United Arab Emirates

TRA هيئة تنظيم الاتصالات
TELECOMMUNICATIONS REGULATORY AUTHORITY

Instructions

Cost Accounting, Accounting Separation and LRIC Modelling

Version 3.1.

Document Date: 29 December 2011

Telecommunications Regulatory Authority (TRA)
P O Box 26662, Abu Dhabi, United Arab Emirates (UAE)
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Version Control:

Version:	Issue Date:	Reason for Issuance:
3.1	29 December 2011	Updated Instructions
3.0	14th July 2010	Revised Instructions
2.0	30th April 2008	Revised Instructions
1.0	4th April 2005	

Contents

1. Introduction

1.1 These Cost Accounting, Accounting Separation and LRIC Modelling Instructions specify the manner in which a Reporting Licensee shall provide to the TRA detailed analysis of information derived from its financial records to reflect, as closely as possible, the performance of logically separate business units that may be operated by a single integrated entity.

1.2 These Cost Accounting, Accounting Separation and LRIC Modelling Instructions shall form part of the TRA's Regulatory Framework and may be applied and interpreted in conjunction with, inter alia, (i) the TRA's Competition Safeguards Regulatory Policy, (ii) the TRA's Interconnection Instructions and (iii) the TRA's Interconnection Pricing Policy, all of which may be amended from time to time.

1.3 These Cost Accounting, Accounting Separation and LRIC Modelling Instructions are issued pursuant to, and on the authority granted to the TRA via Federal Law by Decree No. 3 of 2003, as amended, the Telecommunications Law.

2. Definitions

2.1 The terms, words and phrases used in these Instructions shall have the same meaning as are ascribed to them in the Telecommunications Law unless these Instructions expressly provide for otherwise, or the context in which those terms, words and phrases are used in these Instructions require it. For the purposes of these Instructions:

2.1.1 **Auditing Standards** shall mean auditing standards and guidelines as issued from time to time by the appropriate UAE authorities, or such standards as the TRA may specify;

2.1.2 **Current Cost Accounting** or CCA shall mean an accounting convention whereby assets are valued and depreciated according to their current market value, while maintaining the operating or financial capital of the Reporting Licensee. Current costs are based on current prices, even if legacy networks are being used for providing services;

2.1.3 **Date of Issuance** shall mean the date of issuance of these Instructions;

2.1.4 **Day** shall mean working day unless otherwise specified;

2.1.5 **Designated Licensed Operator** shall have the same meaning as in the TRA's Interconnection Instructions, Version 1.2 (as amended from time to time), or as otherwise stipulated by the TRA;

2.1.6 **Financial Year** shall mean each period of twelve months at the end of which a Reporting Licensee prepares its Statutory Financial Statements in compliance with UAE laws. In default it shall mean each period of twelve months ending December 31;

2.1.7 **Historic Cost Accounting or HCA** shall mean an accounting convention whereby assets are valued and depreciated according to their original purchase value as recorded in a Reporting Licensee's Statutory Financial Statements;

2.1.8 **Instructions** shall mean these Cost Accounting, Accounting Separation and LRIC Modelling Instructions Version 3.0 as may be amended from time to time;

2.1.9 **Interconnection Services** shall have the same meaning as those services in the TRA's Interconnection Instructions, Version 1.2 (as amended from time to time), or as otherwise stipulated by the TRA;

2.1.10 **Land Parcel** Land Parcel shall mean any area, parcel, block or allocation of land within the UAE acquired by a Reporting Licensee and from which land the Reporting Licensee can derive a commercial value through such activities as the sale, lease, or rent of the land and shall exclude any area, parcel, block or allocation of land granted to a Reporting Licensee pursuant to the provisions of Federal Law No (1) of 1991 regarding Emirates Telecommunications Corporation, or the provisions of Federal Law No (3) of 2003 regarding the Organisation of the Telecommunications Sector, as amended, or any provision in a Reporting Licensee's Public Telecommunication Licence pertaining to the access to and use of land.

2.1.11 **Licensed Operator** shall mean an operator licensed to offer telecommunications services in the UAE;

2.1.12 **Long Run Incremental Cost or LRIC** shall mean the calculation of the cost of providing a defined increment of output, on the basis of forward looking costs incurred by an efficient operator. When applying a long run perspective, all costs (including capital investments) are assumed to be variable with regards to the defined increment. Definitions relevant to LRIC, and these Instructions, shall be:

2.1.12.1 **'Pure LRIC'** are long run incremental cost values, taking the recovery of any increment specific fixed costs into account, but not including any other fixed and common costs;

2.1.12.2 **'Distributed LRIC'** (DLRIC) values additionally include a mark-up to account for intra-network component-specific fixed common costs; and

2.1.12.3 **'LRIC plus'** include a further mark-up to recover all remaining fixed and common costs.

