



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

Consultation

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Section 1

Executive Summary

Background

- 1.1 Relevant, reliable and timely regulatory financial information informs many of our decisions. We require this information in order to monitor and enforce various obligations that are placed on dominant providers in markets where they are found to have significant market power ("SMP").
- 1.2 In this consultation we propose various changes to enhance the presentation and improve the quality of BT's regulatory financial statements ("RFS") reflecting developments in the regulatory, technological and competitive environment, our ongoing analysis and use of the RFS, comments from users of the RFS and discussions with BT.
- 1.3 The main changes to BT's 2009/10 RFS reflect our recent market review decisions, in particular:
- i) In the fixed narrowband retail services market review¹, we found that most of the UK retail markets are now effectively competitive and BT no longer has SMP in the provision of retail fixed narrowband analogue access and retail calls markets in either the residential or business sectors. As a consequence of this market review, BT will no longer be required to report the financial results of any retail market.
 - ii) In the fixed narrowband wholesale services market review², we found that BT retains SMP in the markets for analogue and ISDN2 exchange lines, call origination and call termination. However, we found that residential and business lines now belong to the same market, and therefore BT will now be required to report on residential and business lines together.
 - iii) In the fixed narrowband wholesale services market review, we also found that BT no longer has SMP in local-tandem conveyance and transit ("LTC/LTT") market. The review decided that certain SMP conditions applied to the LTC/LTT market would remain in force for a transitional period and therefore 2009/10 will be the last reporting year for which BT is required to prepare and publish regulatory financial statements for the LTC/LTT market. We will consult on the detailed implications of the revocation of this condition in our 2010/11 proposals for changes to BT's RFS.
 - iv) As a consequence of the Business Connectivity Market Review ("BCMR")³, BT will now be required to report against new markets for some leased line markets. In particular, such markets will now exclude the central and east London area ("CELA").

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

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

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

- 1.4 In addition, certain changes require formal consultation if they are to be implemented: they are mainly concerned with improving the presentation of the statements including for example more transparent and relevant disclosure of Alternative Interface Symmetric Broadband Origination (“AISBO”) services.
- 1.5 Finally, we set out a range of other changes which enhance the statements. They do not require formal consultation but we believe it is helpful to inform users in advance of publication of the 2009/10 RFS. We would welcome any informal comments stakeholders have on these changes.
- 1.6 The current regulatory financial reporting regime is also applicable to KCOM. This consultation addresses relatively minor changes to KCOM's reporting requirements as a consequence of changes to market definitions in the business connectivity and wholesale broadband access markets.
- 1.7 The tables below summarise the objectives we address in this consultation and outline our proposals in each.

A) ITEMS FOR CONSULTATION (Section 3)

<i>Objective/Issue</i>	<i>Proposal</i>
<p>1) Improved disclosure of AISBO Services</p> <p>We wish to ensure all main AISBO services are properly disclosed in the market P&L statement in this growing market.</p>	<p>We propose to specify the main services that must be disclosed consistent with our guidance on materiality thresholds and BT's obligation to demonstrate compliance with its cost orientation and no undue discrimination obligations.</p>
<p>2) Removal of requirement to produce information analysing BT Outpayments to other operators (this information is produced for Ofcom only)</p> <p>We have identified one statement analysing BT's outpayments that now has significantly less relevance following the deregulation of retail markets.</p>	<p>We propose to remove the requirement to prepare additional information analysing BT's outpayments to other operators.</p>
<p>3) Changes to the presentation of the RFS</p> <p>BT proposed a number of changes to the RFS which change the form and content of the RFS.</p>	<p>We believe some of BT's proposals would improve the presentation of the information and therefore propose to accept such changes.</p>

B) OUTCOMES FROM MARKET REVIEWS (Section 4)

<i>Objective/Issue</i>	<i>Proposal</i>
<p>1) Implementation of Fixed Narrowband Retail Services Market Review</p> <p>The market review concluded that BT no longer has SMP in the supply of access and retail calls markets in either the residential or business sectors. While we found that BT still has SMP in the retail ISDN2 market, we removed all retail remedies, including the reporting requirements.</p>	<p>We propose to implement the outcome of the market review by no longer requiring BT to report on any specific retail markets and no longer requiring it to prepare and maintain a retail catalogue.</p>

2) Implementation of Fixed Narrowband Wholesale Services Market Review

The market review made the following changes to market definitions:

For BT

- Combining residential & business exchange line markets
- 09/10 to be last reporting year for local-tandem conveyance and transit market

For KCOM

- Combining residential & business exchange line markets

We propose to implement the outcome of the market review by requiring BT and KCOM to prepare market information in line with the new market definitions included in the market review.

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

<i>Objective/Issue</i>	<i>Proposal</i>
<p>1) Improvements to Leased Line Reporting</p> <p>We have identified areas for improved transparency in various leased line and trunk markets.</p>	<p>BT will separately identify and report revenues and/or costs for:</p> <ul style="list-style-type: none"> • Ancillary services such as equipment and infrastructure charges, ECCs and resilience. • Sub 2Mbit trunk and distribution services in the Traditional Interface Symmetric Broadband Origination ("TISBO") market. • Enhanced maintenance in the trunk market. • New "Points of handover" services
<p>2) Full implementation of BCMR</p> <p>There are two reporting issues outstanding from the BCMR published in December 2008.</p> <p>The requirement for reporting on the basis of new geographic market definitions in the relevant Business Connectivity markets and the separate reporting of Netstream Services were both deferred from last year to this year due to the timing of the BCMR.</p>	<p>BT will prepare market information based on the new geographic market definitions for some leased line markets as set out in the BCMR.</p> <p>BT will report separately 7 main netstream services in the relevant business connectivity market</p>
<p>3) Improvements to Openreach Reporting</p> <p>Our work on the New pricing framework for Openreach Statement (the "Openreach Statement") has identified potential improvements to cost attribution methods.</p> <p>We are expecting to shortly receive formal notification from the Equality of Access Board ("EAB") of the results of its investigation into BT's compliance with section 5.31 of the Undertakings. S5.31 sets out the obligations on BT to prepare regulatory financial statements for Openreach.</p>	<p>BT has agreed to review the allocation of costs between Openreach regulated and non-regulated services on a product by product basis in the RFS systems. This follows on from work carried out in the Openreach Statement where an adjustment was made in the pricing model.</p> <p>Once we receive formal EAB notification of this investigation we will review the implications of the EAB decision on the reporting framework of the Openreach financial statements, in particular the inclusion of an internal transfer charge for Light User Scheme (LUS) costs, and consider if any further action should be taken.</p>
<p>4) Other Items</p> <p>These relate to the attribution of BT's 21CN network costs and updating the cost of capital percentage used in the RFS</p>	<p>BT has agreed to review and update if necessary its 21CN network cost attribution methods in light of BT's 21CN implementation plan.</p> <p>The current cost of capital % used in the RFS will be updated to be consistent with our latest decisions as set out in the Openreach Statement.</p>

- 1.8 The closing date for responses to the consultation as set out in this document is 5pm on 26 March 2010.

Section 2

Introduction

Background

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

Structure of the Document

- 2.6 In Section 3 we set out specific proposals for BT to make improvements to the RFS and, subject to the outcome of this consultation, we expect these changes to be implemented in time to apply to the preparation and publication of BT's 2009/10 RFS.
- 2.7 In Section 4 we set out proposed changes required to the RFS as a result of the conclusions of the Fixed Narrowband Retail and Fixed Narrowband Wholesale market reviews. These include the deregulation of all retail markets and changes to market definitions in the wholesale markets. The market definition changes impact on both KCOM and BT.
- 2.8 In Section 5 we set out reporting changes BT will implement or develop in 2009/10 but where formal consultation is not required. These items are included for stakeholder information, however we welcome comments or observations from stakeholders on them.

Costs and benefits of proposed changes

- 2.9 In preparing this consultation we have discussed our proposals with BT and KCOM in order to understand the likely impact of them and to appreciate any difficulties that are likely to arise.
- 2.10 We have taken into account the burden on BT and KCOM in implementing all the proposed changes. We have weighed this against the benefits of more relevant, reliable and understandable reporting. A full impact assessment is set out in Annex 4 of this document.
- 2.11 We will work closely with BT to ensure the implementation of the final requirements is carried out as efficiently as possible.
- 2.12 Responses to the consultation and the questions raised in sections 3 and 4 are due by 5pm 26 March 2010. We also welcome stakeholders' views on the issues in section 5.

Section 3

Items for Consultation

Introduction

- 3.1 In this section we propose three reporting changes which require formal consultation. These changes relate solely to BT.

Disclosure of AISBO Services

Proposed Change

- 3.2 We propose to specify the list of reported services within this growing market to ensure all material services are properly disclosed.

Objective of Change

- 3.3 Revenues in this market increased over 12% in the year to March 2009 with volumes increasing at a significantly higher rate over the same period. This level of growth combined with our decision to impose a charge control on these services from 2009 emphasises the importance of BT disclosing reliable financial information for each main service provided in this market.
- 3.4 We have found that the current level of disclosure of AISBO services may not properly capture fast growing services or may aggregate services with a significantly different price/volume mix. We believe therefore that improved analysis of services in this market will improve our monitoring of BT's compliance with its no undue discrimination and cost orientation obligations.
- 3.5 In our 2008 Consultation updating the regulatory financial framework⁴ (the "2008 Consultation"), we consulted on expanding the list of services. Since then the market has further evolved so it seems reasonable to reflect these changes in the services disclosed in BT's 2009/10 RFS. We have formulated our proposed list of services guided by the two following principles:
- Firstly we have taken into account the £10m (revenues or costs) informal guidance level of materiality for reporting services on an individual basis.
 - Secondly we have formulated our list by reviewing a detailed breakdown of 2008/09 AISBO revenues by individual service. Our aim was to ensure that services with a significantly different price/volume mix would not be reported together, as this would have the effect of distorting the average price of the service, affecting the data used to monitor cost orientation.
- 3.6 Although we have used 2008/09 information as a reasonable indicator for determining reported services in 2009/10, our proposed list of services can be expanded by BT in light of actual outturn data for 2009/10.
- 3.7 The proforma statement showing the additional services we propose for the AISBO market in the regulatory financial statements is in Annex 9 of this document.

⁴ "BT's regulatory financial reporting. Changes to BT's 2007/08 regulatory financial statements" published in April 2008: <http://www.ofcom.org.uk/consult/condocs/btregs08/btregs08.pdf>

- 3.8 The services proposed in the annex are similar to those reported in 2008/09 RFS. It should be noted, however, that the mix of products within these service lines has changed. In particular we highlight the following movements:
- *Wholesale Extension Services (WES) 2*
In 2008/09 this product was included in the WES 10 Mbit Rental services. This is a legacy product with declining revenues and we therefore propose to report this product within the WES Other Bandwidth Rental services.
 - *Ethernet Backhaul Direct (EBD) and Ethernet Access Direct (EAD)*
These products are new and potentially fast growing and we therefore propose to improve disclosure by requiring BT to report revenue separately for both EBD and EAD. If revenues become material we expect BT to report costs for each of these services in the same way as for other main services.

