholesale residential analogue exchange line services	£	£	£	£	£	£	£	%	£	%
Wholesale business analogue exchange line services	£	£	£	£	£	£	£	%	£	%
Wholesale business ISDN2 exchange line services	£	£	£	£	£	£	£	%	£	%
Wholesale residential ISDN2 exchange line services	£	£	£	£	£	£	£	%	£	%
Wholesale business ISDN30 exchange line services	£	£	£	£	£	£	£	%	£	%
TISBO (up to and including 8Mbits)	£	£	£	£	£	£	£	%	£	%
TISBO (above 8Mbits and up to and including 8Mbits)	£	£	£	£	£	£	£	%	£	%
AISBO (all bandwidths)	£	£	£	£	£	£	£	%	£	%
Wholesale local access	£	£	£	£	£	£	£	%	£	%
	£	£	£	£	£	£	£	%	£	%

Annex 8

Financial performance in other wholesale SMP markets

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

for the year ended 31 March 2007

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

for the year ended 31 March 2006

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

Annex 9**Financial performance in Retail SMP markets****Purpose of statement: to provide summary of financial performance in regulated retail markets****for the year ended 31 March 2007**

	Turnover			HCA costs	Wholesale Transfer charges	CCA adjustments	Total CCA operating costs	Return on		Mean Capital Employed	Return on MCE
	Internal	External	Total					Return	turnover		
Residential analogue exchange line services in the UK	£	£	£	£	£	£	£	£	%	£	%
Residential local calls in the UK	£	£	£	£	£	£	£	£	%	£	%
Residential national calls in the UK	£	£	£	£	£	£	£	£	%	£	%
Residential IDD calls category A routes	£	£	£	£	£	£	£	£	%	£	%
Residential IDD calls category B routes	£	£	£	£	£	£	£	£	%	£	%
Residential calls to mobiles in the UK	£	£	£	£	£	£	£	£	%	£	%
Residential operator assistance calls in the UK	£	£	£	£	£	£	£	£	%	£	%
	£	£	£	£	£	£	£	£	%	£	%

for the year ended 31 March 2006

	Turnover			HCA costs	Wholesale Transfer charges	CCA adjustments	Total CCA operating costs	Return on		Mean Capital Employed	Return on MCE
	Internal	External	Total					Return	turnover		
Residential analogue exchange line services in the UK	£	£	£	£	£	£	£	£	%	£	%
Residential local calls in the UK	£	£	£	£	£	£	£	£	%	£	%
Residential national calls in the UK	£	£	£	£	£	£	£	£	%	£	%
Residential IDD calls category A routes	£	£	£	£	£	£	£	£	%	£	%
Residential IDD calls category B routes	£	£	£	£	£	£	£	£	%	£	%
Residential calls to mobiles in the UK	£	£	£	£	£	£	£	£	%	£	%
Residential operator assistance calls in the UK	£	£	£	£	£	£	£	£	%	£	%
	£	£	£	£	£	£	£	£	%	£	%

Annex 10

Financial Review at Market Group level

The dominant provider will be required to prepare a Financial Review to summarise the financial performance across groups of regulated markets (deemed to be Access, other Wholesale SMP markets and Retail SMP) for which cost accounting and/or accounting separation obligations apply.

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

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

It should include discussion of the regulatory financial performance across the relevant markets, in the period and the main influences on performance, including known trends and the effect of risks facing those markets.

