



Regulatory financial reporting obligations on BT

Taking a fresh view

Consultation

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Section 1

Executive Summary

Background

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

Scope of consultation

- 1.7 Ofcom considers that it is helpful to think about the financial reporting framework in four areas, as follows.
 - the information that should be maintained and prepared by BT;
 - the information that should be made available to Ofcom;

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

- the information that is made publicly available; and
 - the framework for providing assurance on that information.
- 1.8 Ofcom is consulting on these issues in two stages. The first stage, set out in this consultation document, is to make specific proposals for changes to be reflected in BT's 2005/06 regulatory financial statements, including amendments required following publication of the 2004/05 regulatory financial statements and changes to the audit requirements.
- 1.9 This consultation document also sets out the framework for further consultation on the objectives of good regulatory financial reporting in the new regulatory environment. The second stage, to start later this year, will turn this thinking into specific proposals for the regime going forward.
- 1.10 This consultation process is summarised in the table below

| Issue | Sections in this consultation document | Questions in this consultation document | Responses due | Next steps |
|---|--|---|---------------|---|
| Proposals for changes to be reflected in BT's 2005/06 report | 3,4 | 1-12 | 14 June 2006 | Statement in summer 2006 |
| Framework for a principles-based review of the reporting regime | 5,6 | 13-30 | 12 July 2006 | Second consultation document in autumn 2006 |

- 1.11 Ofcom will continue to work with stakeholders, including BT and industry, to develop the framework for the review of the reporting regime over the following months prior to the autumn consultation.

Recommendations

- 1.12 This consultation document includes proposals for changes to BT's regulatory financial reporting obligations and the arrangements for providing assurance on that information.
- In respect of BT's regulatory financial reporting obligations, this document includes proposals for amendments to the regulatory financial statements to be reflected in the 2005/06 statements following a review of BT's 2004/05 statements and other ongoing improvements (the "business as usual" changes); and
 - In respect of the assurance regime, this document includes proposals for the introduction of a requirement for the highest level of assurance (i.e. a "fairly presents" opinion) over the financial statements as a whole (instead of the existing requirements for opinions on all market and service statements) plus further opinions on specific financial statements in areas of particular interest or sensitivity, to be identified by Ofcom on an annual basis.

- 1.13 Ofcom considers that the proposed changes to the audit requirements are consistent with the latest regulatory thinking, including for example, the conclusions in Philip Hampton’s 2005 report HM Treasury, “Reducing administrative burdens: effective inspection and enforcement” and specifically the recommendation for regulators to allocate resources to areas where the regulatory risk is greatest, reducing the administrative burden of regulation while maintaining or improving regulatory outcomes.
- 1.14 In respect of the potential longer term changes to be addressed during the second stage of this consultation process, this document sets out the framework for further consideration of the following:
- the objectives of the regulatory reporting regime;
 - how the regime might be changed to better meet these requirements;
 - the key financial information that should be produced on a systematic basis;
 - the extent to which regulatory financial information should be made publicly available; and
 - the way in which this information might be made available.
- 1.15 In the context of this review and in response to an invitation from Ofcom, BT has prepared a draft of what it considers to represent a more effective format for Regulatory Financial Statements. This draft can be viewed at <http://www.btplc.com/thegroup/regulatoryinformation/financialstatements/BTProposal.pdf>.
- 1.16 To inform the ongoing consultation process, BT has advised Ofcom that it will provide and publish the 2005/06 regulatory financial information in its proposed new format on a voluntary basis alongside the regulatory financial statements prepared in their current form, which it will still be required to publish.
- 1.17 To inform the review of how information can best be made available, BT will continue to engage with stakeholders to help develop a protocol for engagement between industry and BT in connection with addressing information requirements through channels other than the published regulatory financial statements.
- 1.18 The proposals described above relate only to BT. In respect of Kingston Communications plc (KCL), Ofcom will consider the implications, if any, of the issues raised during the second consultation. However, given that the scale and scope of the reporting obligations currently imposed on KCL relative to BT, Ofcom does not consider that there is a proportionality argument to propose changes to the reporting and assurance regime for KCL for 2005/06.

Section 2

Introduction

Background

- 2.1 Regulatory financial information is essential for the effective economic regulation of the electronic communications sector.
- 2.2 Under sections 87 to 92 of the Communications Act 2003 (the “Act”) there is a range of remedies that can be implemented by Ofcom once it has been determined that an undertaking has significant market power in an identified services market. These include obligations to offer cost-orientated charges; not to discriminate unduly; and to cap prices, i.e. price controls.
- 2.3 These obligations are designed to reflect Ofcom’s duties under sections 3 and 4 of the Act including the duty to further the interests of consumers in relevant markets by promoting competition and to act in accordance with the six Community requirements including the first Community requirement, which is to promote competition. Where these obligations have been imposed it is essential that they are monitored and enforced properly. Therefore, it is necessary to have appropriate regulatory financial reporting.
- 2.4 This information can be required both on an annual basis for ongoing monitoring purposes and on-request, for example in connection with investigations.
- 2.5 It is necessary for Ofcom to be able to establish and maintain a financial reporting regime that meets its evolving requirements for regulatory financial information that can be used to make economic regulatory decisions and to monitor compliance with obligations.
- 2.6 The aim of this consultation is to consider the objectives of the regulatory reporting regime and take a fresh look at how these objectives can be met most effectively.

Scope of consultation

- 2.7 Ofcom considers that it is helpful to think about the financial reporting framework in four areas, as follows.
 - the information that should be maintained and prepared by BT;
 - the information that should be made available to Ofcom;
 - the information that is made publicly available; and
 - the framework for providing assurance on that information.
- 2.8 The consultation around these issues will be held in two stages. The first stage, set out in this consultation document, is to make specific proposals for changes to be reflected in BT’s 2005/06 regulatory Financial Statements, including amendments required following publication of the 2004/05 regulatory financial statements and changes to the audit requirements. This consultation document also sets out the framework for further consultation on the objectives of good regulatory financial reporting in the new regulatory environment. The second stage, to start later this year, will turn this thinking into specific proposals for a new regime.

- 2.9 This consultation document therefore represents the start of the first stage of this process and sets out both
- *proposals for changes to be reflected in BT's 2005/06 regulatory financial statements*, including amendments required following publication of the 2004/05 statements and changes to the audit requirements. Responses to these proposals are required by 14 June 2006. Ofcom considers that a six weeks consultation period provides stakeholders with sufficient time to prepare their responses and the shorter period will allow for any changes that are decided to be implemented, to be done so in time for the 2005/06 regulatory financial statements. The conclusions from this aspect of the consultation will be set out in a statement due for publication in the summer; and
 - *the framework for a principles-based review of the reporting framework as the first stage of the two stage consultation process*. Responses to these proposals are required by 12 July 2006 and will be taken into account in a second consultation document due for publication in the autumn.
- 2.10 Part 1 of Schedule 1 of the Notifications, set out in the Statement on the regulatory and financial reporting obligations on BT and Kingston Communications, issued on 22 July 2004² (the "2004 Statement") provides the full details of the markets in which Ofcom has imposed cost accounting and/or accounting separation obligations on dominant providers with the exception of the "Inter-tandem conveyance and transit on fixed public telephone networks in the UK excluding the Hull area" market for which BT is longer notified as having SMP.
- 2.11 This document addresses how regulatory financial reporting obligations should be implemented in specific markets. It does not address whether these obligations should be imposed, the level of regulation in a market or the types of remedies to be employed, which have been addressed in the market reviews.

Structure of paper

- 2.12 Sections 3 and 4 of this paper propose changes for the 2005/06 regulatory financial statements. Sections 5 and 6 set out the framework for the longer term review of the regulatory reporting regime.

² http://www.ofcom.org.uk/consult/condocs/fin_reporting/fin_report_statement/finance_report.pdf

Section 3

Proposals for 2005/06

Introduction

- 3.1 Sections 3 and 4 set out the specific proposals that, subject to the outcome of this consultation, will be implemented in time to apply to BT's 2005/06 reporting obligations. Responses to the questions raised in these sections are due by 14 June 2006.
- 3.2 The proposed changes to the regulatory financial reporting regime included in this consultation can be considered within two categories, as follows:
- Formal amendments to the reporting regime and other enhancements. These are set out below; and
 - Changes to the assurance regime. These are described in Section 4.
- 3.3 In addition to the changes proposed in this section, 2006 will also see the results of the obligation placed on BT, following Ofcom's 2005 Statement on changes to BT's regulatory Financial Statements³ (the "2005 Statement"), to provide Ofcom with a comprehensive data file of the transactions that underpin its regulatory financial statements. By transforming this data into a relational database and applying an on-line analysis tool it will be possible for Ofcom to interrogate and report on the data at different levels in the costing structure. The progress towards implementation of this obligation and its contribution to the reporting regime are discussed in Annex 6.

Amendments to published statements

- 3.4 Regulatory financial statements, like any form of business information, evolve over time to reflect a range of internally and externally driven factors such as 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.
- 3.5 This section sets out some of these changes proposed for BT's 2005/06 regulatory financial statements. In addition to those changes requiring formal amendments to the regulatory regime, there are also some aspects where the financial statements will be improved but no formal changes are necessary. These are mentioned in this consultation for stakeholder information and indicate the benefits of ongoing review and improvement processes.
- 3.6 In summary, the main proposals refer to:
- the Network Component List:
A number of additions and deletions mainly to reflect improved cost analysis by BT and technological changes;
 - the form and content of the main financial statements:
Some small improvements to the analysis of the profit & loss account and mean capital employed statements by amending some of the line items;

³ <http://www.ofcom.org.uk/consult/condocs/regfinch/statement/>

- the provision of additional information to Ofcom concerning the valuation bases of local copper access assets consistent with the calculations used to value these assets as part of the 2005 “cost of copper” review;
 - the provision of additional information to Ofcom to explain the calculation of internal transfer charges where the quantity and granularity of the data would not assist the presentation of the published financial statements;
 - the proposal to defer publication of BT’s regulatory financial statements by up to two months to allow for the changes to be fully implemented by BT; and
 - the proposal to move two reconciliation statements from the published information to the list of statements provided to Ofcom only.
- 3.7 In addition, there are other changes to the statements that do not require formal changes to BT’s obligations but may be of interest to stakeholders:

- further information explaining the basis of internal charges from SMP wholesale markets to SMP retail markets
- the disclosure of prior year comparative data. The 2004/05 financial statements were the first publication under the current European regulatory framework and contained mainly re-presented data for 2003/04
- the regulatory cost of capital in the financial statements will be updated to reflect Ofcom’s statement on Ofcom’s approach to risk in the assessment of the cost of capital⁴ issued in 2005. This statement disaggregated BT’s cost of capital for the first time as well as setting lower rates. These will be applied by BT from the date of the statement.

Network Components

- 3.8 The Annex to Direction 1 of BT’s SMP obligations as set out in the 2004 Statement, lists the components against which BT is required to prepare and publish cost data. The current list of components was amended last year, as set on in the 2005 Statement. Since then the list has remained under review and it is proposed to update the list for 2005/06.
- 3.9 ‘Network Components’ is the term used to describe the various assets (or groups of assets) and activities used to provide wholesale services that are consumed or used in the provision of regulated wholesale services. The scope of any individual component will also include any associated operating activities such as preventative maintenance undertaken in the provision of these wholesale services.
- 3.10 Network components are an essential part of the costing process that enables BT to demonstrate compliance with both cost-orientation and non-discrimination obligations as they:
- enable costs to be objectively attributed to services on a causal basis;
 - facilitate transparency of the costing process; and
 - avoid the risk of elements not required by the purchaser being bundled into the cost of services.
- 3.11 Ofcom’s consultation “Proposed changes to BT’s regulatory financial reporting framework” dated 27 May 2005⁵ explained the principles and key characteristics of

⁴ Ofcom’s approach to risk in the assessment of the cost of capital, issued on 18 August 2005.

http://www.ofcom.org.uk/consult/condocs/cost_capital2/statement/final.pdf

⁵ <http://www.ofcom.org.uk/consult/condocs/regfinch/main/regfinch.pdf>

network components in detail and it is not proposed to repeat that description here. However, it is worth highlighting some of the key characteristics that have been taken into account in proposing the changes for 2005/06;

- the capability to objectively demonstrate equivalence of costing: Where two or more services are similar but not identical then a combination of properly defined and costed network components together with accurate usage factors should be capable of demonstrating the differences;
- the capability to disclose, in a transparent way, component utilisation: Individual components are used or consumed by services at different rates and it is the application of varying usage factors that provides for this difference. It is important therefore that not only are the components costed properly but that the usage factors are correctly calculated, relevant and capable of independent verification; and
- the capability to be costed on a single objective cost driver: Components should be associated with a single cost driver, a volume measure, which is used to attribute the component cost onward to all relevant services on a consistent and causal basis.

3.12 Details of the proposed changes to the schedule of network components is set out in Annex 10. These proposals are explained in the following paragraphs.

Network components - proposed new additions;

3.13 The following proposed new components represent improved granular analysis of existing components or provide a closer alignment of underlying network costs:

- Customer sited interconnect circuits (CSI) 2Mbit link and per km
Refers to distance and non-distance elements of 2Mbit connections from BT exchanges to customer premises.
- "E" side copper - current
Refers to cost analysis of local access copper assets (currently analysed under one heading - "E" side copper capital) that links the local exchange MDF to the primary cross connection point.
- Emergency operator assistance (999)
Assists disclosure of non-chargeable calls to the emergency operator assistance service.
- LAN and wholesale extension services (WES)
Refers to the provision of a type of high speed, point to point data circuit.
- Backhaul extension services (BES)
Refers to the provision of a type of high speed, point to point data circuit.
- Routing and records
Refers to more detailed cost analysis of maintaining line records and network plans.
- MDF hardware jumpering
Refers to more detailed cost analysis of providing physical jumpers between the two sides of the MDF in a local exchange.

- Software jumpering
Refers to more detailed cost analysis of providing a telephone number to a copper line electronically.
- Call centre costs
Refers to more detailed costs analysis of call centre costs associated with the provision and maintenance of access products.
- Point of handover electronics
Refers to more detailed cost analysis of the provision of equipment where traffic is handed over to other operators.
- Wholesale access specific
A component to capture the costs of activities specific to the provision of wholesale access products not identified elsewhere.

3.14 The following proposed new components are more granular disaggregations of existing components:

- Intra building circuit (IBC) connection and rental
Two new components to disaggregate the current "In-building links" component.
- SG&A Access/SG&A private circuits
Two new components to disaggregate the current "Other SG&A" component.

Network components - proposed deletions

3.15 It is proposed that the following components are deleted from the list. An explanation of why this is necessary is provided against each item below:

- Wholesale bad debts
To be included as part of SG&A components.
- Signalling links
This item is relatively immaterial and therefore can be attributed to other relevant component headings.
- Service provider gateway
To be included as part of the SG&A wholesale access component.
- Outpayments (All headings)
Not applicable to SMP network services.
- International operator assistance
An activity that does not need to be reported as it occurs in a market where BT has not been determined to have SMP.
- International network
An activity that does not need to be reported as it occurs in a market where BT has not been determined to have SMP.
- Internal PSTN takeover activity
Replaced by new access activity components.
- Internal PSTN residential connection activities
Replaced by new access activity components.
- Internal PSTN business connection activities
Replaced by new access activity components.

- Internal ISDN2 takeover activities
Replaced by new access activity components.
- Internal ISDN2 residential connection activities
Replaced by new access activity components.
- Internal ISDN2 business connection activities
Replaced by new access activity components.
- Infrastructure returns
It is proposed to remove this item on the basis of materiality.
- In-building links
To be replaced by two new components.
- IN platform
This network cost can be excluded on the basis that it exclusively relates to markets where BT has not been determined to have SMP.
- Guarantee schemes
It is proposed to remove this item on the basis of materiality.
- External PSTN transfer activities
Replaced by new access activity components.
- External PSTN connection activities
Replaced by new access activity components.
- External ISDN2 transfer activities
Replaced by new access activity components.
- External ISDN2 conversion activities
Replaced by new access activity components.
- External ISDN2 connection activities
Replaced by new access activity components.
- Alternative interface symmetric broadband origination specific
To be replaced by new WES and BES components.
- Other SG&A
To be replaced by SG&A components.
- Local loop unbundling system set-up
No longer required because costs written-off in previous year.
- Local loop unbundling connection activities
Replaced by new components.

Legal tests

- 3.16 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Direction 1 as proposed in this Section are met. This Section should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

Relevant tests

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

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

- 3.18 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.
- 3.19 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.
- 3.20 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 part of the appropriate remedies to its SMP in these markets. The relevant individual market reviews have already assessed whether these regulatory accounting obligations met the tests outlined in Sections 3 and 4 of the Communications Act. The proposed changes to Direction 1 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 Direction 1 meet the tests in Sections 3 and 4.

Section 49(2) tests

- 3.21 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.

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

- 3.22 Ofcom considers that modifying Direction 1 in the manner described in paragraphs 3.13 to 3.15 is objectively justifiable as this will enable Ofcom to more effectively monitor compliance and enforce BT's obligations for non-discrimination, cost orientation, cost recovery and price controls.

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

- 3.23 Ofcom considers that modifying Direction 1 in the manner described in paragraphs 3.13 to 3.15 is not unduly discriminatory.

- 3.24 BT and KCL are the only communications providers in the fixed communications market to have SMP in multiple markets. As a consequence of having SMP in multiple markets they are the only providers for whom Ofcom stipulates a list of network components. Ofcom is not currently reviewing KCL's list of network components because KCL's current list of 8 components relates entirely to call conveyance services in the Kingston area and does not require the ongoing review and updating necessary in respect of BT's list which has a much broader potential impact on the analysis of costs in communication markets.

Proportionate to what it is intended to achieve

- 3.25 Ofcom considers that modifying Direction 1 in the manner described in paragraphs 3.13 to 3.15 is proportionate because these changes are no more than is necessary for the list of network components to secure its main purposes. These purposes include:
- Enabling costs to be objectively attributed to regulated wholesale services on a causal basis;
 - Facilitating transparency of that costing process; and
 - Avoiding the risk of cost elements not required by the purchasers being bundled into regulated wholesale services.

Transparent in relation to what it is intended to achieve

- 3.26 Ofcom considers that modifying Direction 1 in the manner described in paragraphs 3.13 to 3.15 is transparent because Ofcom is explaining and consulting on each change and provided background explanatory material.

Question 1: Do you agree with Ofcom's proposals to amend the list of Network Components?

Changes to the form and content of published financial statements

- 3.27 The 2004/05 regulatory financial statements show different asset categories on the face of the profit and loss accounts (in respect of the depreciation charge) and the mean capital employed statements. Ofcom considers that it would be useful to align these to allow better understanding and interpretation of the figures.
- 3.28 It is, therefore, proposed to make some minor modifications to the pro-forma profit and loss account statement in respect of the analysis of depreciation so that the descriptions align with the asset descriptions in the mean capital employed statement at a sub-total level. This will allow users to see better the main asset type drivers for the depreciation charge. The proposed amendments are set out at Annex 12.

Question 2: Do you agree with Ofcom's proposals to modify the form and content of the pro-forma profit and loss account?

Additional financial information (“AFI”): regulatory asset value of copper access network assets

- 3.29 Ofcom's statement "Valuing copper access" published on 18 August 2005 looked at a number of asset valuation and cost recovery issues in respect of the copper assets used in BT's access network. An aspect of this work involved adjusting the value of pre-1997 copper access network assets to ensure no ongoing over-recovery of costs. This adjustment involved the creation of an asset specific regulatory asset value (RAV).
- 3.30 It is proposed that BT will be required to provide Ofcom with the asset data necessary to maintain and update the model that underpins this RAV on an annual basis so that changes in the RAV and potential regulatory actions in respect of the costs or prices of access products using copper assets can be effectively monitored or informed. Details of this annual information requirement (in the form of an "additional financial information" request) are set out at Annex 12.

Question 3: Do you agree with Ofcom's proposals to require BT to provide access asset valuation information?

Additional financial information: details of transfer charges

- 3.31 BT's published financial statements contain schedules that set out in detail sales (and related volumes) from SMP wholesale markets (internal and external) and purchases by BT's SMP retail markets. These schedules are set out in the annexes to Direction 4 to the 2004 Statement.
- 3.32 The primary purpose of these statements is to demonstrate compliance with non-discrimination obligations. These schedules were not completed fully to Ofcom's satisfaction last year and this has been discussed with BT who has agreed to complete them as far as is reasonably possible in the 2006 financial statements.
- 3.33 However, during these discussions, it was noted that, for some services, there are a significant number of variants with different charging basis. This would mean that, for the schedules to include all relevant detail, the line by line content would be significantly expanded. In addition, many of the product lines would carry relatively small values.
- 3.34 To avoid including long lists of transfer charges which would detract from the overall purpose of the statements, it is proposed that where an individual charging line is immaterial to the market then this can be aggregated into one line in the published statements. To ensure BT is meeting its non-discrimination obligations however, it is also proposed that an additional financial information obligation is placed on BT to supply the detailed line by line transactions data to Ofcom in a similar format to that published. Ofcom can then monitor full compliance with non-discrimination obligations that require BT to charge its own downstream activities on the same basis as other operators.
- 3.35 It is also proposed that the presentation of these statements is enhanced so that the basis of charging and volumes are made clearer.

Legal tests

- 3.36 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 as proposed in this Section are met. This Section should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

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

- 3.37 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 have already assessed whether these regulatory accounting obligations met the tests outlined in Sections 3 and 4 of the Communications Act. The proposed changes to Direction 4 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 Direction 4 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

- 3.38 Ofcom considers that modifying Direction 4 in the manner described in paragraphs 3.31 to 3.35 is objectively justifiable because these changes will improve understanding of the published statements, provide Ofcom with data to effectively monitor copper access network asset values and allow for transfer charges to be disclosed in a reasonable but not extensive level of detail.

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

- 3.39 Ofcom considers that modifying Direction 4 in the manner described in paragraphs 3.31 to 3.35 is not unduly discriminatory because KCL, the only other communications provider with similar obligations, already has a significantly lighter reporting regime.

Proportionate to what it is intended to achieve

- 3.40 Ofcom considers that modifying Direction 4 in the manner described in paragraphs 3.31 to 3.35 is proportionate because they are no more than is necessary to secure important improvements to the disclosure of regulatory accounting information.

Transparent in relation to what it is intended to achieve

- 3.41 Ofcom considers that modifying Direction 4 in the manner described in paragraphs 3.31 to 3.35 is transparent because Ofcom is explaining and consulting on each change and provided background explanatory material.

Question 4: Do you agree with Ofcom's proposals for modifying the transfer charging statements?

Amendment to the publication date of BT's financial statements

- 3.42 Condition OA6 (b) requires BT to publish the regulatory financial statements and any corresponding audit opinions within 4 months after the period to which they relate. BT has approached Ofcom to explain that due to the potential changes outlined in this consultation, work on the new style statements to be voluntarily published at the same time and other reporting issues (such as the creation of Openreach and related undertakings) that a small extension to this timetable is required.
- 3.43 BT aim to publish at the same as last year (early September) and Ofcom believe this to be a realistic target publication date taking account of the changes and enhancements set out in this consultation. Ofcom propose therefore to amend this publication date to a date no later than six months after the period to which they relate (that is, no later than 29 September 2006 in respect of the 2005/06 reporting period).

Legal tests

- 3.44 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for granting the Consent as proposed in this Section are met. This Section should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this explanatory statement.

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

- 3.45 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. 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.
- 3.46 This Consent is necessary as it recognises the initial implementation issues faced by BT, taking account of the changes and enhancements proposed.

Section 49(2) tests

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

- 3.47 Ofcom considers that granting the Consent as described in paragraph 3.44 is objectively justifiable because it allows BT sufficient time in which to prepare an important set of financial statements for compliance purposes recognising implementation issues caused primarily by the changes proposed in this consultation.

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

- 3.48 Ofcom considers that that granting the Consent as described in paragraph 3.43 is not unduly discriminatory because KCL (the only other operator with similar a similar condition) does not have such extensive or detailed reporting requirements and is not subject to any change proposed in this consultation

Proportionate to what it is intended to achieve

- 3.49 Ofcom considers that that granting the Consent as described in paragraph 3.43 is proportionate because it recognises the additional resource necessary to implement these proposed changes.

Transparent in relation to what it is intended to achieve

- 3.50 Ofcom considers that that granting the Consent as described in paragraph 3.43 is transparent because Ofcom is explaining and consulting on this change and provided background explanatory material.

Question 5: Do you agree with Ofcom's proposals to extend the period in which BT can publish its regulatory financial statements for 2005/06?

Reconciliation statements - transfer to "additional financial information" and "additional financial statements"

- 3.51 Currently the published financial statements includes two reconciliation statements - the BT inter-market turnover reconciliation (BT note 15a in the 2004/05 regulatory accounts) and the BT wholesale markets reconciliation (BT note 11 in the 2004/05 regulatory financial statements). Both of these reconciliation statements perform an important check or control on the main published statements but do not offer a greater insight or understanding of the key compliance objectives of the main statements.
- 3.52 Ofcom propose that these statements are removed from the published accounts and supplied to Ofcom only. The BT inter-market turnover reconciliation will be treated as an AFI and the BT wholesale markets reconciliation will be supplied to Ofcom as an Additional Financial Statement (AFS). Ofcom consider that omitting these statements from the published statements would not compromise the integrity of the published statements but it would help make the published documents more accessible, relevant and easier to navigate.

Legal tests

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

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

- 3.54 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 have already assessed whether these regulatory accounting obligations met the tests outlined in Sections 3 and 4 of the Communications Act. The proposed changes to Direction 3 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 Direction 3 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

3.55 Ofcom considers that modifying Direction 3 in the manner described in paragraph 3.52 is objectively justifiable because it will continue to ensure the regulatory accounting information is properly reconciled but not detract from the presentation of the published statements.

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

3.56 Ofcom considers that modifying Direction 3 in the manner described in paragraph 3.52 is not unduly discriminatory because KCL (the only other operator with similar a similar reporting condition) does not have such extensive or detailed reporting requirements and is not subject to any change proposed in this consultation .

Proportionate to what it is intended to achieve

3.57 Ofcom considers that modifying Direction 3 in the manner described in paragraph 3.52 is proportionate because they are no more than is necessary to secure important improvements to the presentation of relevant regulatory accounting information.

Transparent in relation to what it is intended to achieve

3.58 Ofcom considers that modifying Direction 3 in the manner described in paragraph 3.52 is transparent Ofcom is explaining and consulting on this change and provided background explanatory material.

Question 6: Do you agree with Ofcom's proposals to add the Inter-market turnover reconciliation and the wholesale markets reconciliation to the list of additional financial information or statements provided to Ofcom and delete the requirement to publish these statements?

Other enhancements

- 3.59 A number of other reporting improvements are planned for 2006 resulting from BT's ongoing development programme and discussions with Ofcom, as follows:
- As explained above, the published statements in respect of transfer charges from SMP wholesale markets and to SMP retail markets were not completed to Ofcom's satisfaction in 2005. BT has been asked to ensure these statements are completed as far as possible in the 2006 statements;

- The 2004/05 financial statements were the first to be published in a significantly amended format to take account of the new regulatory framework based on economic markets and SMP designations. BT was not able therefore to prepare comparative data and chose to re-present prior year (2003/04) data to assist users of the accounts. For 2005/06 Ofcom is anticipating that prior year data will be published on a full comparative basis.
- On 18 August 2005, Ofcom published a final statement entitled "Ofcom's approach to risk in the assessment of the cost of capital" in which BT's weighted average cost of capital (WACC) was reviewed and disaggregated into two parts. The WACC for the copper access network business was reassessed at 10.0% and the rest of BT at 11.4%. BT's 2005 statements used a single WACC of 13.5%. Therefore, BT will apply these new rates appropriately to the 2006 financial statements.
- On 18 August 2005, Ofcom published an explanatory statement entitled "Review of BT's network charge controls" in which Ofcom concluded that BT no longer has SMP in the market for inter-tandem conveyance and inter-tandem transit. As a consequence, the SMP conditions in relation to regulatory financial reporting for this market no longer apply, For completeness, these SMP conditions have been revoked as set out in Annex 14 and Ofcom have made further administrative modifications to Direction 3, which are set out in Annex 11. The costs, revenues and mean capital employed relating to these markets will now form part of the non-SMP elements of the reconciliation statements.
- BT is also planning to amend and add to the services disclosed in some of the wholesale statements of costs. For example, Ofcom is anticipating that BT will prepare a more disaggregated analysis of services in the market for traditional interface symmetric broadband origination.
- BT is planning to refine its current cost valuation processes and methodologies. These changes will need to be documented in the secondary accounting document called "Detailed Valuation Methods" and, if necessary, in the primary accounting document. Any change to the primary accounting document will require prior approval by Ofcom.

The modifications do not affect KCL

- 3.60 Ofcom has not sought to modify KCL's regulatory financial obligations as no practical or implementation issues have been raised relating to the detailed application of KCL's obligations requiring formal amendments to the 2004/05 Statement. KCL's obligations also reflect and are proportional to its size and complexity relative to BT.

Section 4

Revisions to the assurance regime

Introduction

- 4.1 Ofcom considers that an independent audit of the published regulatory financial statements is important to provide reasonable assurance to Ofcom and other stakeholders that the financial statements have been prepared using the agreed principles and policies and that, for key statements, the results are fairly presented.
- 4.2 This section considers how the assurance regime might be updated to offer the appropriate level of assurance in a more focused and proportionate way. Responses to the questions raised in this Section are due by 14 June 2006.

Proposals for changes in the assurance regime

- 4.3 As explained in more detail in this section, Ofcom:
- proposes the introduction of a requirement for the highest level of assurance over the financial statements as a whole instead of the existing requirements for opinions on 26 market statements and approximately 85 service statements;
 - considers that the single opinion will not deliver the appropriate level of assurance in markets of particular interest or sensitivity and therefore proposes that further opinions may be required by Ofcom on selected information;
 - proposes a framework for identifying the information that warrants additional assurance;
 - proposes that the requirement for additional assurance can be set annually by Ofcom outside of the Directions; and
 - support the proposals through more effective use of existing arrangements that already provide for Ofcom to require additional work by BT's auditors on Ofcom's behalf.

Framework for the review

- 4.4 In light of ongoing changes in the regulatory environment, it is appropriate to consider whether there may be a more effective way of providing the necessary level of assurance on the regulatory financial data. Such a review needs to be considered in the context of events including, for example, the effect of the undertakings accepted by BT following the Strategic Review of Telecommunications⁶, the Equality of Access Board's summary annual report covering BT's implementation of the undertakings, which will be subject to independent assurance, and the ongoing review of BT's regulatory reporting regime, as described in this consultation document.
- 4.5 The section considers the following issues:
- the nature of an audit
 - the current audit framework; and
 - the options for a new audit framework.