Legal Tests

- 3.9 In order to implement these changes Ofcom will have to modify Direction 4 under SMP condition OA2. We have set out how we have satisfied the legal tests under sections 3, 4 and 49(2) of the Communications Act to implement these changes at Annex 6.

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

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

Proposed Change

- 3.10 We propose that the requirement for BT to prepare A18 is removed. A18 is an analysis of BT's outpayments to other operators prepared for Ofcom only.

Objective of Change

- 3.11 A18 provides information on the total value of outpayments made to other operators. This includes Inland calls (BT to mobile residential), PSTN calls, and Residential Outgoing IDD calls. It is, however, not a key source of data related to the RFS and could be sought on an ad-hoc basis if required.
- 3.12 Furthermore, after the deregulation of retail markets the preparation of this information has significantly less relevance.
- 3.13 Following a review of all AFI's, A18 was therefore identified by BT as having limited value and BT requested that the requirement to prepare and provide to us is removed.
- 3.14 It should be noted that there is no requirement for BT to publish A18.

Legal Tests

- 3.15 In order to implement these changes Ofcom will have to modify Directions 3 and 4, and the FA10 Preparation, audit and delivery Direction and the FA10 Form and content Direction under SMP conditions OA2 and FA10.2. We have set out how we have satisfied the legal tests under sections 3, 4 and 49(2) of the Communications Act to implement these changes at Annex 6.

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

Presentational Changes

Proposed Change

- 3.16 We propose to improve the presentation of BT's RFS through simplifying the form and content of the market level profit and loss statements. In particular, we propose the following changes to the form and content:
- Deletion of Return on Turnover information
 - Amalgamation of Depreciation and Supplementary Depreciation information into one column
 - Combination of "internal sales services only provided internally" with "internal sales services also provided externally" into one internal sales column.
- 3.17 Details of these changes are show in Annex 9 of this document.

Objective of Change

- 3.18 The overall objective of the changes is to simplify the presentation of the RFS and to reflect other changes in the reporting framework (such as the removal of reporting obligations for retail markets). In relation to the individual changes, the objective is as follows:
- *Deletion of Return on Turnover information*
This financial performance measure is more relevant to retail markets and not the wholesale markets where the return on mean capital employed is a more useful measure of performance. With retail markets no longer being reported, this information adds little value and may obscure the relevance of more important information.
 - *Amalgamation of Depreciation and Supplementary Depreciation information into one column*
The RFS are prepared on a current cost basis (CCA) and therefore showing the Historic Cost Accounting depreciation charge and the CCA supplementary depreciation charge separately does not appear to add much value.
 - *Combination of "internal sales services only provided externally" with "internal sales services also provided externally" into one internal sales column*
Most wholesale services are provided by BT to other operators as well as itself and there seems minimal value in analysing BT's internal sales in this way.

Legal Tests

- 3.19 In order to implement these changes Ofcom will have to modify Directions 4 and the FA10 Form and content Direction under SMP condition OA2 and FA10.2. We have set out how we have satisfied the legal tests under sections 3, 4 and 49(2) of the Communications Act to implement these changes at Annex 6.

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

Section 4

Outcomes of market reviews concluded in 2009

Introduction

- 4.1 We have concluded two market reviews that impact the RFS since the publication of the 2009 Statement updating the regulatory financial framework⁵ (the 2009 Statement) and BT's 2008/09 RFS. These are the Fixed Narrowband Retail and Fixed Narrowband Wholesale Market Reviews which both trigger specific changes to the RFS of BT and KCOM. This consultation is the device by which we implement these changes to BT's and KCOM's regulatory reporting requirements.
- 4.2 The impact of these changes on BT, particularly the deregulation of retail markets, is far more significant than the changes proposed for KCOM. We show separately in this section the changes which relate to BT and those which relate to KCOM.

Fixed Narrowband Retail Market Review

Implications for BT

- 4.3 The main outcome of the Fixed Narrowband Retail Market Review in respect of regulatory financial reporting is that BT no longer has obligations to prepare and report on any retail markets. In addition, a retail catalogue will no longer be prepared by BT.

Description

- 4.4 The Fixed Narrowband Retail Market Review concluded that BT (in the UK (excluding Hull)) no longer has SMP in the supply of retail fixed narrowband analogue access and retail calls markets in either the residential or business sectors. It also concluded that while BT still has SMP in the retail ISDN2 market, it would be appropriate to rely solely on wholesale remedies in this market as the existing retail remedies no longer offer additional benefits to the downstream competitive process. As a result, BT's financial reporting obligations in these markets were revoked.
- 4.5 The two following annexes of this document set out the changes required to the RFS:
- Annex 7 shows amendments to the tables which set out the retail service markets against which BT was formerly required to prepare RFS.
 - Annex 8 shows the impact of changes to Directions 3 and 4 under SMP condition OA2. These changes remove the requirement to i) produce the retail specific RFS statements (Annex 5b, 6B, and 21 of the RFS), ii) provide any retail information when providing additional financial information to Ofcom, and iii) include any retail specific information in the reconciliation statements (Annex 19 and 20 of the RFS).

⁵ "Changes to BT and KCOM's regulatory financial reporting – 2008/09 update" Statement, published in June 2009: http://www.ofcom.org.uk/consult/condocs/btkcom09/statement/btkcom_statement.pdf

- 4.6 It should be noted that information on total retail non-regulated (residual) information will still be required to reconcile the RFS with BT's Annual Report⁶.

Legal Tests

- 4.7 In order to implement these changes Ofcom will have to modify Directions 3 and 4 under SMP condition OA2. We have set out how we have satisfied the legal tests under sections 3, 4 and 49(2) of the Communications Act to implement these changes at Annex 6.

Fixed Narrowband Wholesale Market Review

Implications for BT

- 4.8 The main outcomes from the Fixed Narrowband Wholesale Market Review in respect of regulatory financial reporting is that:
- i) BT will be required to report on residential and business lines together; and
 - ii) 2009/10 will be the last reporting year for which BT will prepare and publish regulatory financial statements for the LTC/LTT market.

Description

- 4.9 The Fixed Narrowband Wholesale Market Review introduced three main reporting changes;
- 4.10 Firstly, prior to the market review, BT was required to report separately against wholesale residential and business analogue exchange line markets. The market review defined one wholesale analogue exchange line market and going forward, BT will be required to report against this market
- 4.11 Secondly, prior to the market review, BT was required to report separately against wholesale residential and business ISDN2 exchange line markets. The market review defined one wholesale ISDN2 exchange line market and going forward, BT will be required to report against this market.
- 4.12 Thirdly, 2009/10 will be the last reporting year for the local tandem conveyance and transit market.
- 4.13 The tables which set out the service markets against which BT is required to prepare RFS have been amended to reflect these and can be found in Annex 7 of this document.

Legal Tests

- 4.14 In order to implement these changes Ofcom will have to modify Directions 3 and 4 under SMP condition OA2. We have set out how we have satisfied the legal tests under sections 3, 4 and 49(2) of the Communications Act to implement these changes at Annex 6.

⁶ As shown in Section 5.1 of the Current Cost Financial Statements for 2009 including Openreach Undertakings. <http://www.btplc.com/Thegroup/RegulatoryandPublicaffairs/Financialstatements/2009/CurrentCostFinancialStatements.pdf>

Implications for KCOM

- 4.15 The main outcome from the Fixed Narrowband Wholesale Market Review in respect of regulatory financial reporting is that KCOM will now be required to report on residential and business lines together.

Description

- 4.16 The Fixed Narrowband Wholesale Market Review introduced two main reporting changes;
- 4.17 Firstly, prior to the market review, KCOM was required to report separately against wholesale residential and business analogue exchange line markets. The market review defined one wholesale analogue exchange line market and going forward, KCOM will be required to report against this market.
- 4.18 Secondly, prior to the market review, KCOM was required to report separately against wholesale residential and business ISDN2 exchange line markets. The market review defined one wholesale ISDN2 exchange line market and going forward, KCOM will be required to report against this market.
- 4.19 The tables which set out the service markets against which KCOM is required to prepare RFS have been amended to reflect these and can be found in Annex 7 of this document.

Legal Tests

- 4.20 In order to implement these changes Ofcom will have to modify Directions 3 and 4 under SMP condition OB2. We have set out how we have satisfied the legal tests under sections 3, 4 and 49(2) of the Communications Act to implement these changes at Annex 6.

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

Potential future reporting changes from other market reviews

- 4.21 Ofcom is currently undertaking a review of wholesale broadband access (“WBA”) and wholesale local access (WLA”) markets, and our review may impact regulatory reporting in those markets.
- 4.22 It should also be noted that Ofcom is considering bringing any reporting requirements in WLA currently contained in SMP condition FA10 and the Directions made under that condition under the “OA” SMP conditions and the Directions made under those conditions.
- 4.23 We also recently published a Statement⁷ setting out our conclusions from a review of Single Transit on fixed public narrowband networks market. The practical implications

⁷ The Fixed Narrowband Services Wholesale Markets (Further statement on wholesale transit markets and remedies in the wholesale call termination market) Statement published on 5 February 2010:

http://www.ofcom.org.uk/consult/condocs/wnmr_statement_consultation/statement

of the decisions of this review are that in 2009/10 BT will still be required to report against both cost accounting and accounting separation obligations. From 2010/11 BT will no longer be subject to cost accounting obligations but accounting separation obligations will remain. The detailed implementation of this change will be consulted on in advance of BT preparing its 2010/11 RFS.

Section 5

Items for information – other improvements to reporting in the RFS

Introduction

- 5.1 This section sets out a number of reporting improvements (planned for implementation in 2009/10 or possible impact in later years) where formal consultation is not required. These areas fall into four broad categories: improvements to leased line reporting, implementation of the findings of the BCMR, improvements to Openreach reporting, and other items.
- 5.2 Although not subject to the formal consultation process, we would welcome any views or comments from users and stakeholders, on these reporting developments.

IMPROVEMENTS TO LEASED LINE REPORTING

Separate identification and reporting of costs in respect of support services

Summary of improvement

- 5.3 BT will remove the costs of other single payments, resilience and third party equipment and infrastructure charges (“support services”) from the costs of unrelated services.

