

NON-BINDING ENGLISH TRANSLATION

On grounds of Decision no.113/2002 of the Prime Minister on the designation of the President of the National Regulatory Authority for Communications,

On grounds of the provisions under art.38(1), (3) and (5), art.34(3) and art.46(1), p11 of Government Emergency Ordinance no.79/2002 on the general regulatory framework for communications, approved, with amendments and completions, by Law no.591/2002, as well as under art.8(1) and under art.11 of Government Ordinance no.34/2002 on the access to, interconnection of, the electronic communications networks and to the associated facility, approved with amendments and completions by Law no.527/2002,

Considering the provisions of the ANRC President's Decision no.136/2002 on the designation of S.N.Tc. "Romtelecom" – S.A. as having significant power in the market for the access to the public fixed telephony networks for the purpose of call origination, termination and transit,

Considering the provisions under the art.1 (6) of the ANRC President's Decision no.147/EI/2002 on the principles and prerequisites of the reference offer for interconnection with the public fixed telephony network,

THE PRESIDENT OF THE NATIONAL REGULATORY AUTHORITY FOR COMMUNICATIONS

issues the present:

**DECISION
FOR APPROVING THE REGULATION FOR THE REALIZATION, BY
"ROMTELECOM" S.A., OF ACCOUNTING SEPARATION WITHIN THE INTERNAL
COST ACCOUNTING SYSTEM**

Art.1. – The Regulation concerning the preparation, by "Romtelecom" S.A., of accounting separation within the internal cost accounting system, as stipulated in the annex which forms an integral part of this decision, is approved.

Art.2. – The present decision is communicated to „Romtelecom” – S.A.

**PRESIDENT,
ION SMEEIANU**

Bucharest, _____2003

No.____/EI

ANNEX

**REGULATION
CONCERNING THE REALIZATION, BY "ROMTELECOM" S.A., OF ACCOUNTING
SEPARATION WITHIN THE INTERNAL COST ACCOUNTING SYSTEM**

1. General provisions

1.1. The Object of the Regulation

1.1.1. The present regulation establishes the way in which "Romtelecom" S.A., hereinafter referred to as the *Operator*, shall implement accounting separation within its internal cost accounting system, for the activities relating to the interconnection of, and access to, the *Operator's* network or its associated facility. The financial statements prepared based on accounting separation shall be hereinafter referred to as Separated Financial Statements.

1.1.2. The accounting separation ensures the provision of the accounting information in a form which presents a clear and truthful image of the performances of the *Operator's* activities, as if they were realized by different entities.

1.1.3. If not otherwise provided, the terms used in the Separated Financial Statements shall have the meaning given to them by the legislation in force in the field of electronic communication and accounting.

1.2. Definitions

1.2.1. Businesses:

1.2.1.1. Core Network Business – all the activities through which a range of interconnection services is being provided internally and externally, for the users of an *Operator* to be able to communicate with the users of the same or other operator, or to access the services provided by a third party operator. These services include the switching and transmission of calls. The Core Network Business may provide other services to operators, such as consulting for the designing, execution and maintenance of private electronic communications networks. The accounts of the Core Network Business include the costs, revenues and the capital employed associated with the provision of these services. The revenues of Core Network Business will derive mainly, from the sale of interconnection services to the Retail Business, and to other operators, on the wholesale market. The costs and the capital employed for the provision of leased lines at the core network level shall be included in the financial statements of the Core Network Business. The costs afferent to the provision, on the retail market, of the leased lines at the core network level shall be charged afterwards to the Retail Business. The revenues earned from the provision of leased lines at the core network level will be allocated directly to Core Network Business, for the leased lines provided on the wholesale market, respectively to Retail Business, for the leased lines provided

on the retail market. The Core Network Business is hereinafter referred to as Core Network.

1.2.1.2. Access Network Business – all the activities through which connections of the end users to the core network are provided on the gross market, internally as well as to the other operators. The accounts of the Access Network-Business include the costs, revenues and capital employed associated to the provision and maintenance of these connections with the core network. The Access Network Business include all the network components dedicated to the end users, as for example, the line cards, located at concentrators and/or exchanges. The costs and the capital employed associated with the provision of the local loop segments of the leased lines shall be included in the accounts of Access Network Business. The costs associated with the provision of the local loop segments of the leased lines on the retail market, shall be afterwards charged to the Retail Business. The revenues resulted from the provision of the local loop segments of the leased lines shall be allocated directly to Access Network Business, for the leased lines provided on the wholesale market, respectively to the Retail Business, for the leased lines provided on the retail market. The Access Network Business is hereinafter referred to as Access Network;

1.2.1.3. Retail Business – all the activities involving the selling of services to end users. Services that may be included in the accounts of Retail Business are line rental and connection, provision of leased lines on the retail market, calls, public payphones, directory inquiry as well as special internet access and value-added services. The accounts of the Retail Business include the costs, revenues and capital employed associated with the provision of these services to end users. The costs allocated to the Retail Business shall include the transfer charges related to the use of network resources as well as the marketing and billing costs associated with the provision of services to the end users. Since the provision of telephony lines to the end users (line connection and rental) is a service provided by the Retail Business, the revenues resulted from connections and subscriptions of the end users shall be recorded in the accounts of the Retail Business. In order to associate the costs with the corresponding revenues, the costs associated with the provision of telephony lines to the end users shall be allocated to the Access Network and then charged to the Retail Business. The Retail Business is hereinafter referred to as Retail;

1.2.1.4. Other Businesses – all the activities not included in 1.2.1.-1.2.3. The accounts of Other Businesses include the costs, revenues and capital employed associated with the provision of these activities. This Business shall include activities relating to equipment's production, selling, rental or maintenance, third party billing and other activities not related to the provision of electronic communications networks or services. This Business is hereinafter referred to as Other Business.

1.2.2. Sub-businesses of the Core Network:

1.2.2.1. **Interconnection Sub-business** – all the activities associated with the interconnection for origination, termination and transit of calls in the *Operator's* network. The costs of interconnection with electronic communications networks of other operators, for the termination of calls originated in the *Operator's* network, shall be recorded in the Interconnection Sub-business. The accounts of this Sub-business

include the costs, revenues, and capital employed associated with the activities included in this Sub-business. The Interconnection Sub-business is hereinafter referred to as Interconnection;

1.2.2.2. **Leased Lines-core Sub-business** – all the activities associated with the provisioning of leased lines corresponding to the core network (including the part of the terminal segments of the leased lines situated at the core network level). The accounts of this Sub-business include the costs, revenues and capital employed, associated with the activities included in this Sub-business. The revenues of this Sub-business will be represented mainly by transfer charges from the Retail Business, for leased lines at the transport network level provided on the retail market and, respectively, by revenues earned from the provision of leased lines, at core network level, on the wholesale market, directly to other operators. The Leased Lines-core Sub-business is hereinafter referred to as Leased Lines-core;

1.2.2.3. **Other Activities of Core Network Sub-business** – all the other activities corresponding to Core Network. The accounts of this Sub-business include the costs, revenues and capital employed, associated with the activities included in this Sub-business. Other Activities of Core Network Sub-business is hereinafter referred to as Other Business of Core Network.

1.2.3. Sub-businesses of the Access Network:

1.2.3.1. **Access to Local Loop Sub-business** – all the activities associated with the provision of exclusive or shared use by the *Operator* and/or other operators of the physical circuit which forms the local loop or the local sub-loop. The accounts of this Sub-business include the costs, revenues and capital employed, associated with the activities included in this Sub-business. In this Sub-business, the *Operator* shall provide services towards other operators as well as towards Retail. Services provided towards other operators include total access to the local loop, shared access to the local loop and „bit-stream“ access to the local loop. The Access to the Local Loop Sub-business is hereinafter referred to as Access to Local Loop.

1.2.3.2 **Leased Lines-access Sub-business** – all the activities associated with the provision of the leased lines segment corresponding to the local loop. The accounts of this Sub-business include the costs, revenues and capital employed, associated with the activities included in this Sub-business. The revenues of this Sub-business will be represented mainly by transfer charges from Retail, for the segments of leased lines corresponding to the local loop provided on the retail market and, respectively, by revenues earned from the provision of leased lines segments corresponding to the local loop, on the wholesale market, directly to other operators. The Leased Lines-Access Sub-business is hereinafter referred to as Leased Lines-access.

