Accounting Separation and Publication of Financial Information for Telecommunications Operators

Report on Consultation and Decision

October 2002

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1 Introduction

1.1 Background

In February 2002 the Malta Communications Authority ("MCA") published a consultative paper on accounting separation and the publication of financial information for telecommunications operators"[1] dealing with the requirements to be imposed on operators regarding the provision and format of regulatory financial information.

This document is the report on the consultative paper dealing with Accounting Separation. A separate report has been published on the subject of Cost Based Accounting Systems.

1.2 Related Consultation

In January 2002 the MCA published a consultative paper on dominant market position in telecommunications[2] and subsequently published a report on that consultation in May 2002[3]. In the report on consultation and decision the MCA designated three operators as having a DMP in the following markets:

- Maltacom plc was designated in the Fixed Telephony Market,
- Melita Cable plc was been designated in the Cable TV Services Market,
- Vodafone (Malta) Limited was designated in the Mobile Telephony Market,

The above designations triggered the obligation to prepare and present separated accounts in a manner and format approved by the MCA.

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[1] "Accounting Separation and Publication of Financial Information for Telecommunications Operators – Consultative Paper", MCA, February 2002.
[2] "Dominant Market Position in Telecommunications – Consultative Paper", MCA, January 2002.
[3] "Dominant Market Position in Telecommunications – Responses to Consultation and Designations", MCA, May 2002.

2 Responses to Consultation

Responses were received from the following parties:

- Maltacom plc;
- Melita Cable plc;
- Mobisle Communications Limited;
- Vodafone (Malta) Limited;
- The Malta Institute of Accountants.

2.1 Legislative Background

The legislative background is set out in the consultation paper and is not given here other than to repeat that telecommunications services operators designated as having a Dominant Market Position (DMP) are obliged to produce transparent, cost oriented and non-discriminatory separated accounts in addition to their annual statutory financial statements.

Some respondents pointed out that EU requirements apply primarily to the fixed telecommunications sector and that the requirements under the EU Recommendation that apply to the mobile sector are not as onerous. It was, however, admitted that the legislation in Malta gives the MCA the right to request separated accounts from mobile telephony operators and does not differentiate between the mobile and fixed telephony sectors.

It should be noted however that the EU Legislation and Recommendations that some respondents referred to were part of the 1998 Regulatory package at a time when the level of mobile telephony penetration was considerably lower than at present.

Mobile telephony is now part of the core telecommunications services that consumers have recourse to as part of their normal daily life. In many EU countries the level of mobile penetration is in excess of 70% while in Malta it is estimated to be in the region of 55%.

The MCA therefore directs that cost oriented, transparent and non-discriminatory accounts will be required from all operators designated as having a DMP in the relevant telecommunications markets.

3 Purpose of Accounting Separation and Publication of Financial Information

The consultation paper set out the purpose of accounting separation as being, inter alia, that financial records should reflect as closely as possible the performance of parts of a business as if they were operating as separate businesses.

One respondent did not agree that it was worthwhile to produce separated accounts because the nature of their business was such that there was a high degree of interrelationship between the services provided over a common network and that investment decisions were taken in the context of a mixed service provision.

The MCA does not agree with this argument precisely because where an operator enjoys a DMP, accounting separation will be required in order to ensure that price discrimination does not occur and that operators are not engaging in unfair cross subsidisation between the different services that they provide.

There was broad agreement with the thrust of the purpose of accounting separation. A number of respondents referred to the balance required between a competitive environment and confidentiality of accounting data.

The MCA is fully aware of the need to ensure that all information is treated in a confidential manner. At this stage of the development of the market the MCA considers that it would be appropriate to only require DMP operators to provide the full set of separated accounts to the MCA. This issue is dealt with in more detail in Section 5.

4 Level of Accounting Separation

The consultation paper set out the level of accounting separation in the main business areas as follows: -

- Core Network,
- Local Access Network,
- Retail,
- Other Activities.