Rationale for change

- 5.4 BT has disclosed separately in the RFS the revenue for these support services since 2007/08. The costs, however, have continued to be incorrectly included in the costs of other unrelated services in the same market. This affects the user's ability to monitor BT's compliance with its cost orientation obligation for the support services and the unrelated services.
- 5.5 In our 2009 Consultation updating the regulatory financial framework⁸ (the 2009 Consultation) we consulted on this issue. We explained that BT submitted that it was not possible to separately identify and report these costs in 2008/09 due to the complexity of its systems and processes. Taking into account BT's concerns we allowed BT to provide this information in the form of an “Additional Financial Information” (information supplied to Ofcom only), rather than in the published RFS. We stated that BT would be required to provide the information in the 2009/10 published RFS.
- 5.6 In the 2009/10 RFS, BT will remove the support service costs from the costs for the unrelated services.
- 5.7 It should be noted that the support service categories in the RFS comprise many individual services, each with varying cost structures, and each likely to be

⁸ “Changes to BT and KCOM's regulatory financial reporting 2008/09 update” Consultation, published in March 2009: <http://www.ofcom.org.uk/consult/condocs/btkcom09/btkcom.pdf>

immaterial. We have considered an aggregation of these service categories but given the diverse nature of these services and costs we have decided it is not meaningful to do so. Therefore it is not proposed that BT report the costs of support services on a service by service basis.

Sub 2Mbit trunk reporting in the TISBO market

Summary of improvement

- 5.8 BT will report separately trunk and distribution sub 2Mbit revenues in the market for TISBO with a bandwidth up to and including 8 Mbit/s.

Rationale for change

- 5.9 Our work as part of the Leased Lines Charge Control (“LLCC”) confirmed that the calculation and disclosure of sub 2Mbit revenues could be improved.
- 5.10 Sub 2 Mbit trunk and distribution revenues and costs are currently aggregated and reported in the ‘Partial and Private Circuits 64 Kbit/s – transmission’ within the market for TISBO with a bandwidth up to and including 8 Mbit/s.
- 5.11 This makes it difficult for stakeholders to assess whether BT has met its non-discrimination and cost orientation obligations.
- 5.12 To address this BT will report separately trunk and distribution sub 2Mbit revenues in the market for TISBO with a bandwidth up to and including 8 Mbit/s.
- 5.13 Costs incurred by Sub 2 Mbit trunk and distribution will continue to be reported under “Partial and Private Circuits 64 Kbits/s – transmission”. We will consider if BT should further disaggregate these costs in light of the separated service revenues.

Enhanced Maintenance reporting in the Trunk market

Summary of improvement

- 5.14 BT will report ‘enhanced maintenance’ revenues and costs separately in the trunk market.

Rationale for change

- 5.15 Enhanced maintenance is currently reported separately for services within TISBO markets but it has not been reported separately in the trunk market. This service is also provided for trunk services and BT has agreed to improve the transparency of these enhanced maintenance services by reporting them separately.

Points of Handover

Summary of improvement

5.16 BT will report five main “Points of handover” services in the Technical Areas market, following our decision in the LLCC Statement⁹ to establish separate charges for these services.

Rationale for change

5.17 In our 2009 Consultation we explained that stakeholders who purchase “points of handover” services did not have sufficient transparency of these costs in the RFS. In our 2009 Statement, we accepted BT’s proposal to improve the costing of these services in the 2009 RFS by changing the weightings of the costs apportioned between internal and external circuits. This was an interim position pending the conclusions of the LLCC.

5.18 The LLCC Statement established a new charging methodology for “Points of Handover”. It concluded that BT should identify the Points of Handover costs that are included within the local end services rentals and attribute them to external sales of these services only.

5.19 The new charging mechanism established by the LLCC Statement combined with separate reporting in the RFS of these services from 2010 will provide greater transparency of both the costs and revenues of these services.

5.20 The five new main “Points of Handover” services to be included in the in the Technical Areas markets from 2010 are:

- External 3rd Party PoH Rental 64kbit
- External 3rd Party PoH Rental 2mbit CLZ
- External 3rd Party PoH Rental 2mbit
- External 3rd Party PoH Rental 34/45mbit
- External 3rd Party PoH Rental 155mbit

⁹ The Leased Lines Charge Control Statement, published in July 2009:
<http://www.ofcom.org.uk/consult/condocs/llcc/llccstatement/llccstatement.pdf>

IMPLEMENTATION OF THE BUSINESS CONNECTIVITY MARKET REVIEW

Reporting the new market definition

Summary of improvement

- 5.21 BT will report against the new market definitions as set out in the BCMR published in December 2008.

Rational for Change

- 5.22 In the 2009 Consultation we consulted on the revised market definition, as set out in the BCMR. The BCMR found, amongst others, that BT has SMP in the markets for TISBO with a bandwidth capacity above 8Mbit/s and up to and including 45Mbit/s and with a capacity above 45 Mbit/s and up to and including 155Mbit/s in the UK excluding the Hull Area and Central and East London Area (CELA). As a result BT is required to prepare financial statements which exclude CELA from the relevant markets.
- 5.23 Due to the timing of the BCMR, BT was unable to implement this geographical reporting change in time for the publication of the 2008/09 RFS. In the June 2009 Statement we therefore explained that we would be working with BT to implement this change in the 2009/10 RFS and that we intended to consult on the form and content of this revised geographical reporting.
- 5.24 Following publication of the BCMR we are discussing with BT which principles should be followed in identifying which TISBO circuits fall within or outside of the CELA area. These discussions are well advanced and we feel it would be helpful to users of the RFS to set out the current thinking on these principles at this time before they are finalised. The diagram on page 18 illustrates the principles that could provide a reasonable basis for reporting against the market definitions that exclude the CELA.
- 5.25 The reporting of the market on this basis does not change the form and content of the RFS and therefore formal consultation is not necessary. The method used by BT to identify and attribute costs and revenues to these TISBO markets that exclude CELA will be set out in BT's supporting documentation (the secondary accounting documents) and must follow the regulatory accounting principles set out in the primary accounting documents.

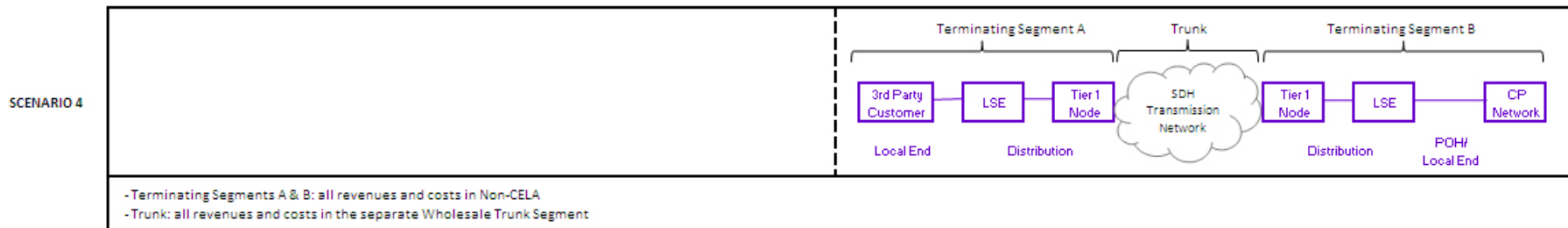
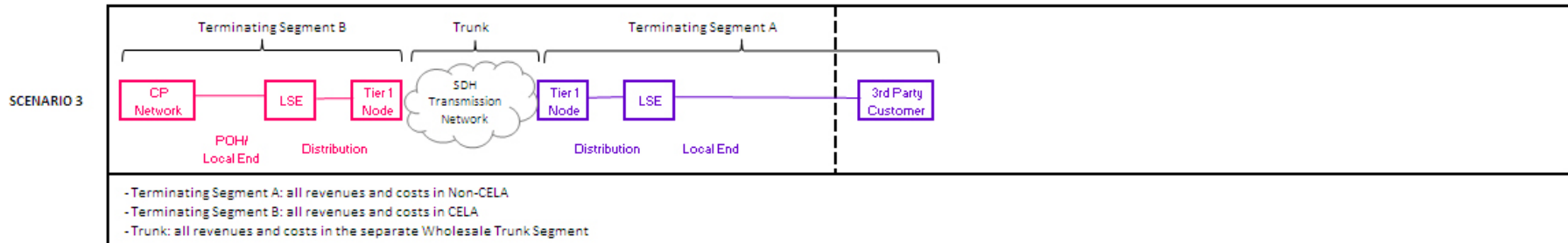
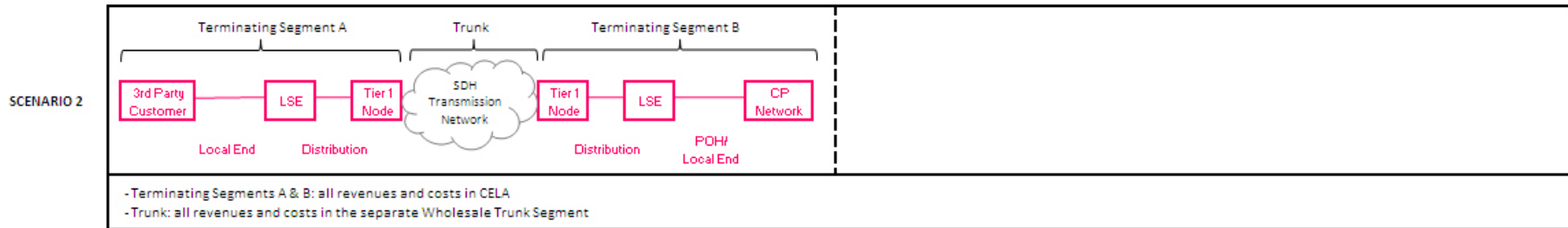
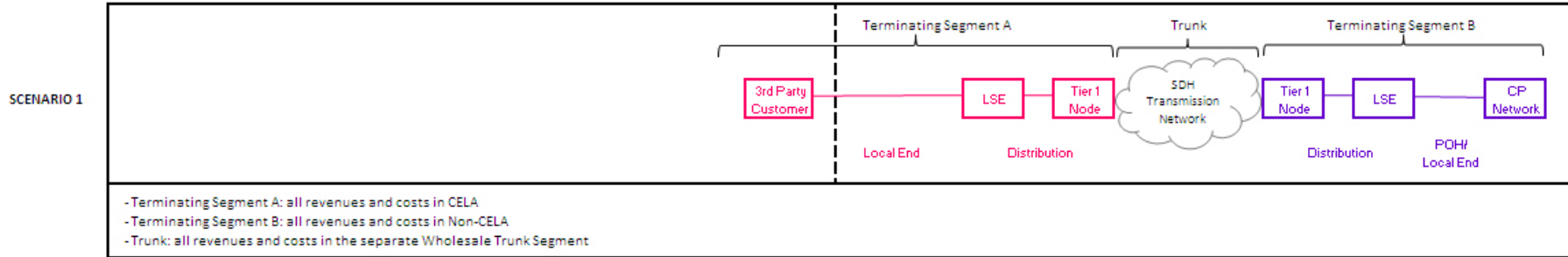
Diagram

- 5.26 The diagram shows the basis upon which TISBO circuits are to be included and excluded from the CELA area using four illustrative scenarios.
- 5.27 For each scenario the diagram shows a leased line broken down into three constituent parts: Terminating Segment A (which includes Third Party Customer Premises), Wholesale Trunk Segment, and Terminating Segment B (which includes Point of Handover).
- 5.28 The diagram shows two geographical areas: the CELA, and the SMP TISBO markets (8Mbits-45Mbits and 45Mbits to 155Mbits).
- 5.29 The illustrative scenarios show different geographical positioning of the constituent parts and, under each scenario, which geographical area the revenue and costs should be allocated to.