1.2.3.3. **Other Activities of Access Network Sub-business** – all the other activities corresponding to Access Network. The accounts of this Sub-business include the costs, revenues and capital employed, associated with the activities included in this Sub-business. The Other Activities of the Access Network Sub-business is hereinafter referred to as Other Activities of Access Network.

2. Accounting principles applicable to the Separated Financial Statements - regulatory accounting principles

2.1. When preparing the Separated Financial Statements, the following principles will apply:

a) *cost causation*, according to which revenues and costs, assets and liabilities shall be allocated to cost components, network components, Businesses and Sub-businesses, in accordance with the activities which cause the revenues to be earned, costs to be incurred, the assets to be acquired or liabilities to be incurred. The revenues and the costs include the transfer charges between the Businesses, between the Sub-businesses and between the Businesses and Sub-businesses units, hereinafter referred to as transfer charges;

b) *objectivity*, according to which the allocation of costs to Businesses shall be objective and shall not be intended for the benefit of the *Operator* or of a third party, for a product, service, network component, Business or Sub-business;

c) *consistency of treatment*, according to which, where there are changes to the regulatory accounting principles, the methodology of cost allocation or the accounting policies, that have a material effect on the information reported in the current Separated Financial Statements, the financial statements of the previous period shall be restated, according to these changes. The effect of the mentioned changes on the information reported in the Separated Financial Statements is considered to be material if by non-presentation or faulty presentation of these the economic decisions of the users, based on the Separated Financial Statements; might be influenced.

d) *Transparency*, according to which the principles, the accounting policies and the methodology for cost allocation, shall be transparent. The publication of the Separated Financial Statements and of the description of the costing system must ensure the observance of this principle.

2.2. If a conflict should appear between the principles stipulated in p.2.1., these will be applied in the order of their enumeration.

3. Level of detail for Accounting Separation

3.1. The Businesses of the Separated Financial Statements

The *Operator* shall prepare and publish Separated Financial Statements for the following Businesses:

- a) Core Network;
- b) Access Network;
- c) Retail;
- d) Other Business.

3.2. Sub-businesses of the Core Network

Core Network shall be disaggregated in the following Sub-business:

- a) Interconnection;
- b) Leased Lines - core;
- c) Other Business of Core Network.

3.3. Sub-businesses of the Access Network

Access Network shall be disaggregated in the following Sub-business:

- a) Access to Local Loop
- b) Leased Lines - access
- c) Other Activities of Access Network

4. Format of the Separated Financial Statements

4.1. Preparation of Separated Financial Statements

4.1.1. The Separated Financial Statements shall include the profit and loss account, the statement of mean capital employed and the statement of the return on mean capital employed, for each Business and Sub-business, as well as the notes to the Separated Financial Statements and the accounting policies used. A synthesis of the information to be included by the *Operator* in the Separated Financial Statements is stipulated in Appendix 1, part I, which is a part of the present regulation.

4.1.2. When preparing the Separated Financial Statements, the following conditions shall be observed:

- a) the Separated Financial Statements shall be based on a transparent cost apportionment methodology;
- b) the Separated Financial Statements shall include the transfer charges between the Businesses and Sub-businesses, for services provided internally by the *Operator*. The Separated Financial Statements shall separately disclose the equivalent transactions with the other operators;
- c) the Separated Financial Statements shall be prepared in accordance with the national accounting standards, insofar as they are relevant;
- d) the Separated Financial Statements shall be prepared in accordance with the Regulatory Accounting Principles;
- e) details of changes having significant impact on the Separated Financial Statements, as well as the effect of restating opening balances, shall be disclosed;
- f) the Separated Financial Statements are to be published on an annual basis and shall contain comparative information from one year to the other. Where changes in the regulatory accounting principles, in the cost allocation methodologies or in the accounting policies have a material effect on the current balances in the Separated Financial Statements, the closing balances of the previous year's Separated Accounts shall be restated, according to the respective changes, in order to ensure the comparability of the Separate Accounts from one year to the other;
- g) the Separated Financial Statements shall be prepared on current costs basis, being also presented the reconciliations of these statements, in accordance with the provisions of p.4.4. (e).
- h) the Separated Financial Statements shall include only relevant costs. Relevant costs are those cost categories incurred by a hypothetically efficient new entrant operator. Exceptional and extraordinary items (as compensatory payments) shall not be considered relevant costs, and therefore shall not be included in the Separated Financial

Statements. The *Operator* will present a description of non-relevant costs within the reconciliation of Separated Financial Statements with statutory accounts.

i) the Separated Financial Statements shall be pre-tax.

4.1.3. The format of the Separated Accounts is presented in Appendix 2, which is a part of the present regulation.

4.1.4. The Profit and Loss Statement format shall disclose information regarding the turnover (split between internal and external provision of services), the operational costs and the transfer charges, as well as the effects of the current costs restatements. If the case, the Universal Service contributions shall also be disclosed.

4.1.5. The return (profit/loss) shall be calculated on the same basis as the cost of capital (pre-tax).

4.1.6. The Mean Capital Employed Statement format shall include a breakdown of fixed and current assets, as well as totals for trade creditors and provisions for liabilities and charges. The Mean Capital Employed Statement figures shall be weighted average values for the period to which the balance-sheet relates or, if this is not possible, and based on a sound explanation, a simple average of opening and closing balances.

4.2. The Statement of Average Costs of Network Components

4.2.1. The *Operator* shall elaborate, within the Separated Financial Statements, a statement of the costs of core network and access network components. This statement shall indicate the average per minute cost of each network component (including the cost of capital), split between length dependent and non-length dependent costs.

4.2.2. The *Operator* shall elaborate, as well, within the Separated Financial Statements, a statement of the average per minute costs of each non-network components (for instance, directory inquiry or *Operator* services).

4.2.3. These statements shall be prepared both on historic and on current costs basis.

4.2.4. The statement for average costs of network components, drawn at historical costs (using statutory accounting policies) shall indicate the fully allocated costs of network components.

4.2.5. Following implementation of the long run incremental costing model, the average costs of network components shall be drawn in three versions:

a) incremental costs (purely incremental, without any mark-up for common costs), representing the floor value;

b) fully allocated costs which are incremental costs plus equal proportionate mark-up for common costs;

c) stand-alone costs (incremental costs plus common costs fully allocated to the increment of which the network component belongs to). These costs will represent the ceiling value.

4.2.6. The formats of the statements mentioned at par. 4.2.1. and 4.2.2. is shown in Annex 3, which forms an integral part of this regulation.

4.2.7. The *Operator* shall present to the National Regulatory Authority for Communications, hereinafter referred to as *ANRC*, the statements of average cost of network components, the publication of these statements not being necessary.

4.3. Statement of costs of services

4.3.1. The *Operator* shall elaborate, within the Separated Financial Statements, the statement of the costs of services provided, which shall distinctively disclose at least the following services:

I. Services provided by the Core Network on the wholesale market included in the reference interconnection offer the *Operator*:

- a) interconnection for call origination or call termination at fixed locations (at local, regional or national level);
- b) interconnection for switched transit;
- c) collocation;
- d) leased lines at national transmission network level (split upon capacities and technologies);
- e) leased lines at regional and local transmission network level (split upon capacities and technologies);
- f) access to non-geographic numbers for sundry services and premium rate services;
- g) *Operator* services;
- h) directory enquiry;
- i) other services considered relevant.¹

II. Services provided by the Access Network on the wholesale market:

- a) full access to the local loop;
- b) shared access to the local loop;
- c) bit-stream access to the local loop;
- d) collocation;
- e) leased lines at access network level - leased lines segments corresponding to the local loop (split upon capacities and technologies);
- f) other services considered relevant.²

III. Services provided by the Retail Business:

- a) line rentals (if the case, distinctively by types of telephony lines);
- b) connections (according to the telephony line type);
- c) local calls;
- d) national calls;
- e) international calls;
- f) calls to mobiles;
- g) calls for „ Internet special access“ (dial-up);
- h) directory enquiry;
- i) public payphones;
- j) leased lines provided on the retail market;
- k) value-added services (separated as to the type of service);
- l) other services considered relevant.³

¹ This category shall include all the services provided through Core Network

² This category shall include all the services provided through Access Network

³ This category shall include all the other services provided on Retail

4.3.2. The costs of services will be derived summing the costs of core/access network components used for the provision of each service, weighted by the routeing factor of that service. Routeing factors will be grouped in routeing tables, which indicate the degree with which each service use the network components.

