GIBTELECOM

SMP REGULATED ACCOUNTS

FOR YEAR ENDED 31 DECEMBER 2010

ATTRIBUTION METHODOLOGIES

Gibtelecom SMP Regulated Accounts

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1. Attribution Methods

1.1   Introduction

1.1.1   This document describes the attribution methodologies used to allocate fully Gibtelecom's revenue, costs, assets and liabilities to its activities and, where applicable, their disaggregated activities and gives an explanation of the different methods used for attributing revenue, costs and capital employed. In accordance with the GRA's Decision Notice 01/11 on Accounting Separation and Cost Accounting Systems, Gibtelecom is required to provide details on the Company's regulated separated accounts attribution methodologies in a separate document. Attribution methodologies were previously provided with the Company's separated accounts and other accompanying information within a single consolidated document.

1.1.2   Cost types and the processes involved in their allocation or apportionment are described, showing how costs are treated from their initial appearance in Gibtelecom's accounting records to their ultimate attribution to activities. It explains both the system used to produce the SMP Regulated Accounts and the methodologies employed in that system.

1.1.3   The purpose of Accounting Separation is to provide information to reflect as closely as possible the performance of different activities within the business. It is necessary for competing operators to have confidence that Gibtelecom is not unduly discriminating between its own Retail Activities and competing operators or between one competitor and another when providing similar services.

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

1.1.4.1 the publication of accounts that are transparent and allows other operators to understand how Gibtelecom's revenues relate to costs.

1.1.4.2 the SMP Regulated Accounts data demonstrates that interconnection arrangements are equitable, in that it shows no over or under recovery of Gibtelecom's network costs.

1.1.5   The fundamental feature of this approach to attribution is the principle of causality. Each item of income, cost and capital employed recorded in the Gibtelecom group accounts is attributed to the activities defined under Accounting Separation.

1.1.6   Attribution methodologies will be regularly reviewed and enhancements introduced to reflect, for example, changing technologies while the apportionment bases, which are the practical application of these methods to actual values, will be updated periodically.

1.2   Activities

1.2.1   Under accounting separation, financial statements are produced that show Gibtelecom's revenue, costs and capital employed attributed between the following activities:

1.2.1.1 Wholesale Core Network Business

The wholesale core network activity sells a range of network services to meet the differing needs both of other operators and the retail activity.

1.2.1.2 Wholesale Access Network Business

The wholesale access network activity provides the Retail activity with links between Gibtelecom's customers and the wholesale core network. The wholesale access network activity receives revenue from Gibtelecom's retail activities in the form of a transfer charge equal to its costs plus a return on capital employed.

1.2.1.3 Wholesale mobile voice termination business

The wholesale costs incurred in delivering Mobile Voice services.

1.2.2   In accordance with the GRA's requirements under the more recent SMP obligations, Gibtelecom produces separated financial statements for the following retail activities:

1.2.2.1 Fixed Access
1.2.2.2 Fixed access domestic calling
1.2.2.3 Fixed access international calling

All of Gibtelecom's other retail activities are included under remaining activities.

1.3   Attribution Methodologies

1.3.1   Overview

1.3.1.1 Gibtelecom's approach to attribution is to identify income and costs which can be directly attributed to activities. For all remaining balances Gibtelecom identifies the appropriate driver for each item, and, as far as possible, uses objective operational and/or financial data relevant to that driver to generate apportionment bases.

This approach to the process of attribution of financial information to activities can be summarised as follows:

1.   review each balance,
2.   establish the cost driver, i.e. the process that caused the cost to be incurred or the revenue to be earned,
3.   use the driver to allocate or apportion the balance to Retail Activities, the Wholesale Access Network Business or, to the Wholesale Core Network,
4.   allocate revenue to Retail Activities, Wholesale Access Network or to the Wholesale Core Network Business.

The general methods for revenue and cost attribution in Accounting Separation are set out below.

The attribution of mean capital employed, which follows the same principles, is also described briefly below.

1.3.2   Revenue

1.3.2.1 Revenue is recorded in the accounting records in such a manner that it is usually possible to allocate it directly to retail and wholesale activities.