A definition for each of the above business areas was set out in Appendix 1 to the consultation paper and is once again set out in Appendix 1 to this decision. The consultation paper made reference to the need of reconciling the Accounts of the main business areas to the summarised set of Accounts.

The EU Recommendation of 8th April 1998 suggests that the publication of Accounts for the disaggregated activities of the above main business areas would further increase transparency and assure other operators/competitors in the market that there is no discrimination in the provision of services to the DMP operator's own retail arm and its other business activities. The Recommendation also suggests that reconciliations between the Regulatory Accounts and the Statutory Financial Statements should form an integral part of the regulatory accounts.

Some respondents did not agree with the proposed framework for the main business areas because they considered that the separation into the areas proposed did not make business sense and would result in an artificial exercise in revenue and cost allocation.

The MCA's position is that there is a difference between the regulatory perspective and the business or commercial perspective. The EU Recommendation of 8th April 1998 clearly sets out the rationale for requiring separation of the core and access businesses and the MCA is not convinced that there should be any deviation from the objectives set out in the consultation paper in the longer term.

After considering the representations made by the operators, the development of separated accounts for the Local Access Network business for Mobile Telephony and Cable TV is being mandated so that DMP operators are able to demonstrate that there is no element of unfair predatory cross-subsidisation between the different services that they provide (i.e. between their regulated and non-regulated activities) and will need to maintain appropriate Cost Based Accounting Systems to achieve this regulatory obligation.

Each operator is encouraged to consider the further development of Accounting Separation requirements in the design of their accounting systems and to make provision for the capture and reporting of information at a lower level of detail in the future as envisaged in the consultation paper.

Following consideration of the responses to the consultation, the MCA will require separated accounts as follows:

Maltacom plc

The MCA will require separated accounts from Maltacom plc as follows:

Consolidated Regulatory Accounts

1. **Core Network**
2. **Local Access Network**
3. **Retail**

   Retail – Business Customers

   Retail – Residential Customers

4. **Other Business**

The MCA may request additional financial information on costs and revenues attributable to international gateway services and retail activities apart from the annual separated accounts.

Set out in Appendix II are definitions for the above disaggregated activities of "Retail" and "Other". These definitions will be kept under review and will be adjusted where required in consultation with the operators.

The MCA has considered the need for separating the Retail Activities between Residential and Business customers. The MCA is of the opinion that this requirement is necessary so long as different rates are charged to residential and business customers. If this differentiation disappears in the future there will be no need to produce separated accounts at this level of detail. Maltacom is required to submit separated accounts to the MCA as specified above. Appendix II provides a further dis-aggregation of retail business activities of a PSTN operator, which Maltacom should follow in designing its cost accounting system and recording of transactions. Such information may be requested by the MCA where it is deemed necessary for the discharge of its functions.

Vodafone Malta Ltd

The MCA will require separated accounts from Vodafone Malta Ltd as follows:

1. Core Network
2. Local Access Network
3. Retail Activities
4. Other Business

For the initial set of separated Regulatory Accounts no further disaggregation will be required. Once Vodafone Malta Ltd commences the commercial provision of international gateway services the MCA may request additional financial information attributable to the provision of this service and also for “Retail Activities”.

Melita Cable plc

The MCA will require separated accounts from Melita Cable plc as follows:

1. Core Network
2. Local Access Network
3. Retail Activities
4. Other Business

For the initial set of separated Regulatory Accounts no further disaggregation will be required. This position may be reviewed in the future and the further disaggregation of “Retail Activities” may be requested when deemed necessary by the MCA.

5 Format of the Accounting Separation Financial Statements

The consultation paper included a number of guiding concepts and principles for the preparation of the Separated Accounts including principles on transfer charging and regulatory accounting principles. There was broad agreement from respondents on the principles to be followed.

For the sake of clarity the guiding principles included in Section 5 of the consultation document have been renamed as Regulatory Accounting Concepts and are included as Appendix IV to this document. The Regulatory Accounting Principles are unchanged and are included in this document as Appendix V. The Transfer Charging Principles are also unchanged and are included as Appendix VI.

