# FINAL GUIDELINES

***ACCOUNTING SEPARATION AND COST ACCOUNTING***

***ISSUED TO CABLE BAHAMAS LTD. (CBL)***

**ECS 13/2010**

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U T I L I T I E S   R E G U L A T I O N   &   C O M P E T I T I O N   A U T H O R I T Y

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# 1 Introduction

## 1.1 Background

Three main pieces of legislation define the regulatory framework for electronic communications in The Bahamas:

- The Communications Act, 2009 (“the Comms Act”)
- The Utilities Regulation and Competition Authority Act, 2009 (the "URCA Act")
- The Utilities Appeal Tribunal Act, 2009 (the "UAT Act")

The Utilities Regulation and Competition Authority (URCA) were created under the provisions of the Utilities Regulation and Competition Authority Act, 2009.

Under the terms of section 116(1) and Schedule 4 of the Comms Act, 2009 (“the Comms Act”), Cable Bahamas Ltd. (CBL) is presumed to have significant market power (SMP) in the following markets:

- the provision of pay TV services
- provision of high-speed data services and connectivity.

Under the terms of s. 116(2) of the Comms Act, URCA is empowered to issue regulatory measures specifying the obligations of electronic communications licensees in the Commonwealth of The Bahamas presumed to have SMP.

## 1.2 Main Objectives

Accounting separation is a widely used tool, employed by regulators worldwide, to address concerns regarding potential abuse of dominant positions (e.g. SMP) by regulated operators. Using this approach, operators are required to provide individual accounts for each separate, regulated business. Accounting separation specifies how financial and other operational information should be collected and reported for each regulated business. It should, however, be noted that accounting separation neither requires nor specifies how the regulated business should be organised or structured.

The main objectives of accounting separation and cost accounting include:

- supporting retail price regulation where it is applied;
- promoting transparency and non-discrimination, especially between an SMP operator’s retail business and its downstream competitors;
- supporting any setting or assessing of cost-oriented wholesale charges, such as those required by a Reference Access and Interconnection Offer (RAIO);
- overcoming the information asymmetry between the regulator and regulated entities;

- providing for audit independence and objectivity; and

- supporting any *ex-post* assessment under the competition provisions of the Act (e.g. margin squeeze, predatory pricing and excessive pricing).

Fulfilling the above objectives is critical to developing a well-functioning competitive communications sector in The Bahamas. However, URCA also acknowledges that the relative balance of these objectives differs in the cases of CBL and BTC. This is because BTC is subject to a greater degree of retail and wholesale price regulation than CBL. This, therefore, places less emphasis on the objectives related to wholesale pricing and ensuring non-discrimination for CBL.

## 1.3 Scope and structure of these Guidelines

These guidelines detail URCA's current assessment of leading practice in Accounting Separation and Cost Accounting. Their scope covers the regulatory framework and general accounting principles of accounting separation as well as outlining the specific requirements as they apply to CBL.

The guidelines are not designed to provide specific, account-by-account instructions to CBL as to how to prepare and present separated accounts; as with statutory accounts, management will be ultimately responsible for these activities. The guidelines are, however, sufficiently detailed to allow management to determine the reporting formats and requirements.

These guidelines are presented in two main parts:

- Section 2 specifies the general principles of accounting separation and cost accounting methodologies, which those required to prepare separated accounts should follow.

- Section 3 details the business areas that CBL will be required to prepare separated accounts and specifies, for each separate set of accounts, the level of detail that should be provided in the accounting separation reports.

- Section 4 provides a high-level summary of the contents of each individual report required as part of the Accounting Separation and Cost Accounting Guidelines. The guidelines reflect leading practice drawn from a range of international jurisdictions, including a number of territories that are similar in geography and market size to The Bahamas.

Pro forma templates of the various reports are included at Annexes 1 to 4.

# 2 The Accounting Separation Process

## 2.1 General Principles

### 2.1.1 Cost Orientation

Cost orientation requires a clear link between the activity of the business and the costs attached to it. Costs should be linked to activities at as granular a level as possible.

In a similar way, revenues and assets and liabilities should be attributed to network elements, services and businesses or disaggregated businesses according to the activities that cause these revenues to be earned or the assets to be acquired or liabilities to be incurred.