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

The nature of an audit

- 4.6 An audit can only ever provide reasonable, not absolute, assurance over the relevant financial statements.
- 4.7 An audit requires the application of judgement and the use of sampling techniques to reach conclusions. Whilst an audit could theoretically be scoped to cover each element of financial statements separately, the provision of absolute assurance would require comprehensive testing of all transactions. This would result in disproportionate costs and unacceptable delays in the reporting cycle.
- 4.8 It is therefore necessary for Ofcom to make a judgement regarding the appropriate level of assurance. This section sets out its proposals for 2005/06. Changes in the form and content of the published regulatory financial statements that may follow from the second stage of this consultation process will also necessitate a review of the auditing arrangements.

The current audit framework

- 4.9 The detailed audit requirements are set out in the Directions included in Annex 2 of the 2004 Statement, as amended in the 2005 Statement.
- 4.10 BT's independent auditor (currently PricewaterhouseCoopers LLP ("PWC")) provides its opinion to BT and Ofcom as to whether the financial statements for each market are fairly presented in accordance with the Accounting Documents and also whether each of the statements of costs and charges of wholesale services has been properly prepared in accordance with this framework. The Accounting Documents consist of the Primary Accounting Documents (which set out the framework for the preparation of the financial statements) and the Secondary Accounting Documents (namely the Detailed Attribution Methods, the Detailed Valuation Methodology and the Long Run Incremental Costs: Relationships and Parameters) which provide more detailed information of the bases for deriving and calculating the financial information in the Current Cost Financial Statements.
- 4.11 Since the introduction of the regulatory financial statements there has been a need to consider the nature of the audit assurance opinion. The statutory opinion of 'true and fair' is deemed inappropriate as this opinion is defined in the context of UK Generally Accepted Accounting Principles ("GAAP"). Instead, the basis of preparation for regulatory reporting agreed with the regulator must be followed and verified and therefore a different form of opinion is required.
- 4.12 The form and meaning of audit opinions relating to regulatory financial statements are subject to Directions, issued by Ofcom in July 2004 under OA2⁷. Direction 5 describes the "Fairly presented in accordance with" ("FPIA") opinion, whereas Direction 6 describes the "Properly prepared in accordance with" ("PPIA") opinion..
- 4.13 A PPIA opinion provides reasonable assurance that a statement, taken as a whole, has been prepared, in all material respects, in accordance with the detailed procedures described in the Accounting Documents. The opinion does not consider explicitly the estimates and judgements made by BT in selecting the detailed methodologies in accordance with the principles set out in the Accounting Documents.

⁷ http://www.ofcom.org.uk/consult/condocs/fin_reporting/fin_report_statement/finance_report.pdf

- 4.14 An FPIA opinion provides reasonable assurance that a financial statement, taken as a whole, has been prepared in accordance with the principles described in the Accounting Documents and in the context of that framework are free from material misstatement. They include an assessment of the significant estimates and judgements made by BT in the preparation of the statements. Unlike a PPIA opinion, an FPIA opinion therefore includes consideration of objectivity.
- 4.15 The current regime includes a requirement for an FPIA opinion on each of the SMP market statements and a PPIA opinion in relation to the statements for each wholesale or retail service.
- 4.16 In respect of the 2004/05 Market Statements, a FPIA opinion was provided to the effect that with some specified exceptions,
- “each of the Market Statements for the year ended 31 March 2005, which have been prepared in accordance with the Primary Accounting Documents dated 2 September 2005 fairly presents in accordance with the Primary Accounting Documents dated 2 September 2005 the results and mean capital employed of, and costs incurred by each of the Markets and complies with the requirements of the Final Statement and Notification”
- 4.17 In respect of the 2004/05 Wholesale Services Statements, a PPIA opinion was provided to the effect that with some specified exceptions,
- “each of the Wholesale Service Statements for the year ended 31 March 2005, has been properly prepared in accordance with the procedures, if any, defined in the Primary Accounting Documents dated 2 September 2005 the results and mean capital employed of, and costs incurred by each of the Markets and complies with the requirements of the Final Statement and Notification”
- 4.18 Historically, the auditors have been unable to provide a full set of unqualified opinions and some of the opinions have been qualified. For example, for 2004/05, FPIA opinions were required on 27 market statements, but the auditors were only able to provide such opinions on 21 markets. Of the other six markets, the auditors were only able to provide a PPIA opinion on four statements and an even more limited, “negative” assurance (to the effect that nothing had come to their attention that the statements were not properly prepared) on the other two.
- 4.19 Qualifications of the types summarised below are not opining that the statements are not fairly presented, only that the assurance that can be achieved through the audit is limited:
- Limitation of scope of opinions over markets with the assurance reduced to “properly prepared in accordance with...”;
 - Disclaimer of opinions in respect of markets due to the very small size of the markets in the context of BT;
 - Disclaimer of opinions in respect of services due to the very small size of the services in the context of BT; and
 - Emphasis of matter, highlighting areas where the granularity of the statements results in anomalies in costing methodologies having a material effect of the results of markets and services.

- 4.20 Where the audit opinion has been qualified by way of a lesser opinion in the past, Ofcom's view has been that the reasons provided can not easily be addressed by improvements in BT's cost accounting systems but relate to the inherent difficulties of attributing relatively small proportions of large shared and common costs to relatively small market or product groups. In the event that the audit qualification indicated that the cost accounting systems needed immediate improvement to increase the reliability of the data, BT would be required to address this.

Proposals for consultation

- 4.21 In light of ongoing changes to the regulatory environment, it is appropriate to consider whether the current approach continues to provide the appropriate level of assurance and value for money.
- 4.22 Ofcom considered three options for the audit regime for 2005/06 and beyond, as follows:
- **Option 1: No change from the status quo**; specifically an FPIA opinion to be provided on each of the SMP market statements; a PPIA opinion to be provided in relation to the published statements for each wholesale service and on the private product group statements provided to Ofcom;
 - **Option 2: Move to a single opinion on the financial statements**; specifically a move to a single FPIA opinion on the financial statements as a whole and an opinion that the private product group statements are consistent with the published financial statements;
 - **Option 3: Move to a single opinion on the financial statements plus a targeted approach to additional reporting**; specifically a move to a single FPIA opinion on the financial statements as a whole plus a risk-based approach to identify statements or areas of BT's costing processes requiring additional assurance.
- 4.23 As explained below, Ofcom is proposing that Option 3 should be adopted.

Option 1: No change from the status quo

- 4.24 The current requirement for FPIA opinions on all SMP market statement and PPIA opinions on the statements for each wholesale or retail service provide a consistent level of assurance across the relevant statements that is relatively well understood.
- 4.25 However, the current arrangements take little account of the possible need for greater assurance on some aspects of BT's regulatory financial information or the possibility that a lesser level of assurance may be adequate elsewhere.
- 4.26 The requirement results in a significant amount of audit effort to provide coverage of attribution bases which account for a relatively small proportion of BT's costs and therefore contribute little to the overall level of assurance.
- 4.27 In the context of the tri-partite relationship that currently exists between BT, PwC and Ofcom for the regulatory audit, PwC have presented their audit approach to Ofcom. Ofcom understands that the auditors perform substantive testing on a sample of cost attribution basis designed to gain assurance over the cost attributed to each network component and each retail product in SMP markets as well as non-SMP areas in total.

- 4.28 The structure of BT's costing models is such that a small number of attribution bases accounts for relatively large values with a very long "tail" of smaller less significant bases. The basis of sampling described above results in the auditor testing large numbers of the attribution bases within this tail.
- 4.29 Further, as noted above, even after this testing has been performed, the inherent limitations to the assurance an audit can provide, mean that the auditors are unable to provide the required opinions on some of the statements and some of the opinions are therefore qualified. One of the consequences of the multiple qualifications is that the report tends to be fairly lengthy. In respect of the 2004/05 regulatory financial statements, the opinion was presented over six pages of the Current Cost Financial Statements.
- 4.30 The assurance provided by the audit provides a useful control check for Ofcom's own review of BT's financial information, for example, in the event of an investigation. However, additional detailed Ofcom analysis and validation is normally necessary because investigative work is often undertaken at levels beyond the materiality thresholds used by the independent auditor. Moreover, investigations often relate to more recent periods of time for which audited financial information is not yet available. Experience has shown that this work often identifies the need for adjustments to the underlying data.
- 4.31 The need for such adjustments does not imply that the audit approach is necessarily flawed. To some extent this reflects the fact that the auditors are not primarily concerned with competition matters, which are properly a matter for Ofcom but is largely a result of the limitations inherent in any published financial data and audit based on sampling and related materiality thresholds.
- 4.32 As noted above, to provide absolute assurance that no such discrepancies existed would require comprehensive testing of all transactions. This would result in disproportionate costs and unacceptable delays in the reporting cycle. Some additional assurance could be provided in the areas where it was most valuable (for example, by way of a more detailed review of financial information relevant to an Ofcom investigation) but the current requirement for a pre-determined level of opinion does not provide for this.
- 4.33 It would be possible to require BT to continue to obtain the current level and number of audit opinions, as described above, and, in addition, provide for PwC to provide additional assurance on specific matters, as directed by Ofcom. However, Ofcom does not currently consider that this approach would be proportionate or necessary in order to provide an appropriate level of assurance.

Question 7: How important is the audit opinion to your confidence in the regulatory financial statements and to what extent does this confidence depend on the scope of the audit and format of the opinion?

Option 2: single opinion on the financial statements as a whole

- 4.34 In response to an invitation from Ofcom to consider whether there may be scope for a more fit for purpose audit regime, BT, with the assistance of its advisors and regulatory financial auditors, has made proposals for changes in the scope of the audit.
- 4.35 BT's proposals can be considered in terms of their impact on the

- audit of the published information;
- audit of the additional financial statements provided to Ofcom; and
- audit of additional financial information provided to Ofcom.

4.36 These points are considered in turn below.

Audit of published information

4.37 BT has proposed the introduction of a single FPIA overall opinion on the published regulatory financial statements taken as a whole.

4.38 On this basis, an unqualified audit opinion would include a statement along the following lines:

In our opinion...the Financial Statements for the year ended 31 March 2006, which have been prepared in accordance with the Primary Accounting Documents dated [DATE], fairly present in accordance with the Primary Accounting Documents dated [DATE] the results, mean capital employed and costs incurred by the Markets, Technical Areas and Wholesale Services and comply with the requirements of the Final Statement and Notification;

4.39 An audit to this standard would still be required to consider all elements of the financial statements and all aspects of BT's costing processes. However, the auditor would be expected to conduct the audit applying an overall assessment of materiality rather than materiality driven by the size of any individual market or service for which the opinion is being given.

4.40 International Standards on Auditing require that any errors that are identified by an audit that are not clearly trivial are discussed with management and either corrected or their impact on the financial statements is considered by both management and the auditors. Discussions with PwC have indicated that they would expect to refer in their report to detected errors that were considered to be material to an individual market in their audit report. The risk is therefore that the combination of sample testing and analytical review does not identify the error. To some extent, this is an inevitable risk of an audit that can only give reasonable and not absolute assurance. However, it raises the possibility that a cost that is not considered to be material to the financial statements as a whole could be material in relation to a specific market.

Audit of additional financial statements

4.41 Other information provided only to Ofcom such as the Additional Financial Statements and the data extraction files would be subject to testing for consistency with the data from which the published financial statements have been prepared. These statements, as a whole or individually, would not be subject to an audit opinion.

Audit of other financial information provided to Ofcom

4.42 The proposed audit requirements include an assurance opinion addressing the consistency of the data provided to Ofcom by BT as inputs to the "data extraction tool" with the data in BT's costing systems used to prepare the published financial statements.

Comparison of existing and proposed audit requirements

- 4.43 Ofcom's understanding of PwC's audit approach indicates that the key change of focus of audit effort would be the change in the basis of sampling valuation and attribution bases for detailed substantive testing, but there would be little impact on the areas of the audit that focus on the appropriateness of methodologies and management judgements or on the level of analytical review undertaken by the auditors as this is focused on the form and content of the regulatory financial statements which will not change significantly for 2005/06.
- 4.44 As explained above, the structure of BT's costing models is such that a small number of attribution bases accounts for relatively large values, with a very long "tail" of smaller, less significant, bases. The proposed audit approach would align the audit effort more closely to the attribution bases with significant value, although we understand that the auditors would continue to include a random sample of bases to ensure unpredictability in their audit testing.

Assessment of Option 2

- 4.45 The procurement of a FPIA opinion of the financial statements as a whole would,
- require audit work to be performed across all aspects of BT's costing system;
 - cover the entire financial statements;
 - include the application of judgement relating to the appropriateness of methodologies; and
 - reduce the probability of modifications/qualifications to the audit opinion arising from the granularity of the audit requirements.
- 4.46 However, it is not clear to Ofcom that a single opinion on the financial statements based on a materiality level set by reference to the statements as a whole necessarily provides the necessary level of assurance in respect of more granular information in certain key areas, including for example:
- *Markets subject to price controls*, where data must be robust to inform price control decisions and compliance;
 - *Markets subject to market review*, where the review process will be reliant on access to reliable data;
 - *Strategic or emerging markets and investments*, such as NGN and LLU, which may warrant closer scrutiny of the financial data; and
 - *Specific investigations*, where concerns may exist following from recent work that need to be addressed and possibly resolved (for example, PPCs).

Question 8: Stating your reasons, do you consider that a single opinion on the financial statements as a whole can provide adequate assurance on individual statements?

Option 3: targeted assurance

- 4.47 Option 3 builds on the proposals made by BT for a single opinion at financial statements level and provides a process for obtaining additional assurance in the areas where Ofcom considers it is necessary. Specifically it sets out a process for

determining and obtaining additional assurance and considers the appropriate route to obtaining that additional assurance.

- 4.48 As noted above, Ofcom may decide that it requires a higher degree of assurance on some individual statements than can be inferred from a single opinion at the financial statements level.
- 4.49 For statements where additional assurance is considered by Ofcom to be necessary, Ofcom proposes that it will require specific opinions, at either FPIA or PPIA level. Such opinions would be published with the annual regulatory financial report.
- 4.50 There may also be other aspects of BT's financial information, at a more granular level than the published statements, for which no specific assurance has historically been provided where Ofcom could nevertheless benefit from the expertise and experience of an independent accountant to obtain additional information, yet where a formal opinion on a financial statement is not necessarily appropriate.
- 4.51 In these cases, useful additional assurance might take the form of agreed upon procedures undertaken by the auditors over,
- testing of controls around data sources,
 - long form descriptions of attribution methodologies adopted,
 - review of costing methodologies starting from the general ledger and
 - testing of key apportionment methodologies
- 4.52 For example, in respect of price controls, additional assurance that could be provided by the auditors (in the event that the information provided by BT was not sufficient) could include the identification and documentation of material cost attribution methodologies, setting out the assumptions, procedures and policies used in these attribution methodologies and providing assurance that all this data has been accurately, fairly and consistently captured and processed.
- 4.53 Use of the "agreed upon procedures" process with the auditors would also be valuable in connection with investigations, including for example, identification and explanation of key accounting changes in recent years, key cost allocation methodologies and identification of adjustments to the accounting records. In determining the additional analysis required, Ofcom would take account of its own requirements for analysis and assurance and will have regard to specific matters that are brought to its attention by stakeholders.
- 4.54 Ofcom proposes to address these assurance needs through more effective use of contractual arrangements that are already in place between Ofcom and PwC providing for additional work to be undertaken by the auditor in order to report on specific issues or areas of BT's costing processes. This arrangement has been in place for two years following the issuance of guidance by the Institute of Chartered Accountants in England and Wales and the implementation of a tri-partite agreement between BT, Ofcom and PwC.
- 4.55 To date, the audit requirements have separately addressed each disclosed service and no additional reporting has been requested by Ofcom. However, these provisions for additional work potentially allow for more in depth analysis of individual services or cost attribution processes than is provided by the current assurance requirements and therefore represent a more flexible basis of working than a pre-defined audit requirement on all services.

- 4.56 Subject to some limitations (for example, the auditor could review methodologies used but could not recommend the appropriate course of action for Ofcom), the scope of this additional work would be for Ofcom to determine. Ofcom could make a request for such work to be undertaken at any time, although, if the work was to be conducted around timing of annual audit then the annual audit report could not be issued until the additional assurance work had been completed.
- 4.57 This approach would allow work to be tailored to meet specific requirements. However, there are restrictions on the publication of conclusions from work performed on this basis and as such procedures might be considered to provide only limited assurance to industry.
- 4.58 A decision whether to go along the FPIA, PPIA or "agreed upon procedures" route therefore requires an assessment of the benefits of publication against the benefits of greater flexibility and focus. Ofcom therefore expects to obtain the necessary assurance through a combination of formal opinions and additional reporting.

Assessment of Option 3

- 4.59 As for Option 2, the approach to the audit under Option 3 will continue to be based on audit work performed across all aspects of BT's costing system and include the application of judgement relating to the appropriateness of methodologies.
- 4.60 This approach would also result in reduced testing of relatively small attribution bases in markets where such testing delivered little additional coverage.
- 4.61 Instead, by directing audit effort towards the key areas requiring additional attention, the approach should provide Ofcom with a more direct influence on the nature and focus of assurance procedures and get greater value from the audit effort by applying the expertise and experience within the audit team to provide the appropriate level of assurance in the areas it is needed most.
- 4.62 Ofcom therefore proposes that Option 3 is adopted as the basis for determining the nature and extent of the assurance to be provided by BT's regulatory auditors. The impact on the requirements for 2005/06 is described below.

Question 9: Do you agree with Ofcom's proposal to amend the audit obligations to move to a regime based on a single audit opinion on the financial statements, plus additional opinions on key statements?

Question 10: What criteria do you believe should be taken into account when determining which additional opinions are required and why?

Question 11: When determining the need for additional assurance (via formal opinions), to what extent should Ofcom take account of stakeholder views?

Specific proposals for 2005/06

- 4.63 Ofcom proposes that for the 2005/06 regulatory financial statements, opinions will be required as summarised below. The requirement for specific opinions will be reassessed each year to take account of the regulatory environment at the time and the materiality of the markets in question.

- 4.64 A Fairly Presents opinion will be required on the areas of focus within the regulatory environment. For example, for 2005/06, these would include:
- *material access markets controlled by Openreach*. These bottleneck markets were identified as key markets in the TSR and financial data that is subject to the highest level of external audit will make an important contribution to the creation of Openreach and stakeholders confidence in access pricing; and
 - *material markets important to the development of broadband services*. These markets (including those relating to partial private circuits) are or have recently been subject to important investigations or policy reviews.
- 4.65 A Properly Prepared opinion will be required for
- *material wholesale markets covered by the new network charge controls*. Charge controls have just been agreed and it is these markets that will mainly reflect any cost structure and level changes resulting from the implementation of BT’s proposed next generation network (“NGN”); and
 - *material retail markets if reporting is still required*. However the obligation to prepare regulatory accounts for these SMP retail markets is being reviewed in light of the current consultation to withdraw from formal price controls.
- 4.66 The specific opinions that will be required are summarised in Annex 7. In summary, the effect on the number of opinions required will be as follows:

| | Opinions currently required | Opinions currently provided | Opinions required under proposals |
|---|-----------------------------|-----------------------------|-----------------------------------|
| FPIA opinions at overall statements level | - | - | 1 |
| FPIA opinions at market level | 25 | 19 | 9 |
| PPIA opinions at market level | - | 4 | 10 |
| PPIA opinions at product/service level | 79 | 44 | - |
| Total | 104 | 67 | 20 |

- 4.67 These requirements are for 2005/06 and will be reviewed annually. For example, it may be appropriate to require a FPIA opinion on the markets covered by network charge controls when the time comes to reset the controls.

Question 12; Do you have any comments on the proposed requirements for additional opinions, in respect of the statements selected, those not selected and the number selected?

Implementation of proposals

- 4.68 The requirement for an audit opinion is set out in Condition OA5 of BT’s regulatory financial reporting obligations, which states that:

" BT shall in respect of the Market, Technical Areas and the Disaggregated Activities (as applicable) for each Financial Year:

a. prepare such Regulatory Financial Statements as directed by Ofcom from time to time in accordance with the Accounting Documents (the relevant Accounting Documents to be identified in the Regulatory Financial Statements by reference to their date);

b. secure the expression of an audit opinion upon the Regulatory Financial Statements as directed by Ofcom from time to time;"

4.69 Direction 3 to BT's regulatory financial reporting obligations directs:

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

4.70 Annexes A, B and C to Direction 3 specify the audit requirements for each statement.

4.71 In order to move to a single FPIA opinion, it will therefore be necessary to update Direction 3.

4.72 If the current audit requirements set out in Annexes A, B and C to Direction 3 were replaced with the specific opinions that will be required for 2005/06, as summarised in Annex 7 of this consultation document, Direction 3 would need to be updated each year in light of the ongoing assessment process described above and these changes would necessarily be subject to consultation as required by section 49(4) of the Act.

4.73 While the legal weight of the Directions provide certainty that BT will procure the necessary opinions, having to modify Direction 3 on a regular basis to accommodate changes in the focus of assurance would introduce a significant administrative burden for Ofcom and limit the responsiveness of the regime to changes in circumstances.

4.74 Ofcom therefore proposes that Direction 3 will be updated to require a single FPIA opinion on the financial statements as a whole and provide for further opinions on selected statements as specified by Ofcom from time to time.

4.75 As noted above, the need for additional assurance on specific issues will be secured under the terms of the existing contractual arrangements in place between Ofcom and PwC.

Legal tests

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

Relevant tests

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

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

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

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

Section 49(2) tests

- 4.82 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.

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

- 4.83 Ofcom considers that modifying Direction 3 in the manner described in paragraph 4.76 is objectively justifiable as it allows Ofcom to direct higher level of assurance on financial statements for particular markets and services where it feels that more detailed level of scrutiny is necessary, as well as reducing unnecessary regulatory burdens on BT and reducing the costs that are incurred by BT in satisfying regulatory financial reporting obligations.
- 4.84 Ofcom does not consider that the proposal significantly reduces the impact on the assurance provided by the audit on the financial statements as a whole, as it feels

Regulatory financial reporting obligations on BT – Taking a fresh view

the current arrangements require the production of audit opinions for financial statements over a large number of markets and services, some of which are of only minor importance and value.

- 4.85 Further, as Ofcom retains the ability to nominate particular markets and services for which it desires a more detailed audit opinion, it is open to Ofcom replicate the current assurance regime should circumstances require it to do so.

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

- 4.86 Ofcom considers that modifying Direction 3 in the manner described in paragraph 4.76 is not unduly discriminatory.
- 4.87 BT and KCL are the only communications providers in the fixed communications market to have SMP in multiple markets and therefore can be treated as a class of communications provider. As a consequence of having SMP in multiple markets they are the only providers in respect of which Ofcom imposes reporting obligations and are therefore the only providers with audit requirements.
- 4.88 Ofcom is not currently reviewing KCL's audit regime as the scale and scope of current requirements on KCL are less extensive than for BT. Ofcom therefore does not consider its review of the requirements for the audit of BT's regulatory financial information only is unduly discriminatory against either BT or KCL.

Proportionate to what it is intended to achieve

- 4.89 Ofcom considers that modifying Direction 3 in the manner described in paragraph 4.76 is proportionate in that it does not introduce any additional regulatory or financial burden on BT but rather has the potential to decrease such burdens without affecting the integrity of the assurance regime.

Transparent in relation to what it is intended to achieve

- 4.90 Ofcom considers that modifying Direction 3 in the manner described in paragraph 4.76 is transparent in that its effect is clearly set out in this document and the draft modification of Direction 3 is set out at Annex 11.

Impact of changes in regulatory reporting regime

- 4.91 The changes proposed above may need to be modified in 2006/07 in light of any significant changes in the reporting regime that may follow as a result of the longer term elements of this consultation.
- 4.92 For example, an opinion provided on a set of financial statements provides only limited assurance in respect of the same financial data analysed elsewhere. In the event that future audited statements provide more summarised information than they do at present, the value of the audit opinion on those statements, in terms of the assurance it provides regarding more detailed analysis provided by BT to Ofcom, will have to be revisited.

Section 5

A fresh look at the regulatory reporting regime

Introduction

- 5.1 The requirement on BT to implement well-documented and robust accounting separation and cost accounting policies, processes, procedures, methodologies and systems helps to ensure that costs are attributed to the various components, services and products in line with the principles set out in the primary accounting documents. This in turn provides a sound accounting basis on which BT can comply with its reporting obligations and an important starting point for further analysis to support Ofcom's ongoing market review, investigation and complaints work.
- 5.2 The current regulatory financial reporting regime has evolved over time in response to ongoing changes in the regulatory environment. The last significant consultation on the regime was in 2004 in response to the then new regulatory framework for electronic communications network services that came into effect on 25 July 2003. The regulatory financial statements for the year to 31 March 2005 were the first to take account of the full impact of these changes.
- 5.3 Since these changes were implemented, there have been and will continue to be a number of significant changes in the regulatory environment, including for example, the completion of Ofcom's Strategic Review of Telecommunications, the implementation of undertakings by BT accepted by Ofcom in lieu of a reference under the Enterprise Act and the creation of Openreach. With effect from the start of BT's financial year 2006/2007, the BT's regulatory financial statements will separately present the financial results of Openreach. The form, content and basis of preparation of the financial results of Openreach will follow those used in the preparation of the regulatory financial statements of BT except where differences are agreed with Ofcom. The regulatory financial statements will reconcile Openreach's revenue and operating profit (and other such items as may be agreed between BT and Ofcom) with information about Openreach shown in BT Group plc's annual report and accounts.
- 5.4 Further, Ofcom's ability to interrogate BT's financial data will be enhanced by the introduction of a data extraction tool, which will allow Ofcom to extract, sort, analyse and report on BT's cost attribution system including the replication of BT's regulatory Financial Statements and a drill-down facility. The data extraction tool is currently under development and is scheduled to be operational in the second quarter of 2006 for 2004/05 data.
- 5.5 In December 2005, in response to an invitation from Ofcom, BT provided Ofcom with proposals for a radically different format for the published regulatory financial statements.
- 5.6 Ofcom therefore considers that it is appropriate to take a fresh look at the financial reporting regime.
- 5.7 Section 5 provides the framework for the second stage of this consultation process and identifies a number of issues requiring responses to inform the review of the

regime over the next six months and development of proposals that Ofcom hopes to publish in a consultation document scheduled for the autumn of 2006.

- 5.8 It is expected that any changes to the regime will be implemented in time for the regulatory financial statements for 2006/07. The effectiveness of the new regime will be kept under review by Ofcom, and further changes or a return to the current regime may prove to be necessary following such a review.
- 5.9 Responses to issues raised in this section are due by 14 July 2006.

Scope of consultation

- 5.10 BT's reporting requirements have developed over time in light of ongoing changes in the regulatory regime. Ofcom therefore considers that it is helpful to adopt a principles-led approach to the review of the reporting obligations.
- 5.11 With this in mind, Ofcom considers that the consultation should address the key question of what the regime is trying to achieve and how it can best achieve it. Having established the objectives of the regime as a whole, it will then be possible to consider how each element of the regime can best contribute towards meeting that objective, and for example, the role of the published financial statements.
- 5.12 The scope of the review covers the entire regulatory reporting regime and therefore covers:
- the information that should be maintained and prepared by BT;
 - the information that should be made available to Ofcom; and
 - the information that is made publicly available.
- 5.13 The published financial statements therefore represent only one element of the reporting regime. This review will therefore start by looking at the objectives of the regime as a whole. It will then be possible to consider how these objectives can best be met and the role the published statements, as one element of that regime, can play in meeting those objectives.
- 5.14 The assurance provided on that information is also an important element of the regime. This has been addressed separately in Section 4, although it may need to be revisited in light of any changes in the regime that may follow from the second stage of this consultation.
- 5.15 Ofcom is not proposing that the accounting separation and cost orientation obligations on BT should change. The need to maintain accurate accounting records for regulated markets, services and products continues to be important, and this must be supported by appropriate rules for preparing the financial information if the regulatory financial statements are to continue to be a sound basis for demonstrating compliance with obligations and for pricing decisions..

The need for regulatory financial information

- 5.16 The current regulatory framework for electronic communications networks and services entered into force on 25 July 2003. The framework is designed to create harmonised regulation across Europe and is aimed at reducing entry barriers and fostering prospects for effective competition to the benefit of consumers. The basis for the regulatory framework is five EU Communications Directives:

- Directive 2002/21/EC on a common regulatory framework for electronic communications networks and services (the “Framework Directive”);
- Directive 2002/19/EC on access to, and interconnection of, electronic communications networks and associated facilities (the “Access and Interconnection Directive”);
- Directive 2002/20/EC on the authorisation of electronic communications networks and services (the “Authorisation Directive”);
- Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services , (the “Universal Service Directive”); and
- Directive 2002/58/EC concerning the processing of personal data and the protection of privacy in the electronic communications sector (the “Privacy Directive”).

5.17 The Framework Directive provides the overall structure for the new regulatory regime and sets out fundamental rules and objectives which read across all five Directives. Article 8 of the Framework Directive sets out three key policy objectives which have been taken into account in the preparation of this consultation document, namely promotion of competition, development of the internal market and the promotion of the interests of the citizens of the European Union. The Authorisation Directive establishes a new system whereby any person will be generally authorised to provide electronic communications services and/or networks without prior approval. The general authorisation replaces the former licensing regime. The Universal Service Directive defines a basic set of services that must be provided to end-users. The Access and Interconnection Directive sets out the terms on which providers may access each others' networks and services with a view to providing publicly available electronic communications services. These four Directives were implemented in the UK on 25 July 2003. This was achieved via the Communications Act 2003 (the “Act”).

5.18 The Privacy Directive established users' rights with regard to the privacy of their communications. This Directive was adopted slightly later than the other four Directives and was implemented by Regulations which came into force on 11 December 2003.

How the current regime evolved

5.19 The requirements on BT to publish information on its network costs reflect the arrangements for the control of its network charges which have applied since 1997. Prior to that time, BT's network charges had been determined annually by Oftel on the basis of BT's costs. The system of RPI-X controls on baskets of charges which replaced annual determinations in 1997 gave BT substantially greater freedom to vary interconnection charges within the network charge controls. Rather than being determined at fully allocated (historical) costs, individual charges were allowed to vary subject to floors and ceilings based on incremental and stand-alone cost respectively. At the same time, in order to provide adequate safeguards that the increased freedom would not be used anti-competitively, BT was placed under a responsibility to be able to demonstrate that any of its charges were reasonably derived from costs and to publish sufficient cost information to provide the necessary transparency for competing operators.

