BT
Bringing it all together

Reconciliation Report

in accordance with Ofcom's Direction under section 49 of the Communications Act 2003 and SMP Services Conditions 13A.4 and 8A.4 setting the requirements in relation to the reconciliation report

2 December 2015

Contents

Reconciliation Report in accordance with Ofcom's Direction under section 49 of the Communications Act 2003 and SMP Services Conditions 13A.4 and 8A.4

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Section 1

Introduction to the Reconciliation Report

Section 1.1 – Introduction

Ofcom's Regulatory Financial Reporting Statement of 20 May 2014 directed BT to prepare a reconciliation report as referred to in condition 8 and as directed by Ofcom from time to time (the "Reconciliation Report"). This Reconciliation Report is published in accordance with Ofcom's Direction under section 49 of the Communications Act 2003 and SMP Services Conditions 13A.4 and 8A.4 (Directions for Regulatory Financial Reporting, Ofcom Statement of 30 March 2015, Annex 5) (the "30 March 2015 Direction").

British Telecommunications plc (the "Company") has, by agreement with BT Group plc, prepared the Current Cost Financial Statements referred to in this report in accordance with its Accounting Methodology Documentation and the Regulatory Accounting Principles set by Ofcom, by disaggregating balances recorded in the general ledgers and other accounting records of the Group.

This Reconciliation Report sets out changes to regulatory accounting methodologies for 2014-15 and the impact of such changes on the revised Current Cost Financial Statements 2015 published on 2 December 2015 (the "revised 2015 RFS"). This report also sets out the impact of errors subsequently identified in our Current Cost Financial Statements 2014 published on 15 August 2014 (the "2014 RFS").

The basis of preparation of this Reconciliation Report is consistent with the basis of preparation of the revised 2015 RFS and of the 2014 RFS as stated in each of these RFS, except for the adjustments of methodologies and the corrections of errors set out in sections 4, 5, 6 and 7 of this report.

For the purposes of this report, Ofcom requires methodology changes and errors to be included where they are estimated to have an impact of more than the higher of 5% or £1m on any figure in the RFS.

The direction requires BT to publish the reconciliation report by 31 July 2015 (SMP Conditions 8 and 23). This publication deadline was missed. This Reconciliation Report has been published on 2 December 2015.

We note that in the revised 2015 RFS there were certain methodology changes and error corrections that necessitated a restatement of the prior year 2013-14 comparative information. These changes are explained within the revised 2015 RFS in the basis of preparation, along with the main impact upon wholesale markets. It is noteworthy that not all methodology changes required by Ofcom to be included in this report are also considered material for the purposes of restating our 2013-14 results, due to the application of lower materiality thresholds imposed by Ofcom for this report.

The Reconciliation Report is not a replacement for, nor should it be regarded as an alternative to, BT's published revised 2015 RFS. The Reconciliation Report is a description of the methodology changes detailed in the Reconciliation Report and an illustration or view of the revised 2015 RFS had those Statements been produced using 2013-14 methodologies.

We note that due to the complex nature of the report, figures in the impacts sections are individually rounded to the nearest relevant unit (e.g. £m). Totals and sub-totals are calculated based on these rounded figures, but average prices are not. As a result minor summation inconsistencies may arise between schedules. Minor differences between average costs may exist between "published" and "methodology reversal" or "error correction" schedules where there are no apparent changes to fully allocated costs (FAC). These differences are more pronounced on low volume services and are solely the result of non-material movements in costs which are eliminated on rounding.

Section 1.2 – Overall structure of the report

The Report follows the structure and layout requested by Ofcom. A description of each section is provided below:

- Section 2 – BT's directors Statement of Responsibility which acknowledges that this report has been prepared in accordance with the 30 March 2015 Direction and based upon the published revised 2015 RFS and the 2014 RFS.
- Section 3 – provides our auditors' opinions on the Reconciliation Report, for both changes made to methodologies and the correction of errors.

Methodology reversals 2015 narrative

- Section 4 – sets out the reporting requirements for this Reconciliation Report with regards to methodology reversals and compares this to the methodology changes set out in the "Change Control Notification in accordance with SMP Condition 21 of Ofcom's Regulatory Financial Reporting Final Statement published on 20 May 2014" published on 31 March 2015 ("Change Control Notification"). We identify here any differences between the two reports and the reasons for these differences.
- Section 5 – provides an explanation of the reported methodology changes made in the revised 2015 RFS which have been reversed as part of this report along with a summary of their impact.

Error corrections 2014 narrative

- Section 6 – sets out the reporting requirements for this Reconciliation Report with regards to the correction of errors subsequently identified in the 2014 RFS.
- Section 7 – provides an explanation of the reported error corrections along with a summary of their impact.

Annex 1 - Methodology reversals 2015 impacts

Published as a separate document on our website is the methodology reversal section of this report. This includes the following subsections:

- Methodology reversal impacts section 1 – provides the illustrative difference of individual methodology changes on costs and mean capital employed (MCE) attributed to individual Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Market and the Wholesale Residual Market (as per section 5.1).
- Methodology reversal impacts section 2 – compares the consolidated results of the Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Market and the Wholesale Residual Market as reported for the year ended 31 March 2015, to the results for those markets had certain changes to attribution and valuation methodologies not been applied.
- Methodology reversal impacts section 3 – compares the attribution of wholesale current costs and wholesale current cost MCE by individual Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Market and the Wholesale Residual Market as reported for the year ended 31 March 2015, to the results had certain changes to the attribution and valuation methodologies not been applied. Methodology reversal impacts section 4 – compares the Fully Allocated Cost results of the individual Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Markets at a service level as reported for the year ended 31 March 2015, to the results for those markets had certain changes to the attribution and valuation methodologies not been applied.
- Methodology reversal impacts section 5 – compares the Network Activity Statement as reported for the year ended 31 March 2015 to the Network Activity Statement had certain changes to the attribution and valuation methodologies not been applied.

Annex 2 - Error corrections 2014 impacts

Published as a separate document on our website is the error correction section of this report. This includes the following subsections:

- Error correction impacts section 1 – provides the illustrative difference of individual error corrections on costs and MCE attributed to individual Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Markets and the Wholesale Residual Market (as per section 7.1).
- Error correction impacts section 2 – compares the consolidated results of the Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Markets and the Wholesale Residual Market as reported for the year ended 31 March 2014, to the results for those markets had certain error corrections been made.

- Error correction impacts section 3 – compares the attribution of wholesale current costs and wholesale current cost MCE by individual Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Markets and the Wholesale Residual Market as reported for the year ended 31 March 2014, to the results for those markets had certain error corrections been made.Error correction impacts section 4 – compares the Fully Allocated Cost results of the individual Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Markets at a service level as reported for the year ended 31 March 2014, to the results for those markets had certain errors been corrected.
- Error correction impacts section 5 – compares the Network Activity Statement as reported for the year ended 31 March 2014 to the Network Activity Statement had certain errors been corrected.

Section 2

Statement of Responsibility

Section 2.1 Statement of Responsibility

Ofcom's Regulatory Financial Reporting Statement of 20 May 2014 directed BT to prepare a reconciliation report as referred to in condition 8 and as directed by Ofcom from time to time (the "Reconciliation Report"). This Reconciliation Report is published in accordance with Ofcom's Direction under section 49 of the Communications Act 2003 and SMP Services Conditions 13A.4 and 8A.4 (Directions for Regulatory Financial Reporting, Ofcom Statement of 30 March 2015, Annex 5) (the "30 March 2015 Direction").

British Telecommunications plc (the "Company") has, by agreement with BT Group plc, prepared the Current Cost Financial Statements referred to in this report in accordance with its Accounting Methodology Documentation and the Regulatory Accounting Principles set by Ofcom, by disaggregating balances recorded in the general ledgers and other accounting records of the Group.

This Reconciliation Report addresses the impact of methodology changes made during the 2014-15 year upon the the revised Current Cost Financial Statements 2015 published on [day] December 2015 (the "revised 2015 RFS"). It also addresses the impact of errors identified subsequent to publishing the Current Cost Financial Statements 2014 published on 15 August 2014 (the "2014 RFS").

The directors confirm to the best of their knowledge that the Reconciliation Report for the year ended 31 March 2015 has been prepared in accordance with the 30 March 2015 Direction based upon the revised 2015 RFS and upon the 2014 RFS.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. The work carried out by the auditors does not involve consideration of these matters and, accordingly, we recognise that the auditors accept no responsibility for any changes that may have occurred to the Reconciliation Report since it was initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board of Directors and signed on its behalf by:

Glyn Parry

Director, British Telecommunications plc

2 December 2015

Section 3

Audit Report

Report of the Independent Auditors to British Telecommunications plc and Ofcom issued in accordance with the Ofcom's Direction dated 20 May 2014 under section 49 of the Communications Act 2003 and SMP Services Conditions 13A.4 and 8A.4 setting requirements in relation to the Reconciliation Report as amended by the subsequent notifications and directions issued by Ofcom following consultation as set out below.

