

SCHEDULE 3

PART A:

OPERATORS WITH SIGNIFICANT MARKET POWER FOR THE PURPOSES OF THE INTERCONNECTION DIRECTIVE

Condition 18

REQUIREMENT TO HAVE COST ACCOUNTING SYSTEMS AND ACCOUNTING SEPARATION FOR INTERCONNECTION PURPOSES

18.1 The Licensee shall maintain a cost accounting system which having regard to the Licensee's obligations under Condition 15.1 above:

- (a) in the opinion of the Director is suitable to demonstrate that its charges for Interconnection have been fairly and properly calculated; and
- (b) provides the information for the time being required to be provided by virtue of Article 7.5 of, and Annex V to, the Interconnection Directive.

18.2 The Licensee shall make available to any person on request a description of its cost accounting system showing the main categories under which costs are grouped and the rules used for the allocation of costs to Interconnection.

18.3 The Licensee shall be deemed to be complying with the requirements of paragraph 18.1 and 18.4A to 18.6 at any time within the period of two years from the designation of the Licensee as an Operator having Significant Market Power if it is at that time complying with directions then in force which have been given to it by the Director for the purpose of ensuring that its cost accounting system enables it to demonstrate that its charges have been fairly and properly calculated.

18.4 Where the annual turnover of the Licensee in telecommunications activities in the United Kingdom is more than 20 million euros the Licensee shall keep separate accounts for, on the one hand, activities related to Interconnection—covering both Interconnection services provided to or used by itself and any organisation within its Group and Interconnection services provided to others—and, on the other hand, other activities so as to identify all elements of costs and revenue, with the basis of their calculation and the detailed attribution methods used, related to its Interconnection activity, including an itemised breakdown of fixed assets.

18.4A The Licensee shall also prepare in respect of each financial year a statement (the "Standard Service Statement") of costs of and charges for Standard Services, to the extent that disaggregation of such Standard Services is necessary for the purposes of paragraph 18.1.

18.5 For each financial year ending on or after 1 January in the year in which the Licensee is determined by the Director to be an Operator having Significant Market Power pursuant to regulation 4(1)(b)(i) of the Interconnection Regulations, the Licensee shall procure in respect of each of the separate accounts described in paragraph 18.4 above an audit report by the Licensee's Auditor which shall conform to Auditing Standards and in which the Auditor shall state whether in his opinion the accounts fairly present, in accordance with the description of cost accounting systems:

- (a) in the case of the profit and loss account, the results; and
- (b) in the case of the statement of mean capital employed, the mean capital employed.

18.5A The Licensee shall procure in respect of each Standard Service Statement an audit report by the Licensee's Auditor, which shall conform to Auditing Standards in which the Auditor shall state whether in his opinion the costs of and the charges for, the Standard Service are properly prepared

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in accordance with the description of cost accounting systems, unless the Licensee can demonstrate, to the reasonable satisfaction of the Director, in respect of which the Licensee shall be afforded a reasonable opportunity to present its case, that the requirement to procure an audit opinion on a specific Standard Service Statement is not proportionate.

18.6 For each financial year ending on or after 1 January in the year in which the Licensee is determined by the Director to be an Operator having Significant Market Power pursuant to regulation 4(1)(b)(i) of the Interconnection Regulations, the Licensee shall publish

- (a) the separate financial accounts and the report of the Auditor thereon; and
- (b) the Standard Service Statement and the report of the Auditor thereon,

within two months after the date on which the Licensee's annual statutory financial statements are published and, in any event, within four months after the end of the period to which they relate, or such other period as the Director shall determine which is objectively justified.

18.7 Any requirement to which the Licensee would otherwise be subject under paragraph 18.4A shall not apply if, or to the extent that, the Licensee can demonstrate to the reasonable satisfaction of the Director, in respect of which the Licensee shall be afforded a reasonable opportunity to present its case, that the requirement is not proportionate.