4.3.3. This statement shall be prepared on both historical and current costs basis.

4.3.4. The statement for costs of services drawn at historical costs (using statutory accounting policies) shall indicate the fully allocated costs of services.

4.3.5. Following implementation of the long run incremental costing model, the current costs of network components shall be drawn in three versions:

a). incremental costs (purely incremental, without any mark-up for common costs), representing the floor value;

b). fully allocated costs (incremental costs plus equal proportionate mark-up for common costs);

c). stand-alone costs (incremental costs plus common costs fully allocated to the increment of which the network component belongs to). These costs will represent the ceiling value.

4.3.6. The three above-mentioned versions will allow the first test for cost-orientation, e.g. checking that costs of services are below ceiling and above floor values, as stipulated at par. 4.2.5.

4.3.7. The format of the statement is included in Appendix 4, which is a part of the present regulation.

4.3.8. The *Operator* shall publish only the statements of costs of services provided on those markets in which the *Operator* has been designated as having significant market power. The complete statements of costs of services shall be presented to ANRC, their publication being unnecessary.

4.4. Explicative information

The explicative information which will be published within the separate financial situations is:

a) the statement of accounting principles followed when preparing the Separated Financial Statements

b) complete definitions of the Businesses and the Sub-businesses;

c) transfer charges matrix

d) details of significant changes which impact on the Separated Financial Statements and on comparative figures

e) Reconciliations of the statements of Mean Capital Employed and Profit and Loss, as follows:

1. reconciliation of the statutory Profit and Loss and the Mean Capital Employed Statements, with the separated Profit and Loss and the Mean Capital Employed Statements, from the Separated Financial Statements, both consolidated.

2. reconciliation of the consolidated Profit and Loss and Mean Capital Employed Statements, from the Separated Financial Statements with the Businesses' Profit and Loss and Mean Capital Employed Statements (including the presentation of transfer charges).

3. reconciliation of Profit and Loss and Mean Capital Employed Statement of the Core Network, with the Profit Loss and Mean Capital Employed Statements (including transfer charges) of the corresponding Sub-businesses.

4. reconciliation of the statement of cost of services with the profit and loss account of the Businesses/Sub-businesses where these services are not included.

4.5. The treatment of confidential financial information

In order to promote an open and competitive market, ANRC can publish the financial information obtained from the *Operator*. The Separated Financial Statements are considered not to be confidential and shall be published according to the provisions of par.4.6. of the present regulation, except cases stated at par. 4.2.7. and 4.3.8. The confidentiality of certain financial or other nature information shall be justified by the *Operator* and established, on a case by case basis, by ANRC.

4.6. Publication of separate financial accounting situations

4.6.1. The Separated Financial Statements shall be prepared for a financial year and published on an annual basis. The financial year begins on January the 1st and ends on December, the 31st.

4.6.2. The Separated Financial Statements shall be published within 60 days starting from the publication date of the *Operator's* annual statutory financial statements, but in any event, not later than six months after the end of the period to which they relate.

5. Audit of Separated financial statements

5.1. Audit opinion

5.1.1. The Separated Financial Statements shall be subject to audit, in compliance with the legislation in force and with the national and international audit standards.

5.1.2. The audit report shall issue the opinion with regard at least the following:

a) whether the Separated Financial Statements reflect, in all material aspects, the information contained in the accounting documents and the relevant financial statements of the *Operator*;

b) whether the Separated Financial Statements are prepared in compliance with the provisions of the present decision and other relevant legislation in force, concerning the separate accounting;

c) whether the accounting separation system, the procedures for collection and processing of the accounting information and allocation methodologies used are consistent with the Costing Methodology published by the *Operator*.

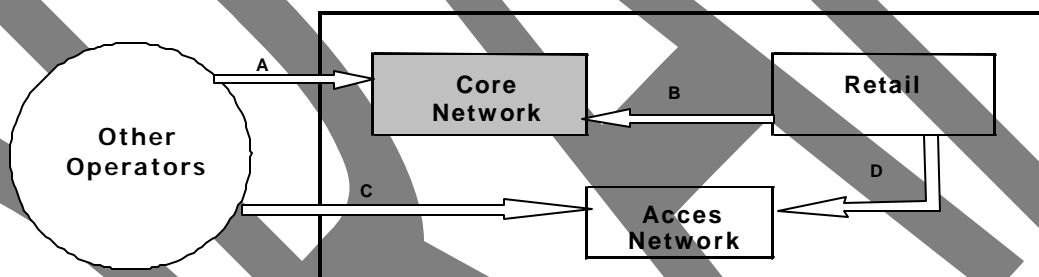
5.1.3. In order to issue the opinion with regard the above-mentioned topics, the audit shall also investigate the procedures and methods for allocation and for current costs valuation, by way of running detailed technical analysis.

5.1.4. For the audit to be realised, an agreement shall be concluded between the auditor and the *Operator*, and shall be needed ANRC approval. The agreement shall stipulate the right of ANRC to consult the documents elaborated by the auditor and to request any information on the activity carried out with the purpose of concluding an audit opinion, including on the procedures, checking and tests conducted by the auditor, within the audit. The agreement will also stipulate the right of ANRC to require supplementary checking of certain areas, considered relevant. The audit opinion shall be addressed both to the *Operator's* shareholders and to ANRC.

5.1.5. The audit opinion shall be submitted to ANRC for approval. Therefore, the *Operator* shall make available to ANRC the audit opinion, accompanied by the audited Separated Financial Statements.

6. Transfer Charging Principles

6.1. A system of transfer charges would apply to services and products provided between the main Businesses and Sub-businesses. The following diagram shows the interaction of the Core Network, Access Network, Retail and Other Licensed operators.



6.2. The Core Network sells a range of services to meet the differing needs of Other Licensed operators and Retail respectively. The price of each service is based on the fully allocated cost of the network components, including a reasonable return on capital, used to provide the service. A network component is a unit of network plant or activity whose cost can be separately derived, but which, in most cases, can not be separately supplied.

6.3. All services sold by the Core Network, either to the other licensed operators or to Retail, are built up from combinations of one or more network components using routing factors. Routing factors identify the average usage of network components by network products provided through core/access networks.

6.4. The payments identified at A are based on the interconnection charges from the *Operator's* RIO. The payments at B are transfer charges. Similarly, Access Network interacts with Retail and with Other Licensed *Operators*. The payments identified at C are based on charges paid by other *Operators* to the *Operator* for the services offered

through Access Network (mainly, the access to the local loop), while D represents transfer charges between the Retail and Access Network, corresponding to the access services (mainly the connection and line rentals) offered by the latter.

6.5. The structure of information related to transfer charges which must be disclosed in the Separated Financial Statements is presented in Appendixes 5 and 6, which are part of the present regulation.

6.6. The Transfer Charging Principles to be followed on the preparation of the Separated Financial Statements are set out below:

a) the transfer charges (revenues and costs) shall be allocated to cost components, services and Businesses or Sub-businesses in accordance with the activities, which cause the revenues to be earned, or costs to be incurred

b) the allocation shall be objective and not intended to benefit any Business or Sub-business, service or cost component;

c) there shall be consistency of treatment of transfer charges from year to year.

d) the transfer charging methods used will be transparent.

e) there should be a clear and objective rationale for the transfer charges used

f) the transfer charges for network usage should be determined as the product of actual usage and unit charges for the network component.

g) the tariffs for the internal use of the network must be equivalent with the tariffs charged for the equivalent services provided to other operators. According to the non-discrimination principle, the Retail shall pay to Core Network, under same conditions, the same interconnection charge as the ones applicable to other operators, as they are set out in the reference interconnection offer.

h) the Separated Financial Statements shall disclose the transfer charges between Businesses and Sub-businesses, as the case may be.