Suggested formats for the separated accounts of the Local Access Network, Core Network, etc were included in Appendix III to the consultation document and are repeated in Appendix III in this document.

One operator referred to the formats and suggested that the formats proposed set out one way in which the network components could be analysed. The MCA agrees that other presentations are possible but for the sake of comparability between operators there needs to be consistency of treatment of equivalent items and equivalence of presentation. The presentations proposed are based on the formats specified in the EU Recommendation and formats, which have been followed by other operators such as Eircom and Kingston Communications Ltd.

The MCA will consider alternative presentations so long as these provide at least the equivalent level of detail as the formats in the consultation paper and are presented in such a way that inter operator comparability is maintained.

Overall, there was no disagreement with the suggested formats and the MCA has now determined that these formats will be followed in the preparation of the separated accounts.

The MCA therefore mandates that the accounting separation formats included in Appendix III are to be followed by all operators and may not be departed from without prior approval of the MCA.

5.1 Publication of Other Financial Information

Following the EU Recommendation, the Consultation Paper proposed that further relevant financial information would be made available to interested parties and proposed that the following items of information should also be prepared as part of the accounting separation process: -

1. A statement of accounting policies used in the preparation of the accounts;
2. A matrix summarising the total transfer charges between the different Accounts;
3. A statement describing the basis on which unattributable costs have been allocated between different accounts,
4. 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;
5. A statement showing the average cost of network components.

The MCA further proposed that the Statement of the average cost of network components should include the following:

- Average per minute cost of each conveyance network component;
- 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 Out Payments.

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

- A statement of the Regulatory Accounting Principles followed when preparing the Accounts;
- Complete definitions of the main business areas and their disaggregated activities;
- A description of the transfer charging system that is operated for accounting separation;
- Details of significant changes which impact on the financial statements and on comparative figures.

As a general principle and for the guidance of operators, the regulatory accounts should include and disclose all relevant supporting information, which would assist users to understand the basis of preparation and presentation of the accounts.

The MCA has determined that the financial information set out above will be required as part of the Regulatory Separated Accounts.

5.2 Publication of Confidential Financial Information

The MCA may request detailed financial information at any time from all the operators as may be reasonably required. This information may be published, if the MCA 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 DMP 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.

The MCA sought 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. Several respondents made submissions on the importance of maintaining sensitive commercial information in a confidential manner.

The MCA has considered the representations made in this respect and has decided not to require the publication of the first set of Regulatory Accounts. This position will be reviewed in consultation with the operators once the first version of the Regulatory Separated Accounts is produced by all the operators.

The MCA reserves the right to review its position in light of prevailing circumstances.

5.3 Appointment of Auditors

The operators will appoint auditors to carry out the audit of the Regulatory Accounts and notify the MCA of the appointment. However, the MCA reserves the right to invite the auditors to discuss procedures to be applied by them in performing the audit or to discuss the auditors' findings following performance of the audit. The MCA further reserves the right to request the operators to instruct their auditors to perform additional or alternative work to substantiate the statements and assertions contained in the Regulatory Accounts and to further report on this additional work. Finally, the MCA also reserves the right to appoint auditors directly to carry out such further reviews, examinations and audits as it deems necessary should the operators or their auditors fail to provide the degree of assurance required by the MCA or should the MCA be of the opinion that the nature, timing or extent of the audit carried out would still be inappropriate following the MCA's intervention detailed above. All audit work carried out on the Regulatory Accounts, whether by auditors selected and appointed by the operators or by the auditors selected and appointed by the MCA shall be at the expense of the operator.

The auditors will be appointed under a letter of engagement from the operator and the MCA. The auditors will address their report to the operator's corporate entity and this opinion will be attached to, but will not form part of, the Regulatory Accounts submitted to the MCA by the operators from time to time.

The auditors will plan and carry out such work as will enable them to report whether or not any matter has come to their attention, from the work carried out by them which causes them to believe that the Accounts do not in all material respects:

i.) Present fairly in accordance with the accounting methodologies that are to be attached to the Accounts, the results, mean capital employed and costs incurred by each of the businesses and activities disclosed in the Accounts;

ii.) Comply with any relevant decision notices or equivalent documents issued by the Authority; or

iii.) Contain the information specified by these decision notices or equivalent documents as required to be published in the Accounts.