1. We have examined the "2015 Reconciliation Report in accordance with Ofcom's Direction under section 49 of the Communications Act 2003 and SMP Services Conditions 13A.4 and 8A.4 setting out requirements in relation to the reconciliation report" (the "Reconciliation Report")

2. The Reconciliation Report is prepared by British Telecommunications plc (the "Company") under the current cost convention in accordance with:

- the "Regulatory Financial Reporting" statement issued by Ofcom on 20 May 2014 and the "Directions for Regulatory Financial Reporting" issued by Ofcom on 30 March 2015 (together the "Final Statements and Notifications");
- in respect of information for the year ended 31 March 2015, the Accounting Methodology Documents and the Wholesale Catalogue dated 31 July 2015 and the methodology changes described in sections 4 and 5 on pages 13 to 32 (the "2015 Basis of Preparation");
- in respect of information for the year ended 31 March 2014, the basis of preparation described in Sections 6 and 7 on pages 33 to 52 which incorporates the Primary Accounting Documents dated 15 August 2014, the Secondary Accounting Documents, namely; the Detailed Attribution Methods; the Detailed Valuation Methodology and the Wholesale Catalogue each dated 15 August 2014 (the "2014 Basis of Preparation").

3. The Reconciliation Report comprises the following:

- the Introduction to the Reconciliation Report on pages 3 to 6;
- the Reconciliation report requirements and content – methodologies, the Explanation of methodology changes made in the revised 2015 RFS, the Reconciliation report requirements and content – error corrections and the Explanation of reported material error corrections on pages 13 to 52
- Annex 1 Section 1 - The illustrative difference of individual methodology changes on costs and MCE attributed to individual markets;
- Annex 1 Sections 2 to 5 - Comparison of the results as reported for the year ended 31 March 2015 to the results had certain changes to attribution and valuation methodologies not been applied (the "2015 Methodology Change Schedules")
- Annex 2 Section 1 – The illustrative difference of individual error corrections on costs and MCE attributed to individual markets; and
- Annex 2 Sections 2 to 5 - Comparison of the results as reported for the year ended 31 March 2014 to the results for those markets had certain error corrections been made (the "2014 Error Correction Schedules").

Directors' responsibility for the Reconciliation Report

4. As described on page 8 the directors are responsible for preparing and approving the Reconciliation Report.

Auditors' Responsibility

5. Our responsibility is to audit and express an opinion on the 2015 Methodology Change Schedules and the 2014 Error Correction Schedules in accordance with the Final Statements and Notifications, applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report, including the opinions, has been prepared for and only for the Company and Ofcom and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

6. We report our opinions as to whether:

- the 2015 Methodology Change Schedules as a whole are properly prepared in accordance with the 2015 Basis of Preparation and comply with the requirements of the Final Statements and Notifications. We do not report on the preparation of any individual market group or market, or on the impact of individual methodology changes.
- the 2014 Error Correction Schedules as a whole are properly prepared in accordance with the 2014 Basis of Preparation and comply with the requirements of the Final Statements and Notifications. We do not report on the preparation of any individual market group or market, or on the impact of individual error corrections.

7. In addition, we report if in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our examination, or if information specified by the form and content requirements of the Final Statements and Notifications is not disclosed.

8. We read the financial and non-financial information presented in the Reconciliation Report to identify material inconsistencies with the 2015 Methodology Change Schedules and 2014 Error Correction Schedules and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the examination. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. The other information in the Reconciliation Report comprises Section 1 - Introduction to the Reconciliation Report on pages 3 to 6, Section 4 - Reconciliation report requirements and content – methodologies, Section 5 - Explanation of methodology changes made in the revised 2015 RFS, Section 6 - Reconciliation report requirements and content – error corrections and Section 7 - Explanation of reported material error corrections on pages 13 to 52, Annex 1 Section 1 - The illustrative difference of individual methodology changes on costs and MCE attributed to individual markets and Annex 2 Section 1 - The illustrative difference of individual error corrections on costs and MCE attributed to individual markets.

Basis for opinions

9. As explained in Section 1.1 on page 4 the Company has, by agreement with BT Group plc, its ultimate parent company, prepared the Reconciliation Report by disaggregating balances recorded in the general ledgers and other accounting records of BT Group plc and its subsidiaries ("the Group") maintained in accordance with the Companies Act 2006 and used, in accordance with that Act, for the preparation of the Company's statutory consolidated financial statements for the years ended 31 March 2015 and 31 March 2014 ("the Statutory Financial Statements").

10. PricewaterhouseCoopers LLP audited the Statutory Financial Statements on which they expressed unmodified audit opinions. Their audit report on the Statutory Financial Statements describes the scope of their audit of those Statutory Financial Statements.

11. In conducting our subsequent examination of the Reconciliation Report, and in providing the opinions in paragraph 13 below, we have not performed any additional tests of the transactions and balances which are recorded in the general ledgers and other accounting records beyond those already performed for the purpose of the audits of the Statutory Financial Statements.

12. Having regard to the above:

a) we conducted our examination of the Reconciliation Report in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Our work involved obtaining evidence about the amounts and disclosures in the Reconciliation Report.

b) we planned and performed our examination of the Reconciliation Report so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 2015 Methodology Change Schedules as a whole are properly prepared in accordance with the 2015 Basis of Preparation and that the 2014 Error Correction Schedules as a whole are properly prepared in accordance with the 2014 Basis of Preparation. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Reconciliation Report in accordance with the form and content requirements of the Final Statements and Notifications.

Opinions

13. In our opinion:

a) the 2015 Methodology Change Schedules as a whole have been properly prepared in accordance with the 2015 Basis of Preparation and comply with the requirements of the Final Statements and Notifications; and

b) the 2014 Error Correction schedules as a whole have been properly prepared in accordance with the 2014 Basis of Preparation and comply with the requirements of the Final Statements and Notifications.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

Section 4

Reconciliation report requirements and content - methodologies

Section 4.1 – BT's reporting requirements in respect of changes to methodologies

We have been directed to prepare this Reconciliation Report in accordance with Ofcom's Direction under section 49 of the Communications Act 2003 and SMP Services Conditions 13A.4 and 8A.4. The Direction was issued in Annex 5 of Ofcom's Directions for Regulatory Financial Reporting (30 March 2015).

The 30 March 2015 Direction provides that BT must prepare a reconciliation report which sets out:

"i. In relation to changes to the Regulatory Accounting Methodology:

a) each and every change;

b) the impact of all changes on all figures presented in the Regulatory Financial Statements, by setting out, on an aggregated basis, the difference between the Current Year Figures and the Current Year Figures had such changes not been made, expressed as an absolute amount and as a percentage change;

c) the impact of each Material Change at the Markets and Technical Areas Level, by setting out, for each Material Change separately, the difference between the Current Year Figures and the Current Year Figures had such Material Change not been made, expressed as an absolute amount and as a percentage change;

d) the impact of changes which are not Material Changes at the Markets and Technical Areas Level, by setting out, on an aggregated basis, the difference between the Current Year Figures and the Current Year Figures had such changes not been made, expressed as an absolute amount and as a percentage change;"

"Material Change" is defined as follows:

"'Material Change' means a change in any element of the Regulatory Accounting Methodology which results in a change (be it positive or negative) in any figure in the Regulatory Financial Statements which exceeds the higher of 5% or £1 million. The percentage change in a figure shall be calculated by taking the value of the affected figure before the change in the Regulatory Accounting Methodology is applied, and subtracting from it, the value of the same figure after the change in the Regulatory Accounting Methodology is applied, and then dividing this result by the former value;"

We published the 'Change Control Notification in accordance with SMP Condition 21 of Ofcom's Regulatory Financial Reporting Final Statement published on 20 May 2014' (the "Change Control Notification") on 31 March 2015. In the Change Control Notification we published a list of each and every methodology change (as defined by Ofcom) we planned to make for the year ended 31 March 2015.

This Reconciliation Report follows from the Change Control Notification and the additional changes described below and looks in detail at the impacts of 2014-15 methodology changes by comparing them with how the RFS would look if we had applied 2013-14 methodologies, using 2014-15 data (e.g. volumes and prices).

Section 4.2 – differences between the Change Control Notification and this Reconciliation Report

There are some differences between the Change Control Notification and the Reconciliation Report. These differences and reasons for these are detailed below.

Section 4.2.1 – Changes not reversed in this Reconciliation Report

Market definition changes

In any instance where we have made changes to market definitions as identified in the Change Control Notification, these have not been reversed in this Reconciliation Report. We do not consider that these represent a change to our methodology beyond the presentation of revenues, costs and assets in different markets. The following change references in the Change Control Notification are those which have not been reversed on this basis:

- *3.1 Wholesale Broadband Access Market Structure*
- *3.2 Wholesale Line Access Market Structure*
- *3.3 Wholesale Analogue Exchange Line Services Market Structure*
- *3.4 Internal Ethernet Backhaul Direct and Optical Network Backhaul Services*

- *3.15 IPStream volumes and reporting* (note that this was included as a methodology change in the Change Control Notification, but was implemented to ensure that our market structure for IPStream aligns with the charge controls and sub-caps outlined by Ofcom in the Direction.)
- *3.19 Featurenet volume reclassification*
- *3.27 64kBit/s Trunk out of Low TISBO into Trunk* (note that this was included as a methodology change in the Change Control Notification, but it only changes where costs, revenues and assets are reported and is not a change of how we attribute costs. We therefore believe it is appropriate to treat it as a change to market definition).

Other changes

There are several non-material changes which we included in our Change Control Notification but which we have not reversed in this report. These, and the associated rationale for them not being reversed, are discussed in detail in section 5.10.