### 2.1.2 Transparency

The attribution methods used should be transparent. Costs and revenues, which are allocated to businesses or activities, should be separately distinguished from those that are apportioned.
Costs drivers, together with the systems and processes used to synthesise them into the form of the statements should also be clearly explained, so that their appropriateness can be considered.

### 2.1.3 Non-discrimination

The information being presented should not be slanted, either to favour the regulated entity as a whole or to favour one of the separated businesses within those entities.

### 2.1.4 Cost-effectiveness

Leading practice regulation suggests that the costs of providing any additional information for regulatory purposes should be proportionate to the benefits that it delivers. It is important that additional requests, particularly as they relate to the level of granularity or detail in reporting, are considered in this context.

## 2.2 Cost Accounting Methodologies

### 2.2.1 Historical Cost Accounting

Separated accounts should be prepared using Historical Cost Accounting (HCA). This approach complies with Generally Accepted Accounting Principles ("GAAP") and the International Financial Reporting Standards ("IFRS") specified by the International Accounting Standards Board ("IASB"). These standards are already followed by companies in The Bahamas, including CBL.

### 2.2.2 Accounting policies

Separated accounts should include (but not necessarily be limited to) details of the accounting policies adopted in respect of the following items:

- asset valuation (intangible and tangible),
- depreciation methods, dates, and asset lives,
- inventories,

- interest,
- foreign currencies,
- revenue recognition,
- account receivables,
- fixed asset investments,
- redundancy costs,
- pension schemes,
- bad debts, and
- financial instruments.

Consistent with International Accounting Standards, all costs should be reported using the same assessments of materiality and aggregation adopted by CBL in preparing its statutory accounts.

Accounting policies should be consistent with the principles outlined at Section 2.1 above. Publication of the policy does not, by itself, confirm the acceptability of that policy. URCA will review the appropriateness of an operator's policies regarding each of these items and may view selected accounting policies as inappropriate. Specifically, URCA may determine that a material item does not relate – either wholly or partially – to the regulated product or service. In such cases, the cost of the material item would be excluded from the separated accounts for the services in question.

### 2.2.3 Fully Distributed Cost Allocation

The cost of each individual product or service should be calculated using Fully Distributed Costing ("FDC"). FDC requires that revenues and costs of the business are allocated to specific products or services. The allocation of revenues is generally straightforward as the supply of a particular product or service generates a specific charge.

Cost allocation is more complex. Certain costs will be incurred in the production of more than one product or service and the total cost will therefore have to be allocated to more than one product or service. All relevant costs should be allocated to an individual product or service. It is important that the relevance of the cost to the production of the product or service in question can be demonstrated. Costs that are not relevant in this context should be excluded to avoid the risk of a product or service cost being overstated in the separated accounts. Such an overstatement would distort the actual position and would run contrary to the principles of both general financial reporting and accounting separation outlined above.

Allocation of the costs to individual products or services should be undertaken using an Activity Based Costing ("ABC") system. ABC is a widely used approach that allocates costs based on the level of activity required to produce an individual product or service. Although this approach has its drawbacks, it is considered less arbitrary and more relevant than alternative methodologies for cost allocation.

The details of the cost allocation process are described at Section 2.3 below.

### 2.2.4 Depreciation

Depreciation charges associated with capital items (e.g. head-end equipment, cables, towers) should follow the allocation of costs as described in Section 0 above as well as the more specific breakdown given in Section 4.

There is a range of approaches to the calculation of depreciation which will be familiar to accountants. These include straight-line and reducing balance. The method used will be selected to best reflect the nature of the asset and way in which it wears out over the course of its useful life. The length of the useful life will also vary from asset to asset. A business is likely to employ more than one approach to calculating depreciation and will also almost certainly use numerous asset lives in these calculations.

Accounting standards used in The Bahamas[1] allow for the adoption of a variety of approaches and these guidelines allow for the various approaches to be followed in preparing accounting separation statements. However, the depreciation charges should also be calculated using the same approach (e.g. straight-line) and asset life as adopted in the statutory financial reports.

Depreciation charges should be consistently applied, using the same allocation basis adopted for the assets to which the depreciation charge relates.

Notwithstanding the above, URCA may, for the purposes of comparison, require that all SMP operators adopt a standard approach to depreciation calculations. This standard will specify the asset categories, depreciation method and the asset lifetime[2].

### 2.2.5 Treatment of Capital Costs

As with other financial reports, it is important to report the levels of capital employed in providing any given product or service.