Should any such matters have come to the auditors' attention, these matters should be clearly described in their report together with, where reasonably possible, the potential monetary impact on the results, mean capital employed or costs incurred by each of the businesses and activities disclosed in the Accounts, or a statement that the estimation of the potential monetary impact is not reasonably possible to establish.

In addition, the auditors' report is to clearly set out the respective responsibilities of the auditor and the operator and the basis on which the audit has been carried out and the opinion arrived at.

The auditors will keep the MCA informed regarding progress on the audit and have regular meetings with the MCA. Where any issues arise requiring clarification the MCA expects that the operator and / or auditors will obtain such clarification regarding the accounting treatment from the MCA.

5.4 Timeframe for Publication of the Separate Accounting Information

In order for accounting separation to be effective, the information published should be timely and unnecessary delays in the publication of the regulatory accounts would defeat the purpose of producing such accounting information.

The following timeframes will apply for each DMP operator:

Vodafone Malta Ltd

The first period to be reported will be the 6-month period commencing on the 1 October 2002 until 31 March 2003. The separated accounts for this period will be provided to the MCA not later than 31 August 2003.

The first full 12-month period will be for the financial year ending on 31 March 2004. These accounts will be provided to the MCA by not later than 31 August 2004. Comparatives for the financial year ending 31 March 2003 will not be required.

Thereafter, the separated regulatory accounts will be provided to the MCA annually and within 5 months from the year-end to which they relate.

Melita Cable plc

The first financial period to be reported will be the six months ending on 30 June 2003. The separated accounts for this period will be provided to the MCA by not later than 30 November 2003.

The first full 12-month period will be for the financial year ending on 31 December 2003. These accounts will be provided to the MCA by not later than 31 May 2004. Comparatives for the financial year 2002 will not be required.

Thereafter, the separated accounts will be provided to the MCA annually and within 5 months from the year-end to which they relate.

Maltacom plc

In the consultation paper, the MCA sought interim separated accounts from Maltacom for the period January 2002 to June 2002 by February 2003 and accounts from January 2002 to December 2002 by December 2003. Following this, accounts were to be produced within 2 months of the publication of the statutory accounts and in any event not later than five months after the end of the period to which they relate.

Maltacom, in its representations, argued that it was not in a position to produce Separated Accounts before the last quarter of 2004 for the year ending 31 December 2003. The reasons for the long delay in the submission of accounts include:

- Detailed planning could only take place following the finalisation of this report on consultation,
- The need to disaggregate the fixed asset records,
- The need to carry out activity surveys,
- The need to implement accounting systems.

Maltacom argued that to produce separated accounts for 2002 would involve guesstimates and approximations which most likely result in misleading and unreliable financial statements.

The MCA has considered the arguments put forward by Maltacom plc and has now determined that the requirement to produce separated accounts will commence on 1 January 2003. The first set of interim accounts should cover the six-month period ending on 30 June 2003 and be reported to the MCA no later than the 31 December 2003.

The second period to be reported will be the twelve-month period ending on 31 December 2003 and the separated accounts for this period will be provided to the MCA not later than 30 November 2004. Comparatives for the financial year 2002 will not be required.

Thereafter, the separated accounts will be provided to the MCA annually and in any event not later than 7 months from the year-end to which they relate.

Comparative Information.

For the first set of regulatory accounts (for each DMP operator) covering a six month period, comparative information will not be available in a suitable format and will therefore not be required. The accounts for the first six-month period will be used as the comparatives for the first full set of regulatory accounts for the twelve-month period.

6 Regulatory Accounting Concepts, Principles and Transfer Charging Principles

The consultation paper set out various principles that should be followed in the preparation of the regulatory accounts. There was broad agreement on the principles with a number of suggestions proposed.