Section 4.2.2 – Changes to methodologies in the Change Control Notification

There were a number of changes to our methodologies made after 31 March 2015 and which were included in the revised 2015 RFS. The circumstances of such changes were:

- It was not possible to update our methodologies by 31 March 2015 to reflect the final Ofcom decisions on regulatory accounting methodologies in "Directions for Regulatory Financial Reporting" issued on 30 March 2015. We had made changes in line with Ofcom's consultation on changes to our methodologies but these were not exactly in line with Ofcom's final requirements. In these circumstances, we are required to make certain methodology changes to ensure compliance with the Final Statements and Notifications.
- We have notified Ofcom, via an exchange of letters, of certain methodology changes made after 31 March 2015 which are to be considered as if they were included in the Change Control Notification of 31 March 2015.
- Further changes to our methodologies were made as a result of notifications from our auditors to make sure that errors would not be introduced into the Current Cost Financial Statements.
- Lastly, the presentation of some changes within the Change Control Notification were clarified or amended.

Each of these post 31 March 2015 methodology changes is described in turn:

Changes made to comply with Ofcom's 30 March 2015 Direction:

- *Regulatory Asset Valuation (RAV):* We proposed in the Change Control Notification (section 3.7) to apply RAV in full to copper cables. We changed this to comply with Ofcom's Direction, which set out that the RAV adjustment should not be applied to Copper and only to Access Duct. A description of the revised RAV methodology – which has been reversed as part of this Reconciliation Report - is in Section 5.1.
- *Cumulo rebate allocation:* We proposed in the Change Control Notification (section 3.12) to use data from the 2014 RFS to derive the weighting element of the Profit Weighted Net Replacement Costs for Cumulo. We changed this to use component weighted average cost of capital for the profit weighting element, as set out in Ofcom's Direction. A description of the revised Cumulo rebate allocation methodology – which has been reversed as part of this Reconciliation Report - is in Section 5.5.
- *BDUK:* We made a minor change to create a new plant group and component which covers all government grants and not BDUK areas only. This plant group and component only includes the grants received.
- *Time Related Charges, ISDN30, PSTN Transfers, BES 1000MB Rentals Internal WECLA, splitting co-mingling rentals between basket and non-basket services (and implementing associated revenue changes to the WLA/WFAEL markets)*: Ofcom directed certain changes to service reporting which required that these services be reported in the WFAEL/WLA market. We had not made this change prior to 31 March 2015, but in order to comply with the direction we did so in the revised

2015 RFS. These changes were not included in the Change Control Notification. These changes have not been reversed as part of this Reconciliation Report as we consider them to be market definition changes, the treatment of such items has been explained in Section 4.2.1.

Changes notified to Ofcom to be considered as within the 31 March 2015 Change Control Notification report

- *NGA tie cables:* We changed how we attribute duct costs to NGA tie cables so that it is attributed on the basis of the cumulative capital expenditure on duct associated with NGA. It was previously attributed to NGA tie cables based upon the depreciation on the NGA capital expenditure on duct in the year. This change is described in Section 5.8 of this report.
- *NGA Development:* We changed how we attribute development spend for NGA between Fibre to the Cabinet (FTTC) and Fibre to the Premises (FTTP) so that it is on the basis of NGA development spend (it was previously based on volumes). There was no impact upon figures reported in the 2014-15 RFS and therefore no reversal necessary in this report.
- We decided to withdraw the proposed change *BT Technology, Service & Operations Electricity - new methodology for Public Switched Telephone Network.* [Change Control Notification - section 3.20]. In the Change Control Notification we identified that we would implement a new methodology for Public Switched Telephone Network power cost attribution. As a result there is no methodology to reverse in this report.

Following notification from our auditors to avoid the introduction of errors into the RFS

As changes made to avoid error in the revised 2015 RFS these changes have not been reversed in this Reconciliation Report. On this basis the final methodology changes included in the revised 2015 RFS which are reversed in this report are described in Section 5 below. Where these changes have been identified as impacting the 2013-14 comparative information they have been included in the error section of this report, with the section references included below.

- *7.8 PPC volumes:* Internal and external Partial and Private Circuit volumes are sourced from the Core Transmission costing system (CTCS). We identified that in 2014-15 local end and main link volumes were overstated in CTCS due to a number of circuits recorded as live in the system which are actually ceased and hence not billable. We therefore used Geneva Genius (billing system) data to produce the revised 2015 RFS.
- *7.12 Call origination volumes:* Non-geographic call origination volumes were historically retrieved via a system called Powerhouse, which queries an underlying call data system called CSCS. We identified that Call origination volumes, sourced directly from CSCS, which we submit to Ofcom on a quarterly basis are more accurate and lower than those from Powerhouse. We therefore used CSCS data to populate the revised 2015 RFS.
- *3.28 ECC component rationalisation:* As part of the rationalisation of components we identified several areas where ECC credits were mis-mapped and adjusted for this accordingly. We believe this represents the correction of an error and not a change to our methodology.

Presentational and other clarifications of methodologies within our Change Control Notification

In some instances we were required to make changes to the methodologies as reported in the Change Control Notification, either to present the impacts of the change in more detail, to correct minor errors in the impact analysis, or to no longer implement the change as described. Where these changes have impacted this report the relevant section reference has been included.

- *7.10 Non-geographic call termination reporting:* We reported this change as a market definition change in the Change Control Notification. We have since determined that as this change should have been effective before 2014-15, its implementation this year represented the correction of an error. Consequently we reported the change in the error section of this report. [Change Control Notification – Section 3.5]

- *5.6 Duct and Fibre allocations to 21CN:* In this report we split out the impacts of changes to Fibre to be separate from the impacts of changes to Duct. Consequently there are two illustrated impacts for this change in methodology reversal impacts section 1, the net of which relates to the entry in the Change Control Notification. We further note that the net impact presented in the Change Control Notification was overstated. We have corrected this impact for this report with minor impacts to all markets. [Change Control Notification – Section 3.14]
- *[5.10] Review of BT Wholesale Managed Services cost allocations:* The impact analysis in the Change Control Notification contained an error. We have adjusted for this in this report. The impact analysis in the Change Control Notification showed movements in WBA Market A, but in the revision the only impact is to Low Bandwidth TISBO. [Change Control Notification – Section 3.26]
- *[7.9] Wholesale Broadband Connect (WBC) internal and external volumes:* We reported this change as a methodology change in the Change Control Notification. We have since determined that this change best represents the correction of an error as WBC volumes that are used within WBMC are themselves not sold externally. We have reported the change in the error section of this report. [Change Control Notification – Section 3.32]

Section 5

Explanation of methodology changes made in the revised 2015 RFS

Section 5.1 – Methodology reversal impacts summary

The following two tables summarise the illustrative difference of individual methodology changes on costs and on MCE attributed to individual Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Market and the Wholesale Residual Market.

Operating costs	WFAEL £m	WLA £m	ISDN2 £m	ISDN30 £m	Low Bandwidth TISBO £m	Medium Bandwidth TISBO £m	High Bandwidth TISBO £m	TI Regional Trunk £m	Technical areas (Point of Handover) £m	AISBO Non WECLA £m	AISBO WECLA £m	MISBO Non WECLA £m	Fixed call origination £m	Fixed geographic call termination £m	Technical areas (Interconnect Circuits) £m	WBA - Market A £m	Wholesale Residual (post-eliminations) £m	Total Wholesale Markets £m
Published RFS 2014-15	**1,250.0**	**1,424.0**	**54.0**	**82.0**	**186.0**	**10.0**	**12.0**	**11.0**	**3.0**	**390.0**	**32.0**	**73.0**	**98.0**	**81.0**	**25.0**	**202.0**	**1,722.0**	**5,655.0**
Material methodology changes :																		
1 Implementation of Regulatory Asset Valuation	46.9	25.1	1.4	0.9	0.7	0.0	0.0	0.0	0.0	4.3	0.2	0.2	0.0	0.0	0.0	0.0	0.3	80.0
2 21CN future benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	23.9	3.0	4.8	0.0	0.0	0.0	45.6	(77.3)	0.0
3 Allocation of Digital Subscriber Line Access Multiplexer costs between Market A and Market B	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.5	(3.5)	0.0
4 Testing Access Matrix system and Evolutionary Testing Access Matrix asset life changes	14.3	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(3.2)	(25.1)	6.0
5 Cumulo rebate allocation	31.9	13.9	0.2	(1.3)	(5.7)	(0.4)	(0.4)	(0.5)	(0.1)	(10.5)	(0.3)	(1.4)	(5.1)	(4.0)	(0.9)	(4.9)	(10.5)	0.0
6 Duct and Fibre allocations to 21CN - Fibre	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	(0.9)	0.0	0.2	(0.1)	(0.1)	0.0	0.2	0.5	0.0
7 Duct and Fibre allocations to 21CN - Duct	0.0	0.0	0.0	0.1	1.2	0.1	0.2	0.5	0.0	0.1	(0.1)	(1.8)	0.3	0.2	0.1	1.6	(2.5)	0.0
8 Changes to cost code and sector mappings	1.2	3.1	0.0	(0.2)	(3.0)	(0.3)	(0.7)	(0.4)	0.0	2.2	0.3	0.7	(0.5)	(0.4)	(0.2)	(4.2)	3.4	1.0
9 Changes to duct cost attribution to NGA tie cables	2.3	(2.7)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)
10 Combined fault and service attribution – utilisation factor changes	(19.2)	20.2	(1.3)	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sub-total - material changes	**77.4**	**79.6**	**0.4**	**(0.5)**	**(6.5)**	**(0.6)**	**(0.9)**	**(0.2)**	**(0.1)**	**19.4**	**3.1**	**2.7**	**(5.4)**	**(4.3)**	**(1.0)**	**38.6**	**(114.7)**	**87.0**
Cumulative non-material changes & roundings	38.6	(1.6)	0.6	0.5	0.5	0.6	(0.1)	(0.8)	0.1	0.6	(0.1)	(0.7)	1.4	0.3	0.0	1.4	23.7	**65.0**
Disaggregation of non-material changes:																		
Telephone directories (Change Control Notification Section 3.6)	*46.8*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*10.0*	***56.8***
Deafness provision (Change Control Notification Section 3.9)	*(9.0)*	*(5.0)*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*14.0*	***0.0***
Others	*0.8*	*3.4*	*0.6*	*0.5*	*0.5*	*0.6*	*(0.1)*	*(0.8)*	*0.1*	*0.6*	*(0.1)*	*(0.7)*	*1.4*	*0.3*	*0.0*	*1.4*	*(0.3)*	***8.2***
Methodology Reversal RFS 2014-15	**1,366.0**	**1,502.0**	**55.0**	**82.0**	**180.0**	**10.0**	**11.0**	**10.0**	**3.0**	**410.0**	**35.0**	**75.0**	**94.0**	**77.0**	**24.0**	**242.0**	**1,631.0**	**5,807.0**

