



2017 Reconciliation Report

31 July 2017

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Section 1
Introduction to the Reconciliation Report

Section 1 – Introduction to the Reconciliation Report

Section 1.1 – Introduction

Ofcom's 2014 Regulatory Financial Reporting Statement (conditions 8(vi) and 23 set out in Annex 2), set out the requirements relating to the reconciliation report, to be implemented in Significant Market Power (SMP) markets.

Under conditions 13A.8(vi) and 13A.23 set out in Annex 29 of the 2014 Fixed Access Market Review (FAMR) Statement, conditions 8A.8(vi) and 8A.23 set out in Annex 2 of the 2014 Wholesale Broadband Access (WBA) Statement, and conditions 11.8(vi) and 11.23 set out in Annex 35 of the 2016 Business Connectivity Market Review (BCMR) Statement, BT is required to prepare and publish a reconciliation report directed by Ofcom from time to time (the "Reconciliation Report").

In relation to the FAMR and WBA, Ofcom published a Direction under section 49 of the Communications Act 2003 and SMP Services conditions 13A.4 and 8A.4 setting the requirement in relation to reconciliation report and accompanying audit opinion (Annex 5 of Ofcom's 2015 Directions for Regulatory Financial Reporting).

In relation to the BCMR, Ofcom published a Direction under section 49 of the Communications Act 2003 and SMP Services Condition 11.4 setting the requirements in relation to the reconciliation report and accompanying audit opinion (Annex 35 of the 2016 BCMR Statement).

The Reconciliation Report is published in accordance with these Ofcom Directions (the "Directions").

British Telecommunications plc (the "Company") has, by agreement with BT Group plc, prepared the Reconciliation Report and associated Regulatory Financial Statements (the "RFS") referred to in this report in accordance with its Accounting Methodology Document and the Regulatory Accounting Principles set by Ofcom, by disaggregating balances recorded in the general ledgers and other accounting records of the BT Group plc and its subsidiary and associate undertakings and joint ventures (the "Group").

This Reconciliation Report sets out changes to regulatory accounting methodologies for 2016/17 and the impact of such changes on the Regulatory Financial Statements 2017 published on 31 July 2017 (the "2017 RFS"). This report also sets out Material Errors as defined below and the impact of those Material

Errors subsequently identified in our Current Cost Financial Statements 2016 published on 28 October 2016 (the "2016 RFS").

The basis of preparation of this Reconciliation Report is consistent with the basis of preparation of the 2016 and 2017 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 the Company to include each and every methodology change, and each Material Error as defined by Ofcom (i.e. resulting in a correction of any figure in the RFS which exceeds the higher of 5% or £1 million), with their impact. We are required to show:

- The impact of all changes on all figures in the RFS, on an aggregated basis;
- The impact of each Material Change at the Markets and Technical Areas Level, for each Material Change separately;
- The impact of changes which are not Material Changes at the Markets and Technical Areas Level, on an aggregated basis;
- The impact of all Material Errors on all figures in the RFS, on an aggregated basis; and
- The impact of each Material Error at the Markets and Technical Areas Level, for each Material Error.

We note that in the 2017 RFS there were certain methodology changes and error corrections that required a restatement of the prior year 2015/16 comparative information. These changes are explained within the 2017 RFS in the basis of preparation section, along with the impacts upon SMP markets.

The Reconciliation Report is not a replacement for, nor should it be regarded as an alternative to, BT's published 2017 RFS. The Reconciliation Report provides a description of the methodology changes and an illustration of the 2017 RFS had those Statements been produced using 2015/16 methodologies.

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 cost (FAC).

Section 1 – Introduction to the Reconciliation Report

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 – sets out the directors' Statement of Responsibility which acknowledges that this report has been prepared in accordance with the Directions and based upon the published 2017 RFS and 2016 RFS.
- Section 3 – provides our auditors' opinions on the Reconciliation Report, for both changes made to methodologies and the correction of errors.

Methodology reversals 2017 narrative

- Section 4 – sets out the reporting requirements for this Reconciliation Report with regards to methodology reversals and compares this with the methodology changes set out in the "Change Control Notification" published 31 March 2017 ("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 2017 RFS which have been reversed as part of this report along with a summary of their impact.

Error corrections 2016 narrative

- Section 6 – sets out the reporting requirements for this Reconciliation Report with regards to the correction of errors subsequently identified in the 2016 RFS.
- Section 7 – provides an explanation of the reported error corrections along with a summary of their impact.

Annex 1 – Methodology reversals 2017 impacts

Published as a separate annex to this 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 5.01).
- 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 2017, with 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, the Wholesale Broadband Access Market and the Wholesale Residual Market as reported for the year ended 31 March 2017, with 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, the Wholesale Broadband Access Market at a service level as reported for the year ended 31 March 2017, with 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 2017 to the Network Activity Statement had certain changes to the attribution and valuation methodologies not been applied.

Annex 2 – Error corrections 2016 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

Section 1 – Introduction to the Reconciliation Report

Markets, the Wholesale Broadband Access Market 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, the Wholesale Broadband Access Markets and the Wholesale Residual Market as reported for the year ended 31 March 2016, with 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, the Wholesale Broadband Access Markets and the Wholesale Residual Market as reported for the year ended 31 March 2016, with 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 and the Wholesale Broadband Access Market at a service level as reported for the year ended 31 March 2016, with 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 2016 to the Network Activity Statement had certain errors been corrected.

Section 2
Statement of Responsibility

Section 2 – Statement of Responsibility

Section 2.1 – Statement of Responsibility

Under conditions 13A.8(vi) and 13A.23 set out in Annex 29 of the 2014 Fixed Access Market Review (FAMR) Statement, conditions 8A.8(vi) and 8A.23 set out in Annex 2 of the 2014 Wholesale Broadband Access (WBA) Statement, and conditions 11.8(vi) and 11.23 set out in Annex 35 of the 2016 Business Connectivity Market Review (BCMR) Statement, BT is required to prepare and publish a reconciliation report as directed by Ofcom from time to time (the “Reconciliation Report”).

In relation to the FAMR and WBA, Ofcom published a Direction under section 49 of the Communications Act 2003 and SMP Services conditions 13A.4 and 8A.4 setting the requirement in relation to a reconciliation report and accompanying audit opinion (Annex 5 of Ofcom’s 2015 Directions for Regulatory Financial Reporting).