1.3.3   Costs

1.3.3.1 Costs are drawn from the accounting records. There are a series of steps which allocate non-business costs in a tiered approach to eventually allocate these costs to business areas. These are highlighted in Statement No 07/08 of the GRA on Accounting Separation,

Cost Orientation, Cost Accounting methods and compliance under SMP obligations. Further guidance is also provided by the GRA's Decision Notice 01/11 on Accounting Separation Cost Accounting Systems. To identify the costs of specific services the ASR model utilises a number of allocation stages or building blocks as illustrated in the following diagram:

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┌─────────────────────────────────────────────────────────────────────────┐
│  ┌──────────┐   ┌──────────┐   ┌──────────┐                              │
│  │ Customer │   │Depreciation│  │Costs from │                            │
│  │ revenue  │   │ analysis  │  │Financial  │                            │
│  │          │   │          │  │ Systems   │                            │
│  └──────────┘   └──────────┘   └──────────┘      ┌──────────────────┐   │
│                                                   │ABC analysis by Cost│ │
│                                                   │     Centre        │  │
│                                                   └──────────────────┘   │
│  ┌──────────┐   ┌──────────────────────┐                                │
│  │ Revenue  │   │   Cost Allocation    │                                │
│  └──────────┘   └──────────────────────┘         ┌──────────────────┐   │
│  ┌──────────┐                                     │ Driver Information│  │
│  │Retail Costs│◄─                                 └──────────────────┘   │
│  └──────────┘        ┌──────────────────┐                               │
│                      │ Network Elements │                               │
│                      └──────────────────┘                               │
│                      ┌──────────────────┐         ┌──────────────────┐   │
│  ┌──────────┐        │Costs of Wholesale│         │Allocation analyses│  │
│  │Wholesale │        │    Services       │        └──────────────────┘   │
│  │ Costs    │◄───────└──────────────────┘                               │
│  └──────────┘                                                            │
│  ┌──────────┐                                                            │
│  │  Profit  │                                                            │
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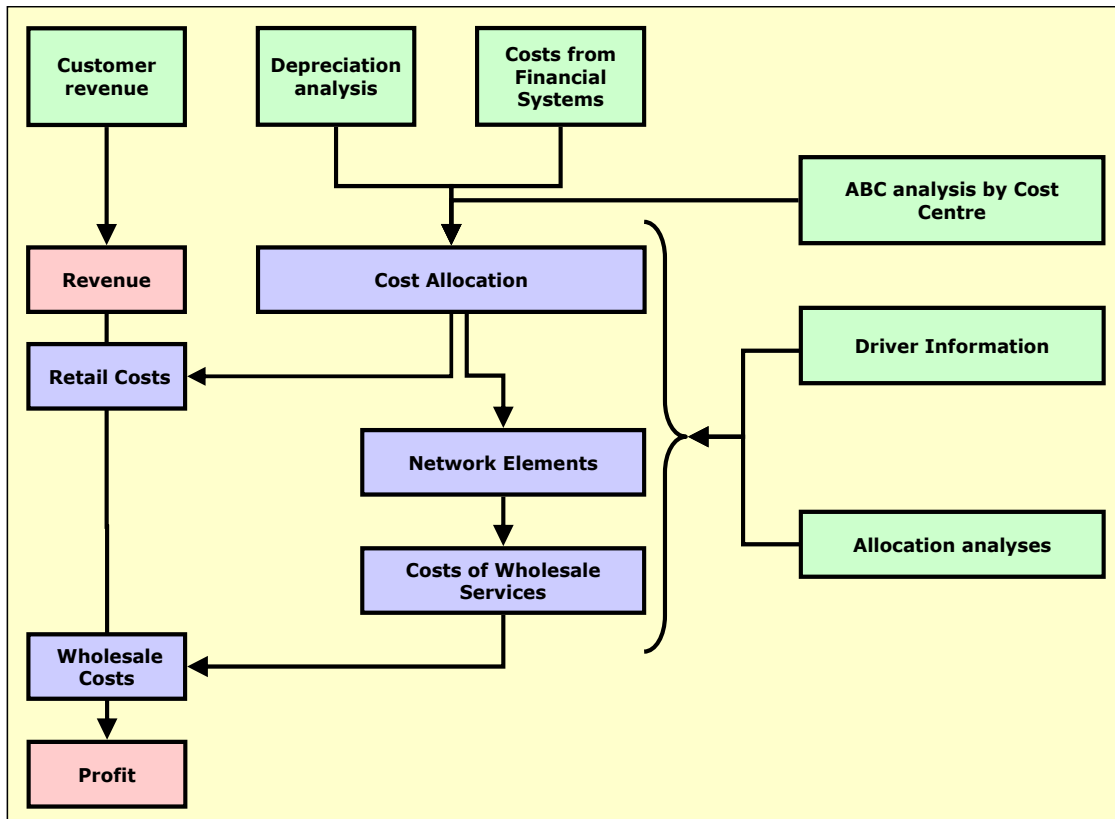
The methodologies applied to the costs, which vary according to the nature of the costs and the way in which they are recorded, are set out below.

a)   Direct and directly attributable costs

Certain costs can be allocated to specific activities and, therefore, do not require apportionment. These costs include most of the costs directly related to customer-facing activities, such as maintenance of customer premises equipment. They also include directly appropriated and plant costs.

b)   Indirectly attributable costs

Other costs cannot be directly associated with particular activities or network elements, and require indirect apportionment. These costs include general costs of Gibtelecom's business units which service various activities which are recorded on a cost centre basis.

c)   Unattributable Costs

In its performance of separating its financial records, Gibtelecom has not found any costs or revenues which can be deemed as being unattributable (these are costs for which no specific apportionment bases can be readily derived) and therefore it has not been necessary to setup an Unattributable Costs account.