One respondent suggested that a modification to the historic cost principle should be allowed to permit the revaluation of assets. This is already permitted under standard accounting practice and the MCA considers that this should also be permitted for regulatory accounting purposes so long as the appropriate disclosures are made. The general principle that accounts should be prepared on a fully allocated historic cost basis remains. However, operators may incorporate modifications to the general principle, which have the effect of incorporating more up to date costs for assets.

Assets should only be carried at revalued amounts in the Regulatory Accounts when they are also carried at revalued amounts in the Statutory Accounts. All revaluations of assets must be carried out by professional valuers, independent of the operator, and the value at which the assets are carried in the Regulatory Accounts should be equal to the value at which the same assets are carried in the Statutory Financial Statements. The principles of revaluations should be those established by the relevant International Financial Reporting Standards.

Any compensating revisions to, for example, operating costs would need to be matched to the revised asset valuation.

7 Process Issues Relating to Accounting Separation

The MCA has requested DMP operators to provide project plans identifying in a sufficient level of detail the tasks leading to the production by each operator intends of the first set of Regulatory Accounts. In parallel, the MCA has established steering groups with Melita Cable plc and Vodafone Malta Ltd to monitor progress on the plans and to clarify issues as they arise during the implementation phase.

The MCA will shortly be commencing the development of guidelines on the accounting methodologies to be followed in Accounting Separation. These guidelines will be non-prescriptive and will contribute to ensuring consistency of treatment in the development of cost accounting systems, and also that at the end of the process no material differences or divergences from the MCA's acceptable methodology are discovered

Appendix I - Definitions of Main 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, training services). 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 and Other

PSTN

Retail – Access

The business relating to the supply of customer line rental and its associated cost

Retail - Local Calls

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

Retail - International Calls

International 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

Local and international calls placed with the operator to obtain information about Maltese 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 and international dialled calls, originating from public payphones, using cash or phone cards.

Retail - Leased Lines

Business of rental, maintenance, connection and change of local and international leased lines beyond customers' premises.

Retail - Calls To Mobile

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

Retail – Internet (TTP)

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 Business

Other - Apparatus Supply

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

Other - Remaining Activities

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

MOBILE

Retail – Voice Calls

Local and international dialled calls from subscribers connected to the network for the transport of real-time speech.

Retail – SMS/Data

Transport over the network of SMS and other data signals serving for the impartation of any matter otherwise than in the form of real-time speech.

Retail – Roaming

The provision of the capability to subscribe to voice calls and SMS/Data services by virtue of roaming agreements concluded with other mobile network operators.

Retail - Remaining Activities

All other telecommunications services that are within the Retail Business.

Other Business

Other - Apparatus Supply

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

Other - Remaining Activities

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

CABLE

Retail – Broadcast Services

The delivery of radio or TV broadcasts or other television services to a subscriber by means of a cable system

Retail – Leased Lines

Business of rental, maintenance, connection and change of local and international leased lines beyond customers' premises

Retail – Internet (TTP)

Connections to the Internet originating from a network termination point.

Retail – Remaining Activities

All other telecommunications services that are within the retail business.

Other Business

Other – Apparatus and equipment supply

The business relating to the rental and sale of customer premises equipment.

Other - Remaining activities

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

Appendix III - Formats for Separated Accounts

PSTN Operator

Core Network Business

PROFIT AND LOSS ACCOUNT	Year Lm'000
Turnover From other operators Transfer charges to Retail Business	
Total turnover	
Operating costs	
Return	

RETURN ON MEAN CAPITAL EMPLOYED	Year Lm'000
Return	
Mean capital employed	
% Return on mean capital employed	

Core Network Business

STATEMENT OF MEAN CAPITAL EMPLOYED	**Year** **Lm'000**
Fixed assets Tangible fixed assets Intangible fixed assets	
Total fixed assets	
Current assets Stocks Debtors Cash at bank and in hand	
Total current assets	
Creditors	
Provisions for liabilities and charges	
Mean capital employed	

Local Access Network Business

PROFIT AND LOSS ACCOUNT	Year Lm'000
Turnover From other operators Transfer charges to Retail Business	
Total turnover	
Operating costs	
Return	

