Office of the Director of
Telecommunications
Regulation

Accounting Separation and Publication of Financial Information for Telecommunications Operators

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Consultation Paper

Document No. ODTR 99/10 **March 1999**

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1. Introduction

Regulation of the telecommunications sector in Ireland, in accordance with National and EU legislation, is carried out by the Director of Telecommunications Regulation ("the Director"). In carrying out her functions, the Director wishes to ensure that she receives comments from all interested parties on relevant measures.

The Director is now undertaking a consultation on accounting separation[1] and publication of financial information for Telecommunications Operators and, in this paper invites comments on key issues. This paper forms part of the consultation process signalled in documents ODTR 98/52 and ODTR 98/60.

The Director invites views from interested parties on this consultative document. Comments should be submitted in writing before 5pm on Wednesday, **31st March 1999** to: -

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All comments are welcome, but it would make the task of analysing responses easier if comments reference the relevant question numbers from this document. In order to promote further openness and transparency the ODTR will publish general summaries of responses received to this consultation paper. Where material that is commercially sensitive is included in a response, this should be included in an Annex.

The ODTR will analyse the comments received, take them into consideration in its review of accounting separation and publication of financial information, and issue a Decision Notice in April 1999.

This consultative document is not a legal document and does not constitute legal, commercial or technical advice. The Director is not bound by it. The consultation is without prejudice to the legal position of the Director or her rights and duties to regulate the market generally.

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1 Accounting separation requirements apply to "organisations having significant market power, which provide public telecommunications networks and/or telecommunications services available for users and which offer interconnection services to other organisations".

2. Background

Both EU and Irish legislation recognise that, in the interests of developing and sustaining competition in the telecommunications industry, new entrants to the market must have the facility to interconnect to the network of an incumbent operator. Under the legislation, a telecommunications industry operator providing fixed public telephone networks and designated as having Significant Market Power ("SMP"), is required to publish a Reference Interconnection Offer ("RIO"). The RIO must include a statement of the rates at which other licensed operators may interconnect to the SMP operator's network. To assist in ensuring that these rates fairly reflect the associated costs, the legislation also requires transparency in and access to the accounts of such organisations. This transparency/access mandate includes "accounting separation" viz. the drawing up by the SMP Operator of accounts separated for its different business units and, specifically, separated between interconnection and other activities. This involves the separate identification of all elements of cost and revenue related to the various activities of the organisation, so helping to ensure transparency of internal cost transfers and discouraging cross-subsidisation between activities.

Directive 97/33/EC of the European Parliament and Council establishes the legal and regulatory framework for the interconnection of telecommunications networks within the EU - a framework that includes a requirement for accounting separation. The provisions of the Directive are transposed into Irish law by Statutory Instrument No. 15 of 1998, signed by the Minister for Public Enterprise, which sets down the manner in which the Directive's principles are to apply in Ireland. Finally, EU Commission Recommendation of 8 April 1998 provides detailed guidelines to National Regulatory Authorities (NRA) on accounting separation.

The Director is now engaged in the development of accounting separation arrangements in the Irish telecommunications sector. To assist in this work, the Director invites submissions from interested parties on the matters referred to in sections 5 to 7 below concerning accounting separation and publication of financial information for telecommunications operators.

3. Purpose of Accounting Separation and Publication of Financial Information

The purpose of accounting separation is to provide an analysis of information derived from financial records to reflect as closely as possible the performance of parts of a business as if they were operating as separate businesses. The ODTR recognises that it is necessary for competing operators to have confidence that an SMP Operator is not unduly discriminating between itself and competing operators or between one competitor and another when providing similar services.

This consultation considers the level of accounting separation information that is necessary for publication purposes only.

3.1 Promotion of a Competitive Environment

The aim of accounting separation is to assist in ensuring that charges are cost based, transparent and non-discriminatory. This in turn promotes a competitive environment in a number of ways, including :-

a) the publication of accounts, which are transparent allow other operators to understand how the SMP operator's revenues relate to costs

b) the availability of information gives other operators the confidence that the interconnection arrangements are equitable, in that it should demonstrate that there is no over or under recovery of the SMP Operator’s network costs

c) the publication of detailed cost statements showing the average cost build of products and services provided by an SMP Operator will increase and raise the confidence of competitors that there are no anti-competitive cross subsidisations.