The levels of capital employed to provide a product or service are multiplied by the cost of capital to calculate the cost of capital employed. For each individual product or service, a statement of Mean Capital Employed (MCE) should be produced. A MCE statement follows the format of a balance sheet, but will not include long-term liabilities or shareholders' funds. An example of an MCE statement is included at Annex 2.

The Weighted Average Cost of Capital (WACC) applicable to CBL has been the subject of a separate consultation and determination by URCA.[3]

The WACC will be applied to the capital employed[4], as stated in the MCE for the product or service, to calculate the cost to the operator of using that capital in its business (cost of

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[1] The Bahamas follows International Financial Reporting Standards, which are set by the International Accounting Standards Board.

[2] URCA may specify such a standard approach that may differ from the approach followed in the statutory accounts of the operator. Operators would not be required to adjust the approach used in their statutory accounts to ensure consistency with the approach required by URCA in the separated accounts.

[3] See ECS 23/2009, November 2009

[4] This is a straightforward multiplication: Cost of MCE = (MCE x WACC)

MCE). This calculation can be likened to the opportunity cost of not using the capital elsewhere.

The cost of the MCE will be shown in the profit and loss statement within the separated accounts.

### 2.2.6 Migration to Current Cost Accounting

As mentioned in Section 2.2.1 above, CBL should initially base its separated accounts on HCA. However, URCA intends to introduce Current Cost Accounting (CCA) at a later stage.

CCA restates assets and liabilities to their current value. CCA offers the following key advantages over HCA:

- operational inefficiencies which may be hidden by HCA are revealed by CCA; and
- Mean Capital Employed is calculated by reference to current, rather than historical, asset values.

CCA would continue to use the FDC allocation methods, introduced at Section 0, above, and discussed in more detail in Section 2.3, below.

URCA shall consult with the industry on the process and methodology for CCA at the relevant time in the future.

## 2.3 Cost Allocation Process

This section outlines the principles and approaches which CBL should follow in allocating costs, capital employed, and revenues for the purposes of accounting separation.

The accounting separation should be underpinned by the principle of causation: costs and revenues should be allocated to those services or products that cause those costs or revenues to arise. This requires the implementation of appropriate, detailed cost allocation methodologies. CBL should be able to:

- review each item of revenue, cost and capital employed
- determine the drivers that cause each item to arise
- using the driver, allocate each item to an individual business

Each item should be allocated to a product or service provided by CBL and most, if not all, revenues should be able to be allocated directly to the products or services to which they relate. However, costs present a more difficult allocation because many costs will be shared between different products and services.

The starting point for this processes information and data captured by the general ledger or other costing systems operated by the company. Costing information held in the systems may be divided between operating and capital costs, together with other accounting entries such as depreciation or provisions.

## 2.4 Types of Costs

Costs can be allocated to one of the following categories:

- Direct costs
- Indirect or shared costs
- Common costs.

Direct costs can be directly and unambiguously attributed to the production of specific products or services. Where costs cannot be directly attributed they are usually allocated to individual products or services on a measured and objective basis.

Both direct and indirect costs fall into one of the following categories:

- fixed costs, which do not vary in the short-term with the levels of output
- variable costs, which rise and fall with changes in the level of output. Even where these costs are shared with more than one product or service it is possible to measure the impact of changes in the level of output with reference to changes in the level of cost.

Regarding common costs, the most commonly used allocation method[5] is the application of Equal Proportionate Mark-Ups ("EPMUs"). This method allocates the common costs in proportion to the attributable costs of products and services.

Common Costs and their allocation have to be reported separately for review by URCA. Based on the nature and level of common costs, URCA may propose different allocation mechanisms and reserves the right to separately review each common cost item.

## 2.5 Allocation of Operating Costs

The cost allocation process outlined in Section 2.3 and Section 2.4 applies to both capital and operating costs. An illustrative list of operating costs is shown below. The list is intended to provide high-level guidance only and CBL will need to develop cost allocation procedures specific to the way that they currently capture and record costs. These procedures should be periodically reviewed and amended as necessary.

Illustrative list of operating cost items:

- depreciation,
- provision, installation and maintenance costs,
- network planning and development costs,

[5] According to economic theory, Ramsey Pricing is the most appropriate methodology for attribution of common costs; however, due to the difficulty of measuring appropriate elasticities, it will not be considered in the context of these Guidelines.