5.20 Oftel therefore placed requirements on BT relating to three sets of data:

- the information to be made available by BT on request as part of an investigation into any of BT's interconnection charges:

- the incremental and fully allocated cost information to be published in the financial statements; and
 - the information to be contained in published charge lists and network charge change notices.
- 5.21 In the light of increased charging flexibility, Oftel made clear that the critical issue was that of transparency. Ofcom therefore required BT to publish annual audited statements setting out fully allocated costs and floors and ceilings for all interconnection services, with the exception of competitive services. At the same time, Oftel specified that, to provide the necessary confidence that the information was reliable, the floor and ceiling information and the fully allocated cost financial statements should be audited to a standard of 'fairly presents'. To a large extent the current published financial statements reflect these requirements which have been extended into other regulated services such as wholesale line rental and unbundled local loops.
- 5.22 Oftel also explained that the role of published floors and ceilings was as a first-order test of anti-competitive or excessive charging. Therefore, whilst in the first instance it would be for BT to decide that a charge complied with its obligations, it would be open to another operator, in the event that it had concerns about a charge, to make representations to BT and, if not satisfied, to Ofcom.
- 5.23 Ofcom reviewed and consulted on BT's financial reporting requirements in 2004. The conclusions of the review were published in the statement "The regulatory financial reporting obligations on BT and Kingston" (July 2004). This statement set out the obligations to be placed on BT and KCL in order to implement the remedies identified by the programme of market reviews required by the EU Directives which came into force on 25 July 2003. However, the market reviews and the review of financial reporting largely confirmed the requirements and remedies already in place. The financial reporting requirements were again confirmed in respect of local-tandem conveyance and transit in the 2005 review of BT's network charge controls to apply from 2005, "Explanatory Statement and Notification of decisions on BT's SMP status and charge controls in narrowband wholesale markets"

Market reviews

- 5.24 The Directives require national regulatory authorities ("NRAs"), such as Ofcom, to carry out reviews of competition in communications markets to ensure that regulation remains appropriate and proportionate in the light of changing market conditions. A series of market reviews has been carried out over the last twelve months.
- 5.25 Each market review has three stages:
- definition of the relevant market or markets;
 - assessment of competition in each market, in particular whether any undertakings have SMP in a given market; and
 - assessment of appropriate regulatory obligations where there has been a finding of SMP.
- 5.26 Ofcom's ability to impose regulatory financial reporting obligations where there has been a finding of SMP is set out in the Act. In particular, the ability to impose regulatory financial reporting obligations as a type of SMP services condition only arises where an organisation has been found to have SMP, which is akin to the competition law concept of dominance, in a reviewed services market.

- 5.27 Once such SMP has been found, there is a range of remedies available to NRAs to encourage competition in the communications sector and to prevent anti-competitive behaviour by dominant providers. These include:
- Obligations to offer cost-orientated charges – so that non-dominant communications providers can purchase necessary services from dominant providers at an amount reasonably related to the costs of the dominant provider;
 - Obligations not to discriminate unduly – so that when a vertically integrated dominant provider charges a competing communications provider for a service it is at the same rate that it charges its own downstream business and that quality and other aspects of service are the same; and
 - Obligations to cap prices, i.e. price controls – these are designed to prevent a dominant provider from using its position to increase prices to an excessive level. For example, the retail price control, which prevents BT increasing a basket of prices to residential consumers beyond a reasonable level, and the network charge control.

Objectives for the regulatory financial reporting regime

5.28 Ofcom requires regulatory financial information in order to monitor and enforce various obligations that are placed on dominant providers in markets where they have been found to have SMP. These obligations are intended to support competition and prevent dominant providers from abusing their position in the market to the detriment of non-dominant competitors and end-users.

5.29 Regulatory financial information is necessary where dominant providers:

- have obligations to ensure prices are cost oriented;
- have price control obligations;
- have obligations not to discriminate unduly; and/or
- may attempt to lever dominance from one market into another.

5.30 The need for the regime to demonstrate compliance with these obligations therefore raises two key questions which Ofcom will address during the second stage of this consultation process, as follows:

- what do these obligations mean?
- how should compliance with these obligations be demonstrated?

5.31 To inform its interpretation of these obligations, Ofcom will take account of guidance from relevant sources that are likely to include European Directives, UK Law and other guidance, including the following references:

- EU Access Directives, specifically Article 9: Obligation of transparency, Article 10: Obligation of non-discrimination, Article 11: Obligation of accounting separation and Article 13: Price control and cost accounting obligations.
- EU Universal Service Directive, specifically Article 17: regulatory controls on retail services,
- EC Recommendation on cost accounting and accounting separation.
- UK law, including the requirements of Directives, as reflected in the Communications Act 2003, at Sections 87(9) to 87 (11) re cost accounting for

wholesale markets, Sections 91(5) and 91 (6) re cost accounting for retail markets, Sections 92(2) and 92(3) re appropriate conditions, Sections 87(&) and 87(8) re accounting separation in wholesale markets and Section 87(6)(b) re publication of information

- ERG guidance, including ERG “Common Positions” on the Approach to appropriate remedies in the new regulatory framework and “Guidelines for implementing the Commission Recommendation on accounting separation & cost accounting systems.
- 5.32 Ofcom will seek further guidance from stakeholders in relation to these obligations as part of the ongoing consultation. However, at this stage, Ofcom’s view is that, while the various sources listed above offer a reasonable amount of guidance, neither individually nor together will these references give definitive guidance as to how demonstration of compliance with the obligations is to be achieved. On this basis, Ofcom would have some discretion in determining the details of the reporting framework.
- 5.33 Ofcom proposes that it will consider how the reporting regime can best demonstrate compliance with the obligations from two angles, as follows:
- the financial processes and controls in place at BT to minimise the risk of breaching the obligations set out above. For example, in order to comply with its underlying obligations of cost-orientation and non-discrimination, BT could have a process in place to allow those setting prices to ensure that prices are or could not be anti-competitive; and
 - the ex-post financial evidence provided to demonstrate (as far as it is possible to do so) that there has been no breach
- 5.34 It will be necessary to consider both approaches together. For example, Ofcom may wish to consider the extent to which stronger processes and controls might reduce the required level of ex-post reporting.
- 5.35 Stage 2 of this consultation will consider the totality of this evidence. It will therefore be necessary to turn high level ideas into a solid and consistent set of elements of financial reporting before it can be termed a new framework.

Different requirements at different levels

- 5.36 The framework outlined above should provide clear criteria for determining the scope of the reporting regime as a whole.
- 5.37 However, the criteria to be applied when determining the scope and format of the financial information to be made public is likely to be less well defined. Ofcom intends to include in the second consultation stage proposals for what this criteria may be consistent with its current policy statements on published information.
- 5.38 The published statements must have regard to practical constraints such as the need for an appropriate level of aggregation of information to ensure that any report is not too vast or impenetrable. Further, and potentially significantly, is the issue of BT’s wish to maintain confidentiality over its commercially sensitive information.
- 5.39 Ofcom understands BT’s wish not to publish commercially sensitive information unless it meets a clear regulatory need, but must also have regard to the need for transparency. To inform its assessment of the relevance of confidentiality to the

question of what information should be published, Ofcom will take account of the needs of the users of the published regulatory financial information and consider:

- Whether the needs have any regulatory basis;
- The information necessary to address that need; and
- Whether the annual financial statements offer the best means to provide that information.

Question 13: How should Ofcom apply concepts of commercial confidentiality and proportionality in determining how much financial information should be made publicly available?

Question 14: Do you agree that Ofcom should attempt to define separately the regulatory, assurance and commercial interests that stakeholders might have in BT's regulatory financial statements in determining how much financial information should be made publicly available?

- 5.40 Ofcom understands from informal consultation with industry that considerable importance is attached to the ability to review detailed financial information and re-perform calculations to provide additional assurance on the reliability of the numbers. During the course of the consultation, Ofcom will therefore need to consider the appropriate role for stakeholders in terms of contributing to the overall assurance provided on the financial statements, and the need for stakeholders to obtain further assurance beyond that provided by way of the audit opinion.

Question 15: What is the role for stakeholders in contributing to the level of scrutiny on the financial information provided by BT?

- 5.41 Informal consultation with users of the published regulatory statements has identified a range of questions that users would like to have answered by the published regulatory statements. For example, Other Communications Providers, might want to be sure that:

- prices for wholesale services are fair and comply with explicit wholesale price controls;
- prices for regulated services are appropriately cost-oriented, giving appropriate economic signals regarding, amongst others, build/buy decisions;
- the regulatory regime is working effectively by preventing a dominant supplier from achieving excessive profits, indicative of abuse of market power;
- regulated firms have not unfairly discriminated in favour of their downstream divisions by charging less for internal sales of regulated services than for sales to third parties; and
- they have access to sufficiently detailed information about how prices have been determined that they can make reasonable challenges to the regulated firm or to its regulator if they believe there is inappropriate pricing;

Question 16: What are the key compliance issues that industry needs to have answered by the regulatory reporting regime and what is the regulatory basis for each of these requirements?

Question 17: With reference to specific statements where possible, how effective is the information provided in the Current Cost Financial Statements for 2005 and those proposed for 2006, in addressing the needs of communications providers?

5.42 There are many potential users of the regulatory financial reports published by BT other than its competitors and customers. However, Ofcom expects that the extent to which this potential audience refers to the reports is probably fairly limited, at least partly due to the complexity and level of detail in the current format of regulatory financial statements. Ofcom considers that potential users of the regulatory financial reports include the following:

- Consumers and consumer representation groups;
- UK and European government departments;
- Actual or potential investors and their advisors;
- Employees of BT.

5.43 During the course of the consultation, Ofcom will consider the needs of these groups and the extent to which it is appropriate to take them into account when determining the format and extent of the published regulatory financial information.

Question 18: What, if any, are the needs of other stakeholders that should be addressed in the regulatory financial reports?

Attributes of good regulatory reporting

5.44 Having reassessed the objectives of the reporting regime as a whole and the published information in particular, it will be necessary to consider how these objectives can best be met.

5.45 Ofcom will therefore consider both the basic attributes of good quality financial information and the specific requirements for an effective compliance statement. It will also consider how this information might be made available most efficiently and effectively.

Good quality financial information

5.46 In 1999, the Accounting Standards Board (“ASB”) issued Statement of Principles for Financial Reporting. The purpose of this publication was to set out the characteristics that the ASB believes should underlie the preparation and presentation of general purpose financial statements. Ofcom believes these characteristics, listed below, can be equally applied to regulatory financial statements:

- relevance;
- reliability;
- comparability;
- understandability; and
- materiality.

5.47 Of these, the ASB highlighted relevance and reliability as the primary characteristics.

5.48 Ofcom believes that these characteristics should form the foundation of any regulatory financial reporting obligations imposed under the Directives.

5.49 For the statutory accounts, information is defined as being relevant if it has the ability to “influence the economic decisions of users and is provided in time to influence

those decisions”. For the purpose of the regulatory reporting regime, a more appropriate test of relevance is whether the information is adequate for BT to demonstrate compliance and it contributes to the users’ understanding of whether BT has complied with its obligations. Ofcom will consider this question during the course of the consultation.

- 5.50 The reliability of financial information depends to a large extent on the integrity of the underlying processes for the maintenance of accounting records and systems and the basis of preparation and presentation of that information. Ofcom’s review of the reporting regime will consider underlying processes in place at BT. The audit process provides further assurance that that the information is reliable.

Effective compliance statements

- 5.51 To inform our assessment of key characteristics of effective compliance statements, Ofcom may refer to benchmarks from the UK and abroad.
- 5.52 For example, Ofcom will consider how the interpretation of the reporting obligations imposed on BT compare with those of other regulated telecommunication providers across Europe. In this respect, there is considerable variety in the form and content of regulatory financial information that NRAs have required incumbent communications companies to publish. ECTA’s 2005 Regulatory Scorecard⁸, measures how effectively national regulatory regimes have introduced the New Regulatory Framework, and includes an assessment of the relative degrees of implementation of regulatory financial separation and publication of relevant financial information and Ofcom will take these findings into account during the course of this consultation.
- 5.53 Ofcom also intends to look for benchmarks from a number of reports across other industries, including, for example, these may include
- Guidance on regulatory reporting provided by The Institute of Chartered Accountants in England and Wales (ICAEW);
 - The Combined Code - corporate governance requirements for UK listed companies;
 - Financial Services Authority (FSA);
 - US Sarbanes Oxley Act - Section 404 requirements for US Listed Companies; and
 - Sustainability Reporting.
- 5.54 Based on an initial assessment of these reports, summarised in Annex 8, Ofcom has identified a number of the common characteristics of effective compliance statements, as follows
- Clarity of objectives
 - Transparent reporting
 - Timeliness
 - Clarity of respective responsibilities
 - Good internal control
 - Proportionality
 - Comparability

⁸ available at http://www.spcnetwork.co.uk/uploads/Regulatory_Scorecard_2005.pdf

- Appropriate assurance.

Question 19: What benchmarks, if any, should Ofcom take into account when considering the design of BT's accounting regime?

Question 20: What do you consider to be the essential attributes of the BT annual regulatory financial statements if they are to represent an effective compliance statement?

Distribution channels

- 5.55 Ofcom will also consider how this information can be made available to the relevant parties most effectively.
- 5.56 Formal publication (which might be via printed statements, via the internet or on demand) by the regulated company is the most familiar channel. Its advantages are that it is well understood, can run to a predictable timetable, follows a prescribed format, and is clearly covered by an audit opinion. It also provides a readily accessible source of data that can be consulted as and when required.
- 5.57 Formal publication is, however, not the only channel available. Examples of other routes are to be found in the additional steps taken by the listed company community in communicating with the City. Equity analyst briefings, through various combinations of presentations, Q&A sessions and conference calls, are often used to minimise the chance of misunderstandings arising between the companies and their investors.
- 5.58 Given the complexity of the regulatory financial statements, other channels may offer more effective means to provide stakeholders with a sufficient understanding of the financial information they require.
- 5.59 In practice a combination of distribution channels, both public and private, is likely to be required to maximise the effectiveness and usefulness of the regulatory financial information.
- 5.60 Public channels might include the following:
- Annual publication by BT;
 - Publication by Ofcom in the normal course of consultation;
 - Interim publication by BT;
 - Presentation to industry stakeholders at regular transparency workshops;
 - On-demand presentation to specific stakeholders;
 - Answering ad hoc questions raised by specific stakeholders; and/or
 - Ad hoc or "long form" reports by the regulatory auditors; and/or
- 5.61 Private channels include
- Delivery by BT to Ofcom for its own use;

- Formal requests of information by Ofcom using its legal powers; and/or
- Informal requests for information by Ofcom.

5.62 During the course of this consultation, Ofcom will consider how these various routes might be used most effectively and will have regard both to the practical issues facing BT and the information needs of industry. For example, informal discussions with stakeholders regarding the way the information should be made available indicate that that industry stakeholders also want to know that BT will be able provide information quickly if they are concerned that BT may be acting in a non-compliant way and that it will be possible to review BT's financial information without signalling an intent to launch a complaint

Question 21: What factors should be taken into account when determining whether this information should be published rather than being available on request?

Section 6

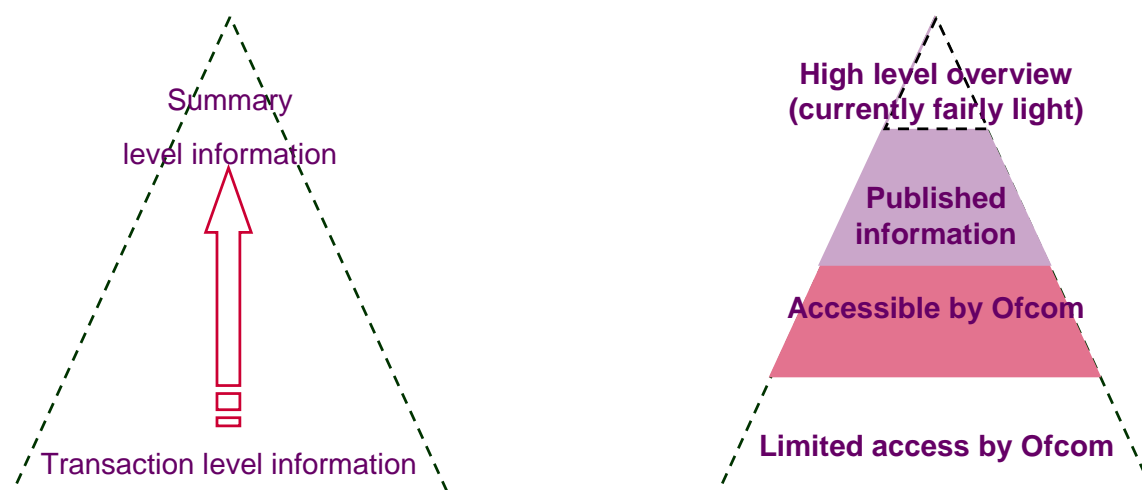
Development of proposals

Introduction

- 6.1 This consultation process sets out to clarify the requirements of the regulatory reporting regime by going back to first principles. However, to inform this review, it is helpful to consider the information that is currently published and provided to Ofcom, the impact of ongoing changes to the way Ofcom will get access to that information and BT's proposals for changes the format and content of the published information
- 6.2 The ideas raised in this section are not intended to represent formal proposals, nor will they necessarily become proposals in the autumn consultation. Instead, they are provided to provide some structure for the two-stage consultation.
- 6.3 Responses to issues raised in this section are due by 12 July 2006.

The current regime

- 6.4 As explained in Section 5, Ofcom considers that it is necessary to consider the reporting regime as a whole, before focussing on specific aspects of that regime. With this in mind, it is helpful to think about the financial reporting regime in three areas (in addition to the assurance regime), as follows.
- the information that should be maintained and prepared by BT;
 - the information that should be made available to Ofcom; and
 - the information that is made publicly available.
- 6.5 This hierarchy of information might be shown diagrammatically, as set out below. The regulatory accounting information prepared and maintained by BT can be represented as a triangle. At the bottom of the triangle is the detailed transaction level information extracted from the general ledger before it is processed through BT's costing process. Towards the top of the triangle, this detailed transaction data is analysed and summarised following the rules established in the primary accounting documents.
- 6.6 As set out in the triangle on the right, Ofcom currently does not have day to day access to the financial information at transaction level, but this will be remedied soon in respect of SMP market data when the data extract tool goes live.



- 6.7 The information that is made public represents a summarised version of much of the information that is provided to Ofcom, together with an overview provided in the Regulatory Financial Review. The detailed requirements as to what must be published are set out in the Directions included in Annex 2 of the final statement, "The regulatory financial reporting obligations on BT and Kingston Communications" issued by Ofcom in July 2004.
- 6.8 The latest documents published by BT are made available in electronic format on BT's website. The documents, along with a brief description of each, are listed in the table below:

| Name | Description |
|--------------------------------------|---|
| Current Cost Financial Statements | Main financial statements, including Profit and Loss and Mean Capital Employed statements for all 26 SMP markets, along with statements of costs and charges for internal and external services. |
| Primary Accounting Documents (PAD) | Description of the accounting policies and principles used in regulatory accounting, including transfer charging policies and attribution methodologies. |
| Detailed Attribution Methods (DAM) | Description of the cost allocation methods used by BT in determining the Fully Allocated Costs of the components used in providing regulated services, with a description of the systems and processes that support this. |
| Detailed Valuation Methodology (DVM) | Description of how BT values all fixed asset categories for the purposes of the Current Cost Accounting regulatory financial statements |

| Name | Description |
|---|---|
| Long Run Incremental Cost Model: Relationships & Parameters (R&P) | Description of how BT determines the Long Run Incremental Costs for regulated services, including how Cost/Volume Relationships (CVRs) are determined, with details of all CVRs used. |
| BT Retail Catalogue | Brief description of all regulated Retail services, with links to BT's published price list |
| BT Wholesale Catalogue | Brief description of all regulated Wholesale services, with links to BT's published price list |

Improved access to financial information for Ofcom

- 6.9 As explained in more detail in Annex 7, in the 2005 Statement, a new reporting obligation was placed on BT to provide Ofcom with a comprehensive data file of all the transactions that underpin its regulatory financial statements. By importing this data into a powerful database tool it will be possible for Ofcom to interrogate the data at different levels in the costing structure.
- 6.10 Ofcom considers that the effective implementation of this tool will provide the opportunity for a more flexible regime for formal reporting. In principle, this tool will enable Ofcom to self generate both standard financial reports (e.g. profit and loss accounts, mean capital employed statements) as well as ad-hoc inquiries (e.g. reviewing a detailed cost attribution methodology). Ofcom will also need to be independently assured that the data has been properly extracted from BT's costing systems and that the standard reports would satisfy similar audit opinion standards to those currently applied to published information.
- 6.11 Ofcom's 2005 Statement stated that the main advantages associated with the provision of this data were:
- access to the same financial information as BT's auditors use to determine their audit samples which can then be used, for example, to support the initial planning and analysis required for an investigation or policy project;
 - the provision of necessary information on a timely basis, in the required formats and of good quality; and
 - access to full BT costing system data which will help Ofcom analyse and assess the objectivity and rationale of BT's costing.
- 6.12 Consequently, Ofcom will get increased access to more detailed financial information maintained by BT.

How a new regime might look

- 6.13 In light of the changes to the regulatory regime, including the proposals for the data-extraction tool, Ofcom invited BT to develop proposals for improvements to the regime, including the published annual report. In response to this request, BT developed a pro forma for how the report might look. A copy of this pro forma is available on BT's website at

<http://www.btplc.com/thegroup/regulatoryinformation/financialstatements/BTProposal.pdf> .

- 6.14 This draft report does not represent Ofcom's view on how the published statements will look in the future, nor will it necessarily form the basis of any proposals in the autumn consultation. However, Ofcom considers that it provides a useful framework for responses to this preliminary stage of the long term consultation.
- 6.15 BT's commentary on this draft is set out in Annex 9 to this consultation document. Broadly, the proposal by BT is for the present format of the Current Cost Financial Statements to be replaced by a more summarised financial report, plus the ability for stakeholders to review information as part of the transparency workshops help by BT.
- 6.16 BT has explained to Ofcom that its proposed report has been designed to give stakeholders (primarily Communications Providers) the information needed to gain assurance that BT is complying with its regulatory obligations of cost-orientation, non-discrimination and compliance with price caps. The key focus of the Report would be the services using the "bottleneck" assets managed within Openreach markets and the rest of BT wholesale where BT has significant market power.
- 6.17 BT's proposals would result in less detailed information being provided in the published statements. However, BT recognises that stakeholders will have a valid interest in some of the more detailed costing information such as that currently provided in the published regulatory financial statements. BT has proposed that these requirements can best be addressed through regular "transparency workshops" with Communications Providers where industry members and their representatives will have the opportunity to discuss the costs of the services they buy from BT. BT has already initiated a series of these workshops, which Ofcom considers to have the potential to provide a useful route for stakeholders to obtain much of the information they require.

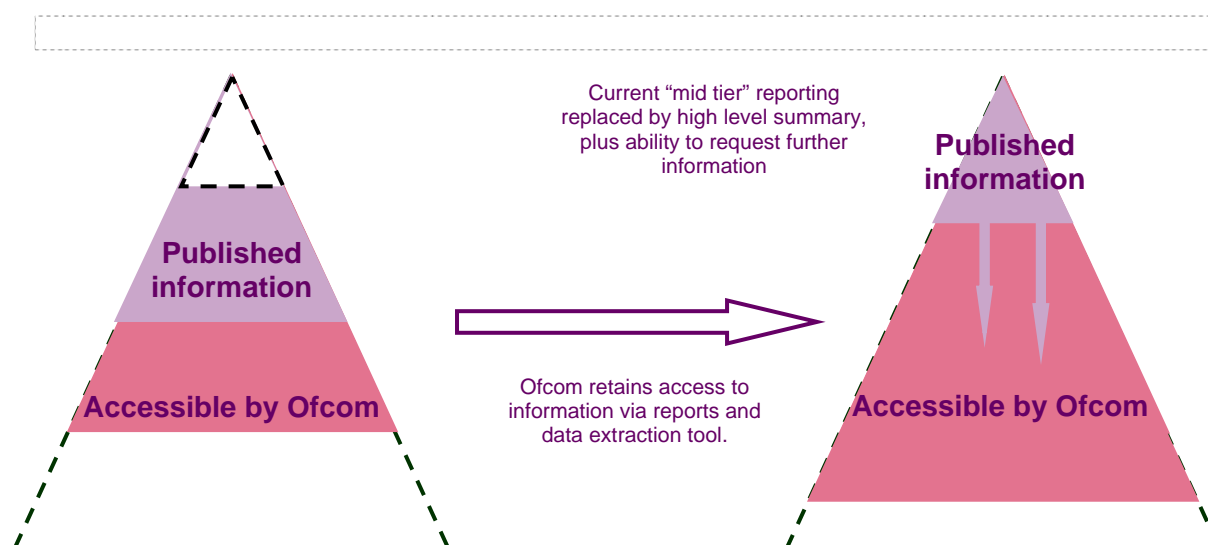
Question 22: Do you have any initial views on BT's draft proforma publication and, what, if any, additional information would you like to see and why?

Question 23: What are the key attributes you would expect to see of a process designed to enable stakeholders request and obtain additional information that was not provided in the published statements?

- 6.18 In conjunction with its proposals for a new format for the regulatory financial statements, BT has suggested that the other supporting documents that are currently published in electronic format (e.g. Primary Accounting Documents, Detailed Attribution Methods, Detailed Valuation Methodology, Long Run Incremental Cost Model: Relationships & Parameters, BT Retail Catalogue and BT Wholesale Catalogue) would be published only to the extent required to support the annual audit.

Question 24: Which, if any, of the supporting documents should be published and are there other documents that should be made publicly available?

- 6.19 The effect of the move away from the publication of detailed financial information towards more summarised published financial information, supported by the ability for stakeholders to obtain information matched to their specific requirements, while Ofcom gets improved access to detailed financial information via the data extraction tool can be shown diagrammatically as follows:



6.20 Ofcom welcomes BT's proposals as a significant contribution to the development of its proposals for the reporting regime as a whole. However, it will be necessary to assess any proposed move away from the current regime against the objectives and attributes of an effective reporting regime.

Parallel running of BT's proposals

- 6.21 Ofcom recognises that it will be difficult for stakeholders to assess the potential impact of any move towards more summarised financial reporting without a clear understanding of how any new reporting regime might work in practice and how the process for stakeholders to request and obtain additional information will work in practice.
- 6.22 Therefore to inform the second stage of the consultation process, BT will publish the 2005/06 financial information in the format of its illustrative annual report on a voluntary basis, in addition to the annual financial statements to be published for 2005/06 in accordance with the current reporting obligations. BT has proposed that it will discontinue this voluntary arrangement if the proposed format is not adopted going forward.
- 6.23 BT will also continue to respond to stakeholders' requirements for additional information by means of the transparency workshops. However, if longer term proposals for the reporting regime as a whole are to include a move away from a requirement to publish information to the need to make it available on request, it will be necessary to establish clear terms of engagement between BT and industry.

Ideas for discussion

- 6.24 Based on the discussion of the basic principles, Ofcom intends to develop specific proposals for possible changes to the current reporting regime.
- 6.25 To inform this consultation, but not to limit its scope, some of the issues that Ofcom may consider further during the second stage of the consultation are summarised below. These cover the basic reporting framework as well as points of detail, including the following:
- Publication of LRIC floors and ceilings
 - Provision of forward looking CCA information

- Directors' compliance statements;
- Cost cascade information; and
- Exception reporting.

Publication of LRIC floors and ceilings

- 6.26 BT is currently required to calculate cost floors and ceilings for SMP services using LRIC methodologies.
- 6.27 To date, Ofcom has considered that this information provides a useful first order test to ascertain whether there appears to be prima facie evidence of compliance with cost orientation obligations. Nevertheless, Ofcom recognises that there are limitations on the reliability of some of this information and that the value of publishing first order tests based on LRIC floors and SAC ceilings may also be limited.
- 6.28 The implementation of BT's NGN will place further pressure on the robustness of these floors and ceilings as currently calculated as the basis for a first order test of compliance with cost orientation obligations in respect of core network services. As the public switched telephone network is replaced by the NGN, the appropriate definition of network components and the way in which costs vary with volume (which is crucial to the way incremental costs are calculated in the current model) are likely to change. In addition, during the period of transition, PSTN assets are likely to become life expired whilst the NGN will be in the start-up phase, and this may result in floors and ceilings calculated in the usual way becoming harder to interpret.
- 6.29 It is therefore appropriate for Ofcom to consider whether the requirement to publish the information prepared on the current basis at the current granular level continues to be appropriate.

Question 25: Do you consider that the publication of LRIC floors and ceilings prepared on their current basis will continue to provide useful and relevant information as BT moves to implements its NGN and how might the requirements be updated?

Relevance and timeliness of financial information

- 6.30 The Current Cost Financial Statements are, by nature backward looking, reporting on a two-year period that ended up to six months prior to publication.
- 6.31 As explained in Section 5, this information is important as it helps to ensure that costs are attributed to the various components, services and products in line with the principles set out in the primary accounting documents. This in turn provides a sound accounting basis on which BT can comply with its reporting obligations and an important starting point for further analysis to support Ofcom's ongoing market review, investigation and complaints work.
- 6.32 However, the information is less relevant for the purposes of forward looking pricing decisions. In this context, more forward-looking current cost information, for example in connection with asset values, may be useful.
- 6.33 As part of the second stage of this consultation, Ofcom will consider whether there may be scope for BT to calculate and provide current cost information in a way that allows more meaningful assessment of forward looking costs.

Question 26: Do you have any views on if and how cost information can be provided in a more meaningful way and/or in a forward-looking context?

Directors' compliance statement

- 6.34 The provision of assurance from directors that the company complied with its reporting obligations and with the regulatory obligations (with exceptions if necessary) would provide significant additional assurance to the current report, but, because compliance (or non-compliance) is only truly determined as a result of an investigation and potentially challenge through the courts, Ofcom does not currently consider it likely that the directors would be prepared to sign off on whether they have complied with the underlying obligations of cost orientation and price non-discrimination.
- 6.35 However, in light of the potential benefits in terms of the confidence that a directors compliance statement might deliver, Ofcom will consider whether there may be a form of compliance statement that directors would be prepared to sign.
- 6.36 For example, an opinion might be provided in the context of the financial criteria (eg the cost floors and ceilings in respect of cost orientation) that Ofcom considers provide first order tests to ascertain whether there would appear to be prima facie evidence of compliance and expressed in terms of the processes in place and the financial evidence used within those process to allow stakeholders transparency in relation to cost orientation.