7. Costing Methodology for costs, revenues and mean capital employed within the separate accounts

7.1. Description of the *Operator's* costing system

7.1.1. The *Operator* shall prepare and publish, along with the Separated Financial Statements, a Calculation Methodology and separate accounts of the costs, revenues and mean capital employed, hereinafter referred to as Costing Methodology, which details the accounting separation system, as well as the accounting principles and policies which form the basis of the Separated Financial Statements.

7.1.2. Within the Costing Methodology, the description of the *Operator's* costing system shall include the following:

a) methodology (fully distributed costs, incremental costs, etc.) and the cost base(s) being used (historic costs, current costs, etc.);

b) a detailed description of the accounting principles and policies used within the accounting separation, including the regulated accounting principles;

c) the allocation methods being used to identify revenue, costs and capital employed of each service and network component

d) the description the treatment applied to each category of cost, revenue or capital employed, including the presentation of the costs drivers used for this allocation

- e) a detailed analysis of the cost hierarchy used;
- f) the degree to which sample data has been used in each of the sampling bases
- g) a detailed description of the transfer charging system which operates within the accounting separation;
- h) the description of the methodology and principles used for asset valuation on current cost basis and for preparing the financial statements based on current cost.

7.1.3. The syntheses of the information to be included by the *Operator* within the Costing Methodology is presented in Appendix 1, part II, which is part of the present regulation.

7.1.4. The accounting principles and policies and the methodologies detailed in the Costing Methodology and applied for preparing the Separate Accounts shall observe the provisions of the present decision.

7.1.5. The *Operator* has the obligation to publish the Costing Methodology at least 3 months before publishing the Separated Financial Statements.

7.1.6. Following evaluation, ANRC may impose changes in the Costing Methodology, indicating the Separated Financial Statements to be modified in order to reflect these changes.

7.2. Principles of allocation of costs, revenues and capital employed

The principles of allocation of costs, revenues and capital employed are:

a) *cost causation*, according to which revenues (including transfer charges), costs (including transfer charges), assets and liabilities shall be allocated to cost components, services and Businesses or Sub-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.

b) *materiality* will be considered when using specific allocation bases. If the allocation results do not have a material impact on total cost of the unit to which the allocation was made (cost component, services, Businesses and Sub-businesses), the use of these specific allocation bases can be renounced.

c) *objectivity*, according to which the allocation bases shall be objective and not intended to benefit the *Operator* or any other *Operator*, product, service, component, Business or Sub-business.

d) *consistency of treatment*, according to which the same allocation bases should be used from year to year. When principles and bases of allocation are modified and these changes have a material impact on current Separated Financial Statements, the *Operator* should restate the previous year's Separated Financial Statements on the new bases.

e) *transparency*, according to which the *Operator* shall publish detailed information regarding the cost, revenues and capital employed allocation methodologies within the Costing Methodology.

7.3. Costs categories

7.3.1. According to the principle of cost causation, each item of cost shall be allocated to the products and services provided by the *Operator*. A standard cost allocation process is illustrated in Appendix 7, which forms an integral part of the present regulation. The allocation procedure used by the *Operator* shall comply with its

already implemented costing system, provided that the above-mentioned principles are observed.

7.3.2. Each cost item can be considered to fall in one of the following categories:

a) direct costs –those costs that can be directly and unambiguously allocated to a service or product provided by the *Operator*;

b) indirectly attributable costs - those costs that can be related to a service or product on a non-arbitrary basis based on the relationship of the costs to direct costs. Such costs shall be allocated to the relevant service or product using an appropriate cost driver.

c) unattributable costs – the costs for which no direct or indirect method of apportionment can be identified. It is therefore not possible to allocate these costs to products and services on a non-arbitrary basis. These costs are likely to fall under the category of corporate overheads, being allocated to the products or services using the Equal Proportionate Mark-Up method (EPMU) or another method.

7.3.3. The Costing Methodology shall include a statement that will disclose the unattributable costs and present in detail their allocation methodology.

7.3.4. In order to decrease the proportion of unattributable costs, the *Operator* shall rigorously apply the cost causation principle so that at least 90% of the costs are allocated based on this principle.

7.3.5. In order to allocate indirectly attributable costs to services and, then to the Businesses as defined in the accounting separation, the *Operator* may use sampling techniques, as long as they are based on adequate statistic methodologies that do not induce significant errors.

7.3.6. The *Operator* shall observe the following principles governing the use of sample data for allocation purposes:

a) the sample shall be selected objectively;

c) the size of the sample shall be assessed in a statistical manner and will be statistically significant

c) the sample shall be representative for of the entire selected population;

d) the sample shall not be skewed by seasonal or other temporary factors;

e) the sample shall be based on either generally accepted statistical techniques or other methods, approved by ANRC, which should result in the accurate allocation of revenue (including transfer charges), costs (including transfer charges), assets and liabilities;

f) the sample shall be updated on an annual base.

7.3.7. The *Operator* shall present within the Costing Methodology a detailed statement of the used statistic sampling techniques used, indicating the degree to which sampling data has been used in the allocation process.

7.4. Operating Cost Allocation

7.4.1. The *Operator* shall develop an operating costs allocation methodology, which will be included in the Costing Methodology, in accordance with the legal requirements and the provisions of the present decision.

7.4.2. A summary of possible allocation and attribution methods for operating costs is provided in Appendix 8, integral part of the present regulation. The allocation methods for operational cost stated in the appendix have a general character.

7.4.3. For allocation purposes, operating costs are grouped into homogenous categories (having common cost drivers), afterwards being allocated to network components, services and business units on the basis of cost causation. The *Operator* shall indicate the list and treatment of homogenous cost categories within the Costing Methodology.

7.4.4. The *Operator* shall develop and update cost allocation procedures in correlation with the currently used procedures of capture and recording of costs, procedures which will be improved in time, observing the consistency principle stated at par .7.2. (d).

7.5. Revenue allocation

7.5.1. The *Operator* shall develop, in compliance with the legal provisions and stipulations in the present decision, a revenue allocation methodology, which shall be contained in the Costing Methodology.

7.5.2. A synthesis of the possible revenue allocation methods is presented in, Appendix 9, which forms an integral part of the present regulation.

7.5.3. The process of allocation of revenues and their associated costs shall be in compliance with the consistency principle and shall produce the establishment of correspondence between revenues and their related costs.

7.5.4. The revenues from the provision of products and services can be directly allocated to the products and services to which it relates based on accounting records and billing system information of the *Operator*. In those instances where direct allocation based on the above is not possible, revenues should be attributed on the basis of causation.

7.6. Allocation of the capital employed and determination of cost of capital

7.6.1. In accordance with the legal framework and the provisions of the present regulation, the *Operator* shall develop a methodology for allocation of capital employed which will be included in the Costing Methodology.

7.6.2. In order to determine the cost of the capital corresponding to the Businesses, the *Operator* must allocate the value of the capital employed to every network component, Business or Sub-businesses. The cost of capital will be applied to the value of capital employed in network components, as well as in other similar assets, in order to determine a reasonable return that needs to be included in the services and products charges.

7.6.3 The pre-tax cost of capital will be derived based on weighted average cost of capital (WACC). The detailed statement of WACC calculation shall be included in the Costing Methodology. The WACC's value, determined by the *Operator*, together with its calculation formula shall be sent annually to ANRC's approval within 4 months from the end of the financial year.

7.6.4. A summary of possible allocation methods for capital employed, together with an indication of the principal Businesses to which it might be expected that each

item of capital employed would be allocated is presented in Appendix 10, which is part of the present regulation.

