



Changes to BT's regulatory financial reporting framework

Final Statement and Notification

Issued: 31 August 2005

Contents

Section		Page
1	Summary	3
2	Introduction	6
3	A new layer of regulatory financial reporting	10
4	Modifications to Direction 1	12
5	Modifications to Direction 3	17
6	Modifications to Direction 4	20
Annex 1	Modifying Direction - Direction 1	28
Annex 2	Modifying Direction - Direction 3	33
Annex 3	Modifying Direction - Direction 4	37

Section 1

Summary

Scope of this document

- 1.1 Following a consultation in May 2005 (the "May consultation"), this document sets out Ofcom's final decision on the modifications to certain of the British Telecommunications plc (BT)'s regulatory financial reporting and audit requirements as set out in "The regulatory financial reporting obligations on BT and Kingston Communications" issued in July 2004 (the "2004 Statement"). These will take effect in relation to the reporting period ended 31 March 2005.

Summary of changes

- 1.2 The changes fall into four categories:
- the introduction of a significant new layer of regulatory financial information provided to Ofcom by BT;
 - the enhancement of certain aspects of the 2004 Statement as it relates to BT;
 - certain "housekeeping" amendments to the 2004 Statement as it relates to BT; and
 - a limited relaxation on the reporting and audit requirements set out in the 2004 Statement in recognition of the new layer of information being made available by BT to Ofcom.

A new layer of regulatory financial reporting

- 1.3 The primary focus of the 2004 Statement was to establish an *ex ante* financial reporting regime in compliance with the five EC Communications Directives. In summary this regime requires BT to demonstrate its compliance with cost-orientation and non-discrimination obligations and to have an appropriate regulatory financial reporting system to support the information requirements of the regulator in setting and monitoring the effectiveness of price controls.
- 1.4 Ofcom's operational use of regulatory financial information covers a variety of purposes such as investigating allegations of margin squeeze or of other potentially anti-competitive behaviour and for setting policy. For these purposes the regulatory financial statements prepared by BT have been less relevant, often because they have been prepared and audited at a less granular level than is required for the purposes of an investigation to ensure compliance with *ex ante* conditions. The information requirements have therefore typically been met by an iterative process of information requests which is slow and can give rise to misunderstandings.
- 1.5 Ofcom believes that at present it would be disproportionate to attempt to revise the 2004 Statement such that financial information received was capable of dealing with any investigation or policy review. Instead BT will supply Ofcom with a complete set of financial data, in electronic format, from its regulatory accounting systems, such that profit and loss accounts and

balance sheets for product groups (as set out in BT's product and service catalogues) can be re-created and analysed down to summary cost codes. Ofcom understands that a similar data set is used in the scoping of the external regulatory audit.

Enhancements

- 1.6 At the time of the 2004 Statement, one aspect of the reporting regime was continuing to be developed. The network component list sets out the building blocks that are used to compile the detailed wholesale financial statements and is a key element to the ability to demonstrate non-discrimination and cost orientation of its wholesale services. This list has continued to be enhanced in collaboration with BT, with particular focus since the date of the 2004 Statement on the copper access network. Ofcom therefore is updating the network component list to reflect this work and will continue to work with BT to address other existing and emerging areas where greater transparency is required.

Housekeeping amendments

- 1.7 In the course of discussions with BT on the application of the 2004 Statement, a number of practical implementation issues were identified requiring modifications to current Directions. These include the degree to which, in the first year of application, comparative information can be restated and covered by the audit opinion without disproportionate cost. Ofcom is making other amendments to rationalise the form and content of the reported financial statements to take account of materiality issues and improved presentation.

Relaxation of obligations

- 1.8 The 2004 Statement was set in the context of no other *ex ante* financial information being available to Ofcom. As such the degree of granularity of financial reporting and of the level of audit was set so as to achieve the highest proportionate level of assurance over the relevant products and markets. The introduction of the new layer of financial reporting has allowed Ofcom to reassess those proportionality considerations.
- 1.9 As a result Ofcom is relaxing a number of obligations by reducing the audit and publication requirement of certain statements. The changes are made on the basis that the new arrangements form an effective and more efficient alternative to the current arrangements. Ofcom will gauge whether this has been the case when the new arrangements are fully implemented.

Existing powers to gather information are unaffected

- 1.10 The information BT will provide may be used for a variety of regulatory purposes for which Ofcom might also elect to use its formal powers in relation to information gathering under, for example, the Communications Act. Nothing in these arrangements constitutes a waiver or commitment not to use those powers in any particular case or policy review.

The amendments do not affect Kingston

- 1.11 Ofcom is not currently reviewing Kingston Communication Ltd (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 Statement. KCL's obligations also reflect and are proportional to its size and complexity relative to BT.

Conclusion

- 1.12 Ofcom has considered all the responses to the May consultation and, where appropriate has amended its proposals. Ofcom is satisfied that the modifications made in this statement will be a significant step forward in financial transparency, while at the same time addressing BT's concerns relating to the incremental cost burden of regulatory financial reporting. Ofcom will continue to monitor the impact of these changes and will consider further areas for improvement.

Section 2

Introduction

The regulatory regime

2.1 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 current regulatory framework is five EC 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 Directive");
- Directive 2002/20/EC on the authorisation of electronic communications networks and services (the "Authorisation Directive");
- Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services (the "Universal Service Directive") and;
- Directive 2002/58/EC concerning the processing of personal data and the protection of privacy in the electronic communications sector (the "Privacy Directive").

2.2 The Framework Directive provides the overall structure for the current regulatory regime and sets out fundamental rules and objectives which read across all the new directives. 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 replaced the former licensing regime. The Universal Service Directive defines a basic set of services that must be provided to end-users. The Access 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"). The fifth Directive on Privacy establishes users' rights with regard to the privacy of their communications. This Directive was adopted slightly later than the other four Directives and was implemented by regulations which came into force on 11 December 2003.

2.3 The Act provides for functions, powers and duties to be carried out by Ofcom which include, inter alia, functions, powers and duties flowing from the first four EC Communications Directives referred to above.

2.4 Section 4 of the 2004 Statement set out the six directions given to BT under the SMP Services conditions OA1 to OA34, in Schedule 2 to the Notification at Annex A. Ofcom is now modifying Directions 1, 3 and 4 of that statement, which will also affect the application of the Directions given under SMP

services conditions 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").

Powers that Ofcom holds under the Act

- 2.5 The Act identifies three types of regulatory financial reporting obligations that Ofcom can impose on providers with significant market power (SMP). These are:
- wholesale cost accounting;
 - retail cost accounting; and
 - accounting separation.
- 2.6 These obligations are described in some detail in paragraphs 2.16 to 2.19 of the 2004 Statement and will not be described again here.
- 2.7 It should be noted that the powers to impose these regulatory financial reporting obligations are subject to certain limitations.