Question 27: Would a directors' compliance statement provide useful assurance and what issues might it address?

Cost cascade

- 6.37 The DAM provides a description of the cost allocation methods used by BT in determining the Fully Allocated Costs of the components used in providing regulated services, with a description of the systems and processes that support this.
- 6.38 Due in part to the size of the document it can be difficult for a user of the accounts to establish which of the numerous attribution bases are the most significant and it is therefore difficult get a reasonable overview of the impact of decisions that BT takes regarding its attribution process on the costs of specific products.
- 6.39 As explained in Section 4, despite the large number of cost allocation bases, there are in fact relatively few that cover the majority of costs. Ofcom will consider whether there is a way of illustrating the impact of the cost allocation methods by way of a "cost cascade" showing how certain cost items are attributed to products and services and commenting on the key cost drivers.

Question 28: What, if any, information on the attribution of costs would be helpful and how might this best be presented?

Exception reporting

- 6.40 BT's regulatory financial statements provide information to allow the reader of the accounts to determine, within the SMP markets, whether BT has complied with its

reporting obligations and that the information is consistent with a number of first order tests of compliance with main underlying obligations of cost-orientation and non-discrimination.

- 6.41 Ofcom considers that the most relevant information is in respect of the unit costs of services that fall outside (or near to the limits) of these ranges, the reasons why this may be the case and what is being done to address the issue.
- 6.42 At present, there are relatively few services where unit costs fall outside the ranges presented. There is currently no particular focus or commentary on these exceptions, explanation of why the costs might be outside the range or narrative on management action to address the exceptions. Further, the use of annual data provides only limited insight in to what may have happened during the year.
- 6.43 This information might be presented more clearly by BT identifying and commenting on the costs that fall outside of the range, by way of an exception report. The report might comment on exceptions identified and resolved during the year and could be extended to include items that fall within but close to the limits of the range. The report could be accompanied by a commentary on the possible reasons why the costs might be outside the range and what management is doing to address the exceptions.
- 6.44 The Current Cost Financial Statements also provide information on the return for each market, expressed as a percentage of capital employed and of turnover. These returns can be compared with the deemed reasonable rates of return but there are numerous reasons why the comparison is frequently uninformative. Some form of commentary on outlying numbers would be a useful addition to the annual report.
- 6.45 Ofcom considers that exception reporting of the type described above could potentially provide more useful and focused information than that current provided in the annual statements. However, Ofcom also considers that exception reporting might only offer an appropriate basis for demonstrating compliance with obligations where there are adequate controls in place to ensure compliance in the first place. Ofcom will consider the benefits of and pre-requisites for a move to exception reporting in the second stage of this consultation.

Question 29: Do you believe that Ofcom should develop its analysis of the possible reliance on internal controls relating to compliance with the cost orientation and non-discrimination obligations and whether this could allow a relaxation of scope of publication of regulatory financial information?

Question 30: Would reporting on an exception basis be helpful? If compliance with obligations was reported by exception, would detailed information still be necessary and if so why?

Annex 1

Responding to this consultation

How to respond

Ofcom invites written views and comments on the issues raised in this document, to be made by **5pm on Wednesday 14 June** (in respect of questions 1 to 12 regarding the changes proposed for the 2005/06 statements) **and Wednesday 12 July** (in respect of questions 13 to 30 regarding the longer term changes). More information on the deadlines for responses to the questions raised in this consultation is provided in Annex 4.

Ofcom strongly prefers to receive responses as e-mail attachments, in Microsoft Word format, 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 2), among other things to indicate whether or not there are confidentiality issues. The cover sheet can be downloaded from the 'Consultations' section of our website.

Please can you send your response to david.brown.@ofcom.org.uk.

Responses may alternatively be posted or faxed to the address below, marked with the title of the consultation.

David Brown

Floor 4

Riverside House
2A Southwark Bridge Road
London SE1 9HA

Note that we do not need a hard copy in addition to an electronic version. Also note that Ofcom will not routinely acknowledge receipt of responses.

It would be helpful if your response could include direct answers to the questions asked in this document, which are listed together at Annex 3. It would also help if you can explain why you hold your views, and how Ofcom's proposals would impact on you.

Further information

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

Confidentiality

Ofcom thinks 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 (when respondents confirm on their response cover sheet that this is acceptable).

All comments will be treated as non-confidential unless respondents specify that part or all of the response is confidential and should not be disclosed. Please place any confidential parts

of a response in a separate annex, so that non-confidential parts may be published along with the respondent's identity.

Ofcom reserves its power to disclose any information it receives where this is required to facilitate the carrying out of its legal requirements. Ofcom will exercise due regard to the confidentiality of information supplied.

Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use, to meet its legal requirements. Ofcom's approach on intellectual property rights is explained further on its website, at www.ofcom.org.uk/about_ofcom/gov_accountability/disclaimer.

Next steps

Following the end of the consultation period, Ofcom intends to publish a statement in July.

Please note that you can register to get automatic notifications of when Ofcom documents are published, at http://www.ofcom.org.uk/static/subscribe/select_list.htm.

Ofcom's consultation processes

Ofcom is keen to make responding to consultations easy, and has published some consultation principles (see Annex 2) which it seeks to follow, including on the length of consultations.

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, whose views are less likely to be obtained in a formal consultation.

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 (Scotland)
Sutherland House
149 St. Vincent Street
Glasgow G2 5NW
Tel: 0141 229 7401
Fax: 0141 229 7433
E-mail: vicki.nash@ofcom.org.uk

Annex 2

Ofcom's consultation principles

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

Before the consultation

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

During the consultation

A2.3 We will be clear about who we are consulting, why, on what questions and for how long.

A2.4 We will make the consultation document as short and simple as possible with a summary of no more than two pages. We will try to make it as easy as possible to give us a written response. If the consultation is complicated, we may provide a shortened version for smaller organisations or individuals who would otherwise not be able to spare the time to share their views.

A2.5 We will normally allow ten weeks for responses to consultations on issues of general interest. For this consultation, responses to some of the questions are required within six weeks. This reflects Ofcom's view that this provides adequate time for interested parties to respond to these issues while providing sufficient time for the outcome of the consultation on these matters to be implemented in time for publication of BT's 2005/06 regulatory financial statements.

A2.6 There will be a person within Ofcom who will be in charge of making sure we follow our own guidelines and reach out to the largest number of people and organisations interested in the outcome of our decisions. This individual (who we call the consultation champion) will also be the main person to contact with views on the way we run our consultations.

A2.7 If we are not able to follow one of these principles, we will explain why. This may be because a particular issue is urgent. If we need to reduce the amount of time we have set aside for a consultation, we will let those concerned know beforehand that this is a 'red flag consultation' which needs their urgent attention.

After the consultation

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

Annex 3

Consultation response cover sheet

- A3.1 In the interests of transparency, we will publish all consultation responses in full on our website, www.ofcom.org.uk, unless a respondent specifies that all or part of their response is confidential. We will also refer to the contents of a response when explaining our decision, without disclosing the specific information that you wish to remain confidential.
- A3.2 We have produced a cover sheet for responses (see below) and would be very grateful if you could send one with your response. This will speed up our processing of responses, and help to maintain confidentiality by allowing you to state very clearly what you don't want to be published. We will keep your completed cover sheets confidential.
- 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 cover sheet 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 in the form of a Microsoft Word attachment to an email. Our website therefore includes an electronic copy of this cover sheet, which you can download from the 'Consultations' section of our website.
- A3.5 Please put any confidential parts of your response in a separate annex to your response, so that they are clearly identified. 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

What do you want Ofcom to keep confidential?

| | | | |
|----------------------|--------------------------|---|--------------------------|
| 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 to be confidential, 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. It can be published in full on Ofcom's website, unless otherwise specified on this cover sheet, and I authorise Ofcom to make use of the information in this response to meet its legal requirements. 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

Questions requiring responses by 14 June 2006

Question 1: Do you agree with Ofcom's proposals to amend the list of Network Components?

Question 2: Do you agree with Ofcom's proposals to modify the form and content of the pro-forma profit and loss account?

Question 3: Do you agree with Ofcom's proposals to require BT to provide access asset valuation information?

Question 4: Do you agree with Ofcom's proposals for modifying the transfer charging statements?

Question 5: Do you agree with Ofcom's proposals to extend the period in which BT can publish its regulatory financial statements for 2005/06?

Question 6: Do you agree with Ofcom's proposals to add the Inter-market turnover reconciliation and the wholesale markets reconciliation to the list of additional financial information provided to Ofcom and delete the requirement to publish these statements?

Question 7: How important is the audit opinion to your confidence in the regulatory financial statements and to what extent does this confidence depend on the scope of the audit and format of the opinion?

Question 8: Stating your reasons, do you consider that a single opinion on the financial statements as a whole can provide adequate assurance on individual statements?

Question 9: Do you agree with Ofcom's proposal to amend the audit obligations to move to a regime based on a single audit opinion on the financial statements, plus additional opinions on key statements?

Question 10: What criteria do you believe should be taken into account when determining which additional opinions are required, and why?

Question 11: When determining the need for additional assurance (via formal opinions or additional reporting), to what extent should Ofcom take account of stakeholder views?

Question 12: Do you have any comments on the proposed requirements for additional opinions, in respect of the statements selected, those not selected and the number selected?

Questions requiring responses by 12 July 2006

Question 13: How should Ofcom apply concepts of commercial confidentiality and proportionality in determining how much financial information should be made publicly available?

Question 14: Do you agree that Ofcom should attempt to define separately the regulatory, assurance and commercial interests that stakeholders might have in BT's regulatory financial statements in determining how much financial information should be made publicly available?

Question 15: What is the role for stakeholders in contributing to the level of scrutiny of the financial information provided by BT?

Question 16: What are the key compliance issues that industry needs to have answered by the regulatory reporting regime and what is the regulatory basis for each of these requirements?

Question 17: With reference to specific statements where possible, how effective is the information provided in the Current Cost Financial Statements for 2005 and those proposed for 2006, in addressing the needs of communications providers?

Question 18: What, if any, are the needs of other stakeholders that should be addressed in the regulatory financial reports?

Question 19: What benchmarks, if any, should Ofcom take into account when considering the design of BT's accounting regime?

Question 20: What do you consider to be the essential attributes of the BT annual regulatory financial statements if they are to represent an effective compliance statement?

Question 21: What factors should be taken into account when determining whether this information should be published rather than being available on request?

Question 22: Do you have any initial views on BT's draft proforma publication and, what, if any, additional information would you like to see and why?

Question 23: What are the key attributes you would expect to see of a process designed to enable stakeholders request and obtain additional information that was not provided in the published statements?

Question 24: Which, if any, of the supporting documents should be published and are there other documents that should be made publicly available?

Question 25: Do you consider that the publication of LRIC floors and ceilings prepared on their current basis will continue to provide useful and relevant information as BT implements its NGN and how might the requirements be updated?

Question 26: Do you have any views on if and how cost information can be provided in a more meaningful way and/or in a forward-looking context?

Question 27: Would a directors' compliance statement provide useful assurance and what issues might it address?

Question 28: What, if any, information on the attribution of costs would be helpful and how might this best be presented?

Question 29: Do you believe that Ofcom should develop its analysis of the possible reliance on internal controls relating to compliance with the cost orientation and non-discrimination obligations and whether this could allow a relaxation of scope of publication of regulatory financial information?

Question 30: Would reporting on an exception basis be helpful? If compliance with obligations was reported by exception, would detailed information still be necessary and if so why?

Annex 5

Impact assessment

Introduction

- A5.1 The analysis presented in this Annex when read in conjunction with the rest of the document, represents a Regulatory Impact Assessment (RIA) as defined by section 7 of the Communications Act 2003.
- A5.2 RIAs provide a valuable way of assessing different options for regulation and showing why the preferred way was chosen. They form part of best practice policy-making and are commonly used by other regulators. This is reflected in section 7 of the Act, which means that generally we have to carry out RIAs where our proposals would be likely to have a significant effect on businesses or the general public, or where there is a major change in Ofcom's activities. In accordance with section 7 of the Act, in producing the RIA in this document, Ofcom has regard to such general guidance as it considers appropriate, included related Cabinet Office guidance.

Context

- A5.3 Ofcom believes that it is helpful to put the costs to BT and KCL of having regulatory financial reporting obligations into context. In 2005 there were 31 markets in which BT had been identified as being dominant and where regulatory financial reporting obligations are being imposed. In the financial year ended 31 March 2005, BT reported revenues of approximately £6.8 billion (including external sales and internal transfer charges) in wholesale markets where regulatory financial reporting obligations apply and revenues of approximately £3.8 billion in retail markets with financial reporting obligations.
- A5.4 BT has stated to Ofcom that the costs of complying with the required regulatory accounting processes are about £7 million annually.
- A5.5 Ofcom recognises that as one of the primary purposes of regulatory financial reporting obligations is to prevent the occurrence of anti-competitive practices the benefits can be more difficult to quantify. However, Ofcom considers a rigorous and effective regulatory financial reporting regime provides the following benefits:
- non-SMP communications providers have assurance that Ofcom has information to monitor and if necessary enforce obligations for non-discrimination, cost-orientation, etc;
 - non-SMP communications providers have greater assurance that prices charged to them by dominant providers are cost-oriented and/or non-discriminatory enabling them to produce business plans and compete more effectively; and
 - disputes and investigations will be resolved more quickly, efficiently and on the basis of more reliable information.

Proposals and intended effect

- A5.6 This consultation includes proposals for amendments to both the reporting and audit regimes.

A5.7 In respect of the reporting regime, Ofcom considers that the proposals set out in Section 3 are necessary and appropriate because they represent amendments and enhancements necessary to maintain the relevance and usefulness of the financial statements. Ofcom does not expect the proposals to result in an incremental cost to BT.

A5.8 In respect of the audit regime, Ofcom considered three options

- **Option 1: No change from the status quo**; specifically an FPIA opinion to be provided on each of the SMP market statements; a PPIA opinion to be provided in relation to the published statements for each wholesale service and on product group statements provided to Ofcom;
- **Option 2: Move to a single opinion on the financial statements**; specifically a move to a single FPIA opinion at the collective financial statements level and an opinion that the private financial statements are consistent with the published financial statements;
- **Option 3: Move to a single opinion on the financial statements plus a targeted approach to additional reporting**; specifically a move to a single FPIA opinion at the collective financial statements level plus a risk-based approach to identify statements or areas of BT's costing processes requiring additional assurance

A5.9 The RIAs for each option are set out below

Option 1: No change from the status quo

A5.10 BT reported that its regulatory audit costs in 2005 were £1.4 million.

A5.11 As Option 1 is to make no changes for the current regime to continue it therefore has no cost impact.

Option 2: Move to a single opinion on the financial statements

A5.12 BT has estimated that a move to Option 2 could result in a reduction in the audit fee of approximately £200,000 to £300,000, depending on the nature of the final opinion required.

A5.13 However, as explained in Section 4 this benefit has to be weighed up against the some reduction in level of assurance provided by the current regime due to the move to a single opinion and the consequent increase in materiality levels and reduction in audit coverage.

A5.14 Ofcom believes that the reduced level of audit assurance under Option 2 would reduce its ability to carry out competition and other investigations effectively. This could potentially lead to excessive or predatory pricing going undetected. The costs of this cannot be quantified but it is clear from a consideration of the scale of BT's regulated activities that they are potentially large and likely considerably to outweigh the potential savings in audit cost under Option 2

Option 3: Move to a single opinion on the financial statements plus a targeted approach to additional reporting;

- A5.15 The starting point for Option 3 is to move to a single audit opinion on the financial statements as a whole. As explained above, for Option 2, this could result in a reduction in BT's audit costs of around £200,000 to £300,000.
- A5.16 However, in addition to the requirement for the single opinion, Option 3 will result in the requirement, as specified by Ofcom, for BT's regulatory financial auditors to provide additional assurance in the areas it is considered necessary.
- A5.17 To the extent that this results in the requirement for specific opinions on individual statements, the reduction in audit costs will be less than under Option 2, where no additional opinions are required on individual statements.
- A5.18 Further Option 3 provides for further work to be conducted by the auditors at Ofcom's request. The financial impact of a move to Option 3 will therefore depend on the extent of the further work that Ofcom considers to be necessary. The cost of each additional review will vary from task to task, depending on its scope.
- A5.19 It is therefore possible that the overall cost saving could be small or even negative, although, at this stage, Ofcom anticipates that there will be some reduction in the total costs incurred by BT.
- A5.20 The impact on Ofcom's ability to monitor and enforce BT's compliance with its obligations, and the occurrence and effect of anti-competitive practices is harder to quantify.
- A5.21 As explained in Section 4, Ofcom considers that, by directing audit effort towards the key areas requiring additional attention, the approach should provide Ofcom with a more direct influence on the nature and focus of assurance procedures and greater value from the audit effort by applying the expertise and experience within the audit team to provide the appropriate level of assurance in the areas it is needed most.
- A5.22 Ofcom believes that on balance Option 3 is unlikely to reduce its ability to carry out competition and other investigations effectively and the enhanced ability to direct audit effort to key areas could increase it. However it recognises that in some areas the standard of audit assurance will be lowered. The benefits and costs of these changes cannot be quantified but, again, it is clear from a consideration of the scale of BT's regulated activities that they are potentially large and likely considerably to outweigh any potential savings in audit cost under Option 3.
- A5.23 Ofcom considers that the proposed changes to the audit requirements are consistent with the latest regulatory thinking, including for example, the conclusions in Philip Hampton's 2005 report HM Treasury, "Reducing administrative burdens: effective inspection and enforcement" and specifically the recommendation for regulators to allocate resources to areas where the regulatory risk is greatest, reducing the administrative burden of regulation while maintaining or improving regulatory outcomes.

Annex 6

A new layer of regulatory financial reporting

Introduction

- A6.1 In Ofcom's 2005 Statement on changes to BT's regulatory Financial Statements⁹, a new reporting obligation was placed on BT to provide Ofcom with a comprehensive data file of the transactions that underpin its regulatory accounts. By importing this data into a powerful database tool it will be possible for Ofcom to interrogate and report on the data at different levels in the costing structure.
- A6.2 The effective implementation of this tool is essential if a more flexible regime for formal reporting is to be realised. In principle this tool will enable Ofcom to self generate both standard financial reports (e.g. profit and loss accounts, mean capital employed statements) as well as ad-hoc inquiries (e.g. reviewing a detailed cost attribution methodology). Ofcom will also need to be independently assured that the data has been properly extracted from BT's costing systems and reconciles to published information.

Scope of data base

- A6.3 Ofcom's 2005 Statement stated that the main advantages associated with the provision of this data were:
- access to the same financial information as BT's auditors use to determine their audit samples which can then be used, for example, to support the initial planning and analysis required for an investigation or policy project;
 - the provision of necessary information on a timely basis, in the required formats and of good quality; and
 - access to full BT costing system data which will help Ofcom analyse and assess the objectivity and rationale of BT's costing.
- A6.4 Although the intention of this obligation is clear, it is important to understand that the main role of this tool is to carry out initial cost analysis to support more detailed investigative work that Ofcom may undertake. It will significantly enhance Ofcom's capability to specify more informative and targeted information requests where necessary. However, a limitation to its use is the way in which non-SMP market data will be consolidated and therefore not available immediately to Ofcom when further granularity is necessary.
- A6.5 The obligation requires the provision of all data to allow Ofcom to be satisfied that the costing methodologies (which apply to the whole of BT's UK cost base) can robustly attribute costs, revenues and mean capital employed to the products and markets where BT is designated as a SMP operator. The obligation is therefore firmly attached to meeting obligations in SMP markets. The tool will allow Ofcom to identify the key costing methodologies within BT's system although further information will need to be sought where those costs are attributed to both SMP and non-SMP market activities.

⁹ "Changes to BT's regulatory financial reporting framework" - Final Statement& Notification 31 August 2005

Regulatory financial reporting obligations on BT – Taking a fresh view

- A6.6 An illustration of the regulatory need for a full data set is where a SMP wholesale market supplies services to retail or downstream activities in SMP, non-SMP and other markets. To ensure that, for example, the internal charge is non-discriminatory, it may be necessary to verify that the appropriate wholesale charge (including volume measures) is made or calculated on equivalent purchase criteria from all "customers" of the SMP retail market.
- A6.7 It is also vital that the integrity of the data is maintained throughout the process of creating a core data-base. If data were in some way to be hidden or masked before delivery to Ofcom then this could raise important reconciliation and assurance issues although this would not preclude some aggregation of non-relevant data.

Data extraction tool - Progress to date

- A6.8 Ofcom expect to complete the implementation of the data extraction tool with BT's 2004/05 regulatory financial data within the next two months. Ofcom will then test the tool and underlying data before specifying the next stage of imparting comparative data for 2006.

Annex 7

Audit opinions required for 2005/06

Introduction

A7.1 The table below sets out the opinions Ofcom proposes will be required on the basis set out in Section 4.

A7.2 The three shaded columns in the table below show, for each market and service/product statement, reading from left to right:

- the opinions currently required under the current obligations;
- the opinions currently provided under the current obligations;
- the opinions required under the proposed obligations.

Wholesale markets

| Market | 2005 Audit | | Option 3 Audit | Basis |
|--|-------------|-------------|----------------|--------------------|
| | Obligt'n | Actual | | |
| - Service | | | | |
| Wholesale residential analogue exchange line services | FPIA | FPIA | FPIA | Openreach |
| - internal service connections | PPIA | PPIA | | |
| - internal service rentals | PPIA | PPIA | | |
| - external service rentals | PPIA | - | | |
| Wholesale business analogue exchange line services | FPIA | FPIA | FPIA | Openreach |
| - internal service connections | PPIA | PPIA | | |
| - internal service rentals | PPIA | PPIA | | |
| - internal service takeovers | PPIA | - | | |
| - external service rentals | PPIA | PPIA | | |
| - external service connections | PPIA | PPIA | | |
| - external service transfers | PPIA | PPIA | | |
| Wholesale business ISDN2 exchange line services | FPIA | FPIA | FPIA | Openreach |
| - internal service connections | PPIA | PPIA | | |
| - internal service rental | PPIA | PPIA | | |
| - internal service takeovers | PPIA | - | | |
| - external service connections | PPIA | - | | |
| - external service rentals | PPIA | - | | |
| - external service transfers | PPIA | - | | |
| Call origination on fixed public narrowband networks | FPIA | FPIA | PPIA | NCCN price control |
| - local exchange segment (exc. Operator assistance) | PPIA | PPIA | | |
| - local exchange segment (inc. Operator assistance) | PPIA | PPIA | | |
| - local exchange segment (ISDN)(exc. Operator assistance) | PPIA | - | | |

Regulatory financial reporting obligations on BT – Taking a fresh view

| | | | | | |
|---|--|-------------|-------------|-------------|---------------------------|
| - local exchange segment (ISDN)(inc. Operator assistance) | | PPIA | - | | |
| - local exchange stick | | PPIA | - | | |
| - local exchange stick (ISDN) | | PPIA | - | | |
| - local exchange call orig circuit (exc. FRIACO port) | | PPIA | PPIA | | |
| - FRIACO port at local exchange | | PPIA | - | | |
| - PPP for FRIACO | | PPIA | - | | |
| - Wholesale PPP | | PPIA | PPIA | | |
| Local-tandem conveyance & transit on public n/band networks | | FPIA | FPIA | PPIA | NCCN price control |
| - Local-tandem conveyance segment | | PPIA | - | | |
| - Local-tandem conveyance segment (ISDN) | | PPIA | PPIA | | |
| - LTT stick | | PPIA | - | | |
| - LTT stick (ISDN) | | PPIA | - | | |
| Single transit on fixed public n/band networks | | FPIA | PPIA | | Immaterial |
| - Single transit segment | | PPIA | - | | |
| - Single transit (ISDN) | | PPIA | - | | |
| Technical areas | | FPIA | FPIA | PPIA | NCCN price control |
| - Standard CSI connection | | PPIA | - | | |
| - Standard CSI rental - fixed | | PPIA | PPIA | | |
| - Standard CSI rental per km | | PPIA | - | | |
| - ISI rental | | PPIA | - | | |
| - IEC connection | | PPIA | - | | |
| - IEC rental - fixed | | PPIA | - | | |
| - IEC rental per km | | PPIA | PPIA | | |
| - Intra - building circuits connection | | PPIA | - | | |
| - Intra-building circuits rental | | PPIA | - | | |
| - Rearrangements | | PPIA | - | | |
| Fixed call termination | | FPIA | FPIA | PPIA | NCCN price control |
| - Call termination local exchange segment | | PPIA | PPIA | | |
| - Call termination local exchange segment (ISDN) | | PPIA | - | | |
| - Call termination local exchange stick | | PPIA | - | | |
| - Call termination local exchange stick (ISDN) | | PPIA | - | | |
| Traditional interface symmetric broadband origination (up to and inc. 8Mbit/s) | | FPIA | FPIA | FPIA | Broadband |
| - Partial & private circuits 64kbit/s | | PPIA | PPIA | | |
| - Partial & private circuits 2Mbit/s | | PPIA | PPIA | | |
| - RBS Backhaul sub 2mb rental | | N/A | PPIA | | |
| - RBS Backhaul sub 2mb connections | | N/A | PPIA | | |
| - SDSL | | PPIA | - | | |
| Traditional interface symmetric broadband origination (above 8mbit/s up to and inc. 155Mbit/s) | | FPIA | FPIA | FPIA | Broadband |
| - partial & private circuits 34/45mbit/s | | PPIA | PPIA | | |

Regulatory financial reporting obligations on BT – Taking a fresh view

| | | | | | |
|---|--|-------------|-------------|-------------|------------|
| - partial & private circuits 140/155Mbit/s | | PPIA | PPIA | | |
| - RBS backhaul sub 2mb rental | | N/A | PPIA | | |
| - RBS Backhaul sub 2mb connections | | N/A | PPIA | | |
| Alternative interface symmetric broadband origination (all bandwidths) | | FPIA | FPIA | FPIA | Broadband |
| - WES/LES (connection/rentals) | | N/A | PPIA | | |
| - BES (connection/rental) | | N/A | PPIA | | |
| Wholesale trunk segments | | FPIA | FPIA | FPIA | Broadband |
| - Wholesale trunk segment services | | PPIA | PPIA | | |
| Technical areas | | FPIA | - | | |
| - Point of handover | | PPIA | - | | |
| Asymmetric broadband origination | | FPIA | FPIA | FPIA | Broadband |
| - Asymmetric broadband origination rental | | PPIA | PPIA | | |
| - Asymmetric broadband origination connection | | PPIA | PPIA | | |
| Broadband conveyance | | FPIA | FPIA | PPIA | |
| - Broadband conveyance | | PPIA | PPIA | | |
| Wholesale residential ISDN2 exchange line services | | FPIA | PPIA | | Immaterial |
| - Residential ISDN2 internal service connections | | PPIA | - | | |
| - Residential ISDN2 internal service rental | | PPIA | PPIA | | |
| - Residential ISDN2 external service rental | | PPIA | - | | |
| Wholesale business ISDN30 exchange line services | | FPIA | FPIA | FPIA | Openreach |
| -Business ISDN30 internal service connections | | PPIA | PPIA | | |
| -Business ISDN30 internal service connections | | PPIA | PPIA | | |
| -Business ISDN30 external service connections | | PPIA | - | | |
| -Business ISDN30 internal service rentals | | PPIA | - | | |
| Wholesale local access | | FPIA | PPIA | | Immaterial |
| - MPF connections | | PPIA | - | | |
| - MPF rentals | | PPIA | - | | |
| - MPF room build | | PPIA | - | | |
| - MPF hostel rentals | | PPIA | - | | |
| - MPF tie cables | | PPIA | - | | |
| - SMPF connections | | PPIA | - | | |
| - SMPF rentals | | PPIA | - | | |

Retail markets

| Market | 2005 Audit | | Option 3 | Basis |
|--|-------------|-------------|----------|--------|
| | Obligt'n | Actual | Audit | |
| - Service | | | | |
| RETAIL | | | | |
| Residential analogue exchange line services | FPIA | FPIA | PPIA | Retail |
| - PSTN residential connections | PPIA | PPIA | | |
| - Residential line rentals | PPIA | PPIA | | |
| Residential local calls | FPIA | FPIA | PPIA | Retail |
| - PSTN residential local calls | PPIA | PPIA | | |
| Residential national calls | FPIA | FPIA | PPIA | Retail |
| - PSTN residential national calls | PPIA | PPIA | | |
| Residential IDD calls (Category A) | FPIA | FPIA | PPIA | Retail |
| - IDD calls to overseas fixed residential | PPIA | PPIA | | |
| - IDD calls to overseas mobile residential | PPIA | PPIA | | |
| Residential IDD calls (Category B) | FPIA | PPIA | | |
| - IDD calls to overseas fixed residential | PPIA | PPIA | | |
| - IDD calls to overseas mobile residential | PPIA | PPIA | | |
| Residential calls to mobiles | FPIA | FPIA | PPIA | Retail |
| - Inland calls to mobile residential | PPIA | PPIA | | |
| Residential operator assisted calls | FPIA | - | | |
| - Residential operator assisted calls | PPIA | - | | |

Annex 8

Attributes of effective compliance statements

Introduction

A8.1 To inform Ofcom's initial assessment of key characteristics of an effective compliance statement, it has considered information from a number of reports across industries.

A8.2 These sources are set out below:

- Guidance on regulatory reporting provided by The Institute of Chartered Accountants in England and Wales (ICAEW);
- The Combined Code - corporate governance requirements for UK listed companies;
- Financial Services Authority (FSA);
- US Sarbanes Oxley Act - Section 404 requirements for US Listed Companies, and
- Sustainability Reporting

A8.3 The sources used are not exhaustive but were chosen as representative of reporting requirements affecting different sectors.

ICAEW guidance on regulatory reporting

Compliance Obligations

A8.4 The ICAEW does not place compliance obligations on companies but has published guidance on regulatory reporting by independent auditors (in October 2003) entitled "Regulators of Regulated Entities and the application of Audit." This guidance includes a definition of regulatory financial statements.

Compliance Attributes

Reporting

A8.5 The guidance mainly sets out implications for regulatory audit although there is an appendix on reporting. The guidance states that the key components of the regulatory statements should include:

- Profit and Loss Accounts;
- Balance Sheet;
- Segmental analyses of operations, costs and income (as defined in the Regulatory licence); and
- Reconciliations between the results and net assets reported within the Regulatory Accounts and those reported within the statutory financial statements prepared in accordance with the Companies Act 1985.

A8.6 It also states that the regulatory accounts should not include other items included within regulatory returns including:

- The reports of other experts;
- Management commentary on the accounting information; and
- Other types of Regulatory Information required to comply with the Regulatory Licence.