7.6.5. The determination of the capital employed by Businesses may be accomplished by using the following balance sheet identity:

$$\text{Equity} + \text{Long Term Debt} = \text{Total Assets} - \text{Current Liabilities} - \text{Provisions}$$

This balance sheet identity allows the determination of the capital employed by Businesses, by apportioning net assets, in compliance with the cost causation principle.

7.6.6. In order to determine the capital employed by each Business and Sub-business, there will be allocated average values of net assets during the period and not the closing balances.

7.7. Consistency of Treatment of Working Capital

7.7.1. Working capital represents the difference between the current assets and current liabilities.

7.7.2. The treatment of individual elements of the working capital shall observe the principle of consistency between the treatment of assets, and the treatment of the associated costs and revenues, as well as the allocation principles, as stated at p.7.2.

7.7.3. The exclusion of certain items of net assets from the process of allocation to services, Businesses or Sub-businesses, in order to estimate the capital employed in each service, Business or Sub-business, shall determine the recalculation of WACC according to this exclusion.

7.8. Asset Lives and Depreciation Method

7.8.1. Asset lives shall be set on the basis of a network element and component basis and will be reviewed on a yearly basis. The useful lives of fixed assets will usually be the same as the ones used in the statutory accounts.

7.8.2. The *Operator* may change the asset lives, if they are not justified by the technical and economic conditions. Any deviation from the asset lives used in the statutory accounts shall be separately identified within the Costing Methodology.

7.8.3. If the *Operator* has similar assets which are based on different technologies, their useful lives will be evaluated distinctively.

7.8.4. The treatment of fixed assets additions and disposals, as well as the treatment of changes in assets lives, shall observe the statutory legislation.

7.8.5. The *Operator* shall analyze those changes in asset lives with significant impact on costs. The analysis will consider the technical and economical reasons which have determined the changes, as well as the examination of changes effect on the total costs of products and services offered, and shall be presented as a separate note, annexed to the Separated Financial Statements.

7.8.6. The *Operator* shall present, within the Costing Methodology, a breakdown of useful lives used for each category of fixed assets. If different useful lives are used within the same category of fixed assets, these asset lives shall be distinctively underlined.

7.8.7. Fully depreciated fixed assets will have zero current net value and their costs will not be accounted for within the current costs of services.

7.8.8. The *Operator* shall present, within the Costing Methodology, the description of the depreciation method used within the separated accounts.

7.9. Current cost accounting

7.9.1. The Separated Financial Statements based on current costs shall be prepared using the concept of financial capital maintenance. The concept of the *Operator's* financial capital maintenance considers the shareholders' funds at the end of the period are maintained in real terms at the same level as at the beginning of the period. Within this concept, the profit is recognized only after the gains or losses derived from the valuation of assets at current costs are considered (changes in asset values can be generated either as the effect of general inflation, or by technological progress) and by the effect of inflation on shareholders' funds.

7.9.2. The use of current costs implies the valuation of assets (and hence, depreciation) on a current costs basis. This evaluation shall be realized using the Net Replacement Cost method. The use of this method implies the evaluation of assets either at their current market value, or at the value of a Modern Equivalent Asset, in case of assets which can no longer be replaced.

7.9.3. The *Operator* shall include in the Costing Methodology a detailed description of methods used for restating assets values on a current costs basis, for purposes of preparing the Separated Financial Statements.

8. Final provisions

8.1. The *Operator* shall prepare the first Separated Financial Statements for the financial year 2004.

8.2. The Separated Financial Statements prepared for the financial year 2004 shall be published within 4 months from the publication of the statutory financial statements.

8.3. The Separated Financial Statements prepared for the financial year 2004 shall not include comparative information with the financial statements for the year 2003. The *Operator* shall present comparative financial statements starting with the financial year 2005.

8.4. The Costing Methodology which shall accompany the Separated Financial Statements of the financial year 2004 shall be transmitted to ANRC for approval, until the 30th of June 2004. For the next financial exercises, the methodology shall be transmitted to ANRC at least 6 months before its' publishing.

Appendix 1

The synthesis of the information to be presented by the *Operator* within the Separated Financial Statements and the Costing Methodology

	No.	Title	Prepared on costs:	Chapter
I. Separated Financial Statements	1	Profit and loss account – Businesses;	current costs	4
	2	The statement of Mean Capital Employed – Businesses;	current costs	4
	3	The return of Mean Capital Employed – Businesses;	current costs	4
	4	Profit and Loss Account – Sub-businesses;	current costs	4
	5	The statement of Mean Capital Employed – Sub-businesses;	current costs	4
	6	The return of Mean Capital Employed – Sub-businesses;	current costs	4
	7	The statement of average costs of network components;	historical and current costs	4.2.
	8	The statement of cost of services;	historical and current costs	4.3.
	9	The description of the accounting principles used;		4.4.
	10	The definitions of Businesses and the Sub-businesses;		4.4.
	11	The statement of transfer charges;	current costs	4.4.
	12	The statement of changes in accounting policies with significant impact on the current financial statements and on the comparative values;	current costs	4.4.
	13	Reconciliation of the statutory Profit and Loss Mean, Capital Employed Statements respectively, with the separated Profit and Loss and the Mean Capital Employed Statements, both consolidated.	historical and current costs	4.4.
	14	Reconciliation of the consolidated Profit and Loss and Mean Capital Employed Statements, from the Separated Financial Statements with the Businesses' Profit and Loss and Mean Capital Employed Statements (including the presentation of transfer charges).	current costs	4.4.
	15	Reconciliation of Profit and Loss and Mean Capital Employed Statement of Core Network, with the Profit Loss and Mean Capital Employed Statements (including transfer charges) of the corresponding Sub-businesses.	current costs	4.4.
	16	Reconciliation of the statement of cost of services with the profit and loss account of the Businesses/Sub-businesses where these services are not included.	Historical and current costs	4.4.

II. Costing Methodology	1	Description of the cost standard used for accounting separation (e.g. fully attributable costs, incremental costs, etc.), and the cost base(s) being used (historical costs, current costs, etc.);		7.1.
	2	Detailed description of the accounting principles and policies used for the accounting separation, including the regulated accounting principles;		7.1.
	3	Description of allocation rules and methods used for identifying the revenues, costs and the capital employed for each service or network component;		7.1.
	4	The description of the treatment of each cost category, revenue or capital employed, including the presentation of cost drivers used for this allocation;		7.1.
	5	The detailed analysis of the hierarchy of costs being used		7.1.
	6	The degree to which sampling has been used in each of the apportionment bases;		7.1.
	7	The detailed description of the transfer charges system used in accounting separation;		7.1.
	8	The description of the methodology and principles applied for the valuation of assets on current cost basis and preparation of the financial statements based on current costs;	current costs	7.1.
	9	The statement of unattributable costs and their detailed apportionment methodology;	historical and current costs	7.3.3.
	10	The detailed description of sampling techniques;		7.3.7.
	11	The detailed description of the WACC calculation procedure;	historical and current costs	7.6.3.
	12	The statement of the useful lives used for each category of fixed assets;		7.8.
	13	Detailed description of the depreciation method of the fixed assets;		7.8.

Appendix 2

Reporting formats of the Separated Financial Statements (presented in million ROL and thousand Euro)

I. Reporting format for the Core Network⁴

PROFIT AND LOSS ACCOUNT

	Current period	Prior period
Turnover:		
Transfer charges to Retail	X	X
From other operators	X	X
Transfer charges Other Activities	X	X
Total turnover	X	X
Operating costs		
Operating costs specific to the Core Network	X	X
Interconnection charges paid to other Operators	X	X
Current cost adjustments ⁵		
Holding (gain)/loss and other adjustments	X	X
Supplementary depreciation	X	X
	—	—
Total operating costs	X	X
	—	—
Return⁶	X	X
RETURN ON MEAN CAPITAL EMPLOYED		
Return	X	X
Mean capital employed	X	X
Return on mean capital employed	X%	X%

⁴ The same format would apply to *separate financial accounts* of the Sub-business within *Core Network*

⁵ These current cost adjustments include the change to the historical costs arising from the reevaluation of assets on a current costs basis. In this respect, *the Separated Financial Statements* for each businesses or Sub-businesses reflect the adjustments that comprise the unrealised holding gains or losses arising from changes in assets values, together with the effect of restating at current cost on asset value and depreciation of the appropriate allocation of current cost values of assets between businesses/Sub-businesses.