4. Legislative Background

There are a number of legislative and licensing provisions relating to accounting separation, the most relevant of which are:

- *Council Directive 97/33/EC on interconnection in Telecommunications with regard to ensuring universal service and interoperability through application of the principles of Open Network Provision (ONP), and*

- *The European Communities (Interconnection In Telecommunication) Regulations, 1998, SI No. 15 of 1998, transposing the above directive*

This legislation states that organisations providing the public telecommunications networks and/or publicly available services that have been designated by the Director as having Significant Market Power, and which offer interconnection services to other organisations are required to keep separate accounts for their activities relating to interconnection and ‘other activities’. These accounts should identify all elements of cost and revenue, ‘with the basis of their calculation and the detailed attribution methods used, related to their interconnection activity including an itemised breakdown of fixed asset and structural costs.’

NRAs ‘may publish such information as would contribute to an open and competitive market, while taking account of commercial confidentiality.’

Pro Forma General Telecommunications Licence (ODTR Document No. 98/50R)

Condition 15 of the General Telecommunications Licence applies to organisations that have been designated as having SMP in the fixed telephone network and services market. The condition provides, inter alia, that the licensee shall maintain accounting records in a form which enables the activities of any business unit specified in any direction given by the Director to be separately identifiable, and which the Director considers to be sufficient to show and explain the transactions of each of those business units.

Commission Recommendation of 8/4/1998 on interconnection in a liberalised telecommunications market – Part 2 Accounting Separation and cost accounting

The Commission Recommendation (the “Recommendation”) suggests that notified operators provide a disaggregation of their operating costs, capital employed and revenues, into at least the following main business areas:-

- Core Network (transmission and switching)

- Local Access Network (local loop infrastructure)

- Retail

- Other Activities

The Recommendation also states that disaggregated accounts within the above main business areas may be considered appropriate by NRAs, having regard to the transparency and competitive requirements of National and /or Community law.

5. Level of Accounting Separation

This section discusses the level of disaggregation that is required for the published separated accounts ("Accounts") of applicable organisations**.** The ODTR believes that the publication of sufficiently detailed financial information would increase transparency and clearly show that there is no cross subsidisation between the activities of an SMP operator. Balanced against the requirement to promote increased transparency and a competitive environment is the need to consider concerns over the commercial confidentiality of the information. This matter is considered further in Section 6.2.

Consideration of the applicable National and EU legislation, in addition to the Recommendation would imply it is appropriate to publish separate accounting information for the following main business areas:-

a) Core Network

b) Local Access Network

c) Retail

d) Other Activities

A definition for each of the above business areas is set out in Appendix 1[2]. The Accounts of the main business areas should be consolidated into a summarised set of Accounts.

The Recommendation suggests that the publication of Accounts for the disaggregated activities of the above main business areas would further increase transparency and assure other operators that there is no discrimination in the provision of services to the SMP Operator's own retail arm and other operators. The Recommendation also suggests that reconciliations between the Accounts and the Statutory accounts.

In the light of this Recommendation, it is the Director's view that a proposed framework for the disaggregation of activities could take the following format:

1) Consolidated Accounts

  a) Core Network

  b) Local Access Network

    i) Local Access Network – Business
    ii) Local Access Network – Residential

[2] These definitions are as set out in the EU Commission Recommendation of 8th April 1998 on interconnection in a liberalised telecommunications market Part 2 – Accounting separation and cost accounting.

c) Retail

   i) Retail – Local Calls
   ii) Retail – National Calls
   iii) Retail – International Calls
   iv) Retail – Directory Enquiry
   v) Retail – Public Payphones
   vi) Retail – Lease Lines
   vii) Retail – Calls To Mobile
   viii) Retail – Internet
   ix) Retail – Supplemental Services Business
   x) Retail – Remaining activities

d) Other Activities

   i) Other – Apparatus Supply
   ii) Other – Remaining activities

Set out in Appendix II are definitions for the above proposed disaggregated activities of Retail and Other.

It would be necessary to publish reconciliation statements in conjunction with the Accounts. These reconciliations would be:-

a) between the Statutory accounts of the organisation and the Consolidated Accounts of the main business areas.
b) between the Consolidated Accounts of the main business areas and the Accounts of the main business areas (e.g. Retail).
c) between the Accounts of the main business areas (e.g. Retail) and their disaggregated activities (e.g. Local Calls, National Calls).