In relation to the BCMR, Ofcom published a Direction under section 49 of the Communications Act 2003 and SMP Services Condition 11.4 setting the requirements in relation to a reconciliation report and accompanying audit opinion (Annex 35 of the 2016 BCMR Statement).

This Reconciliation Report is published in accordance with these Ofcom Directions.

British Telecommunications plc (the “Company”) has, by agreement with BT Group plc, prepared the Regulatory Financial Statements referred to in this report in accordance with its Accounting Methodology Document 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 2016/17 year upon the Regulatory Financial Statements 2017 published on 31 July 2017 (the “2017 RFS”). It also addresses the impact of errors identified subsequent to publishing the Current Cost Financial Statements 2016 published on 28 October 2016 (the “2016 RFS”).

The directors confirm to the best of their knowledge that the Reconciliation Report for the year ended 31 March 2017 has been prepared in accordance with the above Directions based upon the 2017 RFS or 2016 RFS as appropriate.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company’s 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
31 July 2017

Section 3
Audit Report

Section 3 – Audit Report

Report of the Independent Auditors to British Telecommunications plc and Ofcom issued in accordance with conditions 8(vi) and 23 of the Final Statement entitled “Regulatory Financial Reporting” issued by Ofcom on 20 May 2014 setting the 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 2017 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:

- conditions 8(vi) and 23 of the Final Statement entitled “Regulatory Financial Reporting” issued by Ofcom on 20 May 2014 as amended by conditions 13A.8(vi) and 13a.23 of the “Fixed Access Market Reviews Statement” issued by Ofcom on 26 June 2014, conditions 8a8(vi) and 8a.23 of the “Review of the Wholesale Broadband Access Markets Statement” issued by Ofcom on 26 June 2014 and conditions 11.8(vi) and 11.23 of the “Business Connectivity Market Review” Statement issued by Ofcom on 28 April 2016 (together the “Directions”);
- in respect of information for the year ended 31 March 2017, the Accounting Methodology Document and the Wholesale Catalogue dated 31 July 2017 and the methodology changes described in sections 4 and 5 on pages 11 to 30 (the “2017 Basis of Preparation”); and
- in respect of information for the year ended 31 March 2016, the basis of preparation described in Sections 6 and 7 on pages 31 to 47 which incorporates the Accounting Methodology Document and the Wholesale Catalogue dated 28 October 2016 (the “2016 Basis of Preparation”).

3. The Reconciliation Report comprises the following:

- the Introduction to the Reconciliation Report on pages 2 to 5;
- the Reconciliation report requirements and content – methodologies, the Explanation of methodology changes made in the 2017 RFS, the Reconciliation report requirements and content – error corrections and the Explanation of reported material error corrections on pages 11 to 47;
- Annex 1 – Section 1, illustrative difference of individual methodology changes;

- Annex 1 – Sections 2 to 5, methodology reversals impacts (the “2017 Methodology Change Schedules”);
- Annex 2 – Section 1, illustrative difference of individual error corrections; and
- Annex 2 – Sections 2 to 5, Error corrections impacts (the “2016 Error Correction Schedules”).

Directors’ responsibility for the Reconciliation Report

4. As described on page 7 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 2017 Methodology Change Schedules and the 2016 Error Correction Schedules in accordance with the Directions, applicable law and International Standards on Auditing (UK and 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 2017 Methodology Change Schedules as a whole are properly prepared in accordance with the 2017 Basis of Preparation and comply with the disclosure requirements of the Directions. We do not report on the preparation of any individual market group or market, or on the impact of individual methodology changes.
- the 2016 Error Correction Schedules as a whole are properly prepared in accordance with the 2016 Basis of Preparation and comply with the disclosure requirements of the Directions. 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 disclosure requirements of the Directions is not disclosed.

Section 3 – Audit Report

8. We read the other financial and non-financial information presented in the Reconciliation Report to identify material inconsistencies with the 2017 Methodology Change Schedules and 2016 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 comprises the Introduction to the Reconciliation Report on pages 2 to 5 and the Statement of Responsibility on pages 6 and 7.

Basis for opinions

9. As explained in Section 1.1 on page 3 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 2017 and 31 March 2016 ("the Statutory Financial Statements").

10. PricewaterhouseCoopers LLP audited the Statutory Financial Statements on which they expressed unmodified audit opinions. Their audit reports 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 2017 Methodology Change Schedules as a whole are properly prepared in accordance with the 2017 Basis of Preparation and that the 2016 Error Correction Schedules as a whole are properly prepared in accordance with the 2016 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 Directions.

Opinions

13. In our opinion:

(a) the 2017 Methodology Change Schedules as a whole have been properly prepared in accordance with the 2017 Basis of Preparation and comply with the disclosure requirements of the Directions; and

(b) the 2016 Error Correction schedules as a whole have been properly prepared in accordance with the 2016 Basis of Preparation and comply with the disclosure requirements of the Directions .

14. We have no matters to report in respect of our responsibilities explained in paragraphs 7 and 8.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

31 July 2017

Section 4
Reconciliation Report requirements and content – methodologies

Section 4 – Reconciliation Report requirements and content – methodologies

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

This Reconciliation Report is published in accordance with Ofcom’s Directions referred to in Section 1.1.

The Directions provide 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 on 31 March 2017. In the Change Control Notification we published a list of each and every methodology change we planned to make for the year ended 31 March 2017.

This Reconciliation Report follows from the Change Control Notification and the additional change described below; it looks in detail at the impacts of 2016/17 methodology changes by comparing them with how the RFS would look if we had applied 2015/16 methodologies, using 2016/17 data (e.g. revenues, costs, 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 them are detailed below.

Section 4.2.1 – Changes not reversed in this Reconciliation Report

There are several changes which we included in our Change Control Notification which we have not reversed in this report. These, and the associated rationale for them not being reversed, are discussed in detail in section 5.12.

Section 4.2.2 – Changes to methodologies after the Change Control Notification

There was a change to our methodology for the calculation of revenues in the Technical Areas (Interconnect Circuits) made after 31 March 2017 which was included in the 2017 RFS and is reversed in this report.

Interconnect volumes: In the 2016 RFS, we implemented a change that removed internal revenue and volumes (but not costs) within the Interconnect circuits market. Further investigation has shown that this excluded volumes and revenues for circuits that carried 100% BT originated traffic. Whilst the 2016 RFS included all costs within the Interconnect market it did not, therefore, include all volumes or revenues.