- 5.30 The allocation of revenue and costs is based on the following general principles:
- If the Third Party premises are based in the CELA the Terminating Segment A is attributed to CELA
 - If the Point of Handover is located in the CELA then the Terminating Segment B is wholly attributed to CELA
 - Wholesale Trunk is separate from the TISBO market for all circuits and therefore wholly allocated to the separate Wholesale Trunk Segment.
- 5.31 The reporting implications for each scenario are as follows:
- Scenario 1: Third Party premises are based inside the CELA and therefore the Terminating Segment A is attributed to CELA. Point of Handover is located outside CELA and therefore the Terminating Segment B is wholly attributed to the SMP markets.
 - Scenario 2: Third Party premises are based inside the CELA and therefore the Terminating Segment A is attributed to CELA. Point of Handover is also located inside CELA and therefore the Terminating Segment B is also wholly attributed to the CELA.
 - Scenario 3: Third Party premises are based outside the CELA and therefore the Terminating Segment A is attributed to the SMP market. In this scenario the Point of Handover is located inside CELA and therefore the Terminating Segment B is wholly attributed to the CELA.
 - Scenario 4: Both the Third Party premises and Point of Handover are based outside the CELA and therefore the A and B Terminating Segments are both attributed to the SMP markets.
- 5.32 It should be noted that for simplicity and illustrative purposes we have presented four main scenarios. The general principles above should be applied to other scenarios that may be found in BT's actual network.

CELA

SMP TISBO MARKET (8Mbits-45Mbits, 45Mbits-155Mbits)



- KEY**
- Terminating Segments which will be considered within the CELA area for the purpose of allocating revenues and costs.
 - Terminating Segments which will be considered within the Non-CELA area for the purpose of allocating revenues and costs.
 - Wholesale Trunk Segment. Revenues and costs for this will be allocated to the Wholesale Trunk Segment (separate for TISBO markets).

Reporting of netstream sales

Summary of improvement

- 5.33 BT will report separately seven main netstream services in the relevant business connectivity market, as clarified in the BCMR published in December 2008.

Rationale for change

- 5.34 The BCMR concluded that sales of netstream to Mobile Network Operators are wholesale services provided from relevant business connectivity markets.
- 5.35 In its response to our consultation on this issue in 2008/09 BT did not agree with our reporting guidance and therefore did not separately report netstream sales in the RFS.
- 5.36 BT now agrees with our guidance and will report separately the following seven main netstream services in the 2009/10 RFS:
- Netstream 16LL 2Mbit/s Conn
 - Netstream 16LL 34Mbit/s Conn
 - Netstream 16LL 155Mbit/s Conn
 - Netstream 16LL 2Mbit/s Rental
 - Netstream 16LL 34Mbit/s Rental
 - Netstream 16LL 155Mbit/s Rental
 - Netstream 16LL 2Mbit/s CLZ Rental

IMPROVEMENTS TO OPENREACH REPORTING

Cost Attribution Methodology

Summary of improvement

- 5.37 BT will review the attribution of costs between Openreach regulated and non-regulated services on a product by product basis. Any changes to the costing methodology will be described in BT's secondary accounting documents.

Rationale for change

- 5.38 The Openreach Statement published in May 2009 referred to our assessment of BT's cost data showing that some of the non-regulated Openreach services did not appear to pick up an appropriate share of costs. The financial model used to determine the price controls in the Openreach Statement was therefore adjusted by allocating costs to unregulated products from price controlled services. The RFS costing model is different to the Openreach price control model however we believe it is possible that similar costing issues may be present in the RFS or at least we should verify that the RFS costing methodology does not include such a bias.
- 5.39 BT has agreed to review the RFS costing methodologies for the products that were adjusted in the Openreach model that may not receive an appropriate attribution of costs. BT believes there is no material bias in the current RFS costing methods however there may be a small reallocation of costs away from price controlled services as these costing methods are updated.
- 5.40 It should be noted that BT has explained that, following its provisional analysis, any reallocations will be less than those implied by readjustments included in the Openreach Statement.
- 5.41 We will receive from BT its findings of this review and proposals for detailed changes to the RFS costing methodology. Any changes to the costing methodology will be appropriately described in BT's secondary accounting documents.

Treatment of Low User Scheme (LUS) transfer charge

Summary of issue

- 5.42 BT is required under the Undertakings to prepare financial statements for Openreach on the same basis as the RFS. BT currently includes an internal transfer charge (cost) for LUS in these Openreach financial statements. As discussed in our 2009 statement we believe this transfer charge should not be included to be consistent with the preparation of RFS market statements required by SMP Conditions.
- 5.43 BT's reporting obligations under the Undertakings is set out in section 5.31. BT's compliance with this section is being considered by the EAB and we await formal notice of the EAB's findings.

Next steps

- 5.44 Once formal notification of the EAB decision has been received we will review any implications on the reporting of Openreach results and consider if any further action should be taken.
- 5.45 Our review will take into account a Direction we made in our 2008 statement¹⁰ specifically excluding these costs from SMP services in the RFS. The inclusion of these costs with the Openreach financial statements has the effect of overstating Openreach costs and understating rates of return.

¹⁰ "Changes to BT's 2007/08 regulatory financial statements," paragraph 5.17, page 14, published in June 2008: <http://www.ofcom.org.uk/consult/condocs/btregs08/statement/statement.pdf>

OTHER ITEMS

21 CN cost attribution

Summary of improvement

- 5.46 BT will review the costing methodologies currently used to attribute 21CN network costs taking account of its latest 21CN deployment plans and discuss with us whether changes are required.
- 5.47 We expect BT to maintain costing methodologies that are consistent with the principles of cost causality and objectivity and any changes to methodology are made transparent in BT's secondary accounting documents.

Rationale for change

- 5.48 BT's investment in a new core network is significant and from a regulatory perspective clear and transparent accounting for these capital and operating costs is important.
- 5.49 2007/08 was the first year 21CN costs were incorporated into the RFS. At the time we recognised that a full understanding of this new network and the precise timing of its deployment were still in the very early stages of development. However in relation to telephony, for example, the assumption that ultimately BT would transfer telephony services to 21CN was not generally questioned.
- 5.50 Since then we have published our "Next Generation Networks" (NGN) Consultation.¹¹ In the document we explained that "It is no longer possible to say with any certainty that BT's PSTN will be replaced in its entirety in the foreseeable future. Undoubtedly, the legacy network will not last forever, but it is now possible that the PSTN will be retained for many years."¹²
- 5.51 We have explained to BT that it is important that the development of the network is correctly reflected in the RFS and that 21CN costs are appropriately attributed across regulated services.
- 5.52 BT is currently reviewing this issue and will discuss any proposed changes with us. We will review these changes to ensure the costing principle of cost causality and objectivity are being followed. We will also ensure the costing methodology followed is transparent to users of the RFS through full disclosure in BT's secondary accounting documents.

¹¹ See the Next Generation Networks Consultation published in July 2009:

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

¹² NGN Consultation, paragraph 2.48, page 17

Cost of capital information

Summary of improvement

- 5.53 BT will update the cost of capital percentage used in the RFS so that it is consistent with our latest decisions in the Openreach Statement, published in May 2009.
- 5.54 The revised cost of capital will now be 10.1% for Openreach services and 10.6% for all other services.

Rational for change

- 5.55 The Openreach Statement revised our calculations of Openreach's cost of capital. It is therefore important that the percentage used in the RFS is consistent with our latest cost of capital decisions.
- 5.56 BT has agreed to update this key parameter in the reporting of network service costs in the RFS accordingly.

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 26 March 2010**.
- A1.2 Ofcom strongly prefers to receive responses using the online web form at <http://www.ofcom.org.uk/consult/condocs/btregs10/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 gavin.greenfield@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.
- Gavin Greenfield
Floor 4
Competition Finance
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 Gavin Greenfield on 020 7783 4330 or Paul Laker on 020 7783 4578.

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/accoun/disclaimer/>

Next steps

- A1.11 Following the end of the consultation period, Ofcom intends to publish a statement as soon as practicable.
- 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 Plain English Guide for smaller organisations or individuals who would otherwise not be able to spare the time to share their views.

A2.5 We will consult for up to 10 weeks depending on the potential impact of our proposals.

A2.6 A person within Ofcom will be in charge of making sure we follow our own guidelines and reach out to the largest number of people and organisations interested in the outcome of our decisions. Ofcom's '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.

After the consultation

A2.8 We think it is important for everyone interested in an issue to see the views of others during a consultation. We would usually publish all the responses we have received on our website. In our statement, 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	<input type="checkbox"/>	Name/contact details/job title	<input type="checkbox"/>
Whole response	<input type="checkbox"/>	Organisation	<input type="checkbox"/>
Part of the response	<input type="checkbox"/>	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

A4.1 Questions requiring responses by 5pm on 26 March 2010.

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

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

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

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

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

The citizen and/or consumer interest

- A5.4 The consultation relates to proposed changes to the regulatory financial information prepared by BT and KCOM. 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 Some of these proposals are designed to rectify situations where we have not been fully able to monitor the obligations on BT, which are there to prevent abuse of a dominant market position which could have a negative impact on consumers. Therefore to the extent that an effective financial reporting regime contributes to a competitive telecommunications market, there will be a benefit to citizen and consumers.

Ofcom's policy objective

- A5.6 The purpose of this consultation is to ensure that BT and KCOM are meeting and continue to meet their regulatory financial reporting obligations.
- A5.7 We have proposed changes that will implement adjustments arising from recently completed market reviews and some other improvements to reporting identified through our work on market reviews.

Conclusion

- A5.8 Ofcom considers that the proposals and changes set out in Sections 3, 4 and 5 of this document are necessary and appropriate because they represent amendments

and enhancements required to maintain the relevance and usefulness of the financial statements. Ofcom does not expect the proposals to result in a significant incremental cost to BT and KCOM.