2.1.13 **Market Power** shall mean a position of economic strength enjoyed by a Licensed Operator which enables it to behave to an appreciable extent independently of its competitors, customers, and ultimately consumers;

2.1.14 **Regulatory Accounts / Regulatory Financial Statements or RFS** shall mean the accounts prepared by a Reporting Licensee, in accordance with these Instructions;

2.1.15 **Regulatory Accounting Documentation** shall mean the documentation specified in Section 6 of these Instructions;

2.1.16 **Regulatory Accounting Policies** shall mean policies covering operational accounting issues, such as applied asset lives[1], foreign currency transactions, and treatment of intangible asset. Regulatory Accounting Policies shall be identical to the policies used to prepare a Reporting Licensee's Statutory Accounts;

2.1.17 **Regulatory Accounting Principles** shall mean the principles relating to causality, transparency, objectivity, consistency, sampling, reconciliation and international standards etc. as explained in Section 10 of these Instructions and as used in the preparation of a Reporting Licensee's Regulatory Accounts;

[1] The TRA reserves the right to adjust asset lives used in the RFS in situations where the Reporting Licensee's asset lives differ significantly from assets lives based on best international practice bench-marks.

2.1.18 **Regulatory Auditor** shall mean the auditor appointed in accordance with Section 21 of these Instructions;

2.1.19 **Regulatory Audit Report and Opinion** shall mean an independent report issued by a qualified auditor containing an opinion on whether a Reporting Licensee's Regulatory Accounts comply with these Instructions and Regulatory Accounting Documentation;

2.1.20 **Relevant Market** shall mean the market for a group of Telecommunications Services or related products, which are, from the perspective of consumers of those Telecommunications Services or related products, and providers of those Telecommunications Services or related products, substitutable due to the Telecommunications Services' or related products' characteristics, price and intended use;

2.1.21 **Reporting Licensee** shall mean either a Designated Licensed Operator or a Licensed Operator who, as a consequence of being declared as having Market Power in a Relevant Market, is required to comply with these Instructions for the Relevant Market. Where the TRA declares that a Licensed Operator is no longer a Designated Licensed Operator or has Market Power in a Relevant Market, the TRA may amend the obligations of a Reporting Licensee arising from these Instructions for the Relevant Market. Such amendments shall be subject to conditions and requirements as the TRA considers appropriate;

2.1.22 **Stand-alone Cost or SAC** means the cost of a service incurred in providing that service on the basis that no other services are provided. Accordingly, all common costs that would be incurred if the service were the only service produced are included in the SAC;

2.1.23 **Statutory Accounts / Statutory Financial Statements** shall mean the financial statements prepared by a Reporting Licensee and which are either published and/or submitted to a recognised UAE authority (e.g. the Abu Dhabi Securities Exchange). For the avoidance of doubt where the Reporting Licensee is required to prepare and file such financial statements in more than one country, one of which is the UAE, the Statutory Financial Statements for the purposes of these instructions shall be those prepared and filed to comply with UAE legal obligations;

2.1.24 **TRA** shall mean the Telecommunications Regulatory Authority of the UAE; and

2.1.25 **Weighted Average Cost of Capital** or **WACC** shall mean the return that a Licensed Operator is expected to earn on the capital it employs in its business in order to attract investment funds. A Reporting Licensee's weighted average cost of capital shall be determined by the TRA.

3. Purpose and Scope

3.1 The purpose of these Instructions is to set out the framework through which a Reporting Licensee shall provide required regulatory financial information to the TRA.

3.2 These Instructions set out the obligation for a Reporting Licensee to provide a set of Regulatory Financial Statements based on Historical Cost Accounting (HCA) and Current Cost Accounting (CCA) principles.

3.3 Further to Article 3.2, these Instructions set out the obligations for a Reporting Licensee to provide network and service unit costs on a Long Run Incremental Cost (LRIC) basis, using, inter alia, CCA principles.

4. Application of Instructions to Reporting Licensees

4.1 A Reporting Licensee shall establish adequate accounting and reporting arrangements to comply with the obligations arising from these Instructions.