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

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

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

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

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

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

Annex 11																
Market summary																
Purpose of statement: to provide more detail on financial performance and first order tests of compliance with cost orientation and non-discrimination obligations																
Summary																
	Internal Sales - services only provided internally	Internal Sales - services also provided externally	External Sales	Turnover (see note 1)	Operating costs	Depreciation	Holding gain/(loss)	Supplementary depreciation	Other adjustments	Roundings	Total CCA operating costs	Return	Return on turnover	Mean capital employed	Return on mean capital employed	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	£m	%	
2007	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%	
2006	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%	
Note 1: Comparison of Average internal and external charges with each other and with FAC																
<div>← Non- discrimination → ← Cost orientation →</div>																
	Internal Sales - services also provided externally	Internal Sales - services only provided internally	External Sales	Turnover	Volume	Unit	Average price	FAC (see Section 5)	Indicative LRIC floors & ceilings as multiple of FAC	Average price:FAC						
	£m	£m	£m	£m			£	£								
for the year ended 31 March 2007																
Service																
Service 1 Internal	£			£		X	£	£	X.XX	X.XX	X.XX					
Service 1 External			£	£		X	£	£	X.XX	X.XX	X.XX					
Service 2 Internal	£			£		X	£	£	X.XX	X.XX	X.XX					
Service 2 External																
etc	£	£	£	£												
for the year ended 31 March 2006																
Service																
Service 1 Internal	£			£		X	£	£	X.XX	X.XX	X.XX					
Service 1 External			£	£		X	£	£	X.XX	X.XX	X.XX					
Service 2 Internal	£			£		X	£	£	X.XX	X.XX	X.XX					
Service 2 External																
etc	£	£	£	£												

Annex 12																
Market summary																
Summary																
	Internal Sales - services only provided internally	Internal Sales - services also provided externally	External Sales	Turnover (see note 1)	Operating costs	Depreciation	Holding gain/(loss)	Supplementary depreciation	Other adjustments	Roundings	Total CCA operating costs	Return	Return on turnover	Mean capital employed	Return on mean capital employed	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	£m	%	
2007	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%	
2006	£	£	£	£	£	£	£	£	£	£	£	£	%	£	%	
Note 1:																
					Internal Sales - services also provided externally	Internal Sales - services only provided internally	External Sales	Turnover								
					£m	£m	£m	£m								
for the year ended 31 March 2007																
Service																
Service 1 Internal					£			£								
Service 1 External							£	£								
Service 2 Internal					£			£								
Service 2 External																
etc					£	£	£	£								
for the year ended 31 March 2006																
Service																
Service 1 Internal					£			£								
Service 1 External							£	£								
Service 2 Internal					£			£								
Service 2 External																
etc					£	£	£	£								

Regulatory financial reporting obligations on BT

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	Depreciation £m	Holding gain/(loss) £m	Supplementary depreciation £m	Other adjustments £m	Roundings £m	Total CCA operating costs £m	Return £m	Return on turnover	Mean capital employed £m	Return on mean capital employed				
2006	£	£	£	£	£	£	£	£			£	£	£	£	%	£	%			
2005	£	£	£	£	£	£	£	£			£	£	£	£	%	£	%			
Note 1: Comparison of Average internal and external charges with each other and with FAC					<div><div>←</div><div>Non- discrimination</div><div>→</div><div>→</div><div>Cost orientation</div><div>←</div></div>															
			Internal Sales - services also provided externally £m	Internal Sales - services only provided internally £m	External Sales £m	Turnover £m	Day	Evening	Weekend	24 hours		Day ppm	Evening ppm	Weekend ppm	Weighted Average ppm	FAC ppm	Indicative floors & ceilings as multiple of FAC	Average price/FAC		
for the year ended 31 March 2007																				
Service																				
Service 1			£			£	m	m	m	m		p	p	p	p	p	x-y	X.0		
Service 1					£	£	m	m	m	m		p	p	p	p	p	x-y	X.0		
Service 2			£			£	m	m	m	m		p	p	p	p	p	x-y	X.0		
Service 2					£	£	m	m	m	m		p	p	p	p	p	x-y	X.0		
Service 3			£			£	m	m	m	m		p	p	p	p	p	x-y	X.0		
Service 4				£		£	m	m	m	m		p	p	p	p	p				
Service 5			£			£	m	m	m	m		p	p	p	p	p		X.0		
Service 5					£	£	m	m	m	m		p	p	p	p	p		X.0		
			£	£	£	£														
			Internal Sales - services also provided externally £m	Internal Sales - services only provided internally £m	External Sales £m	Turnover £m	Day	Evening	Weekend	24 hours		Day ppm	Evening ppm	Weekend ppm	Weighted Average ppm	FAC ppm	Indicative floors & ceilings as multiple of FAC	Average price/FAC		
for the year ended 31 March 2006																				
Service																				
Service 1			£			£	m	m	m	m		p	p	p	p	p	x-y	X.0		
Service 1					£	£	m	m	m	m		p	p	p	p	p	x-y	X.0		
Service 2			£			£	m	m	m	m		p	p	p	p	p	x-y	X.0		
Service 2					£	£	m	m	m	m		p	p	p	p	p	x-y	X.0		
Service 3			£			£	m	m	m	m		p	p	p	p	p	x-y	X.0		
Service 4				£		£	m	m	m	m		p	p	p	p	p				
Service 5			£			£	m	m	m	m		p	p	p	p	p		X.0		
Service 5					£	£	m	m	m	m		p	p	p	p	p		X.0		
			£	£	£	£														