- network operating costs (incl. network management costs),
- marketing and sales costs,
- billing and collection costs,
- bad debt,
- customer service and value added service costs,
- payments to other operators and content providers (may be reported under Cost of Goods Sold (CoGS), and
- support costs.

## 2.6 Mean Capital Employed

A statement of mean capital employed should be prepared as part of the separated accounts for each separate business and service (as listed in Section 3.2). The statement will show capital employed in supplying the product or service and should be the average of capital employed for the year. Ideally it should be calculated using a weighted average methodology, although for the initial year (2009), reporting a simple average of capital employed will be acceptable. Calculating MCE based on an average avoids the problems that arise from using the year-end balance sheet figures, which provide only a “snapshot" of the amount of capital employed at that point in time.

An example of an MCE Statement is included at Annex 2, below.

### 2.6.1 Treatment of Working Capital

It is not normally possible to allocate working capital to an individual regulated product or service. Current assets and liabilities therefore need to be allocated across all products and services on a reasonable and measurable basis. Two key principles should be followed in the treatment of working capital in MCE statements:

- assets and their associated costs and revenue should be treated consistently; and
- consideration should be given to the impact on WACC of the inclusion or exclusion of specific items of working capital.

## 2.7 Unit cost

Having allocated all of the operating costs to a particular product or service, the total cost of that service will be calculated as follows:

Total Cost = (Operating costs + depreciation + (WACC *x* Mean Capital Employed))

The unit cost of the product or service will be calculated as follows:

$$\frac{\text{Total cost}}{\text{Total volume}}$$

The specific unit will depend on the product or service itself (e.g., cost per line, cost per MBit, etc).

## 2.8 Reporting of Non-financial Inputs

To assist URCA in the review of separated accounts, additional non-financial information has to be provided. Some of this information, such as accounting policies, will be familiar to users of statutory financial reports. Others such as cost allocation methodologies, market definitions, subscriber numbers and transfer charges will be specific to the business' separated accounts. Details of this non-financial information, required in the separated accounts, are at Section 4.2 below.

## 2.9 Revenue Allocation Process

Generally, the revenues from providing electronic communications and broadcasting products and services can be directly allocated to the products and services to which they relate based on accounting records and billing system information.

In those instances where direct allocation based on the above is not possible (e.g. a bundle of two or more services), revenues should be attributed on the basis of causation. For example, a bundle of TV services and Internet access includes a TV service component and an Internet component. Revenues should be either be split in proportion to the costs of providing each component or apportioned to individual services based on the price of single products.

# 3 Network and Service Breakdown for CBL

This Section provides specific instructions to CBL on the granularity and level of detail expected regarding the development of separated accounts. The following Sections give a minimum set of business areas which need to be considered in the preparation of separated accounts.

Section 3.1 sets out the required breakdown of CBL's businesses for which separated accounting information is required.

Section 3.2 goes into more detail on the requirements regarding the breakdown of CBL's retail and network costs for each business area.

## 3.1 Required split of CBL's businesses

This section defines the level of disaggregation that is required for CBL's separated accounts. It is important to note that CBL's obligations extend to include its affiliates[6].

CBL should prepare separate accounting information for the following main business areas:

- Basic Cable TV (currently called SuperBasic TV Package);
- Digital TV;
- Broadband Internet;
- National leased lines; and
- Other Activities (containing all remaining activities not listed above).

These main business areas are briefly defined in the remainder of this Section.

**Basic Cable TV**

The Basic Cable TV business unit includes all end-to-end activities involved in providing TV services to end users. Therefore, the accounts for the Basic Cable TV business have to include all network and retail costs, revenues and capital employed associated with the provision of this service.

Currently, CBL bundles broadband internet services with its Basic Cable TV package. For the purpose of accounting separation, the associated revenues will need to be disaggregated based on the principle of causation, as set out in Section 2.9 above. The resulting net revenue from the Basic Cable TV service will then be allocated to the Basic Cable TV business, with the remainder of the revenues being allocated to the Broadband Internet business area.

[6] Under the terms of section 116(2) of the Comms Act, URCA must consider what obligations are to be imposed on operators which are presumed to have SMP. In accordance with Schedule 4 of the Comms Act, the presumed SMP operators include "any affiliates".