4.2 A Reporting Licensee shall comply with all the requirements of these Instructions unless the TRA notifies a Reporting Licensee in writing otherwise.

4.3 A Reporting Licensee shall provide Regulatory Financial Statements based on the following principles:

4.3.1 Historical Cost Accounting;

4.3.2 Current Cost Accounting; and

4.3.3 Long Run Incremental Cost.

5. General Requirements Concerning Regulatory Financial Statements

5.1 Regulatory Financial Statements shall be:

5.1.1 Prepared in accordance with these Instructions and with the (relevant) approved Regulatory Accounting Documentation;

5.1.2 Consistent with generally accepted accounting principles as set out in Article 10.1.8, unless otherwise specified; and

5.1.3 Audited and submitted to the TRA in accordance with the requirements set out in these Instructions.

6. Regulatory Accounting Documentation to be Prepared and Submitted

6.1 As a minimum, a Reporting Licensee shall prepare and submit to the TRA Regulatory Accounting Documentation for Historic Cost Accounting, Current Cost Accounting and Long Run Incremental Cost in the form as outlined in this section.

Historic Cost Accounting

6.2 A Description of Accounting Principles and Policies - with reference to Section 10 of these Instructions a description of each of the Accounting Principle that applies in the preparation of the Regulatory Financial Statements, along with a description of each of the Accounting Policies used to prepare the Regulatory Financial Statements;

6.3 A Description of the Business Units and Services - with reference to Section 9 of these Instructions, a description of each of the Business Unit and Services contained in the Regulatory Financial Statements;

6.4 Mapping of Services - description of each service provided by a Reporting Licensee, as well as the mapping of the service to:

6.4.1 the list of Services as set out in Section 9, for which a Reporting Licensee shall provide Regulatory Financial Statements; and

6.4.2 the Business Units as set out in Section 9, for which a Reporting Licensee shall provide Regulatory Financial Statements.

6.5 A Description of Transfer Charges – (where applicable), a summary of the transfer charges, and a description of the methodologies applied, between each of the Business Units and the Services;

6.6 A Description of Asset Categories - for each network asset/asset class, an asset description including specification of its useful life and current asset age together with the historical gross book value (GBV) and historical net book value (NBV) at the year-end date;

6.7 Allocation Methodology – a description of revenue and cost allocation methodologies for main services (such as PSTN line rental, national calls, on-net mobile calls, SMSs, etc) and cost items (such as cables, ducting, switches, transmission line equipment, maintenance and repair, etc), including source data, cost centres, cost centre classifications and an overview of the cost allocation processes; and

6.8 Detailed Allocation Methodology (DAM) Document – the DAM document shall be sufficiently detailed to enable the TRA to develop a complete process map of all the allocations in a Reporting Licensee’s accounting separation/cost accounting (AS/CA) system. As such, it shall include, at a minimum, a description of:

6.8.1 The allocation methodologies used to prepare Regulatory Financial Statements;

6.8.2 All costs (underlying General Ledger (GL) accounts/codes or cost centres) that are inputted into the AS/CA model;

6.8.3 All AS/CA cost centres;

6.8.4 AS/CA cost accounts/cost types; and

6.8.5 AS/CA Activities as well as the detailed allocations from Cost Centres to Cost Centres and/or Activities and from Activities to both Business Units and Services.

6.9 List of all relevant Land Parcels to be included in the RFS, in tabular form as per the format specified in Annex 8 to these Instructions;

6.9.1 In respect of Land Parcels for which the Reporting Licensee holds a Title Deed: the Reporting Licensee shall declare such Land

Parcels in the format as set out in Table 1 of Annex 8 to these Instructions[2].

6.9.2 In respect of Land Parcels for which the Reporting Licensee has no Title Deed: the Reporting Licensee shall declare such Land Parcels in the format as set out in Table 2 of Annex 8 to these Instructions. Further, the Reporting Licensee shall, for each Land Parcel so declared, provide a detailed description of the manner in which the Reporting Licensee could or does derive a commercial value for such land (e.g. right of sale, rights of lease, currently leased to a third party etc). The TRA will approve the inclusion of these Land Parcels in the RFS on a case-by-case basis[3].

Current Cost Accounting

6.10 CCA documentation - to ensure consistency, a Reporting Licensee shall develop CCA Regulatory Financial Statements using the same allocation principles as applied to its HCA Regulatory Financial Statements. In case of any differences, a Reporting Licensee is required to detail all differences clearly in its Regulatory Accounting Documentation.