Annex 14

Market Level Financial Review

The dominant provider will be required to prepare a Market Level Financial Review (MLFR) to encompass all markets for which cost accounting and/or accounting separation obligations apply.

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

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

It should include discussion of the regulatory financial performance of each individual market, in which the dominant provider has accounting separation or cost accounting obligations, in the period and the main influences on performance, including known trends and the effect of risks facing each market.

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

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

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

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

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

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

Annex 15**BT Statement of Costs on a Current Cost Basis****Network Activity Statement****for year ended 31st March 2007****Network Activity Statement - Consolidated**

	HCA operating cost	Supplementary Depreciation	Holding gain and other CCA adjustments	Total CCA operating costs	CCA mean capital employed	Applicable rate of return on capital %	Capital costs	Total of operating costs and capital costs relating to current year	Volume	Average costs per min/unit on a current cost basis relating to current year
Fully Allocated Cost										
Components										
Local exchange concentrator										
Local exchange call set up										
Local exchange call duration										
:										
per component list										
:										
xDSL specific										
Product management, policy & planning for xDSL interconnect services										
Wholesale bad debts										
Totals										

Annex 16

Calculation of FAC based on component costs and usage factors

for the year ended 31st March 2007

		Market A			Market B			etc					
	Average cost per unit (from annex 15)	internal service connections	internal service rentals	external service rentals	internal service connections	internal service takeovers	external service connections	external service transfers	internal service rentals	external service rentals	etc	etc	etc
Fully Allocated Cost (£m)													
Components													
Local exchange concentrator	x.xx												
Local exchange call set up	x.xx												
Local exchange call duration	x.xx												
⋮	x.xx												
per component list	x.xx												
⋮	x.xx												
xDSL specific	x.xx												
Product management, policy & planning for xDSL inte	x.xx												
Wholesale bad debts	x.xx												
FAC		x.xx	x.xx	x.xx	x.xx	x.xx	x.xx	x.xx	x.xx	x.xx	x.xx	x.xx	x.xx

Annex 17**BT Network Services Reconciliation****for year ended 31st March 2007****Consolidation Statement (a summary of all wholesale markets where there are cost accounting obligations)**

Fully Allocated Cost	Total (from Annex 15)	Market A	Market B	Market C	Residual Services
Local exchange concentrator Local exchange call set up Local exchange call duration : per component list : xDSL specific Product management, policy & planning for xDSL interconnect services Wholesale bad debts					
Totals					