Communication Act tests

- 2.8 As discussed in paragraph 2.7, Ofcom's powers are subject to certain limitations in that Ofcom must satisfy certain tests.

Tests that must be met

- 2.9 Section 3 (1) of the Act sets out the principal duty on Ofcom. Ofcom is required by this section to carry out its functions in line with this duty, that is to further the interests of citizens in relation to communication matters and to further the interests of consumers in relevant markets, where appropriate, by promoting competition.
- 2.10 Section 4 of the Act requires Ofcom to act in accordance with the six European Community requirements of Article 8 of the Framework Directive for regulation. In summary these requirements are to:
- promote competition in the provision of electronic communications networks and services, associated facilities and the supply of directories;
 - contribute to the development of the European internal market;
 - promote the interests of all persons who are citizens of the European Union;
 - not favour one form of or means of providing electronic communications networks or services, i.e. to be technologically neutral;
 - to encourage the provision of network access and service interoperability for the purpose of securing:
 - efficient and sustainable competition; and
 - the maximum benefit for customers of communications providers;

- encourage compliance with certain standards in order to facilitate service interoperability and secure freedom of choice for the customers of communications providers.
- 2.11 Section 49 of the Act requires Ofcom to ensure that any condition it sets or direction it gives is:
- objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
 - not unduly discriminatory against particular persons or against a particular description of persons;
 - proportionate to what it is intended to achieve; and
 - transparent in relation to what it is intended to achieve.
- 2.12 In paragraphs 4.88 to 4.91 of the 2004 Statement Ofcom set out how it had complied with these and other tests. Ofcom is now modifying certain directions given, under the conditions which are already in place.

The need for new regulatory financial reporting information

- 2.13 Regulatory financial information is fundamental to the economic regulation of the electronic communications sector and in particular to many of the decisions of Ofcom.
- 2.14 The need for regulatory financial reporting information was discussed in detail in paragraphs 2.22 to 2.26 of the 2004 Statement and will not be repeated here. However it is important to stress that such financial information needs to be provided in a timely manner, be of high quality, prepared to high standards and be relevant to the task at hand.
- 2.15 To this end the supply by BT of a complete set of financial data such that profit and loss accounts and the mean capital employed statements for a product group (the most detailed level of cost analysis prepared by BT) can be re-created and analysed down to summary cost category codes, will greatly assist Ofcom in, for example, planning and carrying out its initial analysis on investigations and policy projects, and monitoring the effectiveness of price controls.
- 2.16 In addition, certain modifications to current obligations (such as the revision of the Component List) will improve the quality and transparency available to Ofcom, the industry and stakeholders.

The modifications do not affect Kingston

- 2.17 Ofcom has not sought to modify Kingston Communication Ltd (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 Statement. KCL's obligations also reflect and are proportional to its size and complexity relative to BT.

Cost benefit analysis

2.18 Ofcom conducted a cost benefit analysis of the financial reporting obligations in paragraphs 2.27 to 2.30 of the 2004 Statement. Ofcom, at the time, recognised that one of the primary purposes of regulatory financial reporting obligations is to prevent the occurrence of anti-competitive practices and many of the benefits can be difficult to quantify. The benefits for the industry at large, Ofcom and BT respectively are discussed in the paragraphs below.

Benefits to the industry and citizen-consumers

- 2.19 Ofcom believes the benefits of having a rigorous and effective regulatory financial reporting regime will accrue to all parts of the industry, by amongst other things:
- non-dominant communications providers have assurance that Ofcom has information to monitor and if necessary enforce obligations for non discrimination, cost-orientation, etc;
 - non-dominant communications providers have greater assurance that prices charged to them by communication providers with SMP are cost-oriented and/or non-discriminatory enabling them to produce business plans and compete more effectively;
 - disputes and investigations will be resolved more quickly, efficiently and on the basis of more reliable information;
 - competition in the UK communications sector is protected and supported providing benefits for the UK economy as a whole; and
 - citizen/consumers are protected, amongst other things, from excessive prices in retail SMP markets.

Benefits to BT

- 2.20 As noted in paragraph 2.28 of the 2004 Statement BT estimates that it incurs incremental compliance costs (including the external audit of the regulatory accounts) of £7m annually. BT has also commented that the implementation of all of the various changes and additional reporting required by the 2004 Statement as compared to the previous reporting regime would add to this cost.
- 2.21 These additional costs would arise in respect of audit fees and in preparation time, which together BT estimates would be significant and certainly in excess of £1m. Further, the time required to compile the financial statements themselves would considerably extend the timetable for preparation and audit. As a result of the modifications proposed in the May consultation, BT has noted that no such additional costs would be incurred and that, in addition, savings should be achievable for the 2005/06 reporting cycle when the impact of the proposals can be fully planned for as part of the preparation process.

Section 3

A new layer of regulatory financial reporting

Introduction

- 3.1 The modification as set out in Annex B of Annex 3 of this document, will mean BT will supply to Ofcom a complete set of financial data, in electronic format, from its regulatory accounting systems; such that profit and loss accounts and balance sheets for product groups (as set out in BT's product and service catalogues) can be re-created and analysed down to summary cost codes. Ofcom understands that a similar data set is used to determine the coverage of the external audit.

What is the new additional layer of financial reporting?

- 3.2 To facilitate the external audit, BT prepares a "data file" that shows how the general ledger records flow through the regulatory Fully Attributed Cost ("FAC") costing system into individual product groups and components. This file includes the detailed path of all revenues, costs, assets and liabilities (including current cost accounting adjustments) through the BT costing models from starting cost group (F8 code) to final product group or network component. There are also several other sources of information which form elements of the regulatory reporting regime already imposed on BT available to help us interpret the detailed information. Examples include:
- the Detailed Attribution Methods ("DAM") which describes the individual stages of the cost cascade, referencing the attribution bases for individual activities and plant groups at each stage;
 - the wholesale and retail catalogues which describe the services and products in each of the SMP markets subject to regulatory reporting; and
 - the published regulatory financial statements which contain usage factors for each regulated wholesale service.
- 3.3 The data file is a simple parsed text file showing the value attributed to each cost item against a particular product group or component. By importing this data into a powerful database tool it will be possible to manipulate and report on the data at different levels in the costing structure.

Advantages

- 3.4 There are a number of advantages associated with the provision of this additional layer of information where Ofcom will have, for example:
- 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 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.

Amendments to Directions and Annexes

- 3.5 Ofcom is modifying Annex 42 to Direction 4, to ensure that this information is established as an Additional Financial Information (AFI) which BT has to provide Ofcom under the SMP reporting obligations (see Section 6 for more details).