6.11 Valuation Methods – a description of the approaches used by a Reporting Licensee to derive gross replacement cost (GRC) and net replacement cost (NRC - at the year-end date); as well as all adjustments made under CCA Financial Capital Maintenance (FCM).

6.12 Detailed Valuation Methodology (DVM) Document - For each asset class in a Reporting Licensee's AS/CA system, the DVM document shall provide detailed information on the underlying data and methodology used to prepare the CCA-Regulatory Financial Statements. This shall include, at a minimum:

6.12.1 For each network asset, an asset description including useful life and current asset age together with historical GBV, historical NBV, GRC and NRC. The methods used to derive GRC together with the NRC shall also be provided and justified –

[2] The TRA may through the process of investigation request a Reporting Licensee to produce the Title Deed for a specific Land Parcel or for a sample of Land Parcels. Failure to provide a Title Deed(s) for a Land Parcel(s) reported as a Land with Title Deed may result in the Land Parcel(s) being excluded from the RFS.

[3] Failure to provide an adequate description of the manner in which the Reporting Licensee derives a commercial value may result in the Land Parcel being excluded from the RFS.

including, but not limited to:

6.12.1.1 The revaluation methodologies and sources of GRCs for all assets;

6.12.1.2 For all assets revalued using absolute valuation or modern equivalent asset (MEA) valuation, quantity and unit price information underlying the GRCs for asset categories;

6.12.1.3 For all assets revalued using indexation, detailed unit price information used to derive the price indices applied in the revaluation; and

6.12.1.4 Depreciation concepts and assumptions, including methodology, assets lives, price trends for all assets and treatment of holding gains and losses.

6.12.2 Asset category (for assets other than network assets) descriptions including asset category useful life and asset category age, together with GBV and NBV. The methods used to derive GRC and NRC shall also be provided and justified – including, but not limited to:

6.12.2.1 The revaluation methodologies and sources of GRCs for all assets;

6.12.2.2 For all assets revalued using absolute valuation or modern equivalent asset (MEA) valuation, quantity and unit price information underlying the GRCs for asset categories;

6.12.2.3 For all assets revalued using indexation, detailed unit price information used to derive the price indices applied in the revaluation; and

6.12.2.4 Depreciation concepts and assumptions, including methodology, assets lives, price trends for all assets and treatment of holding gains and losses.

6.12.3 In the DVM document, where a MEA methodology has been used, a Reporting Licensee is required to provide a complete and detailed comparison of the characteristics and functionality of the chosen MEA against those of the asset actually in place.

Long Run Incremental Costing

6.13 LRIC Methodology – a description of the methodologies associated with the calculation of LRIC including, at a minimum:

6.13.1 A definition of all terms used in the LRIC Methodology, a description of the underlying increments (and the rationale for the chosen increment structure), cost definition, and a description of the methodologies relating to the measurement and recovery of fixed common and joint costs;

6.13.2 The approach used (based on Article 15.2);

6.13.3 All CVRs used within the LRIC model; and

6.13.4 An outline of all dependent and independent cost categories.

6.14 Detailed LRIC Methodology (DLRICM) Document – the DLRICM document shall be sufficiently detailed to enable the TRA to develop a complete 'Process Map' of all the allocations in a Reporting Licensee's LRIC model. It shall include, at a minimum:

6.14.1 A step-by-step description of the methodology used to derive the costs of relevant services as defined in Section 9 of these Instructions;

6.14.2 A detailed description of all costs (underlying GL accounts/codes or cost centres) that go into the LRIC model developed by a Reporting Licensee;

6.14.3 Route factors and description of the methodology used to derive those route factors;

6.14.4 The number of network nodes;

6.14.5 A description of the type and function of equipment deployed in each network node;

6.14.6 Definitions and descriptions of methodologies, assumptions, and sampling techniques used for data gathering;

6.14.7 A list of homogenous cost categories (HCCs) and network components, together with documentation demonstrating that HCCs have been properly defined. This shall include, for all HCCs: cost centre-to-HCC mappings, HCC to cost volume relationship (CVR) mappings and, for all dependent HCCs, a list of the dependency hierarchy;

6.14.8 A description of the cost driver(s) for each HCC, together with the chain of dependencies through which dependent cost categories are modelled. In all cases, a Reporting Licensee shall provide justification for the cost driver(s) selected for each HCC. This justification shall be sufficiently detailed to enable the TRA to review the appropriateness of the chosen driver(s);

6.14.9 A description of operating costs and their allocation methodologies used in the LRIC model;

6.14.10 Evidence demonstrating that only efficient and appropriate working capital balances have been included in the model;

6.14.11 Utilization rates of switching equipment and transmission equipment (existing as well as modelled);

6.14.12 Documentation of all efficiency adjustments used – in particular:

6.14.12.1 A description of the existing network structure of a Reporting Licensee, and its network structure after any efficiency adjustments have been made, together with an explanation of the efficiency adjustments made; or

6.14.12.2 In the absence of any efficiency adjustments, an explanation as to why a Reporting Licensee considers its cost base to be reflective of an efficient operator.