Annex 18

Consolidated P&L

	Access £k	SMP £k	Total wholesale £k	Retail SMP £k	Wholesale residual £k	Retail residual £k	Elimination of inter market costs £k	Total £k
Turnover								
Internal Sales								
External Sales								
Total Turnover								
Operating costs								
Charges from BT wholesale								
-at tariff								
-at cost								
Outpayments								
Operating costs of Wholesale Market								
Provision/Maintenance								
Network Support								
General Support								
General management								
Finance & Billing								
Accommodation								
Bad debts								
Marketing & Sales								
Messaging Payments								
Other Costs								
Depreciation								
Total HCA operating costs								
CCA adjustments:								
Holding (gain)/loss								
Supplementary depreciation								
Other adjustments								
Total operating costs								
Return								

Annex 19**BT Reconciliation Statement**

Consolidated profit and loss account
For the year ended 31 March 2007

	Turnover £m	Operating Costs £m	HCA Return or Profit before taxation £m	Holding gain/(loss) and other Adjustments £m	Supple- mentary depreciation £m	CCA Return or Profit Before Taxation £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						
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		
	2007	2006
BT Reconciliation statement		
Consolidated mean capital employed		
For the year ended 31 March 2007	£m	£m
Shareholders' funds as in the Annual Report		
CCA adjustments		
Adjustments		
Corporation taxes payable		
Provision for dividends payable		
Deferred tax /(ACT recoverable)		
Long term borrowing:		
Due in less than one year		
Due in more than one year		
Adjustments to closing capital employed		
Goodwill		
Minority interests		
Closing CCA capital employed at 31 March		
Opening CCA capital employed at 1 April		
Adjustment to opening capital employed		
Revised opening CCA capital employed at 1 April		
Average CCA capital employed		
Daily averaging adjustment		
Deferred costs		
Total CCA mean capital employed		
<u>Mean capital employed of SMP Markets</u>		
Wholesale Markets (where cost accounting and/or accounting separation obligations apply)		
Retail Markets (where cost accounting obligations apply)		
Sub total markets	<hr/>	<hr/>
<u>Residual activities</u>		
- Wholesale residual activity		
- Retail residual activity		
Total CCA mean capital employed	<hr/>	<hr/>

Regulatory financial reporting obligations on BT

Annex 21										
BT Inter-market turnover reconciliation										
for year ended 31st March 2007										
Charges from Wholesale residual to Retail markets are not shown on the face of the Retail market P&L account as charges from Wholesale markets	Other wholesale services (combined) £m	Residential analogue exchange line services in the UK £m	Residential local calls in the UK £m	Residential national calls in the UK £m	Residential IDD calls category A routes (retail IDD routes which are competitive) in the UK £m	Residential IDD calls category B routes (retail IDD routes which are not competitive) in the UK £m	Residential calls to mobiles in the UK £m	Residential operator assisted calls in the UK £m	Retail residual £m	Total 2007 £m
Turnover originating in:										
Wholesale residential analogue exchange line services										
Wholesale business analogue exchange line services										
Wholesale business ISDN2 exchange line services										
Call origination on fixed public narrowband networks										
Local-tandem conveyance and transit on fixed public telephone networks										
Single transit on fixed public narrowband networks										
Technical areas (Interconnect Circuits)										
Fixed call termination										
Traditional interface symmetric broadband origination (up to and including 8Mbit/s)										
Traditional interface symmetric broadband origination (above 8Mbit/s up to 155Mbit/s)										
Alternative interface symmetric broadband origination (all bandwidths)										
Wholesale trunk segments										
Technical areas (Point of Handover)										
Wholesale IDD to category B										
Asymmetric broadband origination in the UK										
Broadband conveyance in the UK										
Wholesale residential ISDN2 exchange line services										
Wholesale business ISDN30 exchange line services										
Wholesale local access										
Wholesale residual										
Residential analogue exchange line services in the UK										
Residential local calls in the UK										
Residential national calls in the UK										
Residential IDD calls category A routes (retail IDD routes which are competitive) in the UK										
Residential IDD calls category B routes (retail IDD routes which are not competitive) in the UK										
Residential calls to mobiles in the UK										
Residential operator assisted calls in the UK										
Retail residual										
Total 2007										

Annex 22

Notes to the Financial Statements

These will contain notes, modelled on statutory accounting conventions, to assist the user in the interpretation of the individual statements.