Annex 6

Legal Tests

Introduction

- A6.1 This annex sets out how Ofcom has satisfied the legal tests for its proposals to amend the regulatory financial accounting obligations applying to BT and KCOM, as set out earlier in the consultation.
- A6.2 For each item we show how our duties have been met under Sections 3, 4, and 49(2) of the Communications Act.

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

- A6.3 Section 3 of the Act sets out the duties of Ofcom in carrying out its functions, in particular that it furthers the interests of citizens in relation to communications and furthers the interests of consumers in relevant markets.
- A6.4 Section 4 of the Act requires that Ofcom acts in accordance with the six Community requirements concerning: the promotion of competition; the development of the European internal market; the promotion of the interests of all EU citizens; non-discrimination; promoting efficiency and sustainable competition and the maximum benefit for consumers; and facilitating service interoperability and securing freedom of choice for consumers.

Section 49(2) tests

- A6.5 Ofcom has the ability to modify a direction that gives effect to an SMP obligation under section 49 of the Act but only where it is satisfied that the tests under section 49(2) has been met. The tests are that the modification of the direction is:
- a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
 - b) not unduly discriminatory against particular persons or against a particular description of persons;
 - c) proportionate to what it is intended to achieve; and
 - d) transparent in relation to what it is intended to achieve.

Proposals relating to BT

1) Disclosure of AISBO Services

Legal tests

- A6.6 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Direction 4 under SMP condition OA2 as proposed in paragraphs 3.2 to 3.8 and Annex 9 are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

Section 3 and 4

- A6.7 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews determined that these regulatory accounting obligations met the tests outlined in Sections 3 and 4 of the Act. The proposed changes to Direction 4 under SMP condition OA2 are designed to enable BT to more effectively fulfil the purpose for which these particular obligations were imposed (i.e. demonstrate cost orientation and non-discrimination) by disclosing AISBO services in a way that aligns with the charges levied by BT on the other communication providers. In consequence Ofcom believes the proposed amendments to Direction 4 under SMP condition meet the tests in Sections 3 and 4.

Section 49(2) tests

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

- A6.8 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraphs 3.2 to 3.8 and Annex 9 is objectively justifiable because it is necessary to allow us to monitor that BT is complying with its non-discrimination and cost orientation obligations in this particular market.

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

- A6.9 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraphs 3.2 to 3.8 and Annex 9 is not unduly discriminatory because KCOM, the only other communications provider with similar obligations, does not provide these or similar services externally.

Proportionate to what it is intended to achieve

- A6.10 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraph 3.2 to 3.8 and Annex 9 is proportionate because it is no more than necessary for BT to demonstrate compliance with its obligations in the AISBO market as well as providing assurance to market participants that products and services are not being provided on discriminatory terms.

Transparent in relation to what it is intended to achieve

- A6.11 Ofcom considers that modifying Direction 4 under SMP condition OA2 in the manner described in paragraph 3.2 to 3.8 and Annex 9 is transparent because Ofcom is explaining and consulting on this change and has provided background explanatory material and evidence from other projects.

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

Legal tests

A6.12 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Directions 3 and 4 and the FA10 Preparation, audit and delivery Direction and FA10 Form and content Direction under SMP conditions OA2 and FA10.2 as proposed in paragraphs 3.10 to 3.14 and Annex 8 are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

Section 3 and 4

A6.13 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews determined that these regulatory accounting obligations met the tests outlined in Sections 3 and 4 of the Act. In this case Ofcom believes the information disclosed in the AI has significantly less value following deregulation of BT's retail narrowband markets and therefore an annual requirement to prepare and submit this data to Ofcom is no longer beneficial.

A6.14 In consequence Ofcom believes the proposed amendments to Direction 3 under SMP condition and to the FA10 Form and content Direction under SMP condition FA10.2 meet the tests in Sections 3 and 4.

Section 49(2) tests

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

A6.15 Ofcom considers that the modifications as described in paragraph 3.10 to 3.14 and Annex 8 are met is objectively justifiable because AI 8 has been identified as having significantly less relevance following the deregulation of retail markets..

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

A6.16 Ofcom considers that the modifications as described in paragraph 3.10 to 3.14 and Annex 8 are met is not unduly discriminatory because KCOM, the only other communications provider with similar obligations, does not currently have the obligation to provide this AI. .

Proportionate to what it is intended to achieve

A6.17 Ofcom considers that the modifications as described in paragraph 3.10 to 3.14 and Annex 8 are met is proportionate because this change reduces the level of information that BT will provide to Ofcom.

Transparent in relation to what it is intended to achieve

A6.18 Ofcom considers that the modifications as described in paragraph 3.10 to 3.14 and Annex 8 are met is transparent because Ofcom is explaining and consulting on this

change and has provided background explanatory material and evidence from other projects.

3) Presentational Changes

Legal tests

A6.19 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Direction 4 and the FA10 Form and content Direction under SMP condition OA2 and FA10.2 as proposed in paragraphs 3.16 to 3.18 and Annex 9 are met. BT is not required to do any additional reporting as a result of the proposed modification to the FA10 Form and content Direction. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

Section 3 and 4

A6.20 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews determined that these regulatory accounting obligations met the tests outlined in Sections 3 and 4 of the Act. In this case Ofcom believes the changes improve the presentation and usefulness of the RFS and in consequence Ofcom believes the proposed amendments meet the tests in Sections 3 and 4.

Section 49(2) tests

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

A6.21 Ofcom considers that modifying Direction 4 and the FA10 Form and content Directions under SMP conditions OA2 and FA10.2 in the manner described in paragraph 3.16 to 3.18 and Annex 9 is objectively justifiable because these changes simplify the form and content of the market level profit and loss statements.

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

A6.22 Ofcom considers that modifying Direction 4 and the FA10 Form and content Direction under SMP conditions OA2 and FA10.2 in the manner described in paragraph 3.16 to 3.18 and Annex 9 is not unduly discriminatory because KCOM, the only other communications provider with similar obligations, does not have such extensive or detailed reporting requirements and is not subject to the majority of changes proposed in this consultation.

Proportionate to what it is intended to achieve

A6.23 Ofcom considers that modifying Direction 4 and the FA10 Form and content Direction under SMP conditions OA2 and FA10.2 in the manner described in paragraph 3.16 to 3.18 and Annex 9 is proportionate because these changes simply the form and content of the market level profit and loss statements.

Transparent in relation to what it is intended to achieve

- A6.24 Ofcom considers that modifying Direction 4 and the FA10 Form and content Direction under SMP conditions OA2 and FA10.2 in the manner described in paragraph 3.16 to 3.18 and Annex 9 is transparent because Ofcom is explaining and consulting on this change and has provided background explanatory material and evidence from other projects.

4) Fixed Narrowband Retail Market review

Legal tests

- A6.25 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Directions 3 and 4 under SMP condition OA2 as proposed in paragraphs 4.3 to 4.6 and Annexes 8 and 9 are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

Section 3 and 4

- A6.26 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews determined that these regulatory accounting obligations met the tests outlined in Sections 3 and 4 of the Act. The proposed changes to Directions 3 and 4 under SMP condition OA2 are designed to enable BT to more effectively fulfil the purpose for which these particular obligations were imposed (i.e. demonstrate cost orientation and non-discrimination). In consequence Ofcom believes the proposed amendments to Directions 3 and 4 under SMP condition meet the tests in Sections 3 and 4.

Section 49(2) tests

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

- A6.27 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.3 to 4.6 and Annexes 8 and 9 is objectively justifiable because the changes are necessary to reflect our findings that BT no longer has SMP in the fixed narrowband retail market.

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

- A6.28 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.3 to 4.6 and Annexes 8 and 9 is not unduly discriminatory because KCOM, the only other communications provider with similar obligations, is not affected by the changes resulting from the fixed narrowband retail market review.

Proportionate to what it is intended to achieve

- A6.29 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.3 to 4.6 and Annexes 8 and 9 is proportionate

because it is the minimum necessary to ensure the RFS remain fit for purpose and adequately reflect the market review.

Transparent in relation to what it is intended to achieve

A6.30 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.3 to 4.6 and Annexes 8 and 9 is transparent because Ofcom is explaining and consulting on this change and has provided background explanatory material and evidence from other projects.

5) Fixed Narrowband Wholesale Market review

Legal tests

A6.31 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Directions 3 and 4 under SMP condition OA2 as proposed in paragraphs 4.8 to 4.13 and Annexes 8 and 9 are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

Section 3 and 4

A6.32 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews determined that these regulatory accounting obligations met the tests outlined in Sections 3 and 4 of the Act. The proposed changes to Directions 3 and 4 under SMP condition OA2 are designed to enable BT to more effectively fulfil the purpose for which these particular obligations were imposed (i.e. demonstrate cost orientation and non-discrimination). In consequence Ofcom believes the proposed amendments to Directions 3 and 4 under SMP condition meet the tests in Sections 3 and 4.

Section 49(2) tests

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

A6.33 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.8 to 4.13 and Annexes 8 and 9 is objectively justifiable because the changes are necessary to reflect our findings in the fixed narrowband wholesale market review.

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

A6.34 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.8 to 4.13 and Annexes 8 and 9 is not unduly discriminatory because we also propose the relevant changes for KCOM, the only other communications provider with similar obligations, as per the most recent market review.

Proportionate to what it is intended to achieve

A6.35 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.8 to 4.13 and Annexes 8 and 9 is proportionate because it is the minimum necessary to ensure the RFS remain fit for purpose and adequately reflect the market review.

Transparent in relation to what it is intended to achieve

A6.36 Ofcom considers that modifying Directions 3 and 4 under SMP condition OA2 in the manner described in paragraph 4.8 to 4.13 and Annexes 8 and 9 is transparent because Ofcom is explaining and consulting on this change and has provided background explanatory material and evidence from other projects.

Proposals relating to KCOM

5) Fixed Narrowband Wholesale Market review

Legal tests

A6.37 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Directions 3 and 4 under SMP condition OB2 as proposed in paragraphs 4.15 to 4.19 and Annexes 10 and 11 are met. These paragraphs should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

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

A6.38 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on KCOM in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews determined that these regulatory accounting obligations meet the tests outlined in Sections 3 and 4 of the Act. The proposed changes to Directions 3 and 4 under SMP condition OB2 are designed to enable KCOM to more effectively fulfil the purpose for which these particular obligations were imposed (i.e. demonstrate cost orientation and non-discrimination). In consequence Ofcom believes the proposed amendments to Directions 3 and 4 under SMP condition OB2 meet the tests in Sections 3 and 4.

Section 49(2) tests

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

A6.39 Ofcom considers that modifying Directions 3 and 4 under SMP condition OB2 in the manner described in paragraph 4.15 to 4.19 and Annexes 10 and 11 is objectively justifiable because the changes are necessary to reflect our findings in the fixed narrowband wholesale market review.