Audit

A8.7 The guidance covers topics including duty of care, form of audit report and materiality; specifically in terms of the form of the audit report, the following guidance is included:

- Audit opinions should include a paragraph setting out the basis of preparation of the regulatory accounts; and
- Audit opinions should include a statement that regulatory accounts are separate from statutory accounts.

The Combined Code

Compliance Obligations

A8.8 The Combined Code has been developed from a review of corporate governance in the UK as a result of stakeholder concern over financial reporting and concern over the ability of auditors to provide the necessary safeguards.

A8.9 UK listed companies are required to make a disclosure statement in their annual review in accordance with the provisions of Section 1 of the Combined Code on corporate governance as appended to the Listing Rules of the Financial Services Authority.

A8.10 The Code requires a company to report on how it has applied the principles of the Combined Code and a confirmation that it has complied with the Code provisions, or, where it has not complied it must provide an explanation.

Compliance Attributes

A8.11 The code covers matters of good governance in respect of the board of directors, remuneration, financial reporting, internal control, audit and communication with shareholders. Specifically, the code sets out principles and provisions on financial reporting as follows:

- Main Principle: The board should present a balanced and understandable assessment of the company's position and prospects;
- Supporting Principle: The responsibility of the board to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements; and
- Code Provisions: The directors should explain in the annual report their responsibility for preparing the accounts and there should be a statement by the auditors about their reporting responsibilities. The directors should report that the

business is a going concern, with supporting assumptions or qualifications as necessary.

A8.12 The Combined Code principles and provisions enforce good governance within each listed company and help to increase market confidence.

FSA - financial and regulatory reporting

Compliance Obligations

A8.13 The FSA is the regulator for the financial services sector in the UK. The majority of financial services markets are required to meet the standards set by the FSA and the regulator may take action against firms if they fail to meet those standards.

Compliance attributes

A8.14 The FSA has described, in a publication entitled The Firm Risk Assessment Framework, the risks (in terms of whether or not a firm meets the objectives described) for financial and regulatory reporting. The objectives are set out below:

Financial reporting

- Financial reporting to shareholders and relevant markets should be timely and clear;
- The application of comprehensive and appropriate accounting policies in adherence with established accounting standards should be consistent;
- There should be appropriate standards applied to documentation of accounting policies;
- There should be in place mechanisms for ensuring that reporting is in line with internal and external developments; and
- There should be appropriate policies to ensure adequate cover for potential losses from the range of risks (e.g. liquidity reserves for trading operations, loan loss reserves).

Regulatory reporting

- There should be the ability to accurately report data required by FSA and other regulators (no definition of “accurately” is provided);
- There should be the ability to report in a timely manner; and
- Responsibility for regulatory reporting should be clear.

Sarbanes Oxley Section 404

Compliance Obligations

A8.15 Section 404 of the Sarbanes Oxley Act requires a US listed company to include an internal control report within its annual return. The report includes a statement of responsibility of management for adequate internal controls for financial reporting and an assessment of the effectiveness of the internal control structure. There is also an audit opinion given on the statement which opines both on management’s and its own assessment of the effectiveness of controls over financial reporting.

A8.16 An example of such a report is included within NTL's annual return to the SEC. This report has been used to describe the compliance attributes as set out below.

Compliance Attributes

Disclosure Controls and Procedures

A8.17 Management must state they have performed an evaluation of the effectiveness of the financial statement controls and procedures. Based on such evaluation, they must state whether these controls and procedures are effective to ensure that the information required to be disclosed is recorded, processed, summarized, and reported within the time periods specified.

Management's Annual Report on Internal Control Over Financial Reporting

A8.18 Management must state that it is their responsibility for establishing and maintaining adequate internal control over their financial reporting. Management define internal control over financial reporting as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements.

COSO framework

A8.19 Management must state that they have conducted an evaluation of the effectiveness of their internal control over financial reporting based on the framework described in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) . Management then conclude and report whether internal control over financial reporting is effective.

Auditor statement

A8.20 The auditor must express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on their audit.

Sustainability Reporting

Compliance Obligations

A8.21 Many companies face pressure from key stakeholders to be transparent in respect of their values, principles and performance regarding sustainability and social responsibility.

A8.22 Sustainability reports are published by companies in direct response to these pressures (rather than any compliance obligation) in order to meet those stakeholder requirements. For example BP's Sustainability Report 2004 is a 68 page document which reports on issues including climate change, renewable energy and the company's role in society.

Compliance Attributes

A8.23 Companies including BP use the widely recognised GRI (Global Reporting Initiative) guidelines on sustainability reporting in their publication. The GRI is an independent institution whose mission is to "develop and disseminate globally applicable Sustainability Reporting Guidelines". These guidelines are published and used as a

measure of commitment to sustainability in many of the companies' reports and are as follows:

- Transparency and inclusiveness – Where inclusiveness here is defined as engaging stakeholders to help focus and continually enhance the quality of its reports. All decisions about reporting should take these two principles and associated practices into consideration.
- Context, completeness, and relevance in determining what to report - Reports should help place the organisation's performance in the broader context of sustainability challenges, risks, and opportunities. Reported information should be relevant to the decision-making needs of stakeholders.
- Quality and reliability of the report - Reports should be comparable over time and across organisations. Information should be sufficiently accurate and reliable to enable its use for decision-making purposes.
- Clarity and timeliness govern the access and availability of reports - Stakeholders should receive easily understood information in a time frame that allows them to use it effectively.
- Auditability - in terms of the ability to demonstrate that the processes underlying report preparation and information in the report itself meet standards of accuracy, completeness, consistency, and reliability.

Common attributes for an effective compliance statement

A8.24 This review has highlighted a number of the common characteristics from the examples above and these are set these out below.

Clarity of objectives

A8.25 A key requirement of any compliance regime is clarity in respect of the purpose of compliance, and the objectives of the statement. There should therefore be a link directly to the reason for compliance, by identifying the concerns or issues the compliance report is designed to rectify and limit.

A8.26 Sarbanes Oxley Section 404 gives a clear example of this. The disclosures are explicit about what the compliance represents: i.e., management state they have performed an evaluation of the effectiveness of the financial statement controls and procedures and state whether they are effective to ensure that the information required to be disclosed is recorded, processed, summarized, and reported within the time periods specified.

A8.27 This also addressed in the Combined Code both of which have a published framework of compliance objectives to enable the stakeholders to understand the framework within which the company is complying. These are referred to or published within the annual reports (and in the example of the Combined Code accompanied by an explanation whether this has not been met).

A8.28 In determining the objectives of the compliance statement, it is also important to understand who the stakeholders are and how they are likely to want to use the information both now and in the future. It is also important to consider what type of information they will require for their purposes.

Transparent reporting

- A8.29 A lack of understanding of the basis of reporting can reduce the confidence of stakeholders in compliance statements. Transparency in respect of the compliance statement, i.e., such that it can be understood by its target audience, is therefore a prerequisite of an effective approach.
- A8.30 Whilst there is clearly a link between transparency and the extent of the provided information, it is necessary for information not only to be complete and appropriately detailed but also accessible, such that the target audience is able to understand the information provided and is able to use this information for its stated purpose.

Timeliness

- A8.31 Late reporting significantly reduces the usefulness of the information to the stakeholders and undermines the purpose of regulatory reporting. It is therefore important that compliance information is reported in a timely fashion, with timeliness being determined with reference to the prospective uses of the information.
- A8.32 Both the GRI guidelines and Section 404 address the importance of timeliness; one of the stated GRI guidelines is to ensure stakeholders receive information in a timeframe that allows them to use it effectively. S404 considers one definition of effective internal control as whether the entity can report information within the time periods specified.

Respective responsibilities

- A8.33 A lack of appreciation of the roles and responsibilities of the directors and auditors is likely to reduce the level of confidence stakeholders have in the statements or lead them to make incorrect assumptions about where the duty of care lies. Clearly articulating the respective responsibilities of directors and auditors helps to address this.
- A8.34 One of the underlying provisions in the Combined Code is an explanation by both directors and auditors of their respective responsibilities (as set out in section 1.1) in the compliance statement. This is the case in the Sarbanes Oxley statements where respective responsibilities are clearly defined.

Internal control

- A8.35 Poor internal controls can result in incorrect reporting. A compliance regime which includes focus on internal control helps reduce this risk and an appropriately-specified compliance process should in principle identify weaknesses in internal controls and any subsequent breaches of compliance requirements.
- A8.36 Section 404 addresses this in their discussion of internal controls: Sarbanes Oxley requires explicit statements of effective internal control by both management and auditor.
- A8.37 A statement attesting to stronger internal controls in conjunction with the compliance statement may therefore provide increased confidence in the compliance statement. Similarly an audit opinion on management's attestation of controls may increase the level of confidence the audit opinion gives to the statements.

Proportionality

A8.38 The restrictions imposed on the industry should be proportionate to the benefits that are expected to result from those restrictions. The European Commission framework (as described in section 2) for example specifies that obligations placed on operators should be proportionate. A cost benefit analysis may be used to assess proposed regulatory requirements. This is the approach taken by the FSA which state that “In making judgements in this area, we take into account the costs to firms and consumers. One of the main techniques we use is cost benefit analysis of proposed regulatory requirements.”

A8.39 During the course of this consultation, when considering what determines the line above which “publication”, is deemed necessary, a sense of proportionality is helpful. This means that in areas of high regulatory interest, it may be appropriate to place far greater emphasis on more granular information being available to stakeholders than in areas of lesser concern.

Comparability over time

A8.40 Poor comparability over time also reduces confidence of stakeholders in reports as the frame of reference within which to understand the information is reduced. Information that is comparable over a number of reporting periods therefore improves the value of the information

A8.41 One of the explicit GRI sustainability guidelines for companies is comparability, while the FSA explicitly state that consistency of preparation is required in the accounts.

Assurance

A8.42 Statements offer a lower level of confidence if they do not have a separate audit report. Most of the information sources above have included a respective audit report.

Annex 9

BT's commentary on its illustrative annual report

Introduction

A9.1 This annex sets out BT's commentary on its illustrative financial statements, which can be read at <http://www.btplc.com/thegroup/regulatoryinformation/financialstatements/BTProposal.pdf>.

Objective of illustrative financial statements

A9.2 The objective of the illustrative financial statements is to report in an accessible, simple and transparent manner which enables the user to quickly draw summary conclusions and gain assurance that BT is compliant with its regulatory obligations. In addition it will provide guidance on how additional requests for information should be conducted, if required.

A9.3 This report sits at the pinnacle of a reporting framework, which includes routine access to supporting data concerning BT's regulated business for Ofcom, and a means for Other Communication Providers to get further insights into areas of specific interest, through 'transparency workshops', where BT engages industry stakeholders to answer relevant and appropriate questions regarding details of SMP and other regulated services and products.

A9.4 Improving accessibility at this summary level will increase readership and lead to a greater and wider understanding of BT's regulatory performance. Requests for more complex information will then be handled in a more targeted and relevant manner.

Statements of Assurance

A9.5 The illustrative financial report presents compliance statements from key owners of governance activities, being BT plc directors, the auditors and the Equality of Access Board ("EAB"). This is to provide users of the report with evidence that BT is meeting its regulatory obligations and to demonstrate increased transparency and explicit ownership of reported numbers.

A9.6 The Group Finance Director, on behalf of BT Board of Directors, will provide assurance that the company has complied with its regulatory reporting obligations, and also there will be reference to and extraction from the annual compliance report made by BT

A9.7 The appointment of the EAB is a significant step by BT towards providing supplementary assurance over the regulatory performance of major segments of its business. The Board will therefore provide an opinion which should clarify their role and note areas of investigation, recommendations and actions to improve BT's performance versus its obligations. It is likely that the opinion will be a summary of a separate report on equivalence.

Openreach Performance Summary

- A9.8 The illustrative financial statements focus on the performance of Openreach in the context of its regulatory obligations, notably cost orientation, non discrimination and adherence to price controls.
- A9.9 Summary Profit and Loss (P&L), Mean Capital Employed (MCE) and Return on Capital Employed (RoCE) data will provide the user with an overall view of business performance versus prior year. Material movements will be explained in the commentary. This will be supported by additional detail at Annex 1, where overall RoCE performance will drill down into major product clusters.
- A9.10 The product performance analysis is crucial in demonstrating how Openreach is discharging its undertakings. Clear and concise presentation of product volumes, internal/external price variances and financial return per product (expressed as selling price less fully allocated costs) reflects feedback from Other Service Providers about the lack of transparency of this key data in the current report.
- A9.11 The focus of the illustrative financial statements is to identify exceptions rather than disclose “blanket coverage”.
- A9.12 One of the primary objectives of Openreach is to demonstrate equivalence between internal and external service providers. The underlying business model is to drive volume through the Access network, regardless of whether provided ultimately to BT Retail or another services provider.
- A9.13 By providing volumes and trends across the core products between internal and external providers in this report, Openreach will aim to demonstrate an increasingly mixed portfolio of customers, giving the user a degree of assurance that the business model is being implemented.
- A9.14 Openreach has a responsibility to sustain an efficient and effective Access network asset. It should report on the main changes to the network asset to give the user assurance as to its stewardship. In particular Other Communications Providers have expressed an interest in understanding the impact of next generation networks.

Wholesale SMP Performance Summary

- A9.15 The illustrative financial statements also include information on the markets with significant market power (SMP) in BT Wholesale. These markets can be reviewed in two sections.
- A9.16 The first section concerns the wholesale markets which are influenced by the Network Cost Control (NCC) 4 year price controls, set by Ofcom. Here, the focus of this report is to demonstrate whether BT has complied with the price control, whilst also presenting the overall returns made in the market. The user can then draw summary conclusions about the effectiveness of the control in constraining the level of profit made.
- A9.17 The second section concerns the SMP wholesale markets which are not subject to price control, and BT will report on returns, trends and charges applicable in each market.

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A9.18 In both cases the report will state, on an exceptions basis, where average charges have been outside calculated floors and ceilings. The overview is supported by financial data by market.

Retail SMP Regulatory Performance Review

A9.19 This illustrative financial statements focus on BT Retail activities designated SMP status and their summary performance versus regulatory obligations.

A9.20 The user is presented with assurance regarding :

- BT's compliance with price controls set by Ofcom (as set out in the table product and market summary, and supplemented by information on product volumes),
- Visibility that BT Retail is not making excessive returns on the services supplied by BT Wholesale, reflected by Return on Turnover
- The overview performance table is supported by Annex 3 which details the financial performance and Return on Turnover in each SMP market, enabling the user to drill down to a more granular level as required.
- MCE allows users to draw initial conclusions as to the payment terms offered to BT Retail from BT Wholesale.

Annex 10

Notification of Proposed Amendments to Direction 1

Proposed modification to Direction 1 for BT: Network Components

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

Proposal for modifying Directions given under SMP Services Condition OA2 and FA10.2 specifying network components for the purposes of SMP Services Conditions OA1 to OA34, AA1 to AA12, BA1 to BA6, EA1 to EA7, FA1 to FA10, G1 to G9, GG1 to GG9, H1 to H8, HH1 to HH8, KA1 to KA4 and PA1.

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

- i. Direction 1 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*, specifying network components for the purposes of SMP Services Conditions OA1 to OA34, AA1 to AA12, BA1 to BA6, EA1 to EA7, G1 to G9, GG1 to GG9, H1 to H8, HH1 to HH8, KA1 to KA4 and PA1; and
- ii. A Direction given under SMP Services Condition FA10.2 at Schedule 2 to the Notification set out in Annex 2 of the *Review of the wholesale local access market*, dated 16 December 2004.

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

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

4. Representation may be made to Ofcom about the proposed draft modification to the Direction by 5 pm on 14 June 2006.

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.

Sean Williams
Partner, Ofcom

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

3 May 2006

Schedule

Direction modifying Directions under section 49 of the Communications Act 2003 and SMP Services Condition OA2 and FA10.2 specifying network components for the purposes of SMP Services Conditions OA1 to OA34, AA1 to AA12, BA1 to BA6, EA1 to EA7, FA1 to FA10, G1 to G9, GG1 to GG9, H1 to H8, HH1 to HH8, KA1 to KA4 and PA1.

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:

- a) conditions OA1 to OA34 and FA10, imposing obligations on BT in respect of wholesale cost accounting, retail cost accounting and accounting separation in relation to BT’s activities in those markets where BT has been designated as having SMP; and
- b) conditions AA1 to AA12; BA1 to BA6; EA1 to EA7, FA1 to FA10, G1 to G9; GG1 to GG9; H1 to H8, HH1 to HH8, KA1 to KA4 and PA1 imposing, amongst other things, obligations on BT in respect of the publication of reference offers and the notification of prices in relation to BT’s activities in those markets where BT has been designated as having SMP;

(C) in the SMP services conditions referred to in paragraph B above, ‘Network Components’ are defined to mean the network components specified in any direction given by the Director or Ofcom (as appropriate) from time to time for the purpose of those conditions;

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

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

(F) this modified Direction modifies:

- i. Direction 1 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 (the “Original Direction 1”), which relates to BT’s obligations under SMP services conditions OA1 to OA34, in that it specifies the network components which apply for the purposes of those conditions; and
- ii. a Direction given under SMP Services Condition FA10.2 at Schedule 2 to the Notification set out in Annex 2 of the Review of the wholesale local access market, dated 16 December 2004 (the “Original FA10 Direction”), which relates to BT’s obligations under SMP services condition FA10, in that it

specifies the network components which apply for the purposes of that condition.

(G) this modified Direction also serves to specify the network components which apply for the purposes of other SMP services conditions set out at paragraph B(b) above;

(H) for the reasons set out in the 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 3 May 2006, Ofcom published a notification of the proposed modified Direction in accordance with section 49 of the Act (the 'Notification');

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

(L) in the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 14 June 2006;

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

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

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

NOW, therefore, pursuant to section 49 of the Act and Conditions OA2 and FA10, OFCOM hereby gives the following modification to the Direction 1 and the Original Direction FA10:

1. The network components which apply for the time being for the purposes of SMP services conditions OA1 to OA34, AA1 to AA12, BA1 to BA6, EA1 to EA7, FA1 to FA10, G1 to G9, GG1 to GG9, H1 to H8, HH1 to HH8, KA1 to KA4 and PA1 are those specified at 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) "BT" means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;
- c) "Director" means the Director General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
- d) 'OFCOM' means the Office of Telecommunications;
- e) "Notification" means the Notifications which set in place the obligations on BT referred to in recital (B) of this modified Direction above; and
- f) 'Transitional Provisions' means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003, and the Office of Communications Act 2002 (Commencement No. 3) and Communications Act 2003 (Commencement No. 2) Order 2003.

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

4. For the purpose of interpreting this modified Direction:

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

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

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

[Name]

[Title]

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

[Date]

ANNEX A

Annex A to the Original Direction 1 and the Original Direction FA10 are amended to reflect the additions and deletions of the list of network components as highlighted below:

| | |
|---|----|
| Local exchange concentrator | 1 |
| Local exchange call set up | 2 |
| Local exchange call duration | 3 |
| Main exchange call set up | 4 |
| Main exchange call duration | 5 |
| Remote-local transmission link | 6 |
| Remote-local transmission length | 7 |
| Local-tandem transmission link | 8 |
| Local-tandem transmission length | 9 |
| Inter-tandem transmission link | 10 |
| Inter-tandem transmission length | 11 |
| Product management, policy & planning for narrowband call services | 12 |
| National operator assistance | 13 |
| Fibre access lines | 21 |
| CWSS network terminating equipment & serving exchange equipment | 22 |
| DWSS network terminating equipment & serving exchange equipment | 23 |
| PDH multiplexors at third party site | 24 |
| SDH multiplexors at third party site | 25 |
| SDH (MSH) multiplexors at third party site | 26 |
| PDH multiplexors | 27 |
| SDH mutliplexors | 28 |
| SDH cross connection/grooming equipment | 29 |
| Tributary card for SDH network by size | 30 |
| SDH (MSH) mutliplexors | 31 |
| SDH (MSH) cross connection/grooming equipment | 32 |
| Tributary card for SDH (MSH) network by size | 33 |
| Transmission links over fibre | 34 |
| Transmission links over radio | 35 |
| Network research and development | 38 |
| Carrier Pre Selection System Set-Up | 41 |
| Carrier Pre Selection Operator Set-Up | 42 |
| Carrier Pre Selection Customer Set-Up | 43 |
| Carrier Pre Selection in life management | 44 |
| Private circuit specific | 46 |
| E-side copper (capital) | 49 |
| D-side copper (capital) | 51 |
| D-side copper (current) | 52 |
| Local exchange general frames (capital) | 53 |
| Local exchange general frames (current) | 54 |
| Dropwire (capital) including PSTN NTE | 55 |
| Business PSTN drop maintenance | 56 |
| Residential PSTN drop maintenance | 57 |
| Pair gain | 58 |
| PSTN line test equipment | 59 |
| Test access management system (TAMS) | 60 |

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| | |
|---|-----|
| PSTN line cards | 61 |
| ISDN2 line cards | 62 |
| ISDN2 NTE / other | 63 |
| ISDN2 drop (maintenance) | 64 |
| ISDN 30 (line cards / maintenance) | 65 |
| DSLAM (capital / maintenance) | 66 |
| External WLR SG & A | 68 |
| Internal WLR SG & A | 69 |
| Local loop unbundling room build activities | 72 |
| Local loop unbundling hostel activities | 73 |
| Local loop unbundling tie cables | 74 |
| Shared local loop unbundling (SMPF) connection activities | 75 |
| FRIACO Ports | 76 |
| ATM customer interface 2mb | 77 |
| ATM customer interface 34mb | 78 |
| ATM customer interface > 155mb | 79 |
| ATM network interface | 80 |
| ATM network switching | 81 |
| Internal PPC SG & A | 82 |
| External PPC SG & A | 83 |
| ISDN30 connections | 86 |
| ADSL connection activities | 89 |
| SDSL connection activities | 90 |
| ISDN30 takeovers | 99 |
| External ISDN30 connection activities | 100 |
| External ISDN30 transfer activities | 101 |

New components on the list

| | |
|--|-----|
| <u>Customer Sited Interconnect circuits (CSI) 2Mbit link</u> | 102 |
| <u>Customer Sited Interconnect circuits (CSI) 2Mbit per km</u> | 103 |
| <u>E side copper current</u> | 50 |
| <u>Emergency operator assistance (999)</u> | 104 |
| <u>Intra Building Circuit (IBC) connection</u> | 105 |
| <u>Intra Building Circuit (IBC) rental</u> | 106 |
| <u>SG & A Access (excl. Wholesale & Retail)</u> | 107 |
| <u>SG & A private circuits</u> | 108 |
| <u>LAN & Wholesale extension services</u> | 109 |
| <u>Backhaul extension services</u> | 110 |
| <u>Routing & records</u> | 111 |
| <u>MDF hardware jumpering</u> | 112 |
| <u>Software jumpering</u> | 113 |
| <u>Call centre costs</u> | 114 |
| <u>Point of Handover electronics</u> | 115 |
| <u>Wholesale Access specific</u> | 116 |

Deletions from previous list

| | |
|---|----|
| Wholesale bad debts | 48 |
| Signalling links | 37 |
| Service provider gateway (capital / maintenance) | 96 |
| Outpayments: other | 19 |

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| | |
|--|----|
| Outpayments: non-geographic calls | 16 |
| Outpayments: international | 18 |
| Outpayments: geographic calls | 15 |
| Outpayments: calls to mobile | 17 |
| International operator assistance | 14 |
| International network | 20 |
| Internal PSTN takeovers activities | 94 |
| Internal PSTN residential connection activities | 85 |
| Internal PSTN business connection activities | 84 |
| Internal ISDN2 takeover activities | 95 |
| Internal ISDN2 residential connection activities | 88 |
| Internal ISDN2 business connection activities | 87 |
| Infrastructure returns | 40 |
| In-building links | 36 |
| IN platform | 45 |
| Guarantee schemes | 39 |
| External PSTN transfer activities | 93 |
| External PSTN connection activities | 92 |
| External ISDN2 transfer activities | 98 |
| External ISDN2 conversion activities | 91 |
| External ISDN2 connection activities | 97 |
| Alternative interface symmetric broadband origination specific | 47 |
| Other SG & A | 67 |
| Local loop unbundling system set up | 70 |
| Local loop unbundling connection activities | 71 |

Annex 11

Notification of Proposed Amendments to Direction 3

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

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

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

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

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

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

4. Representation may be made to Ofcom about the proposed draft modification to the Direction by 5 pm on 14 June 2006.

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.

Sean Williams
Partner, Ofcom

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

3 May 2006

Schedule

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

WHEREAS:

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

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

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

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

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

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

(E) on 18 August 2005, Ofcom published a document entitled “Review of BT’s network charge controls – Explanatory Statement and Notification of decisions on BT’s SMP status and charge controls in narrowband wholesale markets” in which it determined that, among other things, BT did not, either individually or jointly with others, have significant market power in the market for Inter-tandem conveyance and transit on fixed public telephone networks in the UK excluding the Hull Area;

(F) a consequence of the determination referred to in (E), the SMP services conditions imposed on BT as they apply to the market for Inter-tandem conveyance and transit on fixed public telephone networks in the UK excluding the Hull Area should no longer apply;

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

(H) this modified Direction modifies:

- i. Direction 3 given under SMP Services Condition OA2 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston

Communications statement, dated 22 July 2004 (“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. a Direction given under SMP Services Condition FA10.2 at Schedule 4 to the Notification set out in Annex 2 of the Review of the wholesale local access market, dated 16 December 2004 (the “Original FA10 Direction”), which relates to BT’s obligations under SMP services condition FA10, in that it sets out an amendment to the Regulatory Financial Statements which are required to be prepared, audited (including the level of audit), delivered to OFCOM and/or published by BT under condition FA10.5;

(I) 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;

(J) 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;

(K) on 3 May 2006, Ofcom published a notification of the proposed modified Direction in accordance with section 49 of the Act (the ‘Notification’);

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

(M) in the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 14 June 2006;

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

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

(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 Conditions OA2 and FA10, OFCOM hereby gives the following modification to Direction 3 and the Original FA10 Direction:

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

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

- a) "Act" means the Communications Act 2003 (c. 21);
- b) "BT" means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;
- c) "Director" means the Director General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
- d) "OFCOM" means the Office of Telecommunications;
- e) "Notification" means the Notifications which set in place the obligations on BT referred to in recital (B) of this modified Direction above; and
- f) "Transitional Provisions" means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003, and the Office of Communications Act 2002 (Commencement No. 3) and Communications Act 2003 (Commencement No. 2) Order 2003.

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

4. For the purpose of interpreting this modified Direction:

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

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

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

[Name]

[Title]

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

[Date]

ANNEX A

Direction 3 is hereby amended as follows:

1. The words “secure an appropriate audit opinion in respect of” are deleted in paragraph 1.
2. The following paragraphs are inserted after paragraph 1:

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

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

ANNEX B

The Original FA10 Direction is amended as follows:

1. The words “secure an appropriate audit opinion in respect of” are deleted in paragraph 1.
2. The following paragraphs are inserted after paragraph 1:

” 1A. BT shall, for the purposes of condition FA10.5 secure an appropriate audit opinion on an FPIA basis in respect of the published Regulatory Financial Statements as a whole.

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

ANNEX C

Annexes A, B and C of Direction 3 are hereby amended in that the words, symbols and columns struck through below are deleted from the annexes and the words and symbols underlined below are inserted in the annexes.