⁶ Pre-tax

THE STATEMENT OF MEAN CAPITAL EMPLOYED⁷

	Current period	Prior period
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
Short term financial investments	X	X
Cash at bank & in hand	X	X
Total current assets	X	X
Current liabilities	(X)	(X)
Net current assets / (current net liabilities)	X	X
Total assets less current liabilities	X	X
Provisions for liabilities and charges	(X)	(X)
Mean capital employed	X	X

⁷ Will be presented weighted average values, in accordance with the provisions under points 4.1.6. of the present rule.

II. Reporting format for the Access Network⁸

PROFIT AND LOSS ACCOUNT

	Current period	Prior period
Turnover:		
Transfer charges to Retail	X	X
Transfer charges to Other Activities	X	X
Other operators	X	X
Total turnover	X	X
Operating costs:		
Operating costs specific to Access Network	X	X
Transfer charges	X	X
Current cost adjustments		
Holding (gain)/loss and other adjustments	X	X
Supplementary depreciation	X	X
	—	—
Total operating costs	X	X
Return	X	X

THE RETURN ON MEAN CAPITAL EMPLOYED

(The format will be similar to the one presented at point I of the present Appendix.)

THE STATEMENT OF MEAN CAPITAL EMPLOYED

(The format will be similar to the one presented at point I of the present Appendix.)

⁸ The same format would apply to Separated Financial Statements of the Sub-business within Access Network.

III. Reporting format for the Retail Business

PROFIT AND LOSS ACCOUNT

	Current period	Prior period
Turnover		
From Retail	X	X
Other operators (billing services)	X	X
Transfer charges	X	X
Total turnover	X	X
Operating costs:		
Operating costs specific to Retail	X	X
Transfer charges from core network	X	X
Transfer charges from access network	X	X
Transfer charges from other activities	X	X
Current cost adjustments		
Holding (gain)/loss and other adjustments	X	X
Supplementary depreciation	X	X
Total operating costs	X	X
Return (excluding Universal Service contributions)	X	X
Universal Service contributions from other operators ⁹	X	X
Return (including the Universal Service contributions)	X	X

THE RETURN OF MEAN CAPITAL EMPLOYED

(The format will be similar to the one presented at point I of the present Appendix.)

THE STATEMENT OF MEAN CAPITAL EMPLOYED

(The format will be similar to the one presented at point I of the present Appendix.)

⁹ The Operators's contributions to Universal Service apply internally and would net off to zero, therefore will not be shown.

IV. The reporting format for other activities

PROFIT AND LOSS ACCOUNT

	Current year	Prior year
Turnover	X	X
Operating costs:		
Operating costs specific to Other Activities	X	X
Transfer charges from Retail	X	X
Other transfer charges	X	X
Current cost adjustments		
Holding (gain)/loss and other adjustments	X	X
Supplementary depreciation	X	X
	<hr/>	<hr/>
Total operating costs	X	X
	<hr/>	<hr/>
Return	X	X

THE RETURN OF MEAN CAPITAL EMPLOYED

(The format will be similar to the one presented at point I of the present Appendix.)

THE STATEMENT OF MEAN CAPITAL EMPLOYED

(The format will be similar to the one presented at point I of the present Appendix.)

Appendix 3

The format for the mean costs statement of the network components (presented in million ROL and thousand Euros)

Network components	Operating costs	Capital employed	Return of mean capital employed (%)	Cost of capital	Total operating costs and capital costs	Volume (min/sec/km/etc.)	Average cost
--------------------	-----------------	------------------	-------------------------------------	-----------------	-----------------------------------------	--------------------------	--------------

In the category of network components shall be listed all the core and access network components. The total of operating costs for these network components will be reconciled with the total operating costs within the profit and loss account of the Core Network and Access Network respectively. The *Operator* will present distinctive situations for the core network components and the access network components.

Appendix 4

The format for the statement of the provided services costs (presented in million ROL and thousand Euro)

Network components	Concentrator	Local switch processor	Local switch ports	Transmission link between concentrator and local switch (traffic sensitive portion)	Transmission link between concentrator and local switch (distance sensitive portion)	Transmission link between local switch and transit switch (traffic sensitive portion)	Transmission link between local switch and transit switch (distance sensitive portion)	Cost of services			Average annual tariff
									Floor value (LRIC)	Fully Allocated Costs	Ceiling value (stand-alone costs)	
Average cost of network components	Floor value (LRIC)											
	Fully Allocated Costs											
	Ceiling value (stand-alone costs)											
	EURc/min	EURc/min	EURc/min	EURc/min	EURc/min pentru 10 Km	EURc/min	EURc/min pentru 10 Km	EURc/min	EURc/min	EURc/min	EURc/min	EURc/min
Services:	ROUTING FACTORS											
Core Network	Call termination at local switch											
	Call origination at local switch											
	Single transit											
Access Network	Total access to local loop											
	Shared access to local loop											
Retail	Local calls											
	National calls											

NB:

1. The format is indicative, the final format of this statement to be realised by the *Operator*.
2. Measurement units are indicative. The final format will include the most appropriate measurement units.

Appendix 5

Structure of transfer charges between Core Network and Retail (presented in million ROL and thousand Euro)¹⁰

Services sold to Retail	Activity	Average transfer tariff (EURc-min)		Traffic (million minutes)		Total traffic (million minutes)	Transfer charges for activities independent to traffic	Routing Factors ¹¹ (%)	Total transfer charges
		Peak	Off peak	Peak	Off peak				
Local calls	Call origination	x	x	x	x	x			x
	Call termination	x	x	x	x	x			x
	L _x -T _x Transmission link	x	x	x	x	x			x
	T _x -T _x Transit	x	x	x	x	x			x
	Network planning	-	-	-	-	-	x	x	x
								
	Total transfer charges for local calls								x
National calls								
	Total transfer charges for national calls								x
.....									
TOTAL for transfer charges between Core Network and Retail									x

NB:

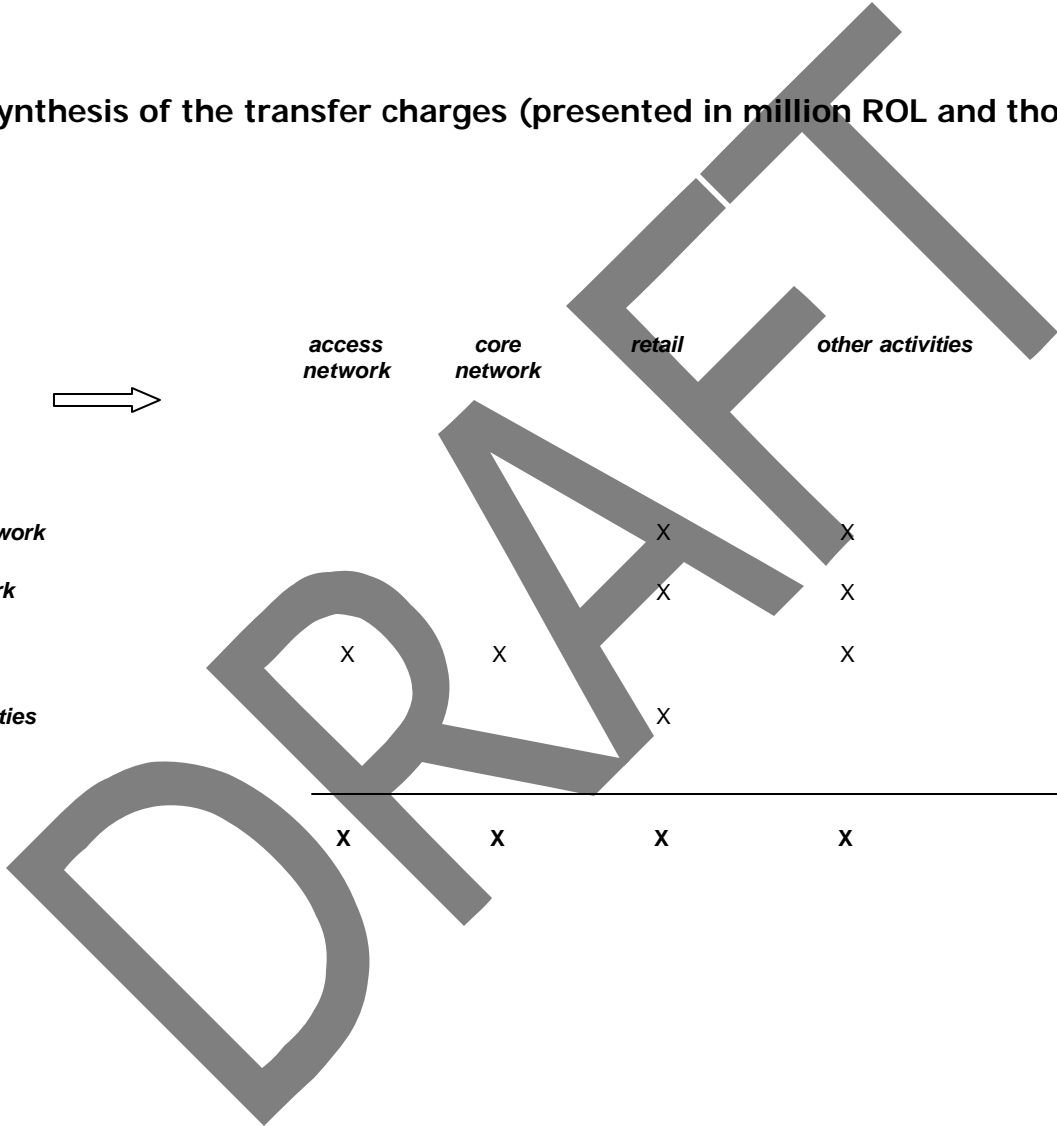
- In the first column shall be included at least the services offered by Retail, according to par. 4.3.1 (III).
- Total for transfer charges between Core Network and Retail will correspond to the total in Appendix 6 - The synthesis of the transfer charges

¹⁰ The format is indicative, the final format of this statement to be realised by the *Operator*.

¹¹ Percentage from transfer charges related to activities independent to traffic for that particular activity.

Appendix 6

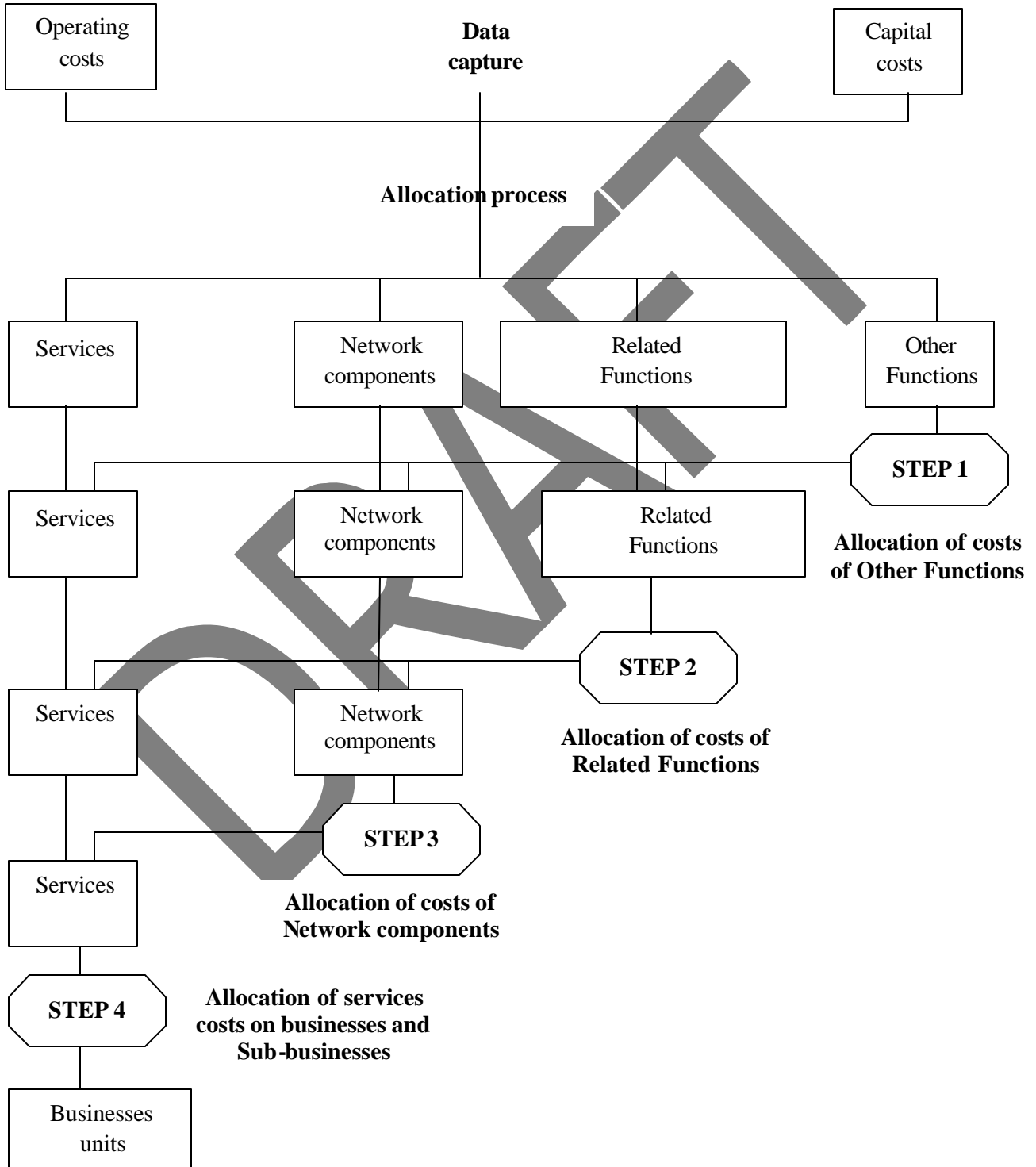
The synthesis of the transfer charges (presented in million ROL and thousand Euro)



From /to	access network	core network	retail	other activities	Total
access network			X	X	X
core network			X	X	X
retail	X	X		X	X
other activities			X		X
Total	X	X	X	X	X

Appendix 7

Cost allocation process



The costs taken from the primary accounting documents are first attributed either directly to the provided services, or to the network components, to the functions pertaining to the provided services or to other functions, as follows:

Services	These are the costs that can be directly identified with a particular service. For these purposes, the term "services" refers both to end-users services (e.g. the provision of public payphones), and intermediate services (e.g. network services).
Network components	This pool contains the costs related to the various components of transmission, switching, and other network plant and systems. This category embraces the network component costs that cannot be attributed directly to a particular service, as they are utilised for the provision of a number of services.
Functions related to provided	This pool contains the costs for the provision of services to the users such as billing, maintenance or customer services.
Other functions	This pool contains the costs not related to the provision of particular services that represent a significant part in the operations of the company as a whole (e.g. planning, general and administrative costs etc.).

The allocation shall be put into practice progressively, in the following manner:

- STEP 1 The allocation of other functions costs across 3 categories:
 - 1. services;
 - 2. network components;
 - 3. related functions.
- STEP 2 The allocation of the related functions costs to services and network components
- STEP 3 The allocation of costs of network components to services
- STEP 4 The allocation of costs of services into Business

Each allocation step could involve a number of detailed sub-steps, especially if the initial information is collected and registered at an aggregated level.