The Director would welcome comments on the following:-

Q5.I *The appropriate level of accounting separation that should be applied to applicable organisations and reasons for this level.*

a) Do you agree with the proposed framework as outlined above? What disaggregated activities do you consider should be included/excluded, and what is your reasoning for this? What is your definition for any additional disaggregated activities?

b) If you disagree with the proposed framework,

   1) Do you believe that the higher level of accounting separation as set out in the EU Recommendation i.e. 4 main business areas, consolidated accounts and reconciliations, should be published?

2) *Do you believe that a level of accounting separation less detailed than that set out in the EU Recommendation is appropriate? If yes, what level of accounting separation should be published and what is the basis for this level?*
3) *Do you believe that a level of accounting separation more detailed than that set out in the proposed framework is appropriate? If yes, what level of accounting separation should be published and what is the basis for this level?*

Q5.II *Definitions of the main business areas in Appendix I.*

a) *Do you agree with the Commission Recommendation's definitions of the main business areas? If no, what is a suitable definition for these main business areas?*
b) *Do you believe that more\less main business areas should be defined? What is the basis for inclusion\exclusion?*

Q5.III *Definitions of the example disaggregated activities in Appendix II.*

a) *Do you agree with the definitions for the proposed disaggregated activities?*
b) *If you disagree, what are suitable definitions for these activities?*

6. Format of the Accounting Separation Statements

This section of the consultation considers the format of and the financial information to be disclosed in the published Accounts.

The preparation of the Accounts should follow a set of guiding principles. Examples of such principles are as follows:-

a) The separated accounts shall be based on a transparent cost apportionment methodology.

b) The separated accounts shall include transfer charges between the main business areas and the disaggregated activities for services the organisation provides to itself. They shall also disclose the equivalent transactions with competing operators.

c) The separated accounts shall be prepared in accordance with accepted accounting standards insofar as they are relevant.

d) The separated accounts shall be prepared in accordance with the Regulatory Accounting Principles, which set out the general rules by which the financial statements are prepared. Proposed principles are set out in Appendix IV.

e) Details of significant changes that impact on the financial statements and prior year restatements shall be given.

f) Separated accounts shall be published annually and contain comparative information. Where there are material changes to Regulatory Accounting Principles, Cost Allocation Methodology, Attribution Methods, or to Accounting Policies that have a material effect on the information reported in the separated accounts of a main business area or a disaggregated activity, the parts of the previous year's separated accounts affected by the changes shall be restated.

g) The separated accounts shall make explicit, any differences between costs allocated to different activities by the operator and the costs that the ODTR allowed for the purpose of determining charges.

h) The separated accounts shall be subject to an audit, in accordance with the relevant rules of Irish legislation.

The EU Commission has set out in its Recommendation, suggested formats for the separated accounts of the Local Access Network, Core Network, etc. These suggested formats are included in Appendix III.

The Profit and Loss formats disclose Turnover (split between internal and external provision of services for the Network businesses, and connection fees, rentals and call charges for the Retail businesses), Operating Costs and Transfer Charges. Access Deficit and Universal Service contributions are also shown. The return (profit / loss) is calculated on the same basis as the cost of capital i.e. if a pre-tax and pre-interest WACC is used, the return in the accounts would be before interest and tax.

The Balance Sheet format includes a breakdown of Fixed and Current assets, as well as totals for Creditors and Provision for Liabilities and Charges. The Balance Sheet figures are the average values for the period to which the Balance Sheet relates. This average should ideally be a weighted average value, although a simple average value of opening and closing balances could initially be used.

6.1 Publication of Other Financial Information

The Commission Recommendation recommends that "relevant accounting information" from SMP operators is made available to interested parties "at a sufficient level of detail to ensure that there has been no undue discrimination between the provision of services internally and those provided externally, and to enable the average costs of unbundled interconnection services to be identified."

The Recommendation advises that the following items of information should also be prepared as part of the accounting separation process:-

a) a statement of accounting policies used in the preparation of the accounts.
b) a matrix summarising the total transfer charges between the different Accounts
c) a statement describing the basis on which unattributable costs have been allocated between different accounts.
d) information about the cost allocation methodologies employed in order to prepare separate accounts. This should be at a level of detail that makes clear the relationship between costs and interconnection charges.
e) a statement showing the average cost of network components.