Mean Capital Employed

		WFAEL	WLA	ISDN2	ISDN30	Low Bandwidth TISBO	Medium Bandwidth TISBO	High Bandwidth TISBO	TI Regional Trunk	Technical areas (Point of Handover)	AISBO Non WECLA	AISBO WECLA	MISBO Non WECLA	Fixed call origination	Fixed geographic call termination	Technical areas (Interconnect Circuits)	WBA - Market A	Wholesale Residual (post-eliminations)	Total Wholesale Markets
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
	Published RFS 2014-15	**4,940.0**	**3,917.0**	**173.0**	**208.0**	**451.0**	**31.0**	**39.0**	**49.0**	**6.0**	**1,576.0**	**100.0**	**200.0**	**177.0**	**147.0**	**32.0**	**439.0**	**2,140.0**	**14,625.0**
	Material methodology changes :																		
1	Implementation of Regulatory Asset Valuation	392.9	210.5	12.0	7.9	5.9	0.2	0.1	0.0	0.2	36.4	2.0	1.4	0.0	0.0	0.0	0.0	2.2	**671.7**
2	21CN future benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	59.6	7.6	11.9	0.0	0.0	0.0	59.0	(138.1)	**0.0**
3	Allocation of Digital Subscriber Line Access Multiplexer costs between Market A and Market B	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.6	(5.6)	**0.0**
4	Testing Access Matrix system and Evolutionary Testing Access Matrix asset life changes	28.0	22.7	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(7.2)	(57.5)	**(13.0)**
5	Cumulo rebate allocation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
6	Duct and Fibre allocations to 21CN - Fibre	0.0	0.0	0.0	(0.1)	(0.2)	(0.1)	0.0	0.6	0.0	(1.1)	0.2	2.1	(0.4)	(0.3)	(0.1)	0.2	(0.8)	**0.0**
7	Duct and Fibre allocations to 21CN - Duct	0.0	0.0	0.0	0.9	17.3	1.3	2.7	8.1	0.0	1.2	(1.9)	(23.5)	3.5	2.8	0.9	23.4	(36.7)	**0.0**
8	Changes to cost code and sector mappings	0.3	(1.8)	0.0	(0.4)	(4.6)	(0.3)	(1.6)	0.0	0.0	14.5	0.3	0.7	(0.6)	(0.4)	(0.2)	(4.4)	(1.5)	**0.0**
9	Changes to duct cost attribution to NGA tie cables	40.1	(48.8)	1.2	0.8	0.8	0.1	0.0	0.0	0.0	4.5	0.2	0.2	0.1	0.1	0.0	0.3	0.4	**0.0**
10	Combined fault and service attribution – utilisation factor changes	1.4	(1.5)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
	Sub-total - material changes	**462.7**	**181.1**	**13.3**	**10.1**	**19.2**	**1.2**	**1.2**	**8.7**	**0.2**	**115.1**	**8.4**	**(7.2)**	**2.6**	**2.2**	**0.6**	**76.9**	**(237.6)**	**658.7**
	Cumulative non-material changes & roundings	(51.7)	(25.1)	(1.3)	(1.1)	0.8	(0.2)	0.8	0.3	(0.2)	3.9	0.6	1.2	1.4	1.8	0.4	1.1	72.6	**5.3**
	Disaggregation of non-material changes:																		
	Deafness provision (Change Control Notification Section 3.9)	*(48.6)*	*(24.2)*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*72.8*	***0.0***
	Others	*(3.1)*	*(0.9)*	*(1.3)*	*(1.1)*	*0.8*	*(0.2)*	*0.8*	*0.3*	*(0.2)*	*3.9*	*0.6*	*1.2*	*1.4*	*1.8*	*0.4*	*1.1*	*(0.2)*	***5.3***
	Methodology Reversal RFS 2014-15	**5,351.0**	**4,073.0**	**185.0**	**217.0**	**471.0**	**32.0**	**41.0**	**58.0**	**6.0**	**1,695.0**	**109.0**	**194.0**	**181.0**	**151.0**	**33.0**	**517.0**	**1,975.0**	**15,289.0**

Section 5.2 – Implementation of Regulatory Asset Valuation

Reference number	1 (Change Control Notification 3.7)
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	We previously valued our access copper cables and access duct assets on a current cost accounting (CCA) basis, using an indexed historic methodology. We changed the valuation methodology of access duct assets from CCA to Regulatory Asset Valuation (RAV). The methodology is applied to the access duct network in the 2014-15 RFS. However the duct asset is common to both the access network and the core network. We therefore only posted a proportion of the RAV adjustment relating to duct which is relevant to the access network. This was implemented by adjusting the CCA valuation for duct to a RAV valuation within the activity group AG135 'Duct' used by Access Cables. This activity plant group then apportions costs and asset values through plant groups and components to access services.
Effect of the change	This change reduces CCA depreciation and MCE for all service and components using the duct network. The markets impacted are: WLA, WFAEL, ISDN2, ISDN30, TISBO, AISBO and MISBO.
Support for the change	This change was directed in Ofcom's Directions for Regulatory Financial Reporting (30 March 2015).

Section 5.3 – 21CN future benefits

Reference number	2 (Change Control Notification 3.8)
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	We no longer use the 'future benefits' principle for attributing 21st Century Network (21CN) costs. The 21CN refers to our modern, Internet Protocol (IP) based, converged telecommunications network. The future benefits principle attributes 21CN costs to services currently carried on legacy networks on the basis that they, or a similar replacement service, would be carried over the 21CN in the future. This was to incentivise the take-up of services on new 21CN technology rather than loading high costs and low volumes to the early 21CN based services. 21CN costs that were allocated to IPstream and Datastream on a future benefits basis are instead allocated to Wholesale Broadband Connect (WBC) and residual WBA services such as Superfast Broadband and TV Connect. Similarly, the 21CN costs which were attributed to Wholesale Extension Services (WES), Backhaul Extension Services (BES) and Ethernet Access Direct (EAD) services on a future benefits basis are now attributed to Wholesale Residual Ethernet services. To implement this change we amended our 21CN cost attribution model and made some minor changes to 21CN plant groups and components.
Effect of the change	Removal of the IPstream and Datastream allocations reduced costs in WBA Market A. The removal of costs from WES, BES and EAD reduced AISBO non-WECLA and MISBO non-WECLA costs. Costs are instead allocated to WBC (which has a greater presence in WBA residual markets rather than WBA Market A), and other residual WBA and Wholesale Ethernet services.
Support for the change	This change was directed in Ofcom's Directions for Regulatory Financial Reporting (30 March 2015).

Section 5.4 – Allocation of Digital Subscriber Line Access Multiplexer costs between Market A and Market B

Reference number	3 (Change Control Notification 3.10)
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	Digital Subscriber Line Access Multiplexers (DSLAMs) are sited at the local exchange or concentrator sites and they enable the provision of broadband services over the copper access network. In 2012/13 we introduced a change that apportioned the costs between WBA markets based on an analysis of which costs are driven by the number of DSLAMs at each site and which costs are driven by the number of broadband subscribers connected at each site. We reversed this methodology and reverted back to apportioning the costs by the number of broadband subscribers connected at each site.
Effect of the change	This change has reduced costs and MCE allocated to Market A from components: DSLAM Overheads and DSLAM Depreciation. There is a corresponding increase in Market B.
Support for the change	This change was directed in Ofcom's Directions for Regulatory Financial Reporting (30 March 2015).