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

A6.40 Ofcom considers that modifying Directions 3 and 4 under SMP condition OB2 in the manner described in paragraph 4.15 to 4.19 and Annexes 10 and 11 is not unduly discriminatory because we also propose the relevant changes for BT, the only other

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

Proportionate to what it is intended to achieve

A6.41 Ofcom considers that modifying Directions 3 and 4 under SMP condition OB2 in the manner described in paragraph 4.15 to 4.19 and Annexes 10 and 11 is proportionate because it is the minimum necessary ensure the RFS remain fit for purpose and adequately reflect the market review.

Transparent in relation to what it is intended to achieve

A6.42 Ofcom considers that modifying Direction 3 and 4 under SMP condition OB2 in the manner described in paragraph 4.15 to 4.19 and Annexes 10 and 11 is transparent because Ofcom is explaining and consulting on this change and has provided background explanatory material and evidence from other projects.

Annex 7

SMP Service Market Tables

For ease of reference we have reproduced a current consolidated version of the tables setting out the markets for which BT and KCOM are required to prepare regulatory financial reports and the respective regulatory reporting rules that apply to those markets¹³.

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

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

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

¹³ It is recommended that you consult the relevant notification(s) for the SMP services conditions as these contain an explanation of the reasons for the decision to amend and the specific modifications that have been made. While every reasonable effort is made to ensure that the information provided in the tables is accurate, no guarantees for the currency or accuracy of information are made. The original notification and the subsequent modifying notifications are signed by an authorised person, and the definitive version is that which has been so signed and which is the original printed version held by Ofcom. For the avoidance of doubt, in the case of any difference between texts, the signed version held by Ofcom shall take precedence over the electronic or printed version.

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

- Further findings in relation to the final outstanding elements of the fixed narrowband services wholesale markets; and
- The forthcoming reviews of the wholesale broadband access and wholesale local access (WLA) markets. With respect to WLA, the regulatory reporting obligations that apply to the WLA markets are the same as the July 2004 reporting obligations, however they were separately notified in the Review of the wholesale local access market explanatory statement and notification of 16 December 2004¹⁴ as the so-called "FA10" conditions. As part of the WLA market review we will also consider whether to make an amendment to apply the "OA" conditions to the WLA markets in order to bring all regulated markets under the one regulatory reporting framework.

BT

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

¹⁴ Available at <http://www.ofcom.org.uk/consult/condocs/rwlam/statement/rwlam161204.pdf>

Table 1: Wholesale Markets

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

¹⁵ This should read "28.11.03"

¹⁶ This should read "15.09.09"

Table 2: Retail Markets

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

KCOM

KCOM's regulatory financial reporting obligations are as follows:

in respect of the wholesale markets:

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

Table 1: Wholesale Markets

Market identified and in which Kingston found to have SMP in previous Notification pursuant to section 79 of the Act	Date
1. Wholesale analogue exchange line services in the Hull Area	15.9.09
2.	
3.	
4. Wholesale ISDN2 exchange line services in the Hull Area	As above
5. Wholesale ISDN30 exchange line services in the Hull Area	As above ¹⁷
6. Wholesale call origination on a fixed narrowband network, in Hull Area	As above ¹⁸
7. Wholesale fixed geographic call termination on each individual network provided by KCOM ¹⁹	15.9.09
8. Wholesale Broadband Access in the Hull Area	21.05.08
9. Provision of traditional interface symmetric broadband origination with a bandwidth capacity up to and including eight megabits per second within the Hull Area	8.12.08
10. Provision of traditional interface symmetric broadband origination with a bandwidth capacity above eight megabits per second and up to and including forty five megabits per second within the Hull Area	8.12.08
11. Provision of traditional interface symmetric broadband origination with a bandwidth capacity above forty five megabits per second and up to and including one hundred and fifty five megabits per second within the Hull Area	8.12.08
12. Provision of alternative interface symmetric broadband origination with a bandwidth capacity of up to and including one gigabit per second within the Hull Area	8.12.08

¹⁷ This should read 28.11.03

¹⁸ This should read 15.09.09

¹⁹ Note that the obligation to prepare RFS only relates to Wholesale fixed geographic call termination on each individual network provided by KCOM in the Hull Area.

Table 2: Retail Markets

None

Annex 8

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

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

Proposal for modifying a Direction given under SMP Services Condition OA2 and FA 10.2 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. The Office of Communications (“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*, as modified by the following statements: at Annex 2 of the *Changes to BT’s regulatory financial reporting framework, dated 31 August 2005*; at Annex 3 of the *Changes to BT’s regulatory financial reporting and audit requirements, dated 16 August 2006*; at Annex 4 of *BT’s regulatory financial reporting requirements dated 30 May 2007*; at Annex 4 of *Changes to BT’s 2007/08 regulatory financial statements, dated 26 June 2008*; and at Annex 4 of *Changes to BT and KCOM’s regulatory financial reporting – 2008/09 update dated 15 June 2009*, which relate to BT’s obligations under SMP services conditions OA1 to OA34, in that it sets out requirements for the preparation, audit and delivery of regulatory financial statements in respect of wholesale cost accounting, accounting separation and retail cost accounting.
 - ii. A Direction given under SMP Services Condition FA10.2 at Schedule 4 of Annex 2 of the *Review of the wholesale local access market, dated 16 December 2004*, as modified by the following statements: at Annex 2 of the *Changes to BT’s regulatory financial reporting framework, dated 31 August 2005*; at Annex 3 of the *Changes to BT’s regulatory financial reporting and audit requirements, dated 16 August 2006*; at Annex 4 of *BT’s regulatory financial reporting requirements dated 30 May 2007*; at Annex 4 of *Changes to BT’s 2007/08 regulatory financial statements, dated 26 June 2008*; and at Annex 4 of *Changes to BT and KCOM’s regulatory financial reporting – 2008/09 update dated 15 June 2009*, which relates to BT’s obligations under SMP services conditions FA10, in that it sets out requirements for the preparation, audit and delivery of 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 Directions by 5pm on 26 March 2010.

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 Competition Finance, Ofcom
A person authorised by Ofcom under paragraph 18 of the Schedule to the
Office of Communications Act 2002
12 February 2010

Schedule

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

WHEREAS:

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

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

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

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

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

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

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

(F) this modified Direction modifies:

- i. Direction 3 which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out an amendment to the regulatory financial statements which are required to be prepared, audited (including the level of audit), delivered to OFCOM and/or published by BT under condition OA5; and
- ii. The FA10 Preparation, audit and delivery Direction, in that it sets out an amendment to the Regulatory Financial Statements which are required to be prepared, audited (including the level of audit), delivered to OFCOM and/or published by BT under condition FA10.5;

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

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

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

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

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

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

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

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

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

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

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

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

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

4. For the purpose of interpreting this modified Direction:

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

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

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

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

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

BT and KCOM's regulatory financial reporting

		Traditional interface symmetric broadband origination (up to and including 8Mbit/s);	WS service A	WS service B	Partial and Private Circuits 64kbit/s connection	Partial and Private Circuits 64kbit/s link	Partial and Private Circuits 64kbit/s transmission	Partial and Private Circuits 64kbit/s local end	Partial and Private Circuits 2mbit/s connection	Partial and Private Circuits 2mbit/s link	Partial and Private Circuits 2mbit/s distribution	Partial and Private Circuits 2mbit/s local end	RBS Backhaul sub 2mb rental	RBS Backhaul sub 2mb connection	RBS Backhaul 2mb rental	RBS Backhaul 2mb connection	SDSL
Annex 1	Statement by Ofcom	P															
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P															
Annex 4	Regulatory financial review	P															
Annex 5A	Attribution of Wholesale current costs	P	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Annex 5B	Attribution of Retail current costs																
Annex 6A	Attribution of Wholesale Current Cost Mean Capital Employed	P	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Annex 6B	Attribution of Retail Current Cost Mean Capital Employed																
Annex 7	Financial performance in Access markets	P															
Annex 8	Financial performance in other wholesale SMP markets																
Annex 10	Market Group Financial Review	P															
Annex 11	Market summary	P															
Annex 12	Market summary																
Annex 13	Market summary (ToD)																
Annex 14	Market Level Financial Review	P															
Annex 15	Network Activity Statement	P															
Annex 16	Calculation of FAC based on component costs and usage factors	P															
Annex 17	BT Network Services Reconciliation	P															
Annex 19	BT Reconciliation Statement - P&L	P															
Annex 20	BT Reconciliation statement -MCE	P															
Annex 21	BT Inter-market turnover reconciliation	P															
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P															
Annex 24	Price controls in wholesale markets	P															
Annex 25	Price controls in wholesale markets	P															

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

BT and KCOM's regulatory financial reporting

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

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

BT and KCOM's regulatory financial reporting

		Technical areas	WS standard CSI connection	WS standard CSI rental fixed	WS standard CSI rental per km	WS ISI connection	WS ISI rental per 100m	WS IEC connection	WS IEC rental fixed	WS IEC rental per km	WS intra-building circuits connection	WS intra-building circuits rental	WS rearrangements	WS Connection (£ per 2Mbps per year)	WS Rental fixed (£ per 2Mbps per year)	WS Rental per km (£ per 2Mbps per year)	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	P
Annex 3	Consolidated performance summary	P															
Annex 4	Regulatory financial review	P															
Annex 5A	Attribution of Wholesale current costs	P	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Annex 5B	Attribution of Retail current costs																
Annex 6A	Attribution of Wholesale Current Cost Mean Capital Employed	P	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Annex 6B	Attribution of Retail Current Cost Mean Capital Employed																
Annex 7	Financial performance in Access markets																
Annex 8	Financial performance in other wholesale SMP markets	P															
Annex 10	Market Group Financial Review	P															
Annex 11	Market summary	P															
Annex 12	Market summary																
Annex 13	Market summary (ToD)																
Annex 14	Market Level Financial Review	P															
Annex 15	Network Activity Statement	P															
Annex 16	Calculation of FAC based on component costs and usage factors	P															
Annex 17	BT Network Services Reconciliation	P															
Annex 19	BT Reconciliation Statement - P&L	P															
Annex 20	BT Reconciliation statement -MCE	P															
Annex 21	BT Inter-market turnover reconciliation																
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.	Wholesale trunk segments (including Kingston upon Hull)	WS service A	WS service B	Partial and Private circuits 2mbit/s trunk	Partial and Private circuits 34/45mbit/s trunk	Partial and Private circuits 140/155mbit/s trunk	Partial and Private circuits 622mbit/s trunk	Fixed geographic call termination	WS Call termination local exchange segment	WS Call termination local exchange segment (ISDN)	WS Call termination local exchange Stick	WS Call termination local exchange Stick (ISDN)
Annex 1	Statement by Ofcom												
Annex 2	Statement of responsibility	P	P	P	P	P	P	P	P	P	P	P	P
Annex 3	Consolidated performance summary	P							P				
Annex 4	Regulatory financial review	P							P				
Annex 5A	Attribution of Wholesale current costs	P	N	N	N	N	N	N	P	N	N	N	N
Annex 5B	Attribution of Retail current costs												
Annex 6A	Attribution of Wholesale Current Cost Mean Capital Employed	P	N	N	N	N	N	N	P	N	N	N	N
Annex 6B	Attribution of Retail Current Cost Mean Capital Employed												
Annex 7	Financial performance in Access markets												
Annex 8	Financial performance in other wholesale SMP markets	P							P				
Annex 10	Market Group Financial Review	P							P				
Annex 11	Market summary	P							P				
Annex 12	Market summary												
Annex 13	Market summary (ToD)												
Annex 14	Market Level Financial Review	P							P				
Annex 15	Network Activity Statement	P							P				
Annex 16	Calculation of FAC based on component costs and usage factors	P							P				
Annex 17	BT Network Services Reconciliation	P							P				
Annex 19	BT Reconciliation Statement - P&L	P							P				
Annex 20	BT Reconciliation statement -MCE	P							P				
Annex 21	BT Inter market turnover reconciliation												
Annex 22	Notes to the Financial Statements	P	P	P	P	P	P	P	P	P	P	P	P
Annex 23	Report of the Regulatory Auditors	P							P				
Annex 24	Price controls in wholesale markets	P							P				
Annex 25	Price controls in wholesale markets	P							P				