**Digital TV**

The Digital TV business includes all those activities involved in providing premium TV services to end users (including, amongst others, all add-on packages, such as Oceans Sports/ Movies/ Complete, and premium add-ons, such as NFL Season Ticket). The accounts for the Digital TV business have to include all network and retail costs, revenues and capital employed associated with the provision of these services.

As stated above, CBL should allocate revenues from its Digital TV and broadband internet bundles in accordance with Section 2.9 above.

For the avoidance of doubt, this business area should not include any costs and revenues associated with TV services not included in the high-level SMP market.

**Broadband Internet**

The Broadband Internet business includes all those activities involved in providing broadband services to end users or other operators. The accounts for the Broadband Internet business have to include all network and retail costs, revenues and capital employed associated with the provision of these services.

As stated above, CBL should allocate revenues from its TV and broadband internet bundles in accordance with Section 2.9 above.

**National Leased Lines**

The National Leased Lines business includes all those activities involving the selling of national leased lines to businesses or other operators. The accounts for the National Leased Lines business should include all network and retail costs, revenues and capital employed associated with the provision of these services.

**Other Activities**

CBL may provide a wide range of other services for which CBL is not presumed or designated to have SMP, including further TV services, international leased line services, sale, rental, repair and maintenance of customer equipment. In addition, CBL may have interests in other non-communications activities. For the purposes of accounting separation, the costs, revenues and capital employed associated with activities not included in the main business areas will need to be separately identified. The reporting of these remainders of services is important for the reconciliation of separated accounts with the statutory accounts (see Section 4 for more detailed reporting requirements).

The details for the reporting formats as well as additional reporting requirements (e.g., for non-financial information) are specified in Section 4.

## 3.2 Required breakdown of retail and network costs

To provide a sufficient level of transparency in the cost allocation, retail and network costs of each business area need to be reported separately. Both retail and network costs should be split into a reasonable set of cost categories, taking into account the principles of cost causation and transparency. Prior to preparing its accounts, CBL should propose a suitable list of cost categories to URCA. However, URCA would expect such a list to include, at a minimum, the following items:

**Retail costs**

- Sales and marketing
- Customer service
- Billing and collection
- Content costs
- Other retail costs

**Network costs**

- Buildings and land
- Forward and return path facilities (including head-end and network management)
- Transmission/Backbone network
- International connectivity
- Access network (including Cable TV drops, TV Transmitters, and Customer Premises Equipment)
- Other network costs (incl. Cable Modem Termination System, and satellite systems)

# 4 Reporting Format of Separated Accounts

Annexes 1 to 4 of these guidelines contain examples of the reporting formats of the various financial reports required by URCA. Separate reports must be prepared for each of the business areas set out in the previous Section.

This Section provides a high-level summary of the contents of each of the reports required.

## 4.1 Financial Reports and Information

As part of its submission, CBL shall provide the following statements for each Business Area listed in Section 3.1:

- Profit and Loss statement, in the format set out in Annex 1.
- Statement of Mean Capital Employed, in the format set out in Annex 2.
- End-to-end unit cost information, in the format set out in Annex 3.

For the avoidance of doubt, CBL is not required to report separate financial statements for any services within each defined business unit.[7]

### 4.1.1 Timetable for preparation of Financial Reports and Information

CBL must provide, within one month of publication of the Final Decision on SMP Obligations (ECS11/2010), its timelines for submitting Accounting Separation documentation and results.

For 2010 and each subsequent year, CBL must submit audited, separated accounts within six months of the end of their financial year.

## 4.2 Reporting of Non-financial Information

As mentioned at Section 2.8 above, in addition to the financial reports and information mentioned at Section 4.1 above, the following non-financial information is also required. While some of this will be familiar to accountants already used to providing information on accounting policies (for example, when presenting statutory accounts), some of this information goes beyond the level that would normally be disclosed in statutory accounts. CBL's documentation should contain, at the minimum:[8]

- a description of accounting principles and accounting policies used to prepare its separated accounts (as set out in Section 2.1). This will include, for example, policies covering revenue and cost recognition, depreciation, and asset valuation;

[7] URCA notes, however, that Superbasic TV is defined as a separate business and therefore financial reports are required for this product.

[8] For 2010 and each subsequent year, CBL should further provide an outline of significant changes it has made relative to the previous year's approach.