6.14.13 An Identification of spare network capacity i.e. specific network components and associated levels of spare capacity. A technical and economic justifications for inclusion of any costs associated with spare network capacity; and

6.14.14 A description of how the general and specific top-down criteria of these Instructions have been met.

6.15 CVR Methodology (CVRM) Document - For each HCC in a Reporting Licensee's LRIC system, the CVRM document shall provide a detailed specification of all CVRs used in the model, using the template presented in Annex 2 to these Instructions. This shall include for each

HCC, a description of how each CVR used is constructed, including at a minimum:

6.15.1 The underlying cost driver;

6.15.2 A definition of the level of network coverage used to generate a CVR; and

6.15.3 The process by which an underlying cost driver volume has been reduced from a Reporting Licensee's existing network to its minimum point.

7. Approval of Regulatory Accounting Documentation

General Conditions applicable to Regulatory Accounting Documentation

7.1 A Reporting Licensee is required to submit Regulatory Accounting Documentation as defined in Section 6 for approval by the TRA in the following format:

7.1.1 One (1) printed copy;

7.1.2 One (1) copy in pfd format (not protected); and

7.2 One (1) copy in Word / Excel format (not protected). In cases where the Regulatory Accounting Documentation (or parts thereof) is provided as a number filled table (such as an excel spreadsheet) the table shall clearly disclose relationships (formulae/calculations, etc) between input and output data provided in that table.

7.3 The TRA will acknowledge receipt of the Regulatory Accounting Documentation within five (5) Days of receipt.

7.4 The TRA shall review the Regulatory Accounting Documentation and it may either:

7.4.1 Approve it without change;

7.4.2 Conditionally approve it subject to changes specified by the TRA; or

7.4.3 Reject it and require a Reporting Licensee to re-submit Regulatory Accounting Documentation taking into account the TRA's reasons for rejection.

7.5 A Reporting Licensee shall not make any changes to an approved Regulatory Accounting Documentation unless a Reporting Licensee:

7.5.1 Has the prior written approval of the TRA to make such changes; or

7.5.2 The TRA requires, in writing, a Reporting Licensee to make the specific changes.

Submission of Regulatory Accounting Documentation

7.6 A Reporting Licensee shall, on an annual basis and no later than 28 February (or the nearest following working day in case 28 February is a day of weekend or public holiday) of each year, submit for approval all Regulatory Accounting Documentation for the previous Financial Year, clearly marking additions and/or deletions compared to the previous approved version of its Regulatory Accounting Documentation.

7.7 The annual submission of the Regulatory Accounting Documentation shall be accompanied by an additional documentation that concisely summarizes any changes made to the previous approved version of the Regulatory Accounting Documentation and the reasons for, and impact of, such changes.

7.8 Within thirty (30) Days of acknowledging receipt of the annual submission of the Regulatory Accounting Documentation, the TRA shall notify a Reporting Licensee if it approves the changes a Reporting Licensee has made to the Regulatory Accounting Documentation. If any changes are not approved, the TRA shall set out the amendments it requires to be made to the Regulatory Accounting Documentation. For the avoidance of doubt, the TRA may also require a Reporting Licensee to make further changes to its Regulatory Accounting Documentation before it is approved.

7.9 The TRA shall provide written notification to a Reporting Licensee who has not been required to comply with versions of the TRA's Cost Accounting, Accounting Separation and LRIC Modelling Instruction prior to these Instructions, outlining the timeframe within which it shall be required to submit its first or initial set of Regulatory Accounting Documentation. Thereafter, the Reporting Licensee shall submit Regulatory Accounting Documentation on an annual basis.