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

		Wholesale residential-analogue exchange line services		Wholesale service A		Wholesale service B ...		Wholesale business-analogue exchange-line services		Wholesale service-A		Wholesale service-B...		Wholesale business ISDN2 exchange line services		Wholesale service A		Wholesale service B		
Annex 26	Additional Information by way of notes																			
AI-1	Cost category analysis for network components, increments and common cost			N	N															
AI-2	Summarised activity analysis of components			N	N															
AI-3	Cost category analysis for network components and increments			N	N															
AI-4	Summarised activity analysis for network components and increments			N	N															
AI-5	Analysis by asset category and network activities			N	N															
AI-6	CCA fixed asset movement statement			N	N															
AI-7	Total mean capital employed and detailed activity analysis			N	N															
AI-8 Analysis by type of product group and by type of OLO																				
AI-9	Detailed Network activity analysis of mean capital employed			N	N															
AI-10	Graphs over time of the various raw indices, index weightings & composite indices			N																
AI-11	Estimated economic useful lives, valuation and depreciation basis etc			N																
AI-13	Total operating costs & mean capital employed costs for each plant group			N	N	N														
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis																			
AI-15	Provision of BT 'Data File'			N	N	N														
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets			N	N	N														
AI-21	Comprehensive analysis of the transfer charges			N	N	N														
AI-22	Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue																			
AI-23	Cost data for plant group to service for the PPC services and technical areas																			
AI-24	Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOJ basis																			
AI-25	Analysis of input costs from the business connectivity markets to downstream (retail) activities																			
AI-26	Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately																			
AI-27	Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES																			

<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>		<p>Traditional interface symmetric broadband origination (up to and including 8Mbit/s);</p>	<p>WS service A</p>	<p>WS service B</p>	<p>Partial and Private Circuits 64Kbit/s connection</p>	<p>Partial and Private Circuits 64Kbit/s link</p>	<p>Partial and Private Circuits 64Kbit/s transmission</p>	<p>Partial and Private Circuits 64Kbit/s local end</p>	<p>Partial and Private Circuits 2mbit/s connection</p>	<p>Partial and Private Circuits 2mbit/s link</p>	<p>Partial and Private Circuits 2mbit/s distribution</p>	<p>Partial and Private Circuits 2mbit/s local end</p>	<p>RBS Backhaul sub 2mb rental</p>	<p>RBS Backhaul sub 2mb connection</p>	<p>RBS Backhaul 2mb rental</p>	<p>RBS Backhaul 2mb connection</p>	<p>SDSL</p>	
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	N
AI-2	Summarised activity analysis of components		N	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	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	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	N
AI-6	CCA fixed asset movement statement		N	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	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	N
AI-10	Graphs over time of the various raw indices, index weightings & composite indices		N															
AI-11	Estimated economic useful lives, valuation and depreciation basis etc		N															
AI-13	Total operating costs & mean capital employed costs for each plant group		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis																	
AI-15	Provision of BT 'Data File'		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-21	Comprehensive analysis of the transfer charges		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-22	Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue		N															
AI-23	Cost data for plant group to service for the PPC services and technical areas		P	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
AI-24	Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis																	
AI-25	Analysis of input costs from the business connectivity markets to downstream (retail) activities		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-26	Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately		P	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
AI-27	Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES		N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N

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

<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>		Alternative interface symmetric broadband origination in the UK excluding the Hull Area (up to and including 1Gbit)	WS service A	WS service B	WES/LES	BES	Technical areas	Point of Handover	Wholesale Broadband Access	wholesale service A	wholesale service B	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	N	N
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N	N			N	N	N
AI-22	Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue						N							
AI-23	Cost data for plant group to service for the PPC services and technical areas						P	P						
AI-24	Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis								N					
AI-25	Analysis of input costs from the business connectivity markets to downstream (retail) activities	N	N	N	N	N	N	N						
AI-26	Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately	P	P	P	P	P	P	P				P	P	P
AI-27	Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES	N	N	N	N	N	N	N				N	N	N

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

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 (SDN)	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
AI-22	Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue										
AI-23	Cost data for plant group to service for the PPC services and technical areas										
AI-24	Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis										
AI-25	Analysis of input costs from the business connectivity markets to downstream (retail) activities										
AI-26	Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately										
AI-27	Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES										

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

		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
AI-14	CPS set up costs and their recovery over time on a discounted cash flow basis	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-15	Provision of BT 'Data File'	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-20	CCA information to allow Ofcom to re-calculate the RAV for copper assets															
AI-21	Comprehensive analysis of the transfer charges	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-22	Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue															
AI-23	Cost data for plant group to service for the PPC services and technical areas	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
AI-24	Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis															
AI-25	Analysis of input costs from the business connectivity markets to downstream (retail) activities	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
AI-26	Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately	P	P	P	P	P	P	P	P	P	P	P	P	P	P	P
AI-27	Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N

		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
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							
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
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	N	N	N	N	N	N	N	N
AI-22	Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue	N							
AI-23	Cost data for plant group to service for the PPC services and technical areas	P	P	P	P	P	P	P	P
AI-24	Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis								
AI-25	Analysis of input costs from the business connectivity markets to downstream (retail) activities	N	N	N	N	N	N	N	N
AI-26	Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately								
AI-27	Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES								

		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)
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.						
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
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
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
AI-22	Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue					
AI-23	Cost data for plant group to service for the PPC services and technical areas					
AI-24	Wholesale broadband access geographical analysis of costs and assets on an cost accounting and EOI basis					
AI-25	Analysis of input costs from the business connectivity markets to downstream (retail) activities					
AI-26	Analysis of adjustments required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately					
AI-27	Analysis of adjustments to costs required to match costs and revenues and the separate identification of ECC and third party equipment and infrastructure costs where the revenues are required to be reported separately - ONLY TO BE PRODUCED IF AI-26 IS PREPARED BY ADJUSTING THE REVENUES					

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

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

Annex B

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

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

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

Annex 9

Notification of Proposed Amendments to Direction 4 and the FA10 Form and content Direction (BT)

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

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

1. The Office of Communications ("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 as modified by the following modifying Directions: at Annex 3 of the *Changes to BT's regulatory financial reporting framework, dated 31 August 2005*; at Annex 4 of the *Changes to BT's regulatory financial reporting and audit requirements, dated 16 August 2006*; at Annex 5 of *BT's regulatory financial reporting requirements dated 30 May 2007*; at Annex 5 of *Changes to BT's 2007/08 regulatory financial statements, dated 26 June 2008*; and at Annex 5 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update dated 15 June 2009*, which relate to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out the form and content to be applied by BT in preparing certain regulatory financial statements required by virtue of condition OA5 and Direction 3 (as amended); 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, as modified by the following statements: at Annex 3 of the *Changes to BT's regulatory financial reporting framework, dated 31 August 2005*; at Annex 4 of the *Changes to BT's regulatory financial reporting and audit requirements, dated 16 August 2006*; at Annex 5 of *BT's regulatory financial reporting requirements dated 30 May 2007*; at Annex 5 of *Changes to BT's 2007/08 regulatory financial statements, dated 26 June 2008*; and at Annex 5 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update dated 15 June 2009*, which relate to BT's obligations under SMP services conditions 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 Preparation, audit and delivery Direction (as amended).

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. Representations may be made to OFCOM about the proposed draft modification to the Direction by 5pm on 26 March 2010.

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 Competition Finance, Ofcom

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

12 February 2010

Schedule

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

WHEREAS:

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

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

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

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

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

(F) this modified Direction modifies:

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

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

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

- (i) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- (ii) not such as to discriminate unduly against particular persons or against a particular description of persons;

- (iii) proportionate to what it is intended to achieve; and
- (iv) in relation to what it is intended to achieve, transparent;

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

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

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

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

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

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

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

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

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

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

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

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

12. For the purpose of interpreting this modified Direction:

a) headings and titles shall be disregarded; and

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

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

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

[Name]

[Title]

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

[Date]

Annex A

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

Annex 3

Consolidated performance summary

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

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

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

Annex 5A
Attribution of wholesale current costs

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

for the year ended 31 March 200x

	Residential analogue exchange line services £m	Business analogue exchange line services £m	Business ISDN exchange line services £m	TISBO (up to and incl. 8Mbit/s) £m	TISBO (above 8Mbit/s and up to and incl. 45Mbit/s) £m	TISBO (above 45Mbit/s and up to and incl. 153Mbit/s) £m	AFSBO (up to and including 1Gb/s) £m	Business ISDN30 exchange line services £m	Wholesale local access £m	Total Access markets £m	Call origination on fixed public narrowband networks £m	Local tandem conveyance and transit on fixed public narrowband networks £m	Single transit on fixed public narrowband networks £m	Technical areas (Interconnect Circuits) £m	Fixed call termination £m	Wholesale trunk segments £m	Technical areas (Point of handover) £m	Sub-total Other Wholesale & SMP National Markets £m	WBA Market 1 £m	WBA Market 2 £m	WBA Non-Geographical Costs and Market 3 £m	Sub-total Other Wholesale & SMP Geographic Markets £m	Total Other Wholesale & SMP Markets £m	Wholesale residual markets £m	Total wholesale £m	
Operating Costs of Wholesale Services:																										
Provision / Maintenance	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Network Support	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
General Support	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
General Management	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Finance and Billing	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Accommodation	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Bad Debts	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Other Costs	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Depreciation - Land & Building	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
- Access	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
- Switch and Transmission	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
- Other related	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Sub total Depreciation	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Sub total HCA Operating Costs	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
CCA adjustments:																										
Holding (gain)/loss	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Supplementary depreciation	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Other adjustments	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Roundings	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Total CCA Operating Costs	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£