1.3.4 Mean Capital Employed

1.3.4.1 Mean capital employed is defined by Gibtelecom as mean total assets less liabilities and provisions other than those for deferred taxation, excluding corporate taxes and dividends payable. The mean is calculated from the start and end values for the period.

The apportionment of capital employed follows a similar approach to that used for operating costs.

Fixed assets are recorded using Asset type identification codes and can be segmented into three categories:

1. those assets that can be directly allocated to activities;

2. assets relating to a group of activities which are apportioned on the basis of cost driver;

3. assets of a general nature supporting, for example, general mainframe computers or motor vehicles, where an appropriate apportionment base, derived from the attribution of the operating costs of that element, is applied.

1.3.4.2 For current assets and liabilities, those elements that can be directly attributed to activities (specific debtors and creditors, stocks and provisions) are directly allocated; for the remainder appropriate apportionment bases are derived for each element. For instance, trade debtors are attributed on the basis of an analysis of the related revenue.

1.3.4.3 Cash balances are attributed to activities and network elements on the basis of an analysis of operating and capital expenditure in the period.

1.3.4.4 Provisions are either allocated specifically to activities or are apportioned using a base appropriate to the particular provision.

1.3.5 Non-Financial Data

1.3.5.1 Wherever costs cannot be directly allocated to activities, an apportionment is required.

1.3.5.2 Depending on the cost involved the appropriate basis of apportionment may be of a non-financial nature. In these instances the relevant data may be extracted from non-financial data sources, such as operational systems recording core transmission and usage, or may be collected through activity analysis.

1.3.5.3 These surveys are re-performed annually and in some instances more frequently.

1.3.6 Current Costs

1.3.6.1 The methods of attribution used for current costing are compatible with the basis on which the current cost values have been derived, reflecting cost causalities in the same manner as the historic cost attributions. The current cost adjustments to the historical cost profit and loss account and mean capital employed are attributed to activities and components, which make up the separate activities defined under Accounting Separation, on the basis of causality. The attribution in the current cost Regulatory Statements is therefore consistent with that in the preparation of the underlying historical cost based information.

1.3.7 Summary

1.3.7.1 Revenue, costs and capital employed are attributed, by allocation and apportionment, either directly to activities or via a series of steps of indirect allocation.

1.3.7.2 Gibtelecom's approach to attribution is to identify the appropriate cost drivers for each revenue, cost or capital employed type and, as far as possible, to use objective operational and/or financial data relevant to that cost driver to generate apportionment bases.

1.3.7.3 Apportionment bases and methodologies are regularly reviewed with enhancements introduced to reflect, for example, changing technologies.

1.4 Revenue

1.4.1 Overview

1.4.1.1 Turnover is made up of the value of services provided and equipment sales. Typically turnover can be analysed by activity directly from the accounting records. The turnover arises from calls, line rentals and other activities.

1.4.2 Wholesale Core Network

1.4.2.1 Revenue arises from provision of network services to other operators and to the Retail Business. When there are receipts from other operators in respect of calls originating in their networks and terminating on, or in transit through, the Wholesale Core Network these are separately identified in the accounting records and directly allocated to the Business.

1.4.2.2 Separated accounts have been prepared for the following wholesale core network activities:

1. Fixed origination
2. Fixed termination
3. Leased Lines
4. Remaining activities

1.4.2.3 The revenue arising from the provision of services to the retail activity is calculated within the transfer charge element of the accounting separation system, rather than in Gibtelecom's main accounting systems.

1.4.3 Wholesale Access Network

1.4.3.1 The revenue arising from the provision of services to the Retail Business is calculated within the Transfer Charge element of the Accounting Separation system, rather than in Gibtelecom's main accounting systems, on the basis of the recorded operating costs and return on capital employed of the Wholesale Access Network Business.

1.4.3.2 Separated accounts have been prepared for the following wholesale access network activities:

1. Unbundled access
2. Broadband access
3. Remaining activities

1.4.4 Retail

1.4.4.1 Fixed Access

1.4.4.1.1Fixed Access revenue, which is separately identifiable from the accounting records, is in respect of rental income related to the provision of lines to retail customers.

1.4.4.2 Fixed Access domestic Calling

1.4.4.2.1Revenue derived from local (domestic) calls originating at a Gibtelecom fixed access point.

1.4.4.3 Fixed Access International Calling

1.4.4.3.1Revenue derived from international calls originating at a Gibtelecom fixed access point.