In the 2017 RFS we have removed this mismatch by including all circuit volumes and revenues within the Interconnect Circuits market.

Section 5
Explanation of methodology changes made in the 2017 RFS

Section 5 – Explanation of methodology changes made in the 2017 RFS

Section 5.01 – Methodology reversal impacts summary

The following six tables summarise the illustrative difference of individual methodology changes on revenue, costs and MCE (stated in both £m and %) attributed to individual Fixed Access Markets, Business Connectivity Markets, Narrowband Markets, the Wholesale Broadband Access Market and the Wholesale Residual Market.

Revenue Impact £m

	Fixed Access Markets				Business Connectivity Markets			Narrowband Markets			WBA	Total SMP Markets	Wholesale Residual	EOI Eliminations	Retail Residual	Other Eliminations	Roundings	Total Markets	
	WLA	WFAEL	ISDN2	ISDN30	CISBO Rest of UK	CISBO London Periphery	Low Bandwidth TISBO	Fixed call origination	Fixed geographic call termination	Technical areas (Interconnect Circuits)	WBA - Market A								
2017 Published RFS	2,137	1,607	95	176	775	28	201	167	11	26	382	5,605	2,738	(1,017)	21,384	(4,647)	(1)	24,062	
1 Openreach Fibre CCA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2 Fibre Access WBC Point of Handover	0	0	0	0	0	0	0	0	0	0	61	61	(37)	0	0	(24)	0	0	0
3 MSAN Geographic Location Costing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4 Time Related Charges	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5 Openreach Capitalisations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6 ISDN Fault Rates	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7 Network Features	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8 Wholesale Residual WBA	0	0	0	0	0	0	0	0	0	0	0	0	35	0	0	(35)	0	0	0
9 Wholesale Residual Calls	0	0	0	0	0	0	0	0	0	0	0	0	53	0	0	(53)	0	0	0
10 Interconnect Volumes	0	0	0	0	0	0	0	0	0	(6)	0	(6)	0	0	0	6	0	0	0
Cumulative non-material changes, interactions and roundings	0	0	0	0	0	0	0	0	0	(0)	(1)	(1)	2	0	0	(1)	0	0	0
2017 RFS using 2016 methodologies	2,137	1,607	95	176	775	28	201	167	11	20	442	5,659	2,791	(1,017)	21,384	(4,754)	(1)	24,062	

Section 5 – Explanation of methodology changes made in the 2017 RFS

Revenue Impact %

	Fixed Access Markets				Business Connectivity Markets			Narrowband Markets			WBA	Total SMP Markets	Wholesale Residual	EOI Eliminations	Retail Residual	Other Eliminations	Roundings	Total Markets
	WLA	WFAEL	ISDN2	ISDN30	CISBO Rest of UK	CISBO London Periphery	Low Bandwidth TISBO	Fixed call origination	Fixed geographic call termination	Technical areas (Interconnect Circuits)	WBA - Market A							
2017 Published RFS	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
1 Openreach Fibre CCA	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2 Fibre Access WBC Point of Handover	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	16%	1%	(1)%	0%	0%	1%	0%	0%
3 MSAN Geographic Location Costing	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
4 Time Related Charges	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
5 Openreach Capitalisations	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
6 ISDN Fault Rates	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
7 Network Features	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
8 Wholesale Residual WBA	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	0%	0%	1%	0%	0%
9 Wholesale Residual Calls	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	2%	0%	0%	1%	0%	0%
10 Interconnect Volumes	0%	0%	0%	0%	0%	0%	0%	0%	0%	(23)%	0%	0%	0%	0%	0%	0%	0%	0%
Cumulative non-material changes, interactions and roundings	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2017 RFS using 2016 methodologies	0%	0%	0%	0%	0%	0%	0%	0%	0%	(23)%	16%	1%	2%	0%	0%	2%	0%	0%

Section 5 – Explanation of methodology changes made in the 2017 RFS

Cost Impact £m

	Fixed Access Markets				Business Connectivity Markets			Narrowband Markets			WBA	Total SMP Markets	Wholesale Residual	EOI Eliminations	Retail Residual	Other Eliminations	Roundings	Total Markets
	WLA	WFAEL	ISDN2	ISDN30	CISBO Rest of UK	CISBO London Periphery	Low Bandwidth TISBO	Fixed call origination	Fixed geographic call termination	Technical areas (Interconnect Circuits)	WBA - Market A							
2017 Published RFS	1,383	983	38	71	478	14	145	115	79	22	176	3,504	2,856	(1,017)	20,197	(4,647)	2	20,895
1 Openreach Fibre CCA	(7)	(0)	(0)	(5)	(41)	(1)	(4)	(0)	(0)	(0)	(2)	(60)	(7)	0	0	0	(1)	(68)
2 Fibre Access WBC Point of Handover	0	0	0	0	0	0	0	0	0	0	15	15	(15)	0	24	(24)	0	0
3 MSAN Geographic Location Costing	0	0	0	0	0	0	0	0	0	0	(6)	(6)	6	0	0	0	0	0
4 Time Related Charges	0	(0)	(0)	(0)	(1)	0	0	0	0	0	0	(1)	1	0	1	0	(1)	0
5 Openreach Capitalisations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6 ISDN Fault Rates	(2)	(2)	5	0	0	0	0	0	0	0	0	1	0	0	0	0	(1)	0
7 Network Features	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8 Wholesale Residual WBA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	35	(35)	0	0
9 Wholesale Residual Calls	0	0	0	0	0	0	0	0	0	0	0	0	0	0	53	(53)	(0)	0
10 Interconnect Volumes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(6)	6	0	0
Cumulative non-material changes, interactions and roundings	2	0	0	0	0	0	0	0	0	0	1	3	(3)	0	(2)	(1)	2	(1)
2017 RFS using 2016 methodologies	1,376	981	43	66	436	13	141	115	79	22	184	3,456	2,838	(1,017)	20,302	(4,754)	1	20,826