The notes will address issues necessary to ensure the fair presentation of the financial statements (where fairly presents is the basis of presentation) and that they are properly prepared (where properly prepared is the basis of presentation) including to the extent necessary the basis of accounting, accounting policies, changes for restatement, non compliance with UK GAAP and any other information that will enable users to properly understand the individual financial statement.

Amongst others the necessary notes would be expected to include:

- a description of the basis on which revenue from sales to other operators arise and other related matters necessary to understand how financial performance has been measured
- a commentary setting out how the principle of non discrimination and the calculation of usage factors have been applied in the preparation and presentation of financial statements in respect of wholesale services

Annex 23

Report of the Regulatory Auditors

The report of the independent regulatory auditors, produced in accordance with Condition OA5 (b),(c) and (d).

The statement by the regulatory auditor shall set out the responsibilities of the Dominant Provider and of the auditor, the basis of audit opinion in accordance with current auditing standards, to whom a duty of care is owed and their opinion in respect of each Financial Statement.

For reasons of simplicity and understandability the auditor may have a single opinion covering Accounting Separation Financial Statements and Cost Accounting Financial Statements, provided that their opinion clearly identifies the nature of the assurance given in relation to each.

Annex 24

Price controls in wholesale markets

	NCC Control X factor	Average charges 2005/06	Average Charges 2004/05	% Change relative to RPI		NCC Control X factor	Average charges 2005/06	Average Charges 2004/05	% Change relative to RPI
Basket									
Basket 1	RPI -x%	measure	measure		Basket 10	RPI -x%	measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 2	RPI -x%	measure	measure		Basket 11	RPI -x%	measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 3	RPI -x%	measure	measure		Basket 12	RPI -x%	measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 4	RPI -x%	measure	measure		Basket 13	RPI -x%	measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 5	RPI -x%	measure	measure		Basket 14	RPI -x%	measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 6	RPI -x%	measure	measure		Basket 15		measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 7	RPI -x%	measure	measure		Basket 16		measure	measure	
- Internal		x.xx	x.xx	x.x%	- Internal		x.xx	x.xx	x.x%
- External		x.xx	x.xx	x.x%	- External		x.xx	x.xx	x.x%
Basket 8	RPI -x%	measure	measure						
- Internal		x.xx	x.xx	x.x%					
- External		x.xx	x.xx	x.x%					
Basket 9	RPI -x%	measure	measure						
- Internal		x.xx	x.xx	x.x%					
- External		x.xx	x.xx	x.x%					

Annex 25

Price controls in wholesale markets

[narrative]

Annex 26

Additional information by way of notes

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

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

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

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

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

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

Reference	Additional Financial Information	Description	Purpose (AS, CA & R Reconciliation)
AI – 15	Provision of BT 'Data File'	<ul style="list-style-type: none"> • Delivery of “data file” in prescribed format containing all records from cost attribution system. Format of file to allow for identification of sources of data, data flows (from the input sources at F8 code level through to products and services) and attribution bases. <p>The data would as a minimum, be able to replicate the outputs of the financial statements, and therefore would include transfer charges and CCA adjustments, and be able to identify the attribution bases to those described in the DAM. The basis of preparation, must be consistent with the Primary Accounting Documents</p> <p>The information to be provided annually within 10 days of the publication of the regulatory accounts, and on a quarterly basis thereafter, 30 days after each quarter end. The outputs of the annual file would be consistent with published audited information.</p> <p>BT to maintain file in format consistent with Ofcom/3rd party import routine, accompanied by provision of control totals, and any technical advice which allows seamless data transfers.</p>	AS, CA & R

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