The Recommendation does not set out the information to be disclosed in the statement of the average cost of network components. A proposed breakdown of the information to be disclosed in this statement is as follows:-

- average per minute cost of each conveyance network component. For example, Remote Switching Unit, Primary exchange, Trunk Transmission (split between length dependent and non-length dependent cost), etc.
- average per minute cost of each non-conveyance network component. For example, Directory enquiries, Operator assistance, etc.
- other costs split into appropriate categories (split into an average per minute cost where applicable).
- Routing factors for traffic
- Time of Day Gradients
- Final charges
- International Outpayments

Sufficient explanatory information would also be required to accompany the separated accounts, to assist interested parties in fully understanding the information contained within. This information would include:-

i) a statement of the regulatory accounting principles followed when preparing the Accounts
ii) complete definitions of the main business areas and their disaggregated activities
iii) a description of the transfer charging system that is operated for accounting separation
iv) details of significant changes which impact on the financial statements and on comparative figures

6.2 Publication of Confidential Financial Information

The Director may request detailed financial information at any time from a relevant operator. This information may be published, if she considers it would contribute to an open and competitive market subject to the consideration of its commercial confidentiality.

The process of determining an appropriate balance between contributing to an open and competitive market, and the commercial confidentiality of the information is not a straightforward matter. The publication of financial information at a sufficiently detailed level would increase the confidence of operators that there is no undue discrimination between the internal and external provision of services by the SMP operator, and would make transparent the relationship between interconnection charges and costs. However, balanced against assisting market development is the commercial confidentiality of the information being published. It is possible that an SMP operator would regard some of the detailed information in section 6.1 as being commercially confidential. The Director would welcome comments from interested parties on the additional financial information that would contribute to an open and competitive market and the basis for the publication of this information.

6.3 Timeframe for Publication of the Separate Accounting Information.

In order for accounting separation to be effective, the information published should be timely. Unnecessary delay in the publication of the accounts and the additional financial information would reduce the positive effects of accounting separation.

A proposed timeframe for the preparation and publication of the Separate Accounting information is within two months after the date on which the SMP operator's annual statutory financial statements are published and, in any event, within four months after the end of the period to which they relate.

The director would welcome comments on the following:-

Section 6

Q6.I *The guiding principles that should apply when preparing separated accounts*

Q6.II *Appropriate regulatory accounting principles to be used when preparing separate accounts*

Q6.III *The appropriateness of using the formats in Appendix III as a basis for separated accounts. What additional information should be disclosed in these accounts?*

Section 6.1

Q6.1.I *Publication of the information prepared as part of accounting separation*

- *a) Do you agree with the publication of the information (bullet points (a) to (c)) prepared as part of accounting separation?*
- *b) If you disagree with the above,*
  - *1) Do you believe that less information should be published? If yes, what information should be published and what is the reason for this?*
  - *2) Do you believe that more information should be published? If yes, what additional information should be published and what is the basis for this?*

Q 6.1.II *Do you believe that the additional explanatory information set out at (i) to (iv), is sufficient along with the information set out at (a) to (e) to enable interested parties to understand the information contained in the separated accounts. If no, what additional information should be published and what is the reason for this?*

Q6.1.III *Statement of the average cost of network components*

- *a) Do you agree with the proposed information to be published in this statement?*
- *b) If you disagree with the above,*
  - *1) Do you believe that less information should be published? If yes, what information should be published and what is the reason for this?*
  - *2) Do you believe that more information should be published? If yes, what additional information should be published and what is the basis for this?*

Section 6.2

- *a) What additional detailed financial information would contribute to an open and competitive market? What is the basis for the publication of this additional information?*