Section 5 – Explanation of methodology changes made in the 2017 RFS

Cost Impact %

	Fixed Access Markets				Business Connectivity Markets			Narrowband Markets			WBA	Total SMP Markets	Wholesale Residual	EOI Eliminations	Retail Residual	Other Eliminations	Roundings	Total Markets
	WLA	WFAEL	ISDN2	ISDN30	CISBO Rest of UK	CISBO London Periphery	Low Bandwidth TISBO	Fixed call origination	Fixed geographic call termination	Technical areas (Interconnect Circuits)	WBA - Market A							
2017 Published RFS	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
1 Openreach Fibre CCA	(1)%	0%	0%	(7)%	(9)%	(7)%	(3)%	0%	0%	0%	(1)%	(2)%	0%	0%	0%	0%	(50)%	0%
2 Fibre Access WBC Point of Handover	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	9%	0%	(1)%	0%	0%	1%	0%	0%
3 MSAN Geographic Location Costing	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	(3)%	0%	0%	0%	0%	0%	0%	0%
4 Time Related Charges	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	(50)%	0%
5 Openreach Capitalisations	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
6 ISDN Fault Rates	0%	0%	13%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	(50)%	0%
7 Network Features	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
8 Wholesale Residual WBA	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	0%	0%
9 Wholesale Residual Calls	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	0%	0%
10 Interconnect Volumes	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Cumulative non-material changes, interactions and roundings	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	0%	0%	0%	0%	0%	100%	0%
2017 RFS using 2016 methodologies	(1)%	0%	13%	(7)%	(9)%	(7)%	(3)%	0%	0%	0%	5%	(1)%	(1)%	0%	1%	2%	(50)%	0%

Section 5 – Explanation of methodology changes made in the 2017 RFS

MCE Impact £m

	Fixed Access Markets				Business Connectivity Markets			Narrowband Markets			WBA	Total SMP Markets	Wholesale Residual	EOI Eliminations	Retail Residual	Other Eliminations	Roundings	Total Markets
	WLA	WFAEL	ISDN2	ISDN30	CISBO Rest of UK	CISBO London Periphery	Low Bandwidth TISBO	Fixed call origination	Fixed geographic call termination	Technical areas (Interconnect Circuits)	WBA - Market A							
2017 Published RFS	4,817	4,598	145	209	2,011	44	339	159	118	25	373	12,838	1,296	0	17,222	0	1	31,357
1 Openreach Fibre CCA	15	0	0	3	40	1	4	1	1	0	3	68	11	0	0	0	0	79
2 Fibre Access WBC Point of Handover	0	0	0	0	0	0	0	0	0	0	7	7	(6)	0	(1)	0	0	0
3 MSAN Geographic Location Costing	0	0	0	0	0	0	0	0	0	0	(11)	(11)	11	0	0	0	0	0
4 Time Related Charges	(2)	(2)	0	0	0	0	0	0	0	0	0	(4)	4	0	0	0	0	0
5 Openreach Capitalisations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6 ISDN Fault Rates	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7 Network Features	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8 Wholesale Residual WBA	0	0	0	0	0	0	0	0	0	0	0	0	2	0	(2)	0	0	0
9 Wholesale Residual Calls	0	0	0	0	0	0	0	0	0	0	0	0	3	0	(3)	0	0	0
10 Interconnect Volumes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cumulative non-material changes, interactions and roundings	(1)	0	0	0	2	0	0	0	0	0	(0)	0	0	0	0	0	(1)	(1)
2017 RFS using 2016 methodologies	4,829	4,596	145	212	2,053	45	343	160	119	25	372	12,898	1,321	0	17,216	0	0	31,435

Section 5 – Explanation of methodology changes made in the 2017 RFS

MCE Impact %

	Fixed Access Markets				Business Connectivity Markets			Narrowband Markets			WBA	Total SMP Markets	Wholesale Residual	EOI Eliminations	Retail Residual	Other Eliminations	Roundings	Total Markets
	WLA	WFAEL	ISDN2	ISDN30	CISBO Rest of UK	CISBO London Periphery	Low Bandwidth TISBO	Fixed call origination	Fixed geographic call termination	Technical areas (Interconnect Circuits)	WBA - Market A							
2017 Published RFS	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
1 Openreach Fibre CCA	0%	0%	0%	1%	2%	2%	1%	1%	1%	0%	1%	1%	1%	0%	0%	0%	0%	0%
2 Fibre Access WBC Point of Handover	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	2%	0%	0%	0%	0%	0%	0%	0%
3 MSAN Geographic Location Costing	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	(3)%	0%	1%	0%	0%	0%	0%	0%
4 Time Related Charges	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
5 Openreach Capitalisations	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
6 ISDN Fault Rates	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
7 Network Features	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
8 Wholesale Residual WBA	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
9 Wholesale Residual Calls	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
10 Interconnect Volumes	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Cumulative non-material changes, interactions and roundings	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	(100)%	0%
2017 RFS using 2016 methodologies	0%	0%	0%	1%	2%	2%	1%	1%	1%	0%	0%	0%	2%	0%	0%	0%	(100)%	0%

Section 5 – Explanation of methodology changes made in the 2017 RFS

Section 5.02 – Openreach Fibre CCA

Reference number	1 (Change Control Notification 3.04)
Key driver for change	More complete and more objective
Trigger for change	Changes in available evidence
Description of change	<p>The CCA valuation of Access Fibre was changed to include additional items relevant to its valuation, and to use a five year average efficiency rate as part of its valuation method rather than an in-year efficiency rate.</p> <ul style="list-style-type: none"> - We now include items such as expenditure incurred during the installation of new cables (e.g. traffic management, tree cutting and gully sucking), Optical Terminating Racks and associated cabling within the Access Fibre CCA valuation. - Within the current valuation method, labour-related assets (e.g. installation) are valued using man hour rates multiplied by actual task times. Planned task times have an efficiency rate applied to them in order to calculate these actual task times. We adopted a five year rolling average of the efficiency rate rather than use the in-year efficiency figure.
Effect of the change	<p>The methodology change reduced the 2016/17 valuation of Access Fibre MCE, with the majority of the increase within regulated markets.</p> <p>Access Fibre is used by Ethernet markets, Low bandwidth TISBO and WLA for NGA. The most material MCE impact was in the CISBO Rest of UK market.</p>

Support for the change	The methodology change increased the completeness of the Access Fibre CCA valuation by including all relevant items, as well as improving the comparability of the RFS year-on-year by using a five year rolling average efficiency factor.
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Section 5 – Explanation of methodology changes made in the 2017 RFS