- a description of the Business Areas and cost categories contained in the separated accounts, as specified in Section 3. As part of the description of each Business Area CBL should provide a list of services contained in each;

- a summary description of revenue, operating costs and capital employed attribution methodologies for key services and cost items, including source data, cost centres, cost centre classifications, cost drivers, and an overview of the cost allocation processes;

- a Detailed Allocation Methodology document. This should be sufficiently detailed to enable URCA to develop a complete process map of all the allocations in CBL's cost accounting system. As such, it should include, at a minimum, a description of:

  (i) all costs that are inputted from CBL's General Ledger and Fixed Asset Register into the accounting separation model,

  (ii) the allocation from General Ledger and Fixed Asset Register items to cost categories,

  (iii) the allocations from cost categories to Business Areas, including a description of all allocation keys, the data sources used by CBL to determine the allocation keys, and

  (iv) the cost driver values used during the allocation process.

- Operational Data, such as manpower allocated to certain services.

### 4.2.1 Timetable for preparation of non-financial Information

For the initial reporting under these guidelines, CBL must submit all accompanying documentation (as set out in Section 4.2) alongside its separated accounts.

For all subsequent years, CBL must submit a document describing any planned, material changes it plans to make relative to the previous year's approach within the first four weeks of the financial year. URCA will, within a month of receiving this document, notify CBL of whether it agrees with all the proposed changes set out in the submitted document.

URCA may, during the process of reviewing this information, give written notice to CBL that it is suspending the review period, in order to request additional information or clarifications on the proposed changes. Following receipt of the requested additional information, the review period will resume from the point at which it was suspended.

Notwithstanding the above, should URCA not respond to CBL within a month of receiving the document outlining the planned changes in methodology, URCA shall be presumed to have agreed to the proposed changes.

Following URCA's approval, the separated accounting statements should then be submitted alongside a revised documentation set reflecting URCA's required amendments, consistent with the timeframe set out above in Section 4.1.1.

## 4.3 Reconciliation Statements

Consistent with the principle of transparency is a requirement to link the information presented in the individual separated accounts with the overall financial reports of CBL.

Reconciliation statements allow the user of the separated accounts to see the adjustments required to move from the position shown in the statutory accounts to those of the individual Business Areas.

The statement will show how the individual revenues, costs and capital employed by each Business Area reconcile to the total reported in the statutory accounts.

Annex 4 of these guidelines shows the reporting format of the reconciliation statements.

## 4.4 Auditing of Separated Accounts

Following the principles of transparency and non-discrimination, there will be a requirement for separated accounts to be independently audited. It is common practice for an operator's independent financial auditors to audit the separated accounts in addition to their audit of the operator's statutory accounts. The audit of the operator's statutory accounts should be completed before the audit of the accounting separation statements.

URCA has no objection to CBL using its statutory independent auditor to conduct the audit of separated accounts, provided that auditor is licensed by The Bahamas Institute of Chartered Accountants and has not been involved in preparing the statements. Should CBL wish to have its separated accounts audited by another auditor, then provided that auditor is independent and properly licensed, URCA would have no objection to their appointment. For the avoidance of doubt, however, the auditor of CBL's accounting separation statements should not also be involved in preparing the said statements.

In view of the potential time required for an audit, and given the links between the regulatory accounts and other regulatory requirements, URCA has decided to waive the audit requirement for the initial set of separated accounts. However, for the 2010 accounts onwards, there will be a requirement for an auditor to provide an opinion as to whether the separated accounts (which would include the financial statements specified at 4.1 above and the non-financial information specified at 4.2 above) are "properly prepared in accordance with" (PPIA) these guidelines and its accounting separation methodology documentation.

CBL shall also include a CFO responsibility statement alongside each submission of separated accounts to URCA. Within this statement, CBL's chief financial officer (CFO) should confirms that the submitted separated financial statements have been prepared in accordance with the licensee's obligations, these guidelines and the provided accounting separation methodology documentation.

URCA will review the audit requirements periodically in the context of developing requirements for separated accounts.

## 4.5 Public and Confidential Information

URCA is in the process of reviewing its position on the general issue of confidential treatment of information and will publicly consult on this matter in due course. In light of this, CBL will not be required to publish its initial set of separated accounts and accompanying documentation. Pending the results of this consultation, URCA reserves the right to require publication of subsequent separated accounts.