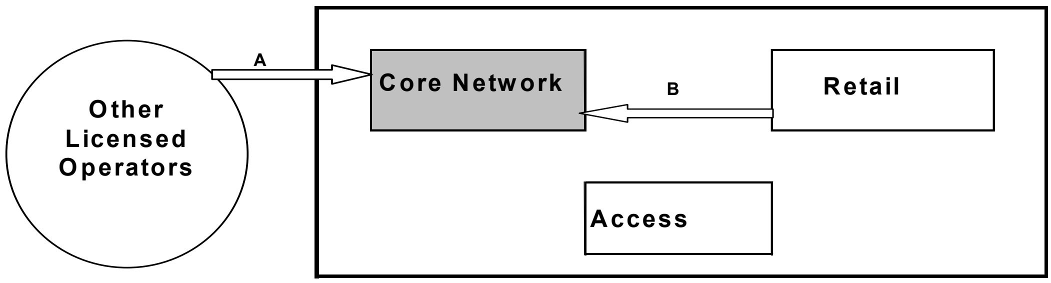
Section 6.3

Q6.3.I *The proposed timeframe for publication of separated accounts and the financial information*

- *a) Do you agree with the proposed timeframe?*
- *b) If you disagree with the proposed timeframe,*
  - *1) Do you believe that a longer timeframe should be set? If yes, what timeframe should be set and what is the basis for choosing this timeframe?*
  - *2) Do you believe that a shorter timeframe should be set? If yes, what timeframe should be set and what is the basis for choosing this timeframe?*

7. Transfer Charging Principles

A system of transfer charges would apply to services and products provided between the main business areas and disaggregated activities. For example, the following diagram shows the interaction of the Core Network and the Retail business of the SMP operator.



The Core Network sells a range of services to meet the differing needs of Other Licensed Operators (“OLO”) and Retail respectively. The price of each service is based on the fully allocated cost of the network components or parts ("component"), including a reasonable return on capital, used to provide the service. A network component is a unit of network plant or activity which can be separately costed but, in most cases, can not be separately supplied, e.g. a minute of local exchange switching. All services sold by the Core Network, either to the OLOs or to Retail are built up from combinations of one or more network components using routing factors.
The payments identified at A are based on the interconnection charges in the SMP operator’s RIO. The payments at B are the internal transfer charges.

A transfer charging system should conform to the following principles:-

- Transfer charges (revenues and costs) shall be attributed to cost components, services and main business areas or disaggregated businesses in accordance with the activities, which cause the revenues to be earned, or costs to be incurred.

- The attribution shall be objective and not intended to benefit any business or disaggregated business.

- There shall be consistency of treatment of transfer charges from year to year.

- The transfer charging methods used should be transparent. There should be a clear rationale for the transfer charges used and each charge should be supportable.

- The transfer charges for internal usage should be determined as the product of usage and unit charges.

- The charge for internal usage should be equivalent to the charge that would be levied if the product or service were sold externally rather than internally. For accounting separation purposes, it should be assumed that the retail business pays the same interconnection charge for the same service as set out in the RIO.

- The separated accounts shall disclose the transfer charges between businesses and disaggregated businesses.

The Director welcomes comments on the principles that are appropriate for a transfer charging system.

8. Organisations Affected by Accounting Separation

In October 1998, following consultation, the Director determined that only Telecom Éireann has SMP in the fixed public telephone network and services sector[3]. The Director can review her determination of SMP status at any time.

Telecom Éireann is the only organisation that is affected by accounting separation and publication of financial information requirements at this time.

The Director is mindful of the need to disclose appropriate accounting separation information while also taking into account the commercial confidentiality of this information. It is intended that a timeframe of six months from the end of the 1998/99 financial year will be permitted for the preparation of the separated accounts. The Recommendation requests NRAs to consider the extent to which accounting separation information is published in the first year after adoption of the Interconnection Directive[4]. It is understood that only high level accounting separation material can be reliably published in respect of the financial year 1997/98. The 1997/98 financial information shall be published as comparatives with the 1998/99 regulated accounts.

9. Related Issues

Reference has been made in this document to the need for a transparent cost apportionment methodology to enable operators to understand more fully the relationship between costs and charges.

A further consultation paper is planned in this area for the end of March which will consider the appropriate costs methodologies and drivers given the EU recommendations on the adoption of cost causation principles to cost allocation and apportionment.

A consultation is also planned for March on the implementation of Long Run Incremental Costing. This consultation will consider the different methods of implementing LRIC and how they may be best applied in Ireland's liberalised environment.