Section 5.03 – Fibre Access WBC Point of Handover

Reference number	2 (Change Control Notification 3.05)
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	<p>For WBC, the Point of Handover (PoH) was used to define the geographical WBA market that a customer is reported in, either SMP or non-SMP depending on the location of the parent exchange.</p> <p>This methodology was changed to report any end user from a Market B child exchange as a Market B volume irrespective of the location of the parent exchange. This is because the customer is already in a competitive market at child exchange level, and therefore the PoH at the parent exchange is not relevant.</p>
Effect of the change	This change moved Fibre Access WBC connection, rental and bandwidth volumes into WBA Market B from WBA Market A.
Support for the change	<p>Ofcom stated in the WBA Market Review Final Statement 2014 (paragraph 6.54) that SMP remedies are disapplied where Fibre Access services in Market A are handed over to Market B.</p> <p>Fibre Access services that are in Market B are unregulated and therefore the point of handover is not relevant. The point of handover is therefore only applicable for Fibre Access services in Market A, i.e. only in this situation do we need to identify whether it is handed over to Market A or B, as this dictates whether the SMP remedies apply or not.</p>

Section 5 – Explanation of methodology changes made in the 2017 RFS

Section 5.04 – MSAN Geographic Location Costing

Reference number	3 (Change Control Notification 3.06)
Key driver for change	More cost causal
Trigger for change	BT judgement
Description of change	<p>MSAN (Multi Service Access Node - part of the 21CN) costs and MCE are now allocated between WBA Market A and Market B (reported within Wholesale Residual) using the location of the MSAN rather than the end user volumes of the services they support.</p> <p>End user volumes, however, continue to be used to split the costs and MCE between internal and external for each market.</p> <p>The source data is provided by TSO who track the locations of all installed MSANs.</p>
Effect of the change	The change moved CCA operating costs and MCE from Wholesale Residual to WBA Market A.
Support for the change	An internal BT investigation into MSAN costs by market found that there is a much larger concentration of MSANs per end user installed in WBA Market A compared with Market B; this was not reflected by the previous methodology.

Section 5 – Explanation of methodology changes made in the 2017 RFS

Section 5.05 – Time Related Charges

Reference number	4 (Change Control Notification 3.07)
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	<p>Time Related Charges (TRC) costs are now split between regulated and non-regulated TRC using a more detailed attribution methodology, rather than solely attributing the costs based on revenue.</p> <p>The new methodology:</p> <ul style="list-style-type: none"> - Allocates any costs that are directly attributable to either regulated or non-regulated TRC to separate Plant Groups, e.g. CoWs TMPT and CNS are specific to unregulated TRC; - Apportions overheads driven by either Pay or Non-Pay to either the existing regulated TRC Plant Group or the new non-regulated Plant Group in proportion to the directly attributable costs above. <p>Additionally, improvements were made to the apportionment of total TRC costs:</p> <ul style="list-style-type: none"> - TRC costs now include specifically identified costs from 16 additional CoWs. These specific attributions are offset by apportioning less cost to TRCs from general overheads in order that total TRC costs remain the same; and - Less cost is attributed from CoW SUNB to TRC, because it shares a base (PDTCOBUS) with a separate CoW, OB. TRC calculations now reflect this interrelationship.

Effect of the change	This change impacted costs in the WFAEL, WLA, and CISBO Rest of UK markets.
Support for the change	The new methodology increased consistency and accuracy for TRC.

Section 5 – Explanation of methodology changes made in the 2017 RFS

Section 5.06 – Openreach Capitalisations

Reference number	5 (Change Control Notification 3.08)
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	<p>When we capitalise Openreach costs that have already been debited to income statement ledger codes, we book a capitalisation credit onto a different ledger code. Where possible, based on the level of granularity of booking, the apportionment of these two ledger codes (the original cost and the related capitalisation credit) in the RFS should be the same.</p> <p>In the 2016 RFS we identified that for NGA self-installation services the capitalisation credit apportionment methodology was not the same as the original debit, so the capitalisation credit apportionment was changed for 2016/17 to better align the apportionment methodologies.</p> <p>Additionally, costs we incur in Openreach for work carried out by Carillion Telent were initially booked onto a ledger code that had a different sector to the ledger code used for the related capitalisation credit. We implemented a change to assign the two ledger codes to the same sector.</p>
Effect of the change	<p>The net effect of this change in the 2015/16 comparative data was an increase in cost in WFAEL and a reduction of cost in WLA. However in 2016/17, Openreach's booking policy was changed so that costs and their respective capitalisation were booked to the same destination.</p> <p>Therefore, when reversing the methodology change in 2016/17, there is no impact.</p>

Support for the change	These changes were identified as part of an internal review of capitalisation credit allocations.
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Section 5 – Explanation of methodology changes made in the 2017 RFS

Section 5.07 – ISDN Fault Rates

Reference number	6 (Change Control Notification 3.11)
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	<p>Volume and fault rate input data used to calculate ISDN2 and ISDN30 usage factors had not been updated since 2011/12. The fault rate data was based on 10 months' data extrapolated for 12 months.</p> <p>For 2016/17, we updated both of these data sources, and used a full 12 months of data input for fault rates.</p>
Effect of the change	<p>Costs reduced in ISDN2 and ISDN30.</p> <p>The reduced usage factors on ISDN2 and ISDN30 services reapportioned costs predominantly into WFAEL and WLA markets, to services that share components with the ISDN markets.</p>
Support for the change	Updating this data annually improves the cost causality and accuracy of component to service apportionments.