1.4.5 Other activities

1.4.5.1 Revenue from other activities include all the other retail services that Gibtelecom offers which do not form part of the financial separation regulatory requirements.

1.4.6 Wholesale mobile voice termination

1.4.6.1 Mobile revenue arises from provision of mobile network services to other authorised operators and to the mobile business. When there are receipts from other operators in respect of calls originating in their networks and terminating on, or in transit through, the wholesale mobile network, these are separately identified in the accounting records and directly allocated to the business.

1.4.6.2 Separated accounts have been prepared for the following wholesale mobile network activities:

- Mobile voice termination services and
- Remaining activities

1.4.6.3 The revenue arising from the provision of services to the non-mobile retail activity is calculated within the outpayments and transfer charge element of the accounting separation system, rather than in Gibtelecom's main accounting systems.

1.5 Costs

1.5.1 As mentioned above, costs are drawn from the accounting records and the attribution methods used depend on the nature of the costs involved.

1.5.1 Direct and directly attributable costs

1.5.1.1 These costs are allocated direct to the activity involved based on the information provided by the accounting records.

1.5.2 Indirectly attributable costs

1.5.2.1 These costs are attributed on a cost-driver basis. The nature of the costs is examined to determine its cause and subsequently its driver.

1.5.2.1 This driver is then used to attribute the costs across those services which make use of the common cost-driver.

1.6 Types of cost

1.6.1 The separated accounts have been undertaken using the principle of cost causality (which is in line with regulatory requirements), whereby allocations try to follow the cause of the cost or utilise a driver which approximates the causality. Costs are considered to fall into five categories and the treatment for each type is as follows:

a. **Retail Costs**

These are costs that are specific to retail such as advertising activities. Costs such as these have been allocated to the appropriate retail services.

b. **Fixed Network Costs**

These are costs that are specific to the network such as maintenance of switching equipment or activities of the network operations centre. Costs such as these have been allocated to the appropriate network elements.

c. **Wholesale Mobile Network Costs**

These are costs that are specific to the network such as maintenance of mobile core / switching, interconnect and radio access equipment; mobile billing, rating mediation and provisioning infrastructure or mobile related activities of the network operations centre. Costs such as these were allocated to the appropriate mobile network elements and subsequently further allocated as appropriate to the specific mobile products / services that the network elements are used to provide. However, since detailed information regarding the usage of specific network elements to deliver specific wholesale mobile products and services was not available, it has not been possible to define detailed routing factors for each wholesale mobile product. Consequently in the SMP regulated wholesale mobile accounts, all non product specific mobile network costs have been grouped together and allocated to the individual wholesale mobile products using the common volume usage conversion factor approach.

d. **Shared costs**

These are costs which relate to the shared functions of the business such as the human resource area or building maintenance. These costs have been allocated across the cost centres that utilise the shared service using an appropriate driver.

e. **Common costs**

These are costs which relate to the "overhead" type activities of the business such as corporate communications and audit fees. These costs have been allocated to retail services and/or network elements using equal proportionate mark up (EPMU) on the appropriate direct costs (i.e. in proportion to the relative value of the direct costs).

f. **Non-Operating Costs/Income**

These are costs which do not relate to the operational activities of the business such as interest payments. These costs have not been allocated across services or network elements but identified separately for reconciliation purposes.

1.7 Cost analysis

1.7.1 To allocate the majority of costs it has been necessary to identify appropriate cost drivers. All of Gibtelecom costs are recorded under cost centres. However, there are certain specific costs, such as international outpayments and interconnection charges, which are either not specifically related to or are too large to follow the activities of the cost centre.

1.7.2 These costs have been extracted and separately allocated using an appropriate driver in line with the five cost categories identified above. The remaining costs within the costs centres have been allocated via an activity based costing (ABC) exercise, utilising the activities of the personnel within the cost centre.

1.7.3 Allocation of staff costs

1.7.3.1 Staff costs are apportioned using an activity based costing methodology. This consists of a two-stage process comprising apportionment of costs to defined activity based costing activities and a mapping of these activities to activities and network elements as defined by accounting separation.

1.7.3.2 Where necessary, i.e. for most departments, each has then analysed its function into a number of specific activities that it performs. For instance, the Network Engineering department has identified activities which include developing and installing fixed national transmission network, provide network and external plant security, and undertake maintenance on access network.. Each department performs an analysis of the time spent on the activities that it undertakes. Most of this work is analysed within Gibtelecom's activity dictionary, which is used to input and report the majority of activities undertaken within the company.

1.7.3.3 An exercise was undertaken with each of the heads of the operational cost centres identifying the activity breakdown within their cost centre. The activity dictionary was used to ensure consistent activities across the business. Once appropriate activities had been selected by the cost centre head, the staff members recorded under the cost centre has been mapped to the relevant activity.