[3] 'Significant Market Power in the Irish Telecommunications Sector – Decision Notice D4/98' (Document no. ODTR 98/47)

[4] The Interconnection Directive was transposed into Irish Legislation by S.I. 15 of 1998 on the 22nd January 1998.

Appendix I – Definitions of Business Areas

Core Network
The Core Network business provides a range of interconnection services internally and externally in order to allow the customer of one operator to communicate with customers of the same or another operator, or to access services provided by another operator. These services include the switching and conveyance of calls.
In addition, the Core Network business may provide other services to operators e.g. such as engineering services related to the development and maintenance of private networks.
The accounts for the Core Network business will include the costs, revenues and capital employed associated with the provision of these services. The revenues of the Core Network business will derive principally from the sale of interconnection services to the Retail business and to other operators.

Local Access Network
The Local Access Network provides connections to the Core Network. The accounts for the Local Access Network business will include the costs and capital employed associated with providing and maintaining these connections.
For accounting separation, the Local Access Network business will include all the customer-dedicated components of the network including, for example, the line cards and ports located at concentrators and/or exchanges.
The Core Network business will include all other network components. Customer line rental will be a service provided by the Retail business. The revenue from line rental provided to end users will therefore be recorded in the Retail accounts. The cost of providing customer lines will be recorded against the Local Access Network business and there will be a transfer charge of costs to the Retail business in order to match revenues with their associated costs. The costs transferred to Retail should be net of any possible local access revenue.

Retail
The Retail business includes all those activities involving the selling of telephony services to end-users, including line rental, leased lines, calls, payphones and the provision of directory information.
The accounts for the Retail business will include the costs, revenues and capital employed associated with the provision of these services to end-users. The costs allocated to Retail will include transfer charges related to the use of network resources or services provided by Local Access Network and the Core Network businesses, and the marketing and billing costs associated with the provision of end user services.

Other Activities
Operators typically provide a wide range of other services including the rental, repair and maintenance of customer equipment. In addition, they may have interests in non-telecommunications activities (e.g. TV broadcasting). For the purposes of accounting separation, the costs, revenues and capital employed associated with these activities will be separately identified.

Appendix II - Definitions of Disaggregated Activities

Retail – Local Calls

Local dialled calls originating from ordinary, ISDN and private payphone telephone exchange lines.

Retail – National Calls

Dialled calls charged at regional and national tariff rates originating from ordinary, ISDN and private payphone telephone exchange lines.

Retail – International Calls

Continental, Intercontinental calls and Northern Ireland calls originating from ordinary, ISDN and private payphone telephone exchange lines. This also includes receipts from overseas telecommunications operators and cashless calling.

Retail – Directory Enquiry

Inland and international calls placed with the operator to obtain information about Irish and overseas telephone numbers, whether made from business or residential telephone exchange lines or from public payphones and includes calls made to the Directory Enquiry database.

Retail – Public Payphones

Local, national and international dialled calls, originating from public payphones, using cash, phone cards or credit cards.

Retail – Leased Lines

Business of rental, maintenance, connection and change of inland and international lease lines beyond customers' premises and which have access to the public switched network (PSTN).

Retail – Calls To Mobile

Dialled calls originating on ordinary and private payphone lines that terminate on a mobile, not fixed, network. This also includes revenue from calls originating from public payphones.

Retail – Internet

Calls to the internet originating from ordinary and ISDN telephone exchange lines.

Retail – Supplemental Services Business

The Business relating to the supply of certain data and value added services.

Examples of these services are data networks, messaging services, mobile messaging communications, fax network services, electronic information services, broadcast and visual services, internet multimedia services, managed answering services and telemarketing.

Retail – Remaining Activities

All other telecommunications services that are within the Retail Business.

Other – Apparatus Supply

The Business relating to the rental and sale of customer premises equipment in the Republic of Ireland.

Other – Remaining Activities

All other telecommunications activities that are within the Other Business area.

Appendix III – EU Commission Formats

Suggested reporting format for the Core Network Business

PROFIT AND LOSS

		Current Period		Prior Period
Turnover:				
From Retail		X		X
Other operators		X		X
Total Turnover		X		X
Operating Costs	X		X	
CCA Adjustments[5]	X		X	
Total Operating Costs		X		X
Return[6]		X		X

Return on Capital Employed

	Current Period	Prior Period
Return	X	X
Mean Capital Employed	X	X
Return on Mean Capital Employed	X%	X%

[5] Current Cost Adjustment (CCA) - The change to historical costs arising from the revaluation of assets on a current cost basis. In the statements for individual business areas the adjustments comprise the unrealised holding gains or losses arising from changes in asset values, together with the effect on asset values and depreciation of the appropriate allocation of modern equivalent assets between businesses.