# ANNEX 1: Profit and Loss Reporting Formats

For each business set out in Section 3, the profit and loss statement should have the following format:

| | | Current year | Prior year |
|---|---|---|---|
| | | **$** | **$** |
| **Turnover** | One-off charges* | X | X |
| | Monthly charges* | X | X |
| | Usage-related charges* | X | X |
| | Other turnover | X | X |
| | **Total turnover** | **X** | **X** |
| | | | |
| **Operating costs** | Cost of sales** | X | X |
| | Retail specific operating costs** | X | X |
| | Other operating costs** | **X** | **X** |
| | Depreciation charges** | **X** | **X** |
| | **Total operating costs** | **X** | **X** |
| | | | |
| **Exceptional items** | | X | X |
| | | | |
| **Return** | | **X** | **X** |
| | | | |
| Mean Capital Employed | | X | X |
| **% return on Mean Capital Employed** | | **X** | **X** |
| | | | |
| **% return on turnover** | | **X** | **X** |

*where applicable

** In the notes to the financial statements for each Business Area CBL should provide a split of operating costs (incl. depreciation charges) into the individual cost categories, as set out in Section 3.2.

# ANNEX 2: Mean Capital Employed Reporting Format

The Mean Capital Employed Statement should have the following format:

| | | Current year | Prior year |
|---|---|---|---|
| **Assets** | | $ | $ |
| Current Assets | Cash at bank and in hand | X | X |
| | Accounts receivable | X | X |
| | Inventory | X | X |
| | Total current assets | X | X |
| | | | |
| Non-current Assets | Total non-current assets* | X | X |
| | | | |
| **Liabilities** | | | |
| Current liabilities | Accounts payable and accruals | X | X |
| | Loans payable | X | X |
| | Deferred income | X | X |
| | Total current liabilities | X | X |
| | | | |
| Non-current liabilities | Accounts payable | X | X |
| | Provisions | X | X |
| | Total non-current liabilities | X | X |
| | | | |
| **Mean Capital Employed** | | **X** | **X** |

* In the notes to the financial statements for each Business Area CBL should provide a split of non-current assets into the individual cost categories, as set out in Section 3.2.

Notes:

Long term borrowings and any tax liabilities and standard provisions generally included in the CBL's Balance Sheet that relate to the business as a whole, should be excluded from the mean capital employed calculations, because these items relate to the business as a whole and not to individual segments.

Unallocated items should be included as reconciling items in the Reconciliation of Consolidated Statement of Mean Capital Employed.

# ANNEX 3: Unit Cost Reporting Format

The reporting of service unit costs should have the following format:

| | Basic TV | Digital TV | Broadband Internet | National Leased Lines | Other activities | **TOTAL COST** |
|---|---|---|---|---|---|---|
| **Total revenues** | X | x | x | x | X | **x** |
| **Total costs** | X | x | x | x | X | **x** |
| | | | | | | |
| Total operating costs (excl. depreciation) | X | X | X | X | X | **X** |
| Depreciation charges | X | X | X | X | X | **X** |
| Mean Capital Employed | X | X | X | X | X | **X** |
| Return on Mean Capital employed | X | X | X | X | X | **X** |
| Total service volumes | | | | | | |
| | | | | | | |
| Business Area unit revenue | X | x | x | x | N/A | N/A |
| Business Area unit cost | X | x | x | x | N/A | N/A |

# ANNEX 4: Reconciliation Statements

The reconciliation statement for the Profit and Loss statement should look as follows:

| | **Operating Revenue** | **Operating Cost** |
|---|---|---|
| SuperBasic | X | X |
| Digital TV | X | X |
| Broadband Internet | X | X |
| National Leased Lines | X | X |
| Other activities | **X** | **X** |
| **TOTAL SEPARATED ACCOUNTS** | **X** | **X** |
| **ADJUSTMENTS** | X | X |
| **STATUTORY ACCOUNTS** | **X** | **X** |

The main adjustments made should then be documented and explained separately.

The reconciliation statement for mean capital employed should look as follows:

| | **MEAN CAPITAL EMPLOYED** |
|---|---|
| SuperBasic | X |
| Digital TV | X |
| Broadband Internet | X |
| National Leased Lines | X |
| Other activities | **X** |
| **TOTAL SEPARATED ACCOUNTS** | **X** |
| **ADJUSTMENTS** | X |
| **STATUTORY ACCOUNTS** | **X** |

The main adjustments made should then be documented and explained separately.