Annex A to draft direction 3

Wholesale Cost Accounting Financial Statements

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

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

- CCPS = 'current cost primary statements', current cost profit and loss statement (CC P&L) and statement of current cost mean capital employed (CC MCE), as set out in Annexes 13 & 14 in relation to wholesale services, Annexes 11 & 12 in relation to wholesale segments (when designated), Annexes 9 & 10 in relation to individual wholesale markets;
- RTW = 'reconciliation to wholesale', reconciliation of CC P&L and CC MCE to wholesale level - consolidation across group of markets covered by review, followed by consolidation of these consolidations, to give consolidated CC P&L and CC MCE for wholesale markets subject to cost accounting (as set out in Annexes 5 & 6);
- RTSA = 'reconciliation to statutory accounts', reconciliation of consolidated CC P&L and CC MCE for wholesale markets subject to cost accounting to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 27 & 28, supported by annexes 29, 30, 31 & 32)
- SoCC Ext = statement of costs and charges for wholesale service supplied in the market, other than those which are only Internal Wholesale Services (as set out in annex 34);
- SoCC Int = statement of costs and charges for wholesale service supplied in the market, which are only Internal Wholesale Services (as set out in annex 35);
- SoAC FA = statement of activity costs on a current fully allocated cost basis for the market (as set out in Annexes 38), supported by consolidated statement of activity costs on a current fully allocated cost basis (as set out in Annexes 37),
- NCR FA = attribution of activity costs on a current fully allocated cost basis for the market (as set out in annex 40), supported by consolidated attribution of activity costs on a current fully allocated cost basis (as set out in annex 39),
- SoAC IC = consolidated statement of activity costs on a incremental and standalone cost basis (as set out in Annex 41)
- RFR – regulatory financial review, as set out in annex 2;
- SDR – statement of responsibility, as set out in annex 3
- FPIA – Audit Opinion required for statements, for inclusion in audit report as set out in annex 4
- PPIA – Audit opinion required for statements, for inclusion in audit report as set out in annex 4
- Notes – notes to the financial statements, as set out in annex 23
- RMP – retail markets purchase statement, as set out in annex 26
- SPS – summary, for reconciliation purposes, of profitability by wholesale service (as set out in annex 36);
- AFI (a) – cost category analysis AI-1 (LRIC) and AI-3 (FAC) (as set out in annex 42)
- AFI (b) – summarised activity analysis AI-4 (FAC) and AI-2 (LRIC) (as set out in annex 42)

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- AFI (c) – analysis of depreciation charge and CCA adjustments AI-5 and CCA fixed asset movement statement AI – 6 (as set out in annex 42)
- AFI (d) – mean capital employed and summarised activity analysis for all network components AI – 7 and network activity analysis of mean capital employed for all network components AI –9 (as set out in annex 42)
- AFI (e) – analysis of outpayments AI – 8 (as set out in annex 42)
- AFI (f) – indices applied for CCA revaluation AI-10 (as set out in annex 42)
- AFI (g) – assets valuation and useful economic life analysis AI-11 (as set out in annex 42)
- AFI (h) – marketing expenditure analysis AI-12 (as set out in annex 42)
- AFI (i) – operating cost and mean capital employed by plant group AI- 13 (as set out in annex 42)
- AFI (j) – CPS set up costs AI- 14 (as set out in annex 42)
- AFI (k) – BT inter-market turnover reconciliation AI-22 (as set out in annex 42)

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 |
| - wholesale service A | X | | | X | | | ✗ | |
| - wholesale service B ... | X | | | | X | | ✗ | |
| Wholesale business analogue exchange line services | X | X | X | | | ✗ | | X |
| - wholesale service A | X | | | X | | | ✗ | |
| - wholesale service B ... | X | | | | X | | ✗ | |
| Wholesale business ISDN2 exchange line services | X | X | X | | | ✗ | | X |
| - wholesale service A | X | | | X | | | ✗ | |
| - wholesale service B | X | | | | X | | ✗ | |
| Call origination on fixed public narrowband networks | X | X | X | | | ✗ | | X |
| - WS Call originating local exchange segment <u>PSTN and ISDN (excluding Operator Assistance)</u> | X | | | X | | | ✗ | |
| - WS Call originating local exchange segment (incl Operator Assistance) | X | | | X | | | ✗ | |
| - WS Call originating local exchange segment ISDN (including Operator Assistance) | X | | | X | | | ✗ | |
| - WS Call originating local exchange segment <u>PSTN and ISDN (incl Operator Assistance)</u> | X | | | X | | | ✗ | |
| - WS Call origination local exchange Stick | X | | | | X | | ✗ | |

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

| | Financial statements | | | | | Audit | | Published |
|--|----------------------|-----|------|----------|----------|-------|------|-----------|
| | CCPS | RTW | RTSA | SoCC Ext | SoCC Int | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | | | |
| -WS Local tandem circuit excluding FRIACO port at tandem exchange | X | | | X | | | X | |
| -WS FRIACO port at the tandem exchange | X | | | X | | | X | |
| | | | | | | | | |
| Single transit on fixed public narrowband networks | X | X | X | | | X | | X |
| -WS Single transit segment | X | | | X | | | X | |
| - WS Single transit segment <u>PSTN</u> and ISDN | X | | | X | | | X | |
| | | | | | | | | |
| Technical areas | X | X | X | | | X | | X |
| - WS standard CSI connection | X | | | X | | | X | |
| - WS standard CSI rental - fixed | X | | | X | | | X | |
| - WS standard CSI rental per km | X | | | X | | | X | |
| -WS high performance CSI connection | X | | | X | | | X | |
| -WS high performance CSI rental - fixed | X | | | X | | | X | |
| -WS high performance CSI rental per km | X | | | X | | | X | |
| - WS ISI connection | X | | | X | | | X | |
| - WS ISI rental per 100m | X | | | X | | | X | |
| - WS IEC connection | X | | | X | | | X | |
| - WS IEC rental - fixed | X | | | X | | | X | |
| - WS IEC rental – per km | X | | | X | | | X | |
| - WS intra-building circuits connection | X | | | X | | | X | |
| - WS intra-building circuits rental | X | | | X | | | X | |
| - WS rearrangements | X | | | X | | | X | |
| -WS path protection connection per 34 Mbits/s | X | | | X | | | X | |
| -WS path protection connection per 140 Mbits/s | X | | | X | | | X | |
| -WS path protection rental per 34 Mbits/s | X | | | X | | | X | |
| -WS path protection rental per 140 Mbits/s | X | | | X | | | X | |

Review of the fixed geographic call termination markets

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

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

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|-----|------|----------|----------|-------|------|-----------|
| | CCPS | RTW | RTSA | SoCC Ext | SoCC Int | FPIA | PPIA | |
| Wholesale markets and illustrative services | | | | | | | | |
| Traditional interface symmetric broadband origination (up to and including 8Mbit/s); | X | X | X | | | X | | X |
| - WS service A | X | | | X | | | X | |
| - WS service B | X | | | | X | | X | |
| - <u>Partial and Private Circuits 64kbit/s - connection</u> | | | | X | | | | |
| - <u>Partial and Private Circuits 64kbit/s - link</u> | | | | X | | | | |
| - <u>Partial and Private Circuits 64kbit/s - transmission</u> | | | | X | | | | |
| - <u>Partial and Private Circuits 64kbit/s – local end</u> | | | | X | | | | |
| - <u>Partial and Private Circuits 2mbit/s - connection</u> | | | | X | | | | |
| - <u>Partial and Private Circuits 2mbit/s - link</u> | | | | X | | | | |
| - <u>Partial and Private Circuits 2mbit/s - distribution</u> | | | | X | | | | |
| - <u>Partial and Private Circuits 2mbit/s - local end</u> | | | | X | | | | |
| - <u>RBS Backhaul sub 2mb rental</u> | | | | X | | | | |
| - <u>RBS Backhaul sub 2mb connection</u> | | | | X | | | | |
| - <u>RBS Backhaul 2mb rental</u> | | | | X | | | | |
| - <u>RBS Backhaul 2mb connection</u> | | | | X | | | | |
| - <u>SDSL</u> | | | | X | | | | |
| Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s); | X | X | X | | | X | | X |
| - WS service A | X | | | X | | | X | |
| - WS service B | X | | | | X | | X | |
| - <u>Partial and Private Circuits 34/45mbit/s - link</u> | | | | X | | | | |
| - <u>Partial and Private Circuits 34/45mbit/s - distribution</u> | | | | X | | | | |
| - <u>Partial and Private Circuits 34/45mbit/s -local end</u> | | | | X | | | | |

Regulatory financial reporting obligations on BT – Taking a fresh view

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|-----|------|----------|----------|-------|------|-----------|
| | CCPS | RTW | RTSA | SoCC Ext | SoCC Int | FPIA | PPIA | |
| Wholesale markets and illustrative services | | | | | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - link</u> | | | | X | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - distribution</u> | | | | X | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - local end</u> | | | | X | | | | |
| Alternative interface symmetric broadband origination (all bandwidths) | X | X | X | | | X | | X |
| - WS service A | X | | | X | | | X | |
| - WS service B | X | | | | X | | X | |
| - <u>WES/LES</u> | X | | | X | | | | |
| - <u>BES</u> | X | | | X | | | | |
| Wholesale trunk segments (including Kingston upon Hull) | X | X | X | | | X | | X |
| - WS service A | X | | | X | | | X | |
| - WS service B | X | | | | X | | X | |
| - <u>Partial and Private circuits 2mbit/s - trunk</u> | | | | X | | | | |
| - <u>Partial and Private circuits 34/45mbit/s - trunk</u> | | | | X | | | | |
| - <u>Partial and Private circuits 140/155mbit/s - trunk</u> | | | | X | | | | |
| - <u>Partial and Private circuits 622mbit/s - trunk</u> | | | | X | | | | |
| Technical areas (as necessary, including fixed and per km variants) | X | X | X | | | X | | X |
| - <u>In Span Handover (“ISH”)</u> | X | | | X | | | X | |
| - <u>Customer Sited Handover (“CSH”);</u> | X | | | X | | | X | |
| - <u>ISH extension circuits</u> | X | | | X | | | X | |
| - <u>Synchronous Transfer Mode (“STM”)-1 ISH and CSH handover</u> | X | | | X | | | X | |
| - <u>Point of Handover (“PoH”)</u> | 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 (except NCRFA) |
| - wholesale service A | | | | | X | | ✗ | |
| - wholesale service B ... | | | | | X | | ✗ | |
| Wholesale business analogue exchange line services | X | X | X | X | X | ✗ | | X (except NCRFA) |
| - wholesale service A | | | | | X | | ✗ | |
| - wholesale service B ... | | | | | X | | ✗ | |
| Wholesale business ISDN2 exchange line services | X | X | X | X | X | ✗ | | X (except NCRFA) |
| - wholesale service A | | | | | X | | ✗ | |
| - wholesale service B | | | | | X | | ✗ | |
| Call origination on fixed public narrowband networks | X | X | X | X | X | ✗ | | X (except NCRFA) |
| - WS Call originating local exchange segment <u>PSTN and ISDN</u> (excluding Operator Assistance) | | | | | X | | ✗ | |
| - WS Call originating local exchange segment (incl Operator Assistance) | | | | | X | | ✗ | |
| - WS Call originating local exchange segment ISDN(incl Operator Assistance) | | | | | X | | ✗ | |

Regulatory financial reporting obligations on BT – Taking a fresh view

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

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|-----------|------------|-----|-----|-------|------|------------------|
| | SoAC FA | NCR FA | SOAC IC | RFR | SDR | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | | | |
| - WS Local-tandem conveyance segment (ISDN) | | | | | X | | ✗ | |
| - WS LTT Stick | | | | | X | | ✗ | |
| - WS LTT Stick (ISDN) | | | | | X | | ✗ | |
| -WS Local-tandem circuit excluding port at tandem exchange | | | | | ✗ | | ✗ | |
| -WS FRIACO port at the tandem exchange | | | | | ✗ | | ✗ | |
| Single transit on fixed public narrowband networks | X | X | X | X | X | ✗ | | X (except NCRFA) |
| -WS Single transit segment | | | | | ✗ | | ✗ | |
| - WS Single transit segment <u>PSTN</u> and ISDN | | | | | X | | ✗ | |
| Technical areas | X | X | X | X | X | ✗ | | X (except NCRFA) |
| - WS standard CSI connection | | | | | X | | ✗ | |
| - WS standard CSI rental - fixed | | | | | X | | ✗ | |
| - WS standard CSI rental per km | | | | | X | | ✗ | |
| -WS high performance CSI connection | | | | | ✗ | | ✗ | |
| -WS high performance CSI rental - fixed | | | | | ✗ | | ✗ | |
| -WS high performance CSI rental per km | | | | | ✗ | | ✗ | |
| - WS ISI connection | | | | | X | | ✗ | |
| - WS ISI rental per 100m | | | | | X | | X | |
| - WS IEC connection | | | | | X | | ✗ | |
| - WS IEC rental - fixed | | | | | X | | ✗ | |
| - WS IEC rental – per km | | | | | X | | ✗ | |
| - WS intra-building circuits connection | | | | | X | | ✗ | |
| - WS intra-building circuits rental | | | | | X | | ✗ | |
| - WS rearrangements | | | | | X | | ✗ | |
| -WS path protection connection per 34 Mbits/s | | | | | ✗ | | ✗ | |

Regulatory financial reporting obligations on BT – Taking a fresh view

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|-----------|------------|-----|-----|-------|------|-----------|
| | SoAC FA | NCR FA | SOAC IC | RFR | SDR | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | | | |
| | | | | | | | | |
| -WS path protection connection per 140 Mbits/s | | | | | X | | X | |
| -WS path protection rental per 34 Mbits/s | | | | | X | | X | |
| -WS path protection rental per 140 Mbits/s | | | | | X | | X | |

Review of the fixed geographic call termination markets

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

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

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|-----------|------------|-----|-----|-------|------|------------------|
| | SoAC FA | NCR FA | SOAC IC | RFR | SDR | FPIA | PPIA | |
| Wholesale markets and illustrative services | | | | | | | | |
| Traditional interface symmetric broadband origination (up to and including 8Mbit/s); | X | X | X | X | X | ✗ | | X (except NCRFA) |
| - WS service A | | | | | X | | ✗ | |
| - WS service B | | | | | X | | ✗ | |
| - <u>Partial and Private Circuits 64kbit/s - connection</u> | | | | | X | | | |
| - <u>Partial and Private Circuits 64kbit/s – link</u> | | | | | X | | | |
| - <u>Partial and Private Circuits 64kbit/s - transmission</u> | | | | | X | | | |
| - <u>Partial and Private Circuits 64kbit/s – local end</u> | | | | | X | | | |
| - <u>Partial and Private Circuits 2mbit/s - connection</u> | | | | | X | | | |
| - <u>Partial and Private Circuits 2mbit/s - link</u> | | | | | X | | | |
| - <u>Partial and Private Circuits 2mbit/s - distribution</u> | | | | | X | | | |
| - <u>Partial and Private Circuits 2mbit/s - local end</u> | | | | | X | | | |
| - <u>RBS Backhaul sub 2mb rental</u> | | | | | X | | | |
| - <u>RBS Backhaul sub 2mb connection</u> | | | | | X | | | |
| - <u>RBS Backhaul 2mb rental</u> | | | | | X | | | |
| - <u>RBS Backhaul 2mb connection</u> | | | | | X | | | |
| - <u>SDSL</u> | | | | | X | | | |
| Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s); | X | X | X | X | X | ✗ | | X (except NCRFA) |
| - WS service A | | | | | X | | ✗ | |
| - WS service B | | | | | X | | ✗ | |
| - <u>Partial and Private Circuits 34/45mbit/s – link</u> | | | | | X | | | |
| - <u>Partial and Private Circuits 34/45mbit/s - distribution</u> | | | | | X | | | |

| | Financial statements | | | | | Audit | | Published |
|--|----------------------|-----------|------------|-----|-----|-------|------|------------------|
| | SoAC FA | NCR FA | SOAC IC | RFR | SDR | FPIA | PPIA | |
| Wholesale markets and illustrative services | | | | | | | | |
| - Partial and Private Circuits 34/45mbit/s - local end | | | | | X | | | |
| - Partial and Private Circuits 140/155mbit/s - link | | | | | X | | | |
| - Partial and Private Circuits 140/155mbit/s - distribution | | | | | X | | | |
| - Partial and Private Circuits 140/155mbit/s - local end | | | | | X | | | |
| Alternative interface symmetric broadband origination (all bandwidths); | X | X | X | X | X | ✗ | | X (except NCRFA) |
| - WS service A | | | | | X | | ✗ | |
| - WS service B | | | | | X | | ✗ | |
| - <u>WES/LES</u> | | | | | X | | | |
| - <u>BES</u> | | | | | X | | | |
| Wholesale trunk segments (including Kingston upon Hull) | X | X | X | X | X | ✗ | | X (except NCRFA) |
| - WS service A | | | | | X | | ✗ | |
| - WS service B | | | | | X | | ✗ | |
| - <u>Partial and Private circuits 2mbit/s - trunk</u> | | | | | X | | | |
| - <u>Partial and Private circuits 34/45mbit/s - trunk</u> | | | | | X | | | |
| - <u>Partial and Private circuits 140/155mbit/s - trunk</u> | | | | | X | | | |
| - <u>Partial and Private circuits 622mbit/s - trunk</u> | | | | | X | | | |
| Technical areas (as necessary, including fixed and per km variants) | X | X | X | X | X | ✗ | | X (except NCRFA) |
| - <u>In Span Handover (“ISH”)</u> | | | | | ✗ | | ✗ | |
| - <u>Customer Sited Handover (“CSH”);</u> | | | | | ✗ | | ✗ | |
| - <u>ISH extension circuits</u> | | | | | ✗ | | ✗ | |
| - <u>Synchronous Transfer Mode (“STM”)-1 ISH and CSH handover</u> | | | | | ✗ | | ✗ | |
| - <u>Point of Handover (“PoH”)</u> | | | | | 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 (except SPS) |
| - wholesale service A | X | | | | | | ✗ | |
| - wholesale service B ... | X | | | | | | ✗ | |
| Wholesale business analogue exchange line services | X | | X | | | ✗ | | X (except SPS) |
| - wholesale service A | X | | | | | | ✗ | |
| - wholesale service B ... | X | | | | | | ✗ | |
| Wholesale business ISDN2 exchange line services | X | | X | | | ✗ | | X (except SPS) |
| - wholesale service A | X | | | | | | ✗ | |
| - wholesale service B | X | | | | | | ✗ | |
| Call origination on fixed public narrowband networks | X | | X | | | ✗ | | X (except SPS) |
| - WS Call originating local exchange segment <u>PSTN and ISDN</u> (excluding Operator Assistance) | X | | | | | | ✗ | |
| - WS Call originating local exchange segment (incl Operator Assistance) | X | | | | | | ✗ | |
| - WS Call originating local exchange segment ISDN (incl Operator Assistance) | X | | | | | | ✗ | |
| - WS Call originating local exchange segment <u>PSTN</u> and ISDN (incl Operator Assistance) | X | | | | | | ✗ | |

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

Regulatory financial reporting obligations on BT – Taking a fresh view

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

Review of the fixed geographic call termination markets

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

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

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|-----|-----|--|--|-------|------|----------------|
| | Notes | RMP | SPS | | | FPIA | PPIA | |
| Wholesale markets and illustrative services | | | | | | | | |
| Traditional interface symmetric broadband origination (up to and including 8Mbit/s); | X | | X | | | X | | X (except SPS) |
| - WS service A | X | | | | | | X | |
| - WS service B | X | | | | | | X | |
| - <u>Partial and Private Circuits 64kbit/s - connection</u> | | | | | | | | |
| - <u>Partial and Private Circuits 64kbit/s - link</u> | | | | | | | | |
| - <u>Partial and Private Circuits 64kbit/s - transmission</u> | | | | | | | | |
| - <u>Partial and Private Circuits 64kbit/s – local end</u> | | | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - connection</u> | | | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - link</u> | | | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - distribution</u> | | | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - local end</u> | | | | | | | | |
| - <u>RBS Backhaul sub 2mb rental</u> | | | | | | | | |
| - <u>RBS Backhaul sub 2mb connection</u> | | | | | | | | |
| - <u>RBS Backhaul 2mb rental</u> | | | | | | | | |
| - <u>RBS Backhaul 2mb connection</u> | | | | | | | | |
| - <u>SDSL</u> | | | | | | | | |
| Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s); | X | | X | | | X | | X (except SPS) |
| - WS service A | X | | | | | | X | |
| - WS service B | X | | | | | | X | |
| - <u>Partial and Private Circuits 34/45mbit/s - link</u> | | | | | | | | |
| - <u>Partial and Private Circuits 34/45mbit/s - distribution</u> | | | | | | | | |
| - <u>Partial and Private Circuits 34/45mbit/s -local end</u> | | | | | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - link</u> | | | | | | | | |

| | Financial statements | | | | | Audit | | Published |
|--|----------------------|-----|-----|--|--|-------|------|----------------|
| | Notes | RMP | SPS | | | FPIA | PPIA | |
| Wholesale markets and illustrative services | | | | | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - distribution</u> | | | | | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - local end</u> | | | | | | | | |
| Alternative interface symmetric broadband origination (all bandwidths); | X | | X | | | ✗ | | X (except SPS) |
| - WS service A | X | | | | | | ✗ | |
| - WS service B | X | | | | | | ✗ | |
| - <u>WES/LES</u> | | | | | | | | |
| - <u>BES</u> | | | | | | | | |
| Wholesale trunk segments (including Kingston upon Hull) | X | | X | | | ✗ | | X (except SPS) |
| - WS service A | X | | | | | | ✗ | |
| - WS service B | X | | | | | | ✗ | |
| - <u>Partial and Private circuits 2mbit/s - trunk</u> | | | | | | | | |
| - <u>Partial and Private circuits 34/45mbit/s - trunk</u> | | | | | | | | |
| - <u>Partial and Private circuits 140/155mbit/s - trunk</u> | | | | | | | | |
| - <u>Partial and Private circuits 622mbit/s - trunk</u> | | | | | | | | |
| Technical areas (as necessary, including fixed and per km variants) | X | | X | | | ✗ | | X (except SPS) |
| - <u>In Span Handover ("ISH")</u> | ✗ | | | | | | ✗ | |
| - <u>Customer Sited Handover ("CSH");</u> | ✗ | | | | | | ✗ | |
| - <u>ISH extension circuits</u> | ✗ | | | | | | ✗ | |
| - <u>Synchronous Transfer Mode ("STM")-1 ISH and CSH handover</u> | ✗ | | | | | | ✗ | |
| - <u>Point of Handover ("PoH")</u> | ✗ | | | | | | | |

Part D

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

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|---------|---------|---------|--|-------|------|-----------|
| | AFI (a) | AFI (b) | AFI (c) | AFI (d) | | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | | | |
| Wholesale residential analogue exchange line services | | | | | | | | |
| - wholesale service A | X | X | X | X | | | ✗ | |
| - wholesale service B ... | X | X | X | X | | | ✗ | |
| Wholesale business analogue exchange line services | | | | | | | | |
| - wholesale service A | X | X | X | X | | | ✗ | |
| - wholesale service B ... | X | X | X | X | | | ✗ | |
| Wholesale business ISDN2 exchange line services | | | | | | | | |
| - wholesale service A | X | X | X | X | | | ✗ | |
| - wholesale service B | X | X | X | X | | | ✗ | |
| Call origination on fixed public narrowband networks | | | | | | | | |
| - WS Call originating local exchange segment <u>PSTN and ISDN</u> (excluding Operator Assistance) | X | X | X | X | | | ✗ | |
| - WS Call originating local exchange segment (incl Operator Assistance) | X | X | X | X | | | ✗ | |
| - WS Call originating local exchange segment ISDN(incl Operator Assistance) | X | X | X | X | | | ✗ | |
| - WS Call originating local exchange segment <u>PSTN</u> and ISDN (incl Operator Assistance) | X | X | X | X | | | ✗ | |
| - WS Call origination local exchange Stick | X | X | X | X | | | ✗ | |
| - WS Call origination local exchange Stick (ISDN) | X | X | X | X | | | ✗ | |
| - WS Local exchange call origination circuit excluding FRIACO port | X | X | X | X | | | ✗ | |

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

Regulatory financial reporting obligations on BT – Taking a fresh view

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|---------|---------|---------|--|-------|------|-----------|
| | AFI (a) | AFI (b) | AFI (c) | AFI (d) | | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | | | |
| | | | | | | | | |
| Single transit on fixed public narrowband networks | | | | | | | | |
| - WS Single transit segment | X | X | X | X | | | X | |
| - WS Single transit segment <u>PSTN</u> and ISDN | X | X | X | X | | | X | |
| | | | | | | | | |
| Technical areas | | | | | | | | |
| - WS standard CSI connection | X | X | X | X | | | X | |
| - WS standard CSI rental - fixed | X | X | X | X | | | X | |
| - WS standard CSI rental per km | X | X | X | X | | | X | |
| - WS high performance CSI connection | X | X | X | X | | | X | |
| - WS high performance CSI rental - fixed | X | X | X | X | | | X | |
| - WS high performance CSI rental per km | X | X | X | X | | | X | |
| - WS ISI connection | X | X | X | X | | | X | |
| - WS ISI rental per 100m | X | X | X | X | | | X | |
| - WS IEC connection | X | X | X | X | | | X | |
| - WS IEC rental - fixed | X | X | X | X | | | X | |
| - WS IEC rental – per km | X | X | X | X | | | X | |
| - WS intra-building circuits connection | X | X | X | X | | | X | |
| - WS intra-building circuits rental | X | X | X | X | | | X | |
| - WS rearrangements | X | X | X | X | | | X | |
| - WS path protection connection per 34 Mbits/s | X | X | X | X | | | X | |
| - WS path protection connection per 140 Mbits/s | X | X | X | X | | | X | |
| - WS path protection rental per 34 Mbits/s | X | X | X | X | | | X | |
| - WS path protection rental per 140 Mbits/s | X | X | X | X | | | X | |

Review of the fixed geographic call termination markets

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

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

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|---------|---------|---------|--|-------|------|-----------|
| | AFI (a) | AFI (b) | AFI (c) | AFI (d) | | FPIA | PPIA | |
| Wholesale markets and illustrative services | | | | | | | | |
| Traditional interface symmetric broadband origination (up to and including 8Mbit/s); | | | | | | | | |
| - WS service A | X | X | X | X | | | ✗ | |
| - WS service B | X | X | X | X | | | ✗ | |
| - <u>Partial and Private Circuits 64kbit/s - connection</u> | | | | | | | | |
| - <u>Partial and Private Circuits 64kbit/s - link</u> | | | | | | | | |
| - <u>Partial and Private Circuits 64kbit/s - transmission</u> | | | | | | | | |
| - <u>Partial and Private Circuits 64kbit/s – local end</u> | | | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - connection</u> | | | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - link</u> | | | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - distribution</u> | | | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - local end</u> | | | | | | | | |
| - <u>RBS Backhaul sub 2mb rental</u> | | | | | | | | |
| - <u>RBS Backhaul sub 2mb connection</u> | | | | | | | | |
| - <u>RBS Backhaul 2mb rental</u> | | | | | | | | |
| - <u>RBS Backhaul 2mb connection</u> | | | | | | | | |
| - <u>SDSL</u> | | | | | | | | |
| Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s); | | | | | | | | |
| - WS service A | X | X | X | X | | | ✗ | |
| - WS service B | X | X | X | X | | | ✗ | |
| - <u>Partial and Private Circuits 34/45mbit/s - link</u> | | | | | | | | |
| - <u>Partial and Private Circuits 34/45mbit/s - distribution</u> | | | | | | | | |
| - <u>Partial and Private Circuits 34/45mbit/s -local end</u> | | | | | | | | |

| | Financial statements | | | | | Audit | | Published |
|--|----------------------|---------|---------|---------|--|-------|------|-----------|
| | AFI (a) | AFI (b) | AFI (c) | AFI (d) | | FPIA | PPIA | |
| Wholesale markets and illustrative services | | | | | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - link</u> | | | | | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - distribution</u> | | | | | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - local end</u> | | | | | | | | |
| | | | | | | | | |
| Alternative interface symmetric broadband origination (all bandwidths); | | | | | | | | |
| - WS service A | X | X | X | X | | | ✗ | |
| - WS service B | X | X | X | X | | | ✗ | |
| - <u>WES/LES</u> | | | | | | | | |
| - <u>BES</u> | | | | | | | | |
| | | | | | | | | |
| Wholesale trunk segments (including Kingston upon Hull) | | | | | | | | |
| - WS service A | X | X | X | X | | | ✗ | |
| - WS service B | X | X | X | X | | | ✗ | |
| - <u>Partial and Private circuits 2mbit/s - trunk</u> | | | | | | | | |
| - <u>Partial and Private circuits 34/45mbit/s - trunk</u> | | | | | | | | |
| - <u>Partial and Private circuits 140/155mbit/s - trunk</u> | | | | | | | | |
| - <u>Partial and Private circuits 622mbit/s - trunk</u> | | | | | | | | |
| | | | | | | | | |
| Technical areas (as necessary, including fixed and per km variants) | | | | | | | | |
| - In Span Handover (“ISH”) | ✗ | ✗ | ✗ | ✗ | | | ✗ | |
| - Customer Sited Handover (“CSH”); | ✗ | ✗ | ✗ | ✗ | | | ✗ | |
| - ISH extension circuits | ✗ | ✗ | ✗ | ✗ | | | ✗ | |
| - Synchronous Transfer Mode (“STM”)-1 ISH and CSH handover | ✗ | ✗ | ✗ | ✗ | | | ✗ | |
| - Point of Handover (“PoH”) | ✗ | ✗ | ✗ | ✗ | | | | |

Part E

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

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|--|---------|---------|---------|-------|------|-----------|
| | AFI (e) | | AFI (f) | AFI (g) | AFI (h) | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | | | |
| Wholesale residential analogue exchange line services | | | X | X | | | X | |
| - wholesale service A | | | | | | | | |
| - wholesale service B ... | | | | | | | | |
| Wholesale business analogue exchange line services | | | X | X | | | X | |
| - wholesale service A | | | | | | | | |
| - wholesale service B ... | | | | | | | | |
| Wholesale business ISDN2 exchange line services | | | X | X | | | X | |
| - wholesale service A | | | | | | | | |
| - wholesale service B | | | | | | | | |
| Call origination on fixed public narrowband networks | | | X | X | | | X | |
| - WS Call originating local exchange segment <u>PSTN and ISDN</u> (excluding Operator Assistance) | | | | | | | | |
| - WS Call originating local exchange segment (incl Operator Assistance) | | | | | | | | |
| - WS Call originating local exchange segment ISDN(incl Operator Assistance) | | | | | | | | |
| - WS Call originating local exchange segment <u>PSTN and ISDN</u> (incl Operator Assistance) | | | | | | | | |
| - WS Call origination local exchange Stick | | | | | | | | |
| - WS Call origination local exchange Stick (ISDN) | | | | | | | | |
| - WS Local exchange call origination circuit excluding FRIACO port | | | | | | | | |
| - WS FRIACO port at the local exchange | | | | | | | | |

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

Regulatory financial reporting obligations on BT – Taking a fresh view

| | Financial statements | | | | | Audit | | Published |
|--|----------------------|--|---------|---------|---------|-------|------|-----------|
| | AFI (e) | | AFI (f) | AFI (g) | AFI (h) | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | | | |
| - WS Single transit segment <u>PSTN and ISDN</u> | | | | | | | | |
| Technical areas | | | X | X | | | X | |
| - WS standard CSI connection | | | | | | | | |
| - WS standard CSI rental – fixed | | | | | | | | |
| - WS standard CSI rental per km | | | | | | | | |
| - WS high performance CSI connection | | | | | | | | |
| - WS high performance CSI rental – fixed | | | | | | | | |
| - WS high performance CSI rental per km | | | | | | | | |
| - WS ISI connection | | | | | | | | |
| - WS ISI rental per 100m | | | | | | | | |
| - WS IEC connection | | | | | | | | |
| - WS IEC rental – fixed | | | | | | | | |
| - WS IEC rental – per km | | | | | | | | |
| - WS intra-building circuits connection | | | | | | | | |
| - WS intra-building circuits rental | | | | | | | | |
| - WS rearrangements | | | | | | | | |
| - WS path protection connection per 34 Mbits/s | | | | | | | | |
| - WS path protection connection per 140 Mbits/s | | | | | | | | |
| - WS path protection rental per 34 Mbits/s | | | | | | | | |
| - WS path protection rental per 140 Mbits/s | | | | | | | | |

Review of the fixed geographic call termination markets

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|--|---------|---------|---------|-------|------|-----------|
| | AFI (e) | | AFI (f) | AFI (g) | AFI (h) | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | | | |
| | | | | | | | | |
| Fixed geographic call termination | | | X | X | | | X | |
| - WS Call termination local exchange segment | | | | | | | | |
| - WS Call termination local exchange segment (ISDN) | | | | | | | | |
| - WS Call termination local exchange stick | | | | | | | | |
| - WS Call termination local exchange stick (ISDN) | | | | | | | | |