Section 5.5 – Testing Access Matrix system and Evolutionary Testing Access Matrix asset life changes

Reference number	4 (Change Control Notification 3.11)
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	The two types of Testing Access Matrix systems (TAMS) have different lives in BT's statutory accounts. Evolutionary TAMS (EvoTAMS), used for internal SMPF lines, have a seven year life and TAMS, used for MPF lines, have a five year life. We made an accounting adjustment in the RFS to change the regulatory asset lives of TAMS so that both variants have a seven year life. This change is not reflected in the 2014-15 statutory accounts. We also changed the attribution of EvoTAMS costs so that they are apportioned to WBC instead of SMPF.
Effect of the change	Changing the regulatory asset life reduced the deprecation of TAMs and increased capital employed for the TAMs component, which in turn impacted the MPF rentals service in the WLA market. Changing the attribution of EvoTAMS reduced the costs and MCE of the SMPF rentals service in the WLA market with corresponding increases in the WBC rentals service in WBA markets A and B.
Support for the change	This change was directed in Ofcom's Directions for Regulatory Financial Reporting (30 March 2015).

Section 5.6 – Cumulo rebate allocation

Reference number	5 (Change Control Notification 3.12)
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	Cumulo rates are the non-domestic rates we pay on our UK rateable network assets. We changed the attribution of Cumulo rates by making two changes to methodologies: • Rebates were changed to be treated in the same way as the gross payments; and • The asset valuations used in the calculation were updated to current values. We receive a rebate for the loss of revenue resulting from the migration of customers to MPF lines. This rebate was previously apportioned in such a way that it was not allocated to copper lines. We now apportion the costs in exactly the same way that we apportion the gross charges. The apportionment methodology basis for the gross Cumulo rates charge is Profit Weighted Net Replacement Costs (PWNRCs). This methodology apportions the charge to activity groups and plant groups in proportion to the profit that the rateable assets are able to generate. This is calculated by weighting the net replacement costs (NRC) weighted by the average return on capital employed for each rateable asset.
	We changed this to use current year NRCs and component WACC for the profit weighting element. Our previous methodology was to use the NRCs and profit weightings agreed with the Valuation Office for the current rateable asset valuation.
Effect of the change	The change in the attribution of the rebates decreased the costs for the access copper markets (WLA, WFAEL and ISDN) and increased costs in the Business Connectivity markets, the Narrowband markets and the Wholesale Broadband markets. The updates to NRCs and Profit Weightings caused small increases for fibre based services and markets and small decreases for copper based services and markets.
Support for the change	This change was directed in Ofcom's Directions for Regulatory Financial Reporting (30 March 2015).

Section 5.7 – Duct and Fibre allocations to 21CN

Reference number	6 & 7 (Change Control Notification 3.14)
Key driver for change	More complete; more accurate; and more consistent with regulatory decisions
Trigger for change	BT judgement following feedback from Ofcom's Cost Allocation Review
Description of change	Previously we apportioned backhaul fibre and core fibre to a total of five 21CN plant groups. As a result of Ofcom's Cost Attribution Review, two issues were identified: • We did not attribute any duct costs to the 21CN fibre plant groups; and • These plant groups can be readily defined as being part of either the backhaul network or the core network, but we allocated both backhaul fibre and core fibre cost to each plant group. We made three changes to address these issues: • Backhaul fibre is now allocated wholly to the Backhaul Fibre plant group and Core Fibre is allocated wholly to the Core Fibre plant group. This resolved the duct allocation issue since these plant groups already received an appropriate allocation of duct costs. • We changed our plant group to component apportionment so that it is attributed to 20CN components and 21CN components based on the volume of fibre kilometres. This is the same method as we used previously to apportion costs from class of work to plant group. • We amended the attribution of Backhaul Fibre and Core Fibre plant groups so that they only apportion to components that relate to the corresponding part of the network.
Effect of the change	The net impact of these changes moved costs and MCE from 20CN services to 21CN services. More Duct costs will now be attributed to 21CN services, which are mostly in the network residual market but also include EBD in the AISBO and MISBO markets. There was a corresponding reduction to Duct attributions to markets using the 20CN backhaul and core networks, principally the TISBO markets but also the Narrowband markets and main links in the AISBO and MISBO markets. Less Fibre is attributed to 21CN services and more costs are attributed to services using the 20CN network, principally TISBO and main links in the AISBO and MISBO markets.
Support for the change	These issues were identified during Ofcom's current Cost Allocation Review. Ofcom required us under their Section 135 powers to provide adjusted information for use in their modelling for the Leased Lines Charge Control. The mapping of fibre costs to 21CN backhaul and core networks aligns with the definition of those networks in BT's Undertakings to Ofcom, 2005.

Section 5.8 – Changes to cost code and sector mappings

Reference number	8 (Change Control Notification 3.25)
Key driver for change	More accurate; more cost causal
Trigger for change	BT judgement
Description of change	We use F8 codes to group similar general ledger codes into bundles which are used specifically for regulatory reporting. Sectors are cost categories used internally by BT, and these changes do not impact the cost categories in the published RFS. We made the following changes to F8 codes to sector mapping: • DSLAM assets are mapped to Miscellaneous Capital sector instead of the Copper Cable sector; • Transmission Assets are mapped to a new sector to be called Transmission Electronics instead of the Transmission Cable and Other sector; and • Accounting adjustments for third party electronics are mapped in the Transmission Electronics sector instead of the Capital Miscellaneous sector. The first two changes changed the calculation for the apportionment of AG102 (BT TSO Managed Assets) to other activity groups, plant groups and Retail Residual in proportion to core assets. Core assets are defined as total fixed assets less duct, copper cable, fibre cable, land and buildings, vehicles and office machinery. This apportionment is automated and is calculated by analysing fixed assets but excluding certain sectors. There are benefits from this simple application but it is limited by issues in the mapping of assets to sectors. The sector for copper cables is excluded but it also includes broadband DSLAMs and the sector for core and backhaul cables is excluded but also includes transmission electronics. Following from the above change, in the RFS we now identify third party equipment depreciation and report it on a separate line in the TISBO markets. This depreciation is calculated by taking revenue for third party equipment and calculating the depreciation based on an asset life of four years. The third change did not impact cost allocations at all but it did impact the calculation of LRICs and DSACs. We now map transmission assets and accounting adjustments to the same sector. Our asset values for transmission electronics include equipment on third party premises for which the costs have already been recovered in a connection charge. To account for these assets and to ensure that they are not recovered twice, we make an adjustment to our deprecation and asset values for these assets. The transmission assets and accounting adjustments were previously mapped to different sectors so they were assigned different cost volume relationships in our LRIC model. This caused distortions in the calculation of LRIC and DSACs for services using transmission electronics. Our change has resolved this issue and made the calculation of LRIC and DSAC more accurate.
Effect of the change	The change in the calculation of AG102 BT TSO Managed Assets apportions more costs to services using DSLAMs, in WBA Markets A and B, and more costs to services using transmission electronics, principally TISBO. The change in sector for third party equipment accounting

	adjustments did not impact the reporting of costs and MCE.
Support for the change	These changes were identified as part of an internal review following the implementation of the REFINE system. These changes increased the accuracy of the RFS and improve cost causality.

Section 5.9 – Changes to duct cost attribution to NGA tie cables

Reference number	9 (Not included in Change Control Notification)
Key driver for change	More accurate; more cost causal
Trigger for change	BT judgement
Description of change	We changed how we attribute duct costs to NGA tie cables so that it is attributed on the basis of depreciation derived from the cumulative capital expenditure on duct associated with NGA. It was previously attributed to NGA tie cables on the basis of depreciation derived from the in-year capital expenditure on duct associated with NGA.
Effect of the change	The main impact was to the Duct base PDTLMD where NGA Plant Group PG192A (NGA E Side Copper Capital) now receives a higher apportionment of the same cost base than Access Duct and Backhaul Duct. MCE in the WLA market was increased with corresponding decreases in other markets, primarily WFAEL.
Support for the change	This change improved cost causality in the RFS. It is logical to assume that all capital expenditure influences the attribution of duct costs as in year depreciation is not reflective of the whole life of the asset.

Section 5.10 – Combined fault and service attribution – utilisation factor changes

Reference number	10 (Change Control Notification 3.13)
Key driver for change	More consistent with regulatory decisions
Trigger for change	Regulatory decision
Description of change	We changed our component usage factors for copper repair components to those directed by Ofcom's Directions for Regulatory Financial Reporting (30 March 2015). The usage factors relate to a combination of fault rate and service level and apply to the following components: D-side Copper Current, E-Side Copper Current, Local Exchanges, Residential Public Switched Telephone Network (PSTN) Drop Maintenance and DSLAM Capital /Maintenance.
Effect of the change	This change moved costs from WLA to WFAEL.
Support for the change	This change was directed in Ofcom's Directions for Regulatory Financial Reporting (30 March 2015).

Section 5.11 – Other methodology changes

As part of the requirement to produce this reconciliation report, we are required to reverse all methodologies which were implemented in 2014-15. In many instances the impacts do not meet Ofcom's definition of material and we are therefore not presenting the impacts or explanatory text for them separately in this report.