Section 4

Modifications to Direction 1

- 4.1 Direction 1 operates in conjunction with BT's SMP regulatory reporting conditions in so far as they relate to wholesale markets. The Annex to Direction 1 of the July 2004 statement specified a list of components, against which BT must report its costs for each of its wholesale markets subject to a regulatory financial reporting remedy.
- 4.2 As a result of extensive review work, Ofcom has produced a revised component list (as set out in Annex A to the May consultation) which, among other things, incorporates a number of improvements to the previously directed list in respect of BT's copper access network. These modifications will enable BT to demonstrate with significantly enhanced transparency within its 2004/05 regulatory financial statements whether:
- its regulated copper-based access products such as WLR and LLU are cost-orientated; and
 - such services have been costed at the component level on an equivalent basis to related services.
- 4.3 Ofcom recognises that the process of updating and amending component lists is ongoing as technologies and regulatory obligations change. For example it is envisaged that the component list will require changes resulting from BT's implementation of next generation networks over the next few years. We will continue to work closely with BT on its network component list this year with the aim of proposing further improvements in advance of the 2005/06 reporting year.

Responses to the consultation question on Direction 1

Question 1: Has Ofcom characterised the network component identification principles appropriately? Are there any other principles or considerations that are relevant when identifying components which enable BT to effectively demonstrate compliance with its regulatory obligations?

- 4.4 There was broad support for the changes to the network component list and the principles as set out in the consultation, with respondents remarking the principles were reasonable and sensible, and that the increased number of components for the copper access network would improve the ability of operators to assess whether these services are cost orientated.
- 4.5 Three respondents specifically referred to the principle of materiality. UKCTA commented that the definition of materiality should be clearer in respect of where the threshold lies, when identifying whether or not a component should be identified. UKCTA also suggested a concept of 'cumulative materiality', to guard against categorising items into smaller units, in order to avoid scrutiny. Energis had a similar concern over the materiality levels used in the identification of components and thought the current definition is not sufficiently clear and is open to potential abuse. Another respondent

commented that it thought all the network component identification principles, in some cases, should be used to inform the materiality decision.

- 4.6 One respondent raised some very detailed points on a number of the components contained within the component list, for which it set out some arguments on specific examples as to how it saw the interpretation of the principles. It went on to argue for the inclusion of certain components within the list and the expansion of others and sought increased transparency on the attribution of costs to certain components, consistency in their treatment, and proposing the consideration of symmetrical treatment of equivalent products.
- 4.7 Telewest set out that there should be more emphasis on the information's usefulness to other interested parties in making economic decisions, and therefore its understandability. Clarity of component identification would give greater visibility to interested parties and raise confidence in BT's published regulatory results. Telewest argued that the level at which component identification is carried out should allow stakeholders to compare costs, and facilitate buy or build decisions. It added that a further key principle was the functionality of the BT network, where functional component identification would provide greater visibility to the industry, in terms of service potential, technology constraints or advances.
- 4.8 UKCTA commented on the need for equivalence in cost components between ADSL and LLU; and thought, as well as SMPF connection activities, MPF connection activities should be separately identified. Requiring further clarification between 'selling, general and administrative costs' (SG&A) and product support costs that fall into product management, policy and planning (PPP). This latter point was also raised by Energis.
- 4.9 BT warned against creating too much detail in the financial statements, such that they become difficult to use. It also considered that there could be a risk that the unbundling principle, in particular, might lead to very granular component identification reflecting the way in which individual customers might use particular services, and that this process could result in pressure on BT to be required to offer bespoke services to individual customers.
- 4.10 BT acknowledged the appropriateness of demonstrating equivalence, but did not consider that identification of pricing differentials between 'internal' and 'external' services would have any practical application, as it considered any differentials would be very rare, given the principle of 'equivalence', and that any costing differentials unimportant, if the pricing is the same.
- 4.11 One respondent expressed 'surprise' that the component list did not cater for components for BT's Next Generation Networks, while UKCTA sought clarity over the make up of components used for core transmission.

Ofcom's view and decision

- 4.12 Ofcom welcomes the detailed comments on the component list and principles, recognising the importance to stakeholders of how the identification of components needs to be a transparent process, which takes into account all relevant factors, including but not limited to definitions of materiality and associated thresholds.

- 4.13 Ofcom will continue to work on improving and maintaining the list of components applying the principles set out in the consultation document. This will include continual review of the relevance and appropriateness of the component list and the way it is reported, in order for it to properly inform stakeholders. In undertaking this work, Ofcom will take into account the comments made in the responses, in particular, on materiality thresholds, cumulative materiality, functionality and other relevant the factors which should inform the decision around component identification.
- 4.14 The key thrust of the 2004 statement was the regulatory accounting principle of transparency, and this continues to be a prime objective in developing a fit for purpose component listing. Ofcom will continue to ensure the key focus is the ability to demonstrate cost-orientation and non discrimination. The May 2005 consultation set out that the emphasis so far had been on the copper access network, with the next stage is to focus on improvements to the core network. Ofcom will soon begin work with BT for improvements to impact on the 2005/06 reporting year.
- 4.15 In response to the request for further clarification in respect of the costs which are contained under PPP and SG&A, Ofcom was satisfied during the review of the component list, that there was a distinction between the costs attributed to each of these items. However, in view of the need to publish this statement in advance of the publication of the 2004/05 regulatory accounts, Ofcom has not had the opportunity to undertake a more detailed review. Ofcom proposes that this topic is addressed at the next joint industry/BT regulatory accounting forum, where the treatment of, and the costs contained within, these headings can be explained in more detail.
- 4.16 Some responses referred to the plans for Next Generation Networks and Access Services Division. While Ofcom will consider any impact of such activities on regulatory reporting, this consultation did not specifically encompass the issues which may arise from these proposed activities partly because these proposals relate to the 2004/05 financial year. However, as part of its ongoing review work, Ofcom will continue to monitor the component list for relevance against the principles and changes in technologies and structures.
- 4.17 Therefore, recognising that the process of updating and amending component details is an ongoing one, Ofcom considers the proposed amendments as set out in the May consultation are appropriate for preparing 2004/05 regulatory reports, but that Ofcom and BT will commence work on further improvements, as set out, to impact on the 2005/06 reporting year.

How the legal tests are met

- 4.18 Ofcom has set out in Section 2 the legal tests that have to be met regarding the imposition of regulatory financial reporting conditions on BT.

Section 3 and 4 duties

- 4.19 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 changes to Direction 1 are designed to enable BT to more effectively fulfil the purpose for which these particular obligations were imposed (e.g. demonstrate cost orientation and non-discrimination). In consequence Ofcom believes the modifications to Direction 1 meet the tests in Sections 3 and 4.