Notes:
Cost categories to allow for sensible attribution of costs between Wholesale and Retail markets
Repeat analysis for prior year
For each category of costs, include a note summarising:
1: the nature of the costs involved 2: the key drivers behind the allocation of costs to the markets 3: significant changes in allocation bases during the year

Annex 5B

Financial performance & attribution of retail current costs

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

for the year ended 31 March 200x

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

Annex 6A
Allocation of Wholesale Current Cost Mean Capital Employed

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

for the year ended 31 March 200x

	Residential analogue exchange line services £m	Business analogue-exchange-line services £m	Business ISDN2 exchange line services £m	TSBO (up to and incl. 8Mbit/s) £m	TSBO (above 8Mbit/s and up to and incl. 45Mbit/s) £m	TSBO (above 45 Mbit/s and up to and incl. 155Mbit/s) £m	AISBO (up to and including 1Gbit/s) £m	Business ISDN3 exchange line services £m	Wholesale local access £m	Total Access markets £m	Call origination on fixed public narrowband networks £m	Local and in conveyance and transit on fixed public narrowband networks £m	Single transit on fixed public narrowband networks £m	Technical areas (Interconnect Circuits) £m	Fixed call termination £m	Wholesale trunk segments £m	Technical areas (Point of handover) £m	Sub-total Other Wholesale & SMP National Markets £m	WBA Market 1 £m	WBA Market 2 £m	WBA Non-Geographical MCE and Market 3 £m	Sub-total Other Wholesale & SMP Geographic Markets £m	Total Other Wholesale & SMP Markets £m	Wholesale residual markets £m	Total wholesale £m		
Fixed assets																											
Land & Buildings	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Access - Copper	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Access - Fibre	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Access Duct	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Switch	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Transmission	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Other	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Investments	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Total Fixed Assets	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Current assets																											
Stocks	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Debtors	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Internal	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
External	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Total current assets	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Creditors falling due within one year																											
Other creditors	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Internal	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
External	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Total Creditors falling due within one year	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Net current assets	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Total assets less current liabilities	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Provisions for liabilities & charges & roundings	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Roundings	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Mean Capital Employed	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	

Notes:
Repeat analysis for prior year
 For each category of fixed asset include a note summarising the nature of the assets involved
 For all categories of asset and liability include a note summarising:
 1: the key drivers behind the allocation of MCE to the markets 2: significant changes in allocation bases during the year

Annex 6B

Allocation of Retail Current Cost Mean Capital Employed

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

for the year ended 31 March 200x

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

Annex 7

Financial performance in Access markets

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

for the year ended 31 March 200x

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

for the year ended 31 March 200y

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

Annex 11

Market summary

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

Summary

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

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

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

Annex 12
Market summary

Summary

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

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

Non-discrimination

	Internal Sales £m	Internal Sales- services also provided externally £m	Internal Sales- services only provided internally £m	External Sales £m	Turnover £m	Volume	Unit	Average price £
for the year ended 31 March 200x								
Service								
Service 1 Internal	£	£			£		x	£
Service 1 External				£	£		x	£
Service 2 Internal	£	£			£		x	£
Service 2 External etc								
Provisions and other accounting adjustments	£	£	£	£	£			
Unidentified immaterial services	£	£	£	£	£			
Impact of differences between calculated and ledgered volumes	£	£	£	£	£			
Other	£	£	£	£	£			
	£	£	£	£	£			
for the year ended 31 March 200y								
Service								
Service 1 Internal	£	£			£		x	£
Service 1 External				£	£		x	£
Service 2 Internal	£	£			£		x	£
Service 2 External etc								
Provisions and other accounting adjustments	£	£	£	£	£			
Unidentified immaterial services	£	£	£	£	£			
Impact of differences between calculated and ledgered volumes	£	£	£	£	£			
Other	£	£	£	£	£			
	£	£	£	£	£			

Annex 13

Market summary

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

Summary

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

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

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

Annex 19

BT Reconciliation Statement

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

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

Annex 20

BT Reconciliation statement

200x

**200y
(comparative)**

Consolidated mean capital employed

For the year ended 31 March 200x

£m

£m

Shareholders' funds as in the Annual Report
CCA adjustments

Adjustments

Corporation taxes payable
Provision for dividends payable
Deferred tax /(ACT recoverable)
Long term borrowing:
 Due in less than one year
 Due in more than one year
Adjustments to closing capital employed
Goodwill
Minority 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

Mean capital employed of SMP Markets

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

~~Retail Markets (where cost accounting obligations apply)~~

Sub total markets

Residual activities

- Wholesale residual activity
- Retail residual activity
Sub Total Residual Activities

Adjustments
 Wholesale

~~Retail~~

Sub Total Adjustments

Total CCA mean capital employed

Annex 21
BT Inter-market turnover reconciliation
 for year ended 31st March 200x

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

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

Annex B

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

Annex 11

Market summary

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

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

Summary

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

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

for the year ended 31 March 200x Service	Internal Sales £m	External Sales £m	Turnover £m	Non-discrimination		Cost orientation				
				Volume	Unit	Average price	FAC (see Section 5) £	Unaudited LRIC Floor £	Unaudited LRIC Ceiling £	Average price/FAC
Wholesale Extension Services (WES)										
Rental										
Internal WES 10 Mbits	£		£		Y X	£	£	X.XX	X.XX	X.XX
External WES 10 Mbits		£	£		Y X	£	£	X.XX	X.XX	X.XX
					Y					
Internal WES 100 Mbits	£		£		Y X	£	£	X.XX	X.XX	X.XX
External WES 100 Mbits		£	£		Y X	£	£	X.XX	X.XX	X.XX
					Y					
Internal WES 1000 Mbits	£		£		Y X	£	£	X.XX	X.XX	X.XX
External WES 1000 Mbits		£	£		Y X	£	£	X.XX	X.XX	X.XX
					Y					
Internal WES other bandwidth	£		£		Y X	£	£	X.XX	X.XX	X.XX
External WES other bandwidth		£	£		Y X	£	£	X.XX	X.XX	X.XX
					Y					
Connection										
Internal WES 10 Mbits	£		£		Y X	£	£	X.XX	X.XX	X.XX
External WES 10 Mbits		£	£		Y X	£	£	X.XX	X.XX	X.XX
					Y					
Internal WES 100 Mbits	£		£		Y X	£	£	X.XX	X.XX	X.XX
External WES 100 Mbits		£	£		Y X	£	£	X.XX	X.XX	X.XX
					Y					
Internal WES 1000 Mbits	£		£		Y X	£	£	X.XX	X.XX	X.XX
External WES 1000 Mbits		£	£		Y X	£	£	X.XX	X.XX	X.XX
					Y					
Internal WES other bandwidth	£		£		Y X	£	£	X.XX	X.XX	X.XX
External WES other bandwidth		£	£		Y X	£	£	X.XX	X.XX	X.XX
					Y					

BT and KCOM's regulatory financial reporting

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

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

Annex C

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

Annex 26

Additional information by way of notes

AI-8	Analysis by type of product group and by type of OLO of costs, mean capital employed and transfer charges to disaggregated activities (and associated volumes) in relation to outpayments to other licensed operators (OLOs)	<ul style="list-style-type: none">• review how outpayments are accounted for• review fast growing segment of wholesale call market• review the impact of outpayments on BT's network cost base, for example, for different call types• enable trend analysis of outpayment costs and volume breakdowns to be undertaken• assist in dealing with investigations	CA & R
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Annex 10

Notification of Proposed Amendments to Direction 3 (KCOM)

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

Proposal for modifying Directions given under SMP Services Condition OB2 specifying requirements for the preparation, audit and delivery of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

1. The Office of Communications (“OFCOM”) hereby makes, in accordance with section 49 of the Communications Act 2003 (“the Act”), the following proposal to modify Direction 3 given under SMP Services Condition OB2 at Annex 5 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 (the “Original Direction 3”), as modified at Annex 6 of *Changes to BT and KCOM’s regulatory financial reporting – 2008/09 update dated 15 June 2009*, which relate to KCOM’s obligations under SMP services conditions OB1 to OB33, in that it sets out requirements for the preparation, audit and delivery of regulatory financial statements in respect of wholesale cost accounting, accounting separation and retail cost accounting; and
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 5pm on 26 March 2010.
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 Competition Finance

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

12 February 2010

Schedule

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

WHEREAS:

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

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

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

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

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

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

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

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

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

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

(H) for the reasons set out in the explanatory statement accompanying this modified

Direction, OFCOM have considered and acted in accordance with the six Community requirements set out in section 4 of the Act and their duties in section 3 of the Act;

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

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

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

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

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

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

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

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

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

Annex A to direction 3

Wholesale Cost Accounting Financial Statements

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

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

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

Part A

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

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

Part B

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

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

Part C

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

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

Annex B to direction 3

Accounting Separation Financial Statements

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

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

Part A

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

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

Part B

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

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

Annex 11

Notification of Proposed Amendments to Direction 4 (KCOM)

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

Proposal for modifying a Direction given under SMP Services Condition OB2 specifying requirements for the form and content of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

1. The Office of Communications (“OFCOM”) hereby makes, in accordance with section 49 of the Communications Act 2003 (“the Act”), the following proposal to modify Direction 4 given under SMP Services Condition OB2 at Annex 5 of *The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004*, as modified at Annex 7 of *Changes to BT and KCOM's regulatory financial reporting – 2008/09 update dated 15 June 2009*, which relate to KCOM's obligations under SMP services conditions OB1 to OB33, in that it sets out 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. Representations may be made to OFCOM about the proposed draft modification to the Direction by 5pm on 26 March 2010.
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 Competition Finance

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

12 February 2010

Schedule

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

WHEREAS:

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

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

(C) in complying with the SMP services conditions referred to in paragraph B above, and in particular condition OB5, KCOM is required to prepare such regulatory financial statements as directed by OFCOM from time to time;

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

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

(F) this modified Direction modifies Direction 4 given under SMP Services Condition OB2 at Annex 5 of *The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004* which relates to KCOM's obligations under SMP services conditions OB1 to OB33, in that it sets out the form and content to be applied by KCOM in preparing certain regulatory financial statements required by virtue of condition OB5 and Direction 3 (as modified);

(G) KCOM is entitled to depart from the form and content set out in this Direction in certain circumstances in accordance with conditions OB7 and OB20;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[Name]

[Title]

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

[Date]

Annex A

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