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

| | Financial statements | | | | Audit | | Published | |
|---|----------------------|--|---------|---------|---------|------|-----------|------|
| | AFI (e) | | AFI (f) | AFI (g) | AFI (h) | FPIA | | PPIA |
| Wholesale markets and illustrative services | | | | | | | | |
| Traditional interface symmetric broadband origination (up to and including 8Mbit/s); | | | X | X | | | X | |
| - WS service A | | | | | | | | |
| - WS service B | | | | | | | | |
| - <u>Partial and Private Circuits 64kbit/s - connection</u> | | | | | | | | |
| - <u>Partial and Private Circuits 64kbit/s - link</u> | | | | | | | | |
| - <u>Partial and Private Circuits 64kbit/s - transmission</u> | | | | | | | | |
| - <u>Partial and Private Circuits 64kbit/s – local end</u> | | | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - connection</u> | | | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - link</u> | | | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - distribution</u> | | | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - local end</u> | | | | | | | | |
| - <u>RBS Backhaul sub 2mb rental</u> | | | | | | | | |
| - <u>RBS Backhaul sub 2mb connection</u> | | | | | | | | |
| - <u>RBS Backhaul 2mb rental</u> | | | | | | | | |
| - <u>RBS Backhaul 2mb connection</u> | | | | | | | | |
| - <u>SDSL</u> | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s); | | | X | X | | | X | |
| - WS service A | | | | | | | | |
| - WS service B | | | | | | | | |
| - <u>Partial and Private Circuits 34/45mbit/s - link</u> | | | | | | | | |
| - <u>Partial and Private Circuits 34/45mbit/s - distribution</u> | | | | | | | | |

| | Financial statements | | | | Audit | | Published |
|--|----------------------|--|---------|---------|---------|------|-----------|
| | AFI (e) | | AFI (f) | AFI (g) | AFI (h) | FPIA | |
| Wholesale markets and illustrative services | | | | | | | |
| - <u>Partial and Private Circuits 34/45mbit/s - local end</u> | | | | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - link</u> | | | | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - distribution</u> | | | | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - local end</u> | | | | | | | |
| | | | | | | | |
| Alternative interface symmetric broadband origination (all bandwidths); | | | X | X | | | X |
| - WS service A | | | | | | | |
| - WS service B | | | | | | | |
| - <u>WES/LES</u> | | | | | | | |
| - <u>BES</u> | | | | | | | |
| | | | | | | | |
| Wholesale trunk segments (including Kingston upon Hull) | | | X | X | | | X |
| - WS service A | | | | | | | |
| - WS service B | | | | | | | |
| - <u>Partial and Private circuits 2mbit/s - trunk</u> | | | | | | | |
| - <u>Partial and Private circuits 34/45mbit/s - trunk</u> | | | | | | | |
| - <u>Partial and Private circuits 140/155mbit/s - trunk</u> | | | | | | | |
| - <u>Partial and Private circuits 622mbit/s - trunk</u> | | | | | | | |
| | | | | | | | |
| Technical areas (as necessary, including fixed and per km variants) | | | X | X | | | X |
| - <u>In Span Handover (“ISH”)</u> | | | | | | | |
| - <u>Customer Sited Handover (“CSH”);</u> | | | | | | | |
| - <u>ISH extension circuits</u> | | | | | | | |
| - <u>Synchronous Transfer Mode (“STM”) - 1 ISH and CSH handover</u> | | | | | | | |
| - <u>Point of Handover (“PoH”)</u> | | | | | | | |

Part F

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

| | Financial statements | | | | | Audit | | Published |
|--|----------------------|------------|------------|--|--|-------|------|-----------|
| | AFI (k) | AFI (i) | AFI (j) | | | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | | | |
| Wholesale residential analogue exchange line services | X | X | | | | | X | |
| - wholesale service A | | X | | | | | X | |
| - wholesale service B ... | | X | | | | | X | |
| Wholesale business analogue exchange line services | X | X | | | | | X | |
| - wholesale service A | | X | | | | | X | |
| - wholesale service B ... | | X | | | | | X | |
| Wholesale business ISDN2 exchange line services | X | X | | | | | X | |
| - wholesale service A | | X | | | | | X | |
| - wholesale service B | | X | | | | | X | |
| Call origination on fixed public narrowband networks | X | X | X | | | | X | |
| - WS Call originating local exchange segment <u>PSTN and ISDN</u> (excluding Operator Assistance) | | X | X | | | | X | |
| - WS Call originating local exchange segment (incl Operator Assistance) | | X | X | | | | X | |
| - WS Call originating local exchange segment ISDN(incl Operator Assistance) | | X | X | | | | X | |
| - WS Call originating local exchange segment <u>PSTN</u> and ISDN (incl Operator Assistance) | | X | X | | | | X | |
| - WS Call origination local exchange Stick | | X | X | | | | X | |
| - WS Call origination local exchange Stick (ISDN) | | X | X | | | | X | |
| - WS Local exchange call origination circuit excluding FRIACO port | | X | | | | | X | |

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

Regulatory financial reporting obligations on BT – Taking a fresh view

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|---------|---------|--|--|-------|------|-----------|
| | AFI (k) | AFI (i) | AFI (j) | | | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | | | |
| Single transit on fixed public narrowband networks | X | X | | | | | X | |
| - WS Single transit segment | | X | | | | | X | |
| - WS Single transit segment <u>PSTN and ISDN</u> | | X | | | | | | |
| | | | | | | | X | |
| Technical areas | X | X | | | | | X | |
| - WS standard CSI connection | | X | | | | | X | |
| - WS standard CSI rental - fixed | | X | | | | | X | |
| - WS standard CSI rental per km | | X | | | | | X | |
| - WS high performance CSI connection | | X | | | | | X | |
| - WS high performance CSI rental - fixed | | X | | | | | X | |
| - WS high performance CSI rental per km | | X | | | | | X | |
| - WS ISI connection | | X | | | | | X | |
| - WS ISI rental per 100m | | X | | | | | X | |
| - WS IEC connection | | X | | | | | X | |
| - WS IEC rental - fixed | | X | | | | | X | |
| - WS IEC rental – per km | | X | | | | | X | |
| - WS intra-building circuits connection | | X | | | | | X | |
| - WS intra-building circuits rental | | X | | | | | X | |
| - WS rearrangements | | X | | | | | X | |
| - WS path protection connection per 34 Mbits/s | | X | | | | | X | |
| - WS path protection connection per 140 Mbits/s | | X | | | | | X | |
| - WS path protection rental per 34 Mbits/s | | X | | | | | X | |
| - WS path protection rental per 140 Mbits/s | | X | | | | | X | |

Review of the fixed geographic call termination markets

| | Financial statements | | | | | Audit | | Published |
|---|--------------------------|------------|------------|--|--|-------|------|-----------|
| | <u>AFI</u> <u>(k)</u> | AFI (i) | AFI (j) | | | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | | | |
| | | | | | | | | |
| Fixed geographic call termination | <u>X</u> | X | | | | | X | |
| - WS Call termination local exchange segment | | X | | | | | X | |
| - WS Call termination local exchange segment (ISDN) | | X | | | | | X | |
| - WS Call termination local exchange stick | | X | | | | | X | |
| - WS Call termination local exchange stick (ISDN) | | X | | | | | X | |

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

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|---------|---------|--|--|-------|------|-----------|
| | AFI (k) | AFI (i) | AFI (j) | | | FPIA | PPIA | |
| Wholesale markets and illustrative services | | | | | | | | |
| Traditional interface symmetric broadband origination (up to and including 8Mbit/s); | X | X | | | | | X | |
| - WS service A | | X | | | | | X | |
| - WS service B | | X | | | | | X | |
| - <u>Partial and Private Circuits 64kbit/s - connection</u> | | | | | | | | |
| - <u>Partial and Private Circuits 64kbit/s - link</u> | | | | | | | | |
| - <u>Partial and Private Circuits 64kbit/s - transmission</u> | | | | | | | | |
| - <u>Partial and Private Circuits 64kbit/s – local end</u> | | | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - connection</u> | | | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - link</u> | | | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - distribution</u> | | | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - local end</u> | | | | | | | | |
| - <u>RBS Backhaul sub 2mb rental</u> | | | | | | | | |
| - <u>RBS Backhaul sub 2mb connection</u> | | | | | | | | |
| - <u>RBS Backhaul 2mb rental</u> | | | | | | | | |
| - <u>RBS Backhaul 2mb connection</u> | | | | | | | | |
| - <u>SDSL</u> | | | | | | | | |
| Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s); | X | X | | | | | X | |
| - WS service A | | X | | | | | X | |
| - WS service B | | X | | | | | X | |
| - <u>Partial and Private Circuits 34/45mbit/s - link</u> | | | | | | | | |
| - <u>Partial and Private Circuits 34/45mbit/s - distribution</u> | | | | | | | | |
| - <u>Partial and Private Circuits 34/45mbit/s -local end</u> | | | | | | | | |

| | Financial statements | | | | | Audit | | Published |
|--|----------------------|---------|---------|--|--|-------|------|-----------|
| | AFI (k) | AFI (i) | AFI (j) | | | FPIA | PPIA | |
| Wholesale markets and illustrative services | | | | | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - link</u> | | | | | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - distribution</u> | | | | | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - local end</u> | | | | | | | | |
| Alternative interface symmetric broadband origination (all bandwidths); | X | X | | | | | X | |
| - WS service A | | X | | | | | X | |
| - WS service B | | X | | | | | X | |
| - <u>WES/LES</u> | | | | | | | | |
| - <u>BES</u> | | | | | | | | |
| Wholesale trunk segments (including Kingston upon Hull) | X | X | | | | | X | |
| - WS service A | | X | | | | | X | |
| - WS service B | | X | | | | | X | |
| - <u>Partial and Private circuits 2mbit/s - trunk</u> | | | | | | | | |
| - <u>Partial and Private circuits 34/45mbit/s - trunk</u> | | | | | | | | |
| - <u>Partial and Private circuits 140/155mbit/s - trunk</u> | | | | | | | | |
| - <u>Partial and Private circuits 622mbit/s - trunk</u> | | | | | | | | |
| Technical areas (as necessary, including fixed and per km variants) | | X | | | | | X | |
| - In Span Handover ("ISH") | | X | | | | | X | |
| - Customer Sited Handover ("CSH"); | | X | | | | | X | |
| - ISH extension circuits | | X | | | | | X | |
| - Synchronous Transfer Mode ("STM")-1 ISH and CSH handover | | X | | | | | X | |
| - Point of Handover ("PoH") | | X | | | | | | |

Annex B to draft direction 3

Accounting Separation Financial Statements

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

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

- TS - turnover statements: sales of External Wholesale Services (as set out in annex 24) and sales of Internal Wholesale Services (as set out in annex 25)
- SOS – notes to the financial statements (as set out in annex 23) in relation to sufficiency of separation, in particular assurance that activities to which accounting separation applies have been sufficiently separated from each other and from activities to which separation does not apply;
- IMT – Inter-market turnover, reconciliation of the source and destination of inter market turnover, to verify that transfer charges are self cancelling overall (as set out in annex 33)
- RFR – regulatory financial review, as set out in annex 2;
- SDR – statement of responsibility, as set out in annex 3
- FPIA – Audit Opinion required for required statements, for inclusion in audit report as set out in annex 4
- PPIA – Audit opinion required for required statements, for inclusion in audit report as set out in annex 4
- CCPS = ‘current cost primary statements’, to demonstrate sufficiency of separation where CCPS not required for cost accounting purposes – current cost profit and loss statement and statement of current cost mean capital employed, as set out in Annexes 13 & 14 in relation to wholesale services, Annexes 11 & 12 in relation to wholesale segments (when designated), Annexes 9 & 10 in relation to individual wholesale markets;
- RTW = ‘reconciliation to wholesale’, reconciliation of CC P&L and CC MCE to wholesale level, to demonstrate sufficiency of separation where for cost accounting purposes RTW not required – consolidation across group of markets covered by review, followed by consolidation of these consolidations, to give consolidated CC P&L and CC MCE for wholesale markets subject to accounting separation (as set out in annex 5 & 6)
- RTSA = ‘reconciliation to statutory accounts’, reconciliation of consolidated CC P&L and CC MCE for wholesale markets subject to accounting separation to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 27 & 28, supported by annexes 29, 30, 31 & 32), to demonstrate sufficiency of separation where RTSA not already required for cost accounting purposes

Part A

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

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

Regulatory financial reporting obligations on BT – Taking a fresh view

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

| | Financial statements | | | Audit | | Published |
|---|----------------------|-----|-----|-------|------|----------------|
| | TS | SOS | IMT | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | |
| - WS Single transit segment <u>PSTN and ISDN</u> | | X | | | X | |
| Interconnection | X | X | X | X | | X (except IMT) |
| - WS Connection (£ per 2Mbit/s per year) | | X | | | X | |
| - WS Rental – fixed (£ per 2Mbit/s per year) | | X | | | X | |
| - WS Rental – per km (£ per 2Mbit/s per year) | | X | | | X | |
| - WS Re-arrangements (£ per occasion) | | X | | | X | |

Review of the fixed geographic call termination markets

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

Review of International Wholesale Services

| | Financial statements | | | Audit | | Published |
|--|----------------------|-----|-----|-------|------|----------------|
| | TS | SOS | IMT | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | |
| Wholesale IDD to category B | X | X | X | ✕ | | X (except IMT) |
| | | | | | | |

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

| | Financial statements | | | Audit | | Published |
|---|----------------------|-----|-----|-------|------|----------------|
| | TS | SOS | IMT | FPIA | PPIA | |
| Wholesale markets and illustrative services | | | | | | |
| Traditional interface symmetric broadband origination (up to and including 8Mbit/s); | X | X | X | ✗ | | X (except IMT) |
| - WS service A | | X | | | ✗ | |
| - WS service B | | X | | | ✗ | |
| - <u>Partial and Private Circuits 64kbit/s - connection</u> | | | | | | |
| - <u>Partial and Private Circuits 64kbit/s - link</u> | | | | | | |
| - <u>Partial and Private Circuits 64kbit/s - transmission</u> | | | | | | |
| - <u>Partial and Private Circuits 64kbit/s – local end</u> | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - connection</u> | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - link</u> | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - distribution</u> | | | | | | |
| - <u>Partial and Private Circuits 2mbit/s - local end</u> | | | | | | |
| - <u>RBS Backhaul sub 2mb rental</u> | | | | | | |
| - <u>RBS Backhaul sub 2mb connection</u> | | | | | | |
| - <u>RBS Backhaul 2mb rental</u> | | | | | | |
| - <u>RBS Backhaul 2mb connection</u> | | | | | | |
| - <u>SDSL</u> | | | | | | |
| Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s); | X | X | X | ✗ | | X (except IMT) |
| - WS service A | | X | | | ✗ | |
| - WS service B | | X | | | ✗ | |
| - <u>Partial and Private Circuits 34/45mbit/s - link</u> | | | | | | |
| - <u>Partial and Private Circuits 34/45mbit/s - distribution</u> | | | | | | |
| - <u>Partial and Private Circuits 34/45mbit/s -local end</u> | | | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - link</u> | | | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - distribution</u> | | | | | | |

| - Partial and Private Circuits 140/155mbit/s - local end | | | | | | |
|---|----------------------|-----|-----|-------|------|----------------|
| | Financial statements | | | Audit | | Published |
| Wholesale markets and illustrative services | TS | SOS | IMT | FPIA | PPIA | |
| Alternative interface symmetric broadband origination (all bandwidths); | X | X | X | ✗ | | X (except IMT) |
| - WS service A | | X | | | ✗ | |
| - WS service B | | X | | | ✗ | |
| - <u>WES/LES</u> | | | | | | |
| - <u>BES</u> | | | | | | |
| Wholesale trunk segments (including Kingston upon Hull) | X | X | X | ✗ | | X (except IMT) |
| - WS service A | | X | | | ✗ | |
| - WS service B | | X | | | ✗ | |
| - <u>Partial and Private circuits 2mbit/s - trunk</u> | | | | | | |
| - <u>Partial and Private circuits 34/45mbit/s - trunk</u> | | | | | | |
| - <u>Partial and Private circuits 140/155mbit/s - trunk</u> | | | | | | |
| - <u>Partial and Private circuits 622mbit/s - trunk</u> | | | | | | |
| Technical areas (as necessary, including fixed and per km variants) | X | X | X | ✗ | | X (except IMT) |
| - In Span Handover (“ISH”) | | ✗ | | | ✗ | |
| - Customer Sited Handover (“CSH”); | | ✗ | | | ✗ | |
| - ISH extension circuits | | ✗ | | | ✗ | |
| - Synchronous Transfer Mode (“STM”)-1 ISH and CSH handover | | ✗ | | | ✗ | |
| - <u>Point of Handover (“PoH”)</u> | | ✗ | | | | |

Review of the wholesale broadband access market

| | Financial statements | | | Audit | | Published |
|---|----------------------|-----|-----|-------|------|----------------|
| | TS | SOS | IMT | FPIA | PPIA | |
| Wholesale markets and illustrative services | | | | | | |
| Asymmetric broadband origination in the UK excluding the Hull area | X | X | X | ✗ | | X (except IMT) |
| Broadband conveyance in the UK | X | X | X | ✗ | | X (except IMT) |
| - WS ATM Interconnection | | 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 |
| - wholesale service A | | X | | | ✗ | |
| - wholesale service B ... | | X | | | ✗ | |
| Wholesale business analogue exchange line services | X | X | X | ✗ | | X |
| - wholesale service A | | X | | | ✗ | |
| - wholesale service B ... | | X | | | ✗ | |
| Wholesale business ISDN2 exchange line services | X | X | X | ✗ | | X |
| - wholesale service A | | X | | | ✗ | |
| - wholesale service B | | X | | | ✗ | |
| Wholesale business ISDN30 exchange line services | X | X | X | ✗ | | X |
| - wholesale service A | | X | | | ✗ | |
| Call origination on fixed public narrowband networks | X | X | X | ✗ | | X |
| - WS Call originating local exchange segment <u>PSTN and ISDN (excluding Operator Assistance)</u> | | X | | | ✗ | |
| - WS Call originating local exchange segment (incl Operator Assistance) | | X | | | ✗ | |
| - WS Call originating local exchange segment ISDN (incl Operator Assistance) | | X | | | ✗ | |
| - WS Call originating local exchange segment <u>PSTN and ISDN (incl</u> | | X | | | ✗ | |

Regulatory financial reporting obligations on BT – Taking a fresh view

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

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

Review of the fixed geographic call termination markets

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

Review of International Wholesale Services

| | Financial statements | | | Audit | | Published |
|--|----------------------|-----|------------------------|-------|------|-----------|
| | RFR | SDR | CCPS, RTW & RTSA | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | |
| Wholesale IDD to category B | X | X | X | X | | X |

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

| | Financial statements | | | Audit | | Published |
|---|----------------------|-----|------------------|-------|------|-----------|
| | RFR | SDR | CCPS, RTW & RTSA | FPIA | PPIA | |
| Wholesale markets and illustrative services | | | | | | |
| Traditional interface symmetric broadband origination (up to and including 8Mbit/s); | X | X | X | X | | X |
| - WS service A | | X | | | X | |
| - WS service B | | X | | | X | |
| - <u>Partial and Private Circuits 64kbit/s - connection</u> | | X | | | | |
| - <u>Partial and Private Circuits 64kbit/s - link</u> | | X | | | | |
| - <u>Partial and Private Circuits 64kbit/s - transmission</u> | | X | | | | |
| - <u>Partial and Private Circuits 64kbit/s – local end</u> | | X | | | | |
| - <u>Partial and Private Circuits 2mbit/s - connection</u> | | X | | | | |
| - <u>Partial and Private Circuits 2mbit/s - link</u> | | X | | | | |
| - <u>Partial and Private Circuits 2mbit/s - distribution</u> | | X | | | | |
| - <u>Partial and Private Circuits 2mbit/s - local end</u> | | X | | | | |
| - <u>RBS Backhaul sub 2mb rental</u> | | X | | | | |
| - <u>RBS Backhaul sub 2mb connection</u> | | X | | | | |
| - <u>RBS Backhaul 2mb rental</u> | | X | | | | |
| - <u>RBS Backhaul 2mb connection</u> | | X | | | | |
| - <u>SDSL</u> | | X | | | | |
| Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s); | X | X | X | X | | X |
| - WS service A | | X | | | X | |
| - WS service B | | X | | | X | |
| - <u>Partial and Private Circuits 34/45mbit/s - link</u> | | X | | | | |
| - <u>Partial and Private Circuits 34/45mbit/s - distribution</u> | | X | | | | |

| | Financial statements | | | Audit | | Published |
|--|----------------------|-----|------------------------|-------|------|-----------|
| | RFR | SDR | CCPS, RTW & RTSA | FPIA | PPIA | |
| Wholesale markets and illustrative services | | | | | | |
| - <u>Partial and Private Circuits 34/45mbit/s -local end</u> | | X | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - link</u> | | X | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - distribution</u> | | X | | | | |
| - <u>Partial and Private Circuits 140/155mbit/s - local end</u> | | X | | | | |
| Alternative interface symmetric broadband origination (all bandwidths); | X | X | X | X | | X |
| - WS service A | | X | | | X | |
| - WS service B | | X | | | X | |
| - <u>WES/LES</u> | | X | | | | |
| - <u>BES</u> | | X | | | | |
| Wholesale trunk segments (including Kingston upon Hull) | X | X | X | X | | X |
| - WS service A | | X | | | X | |
| - WS service B | | X | | | X | |
| - <u>Partial and Private circuits 2mbit/s - trunk</u> | | X | | | | |
| - <u>Partial and Private circuits 34/45mbit/s - trunk</u> | | X | | | | |
| - <u>Partial and Private circuits 140/155mbit/s - trunk</u> | | X | | | | |
| - <u>Partial and Private circuits 622mbit/s - trunk</u> | | X | | | | |
| Technical areas (as necessary, including fixed and per km variants) | X | X | X | X | | X |
| - <u>In Span Handover (“ISH”)</u> | | X | | | X | |
| - <u>Customer Sited Handover (“CSH”);</u> | | X | | | X | |
| - <u>ISH extension circuits</u> | | X | | | X | |
| - <u>Synchronous Transfer Mode (“STM”) -1 ISH and CSH handover</u> | | X | | | X | |
| - <u>Point of Handover (“PoH”)</u> | | X | | | | |

Review of the wholesale broadband access market

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

Annex C to draft direction 3

Retail Cost Accounting Financial Statements

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

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

- CCPS = ‘current cost primary statements’, current cost profit and loss statement (CC P&L) and statement of current cost mean capital employed (CC MCE), as set out in Annexes 21 & 22 in relation to retail product segments, Annexes 19 & 20 in relation to individual retail markets;
- RTR = ‘reconciliation to retail’, reconciliation of CC P&L and CC MCE to retail level - consolidation across group of markets covered by review, followed by consolidation of these consolidations, to give consolidated CC P&L and CC MCE for retail markets subject to cost accounting (as set out in annexes 15 & 16)
- RTSA = ‘reconciliation to statutory accounts’, reconciliation of consolidated CC P&L and CC MCE for retail markets subject to cost accounting to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 27 & 28, supported by annexes 29, 30, 31 & 32)
- SoCC Ext = statement of costs and charges for wholesale service supplied in the market, other than those which are only Internal Wholesale Services (as set out in annex 34);
- SoCC Int = statement of costs and charges for wholesale service supplied in the market, which are only Internal Wholesale Services (as set out in annex 35);
- SoAC FA = statement of activity costs on a current fully allocated cost basis for the market (as set out in Annexes 38), supported by consolidated statement of activity costs on a current fully allocated cost basis (as set out in Annexes 37),
- NCR FA = attribution of activity costs on a current fully allocated cost basis for the market (as set out in annex 40), supported by consolidated attribution of activity costs on a current fully allocated cost basis (as set out in annex 39),
- SoAC IC = consolidated statement of activity costs on a incremental and standalone cost basis (as set out in Annex 41)
 - RFR – regulatory financial review, as set out in annex 2;
 - SDR – statement of responsibility, as set out in annex 3
- FPIA – Audit Opinion required for required statements, for inclusion in audit report as set out in annex 4
- PPIA – Audit opinion required for required statements, for inclusion in audit report as set out in annex 4
- Notes – notes to the financial statements, as set out in annex 23
- RMP – retail markets purchase statement, as set out in annex 26
- SPS – summary, for reconciliation purposes, of profitability by wholesale service (as set out in annex 36);
 - AFI (a) – cost category analysis AI-1 (LRIC) and AI-3 (FAC) (as set out in annex 42)
 - AFI (b) – summarised activity analysis AI-4 (FAC) AI-2 (LRIC) (as set out in annex 42)

Regulatory financial reporting obligations on BT – Taking a fresh view

- AFI (c) – analysis of depreciation charge and CCA adjustments AI-5 and CCA fixed asset movement statement AI – 6 (as set out in annex 42)
- AFI (d) – mean capital employed and summarised activity analysis for all network components AI – 7 and network activity analysis of mean capital employed for all network components AI –9 (as set out in annex 42)
- AFI (e) – analysis of outpayments AI – 8 (as set out in annex 42)
- AFI (f) – indices applied for CCA revaluation AI-10 (as set out in annex 42)
- AFI (g) – assets valuation and useful economic life analysis AI-11 (as set out in annex 42)
- AFI (h) – marketing expenditure analysis AI-12 (as set out in annex 42)
- AFI (i) – operating cost and mean capital employed by plant group AI- 13 (as set out in annex 42)
- AFI (j) – CPS set up costs AI- 14 (as set out in annex 42)
- AFI (k) – BT inter-market turnover reconciliation AI-22 (as set out in annex 42)

Part A

Review of Fixed Narrowband Retail markets

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|-----|------|----------|----------|-------|------|-----------|
| | CCPS | RTR | RTSA | SoCC Ext | SoCC Int | FPIA | PPIA | |
| Retail markets and illustrative retail product segments | | | | | | | | |
| Residential analogue exchange line services in the UK excluding the Hull area | X | X | X | | | ✗ | | X |
| - PSTN Res Connections (Std) | X | | | | | | ✗ | |
| - Res Tele Line Rentals | X | | | | | | ✗ | |
| Residential local calls in the UK excluding the Hull area | X | X | X | | | ✗ | | X |
| - PSTN Local calls: Res | X | | | | | | ✗ | |
| Residential national calls in the UK excluding the Hull area | X | X | X | | | ✗ | | X |
| - PSTN National calls: Res | X | | | | | | ✗ | |
| Residential IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK excluding the Hull area | X | X | X | | | ✗ | | X |
| - IDD Calls to O'seas Fixed Res | X | | | | | | ✗ | |
| - IDD Calls to O'seas Mobile Res | X | | | | | | ✗ | |
| Residential IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the UK excluding the Hull area | X | X | X | | | ✗ | | X |
| - IDD Calls to O'seas Fixed Res | X | | | | | | ✗ | |
| - IDD Calls to O'seas Mobile Res | X | | | | | | ✗ | |
| Residential calls to mobiles in the UK excluding the Hull area | X | X | X | | | ✗ | | X |
| - Inland Calls to Mob Res | X | | | | | | ✗ | |
| Residential operator assisted calls in the UK excluding the Hull | X | X | X | | | ✗ | | X |

Regulatory financial reporting obligations on BT – Taking a fresh view

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|-----|------|-------------|-------------|-------|------|-----------|
| | CCPS | RTR | RTSA | SoCC Ext | SoCC Int | FPIA | PPIA | |
| Retail markets and illustrative retail product segments | | | | | | | | |
| area | | | | | | | | |
| - Retail segments ... | X | | | | | | X | |
| | | | | | | | | |

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

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|-----|------|-------------|-------------|-------|------|-----------|
| | CCPS | RTR | RTSA | SoCC Ext | SoCC Int | FPIA | PPIA | |
| Retail markets and illustrative retail product segments | | | | | | | | |
| Traditional interface retail leased lines (up to and including 8Mbit/s); | X | X | X | | | X | | X |
| - Speech/Keyline Connexions | X | | | | | | X | |
| - Speech/Keylines Rent | X | | | | | | X | |
| | | | | | | | | |

Part B

Review of Fixed Narrowband Retail markets

| Retail markets and illustrative retail product segments | Financial statements | | | | | Audit | | Published |
|--|----------------------|-----------|------------|-----|-----|-------|------|-----------|
| | SoAC FA | NCR FA | SOAC IC | RFR | SDR | FPIA | PPIA | |
| Residential analogue exchange line services in the UK excluding the Hull area | | | | X | X | X | | X |
| - PSTN Res Connections (Std) | | | | | X | | X | |
| - Res Tele Line Rentals | | | | | X | | X | |
| Residential local calls in the UK excluding the Hull area | | | | X | X | X | | X |
| - PSTN Local Calls: Res | | | | | X | | X | |
| Residential national calls in the UK excluding the Hull area | | | | X | X | X | | X |
| - PSTN National Calls: Res | | | | | X | | X | |
| Retail IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK excluding the Hull area | | | | X | X | X | | X |
| - IDD Calls to O'seas Fixed Res | | | | | X | | X | |
| - IDD Calls to O'seas Mob Res | | | | | X | | X | |
| Retail IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the UK excluding the Hull area | | | | X | X | X | | X |
| - IDD Calls to O'seas Fixed Res | | | | | X | | X | |
| - IDD Calls to O'seas Mob Res | | | | | X | | X | |
| Residential calls to mobiles in the UK excluding the Hull area | | | | X | X | X | | X |
| - Inland Calls to Mob Res | | | | | X | | X | |
| | | | | | | | | |

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|-----------|------------|-----|-----|-------|------|-----------|
| | SoAC FA | NCR FA | SOAC IC | RFR | SDR | FPIA | PPIA | |
| Retail markets and illustrative retail product segments | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| Residential operator assisted calls in the UK excluding the Hull area | | | | X | X | ✗ | | X |
| - Retail segments ... | | | | | X | | ✗ | |

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

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|-----------|------------|-----|-----|-------|------|-----------|
| | SoAC FA | NCR FA | SOAC IC | RFR | SDR | FPIA | PPIA | |
| Retail markets and illustrative retail product segments | | | | | | | | |
| | | | | | | | | |
| Traditional interface retail leased lines (up to and including 8Mbit/s); | | | | X | X | ✗ | | X |
| - Speech/Keyline Connexions | | | | | X | | ✗ | |
| - Speech/Keyline Rent | | | | | X | | ✗ | |
| | | | | | | | | |

Part C

Review of Fixed Narrowband Retail markets

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|-----|-----|--|--|-------|------|-----------|
| | Notes | RMP | SPS | | | FPIA | PPIA | |
| Retail markets and illustrative retail product segments | | | | | | | | |
| Residential analogue exchange line services in the UK excluding the Hull area | X | X | | | | X | | X |
| - PSTN Res Connections (Std) | X | | | | | | X | |
| - Res Tele Line Rentals | X | | | | | | X | |
| Residential local calls in the UK excluding the Hull area | X | X | | | | X | | X |
| - PSTN Local Calls: Res | X | | | | | | X | |
| Residential national calls in the UK excluding the Hull area | X | X | | | | X | | X |
| - PSTN National Calls: Res | X | | | | | | X | |
| Residential IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK excluding the Hull area | X | X | | | | X | | X |
| - IDD Calls to O'seas Fixed Res | X | | | | | | X | |
| - IDD Calls to O'seas Mob Res | X | | | | | | X | |
| Residential IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the UK excluding the Hull area | X | X | | | | X | | X |
| - IDD Calls to O'seas Fixed Res | X | | | | | | X | |
| - IDD Calls to O'seas Mob Res | X | | | | | | X | |
| Residential calls to mobiles in the UK excluding the Hull area | X | X | | | | X | | X |
| - Inland Calls to Mob Res | X | | | | | | X | |
| Residential operator assisted calls in the UK excluding the Hull area | X | X | | | | X | | X |