Section 49 duties

4.20 Ofcom considers that the modifications to the list of network components, in Annex A to Direction 1, meet the tests set out at Section 49 of the Act of being objectively justifiable, proportionate, transparent and not unduly discriminatory.

Justifiable

4.21 Ofcom considers that the modifications are objectively justifiable for Ofcom to effectively monitor and enforce compliance of BT's obligations for non-discrimination, cost-orientation, cost recovery and price controls. The modifications will enable Ofcom to more effectively monitor compliance with these obligations.

Proportionate

4.22 Ofcom considers that the modifications to the list are proportionate because they are no more than is necessary for securing the purpose for which network components have been identified.

4.23 That the modifications are essential to:

- enable costs to be objectively attributed to regulated wholesale services on a causal basis;
- facilitate transparency of that costing process; and
- avoid the risk of elements not required by the purchasers being bundled into regulated wholesale services.

Transparency

4.24 Ofcom considers these measures are transparent because they have been consulted upon widely, responses to this consultation have been transparently taken into account and addressed in this document, and the modifications set out to Direction 1 have been clearly set out.

Not unduly discriminatory

4.25 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 stipulates a list of network components. Ofcom is not currently reviewing KCL's list of network components as concerns about the composition of BT's current list have the potential to impact telecommunications markets much more significantly whereas KCL's current list of 8 components relates entirely to call conveyance services in the Kingston area. Ofcom therefore does not

consider its review of BT's network component list is unduly discriminatory against it vis a vis Kingston.

Section 5

Modifications to Direction 3

Changes to audit opinion

- 5.1 Ofcom considers that an effective and rigorous external audit is necessary for raising confidence in the robustness of regulatory financial information. The provision of an unqualified audit opinion provides Ofcom with a degree of reassurance about the reliability of the regulatory financial information when making decisions based on it.
- 5.2 In the 2004 Statement, Ofcom identified two levels of audit opinion, to be applied to the financial statements: fairly presented in accordance with ("FPIA") and properly prepared in accordance with ("PPIA").
- 5.3 Direction 3 of the 2004 Statement, directed that regulatory financial statements at market level and above are audited to FPIA standard and regulatory financial statements below that level are audited to PPIA standard.
- 5.4 The reporting matrix, contained in Annexes A to C of Direction 3 of the 2004 Statement, set out that the following annex should be accompanied by an FPIA audit opinion:
 - Annex 40 Market network services reconciliation statement (NCR FA)
- 5.5 However, as this statement reports information which is below market level, the May 2005 consultation proposed to change the level of audit opinion required for this annex to PPIA. Not only bringing the audit opinion on the statement in line with the intention of the 2004 Statement, but reducing the audit burden, while still maintaining an appropriate level of audit assurance.

Changes to publication

- 5.6 The 2004 Statement included a reporting matrix setting out the financial statements to be produced for the relevant SMP markets, identifying those statements which would be made available to both stakeholders and Ofcom, and those to Ofcom only. The May 2005 consultation proposed a number of changes to publication of certain statements.
- 5.7 Ofcom proposed the following statements be included in the published set of statements:
 - Annex 34 - Statements of costs and charges for internal and external wholesale services (SoCC Ext); and
 - Annex 35 - Statements of costs and charges for internal only wholesale services (SoCC Int).
- 5.8 Ofcom proposed the following statements are not included within the published set of statements:
 - Annex 36 – BT Network Consolidated Profitability and Mean Capital Employed Statement by Wholesale Service; and

- Annex 40 – Market Network Reconciliation statement.
- 5.9 Ofcom proposed the aggregation of the Category B routes, for Residential IDD calls within Fixed Narrowband Retail Services Market. This will result in a consolidated Profit and Loss and Mean Capital Employed statements, for all Category B routes. However, BT would still maintain the capability to prepare information by individual route, which would be made available to Ofcom if required.
- 5.10 Ofcom proposed to remove the obligations which set out that the following market review level statements should be provided:
- Annex 7 Wholesale summary narrowband P&L statement;
 - Annex 8 Wholesale summary narrowband MCE statement;
 - Annex 17 Retail summary narrowband statement P&L statement; and
 - Annex 18 Retail summary narrowband statement MCE statement.

Responses to the consultation on the amendments to Direction 3

Question 2: Do stakeholders have any comments in respect of the amendments proposed to Direction 3?

- 5.11 The respondents did not consider the proposed modifications to the levels of audit opinion to be contentious, with UKCTA supporting the proposals for the modifying/clarifying on the levels of audit opinion.
- 5.12 While the other modifications to this direction did not receive much specific comment, two respondents remarked that they were unclear on the proposal to merge all Residential IDD Category B routes into one consolidated Profit & Loss, and Mean Capital Employed statement.

Ofcom's view and decision

- 5.13 In respect of the merging of all 121 Residential IDD Category B routes, Ofcom is still of the view that the production of 121 individual Profit and Loss and Mean Capital Employed statements, is disproportionate, given that total revenue for all 121 routes, is likely to be below £25m for 2004/05, with some individual routes expecting to record revenues below £1,000. BT would still maintain the capability to prepare information by individual route, and Ofcom will continue to review the impact of this modification.
- 5.14 Therefore, Ofcom implements the modification to Direction 3 as set out in the May consultation.

Modifications to Direction and Annexes

- 5.15 The specific modification to Direction 3 is at Annex A to Annex 2 at the end of this document (Annex A to Direction 3).

How the legal tests are met

5.16 Ofcom has set out in Section 2 the legal tests that have to be met regarding the imposition of regulatory financial reporting conditions on BT.

Section 3 and 4 duties

5.17 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. Ofcom considers that the amendments contained within this section do not affect either the essence or intentions contained within the market reviews (i.e. the demonstration of cost orientation and non-discrimination) and as a result, considers that the modifications continue to meet the tests set out in Sections 3 and 4 of the Act.

Section 49 duties

5.18 Ofcom considers that the modifications in this section, that is changes to the audit opinion and changes to publication, meet the tests included in Section 49 of the Act of being objectively justifiable, proportionate, transparent and not unduly discriminatory.

Justifiable

5.19 Ofcom considers that the modifications in this section are objectively justifiable because the maintenance of accounting systems; preparation, audit, delivery and publication of regulatory financial statement; transparent accounting documentation; and reasonable amendment powers are necessary for Ofcom to effectively monitor and enforce compliance of BT'S obligations for non-discrimination, cost-orientation, cost recovery and price controls.