1.7.3.4 The resulting activity allocators were applied to the core costs of the cost centre resulting in a cost by activity. Each of these activity costs was then allocated across retail services, network elements or to common costs using the appropriate driver.

1.7.3.5 Facility costs (rent, electricity etc) are separately identified within the cost centre structure with a separate cost centre for each building. Each facility cost centre has been allocated using the floorspace usage of the building.

1.7.4 Allocation of specific costs

1.7.4.1 Some cost expense categories, due to their size or non-compatibility with the core activities of the cost centre, were separately identified and extracted from the trial balance to be allocated individually. These costs have been allocated using an appropriate driver to retail services, network elements or common costs.

1.7.5 Allocation of shared activities and costs

1.7.5.1 With shared activities and costs the issue of cross support between departments and the problems of drivers which cross allocate has to be addressed. For example the IT department provides services to the Human Resources department and the Human Resources department provides services to the IT department. This necessitates identifying a hierarchical approach to avoid circular logic. Within the ASR model, the following hierarchical approach has been adopted:

1. Headcount
2. Floorspace
3. Vehicles
4. Computers
5. Stores
6. Other Allocations

1.7.5.2 For example the headcount driver is calculated by looking at the activity allocations of each cost centre (excluding any that are headcount related) and identifying the corresponding staff breakdown. The resulting summation of all cost centres gives the proportion of staff members by network element/retail service. The floorspace driver would follow a similar methodology but exclude all activities related to headcount and floorspace.

### 1.7.6   Allocation of common costs

1.7.6.1 The model contains three common cost pools where costs specific to retail (but not any specific service), specific to networks (but not to any specific element) or corporate common costs (not specific to retail or networks) have been identified.

1.7.6.2 Using the EPMU methodology each common cost pool is allocated across the appropriate retail services and/or network element using the proportion of sub totalled costs identified from the previous allocation stages. The EPMU allocation has been applied once all other costs have been allocated.

1.7.7   Network modelling and routing factors

1.7.7.1 The network is the main production facility for services provided by Gibtelecom. To perform a clear accounting separation, all network costs are associated with wholesale services to calculate cost-oriented prices for each of these services. In a separate stage, retail service cost can be derived by mapping them to the appropriate wholesale service or services (many retail services are combinations of a set of wholesale services).

1.7.7.2 The following chart gives an overview of the main calculation modules involved in producing the total network cost per network element and per wholesale service.
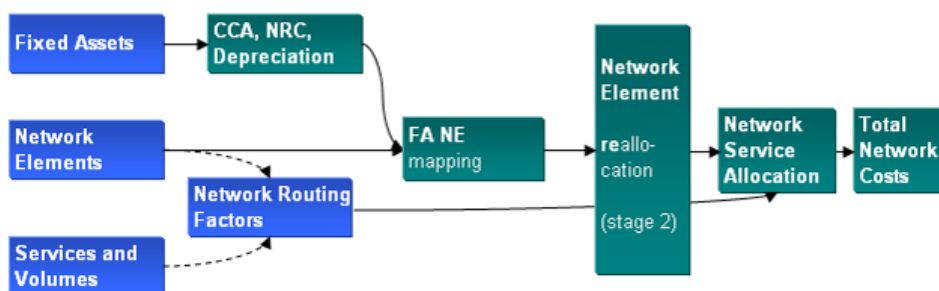
1.7.7.3 The main inputs of the network modelling are the fixed assets register, the list of network elements, the service volumes and the network routing factors (see section 3 below).

1.7.7.4 The costs of fixed assets are adjusted for current cost accounting in the CCA and depreciation module to determine the net replacement cost of network equipment. Network routing factors describe if and how often each network element is used by each wholesale service to allow for accurate cost allocation based on cost causation.

1.7.7.5 Service Volumes are the main driver to determine the cost on a per service basis after all costs have been appropriately (re-)allocated to each network element.

1.7.7.6 The mobile network is the main production facility for mobile services provided by Gibtelecom. To perform a clear accounting separation, all network costs are associated with wholesale services to calculate cost-oriented prices for each of these services. In a separate stage, retail mobile service cost can be derived by mapping them to the appropriate wholesale mobile service or services. (Many retail mobile services are combinations of wholesale mobile services).

1.7.7.7 The costs of mobile fixed assets were adjusted for current cost accounting in the 'CCA and depreciation module' to determine the net replacement cost of network equipment. Network routing factors based on the common volume usage conversion factor approach determines the proportion of the overall wholesale mobile network costs are used by each wholesale service to allow for accurate cost allocation based on cost causation.

1.7.7.8 Mobile service volumes are the main driver to determine the cost on a per mobile service basis after all costs have been appropriately re-allocated to common mobile network elements including core, switching, radio access, interconnect, billing/ rating etc.