The changes from the Change Control Notification which have been reversed in aggregate are as follows:

- *3.6 Changes in the treatment of BT Retail costs to account for a regulatory decision on the treatment of Telephone Directories*
- *3.9 Deafness provision allocation*
- *3.16 Group overheads allocation to overseas subsidiaries*
- *3.18 Property sub-letting income & Facility Management cost allocations*
- *3.21 Group methodology alignment – Flexible Resource Unit*
- *3.23 Broadband Development UK funded investments*
- *3.24 21CN cost allocation model - volumes*
- *3.26 Review of BT Wholesale Managed Services cost allocations*
- *NGA tie cables (described in Section 4.2.2 of this Reconciliation Report)*

We note that there are three material changes included in the Change Control Notification which have not been reversed as part of this report. These are:

- *3.5 Non-geographic call termination reporting;*
- *3.28 ECC component rationalisation; and*
- *3.32 Wholesale Broadband Connect (WBC) internal and external volumes.*

In all instances, as referenced in Section 4.2.2 of this Reconciliation Report, we consider that these changes reflect the correction of errors and have included them within the error correction section of this report. We have not reversed these as to do so would be to re-introduce error into the RFS figures.

We also note that there are several non-material changes which we included in our Change Control Notification but which we have not reversed in this report. The changes not reversed and the reasons for their omission are:

- *3.17 Changes in the treatment of BT Retail costs to account for an Organisational Unit change:* This change represents a re-organisation of the business and to reverse it would be to incorrectly present a function of our business.
- *3.22 BT TSO methodologies update and OUC changes:* This change represents a re-organisation of the business and to reverse it would be to incorrectly present a function of our business.
- *3.23 – Broadband Development UK funded investments:* The previous apportionment of BDUK operating expenditure did not align to the treatment of BDUK capital expenditure, but should have. We believe that aligning the methodologies best represents the correction of an error. The change does not meet the materiality criteria for error corrections and therefore is not included in the error section of this report.
- *3.28 ECC component rationalisation:* A distinct part of this change in the Change Control Notification relates to the introduction of a £548 charge in the connection price for ECCs effective from 2014-15. We introduced a methodology to reflect the treatment of this new charge and we present the ECC information as a note in the RFS. We have not restated the ECC note for this change as there was no comparative 2013-14 methodology. This is separate to the aspect of the change being treated as an error and reported in section 7.7 of this report.
- *3.29 Supercomponent mapping:* The changes to Supercomponent mapping improve the clarity of our reporting only and do not change our attribution methods.
- *3.30 Changes to the cost allocations for Group Functions:* This change represents a re-organisation of the business and to reverse it would be to incorrectly present a function of our business.
- *3.31 Long Run Incremental Cost (LRIC) model update:* The changes to our LRIC model are more to correct errors or inconsistencies than to change our methodologies. We have published revised LRIC figures for 2013-14 on our website to show the impact of the error corrections already. For the purposes of the error report, we will publish LRIC and DSAC information where already presented in the 2014 RFS. This information will be based upon the corrected LRIC/DSAC information previously published adjusted

for movements in the underlying FAC values, rather than completely re-performing the LRIC calculation.

- *3.33 Treatment of BT Group Central Business Services:* This change represents a re-organisation of the business and to reverse it would be to incorrectly present a function of our business.
- *3.34 Wholesale Broadband Access non-equivalence of input service rationalisation:* We have rationalised and aggregated Wholesale non-EOI services, with no impact on published services.
- *3.35 RFS eliminations and goodwill:* These changes only impact goodwill and the reconciliation statement. This change does not impact fully allocated costs.
- *3.36 Revenue and Volume data source for Openreach*: The prior year data source no longer exists and therefore this change could not be feasibly reversed. We do not believe that the implementation of ARC had an impact on market figures.
- *3.37 Openreach reorganisation:* This change represents a re-organisation of the business and to reverse it would be to incorrectly present a function of our business.

Section 6

Reconciliation report requirements and content – error corrections

Section 6.1 – BT's reporting requirements in respect of changes to methodologies

We have been directed to prepare this Reconciliation Report in accordance with Ofcom's 30 March 2015 Direction. The Direction provides that BT must prepare a reconciliation report which sets out:

"ii. in relation to Material Errors identified since the publication of the previous Financial Year's Regulatory Financial Statements:

a) for each Material Error, a description of the Material Error, the circumstances of discovery of the Material Error, the reason for the Material Error, and whether such Material Error has been corrected in the restated Prior Year Comparatives;

b) the impact of all Material Errors on all figures presented in the Regulatory Financial Statements for the previous Financial Year, by setting out, on an aggregated basis:

i. the Current Year Figures set out in the Regulatory Financial Statements for the previous Financial Year had such Material Errors been corrected in the previous Financial Year ("the Corrected Previous Year Figures"); and

ii. the difference as an absolute amount and as a percentage change between the Current Year Figures set out in the Regulatory Financial Statements for the previous Financial Year and the Corrected Previous Year Figures.

c) the impact of each Material Error at the Markets and Technical Areas Level, by setting out, for each Material Error, the difference as an absolute amount and as a percentage change between:

i. the Current Year Figures set out in the Regulatory Financial Statements for the previous Financial Year; and

ii. the Current Year Figures set out in the Regulatory Financial Statements for the previous Financial Year had such Material Error been corrected in the previous Financial Year."

"Material Error" is defined by Ofcom as follows:

"'Material Error' means an Error which:

i. results in a correction (be it positive or negative) in any figure in the Regulatory Financial Statements which exceeds the higher of 5% or £1 million. The percentage correction in a figure shall be calculated by taking the value of the affected figure in the Regulatory Financial Reporting before the error is corrected, and subtracting from it, the value of the same figure after the error is corrected, and then dividing this result by the former value; and
ii. fulfils at least one of the following conditions set out in paragraphs (ii)(a) and (ii)(b) below:
    a. the error has arisen within the Regulatory Attribution System;
    b. the error has been brought to the attention of the Audit and Risk Committee by the Regulatory Auditor."

The purpose of this section of the report is to identify and explain where we have corrected the 2014 RFS for errors identified subsequent to publication. This report focuses on the 2014 RFS as published compared to the 2014 RFS with certain errors corrected.

The Reconciliation Report sets out the data required in paragraph 1.ii of the Direction.

Section 7

Explanation of reported material error corrections

Section 7.1 – Error correction impacts summary

The following two tables summarise the illustrative difference of individual error corrections on costs and MCE attributed to individual Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, Wholesale Broadband Access Markets and the Wholesale Residual Market.

Operating costs	WFAEL £m	WLA £m	ISDN2 £m	ISDN30 £m	Low Bandwidth TISBO £m	Medium Bandwidth TISBO £m	High Bandwidth TISBO £m	Technical areas (Point of Handover) £m	TI Regional Trunk £m	AISBO Non WECLA £m	AISBO WECLA £m	MISBO Non WECLA £m	Fixed call origination £m	Technical areas (Interconnect Circuits) £m	Fixed geographic call termination £m	WBA - Market 1 £m	WBA - Market 2 £m	Wholesale Residual £m	Roundings £m	Total Wholesale Markets £m
Published 2013-14 RFS	**1,345.0**	**861.0**	**58.0**	**72.0**	**228.0**	**13.0**	**14.0**	**4.0**	**10.0**	**359.0**	**32.0**	**36.0**	**110.0**	**25.0**	**93.0**	**312.0**	**119.0**	**2,092.0**	**-**	**5,783.0**
Material error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1 Siteconnect services	-	-	-	-	-	-	0.6	-	-	-	-	-	-	-	-	-	-	(0.6)	-	-
2 Access fibre - fibres per bearer	-	-	-	3.5	0.5	-	(0.1)	-	-	(3.4)	(0.2)	(0.1)	-	-	-	-	-	(0.2)	-	-
3 21CN Ethernet volumes	-	-	-	-	-	-	-	-	-	6.7	0.9	1.5	-	-	-	(3.6)	(2.1)	(3.4)	-	-
4 Access cards unit costs	-	-	-	-	-	-	-	-	-	(2.4)	0.7	1.2	-	-	-	-	-	0.5	-	-
5 Misallocation of Except for Payphones costs	-	-	-	-	-	-	-	-	-	-	-	-	(3.2)	-	-	-	-	3.2	-	-
6 SDH plant group to component model	-	-	-	(0.1)	(2.2)	(0.3)	(0.2)	-	(0.2)	3.6	0.1	0.2	(0.3)	-	(0.2)	(0.3)	(0.1)	-	0.0	-
7 ECC cost component rationalisation	-	-	-	-	0.1	-	-	(0.1)	-	0.2	0.4	(0.2)	-	-	-	-	-	(0.4)	-	-
8 PPC volumes	-	-	-	-	(0.2)	-	0.4	(0.1)	0.4	-	-	-	-	-	-	-	-	(0.5)	-	-
9 WBC internal/external volumes split	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10 Non-geographic call termination	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8.3)	-	-	8.3	-	-
11 Ethernet services	-	-	-	0.4	0.4	-	-	-	-	(7.9)	(1.0)	6.4	-	-	-	-	-	1.7	-	-
12 Call origination volumes	-	-	-	-	-	-	-	-	-	-	-	-	(4.8)	-	4.2	-	-	0.6	-	-
13 Ethernet accruals	-	-	-	-	0.1	-	-	-	-	1.1	0.2	(1.5)	-	-	-	-	-	0.1	(0.0)	-
14 OSA Main links	-	-	-	-	-	-	-	-	-	-	-	0.3	-	-	-	-	-	(0.3)	-	-
15 BT Wholesale cost of sales transfer charges	-	-	-	-	(4.8)	(0.3)	(0.4)	-	(0.3)	-	-	-	(1.5)	(0.7)	(1.6)	(1.8)	(0.9)	12.5	(0.2)	-
Sub-total	**-**	**-**	**-**	**3.8**	**(6.1)**	**(0.6)**	**0.3**	**(0.2)**	**(0.1)**	**(2.1)**	**1.1**	**7.8**	**(9.8)**	**(0.7)**	**(5.9)**	**(5.7)**	**(3.1)**	**21.5**	**(0.2)**	**-**
Non-material differences & roundings	-	-	(1.0)	0.2	0.1	(0.4)	(0.3)	0.2	0.1	0.1	(0.1)	0.2	0.8	0.7	(0.1)	(0.3)	0.1	0.5	0.2	**1.0**
Corrected 2013-14 RFS	**1,345.0**	**861.0**	**57.0**	**76.0**	**222.0**	**12.0**	**14.0**	**4.0**	**10.0**	**357.0**	**33.0**	**44.0**	**101.0**	**25.0**	**87.0**	**306.0**	**116.0**	**2,114.0**	**-**	**5,784.0**