Section 5 – Explanation of methodology changes made in the 2017 RFS

Section 5.08 – Network Features

Reference number	7 (Change Control Notification 3.13)
Key driver for change	More cost causal
Trigger for change	BT judgement
Description of change	The allocation of PG280C (AXE10 Local Exchange Processor) and PG285C (System X Processor) between Network Features CO293 and Caller Display CO292 is now based on the volume of rentals sold as opposed to the number of activations of each rental type.
Effect of the change	The effect of the change was to move costs from Caller Display into other Network Features (reported within WLR Other). As costs moved within the WFAEL market, there was no market level impact.
Support for the change	<p>The intention of the change was to provide a more rational margin across the Caller Display and other Network Features services, which following the separation of Caller Display from all other Network Features had caused a disproportionate cost base to be applied to the now separated Caller Display service.</p> <p>As a result, Caller Display was reported as returning a significantly negative margin whilst other Network Features (reported within WLR Other) were showing large margin returns.</p>

Section 5 – Explanation of methodology changes made in the 2017 RFS

Section 5.09 – Wholesale Residual WBA

Reference number	8 (Change Control Notification 3.14)
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	<p>This was an extension of the 'Wholesale Broadband Connect revenues' methodology change described in Section 2.1.5 of the 2016 RFS. This changed the methodology for calculating internal revenues for a subset of WBA Market B services by setting the internal price, reported in the RFS, equal to fully allocated costs (FAC).</p> <p>For 2016/17, we extended this FAC approach for our internal RFS revenues to all services in WBA Market B.</p>
Effect of the change	<p>Total Wholesale Residual revenue decreased, driving a lower return on Wholesale Residual.</p> <p>There was a corresponding decrease in Retail Residual costs, and an increase in Retail Residual return.</p>
Support for the change	Using FAC for the RFS internal revenue calculation increases the accuracy of Wholesale Residual revenues.

Section 5 – Explanation of methodology changes made in the 2017 RFS

Section 5.10 – Wholesale Residual Calls

Reference number	9 (Change Control Notification 3.15)
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	This was an extension of the 'Wholesale Broadband Connect revenues' methodology change described in Section 2.1.5 of the 2016 RFS. Calls revenue within Wholesale Residual is now calculated by setting the internal price, as reported in the RFS, equal to fully allocated cost (FAC).
Effect of the change	Total Wholesale Residual revenue decreased. The return on Wholesale Residual also decreased. There was a corresponding decrease in Retail Residual costs, and an increase in Retail Residual return.
Support for the change	Using FAC for the RFS internal revenue calculation increased the accuracy of Wholesale Residual revenues.

Section 5 – Explanation of methodology changes made in the 2017 RFS

Section 5.11 – Interconnect

Reference number	10 (This change was not included in the Change Control Notification)
Key driver for change	More accurate
Trigger for change	BT judgement
Description of change	<p>In Section 5.11 of the 2016 Reconciliation Report, we implemented a change that removed internal revenue and volumes (but not costs) within the Interconnect market on the basis that these were related to Virtual Interconnect Circuits. Further investigation has shown that this excluded volumes and revenues for circuits that had a “100% revenue share”, meaning circuits that carry 100% BT originated traffic. Whilst the 2016 RFS included all costs within the Interconnect market it did not, therefore, include all volumes or revenues.</p> <p>In the 2017 RFS we have removed this mismatch between revenues, volumes and costs by including all circuit volumes and revenues within the Interconnect Market: those that carry 100% CP originated traffic; circuits shared between BT and external CPs (as before); and now also circuits that carry 100% BT originated traffic.</p> <p>We continue to report all circuits as external, as in the 2016 RFS, as all circuits provide interconnection between BT and CPs regardless of where the traffic originated; i.e. they do not just provide interconnection between different parts of BT’s network.</p>
Effect of the change	This change increased 2015/16 Interconnect market revenue.

Support for the change	These changes were identified as part of the Narrowband Market Review consultation.
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Section 5.12 – Other methodology changes

As part of the requirement to produce this reconciliation report, we reverse all methodologies which were implemented in 2016/17. 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:

- 3.09 Downstream Usage of EAD;
- 3.10 BT Group Billing;
- 3.17 Abortive Visit Charges; and
- 3.18 Circuit Provision Cost Simplification.

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

- 3.01 BCMR Changes – this was included within the Change Control Notification but as it implemented an Ofcom-driven market redefinition rather than a change in methodology, it has not been reversed as part of this report;
- 3.02 BT Re-Organisation (excluding Openreach) – internal BT re-organisations are not appropriate to reverse in this report because they are not changes in methodology;
- 3.03 Openreach Re-Organisation – internal BT re-organisations are not appropriate to reverse in this report because they are not changes in methodology;
- 3.12 Project Services – this was included within the Change Control Notification but as it implemented an Ofcom-driven market redefinition rather than a change in methodology, it has not been reversed as part of this report;
- 3.16 Special Fault Investigation (SFI) – this methodology change has no impact on RFS service, market or component figures; and
- 3.19 LRIC Overlay Removals – this methodology change only affected additional financial information provided to Ofcom privately (LRIC) rather than any figures relevant to the Reconciliation Report.

Section 6
Reconciliation Report requirements and content – error corrections

Section 6 – Reconciliation Report requirements and content – error corrections

Section 6.1 – Reconciliation Report requirements and content – error corrections

We have been directed to prepare this Reconciliation Report in accordance with Ofcom’s Directions.

Ofcom’s 2014 Regulatory Financial Reporting Statement (conditions 8(vi) and 23 set out in Annex 2) provide that BT must prepare a Reconciliation Report which sets out:

“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.”

Ofcom define a “Material Error” as follows:

“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 2016 RFS for errors identified subsequent to publication. This report focuses on the 2016 RFS as originally published compared with the comparative information for 2016 included with the 2017 RFS. We have not included in this report the impact of the restatement of the comparative information for 2016 in the 2017 RFS for the Italian business investigation disclosed in section 2.1.6 of the 2017 RFS, as it does not arise from the Regulatory Attribution System and does not impact any SMP market.

The Reconciliation Report sets out the data required by the Directions.

Section 7
Explanation of reported material error corrections

Section 7 – Explanation of reported material error corrections

Section 7.1 – Error correction impacts summary

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

Revenue Impact £m

	Fixed Access Markets				Business Connectivity Markets							Narrowband Markets			WBA		Total SMP Markets	Wholesale Residual	EOI Eliminations	Retail Residual	Other Eliminations	Roundings	Total Markets
	WLA	WFAEL	ISDN2	ISDN30	Low Bandwidth TISBO	Medium Bandwidth TISBO	High Bandwidth TISBO	TI Regional Trunk	Technical areas (Point of Handover)	ASBO Non WECLA	ASBO WECLA	MSBO Non WECLA	Fixed call origination	Fixed geographic call termination	Technical areas (Interconnect Circuits)	WBA - Market A							
2016 Published RFS	1,950	1,665	105	196	262	17	9	16	2	735	78	121	185	15	25	453	5,834	3,053	(941)	15,775	(4,677)	(2)	19,042
1 Freephones	0	0	0	0	0	0	0	0	0	0	0	0	7	0	0	0	7	(20)	0	0	13	0	0
2 Grant Funded Assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3 Revenue driving EBD allocations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4 Ofcom Administration Fee	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5 TVC in Openreach Residual	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6 MNS Revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(53)	0	53	0	0	0
7 Revenue Receivables	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8 Residual Trades	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Roundings	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0
2016 RFS with errors amended	1,950	1,665	105	196	262	17	9	16	2	735	78	121	192	15	25	453	5,841	2,980	(941)	15,828	(4,664)	(1)	19,042