Regulatory financial reporting obligations on BT – Taking a fresh view

| | Financial statements | | | | | Audit | | Published |
|--|----------------------|-----|-----|--|--|-------|------|-----------|
| | Notes | RMP | SPS | | | FPIA | PPIA | |
| Retail markets and illustrative retail product segments | | | | | | | | |
| - Retail segments ... | X | | | | | X | | |
| | | | | | | | | |

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

| | Financial statements | | | | | Audit | | Published |
|--|----------------------|-----|-----|--|--|-------|------|-----------|
| | Notes | RMP | SPS | | | FPIA | PPIA | |
| Retail markets and illustrative retail product segments | | | | | | | | |
| Traditional interface retail leased lines (up to and including 8Mbit/s); | X | X | | | | X | | X |
| - Speech/Keyline Connexions | X | | | | | | X | |
| - Speech/Keyline Rent | X | | | | | | X | |
| | | | | | | | | |

Part D

Review of Fixed Narrowband Retail markets

| | Financial statements | | | | | Audit | | Published |
|--|----------------------|------------|------------|------------|--|-------|------|-----------|
| | AFI (a) | AFI (b) | AFI (c) | AFI (d) | | FPIA | PPIA | |
| Retail markets and illustrative retail product segments | | | | | | | | |
| | | | | | | | | |
| Residential analogue exchange line services in the UK excluding the Hull area | | | | | | | | |
| - Retail segments ... | | | | | | | | |
| | | | | | | | | |
| Residential local calls in the UK excluding the Hull area | | | | | | | | |
| - Retail segments ... | | | | | | | | |
| | | | | | | | | |
| Residential national calls in the UK excluding the Hull area | | | | | | | | |
| - Retail segments ... | | | | | | | | |
| | | | | | | | | |
| Residential IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK excluding the Hull area | | | | | | | | |
| - Retail segments ... | | | | | | | | |
| | | | | | | | | |
| Retail IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the UK excluding the Hull area | | | | | | | | |
| - Retail segments ... | | | | | | | | |
| | | | | | | | | |
| Residential calls to mobiles in the UK excluding the Hull area | | | | | | | | |
| - Retail segments ... | | | | | | | | |
| | | | | | | | | |
| Residential operator assisted calls in the UK excluding the Hull area | | | | | | | | |
| - Retail segments ... | | | | | | | | |

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

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|---------|---------|---------|--|-------|------|-----------|
| | AFI (a) | AFI (b) | AFI (c) | AFI (d) | | FPIA | PPIA | |
| Retail markets and illustrative retail product segments | | | | | | | | |
| Traditional interface retail leased lines (up to and including 8Mbit/s); | | | | | | | | |
| - Retail segment A ... | | | | | | | | |
| - Retail segment B ... | | | | | | | | |
| | | | | | | | | |

Part E

Review of Fixed Narrowband Retail markets

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|--|---------|---------|---------|-------|------|-----------|
| | AFI (e) | | AFI (f) | AFI (g) | AFI (h) | FPIA | PPIA | |
| Retail markets and illustrative retail product segments | | | | | | | | |
| Residential analogue exchange line services in the UK excluding the Hull area | X | | X | X | X | | X | |
| - PSTN Res Connections (Std) | X | | | | X | | X | |
| Residential local calls in the UK excluding the Hull area | X | | X | X | X | | X | |
| - PSTN Local Calls: Res | | | | | X | | X | |
| Residential national calls in the UK excluding the Hull area | X | | X | X | X | | X | |
| - PSTN National Calls: Res | | | | | X | | X | |
| Residential IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK excluding the Hull area | X | | X | X | X | | X | |
| - IDD Calls to O'seas Fixed Res | | | | | X | | X | |
| - IDD Calls to O'seas Mob Res | | | | | X | | X | |
| Residential IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the UK excluding the Hull area | X | | X | X | X | | X | |
| - IDD Calls to O'seas Fixed Res | | | | | X | | X | |
| - IDD Calls to O'seas Mob Res | | | | | X | | X | |
| Residential calls to mobiles in the UK excluding the Hull area | X | | X | X | X | | X | |
| - Inland Calls to Mob Res | X | | | | X | | X | |
| Residential operator assisted calls in the UK excluding the Hull area | X | | X | X | X | | X | |
| - Retail segments ... | X | | | | X | | X | |

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

| | Financial statements | | | | Audit | | Published | |
|---|----------------------|--|---------|---------|---------|------|-----------|------|
| | AFI (e) | | AFI (f) | AFI (g) | AFI (h) | FPIA | | PPIA |
| Retail markets and illustrative retail product segments | | | | | | | | |
| Traditional interface retail leased lines (up to and including 8Mbit/s); | X | | X | X | X | | X | |
| - Speech/Keyline Connexions | X | | | | X | | X | |
| - Speech/Keyline Rent | X | | | | X | | X | |
| | | | | | | | | |

Part F

Review of Fixed Narrowband Retail markets

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|---------|---------|--|--|-------|------|-----------|
| | AFI (i) | AFI (j) | AFI (k) | | | FPIA | PPIA | |
| Retail markets and illustrative retail product segments | | | | | | | | |
| Residential analogue exchange line services in the UK excluding the Hull area | | | | | | | X | |
| - PSTN Res Connections (Std) | | | | | | | X | |
| - Res Tele Line Rentals | | | | | | | X | |
| Residential local calls in the UK excluding the Hull area | | | | | | | X | |
| - PSTN Local Calls: Res | | | | | | | X | |
| Residential national calls in the UK excluding the Hull area | | | | | | | X | |
| - PSTN National Calls: Res | | | | | | | X | |
| Residential IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK excluding the Hull area | | | | | | | X | |
| - IDD Calls to O'seas Fixed Res | | | | | | | X | |
| - IDD Calls to O'seas Mob Res | | | | | | | X | |
| Residential IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the UK excluding the Hull area | | | | | | | X | |
| - IDD Calls to O'seas Fixed Res | | | | | | | X | |
| - IDD Calls to O'seas Mob Res | | | | | | | X | |
| Residential calls to mobiles in the UK excluding the Hull area | | | | | | | X | |
| - Inland Calls to Mob | | | | | | | X | |
| Residential operator assisted calls in the UK excluding the Hull area | | | | | | | X | |

| | Financial statements | | | | | Audit | | Published |
|--|----------------------|------------|------------|--|--|-------|------|-----------|
| | AFI (i) | AFI (j) | AFI (k) | | | FPIA | PPIA | |
| Retail markets and illustrative retail product segments | | | | | | | | |
| - Retail segments ... | | | | | | | X | |

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

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|---------|---------|--|--|-------|------|-----------|
| | AFI (i) | AFI (j) | AFI (k) | | | FPIA | PPIA | |
| Retail markets and illustrative retail product segments | | | | | | | | |
| | | | | | | | | |
| Traditional interface retail leased lines (up to and including 8Mbit/s); | | | | | | | ✗ | |
| - Speech/Keyline Connexions | | | | | | | ✗ | |
| - Speech/Keyline Rent | | | | | | | ✗ | |
| | | | | | | | | |

ANNEX D

Annexes A and B of the Original FA10 Direction are hereby amended in that the words, symbols and columns struck through below are deleted from the annexes and the words and symbols underlined below are inserted in the annexes.

Annex A

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 Direction made by Ofcom on 16 December 2004 under SMP Condition FA10.2 relating to the form and content of the Regulatory Financial Statements. In the table below, X means that the financial statement set out at the head of the column is required for the market or service on that row.

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

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

Regulatory financial reporting obligations on BT – Taking a fresh view

- PPIA – Audit opinion required for statements, for inclusion in audit report as set out in annex 4;
- Notes – notes to the financial statements, as set out in annex 23;
- RMP – retail markets purchase statement, as set out in annex 26;
- SPS – summary, for reconciliation purposes, of profitability by wholesale service (as set out in annex 36) [NB - the SPS should not be published];
- AFI (a) – cost category analysis AI-1 (LRIC) and AI-3 (FAC) (as set out in annex 42);
- AFI (b) – summarised activity analysis AI-4 (LRIC) and AI-2 (FAC) (as set out in annex 42);
- AFI (c) – analysis of depreciation charge and CCA adjustments AI-5 and CCA fixed asset movement statement AI – 6 (as set out in annex 42);
- AFI (d) – mean capital employed and summarised activity analysis for all network components AI – 7 and network activity analysis of mean capital employed for all network components AI –9 (as set out in annex 42);
- AFI (e) – analysis of outpayments AI – 8 (as set out in annex 42);
- AFI (f) – indices applied for CCA revaluation AI-10 (as set out in annex 42);
- AFI (g) – assets valuation and useful economic life analysis AI-11 (as set out in annex 42);
- AFI (h) – marketing expenditure analysis AI-12 (as set out in annex 42);
- AFI (i) – operating cost and mean capital employed by plant group AI-13 (as set out in annex 42);
- AFI (j) – CPS set up costs AI-14 (as set out in annex 42);
- AFI (k) – BT inter-market turnover reconciliation AI-22 (as set out in annex 42).

Part A
Review of the wholesale local access market

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|-----|------|----------|----------|-------|------|-----------|
| | CCPS | RTW | RTSA | SoCC Ext | SoCC Int | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | | | |
| Wholesale local access market | X | X | X | | | X | | X |
| - wholesale service A | X | | | X | | | X | |
| - wholesale service B etc | X | | | | X | | X | |

Part B
Review of the wholesale local access market

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|--------|---------|-----|-----|-------|------|------------------|
| | SoAC FA | NCR FA | SOAC IC | RFR | SDR | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | | | |
| Wholesale local access market | X | X | X | X | X | X | | X (except NCRFA) |
| - wholesale service A | | | | | X | | X | |
| - wholesale service B ... | | | | | X | | X | |

Part C
Review of the wholesale local access market

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|-----|-----|--|--|-------|------|----------------|
| | Notes | RMP | SPS | | | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | | | |
| Wholesale local access market | X | | X | | | | ✗ | X (except SPS) |
| - wholesale service A | X | | | | | | ✗ | |
| - wholesale service B ... | X | | | | | | ✗ | |

Part D
Review of the wholesale local access market

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|---------|---------|---------|--|-------|------|-----------|
| | AFI (a) | AFI (b) | AFI (c) | AFI (d) | | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | | | |
| Wholesale local access market | | | | | | | | |
| - wholesale service A | X | X | X | X | | | ✗ | |
| - wholesale service B ... | X | X | X | X | | | ✗ | |

Part E
Review of the wholesale local access market

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|--|---------|---------|---------|-------|------|-----------|
| | AFI (e) | | AFI (f) | AFI (g) | AFI (h) | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | | | |
| Wholesale local access market | | | X | X | | | ✗ | |
| - wholesale service A | | | | | | | | |
| - wholesale service B ... | | | | | | | | |

Part F
Review of the wholesale local access market

| | Financial statements | | | | | Audit | | Published |
|---|----------------------|----------------|--|--|--|-------|------|-----------|
| | AFI (i) | <u>AFI (k)</u> | | | | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | | | |
| | | | | | | | | |
| Wholesale local access market | X | <u>X</u> | | | | | X | |
| - wholesale service A | X | | | | | | X | |
| - wholesale service B ... | X | | | | | | X | |

Annex B

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 annexes to the Direction made by Ofcom on 16 December 2004 under SMP Condition FA10.2 relating to the form and content of the Regulatory Financial Statements. In the table below, X means that the financial statement set out at the head of the column is required for the market or service on that row.

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

- TS - turnover statements: sales of External Wholesale Services (as set out in annex 24) and sales of Internal Wholesale Services (as set out in annex 25);
- SOS – notes to the financial statements (as set out in annex 23) in relation to sufficiency of separation, in particular assurance that activities to which accounting separation applies have been sufficiently separated from each other and from activities to which separation does not apply;
- IMT – Inter-market turnover, reconciliation of the source and destination of inter market turnover, to verify that transfer charges are self cancelling overall (as set out in annex 33);
- RFR – regulatory financial review, as set out in annex 2 [NB - no audit opinion is required for the RFR];
- SDR – statement of responsibility, as set out in annex 3 [NB - no audit opinion is required for the SDR];
- FPIA – Audit Opinion required for required statements, for inclusion in audit report as set out in annex 4;
- PPIA – Audit opinion required for required statements, for inclusion in audit report as set out in annex 4;
- CCPS = ‘current cost primary statements’, to demonstrate sufficiency of separation where CCPS not required for cost accounting purposes – current cost profit and loss statement and statement of current cost mean capital employed, as set out in Annexes 13 & 14 in relation to wholesale services, Annexes 11 & 12 in relation to wholesale segments (when designated), Annexes 9 & 10 in relation to individual wholesale markets;
- RTW = ‘reconciliation to wholesale’, reconciliation of CC P&L and CC MCE to wholesale level, to demonstrate sufficiency of separation where for cost accounting purposes RTW not required – consolidation across group of markets covered by review, followed by consolidation of these consolidations, to give consolidated CC P&L and CC MCE for wholesale markets subject to accounting separation (as set out in annex 5 & 6);
- RTSA = ‘reconciliation to statutory accounts’, reconciliation of consolidated CC P&L and CC MCE for wholesale markets subject to accounting separation to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 27 & 28, supported by annexes 29, 30, 31 & 32), to demonstrate sufficiency of separation where RTSA not already required for cost accounting purposes.

Part A
Review of the wholesale local access market

| | Financial statements | | | Audit | | Published |
|---|----------------------|-----|-----|-------|------|----------------|
| | TS | SOS | IMT | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | |
| Wholesale local access market | X | X | X | ✗ | | X (except IMT) |
| - wholesale service A | | X | | | ✗ | |
| - wholesale service B ... | | X | | | ✗ | |

Part B
Review of the wholesale local access market

| | Financial statements | | | Audit | | Published |
|---|----------------------|-----|------------------|-------|------|-----------|
| | RFR | SDR | CCPS, RTW & RTSA | FPIA | PPIA | |
| Wholesale market and illustrative services | | | | | | |
| Wholesale local access market | X | X | X | ✗ | | X |
| - wholesale service A | | X | | | ✗ | |
| - wholesale service B ... | | X | | | ✗ | |

Annex 12

Notification of Proposed Amendments to Direction 4

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

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

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

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

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

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

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

4. Representation may be made to Ofcom about the proposed draft modification to the Direction by 5 pm on 14 June 2006.

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.

Sean Williams
Partner, Ofcom

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

3 May 2006

Schedule

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

WHEREAS:

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

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

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

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

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

(F) this Modified Direction modifies:

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

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

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

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

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

(J) on 3 May 2006, Ofcom published a notification of the proposed modified Direction in accordance with section 49 of the Act (the 'Notification');

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

(L) in the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 14 June 2006;

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

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

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

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

1. Direction 4 and the Original FA10 Direction shall be modified so that the Regulatory Financial Statements shall be in the form set out in Annex A to this Direction.
2. The Additional Financial Information set out in Annex 42 to the Direction 4 and the Original FA10 Direction shall be amended as follows in Annex B to this 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 736 of the Companies Act 1985, as amended by the Companies Act 1989;
 - c) "**Director**" means the Director General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
 - d) '**Direction 3**' means this Modified Direction given under SMP Services Condition OA2 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004, which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out the Regulatory Financial Statements which are required to be prepared, audited (including the level of audit), delivered to OFCOM and/or published by BT under condition OA5 as modified;
 - e) '**OFCOM**' means the Office of Telecommunications;
 - f) "**Notification**" means the Notifications which set in place the obligations on BT referred to in recital (B) of this modified Direction above; and
 - g) '**Transitional Provisions**' means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003, and the Office of Communications Act 2002 (Commencement No. 3) and Communications Act 2003 (Commencement No. 2) Order 2003.
4. 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.
5. 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.
6. This Direction shall take effect on the day it is published.

7. 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 Original FA10 Direction are amended in that the words struck through below are deleted from the Regulatory Financial Statements and the words underlined below are inserted into the Regulatory Financial Statements.

BT Wholesale Market Statement

CURRENT COST PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2006

| Notes | £m 2005 | % per line item/total | £m 2004 | % per line item/total | % Change Year on Year |
|---|------------|--------------------------|------------|--------------------------|--------------------------|
| Turnover (| | | | | |
| Internal Sales (<i>Gross/Net</i>) | | | | | |
| - services which are also available externally | | | | | |
| - services provided internally only | | | | | |
| External Sales (<i>Gross/Net</i>) | | | | | |
| <i>Discounts (No disclosure required if less than 10% of Gross Revenue)</i> | | | | | |
| Total Turnover | | 100% | | 100% | |
| Operating costs | | | | | |
| Charges from Other BT Wholesale Markets | | | | | |
| Operating costs of Wholesale Market | | | | | |
| - Provision & Installation/Maintenance | | | | | |
| - Network support | | | | | |
| - General support | | | | | |
| - General management | | | | | |
| - Finance and billing | | | | | |
| - Accommodation | | | | | |
| - Bad debts | | | | | |
| - Other Costs | | | | | |
| - Depreciation | | | | | |
| <u>Land & Buildings</u> | | | | | |
| Access | | | | | |
| Switch and transmission | | | | | |
| Other related | | | | | |
| Sub total operating expenditure | | 100% | | 100% | |
| CCA adjustments: | | | | | |
| Holding (gain)/loss | | | | | |
| Supplementary depreciation | | | | | |
| Other adjustments | | | | | |
| Total operating costs | | | | | |

Return

RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER

for the year ended 31 March 2005

2005
%2004
%

%

Return on mean capital employed

Return on turnover

Regulatory financial reporting obligations on BT – Taking a fresh view

Annex ?

BT Wholesale Market Statement

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED
for the year ended 31 March 2006

| | Notes | £m 2005 | £m 2004 | % Change |
|--|-------|------------|--------------|----------|
| Fixed assets | | | | |
| Tangible fixed assets (identifying asset categories where the value exceeds 10% of total fixed asset base) | | | | |
| - Land & Buildings | | | | |
| - Duct | | | | |
| - Transmission Equipment | | | | |
| - Exchange Equipment | | | | |
| - Other | | | | |
| - Access | | | | |
| | | | Copper | |
| | | | Fibre | |
| | | | Duct | |
| - Switch and transmission | | | Switch | |
| | | | Transmission | |
| - Other related | | | | |
| Investments | | | | |
| <hr/> | | | | |
| Total fixed assets | | | | |
| Current assets | | | | |
| Stocks | | | | |
| Debtors | | | | |
| - internal | | | | |
| Other current assets | | | | |
| <hr/> | | | | |
| Total current assets | | | | |
| <hr/> | | | | |
| Creditors: amounts falling due within one year | | | | |
| Other creditors | | | | |
| - internal | | | | |
| - external | | | | |
| <hr/> | | | | |
| Total creditors: amounts falling due within one year | | | | |
| <hr/> | | | | |
| Net current assets | | | | |
| <hr/> | | | | |
| Total assets less current liabilities | | | | |
| Provisions for liabilities and charges | | | | |
| Mean capital employed | | | | |

Annex B

Annex 42 of Direction 4, and Annex 42 of the Original FA10 Direction are amended in that the words underlined below are inserted in the annexes.

| Reference | Additional Financial Information | Description | Purpose (AS, CA or Reconciliation) |
|------------------|--|---|------------------------------------|
| AI - 1 | Cost category (as used within regulatory LRIC model) analysis for network components, increments and relevant layers of common cost (LRIC basis) | <ul style="list-style-type: none"> • to ensure the LRIC model reconciles to BT group's total cost and asset & liability base • review the outputs of BT's LRIC model for the whole BT group by cost category and components, increments and layers of common costs • identify all relevant layers of common costs separately within BT group • enable trend analysis of this breakdown to be undertaken • enable assessment of cost-volume relationships • provide input into network price control reviews | CA & R |
| AI - 2 | Summarised activity analysis of components for network activities, increments and the relevant layers of common cost (LRIC basis) | <ul style="list-style-type: none"> • review the outputs of BT's LRIC model by activity analysis for network components, increments and the layers of common costs • identify all relevant layers of common costs separately for network activities • enable trend analysis of this breakdown to be undertaken • provide input into network price control reviews • ensure LRIC model reconciles to the total cost and asset & liability base for BT's network activities | CA & R |

Regulatory financial reporting obligations on BT – Taking a fresh view

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

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

Regulatory financial reporting obligations on BT – Taking a fresh view

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

| Reference | Additional Financial Information | Description | Purpose (AS, CA or Reconciliation) |
|-----------|--|--|------------------------------------|
| AI – 11 | Estimated economic useful lives, valuation and depreciation basis, survey used for valuation or index used to revalue , historical cost accounting (HCA) & current cost accounting (CCA) depreciation, gross book values (GBV) by year of acquisition, gross replacement costs (GRC) & net replacement costs (NRC) across asset categories | <ul style="list-style-type: none"> • review the nature and relative distribution of BT's asset base • evaluate BT's chosen asset lives for individual asset categories • review the relationship between gross HCA and CCA valuations • evaluate the appropriateness of the CCA valuation basis for each asset category • evaluate the appropriateness of the CCA depreciation methodology for each asset category • review the impact of CCA accounting on the cost base • enable trend analysis of CCA costs to be undertaken • provide input into network price control reviews | CA & R |
| AI – 12 | Marketing expenditure analysis of the top 10 campaigns in the financial year, including advertising copy, video and audio tape of the advertising campaigns. | <ul style="list-style-type: none"> • enable a review to be undertaken of the attribution to disaggregated activities of the most significant campaigns • enable trend analysis to be undertaken • assist in dealing with investigations • provide input into retail price control reviews • provide input into NTS retail uplift determinations | CA |

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| Reference | Additional Financial Information | Description | Purpose (AS, CA or Reconciliation) |
|-----------|--|--|------------------------------------|
| AI – 13 | Total operating costs & mean capital employed costs (and associated volumes) for each plant group and their individual exhaustion, including the disclosure of relevant usage factors, onto each network activity and/or (sub) component | <ul style="list-style-type: none"> • review the breakdown of costs to all the different components and sub-components within BT's network activities • enable trend analysis of this breakdown to be undertaken • provide input into network price control reviews • ensure total plant group costs reconcile to the cost base for BT's network activities | CA & R |
| AI – 14 | CPS set up costs and their recovery over time on a discounted cash flow basis | <ul style="list-style-type: none"> • ascertain the extent of these costs • enable Oftel to review the recovery of these costs over time • provide a reconciliation between the costs disclosed in the CCA Financial Statements and the cash flows used to determine cost recovery | CA |

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

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| Reference | Additional Financial Information | Description | Purpose (AS, CA or Reconciliation) |
|-----------------------|--|---|------------------------------------|
| <u>AI - 20</u> | <u>CCA information to allow Ofcom to re-calculate the regulatory asset value (RAV) for copper assets used in BT's access network.</u> | <ul style="list-style-type: none"> • <u>Breakdown of the following information</u> <ul style="list-style-type: none"> – <u>Full CCA on an actual price index basis</u> – <u>Pre 1997 assets on an RPI basis</u> – <u>Post 1997 assets on an actual price index basis.</u> • <u>Enable Ofcom to re-calculate and monitor the affect of this going forward.</u> | <u>CA</u> |
| <u>AI - 21</u> | <u>Comprehensive analysis of the transfer charges where this information is summarised in the published statements because there are a significant number of variants with different charging bases.</u> | <ul style="list-style-type: none"> • <u>Allow Ofcom to check that material items have been separately disclosed in the published Regulatory Accounts.</u> • <u>Allows BT to demonstrate compliance with its non-discrimination obligations.</u> | <u>AS</u> |
| <u>AI - 22</u> | <u>BT Inter-market turnover reconciliation.</u> | <ul style="list-style-type: none"> • <u>Analysis of inter-market revenue and costs reconciliation to the total BT group transfer charges.</u> | <u>Reconciliation</u> |

Annex 13

Notification of Consent under Condition OA1

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

Proposal for granting Consent under section 49 of the Communications Act 2003 and SMP Services Condition OA1 imposed on British Telecommunications plc in Schedule 2, Part 2 to the Notification at Annex 2 of *The regulatory financial reporting obligations on BT and Kingston Communications* final statement and notification made on 22 July 2004.

1. Ofcom hereby makes, in accordance with section 49 of the Communications Act 2003 (“the Act”), the following proposal to consent to BT’s request to extend the period within which BT must publish its Regulatory Financial Statements and any corresponding audit opinions after the end of the period to which they relate as set out in SMP Condition OA6(b), from four months to six months for the reporting period ending 31 March 2006.
2. The draft Consent is set out in the Schedule to this notification.
3. The effects of the draft Consent, and the reasons for making the proposal, are set out in the accompanying explanatory statement.
4. Representation may be made to Ofcom about the draft Consent to Direction by 5 pm on 14 June 2006.
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.

**Sean Williams
Partner, Ofcom**

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

3 May 2006

Schedule

Consent under section 49 of the Communications Act 2003 and SMP Services Condition OA1 imposed on British Telecommunications plc in Schedule 2, Part 2 to the Notification at Annex 2 of *The regulatory financial reporting obligations on BT and Kingston Communications* final statement and notification made on 22 July 2004.

WHEREAS:

(A) as a result of a market analysis carried out by the Director General of Telecommunications (the “Director”) and Ofcom, in accordance with sections 48(1) and 79 of the Act, BT has been designated as having Significant Market Power (‘SMP’) in respect of certain identified markets as set out in the Notification and the notification of Annex 2 of the Review of the wholesale local access market, made on 16 December 2004;

(B) as a result of such SMP designations, BT has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act including:

- (a) conditions OA1 to OA34 and FA10, imposing obligations on BT in respect of wholesale cost accounting, retail cost accounting and accounting separation in relation to BT’s activities in those markets where BT has been designated as having SMP;

(C) this Consent concerns matters to which Condition OA6 (b) relates;

(D) for the reasons set out in the explanatory statement accompanying this Consent, 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;

(E) for the reasons set out in the explanatory statement accompanying this Consent, Ofcom are satisfied that in accordance with the relevant duties set out in sections 3 and 4 of the Act;

(F) on 3 May 2006, Ofcom published a Notification of the proposed Consent and accompanying explanatory statement in accordance with section 49 of the Act and invited representation about any of the proposals therein by 14 June 2006;

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

they have considered every representation about the proposal that is made to them within the period specified in the notification; and

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;

(H) Ofcom have considered every representation about the proposed Consent duly made to it and the Secretary of State has not notified Ofcom of an international obligation of the United Kingdom for this purpose; and

Therefore, pursuant to section 49 of the Act and SMP Conditions OA1 in Schedule 1 to the Notification, Ofcom give the following Consent:

1. In SMP Condition OA6(b), the four month period within which BT must publish its Regulatory Financial Statements and any corresponding audit opinions after the end of the period to which they relate shall be extended to six months for the reporting period ending 31 March 2006.

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

- (a) **'Act'** means the Communications Act 2003; and
- (b) **'The Notification'** means the notification at Annex 2 of the *The regulatory financial reporting obligations on BT and Kingston Communications* final statement and notification made on 22 July 2004.

3. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them in paragraph 2 above and otherwise any work 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.

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4. For the purpose of interpreting this Consent:

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

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

[Name]

[Title]

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

[Date]

Annex 14

Notification of Revocation of SMP Condition

Notification of a proposal under sections 48 of the Communications Act 2003

Proposal to revoke SMP services conditions applying to BT in relation to inter-tandem conveyance and transit on fixed public narrowband networks.

1. Ofcom hereby makes, in accordance with section 48 of the Communications Act 2003 (“the Act”), the proposal to revoke the SMP services conditions imposed on BT as set out in Schedule 2 of the “The regulatory financial reporting obligations on BT and Kingston Communications” final statement and notification dated 22 July 2004 as they apply to the market defined in Schedule 1, Part 1, Wholesale Market 8 of that notification.
2. The proposed draft revocation is set out in the Schedule to this notification.
3. The effect of the proposed draft revocation 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 revocation by 5 pm on 14 June 2006.
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.

Sean Williams
Partner, Ofcom

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

3 May 2006

Schedule

Revocation of SMP services conditions applying to BT in relation to inter-tandem conveyance and transit on fixed public narrowband networks.

WHEREAS

(A) on 22 July 2004, OFCOM published a notification under sections 48(1) and 86(1) of the Communications Act (the “Act”) at Annex 2 to the document entitled “The regulatory financial reporting obligations on BT and Kingston Communications – final statement and notification (“the July 2004 Notification”) with the effect of setting SMP services conditions on BT as set out in Schedule 2 to that notification in the market defined in Schedule 1, Part 1, Wholesale Market 8 of that notification as:

”Inter-tandem conveyance and transit on fixed public telephone networks in the UK excluding the Hull Area.”;

(B) on 18 August 2005, Ofcom published a document entitled “Review of BT’s network charge controls – Explanatory Statement and Notification of decisions on BT’s SMP status and charge controls in narrowband wholesale market” (the “August 2005 Notification”) in which it determined that, among other things, BT did not, either individually or jointly with others, have significant market power in the market for inter-tandem conveyance and transit on fixed public telephone networks in the UK excluding the Hull Area;

(C) as a consequence of the determination referred to in (B), the SMP services conditions imposed on BT as set out in Schedule 2 of the July 2004 Notification as they apply to the market defined in Schedule 1, Part 1, Wholesale Market 8 of that notification should no longer apply;

(D) in making the decisions referred to in paragraph 1, Ofcom has considered and acted in accordance with its general duties set out in section 3 of the Act as well as the six Community requirements set out in section 4 of the Act;

(E) on 3 May 2006, Ofcom published a notification of the proposed modified Direction in accordance with section 48 of the Act (the “Notification”);

(F) copies of this Notification and the accompanying explanatory statement have been sent to the Secretary of State for Trade and Industry, the European Commission and to the regulatory authorities of every other member State in accordance with section 50 of the Act;

(G) in the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 14 June 2006;

(H) by virtue of section 48(5) of the Act, OFCOM may give effect to the proposal set out in the Notification, with or without modification, only if:

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

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

NOW THEREFORE

Ofcom is proposing that in the table contained in Schedule 1, Part 1 of the July 2004 Notification, the following words are deleted:

“8. Inter-tandem conveyance and transit on fixed public telephone networks in the UK excluding the Hull Area.”

Interpretation

2. Except for references made to identified services markets in this Notification (including the recitals hereto), in the July 2004 Notification and in the August 2005 Notification, words or expressions used in this Notification (and in the recitals hereto) shall have the same meaning as they have been ascribed in the Act.

[Name]

[Title]

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

[Date]