RETURN ON MEAN CAPITAL EMPLOYED
STATEMENT OF MEAN CAPITAL EMPLOYED
As for Core Network Business

Retail Business

PROFIT AND LOSS ACCOUNT	Year Lm'000
Turnover Connections Rental Call charges Other	
Total turnover	
Operating costs Operating costs specific to Retail Transfer charges from Core Network Transfer charges from Local Access Network	
Total operating costs	
Return	

RETURN ON MEAN CAPITAL EMPLOYED
STATEMENT OF MEAN CAPITAL EMPLOYED
As for Core Network Business

Mobile Operator

Network Business

PROFIT AND LOSS ACCOUNT	Year Lm'000
Turnover From other operators Transfer charges to Retail Business	
Total turnover	
Operating costs	
Return	

RETURN ON MEAN CAPITAL EMPLOYED	Year Lm'000
Return	
Mean capital employed	
% Return on mean capital employed	

Network Business

STATEMENT OF MEAN CAPITAL EMPLOYED	Year Lm'000
Fixed assets Tangible fixed assets Intangible fixed assets	
Total fixed assets	
Current assets Stocks Debtors Cash at bank and in hand	
Total current assets	
Creditors	
Provisions for liabilities and charges	
Mean capital employed	

Retail Business

PROFIT AND LOSS ACCOUNT	**Year** **Lm'000**
Turnover Rental Call charges Other	
Total turnover	
Operating costs Operating costs specific to Retail Transfer charges from Core Network	
Total operating costs	
Return	

RETURN ON MEAN CAPITAL EMPLOYED
STATEMENT OF MEAN CAPITAL EMPLOYED
As for Network Business

Cable Operator

Network Business

PROFIT AND LOSS ACCOUNT	**Year** **Lm'000**
Turnover From other operators and service providers Transfer charges to Retail Business	
Total turnover	
Operating costs	
Return	

RETURN ON MEAN CAPITAL EMPLOYED	**Year** **Lm'000**
Return	
Mean capital employed	
% Return on mean capital employed	

Network Business

STATEMENT OF MEAN CAPITAL EMPLOYED	**Year** **Lm'000**
Fixed assets Tangible fixed assets Intangible fixed assets	
Total fixed assets	
Current assets Stocks Debtors Cash at bank and in hand	
Total current assets	
Creditors	
Provisions for liabilities and charges	
Mean capital employed	

Retail Business

PROFIT AND LOSS ACCOUNT	**Year** **Lm'000**
Revenue Subscriber revenues Other revenues	
Costs Charge from Network Other Operating Costs	
Return	

RETURN ON MEAN CAPITAL EMPLOYED
STATEMENT OF MEAN CAPITAL EMPLOYED
As for Network Business

Appendix IV - Regulatory Accounting Concepts

The following Regulatory Accounting Concepts shall be applied when preparing the Accounts. Where there is a conflict between the concepts, they are to be applied in the order in which they appear below.

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 DMP 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.

Appendix V - Regulatory Accounting Principles

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 prepared in accordance with the Regulatory Accounting concepts, which set out the general rules by which the Accounts are prepared. See Appendix IV.

b) The separated accounts shall be based on a transparent cost apportionment methodology based on a Fully Allocated Costing (FAC) Historic system.

c) 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.

d) The separated accounts shall be prepared in accordance with International Financial Reporting Standards insofar as they are relevant.

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 following the initial period. Where there are material changes to Regulatory Accounting Concepts, cost allocation methodologies, 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 MCA allows for the purpose of determining charges.

h) The separated accounts shall be subject to an audit in accordance with International Standards on Auditing.

Appendix VI: Transfer Charging Principles

The transfer charging system shall follow the Regulatory Accounting Concepts and conform to the following principles: -

1. 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;

2. The attribution shall be **objective** and not intended to benefit any business or disaggregated business;

3. There shall be **consistency** of treatment of transfer charges from year to year;

4. 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;

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

6. 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;

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

Joseph V Tabone - Chairman

25 October 2002