1.7.8 Common usage and common volume

1.7.8.1 Common volume is the measurement of volumes of each mobile product type using a common unit of measurement, the erlang. This measure is used as the driver to apportion costs that aren't dependent upon the amount of usage that the calls make of the Gibtelecom mobile network. (e.g. billing). To allow costs to be correctly allocated where they are dependant upon the use of the Gibtelecom mobile network to convey the 'call' to and from each mobile product type, a 'Common Usage' driver has been used.

1.7.8.2 Within the model, every type of call involving a Gibtelecom mobile subscriber or a non-Gibtelecom mobile that uses the Gibtelecom mobile network (e.g. foreign roamers) has been considered. For each mobile product type (e.g. pre-paid Gibtelecom mobile in Gibraltar, local roamers, foreign roamers), a percentage of the use that origination and termination legs of the calls make of the Gibtelecom mobile network is calculated.

1.7.8.3 Each mobile product's 'Common Volume' is multiplied by its percentage use of the Gibtelecom mobile network to calculate the 'Common Usage'. For example, the Gibtelecom mobile network is wholly used for providing the originating and termination legs of the call to and from a Gibtelecom, mobile used in Gibraltar but not at all if the same Gibtelecom mobile is used outside of Gibraltar, a local roamer. This measure is used to apportion costs that are dependent upon the use made of the Gibtelecom mobile network (e.g. Gibtelecom mobile network maintenance).

1.7.9 CCA adjustments

1.7.9.1 Based on regulatory requirements all assets costs need to be recalibrated to reflect current costs that would be incurred, if the asset were purchased today. CCA adjustments calculate the current replacement cost by applying the ratio of current price index and price index during purchase time to each fixed asset category.

1.7.9.2 Gibtelecom uses price index numbers (known as MM17 values) for current cost accounting supplied by the Office for National Statistics in the United Kingdom. This service provides detailed indices for revaluation of assets and stocks, and is a comprehensive guide to capital replacement costs.

Table 1 below shows more details on the general methods of allocating costs;

Table 1 Methods of Allocating Costs

Category of Operating cost	Method of Allocation	Principal Activities
Depreciation	The allocation of depreciation has followed the allocation of the fixed assets to which it relates.	All
Bad debts	Gibtelecom bad debts have been allocated as a proportion of total income of billed areas.	All
Staff costs and related staff costs	The allocation of the staff and related costs is carried out using activity based costing methodologies Activities are allocated to Gibtelecom's different staff cost centres using an activity dictionary to ensure consistent activities across the business. Once appropriate activities had been selected by the cost centre head, the staff members recorded under the cost centre has been mapped to the relevant activity. The resulting activity allocators were applied to the costs of the cost centre resulting in a cost by activity. Each of these activity costs was then allocated across retail services, network elements or to common costs using the appropriate driver. Facility costs (rent, electricity etc) are separately identified within the cost centre structure with a separate cost centre for each building. Each facility cost centre has been allocated using the floorspace usage of the building.	All

Table 1 Methods of allocating costs - continued

Category of Operating cost	Method of Allocation	Principal Activities
Rental costs	On analysis of employee allocation to the different premises and then allocating the rental costs to the areas where these employees have allocated their time.	All
Stock related costs	On the basis of the split of the stock list between the areas of activities that were carried out by Gibtelecom. Using the percentage split of stock between the various areas we have been able to allocate costs such as the inventory reserve cost item.	All
Motor vehicle expenses	By dividing the total motor vehicle costs by the number of vehicles to arrive at an average cost per vehicle, and then using the allocation of motor vehicles to staff to allocate the motor vehicles to the different areas.	All
Personnel costs	Allocated based on the percentage of employees' time allocated to each area as a percentage of all employees' time (excluding those allocated initially to the personnel area).	All
Finance costs	Allocated to areas based on their turnover on the basis that the larger the turnover of an area, the greater the finance costs that will result.	All

Table 1 Methods of allocating costs - continued

Category of Operating cost	Method of Allocation	Principal Activities
Planning costs	Allocated based on turnover (excluding bank interest earned and workforce planning costs, which are allocated based on headcount) on the basis that the greater the income derived from an area, the larger the element of planning that will be dedicated to that area.	All
Administration costs	Allocated on the basis of turnover on the basis that greater turnover will result in an increase in administration expenses.	All
Billing costs	Allocated only to those areas that have a billing function on the basis of turnover.	All
Customer services costs	Allocated based on the percentage of employee's time allocated to each area as a percentage of all employees' time (part of activity based costing analysis).	All
Marketing costs	Allocated on the same basis as billing costs.	All

1.8   Mean Capital Employed

1.8.1 Overview

1.8.1.1 The apportionment of mean capital employed follows a similarly detailed and careful approach to that for operating costs. For some items turnover is the appropriate driver rather than costs.