Appendix 8

Methods of allocating operating costs

Categories of Operating Costs	Description	Method of allocation	Business units
Depreciation of fixed assets	Depreciation	The allocation of depreciation must follow the allocation of the fixed assets to which it relates.	all
Provision and installation of equipments	Payroll costs	Direct to network components/other plant where possible; otherwise allocate based on the time spent carrying out installation work.	core network, access network
	Installation, contract and maintenance costs	Direct to network components/ other plant installed, maintained, etc.	core network, access network
Maintenance and repair costs	Payroll costs	Direct to network components /other plant where possible; otherwise allocate based on the time spent carrying out maintenance/repair work.	core network, access network
	Other costs	Direct to network components/other plant where possible.	core network, access network
Network planning and development costs	Payroll costs and external costs	Direct to network components/other plant where possible.	core network, access network
Network management costs	Payroll costs	Allocate to network components/other plant on the basis of the time spent by the staff to manage, coordinate and control each type of plant.	core network, access network
	Other costs	Allocate to network components/other plant on the basis of the plant managed, where possible.	core network, access network

Categories of operating costs	Description	Method of allocation	Business units
Marketing and sales costs	Payroll costs	Direct to products and services where possible. Otherwise allocate between products based on labour time.	retail
	Costs of sales of equipment	Direct, within other activities.	other activities
	Publicity, promotions, market research, distributors fees, other costs	Direct to products and services where possible. Otherwise, for those costs where multiple services are being marketed or promoted, cost should be attributed to the related services on a reasonable basis.	retail
Billing and collection costs	Payroll costs	Direct to products and services where possible; otherwise allocate based on labour time.	retail (some costs to core network)
	Other billing costs (including bill, bad debts)	Direct to products and services where possible. Otherwise allocate based on usage (e.g. number of bills produced).	retail (some costs to core network)
<i>Operator services costs</i>	Payroll costs	Direct to services where possible. The costs of staff that carry out tasks for several tasks related to more client relations should be allocated to the related services, based on labour time for each task.	core network
Directory services costs	Payroll costs and other costs	Direct to products and services.	core network
Payments to other operators	Out-payments for outgoing international traffic	Direct to products and services.	core network
	Payments for interconnection agreements	Direct to products and services.	core network

Categories of operating costs	Description	Method of allocation	Business units
Support costs	Human resources function costs Human Resources Division	HR function costs should be allocated to the staff that are overseen by the HR function and allocated using the same basis as the payroll costs of HR staff.	all
	Accounting-Finance and other head office support functions	If related specifically to a product, service or Business, allocate accordingly.	all
	Building costs and rent	Costs should be allocated in the same way as land and buildings.	all
	IT costs	Allocate to the computer application on the basis of the use of the computers to support each application. Costs allocated to applications can then be attributed to those products and services that they support.	all
System support	Costs of the support functions for the provision, installation and maintenance functions of the plant	Direct to network components/other plant or services where possible.	all
Customer services costs	Order-taking, fault -reporting, bill queries services. etc.	Direct to network components/other plant or services where possible.	all
Logistic costs	Covers the purchasing, distribution, warehousing and logistics activities	Direct to network components/other plant or services where possible.	all
General and administrative costs	This category can be sub-divided into: administrative staff and general management costs and Corporate General Management costs	Direct to network components/other plant or services, based on objective allocation.	all

Appendix 9

Methods of revenue allocation

Connection charges	Charges for installing telephony lines shall be assigned to retail.
Subscriptions	Subscriptions shall be assigned to retail.
Revenues from the provision of leased lines services on the retail market	These revenues shall be assigned to retail.
Revenues from the provision of leased lines services on the wholesale market	The revenues respective to the local loop segments shall be assigned to access network, and those respective to the core network capacity should be assigned to core network.
Revenues from the provision of access to local loop	If earned from other operators, revenue from access to local loop shall be assigned to access network.
Universal service contributions	In case there is a scheme to finance the universal service, the contributions from other operators shall be allocated to retail.
Interconnection charges	Interconnection charges, including the cost of establishing the interconnection point of and volume-related charges shall be allocated to core network.
Call charges	Revenue from call charges shall be allocated to the appropriate services within Retail.
Equipment rental and sales	Revenue from the rental and sale of equipment shall be allocated to the appropriate services within other activities.
Engineering services/consultancy	Revenues from engineering services/consultancy other than for interconnection should be assigned to other activities.

Appendix 10

Methods of Allocating Capital Employed

Category of assets and liabilities	Description	Method of Allocation	Principal Businesses
A. Tangible assets			
I. Primary Plant-			
Switching equipment	Local switching equipment	Direct to access or core network components where possible; Otherwise allocate to access network, core network respectively, on the basis of the relevant cost of the equipment dedicated to provide telephony lines and of the parts dedicated to switch traffic, respectively. Local switch network components can be allocated to products and services within the core network according to its use (seconds of use).	core network (some costs to access network)
	Transit switching equipment	Direct to core network components where possible; otherwise allocate according to its use (seconds of use).	core network
	National switching equipment (National Gateway for international traffic)	Direct to network components where possible, otherwise allocate according to its use (seconds of use).	core network
	Switching equipment for special services networks (intelligent platform)	Direct to core network components or, as the case may be, to the specific services provided by other operators.	core network, other activities

	Other switching equipment	Direct to network services where possible, otherwise allocate to other switching network components according to the use of the equipment.	core network
Transmission equipment	Traffic-sensitive transmission Equipment	Direct to core network components where possible, otherwise allocate according to usage of circuits.	core network
	Cable and wire	Direct to access or core network components where possible, otherwise allocate to components based on the amount of cable used to provide different services.	access network, core network
	Local loop equipment	Direct to products where possible (e.g. separately identifiable ISDN access equipment). Otherwise allocate between access services according to on line usage.	access network
	Radio and satellite equipment	Direct to core network components where possible; otherwise allocate based on the usage of channels of transmission.	core network
	Transmission equipment for special services networks	Direct to the specific non-PSTN/non-ISDN services provided by the network (e.g. data transmission equipment directly allocated to data transmission services).	core network
	International cable	Direct to core network components where possible; otherwise allocate according to the usage.	core network

Other equipments	Special network plant	Plant and equipment that is used solely to provide one specific service should be allocated directly to the relevant service (for example, Equipments using the <i>Operator's</i> intelligent networks equipment, data transmission equipment and multimedia equipment).	core network other activities
	Customer premises equipment	Direct to products and services.	other activities
	Public payphones and related equipment	Direct to service.	retail
II. Support Plant			
Network tangible fixed assets	Ducting	Assets and liabilities related to the ducts should be accordingly allocated to the cable and wire that it supports and then allocated to products and services.	access network, core network
	Power equipment	Allocate to primary plant groups on the basis of the use of power equipment to support each plant. Assets and debts should then be allocated to products, together with relevant primary plant groups.	access network, core network
	Network management systems	Allocate to primary plant of the different networks on the basis of the use of the systems (e.g. time spent to control local exchanges, tandem exchanges and national/international exchanges). Assets and debts should be attributed to products and services in the same way as the related primary plant group.	core network

Non-network fixed tangible assets	Land and buildings	Allocate to products, services or network components on the basis of the space occupied to support each product, service or network component.	all
	General computers	Allocate to the software applications run by the <i>Operator</i> on the basis of the use of the computers to support each application. Costs allocated to applications can then be attributed to those products and services that they support.	all
	Motor vehicles	Allocate to the products and network components based on usage.	all
	Furniture and office equipment	Allocate to the products and network components based on usage.	all
B. Intangible fixed assets	Intangible fixed assets	Direct to products where possible. Any residual or unattributable assets will need to be allocated on an arbitrary basis, to be agreed with NRAC	all
C. Long term investments	Long term financial investments	Direct to other activities.	other activities
D. Working capital	Stocks	Directly allocate to products and services	all
	Trade debtors/receivables	Allocated to products and services based on billing system information where possible. Unattributable balances will need to be allocated on an arbitrary basis, to be agreed with the ANRC	all
	Other debtors/receivables	Allocated to products and services, where possible. Unattributable balances will need to be allocated on an arbitrary basis, to be agreed	all

		with the ANRC.	
	Cash at bank and in hand	Direct to Business units where possible; otherwise allocate based on the operational requirements of each Business unit.	all
	Short-term investments	Direct to Businesses where possible, otherwise allocate based on the operational requirements of each Business.	all
E. Provisions for liabilities and charges		Direct to the Business units that give rise to provisions.	all

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