Mean Capital Employed

	WFAEL £m	WLA £m	ISDN2 £m	ISDN30 £m	Low Bandwidth TISBO £m	Medium Bandwidth TISBO £m	High Bandwidth TISBO £m	Technical areas (Point of Handover) £m	TI Regional Trunk £m	AISBO Non WECLA £m	AISBO WECLA £m	MISBO Non WECLA £m	Fixed call origination £m	Technical areas (Interconnect Circuits) £m	Fixed geographic call termination £m	WBA - Market 1 £m	WBA - Market 2 £m	Wholesale Residual £m	Roundings £m	Total Wholesale Markets £m
Published 2013-14 RFS	**5,836.0**	**2,763.0**	**205.0**	**210.0**	**615.0**	**48.0**	**60.0**	**10.0**	**59.0**	**1,619.0**	**91.0**	**95.0**	**211.0**	**36.0**	**200.0**	**483.0**	**131.0**	**2,852.0**	**-**	**15,524.0**
Material error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1 Siteconnect services	-	-	-	-	-	-	2.6	-	-	-	-	-	-	-	-	-	-	(2.6)	-	-
2 Access fibre - fibres per bearer	-	-	-	23.4	3.2	(0.2)	(0.6)	0.1	-	(22.6)	(1.2)	(0.7)	-	(0.1)	-	-	-	(1.3)	0.0	-
3 21CN Ethernet volumes	-	-	-	-	-	-	-	-	-	11.1	1.4	2.5	-	-	-	(5.9)	(3.4)	(5.7)	-	-
4 Access cards unit costs	-	-	-	-	-	-	-	-	-	(3.9)	1.1	1.9	-	-	-	-	-	0.8	0.1	-
5 Misallocation of Except for Payphones costs	-	-	-	-	-	-	-	-	-	-	-	-	1.3	-	-	-	-	(1.3)	-	-
6 SDH plant group to component model	-	-	-	(1.6)	(34.9)	(5.2)	(3.4)	-	(2.8)	57.7	1.1	2.5	(4.0)	(0.4)	(3.8)	(4.3)	(0.8)	(0.2)	0.1	-
7 ECC cost component rationalisation	-	-	-	-	2.7	-	-	(2.8)	-	4.1	9.6	(4.4)	-	-	-	(0.7)	(0.4)	(8.2)	0.1	-
8 PPC volumes	-	-	-	-	(0.2)	-	1.2	(0.2)	2.7	-	-	-	-	-	-	-	-	(3.6)	0.1	-
9 WBC internal/external volumes split	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10 Non-geographic call termination	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(17.6)	-	-	17.6	-	-
11 Ethernet services	-	-	-	2.4	2.7	0.1	-	0.1	-	(18.4)	(0.9)	10.6	-	-	-	-	-	3.2	0.2	-
12 Call origination volumes	-	-	-	-	-	-	-	-	-	-	-	-	(6.0)	-	2.0	-	-	4.0	-	-
13 Ethernet accruals	-	-	-	0.3	0.4	-	-	-	-	1.7	0.4	(3.0)	-	-	-	-	-	0.3	(0.1)	-
14 OSA Main links	-	-	-	-	-	-	-	-	-	-	-	4.3	-	-	-	-	-	(4.3)	-	-
15 BT Wholesale cost of sales transfer charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total	**-**	**-**	**-**	**24.5**	**(26.1)**	**(5.3)**	**(0.2)**	**(2.8)**	**(0.1)**	**29.7**	**11.5**	**13.7**	**(8.7)**	**(0.5)**	**(19.4)**	**(10.9)**	**(4.6)**	**(1.3)**	**0.5**	**-**
Non-material differences & roundings	(3.0)	-	-	(0.5)	0.1	0.3	0.2	(0.2)	0.1	(2.7)	0.5	0.3	(2.3)	(0.5)	(1.6)	0.9	(0.4)	(2.7)	(0.5)	**(12.0)**
Corrected 2013-14 RFS	**5,833.0**	**2,763.0**	**205.0**	**234.0**	**589.0**	**43.0**	**60.0**	**7.0**	**59.0**	**1,646.0**	**103.0**	**109.0**	**200.0**	**35.0**	**179.0**	**473.0**	**126.0**	**2,848.0**	**-**	**15,512**

Section 7.2 – Siteconnect Revenue Corrections

Reference number	1
Description of error	Siteconnect is a 3G radio mast backhaul service, similar to the Radio Backhaul Service (RBS). It is sold as three main services: major and remote site linkages (connections), subsequent remote site linkages with one to three year pricing plans (connections) and bandwidth charges where the prices are dependent on the bandwidth and the distance of the backhaul circuits (rental). In addition there are ancillary services like standard PC/PPC services such as excess construction charge and Time Related Charges. In correcting this error Siteconnect 155Mbit/s will be reported in the High Bandwidth TISBO market, not Wholesale Residual. We have ensured that the prices reflect the BT Wholesale Carrier Price List (“CPL”) and the volume of circuits reflect the updated 2013/14 data taken from billing data.
Circumstances of discovery	This error was identified whilst preparing a response to a Business Connectivity Market Review section 135 request.
Restatement impact	This error impacts revenue in the High TISBO market by more than 5% of the reported market value. In the 2015 RFS we restated for the correction of this error in the prior year comparatives.

Section 7.3 – Access fibre - fibres per bearer

Reference number	2
Description of error	Access Fibre is apportioned to Ethernet products as well as older Time Division Multiplexing (TDM) products that consume it. The number of fibres is derived from the number of TDM bearers from the Core Transmission Costing System (CTCS) and the number of fibres per bearer which is obtained from the Integrated Network System (INS). The number of fibres per bearer obtained for each bandwidth for the TDM products in 2013-14 was incorrect. The data obtained from INS was obtained via a query written in an interface system, Network Decision Support (NDS). It was found that the outputs of the query were incorrect due to the query's logic sourcing incorrect information from CTCS.
Circumstances of discovery	We identified that the query's logic was flawed when responding to a query as part of Ofcom's 'Review of BT's cost attribution methodologies' published 12 June 2015 (the "Cost Attribution Review").
Restatement impact	This error impacts costs in the ISDN30 market by 4.9% of the reported market value. To ensure that the impact of changes not restated for is less than 5% for all market totals, in the revised 2015 RFS we restated for the correction of this error in the prior year comparatives.

Section 7.4 – 21CN Ethernet volumes

Reference number	3
Description of error	In 2013-14 the future benefits methodology was applied for both Broadband and Ethernet. Our methodology was to use combined totals of 21CN and 20CN volumes to attribute costs to components, before splitting the apportionment between 20CN and 21CN services. In 2013-14 there were two errors relating to Ethernet: • only 21CN volumes were used to apportion costs to Ethernet components; and • These costs were then only apportioned to 20CN services and so no 21CN costs were apportioned to Managed Ethernet Access and Harmonised Ethernet services.
Circumstances of discovery	We identified the errors whilst undertaking a review of our future benefits methodology in 2014-15 at the request of Ofcom.
Restatement impact	We restated the revised 2015 RFS prior year comparatives to reflect that we no longer use the future benefits principle for attributing 20CN costs. This methodology reversal is covered in Section 7.2 of this report. In reversing and restating for this methodology change, we have consequently eliminated this error as the 21CN methodology is no longer applied to 20CN products and services. The error impact is itself less than 5% of any market cost, revenue or mean capital employed; therefore it would not otherwise have required restatement.

Section 7.5 – Access cards unit costs

Reference number	4
Description of error	In 2013-14 as part of our cost attribution methodology we apportioned Ethernet services costs based on bandwidth using the '21CN ETHER' base. The methodology multiplied the number of Ethernet circuits by an indexed bandwidth per circuit factor, in order to calculate the bandwidth volumes used for the cost attribution. The smallest bandwidth circuit to be apportioned costs was 10Mbit/s and therefore services of this size used an indexed factor of 1. Consequently 100Mbit/s services used a factor of 10 and 1Gbit/s services used a factor of 100 and so on. We identified that for the service 'WES 100Mbit/s Rentals - Internal - Non WECLA' we used a factor of 100 rather than 10 in its calculation. It therefore received c.10 times too much cost. All other Ethernet service costs were understated.
Circumstances of discovery	This error was identified as part of Ofcom's review of the 2014 RFS and was subsequently published in our errata report.
Restatement impact	We restated the 2014-15 prior year comparatives to reflect that we no longer use the future benefits principle for attributing 20CN costs. This methodology reversal is covered in Section 7.2 of this Reconciliation Report. In reversing and restating for this methodology change, we have consequently eliminated this error as the 21CN methodology is no longer applied to 20CN products and services. The error impact is itself less than 5% of any market cost, revenue or mean capital employed; therefore it would not otherwise have required restatement.