1.8.2 Cost of Capital

1.8.2.1 In accordance with GRA Direction 11/05, the SMP Regulated Accounts have been prepared on the basis of a 15.3% Return on Capital Employed (ROCE) based on Weighted Average Cost of Capital and Capital Asset Pricing Methodologies. The components and formulae used in the calculation of this amount are set out under Section 3 of the Accounting Documents.

1.8.2.2 It should be noted that the economy of Gibraltar is somewhat disproportionate in size in comparison to other EU member States, where operators classified as having Significant Market Power (SMP) enjoy a considerably higher turnover than Gibtelecom. The cost orientation principles at the EU level apply to SMP operators with significantly greater strategic mass and revenues than Gibraltar. For example, the profits of Gibtelecom generally represent a fraction of less than 1 per cent of such operators. Therefore any process of benchmarking and comparison to other Member States needs to be conducted with care.

Table 2 below shows a summary of the general methods used to allocate capital employed for fixed services, whilst Table 3 shows the same for mobile services.

1.8.3 Tangible fixed assets

1.8.3.1 Some network equipment assets can be allocated directly to activities or network elements on the basis of the asset class recorded in the general ledger, or apportioned to activities the basis of network studies. Network assets allocated to mobile have been further allocated to each mobile product on the basis of their common measure.

1.8.3.2 Motor vehicles, computers, land and buildings are apportioned across activities using bases which replicate the total apportionment to services of the costs of the operations supported by the assets concerned. Further allocation across the various mobile products has been undertaken by their usage measured by the common usage.

1.8.3.3 Where direct allocation is not possible each unit will apportion the relevant assets between activities using an appropriate cost driver specifically selected to reflect the operations concerned.

1.8.4 Stocks

1.8.4.1 The bulk of stocks, if any, can be directly allocated to each relevant activity with the majority of the remainder being directly allocated to the wholesale access network activity.

1.8.5 Debtors

1.8.5.1 Debtors are extracted from the accounting records and analysed by type. At this stage, the appropriate apportionment bases (e.g., relevant turnover) are then applied. Debtors include the following categories:

a)   Trade debtors are directly allocated to activities and network elements on the basis of relevant apportionment bases.

b) Accrued income is directly allocated to activities and network elements on the basis of relevant apportionment bases.

c) Other debtors and prepayments are apportioned to activities using bases appropriate to the particular debtor type.

The further allocation to mobile services is apportioned across the various mobile products using the appropriate driver; generally common usage representing the estimated usage of the mobile network common elements, core switching, radio access, mediation and rating etc, based on defined conversion of the volume of each wholesale mobile product type to a hybrid common measure, "erlang".

1.8.6 Cash at bank and in hand

1.8.6.1 Cash balances are apportioned on the basis of operating and capital expenditure in the period.

1.8.7 Creditors

1.8.7.1 Creditors are extracted from the accounting records and the appropriate apportionment bases then applied in the following categories:

a) Creditors over a material balance are allocated to activities on the basis of the specific credit.

b) Creditors with an immaterial balance are allocated to the administration support function.

c) Other creditors are apportioned to activities and network elements using bases appropriate to the particular creditor type.

The further allocation to mobile services is apportioned across the various mobile products using the appropriate driver; generally common usage representing use of the mobile network.

Table 2 Methods of allocating capital employed – fixed services

Category of assets and liabilities	Description	Method of Allocation	Principal Activities
Network Assets	Local switching and related equipment	Direct to wholesale core network.	Wholesale Core Network
	Ducting	Ducting has been allocated on the same basis as "cabling and conduits" .	Wholesale Core Network, Wholesale Access Network and others
	Cabling and Conduits	Direct to Wholesale Core Network, and/or Wholesale Access Network based on samples obtained from Engineering Department.	Wholesale Core Network, Wholesale Access Network and others
Non-network fixed assets	Leasehold improvements	Allocated to activities on the basis of the time allocation by employees at each of the sites.	All
	General computers	Allocated on the basis of identifying the usage made by the different business areas of computers.	All
	Motor vehicles	Allocated to activities based on usage.	All
	Furniture and office equipment	Allocated to activities based on the allocation of time by the staff.	All
	Customer Premises Equipment	Direct to activity.	Remaining Activities
	Public Payphones and related equipment	Direct to activity.	Retail

Table 2 Methods of allocating capital employed fixed services - continued

Category of assets and liabilities	Description	Method of Allocation	Principal Activities
Working capital	Short-term investments (including cash at bank and in hand)	Directly allocated to activities based on the operational requirements of each business.	All.
	Stocks	Stocks were directly allocated by staff and are included under debtors in the separated financial statements.	All.
	Trade debtors/receivables	Trade debtors were allocated to all areas that had a billing element on the basis of turnover.	All.
	Other debtors/receivables	Other debtors/receivables were apportioned directly to the areas to which they related and include inventory.	All.
	Trade creditors	Trade creditors were allocated directly to the areas that they related to.	All.
	Long term provisions	Direct to the activities that give rise to the provisions in question.	All.
	Liabilities for taxation and dividends	No allocation required. Instead average liabilities should be taken into account when considering the operational cash requirements of each business.	All.