Proportionate

5.20 Ofcom considers that the modifications in this section are proportionate because they are no more than is necessary for securing the following objectives:

- the obligations regarding the audit of regulatory financial statements are proportionate because they are no more than Ofcom considers necessary for ensuring that an appropriate level of assurance is provided regarding the regulatory financial statements; and
- the obligations to prepare, deliver and publish regulatory financial statements are proportionate because the level of information is no more than Ofcom considers necessary for Ofcom to monitor and enforce obligations for non-discrimination, cost orientation, cost recovery and price controls.

Transparency

5.21 Ofcom considers these measures are transparent because they have been consulted upon widely, responses to this consultation have been transparently taken into account and addressed in this document, and the modifications set out to Direction 3 have been clearly set out.

Not unduly discriminatory

- 5.22 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. Ofcom is not currently reviewing KCL's financial statements in respect of the changes as set out in this section, as KCL is already subject to a lesser level of regulatory reporting than BT and that the potential impact on the telecommunications market from any such changes for KCL, is far less significant.

Section 6

Modifications to Direction 4

Merging of low value services

- 6.1 The reporting matrix within Annexes A, B & C of Direction 3, of the 2004 Statement, did not set out or attempt to identify each individual service within each market, but either referred to 'wholesale service A', 'wholesale service B' as example services, or included some illustrative services, for each market.
- 6.2 Since the publication of the 2004 statement, Ofcom has reviewed BT's proposed list of services, for all markets, for which financial statements are to be produced.
- 6.3 Within this list, BT identified some "low value services", with low revenue and operating costs (typically below £10m pa), and proposed that these are merged within similar product families.

Modification to Direction and Annexes

- 6.4 While the detailed analysis of services at product group level is not something subject to the specific requirements of a Direction, it is important to note however that this relaxation allowing a grouping of services will reduce the resource burden on BT.

Changes to denomination of reports

- 6.5 The Annexes to Direction 4 of the 2004 Statement, set out the form and content for each of the 42 financial statements to be provided, which not only included the format of, for example: the Profit and Loss, Mean Capital Employed; but specified the denomination of the statements.
- 6.6 The annexes specified that the new SMP statements should be reported in £k (pounds thousands). Whereas, previously BT reported its regulatory financial statements in £m (pounds millions).
- 6.7 The May 2005 consultation proposed that the reporting denomination be changed to £m.

Modification to Direction and Annexes

- 6.8 The actual amendments made to Direction 4 in respect of denomination to reports are shown in Annex A to Annex 3 of this document (Annex A to Direction 4). Not all changes are shown, however 4 examples are included based on the P&L and MCE statements for wholesale and retail markets.

Sector analysis

- 6.9 The Annexes to Direction 4 of the 2004 Statement set out the form and content for each of the 42 financial statements to be provided; which included the format of, for example: the Profit and Loss, Mean Capital Employed and reconciliation statements.
- 6.10 A number of significant improvements were made to the form and content of the financial statements to be produced under the SMP conditions, which will increase understanding and interpretation of the statements. For example, the Operating expenditure applicable to a particular activity was previously shown as one number in the profit and loss account.
- 6.11 However, the modified Direction sets out that each of the Profit and Loss statements should show all expenditure categories ("sectors") which exceed 10% of the total operating cost. This is for each market and service and covers both wholesale and retail markets.
- 6.12 Following a review of draft statements BT prepared under the new reporting format, using 2003/04 data, it was clear that BT maintains a large number of sectors that could potentially be analysed in the reporting of those expenditure categories, which constituted 10% or more of total operating cost of an activity.
- 6.13 This resulted in some inconsistency, on the type of expenditure identified and disparities between statements at a lower level, for example reporting of services; and those at a consolidated level e.g. market level.
- 6.14 The May consultation sought to bring a greater degree of consistency to the reporting and analysis of operating expenditure by market, for both Wholesale and Retail markets, while still providing greater granularity on operating expenditure.
- 6.15 Ofcom proposed a standard list of expenditure categories be used for the reporting of operating expenditure specific to all wholesale markets, and that a standard list of expenditure categories be used for the reporting of operating expenditure specific to all retail markets.

Modifications to Direction and Annexes

- 6.16 The actual modifications made to Direction 4 in respect of sector analysis are shown in Annex A to Annex 3 of this document (Annex A to Direction 4) in the form of P&L and MCE statements for the wholesale and retail markets. Not all changes are shown, however examples are included based on the P&L statements for wholesale and retail markets.

Comparatives

- 6.17 The 2004/05 reporting year will be the first year statements are produced in the format set out under the SMP reporting obligations. As a result of this move to SMP reporting, Ofcom identified some statements where it considers it is not practicable or proportionate for full comparative information to be produced.
- 6.18 Ofcom proposed that the following annex is not accompanied by a comparative statement for the year 2003/04:
- Annex 24 – Wholesale sales by market statement, external sales (published statement)
- 6.19 And for the following statements, full comparative information was not proposed, but instead there will partial or de facto comparative information, to assist in the interpretation of the these statements in 2004/05:
- Annex 36 – Consolidated profitability and MCE statements by wholesale service (Ofcom only statement);
 - Annex 37 – Consolidated statement of costs on a current cost basis, network activity statement (published statement);
 - Annex 38 – Market statement of costs on a current cost basis, network activity statement (published statement);
 - Annex 39 – Consolidated network services reconciliation statement (published statement);
 - Annex 40 – Market network services reconciliation statement (Ofcom only statement); and
 - Annex 41 – Network component statement on incremental cost basis (reconciliation) (published statement).
- 6.20 Since certain of the comparative information for 2003/04 will not be a full comparative, as outlined above, BT has stated that it will not be able to procure the form of audit opinion in respect of the comparative information required by the 2004 Statement. Therefore, Ofcom proposed that the audit requirement in respect of 2003/04 comparative information be amended to report only on the representation of the data supplied by BT. In the 2005/06 reporting year, a full comparative statement would be expected for each of the above statements.

Modifications to Direction and Annexes

- 6.21 The actual modifications made to Direction 4 in respect of comparatives are not specifically shown in an annex but are listed as amendments in the Schedule to Direction 4 in Annex 3 attached at the end of this document.

Additional Financial Information

- 6.22 Annex 42 to Direction 4 set out the schedules of Additional Financial Information (AFI) to be provided under the new SMP reporting obligations, which are provided to Ofcom in addition to the information provided in the published and audited statements.