Section 7 – Explanation of reported material error corrections

Revenue Impact %

	Fixed Access Markets				Business Connectivity Markets							Narrowband Markets			WBA	Total SMP Markets	Wholesale Residual	EOI Eliminations	Retail Residual	Other Eliminations	Roundings	Total Markets		
	WLA	WFAEL	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	
2016 Published RFS	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%		
1 Freephones	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	4%	0%	0%	0%	0%	0%	(1)%	0%	0%	(0)%	0%	0%
2 Grant Funded Assets	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 Revenue driving EBD allocations	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
4 Ofcom Administration Fee	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 TVC in Openreach Residual	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 MNS Revenue	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	(2)%	0%	0%	0%	0%	0%
7 Revenue Receivables	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
8 Residual Trades	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Roundings	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	(50)%	0%	0%
2016 RFS with errors amended	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	4%	0%	0%	0%	0%	(2)%	0%	0%	(0)%	(50)%	0%	0%

Section 7 – Explanation of reported material error corrections

Cost Impact £m

	Fixed Access Markets				Business Connectivity Markets							Narrowband Markets			WBA	Total SMP Markets	Wholesale Residual	EOI Eliminations	Retail Residual	Other Eliminations	Roundings	Total Markets	
	WLA	WFAEL	ISDN2	ISDN30	Low Bandwidth TSBO	Medium Bandwidth TSBO	High Bandwidth TSBO	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
2016 Published RFS	1,316	1,038	47	81	168	7	7	11	3	365	28	84	101	93	24	198	3,572	2,601	(941)	14,785	(4,677)	1	15,340
1 Freephones	0	0	0	0	0	0	0	0	0	0	0	0	3	(1)	0	0	2	(1)	0	(13)	13	(1)	0
2 Grant Funded Assets	5	(1)	0	0	0	0	0	0	0	(1)	0	0	0	0	0	0	3	(2)	0	0	0	(1)	0
3 Revenue driving EBD allocations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(4)	(4)	4	0	0	0	0	0
4 Ofcom Administration Fee	(1)	(1)	0	0	0	0	0	0	0	0	0	0	0	0	0	(1)	(3)	(2)	0	5	0	0	0
5 TVC in Openreach Residual	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6 MNS Revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7 Revenue Receivables	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8 Residual Trades	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(16)	0	16	0	0	0
Roundings	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	(1)	0	0	0	1	0
2016 RFS with errors amended	1,320	1,036	47	81	168	7	7	11	3	364	28	84	104	92	24	194	3,570	2,583	(941)	14,793	(4,664)	(1)	15,340

Section 7 – Explanation of reported material error corrections

Cost Impact %

	Fixed Access Markets				Business Connectivity Markets							Narrowband Markets			WBA								
	WLA	WFAEL	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	Total SMP Markets	Wholesale Residual	EOI Eliminations	Retail Residual	Other Eliminations	Roundings	Total Markets
2016 Published RFS	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
1 Freephones	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	3%	(1)%	0%	0%	0%	(0)%	0%	(0)%	0%	(100)%	0%
2 Grant Funded Assets	0%	(0)%	0%	0%	0%	0%	0%	0%	0%	(0)%	0%	0%	0%	0%	0%	0%	0%	(0)%	0%	0%	0%	(100)%	0%
3 Revenue driving EBD allocations	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	(2)%	0%	0%	0%	0%	0%	0%	0%
4 Ofcom Administration Fee	(0)%	(0)%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	(1)%	(0)%	0%	0%	0%	0%	0%	0%
5 TVC in Openreach Residual	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
6 MNS Revenue	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
7 Revenue Receivables	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
8 Residual Trades	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	(1)%	0%	0%	0%	0%	0%	0%
Roundings	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	0%	(0)%	0%	0%	0%	100%	0%
2016 RFS with errors amended	0%	(0)%	0%	0%	0%	0%	0%	0%	0%	(0)%	0%	0%	3%	(1)%	0%	(2)%	(0)%	(1)%	0%	0%	(0)%	(200)%	0%

Section 7 – Explanation of reported material error corrections

MCE Impact £m

	Fixed Access Markets				Business Connectivity Markets								Narrowband Markets			WBA	Total SMP Markets	Wholesale Residual	EOI Eliminations	Retail Residual	Other Eliminations	Roundings	Total Markets
	WLA	WFAEL	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	Total SMP Markets						
2016 Published RFS	4,357	4,755	161	211	385	26	24	44	6	1,596	98	250	161	146	27	363	12,610	1,723	0	7,039	0	(1)	21,371
1 Freephones	0	0	0	0	0	0	0	0	0	0	0	0	5	(3)	0	0	2	(2)	0	0	0	0	0
2 Grant Funded Assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3 Revenue driving EBD allocations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4 Ofcom Administration Fee	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	(1)	0	(1)	0	0	0
5 TVC in Openreach Residual	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6 MNS Revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7 Revenue Receivables	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(57)	0	57	0	0	0
8 Residual Trades	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Roundings	(1)	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	1	0
2016 RFS with errors amended	4,356	4,755	161	211	385	26	24	44	6	1,596	98	250	166	144	27	364	12,613	1,663	0	7,095	0	0	21,371

Section 7 – Explanation of reported material error corrections

MCE Impact %

	Fixed Access Markets				Business Connectivity Markets							Narrowband Markets			WBA		Total SMP Markets	Wholesale Residual	EOI Eliminations	Retail Residual	Other Eliminations	Roundings	Total Markets	
	WLA	WFAEL	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								Total SMP Markets
2016 Published RFS	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
1 Freephones	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	3%	(2)%	0%	0%	0%	(0)%	0%	0%	0%	0%	0%	0%
2 Grant Funded Assets	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 Revenue driving EBD allocations	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
4 Ofcom Administration Fee	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 TVC in Openreach Residual	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 MNS Revenue	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
7 Revenue Receivables	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	(3)%	0%	1%	0%	0%	0%	0%
8 Residual Trades	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Roundings	(0)%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	0%	0%	0%	0%	0%	0%	0%	(100)%	0%	0%
2016 RFS with errors amended	(0)%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	3%	(1)%	0%	0%	0%	(3)%	0%	1%	0%	(100)%	0%	0%