Section 7.6 – Misallocation of Except for Payphones costs

Reference number	5
Description of error	Payphones costs for BT are all held within specific Organisational Unit Codes (OUCs). We apply Except bases to certain OUCs as a method of attributing costs that would otherwise be attributed via a 'standard' path of attribution for an OUC. We have identified that in 2013-14 costs relating to Payphones were misallocated by an Except base error to a plant group for Operator Assistance Equipment. Consequently Payphones costs were understated, whilst Operator Assistance Equipment costs were overstated by the same amount.
Circumstances of discovery	This error was identified as part of our revised 2015 RFS evaluation process, where we review year on year cost and attribution movements across the business.
Restatement impact	The impacts of this error were less than 5% for all reported markets. We did not restate for the correction of this error in the revised 2015 RFS prior year comparatives.

Section 7.7 – SDH plant group to component model

Reference number	6
Description of error	In 2013-14 the SDH plant group to component model contained a formula error which resulted in data being excluded from the cost apportionment calculation. The apportionment percentages that were generated were therefore incorrect.
Circumstances of discovery	This error was identified when responding to a query as part of Ofcom's Cost Attribution Review.
Restatement impact	This error impacts MCE in the Low TISBO market by more than 5% of the reported market value. In the revised 2015 RFS we restated for the correction of this error in the prior year comparatives.

Section 7.8 – ECC cost component rationalisation

Reference number	7
Description of error	Excess construction charges (ECCs) are levied when the capital investment required to provide a new connection exceeds a certain amount. In these cases the costs are recovered upfront via an ECC. However the construction costs incurred in providing these new connections are capitalised in the same way for normal network construction i.e. under class of works for fibre and duct. This means that our duct and fibre costs include costs that have already been recovered from the customer as an ECC. In 2014-15 we undertook an exercise to rationalise the number of components used for the ECC apportionment process. We have reduced the number of specific components used for ECCs. The implementation of this change identified an error that the previous method did not map ECC credits to all services using fibre and duct, when the correct method is to map ECC credits to all such services.
Circumstances of discovery	The error was identified after undertaking the component rationalisation exercise which changed the attribution of costs to relevant services.
Restatement impact	This error impacts AISBO WECLA MCE by more than 5% of the reported market value. In the revised 2015 RFS we restated for the correction of this error in the prior year comparatives.

Section 7.9 – PPC volumes

Reference number	8
Description of error	In 2013-14 certain formula errors were made and some assumptions (e.g. we assume that Megastream internal circuits have two local ends, not one) were not applied when collating the volumes for Low, Medium and High TISBO, Regional Trunk and Point of Handover (POH) markets. Consequently there were under/overstatements for the following volumes: connections (internal and external), own use (internal), 2Mbit/s (internal and external), high bandwidth (internal), local end (internal), and radio backhaul 2Mbit/s (internal and external).
Circumstances of discovery	We identified this error when reviewing our data sources and inputs as part of the refresh of our accounting methodology documents for 2014-15.
Restatement impact	This error impacts low TISBO revenue by more than 5% of the reported market value. In the revised 2015 RFS we restated for the correction of this error in the prior year comparatives.

Section 7.10 – WBC internal/external volumes split

Reference number	9
Description of error	Wholesale Broadband Connect (WBC) is a service that is sold by BT Wholesale as well as an input to the Wholesale Broadband Managed Connect (WBMC) service that is also sold by BT Wholesale. The volumes of Wholesale Broadband Connect (WBC) that are used as in input to Wholesale Broadband Managed Connect (WBMC) should be reported as internal WBC volumes. However in 2013-14, they were reported as internal or external depending on the final user of the WBMC service. The WBC volumes that are used within WBMC are themselves not sold externally as WBC. Therefore they should always be reported as internal. This impact changes the presentation of WBC internal and external volumes in Wholesale Broadband Market A but has no overall impact on the market.
Circumstances of discovery	This error was identified as part of work to inform Ofcom's preliminary investigation into WBC Distributed Standalone Costs (DSAC) risks for 2013-14.
Restatement impact	The error only affects the WBC related services within WBA Market A and B, reclassifying costs as internal rather than external, so costs do not move between markets and unit costs remain the same. We did not restate for the correction of this error in the revised 2015 RFS prior year comparatives.

Section 7.11 – Non-geographic call termination

Reference number	10
Description of error	We have removed non-geographic fixed call terminations from the Fixed geographic call termination market and reallocated the costs, assets and volumes to Residual markets in line with Ofcom's Narrowband Market Review (September 2013).
Circumstances of discovery	This error was identified whilst reviewing the market structures for the 2014-15 RFS.
Restatement impact	This error impacts the fixed call termination market by more than 5% of the reported market value. In the revised 2015 RFS we restated for the correction of this error in the prior year comparatives.

Section 7.12 – Ethernet services

Reference number	11
Description of error	We identified three errors relating to 2013-14 Ethernet services: • Wholesale Extension Services (WES) other bandwidth rentals internal Non-WECLA has sub-products that are a mixture of different bandwidths. In 2013-14 we omitted 2Mbit/s circuits from this service. • We identified that some Optical Ethernet 10Gbit/s services incorrectly used a WES/BES 10Gbit/s price when calculating the component to service factors. Consequently costs were understated for optical services. • We did not take account of the fact that Local Access (LA) variants of Ethernet Access Direct (EAD) can have resilience options. Resilience ensures that two fibre routes between service end points are kept as diverse from each other as possible. Resilience options generate additional fibres and therefore costs for EAD LA variants would have been attributed higher costs.
Circumstances of discovery	This error was identified as part of our 2014-15 RFS evaluation process, where we review year on year cost and attribution movements across the business.
Restatement impact	This error impacts the MISBO non-WECLA market by more than 5% of the reported market value. In the revised 2015 RFS we restated for the correction of this error in the prior year comparatives.

Section 7.13 – Call origination volumes

Reference number	12
Description of error	Non-geographic call origination volumes were, in 2013-14, sourced from a system called Powerhouse (a system which sources data from our Call Statistics Centralisation System (CSCS)). The Powerhouse system volumes for 2013-14 have been found to be overstated due to an error in a Powerhouse query used to extract data from CSCS.
Circumstances of discovery	We submit call origination volumes to Ofcom on a quarterly basis and non-geographic volumes which make up a portion of this submission. In 2014-15 we identified that the volumes sourced from Powerhouse were higher than those used for the Ofcom submission. We were able to perform a similar comparison for the 2013-14 volumes data.
Restatement impact	This error impacts the call origination market by more than 5% of the reported market value. In the revised 2015 RFS we restated for the correction of this error in the prior year comparatives.

Section 7.14 – Ethernet accruals

Reference number	13
Description of error	In 2013-14 there were several revenue accrual adjustments applied to Ethernet services in the Openreach management accounts. These accruals were reflected in the RFS service revenues. Volumes were derived for these accruals using average prices. We subsequently identified that there should not have been any adjustment made to volumes. Non-WECLA volumes for AISBO Ethernet Access Direct (EAD) connection and rental services, non-WECLA volumes for MISBO Backhaul Extension Services (BES) rentals and Optical Spectrum Access (OSA) connection services were subsequently misstated. There were cost over- and under-statements as a result of these volume misstatements.
Circumstances of discovery	In 2014-15 we reviewed the 2013-14 RFS inputs and identified that there should not have been any adjustments made to volumes.
Restatement impact	The impacts of this error were less than 5% for all reported markets. We did not restate for this error correction in the revised 2015 RFS prior year comparatives.

Section 7.15 – OSA Main Links

Reference number	14
Description of error	We identified that in 2013-14 we used incorrect average main link lengths for WECLA Ethernet OSA Wavelength services. Consequently the WECLA Ethernet volumes and revenue were inflated. The inflated WECLA volumes and revenues were offset by a corresponding reduction in non-WECLA volumes.
Circumstances of discovery	In 2014-15, we further reviewed the inputs for 2013-14 and identified these errors.
Restatement impact	The impacts of this error were less than 5% for all reported markets. We did not restate for this error correction in the revised 2015 RFS prior year comparatives.

Section 7.16 – BT Wholesale cost of sales transfer charges

Reference number	15
Description of error	Costs relating to BT Wholesale cost of sale transfer charges were in 2013-14 treated as an overhead of BT Wholesale activities. These costs of sale are incurred by BT Wholesale in providing non-regulated services.
Circumstances of discovery	This error was identified when responding to a query as part of Ofcom's Cost Attribution Review.
Restatement impact	This error impacted costs across various markets by less than 5% of all reported market values. However, to ensure that the impact of changes not restated for is less than 5% for all market totals, In the revised 2015 RFS we restated for the correction of this error in the prior year comparatives.