- 6.23 Ofcom has since reviewed the relevance of each of the schedules, and in particular considered them against the audited information Ofcom will receive and the information available via the 'data file'.
- 6.24 In the May 2005 consultation Ofcom proposed to add an additional AFI:
- Provision of BT 'Data File'
- 6.25 This refers to the 'data file' as set out under the Section 3 of this document 'A new layer of regulatory financial reporting'. The provision of this capability should allow a reduction in BT's regulatory cost burden, while at the same time increasing the breadth and depth of information available to Ofcom, underpinning many of the proposals in this document.
- 6.26 Ofcom also proposed the withdrawal of the following AFI schedules which were set out in the 2004 Statement:
- AI 7 - Operator assistance combinatorial test (i.e. costs and revenues for 5 regions of the world) (LRIC basis);
 - AI 11 - Gross call revenues, discounts & option fees by tariff option for each segment containing call revenues;
 - AI 12 - Gross revenues, discounts & option fees by customer option for each segment in respect of non-call revenues where discount scheme(s) apply;
 - AI 17 - Fixed fee revenues (including line rental) by tariff package & associated network costs; and
 - AI 18 - Analysis of profits/(losses) on asset transfers plus analysis of such assets transferred.

Modifications to Direction and Annexes

- 6.27 The actual modifications made to Direction 4 in respect of the AFIs are shown in Annex B to Annex 3 of this document (Annex B to Direction 4).

Reporting of revenue discounts

- 6.28 The form and content of the Profit and Loss statements under SMP reporting set out that where applicable, gross revenues and discounts be separately identified.
- 6.29 After testing of 2003/04 data in the new SMP format, BT requested Ofcom to review the requirement to separately disclose discount information.
- 6.30 The May consultation proposed that discount information should be separately identified in each Profit and Loss statement, where discounts account for 10% or more of gross revenues.

Modifications to Direction and Annexes

- 6.31 The actual modifications made to Direction 4 in respect of revenue discounts are shown in Annex A to Annex 3 (Annex A to Direction 4).

Responses to the consultation on the amendments to Direction 4

Question 3: Do stakeholders have any comments in respect of the amendments proposed to Direction 4?

- 6.32 With regard to the merging of low value services UKCTA acknowledged that this proposal is justifiable. There were no other specific comments in respect of this proposal.
- 6.33 While UKCTA did not have an issue with BT publishing data in £m, it did suggest that BT could publish data in £m, to one decimal place, which was supported by Energis.
- 6.34 Two respondents required more clarification on the proposal for the use of standard expenditure categories (sector analysis), commenting, that in particular, that it would be helpful to see a comparison of the expenditure categories which would be included, when using both methods.
- 6.35 Energis appreciated there may be some difficulties in the preparation of comparative information for the first year of SMP reporting. But along with UKCTA, felt it was difficult to judge, without more details, whether the obligation to provide comparative information, is disproportionate or not. Another respondent acknowledged that it may not be proportionate for BT to provide comparative information for all statements, but recommended Ofcom carefully reviews statements without full comparators.
- 6.36 There were no specific comments in respect of changes to individual Additional Financial Information (AFI) schedules. However, there was unanimous support, including from BT, for the provision of the data file, which will be captured as a new AFI schedule.
- 6.37 All respondents commented on the proposal to report on discounts which account for 10% or more of gross revenues. UKCTA argued that 'small' discount levels could have an impact on competition, where BT is dominant in the market, stating that a tighter threshold is required. Scottish and Southern Energy viewed discount information to be of particular interest to the market, and suggested a trigger of reporting discounts above £1m. Energis felt it was not clear that discounts less than 10% of gross revenues would not necessarily materially impact on competition in a relevant market. One other respondent considered discount information to be of particular importance, when looking at, for example, margin calculations
- 6.38 BT viewed the modifications to both Directions 3 and 4 as essential if the incremental cost incurred by BT in meeting the obligations of the 2004 Statement is not to be very significant. It added that the un-amended obligations would take considerably longer to satisfy. BT considered the proposed amendments would resolve anomalies that came to light when implementing the requirements of the 2004 statement, and removes some disproportionate obligations.

Ofcom's view and decision

- 6.39 In view of comments from respondents, Ofcom revisited the proposal for BT to report in £m, instead of £k. The comments suggested BT could report in £m, but to one decimal place e.g. £0.2m. Ofcom has discussed this with BT and its auditors and it would seem that reporting to one decimal place raises important issues about consistency with BT statutory accounts and related auditor's opinion. Ofcom proposes that this matter is taken up in the joint industry/BT regulatory accounting forum and in the meantime maintains its proposal for BT to report in £m.
- 6.40 In response to the comments on the proposal to implement a standard list of expenditure categories, as opposed to showing expenditure categories which constituted 10% or above of total operating expenditure. Ofcom has carried out a detailed review of each of the methodologies, from service level through to SMP market level, using 2003/04 data. While not able to share this detailed information with stakeholders (as it is below market level), it is clear that what may constitute 10% or more at a minor service level, may only be a very small fraction of cost at a market level. Ofcom is satisfied it would not be proportionate or practical for the published SMP market level statement to accumulate every service level statement expenditure sector, which has identified a cost item in excess of 10%, for each particular service. Ofcom will continue to review the proposed list for relevance, particularly after publication of the 2004/05 regulatory accounts, and will propose amendments as necessary
- 6.41 In respect of comparative information, the proposal was for one statement not to have any comparative information (Annex 24), as the collection of external sales data by SMP market, for 2003/04, did not take place under the previous regulatory regime. There are six other statements that will use de facto comparative information, as 2003/04 data was not set up for the collection of SMP information, for some elements e.g. volumes. The remainder of the statements will be provided with fully audited comparative information. As this 'relaxing' of the obligation is for 2004/05 only, Ofcom considers it would not only be disproportionate, but possibly of little additional benefit to impose full comparatives for these statements.
- 6.42 There were no particular comments in respect of AFI schedules, so Ofcom will implement the modifications proposed in the May consultation.
- 6.43 Ofcom has considered its position on reporting of discount information at 10% and above, and agrees with the respondents that discount information is useful for stakeholders. So for 2004/05 Ofcom has decided to lower this threshold, such that BT will be required to disclose discounts which represent 5% or above of gross revenues, and Ofcom will review the outcome of this after the publication of the 2004/05 regulatory accounts.

How the legal tests are met

- 6.44 Ofcom has set out in Section 2 the legal tests that have to be met regarding the imposition of regulatory financial reporting conditions on BT.

Section 3 and 4 duties

- 6.45 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 to impose these obligations meet the tests outlined in Sections 3 and 4 of the Communications Act. Ofcom considers that the modifications contained within this section do not affect either the essence or intentions of the market reviews (i.e. the demonstration of cost orientation and non-discrimination) and as a result, considers that the modifications continue to meet the tests set out in Sections 3 and 4 of the Act.

Section 49 duties

6.46 Ofcom considers that the modifications set out in this section, that is changes to the audit opinion and changes to publication, meet the tests included in Sections 49 of the Act of being objectively justifiable, proportionate, transparent and not unduly discriminatory.