Table 3: Methods of allocating capital employed. – mobile services

Categories of Assets & Liabilities	Description	Method of Allocation	Principal Activities
Network Assets	Local mobile switching and related equipment/ costs	Allocated by 'Common Usage'	Wholesale Mobile Network
	Microwave and leased-line / backhaul costs	Allocated by 'Common Usage'	Wholesale Mobile Network
	Local and international interconnection equipment and connections/ costs	Allocated by 'Common Usage' and 3rd party operator charges	Wholesale Mobile IDD
	Mobile sites & GSM/3G Radio equipment/ costs	Allocated by 'Common Usage'	Wholesale Mobile Network
	SMSC/ MMSC and related equipment/ costs	Allocated across 'Specific Equipment' relating to SMSC/MMSC by the relevant measure.	Wholesale Mobile SMS /MMS
	GPRS/ 3G data and internet access equipment/ costs	Allocated across 'Specific Equipment' relating to GPRS /3G by the relevant measure.	Wholesale Mobile Data
	Pre-Pay IN billing, recharge and access equipment/ costs	Allocated across 'Specific Equipment' relating to Pre-paid Gibtelecom mobile subscribers by the relevant measure.	Wholesale Mobile Pre-Pay Products
	Post-pay billing, rating and mediation equipment/ costs	Allocated across 'Specific Equipment' relating to Post-paid Gibtelecom mobile subscribers by the relevant measure.	Wholesale Mobile Post Pay Products
	Voicemail	Allocated across 'Specific Equipment' relating to Voice service for Gibtelecom mobile subscribers by the relevant measure.	Wholesale Mobile Voice Products
	Roaming charges	Allocated across 'Specific Equipment' and 3rd Party operator charges relating to Roaming Gibtelecom mobile subscribers and by "Common Volume"	In Roaming (Foreign) and Out Roaming (Local) Mobile Products
Non-network fixed assets	Leasehold improvements	Allocated by 'Common Usage'	All
	General computers	Allocated by 'Common Usage'	All
	Motor vehicles	Allocated by 'Common Usage'	All
	Furniture & office equipment	Allocated by 'Common Usage'	All
Working Capital	Short-term investments	Allocated by 'Common Volume'	All
	Stocks	Allocated by 'Common Volume'	All
	Trade debtors / receivables	Allocated by 'Common Volume'	All
	Other debtors / receivables	Allocated by 'Common Volume'	All
	Trade creditors	Allocated by 'Common Volume'	All
	Long term provisions	Allocated by 'Common Volume'	All
	Liabilities for taxation and dividends	Allocated by 'Common Volume'	All

3 Routing factor matrix

Service:	Access loops	DSLAM	Line Card	CPE	National Transmission Equipment	National Transmission Infrastructure	National Transmission Ducts and Cables	RCU	Switching	Core IP network equipment	Mobile	Regulatory
National fixed call origination	-	-	0.4	-	1.0	1.0	1.0	1.0	1.0	-	-	1.0
National fixed call termination	-	-	0.4	-	1.0	1.0	1.0	1.0	1.0	-	-	1.0
Wholesale ULL and subloop	1.0	-	0.6	-	-	-	0.2	-	-	-	-	1.0
Line cards	-	-	1.0	-	-	-	-	-	-	-	-	1.0
DSLAM	-	1.0	-	-	-	-	-	-	-	-	-	1.0
Bitstream broadband	1.0	1.0	-	-	-	-	0.2	-	-	-	-	1.0
Gateway access	-	-	-	-	-	-	-	-	-	1.0	-	1.0
National leased circuit	2.0	-	-	-	1.0	1.0	1.0	-	-	-	-	1.0
Mobile Wholesale	-	-	-	-	-	-	-	-	-	-	1.0	1.0

4 Wholesale-retail service mapping matrix

Wholesale Service:	Line Rental	Line Card (Ports)	DSL lines	IDD	Fixed to Mobile	Value added services	Payphone to Mobile	Internet dial up calling	Flexiband	mobile to fixed	mobile on-net	Dslam rental	Bitstream	Gateway
National fixed call origination					1	1	1	1						
National fixed call termination										1				
Wholesale ULL and subloop	1		1											
Line cards		1												
DSLAM			1									1		
Bitstream broadband													1	
Gateway access														1
National leased circuit									0.083636					
Mobile Wholesale											1			

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