Section 7 – Explanation of reported material error corrections

Section 7.2 – Freephones

Reference number	1
Description of error	<p>In the 2016 RFS, BT Freephone revenues were understated as a result of an inaccurate estimate used to estimate mobile originated calls from underlying volume data.</p> <p>Freephone volumes that were included were also erroneously included as internal.</p>
Circumstances of discovery	<p>This error was identified during preparation of the 2017 RFS, whilst reviewing volume and prices against Wholesale and Ventures Line of Business data.</p>
Restatement impact	<p>Revenue was understated in Call Origination with an offsetting impact in Wholesale Residual revenue.</p>

Section 7 – Explanation of reported material error corrections

Section 7.3 – Grant Funded Assets

Reference number	2
Description of error	<p>BDUK Grant Funded Assets (GFA) were not all apportioned to the same reporting sector. GFA were predominantly reported within Access, but credits of £106m and £140m were assigned to WLA Transmission MCE, and WLA Other MCE respectively.</p> <p>We now include a new sub-sector specifically for GFA, and report it within Access Fibre MCE (see Section A.1.3 of the Accounting Methodology Document).</p>
Circumstances of discovery	The error was identified during the removal of all manual overlays to the LRIC calculation model.
Restatement impact	<p>Amending this error predominantly affects the RFS sector level reporting. GFA MCE credits of £106m and £140m will move out of Transmission and Other MCE sectors respectively, and will now be reported as Access MCE.</p> <p>The change impacts market level costs as an overhead allocation base that excludes GFA from its apportionment logic erroneously included GFA credits booked to the wrong sector. Amending the error increases WLA costs by £5m, with offsetting cost reductions in WFAEL, AISBO non-WECLA and Wholesale Residual.</p>

Section 7 – Explanation of reported material error corrections

Section 7.4 – Revenue Driving EBD Allocations

Reference number	3
Description of error	<p>There was an error in the allocation of Ethernet Backhaul Direct (EBD) and Ethernet Access Direct (EAD) EOI charges which should be driven by volumes but in the 2016 RFS were driven by revenue instead.</p> <p>The affected allocation was used to determine which WBA Market, A or B, the EBD and EAD EOI charges should allocate to.</p>
Circumstances of discovery	This error was discovered during an internal review of WBA EOI apportionment models.
Restatement impact	Correcting this error results in a £4m EOI charge moving from WBA Market A into Market B (Wholesale Residual).

Section 7 – Explanation of reported material error corrections

Section 7.5 – Ofcom Administration Fee

Reference number	4
Description of error	In the 2016 RFS, we implemented a methodology change to calculate and apportion the Ofcom Administration Fee. This implementation was based on an incomplete data set.
Circumstances of discovery	The discovery of the error was made during a routine review of the calculation of the Ofcom Administration Fee apportionment.
Restatement impact	<p>The Ofcom Administration Fee Wholesale component will reduce by £2.4m and the Ofcom Administration Fee Openreach component will reduce by £2.6m, with costs instead apportioned to Retail Residual. The WFAEL and WLA market costs reduce by £0.8m and £0.9m respectively, with smaller reductions in other SMP markets.</p> <p>MCE is impacted but with no SMP market impacted above £1m. Total SMP Market MCE reduces by £1.5m.</p>

Section 7 – Explanation of reported material error corrections

Section 7.6 – TV Connect (TVC) in Openreach Residual

Reference number	5
Description of error	<p>Wholesale Residual costs and MCE for TV Connect (TVC) were included within Openreach's Residual, in Section 12 of the 2016 RFS.</p> <p>These costs relate to residual Wholesale activities, not Openreach, and will now be excluded from Openreach's residual reporting.</p>
Circumstances of discovery	<p>A review of the Openreach income statement uncovered bookings for a growing Wholesale service (TVC) had been allocated to Openreach Residual.</p>
Restatement impact	<p>Openreach Residual will no longer include Wholesale & Ventures costs.</p> <p>There was no financial impact on any of the regulated markets due to this correction.</p>

Section 7 – Explanation of reported material error corrections

Section 7.7 – MNS Revenue

Reference number	6
Description of error	<p>We incorrectly reported £53m of external Wholesale Broadband managed network services (MNS) revenue in Wholesale Residual.</p> <p>Our methodology is to report an internal charge from either WBA Market A or Market B to Retail Residual for the non-managed element of these network services, and report the external managed revenue in Retail Residual, not Wholesale Residual.</p>
Circumstances of discovery	This error was identified during a review of Wholesale Residual.
Restatement impact	Amending the MNS revenue reporting by market reduced Wholesale Residual external revenue, with an offsetting increase in external Retail Residual revenue.

Section 7 – Explanation of reported material error corrections

Section 7.8 – Revenue Receivables

Reference number	7
Description of error	<p>Whilst it is appropriate for receivables MCE on individual markets to include receivables relating to sales to other markets, the Internal receivables MCE for Total Wholesale Markets in aggregate should reflect the net receivables across Total Wholesale Markets, net of an elimination for internal trade between markets.</p> <p>Therefore this elimination has been redirected from Retail to Wholesale residual.</p>
Circumstances of discovery	This error was identified after publication of the RFS whilst reviewing the 2016 RFS MCE schedules.
Restatement impact	This correction reduces Total Wholesale Markets MCE, with an offsetting increase in Retail Residual.

Section 7 – Explanation of reported material error corrections

Section 7.9 – Residual Trades

Reference number	8
Description of error	<p>Internal trades between receiving Line of Business and providing Line of Business are matched within Retail Residual unless specifically stated in the Accounting Methodology Document (AMD).</p> <p>However, £16m of internal trade debits were erroneously attributed to Openreach's residual market when their matching internal trade credit was attributed to Retail Residual.</p>
Circumstances of discovery	This error was identified after publication of the RFS whilst reviewing the 2016 RFS Openreach income statement.
Restatement impact	This correction reduces Wholesale Residual costs, with an offsetting increase in Retail Residual.