Justifiable

6.47 Ofcom considers that the modifications in this section are objectively justifiable because the maintenance of accounting systems; preparation, audit, delivery and publication of regulatory financial statement; transparent accounting documentation; and reasonable amendment powers are necessary for Ofcom to effectively monitor and enforce compliance of BT'S obligations for non-discrimination, cost-orientation, cost recovery and price controls.

Proportionate

6.48 Ofcom considers that the modifications in this section are proportionate because they are no more than is necessary for securing the following objectives:

- the obligations to have transparent accounting documentation are proportionate because the level of accounting documentation is no more than Ofcom considers necessary for the purpose of ensuring the consistent and comparable preparation of regulatory financial statements and the adequate; and
- the obligations to maintain accounting records and systems are proportionate because they are no more than Ofcom considers necessary for the purpose of being able to provide information to allow the monitoring and enforcing obligations for non-discrimination, cost orientation, cost recovery and price controls.

Transparency

6.49 Ofcom considers these measures are transparent because they have been consulted upon widely, responses to this consultation have been transparently taken into account and addressed in this document, and the modifications set out to Direction 4 have been clearly set out.

Not unduly discriminatory

6.50 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. Ofcom is not currently reviewing KCL's financial statements in respect of the changes as set out on this section, as KCL is already subject to a lesser level of regulatory reporting

than BT and that the potential impact on the telecommunications market from any such changes for KCL, is far less significant.

Annex 1

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 26 May 2005, Ofcom published a notification of the proposed modified Direction in accordance with section 49 of the Act (the 'Notification');

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

(L) in the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 23 June 2005;

(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 Section 4 of 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 Original 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.

DAVID K S THOMAS

Director of Regulatory Finance, Ofcom

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

31 August 2005

ANNEX A

List of Network components

- 1 Local exchange concentrator
- 2 Local exchange call set up
- 3 Local exchange call duration
- 4 Main exchange call set up
- 5 Main exchange call duration
- 6 Remote-local transmission link
- 7 Remote-local transmission length
- 8 Local-tandem transmission link
- 9 Local-tandem transmission length
- 10 Inter-tandem transmission link
- 11 Inter-tandem transmission length
- 12 Product management, policy & planning for narrowband call services
- 13 National operator assistance
- 14 International operator assistance
- 15 Outpayments: geographic calls
- 16 Outpayments: non geographic calls
- 17 Outpayments: calls to mobile
- 18 Outpayments: international
- 19 Outpayments: other
- 20 International network
- 21 Fibre access lines
- 22 CWSS network terminating equipment & serving exchange equipment
- 23 DWSS network terminating equipment & serving exchange equipment
- 24 PDH multiplexors at third party site
- 25 SDH multiplexors at third party site
- 26 SDH (MSH) multiplexors at third party site
- 27 PDH multiplexors
- 28 SDH mutliplexors
- 29 SDH cross connection/grooming equipment
- 30 Tributary card for SDH network by size
- 31 SDH (MSH) mutliplexors
- 32 SDH (MSH) cross connection/grooming equipment
- 33 Tributary card for SDH (MSH) network by size
- 34 Transmission links over fibre
- 35 Transmission links over radio
- 36 In-building links
- 37 Signalling links
- 38 Network research and development
- 39 Guarantee schemes
- 40 Infrastructure returns
- 41 Carrier Pre Selection System Set-Up
- 42 Carrier Pre Selection Operator Set-Up
- 43 Carrier Pre Selection Customer Set-Up
- 44 Carrier Pre Selection in life management
- 45 IN platform

46	Private circuit specific
47	Alternative interface symmetric broadband origination specific
48	Wholesale bad debts
49	E-side copper (capital)
51	D-side copper (capital)
52	D-side copper (current)
53	Local exchange general frames (capital)
54	Local exchange general frames (current)
55	Dropwire (capital) including PSTN NTE
56	Business PSTN drop maintenance
57	Residential PSTN drop maintenance
58	Pair gain
59	PSTN line test equipment
60	Test access management system (TAMS)
61	PSTN line cards
62	ISDN2 line cards
63	ISDN2 NTE / other
64	ISDN2 drop (maintenance)
65	ISDN 30 (line cards / maintenance)
66	DSLAM (capital / maintenance)
67	Other SG & A
68	External WLR SG & A
69	Internal WLR SG & A
70	Local loop unbundling system set up
71	Local loop unbundling connection activities
72	Local loop unbundling room build activities
73	Local loop unbundling hostel activities
74	Local loop unbundling tie cables
75	Shared local loop unbundling (SMPF) connection activities
76	FRIACO Ports
77	ATM customer interface 2mb
78	ATM customer interface 34mb
79	ATM customer interface > 155mb
80	ATM network interface
81	ATM network switching
82	Internal PPC SG & A
83	External PPC SG & A
84	Internal PSTN business connection activities
85	Internal PSTN residential connection activities
86	Internal ISDN30 connection activities
87	Internal ISDN2 business connection activities
88	Internal ISDN2 residential connection activities
89	ADSL connection activities
90	SDSL connection activities
91	External ISDN2 conversion activities
92	External PSTN connection activities
93	External PSTN transfer activities
94	Internal PSTN takeovers activities
95	Internal ISDN2 takeover activities
96	Service provider gateway (capital / maintenance)
97	External ISDN2 connection activities
98	External ISDN2 transfer activities
99	Internal ISDN30 takeover activities
100	External ISDN30 connection activities
101	External ISDN30 transfer activities

Annex 2

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

(F) this Modified Direction modifies:

- (i) Direction 3 given under SMP Services Condition OA2 at Annex 4 of *The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 (the "Original 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;

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

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

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

(I) on 26 May 2005, Ofcom published a notification of the proposed modified Direction in accordance with section 49 of the Act (the 'Notification');

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

(K) in the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 23 June 2005;

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

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

(M) Ofcom has considered every representation about the proposed modified Direction duly made to them and these representations are discussed in Section 5 of 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 the Original Direction 3 and the Original FA10 Direction:

1. BT shall, for the purposes of condition OA5 and FA10.5 and as appropriate, prepare, secure an appropriate audit opinion in respect of, deliver to OFCOM and publish the Regulatory Financial Statements in accordance with Annexes A, B and C of the Original Direction 3 and the Original FA10 Direction modified by Annex A to this Direction;

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

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

(b) "BT" means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;

(c) "Director" means the Director General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;

(d) '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.