[6] The calculation of the return should be consistent with the basis on which the cost of capital is calculated.

Appendix III (Contd.)

Suggested reporting format for the Core Network Business[7]

BALANCE SHEET as at

	Current As at	Prior As at
Fixed assets		
Tangible fixed assets	X	X
Intangible fixed assets	X	X
Investments	X	X
Total fixed assets	X	X
Current assets		
Stocks	X	X
Debtors	X	X
Investments	X	X
Cash at bank and in hand	X	X
Total current assets	X	X
Creditors	(X)	(X)
Provisions for liabilities and charges	(X)	(X)
Mean capital employed	X	X

[7] All entries in the "balance sheet" should be average values for the year to which they relate. Where possible and material the average values shown should be weighted averages. If information is not available, a simple average of opening and closing balances may initially be used

Appendix III (Contd.)

Suggested reporting format for the Local Access Network Business

PROFIT AND LOSS

		Current Period		Prior Period
Turnover:				
Transfer charges to Retail		X		X
From other operators (if any)		X		X
Total Turnover		X		X
Operating Costs	X		X	
CCA Adjustments	X		X	
Total Operating Costs		X		X
Return (excluding ADCs[8], if any)		X		X
ADCs (if any)				
From other operators		X		X
From Retail		X		X
Total ADCs		X		X
Return (including ADCs, if any)		X		X

Return on Capital Employed

As for Core Network

BALANCE SHEET

As for Core Network

[8] Access Deficit Contributions (ADCs) - Contributions payable by other licensed operators and the Retail Businesses to the Access Business for losses it sustains on the provision of services on the access network.

Appendix III (Contd.)

Suggested reporting format for the Retail Business[9]

PROFIT AND LOSS

		Current Period	Prior Period
Turnover			
	Connection charges	X	X
	Rental charges	X	X
	Call Charges	X	X
Other turnover		X	X
Total Turnover		X	X
Operating Costs:			
	Operating costs specific to Retail	X	X
	Transfer charges from Core Network	X	X
	Transfer charge from Local Access Network	X	X
	ADCs paid to Local Access Network (if any)	X	X
	CCA adjustments	X	X
Total operating costs		X	X
Return (excluding Universal Service Contributions, if any)		X	X
Universal Service Contributions from other operators (if any)[10]		X	X
Return (including Universal Service Contributions, if any)		X	X

Return on Capital Employed

As for Core Network

BALANCE SHEET

As for Core Network

[9] The same format would apply to separate regulated activities within Retail, if applicable.

[10] Universal Service Contributions applied internally would net off to zero and are therefore not shown in the profit and loss for Retail.

Appendix III (Contd.)

Suggested reporting format for the Other Activities

PROFIT AND LOSS

	Current Period	Prior Period
Turnover	X	X
Operating Costs	X	X
Return	X	X

Return on Capital Employed

As for Core Network

BALANCE SHEET

As for Core Network

Appendix IV – Regulatory Accounting Principles

The following Regulatory Accounting Principles could be applied when preparing the Accounts.

- Cost Causality: Revenue (including transfer charges), costs (including transfer charges), assets and liabilities shall be attributed to cost components, services and businesses or disaggregated businesses in accordance with the activities which cause the revenues to be earned or costs to be incurred or the assets to be acquired or liabilities to be incurred.

- Objectivity: The attribution shall be objective and not intended to benefit the SMP operator or any other Operator, product, service, component, Business or disaggregated business.

- Consistency of treatment: There shall be consistency of treatment from year to year. Where there are material changes to the Regulatory Accounting Principles, the Attribution Methods, or the Accounting Policies that have a material effect on the information reported in the Financial Statements of the Businesses, the parts of the previous year's Financial Statements affected by the changes shall be restated.

- Transparency: The Attribution Methods used should be transparent. Costs and revenues, which are allocated to Businesses or activities, shall be separately distinguished from those that are apportioned.