DAVID K S THOMAS

Director of Regulatory Finance, Ofcom

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

31 August 2005

ANNEX A

Annexes A, B and C of the Original Direction 3 and Annexes A and B of the Original FA10 Direction shall be modified to reflect the changes to the basis of reporting of the financial statements as set out below:

Financial Statement	Market or Service		Audit Opinion		Published	
	Market	Service	FPIA	PPIA	Yes	No
Market network services reconciliation statement (NCR FA) - Annex 40		X		X		X
Statements of costs and charges for internal and external wholesale services (SoCC Ext) – Annex 34		X		X	X	
Statements of costs and charges for internal only wholesale services (SoCC Int) – Annex 35		X		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 – Consolidated statement for all category B routes - note: individual service statements by route for above market, will not be produced	X		X		X	
BT Network Consolidated Profitability and Mean Capital Employed Statement by Wholesale Service – Annex 36		X		X		X

Annex 3

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 Original 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 26 May 2005, Ofcom published a notification of the proposed modified Direction in accordance with section 49 of the Act (the 'Notification');

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

(L) in the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 23 June 2005;

(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 Section 6 of 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 the Original Direction 4 and the Original FA10 Direction:

1. Except where BT is entitled to amend the form and content of the Regulatory Financial Statements in accordance with conditions OA7 and OA21 and FA10.7 and FA10.21, BT shall ensure that the Regulatory Financial Statements required by conditions OA5 and FA10.5 and Original Direction 3 and Original FA10 Direction (both as amended) shall be prepared, as appropriate, as to form and content in the

manner set out in the Original Direction 4 and the Original FA10 Direction as modified by the Annexes to this Direction;

2. The Original Direction 4 and the Original FA10 Direction shall be modified so that the Regulatory Financial Statements shall be prepared to include the following form and content:

(a) the Dominant Provider shall use reporting denominations in million pound units for the main financial statements;

(b) the Regulatory Financial Statements shall include the following standard list of expenditure categories specific to all wholesale markets:

- provision and installation/maintenance
- network support
- general support
- general management
- finance and billing
- accommodation
- bad debts
- other costs
- depreciation
 - access
 - switch and transmission
 - other

(c) the Regulatory Financial Statements shall include the following standard list of expenditure categories specific to all retail markets:

- inputs @ tariff
- inputs @ cost
- outpayments
- marketing and sales
- customer services
- finance and billing
- bad debts
- general management
- computing
- BT messaging service payments
- other costs

(d) The Dominant Provider shall not be required to prepare comparative statements for the year 2003/04 for the following Annex of the Original Direction 4 and the Original FA10 Direction:

- Annex 24 – Wholesale sales by market statement, external sales;

(e) The Dominant Provider shall be required to prepare partial or de-facto comparative statements for the year 2003/04 for the following Annexes of the Original Direction 4 and the Original FA10 Direction:

- Annex 36 – Consolidated profitability and MCE statements by wholesale service;
- Annex 37 – Consolidated statement of costs on a current cost basis, network activity statement;

- Annex 38 – Market statement of costs on a current cost basis, network activity statement;
- Annex 39 – Consolidated network services reconciliation statement;
- Annex 40 – Market network services reconciliation statement; and
- Annex 41 – Network component statement on incremental cost basis (reconciliation).

(f) discount information should be separately identified in each Profit and Loss Statement, where discounts account for 5% or more of gross revenues;

Illustrative examples of the changes in (a) to (c) and (f) are set out in Annex A to this Direction

3. The Additional Financial Information set out in Annex 42 to the Original Direction 4 and the Original FA10 Direction shall be deleted and replaced in its entirety as set out in Annex B to this Direction.

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

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

(b) "BT" means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 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;

(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./

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.

DAVID K S THOMAS

Director of Regulatory Finance, Ofcom

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

31 August 2005

ANNEX A

The Original Direction 4 and the Original FA10 Direction shall be modified as set out below.

BT Wholesale Market Statement

CURRENT COST PROFIT AND LOSS ACCOUNT for the year ended 31 March 2005		Restated (cross refer to notes)			
Notes	£m 2005	% per line item/total	£m 2004	% per line item/total	% Change Year on Year
Turnover					
Internal Sales (Gross/Net)					
- services which are also available externally					
- services provided internally only					
External Sales (Gross/Net)					
Discounts (No disclosure required if less than 5% of Gross Revenue)					
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					
Access					
Switch and transmission					
Other					
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					

BT Wholesale Market Statement

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED		Restated (cross refer to notes)		
for the year ended 31 March 2005				
	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				
Investments				
<hr/>				
Total fixed assets				
Current assets				
Stocks				
Debtors				
- internal				
- external				
<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				
<hr/>				
Mean capital employed				
<hr/>				

BT Retail Market Statement

CURRENT COST PROFIT AND LOSS ACCOUNT for the year ended 31 March 2005		Restated (cross refer to notes)			
Notes	£m 2005	% per line item/total	£m 2004	% per line item/total	% Change Year on Year
Turnover					
Discounts (No disclosure required if less than 5% of Gross Revenue)					
Total Turnover			100%	100%	
Operating costs					
Charges from BT Wholesale Markets					
- wholesale market A					
inputs @ tariff					
inputs @ cost					
- wholesale market B					
inputs @ tariff					
inputs @ cost					
Outpayments					
Sub total					
Operating costs of Retail Market					
- Marketing & sales					
- Customer services					
- Finance & Billing					
- Bad debts					
- General management					
- Computing					
- BT Messaging service payments					
- Other Costs					
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					

BT Retail Market Statement

STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED		Restated (cross refer to notes)		
for the year ended 31 March 2005				
	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				
Investments				
<hr/>				
Total fixed assets				
Current assets				
Stocks				
Debtors				
- internal				
- external				
<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				
<hr/>				
Mean capital employed				
<hr/>				

ANNEX B

List of AFIs

	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

	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	<p>Analysis by asset category and network activities, of the depreciation charge for the year and impact of CCA valuation adjustments on costs for the year: - e.g.</p> <ul style="list-style-type: none"> • HCA depreciation • CCA supplementary depreciation • Holding gain • Other CCA adjustments 	<ul style="list-style-type: none"> • impact on profit and loss cost base of the application of CCA methodologies • enable trend analysis of this breakdown to be undertaken • provides sub-analysis (for the cost/gain line items left) of the asset movement statement in relation to network components • provide input into network price control reviews 	CA & R

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

	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

	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
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

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

	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 electronic format containing all records from BT's UK 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 file should as a minimum, be able to replicate the outputs of the regulatory financial statements, and therefore should include transfer charges and current cost accounting ("CCA") adjustments, and should 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 financial statements, and on a quarterly basis thereafter, 30 days after each quarter end. The outputs of the annual file should be consistent with published audited information.</p> <p>BT to work with Ofcom to agree a suitable format for the data file such that it is capable to be uploaded into a data extraction tool. Such a data file should be accompanied by provision of control totals, and any technical advice which allows seamless data transfers and it should be updated when appropriate. In consultation with Ofcom, BT shall procure an appropriate audit opinion in relation to the data file.</p>	AS, CA & R