Failure to approve the Regulatory Accounting Documentation

7.10 If a Reporting Licensee fails to submit Regulatory Accounting Documentation that meet the requirements outlined in these Instructions, or if the TRA is unable to approve a Reporting Licensee's Regulatory Accounting Documentation such that the outcome of the Documentation (the Regulatory Financial Statements) will not result in the TRA achieving the regulatory objectives of these Instructions, the TRA reserves the right to undertake alternative methodologies to achieve its regulatory objectives which may include, but not be limited to:

7.10.1 The submission to the TRA of each of a Reporting Licensee's cost accounting models, and associated operational reference document(s) (user manual) for these models. In this outcome the TRA may consider requesting a Reporting Licensee to provide sufficient training to allow the TRA to operate the model(s) with the purpose of determining the required model's(s') outputs;

7.10.2 The requirement for a Reporting Licensee to construct, at its own cost and with direction from the TRA, an alternative form of accounting model (for example a bottom-up cost model); or

7.10.3 The construction by the TRA of an alternative form of accounting model (for example a bottom-up cost model). In such a case the TRA may require a Reporting Licensee to meet the cost of construction of such a model.

8. Regulatory Financial Statements

8.1 Following the approval of Regulatory Accounting Documentation, a Reporting Licensee shall prepare and submit on an annual basis, and in accordance with these Instructions, Regulatory Financial Statements (RFS) on both a Historic Cost Accounting Fully Allocated Cost basis and on a Current Cost Accounting Fully Allocated Cost basis, for:

8.1.1 Each Business Unit, as specified in Article 9.1, and

8.1.2 Insofar as each Business Unit has been disaggregated in terms of services, for each of the services in Article 9.3 of that Business Unit.

8.2 As per Articles 8.3 to 8.13, a Reporting Licensee's RFS shall include, at a minimum:

8.3 Profit and Loss Statement - A statement of revenues (including transfer charges), operating expenditure, and depreciation. The Profit and Loss Statement shall be reported on a pre-tax (pre-royalty) basis and include a return on capital employed (ROCE), defined as profit divided by (mean) capital employed.

8.4 Statement of Mean Capital Employed - A statement of non-current assets (fixed and intangible) and working capital (separated into current assets and current liabilities). For non-current assets, the value to be used shall be the value at the end of the financial year in question. For current assets and current liabilities, the average shall be taken to be the arithmetic monthly average for current assets and current liabilities balances (that is, the sum of end-of-month balances divided by 12).

8.5 Pro-formas of Profit and Loss Statements and Statements of Mean Capital Employed for HCA RFS and CCA RFS are set out in Annexes 3 to 6 of these Instructions.

8.6 Reconciliation Statements:

8.6.1 For the HCA RFS only, between the HCA Profit and Loss Statements and Statements of Mean Capital Employed and the Reporting Licensee's Statutory Accounts;

8.6.2 For the CCA RFS only, between the CCA Profit and Loss Statements and Statements of Mean Capital Employed and the Reporting Licensee's Statutory Accounts;

8.6.3 Between the Profit and Loss Statements and Statements of Mean Capital Employed in the Reporting Licensee's CCA RFS and the equivalent accounts and statements included in its HCA RFS;

8.6.4 Between the consolidated statements of the main Business Units with the individual statements of the main Business Units; and

8.6.5 Between the individual statements of the main Business Units with their associated services.

8.7 Statement of Transfer Charges - between each Business Unit/Service, reflecting the services provided between each Business Unit/Service. A system of transfer charges shall apply to services provided from one Business Unit/Service to another. There shall be a clear rationale for the transfer charges used and each charge shall be based on the Principle of Causality (as set out in Section 10). Charges shall be non-discriminatory and there shall be transparency of transfer charges in the RFS.

8.8 Statement of Annualised Network Unit Costs for Retail Services - for each of the retail services listed in Article 9.3 of these Instructions. Unit costs shall match the corresponding retail service periodicity. For example, if line rental charges are billed on a monthly basis, then line rental unit costs shall represent the cost per month. Unit costs shall include a reasonable return on mean capital employed. This reasonable return shall be the Weighted Average Cost of Capital as specified by the TRA.

8.9 Statement of Annualised Interconnection Unit Costs - for each of the interconnection services listed in Article 9.5 of these Instructions.

8.10 Statement of Network Component Unit Costs - for each individual network component used in the provision of the interconnect services listed in Article 9.5 of these Instructions.

8.11 For both the Statement of Annualised Interconnection Unit Costs and Statement of Network Component Unit Costs the relevant service/network component cost shall be disaggregated by:

8.11.1 The cost of capital (i.e., Mean Capital Employed multiplied by the WACC, as determined by the TRA);

8.11.2 Depreciation;

8.11.3 Direct operating costs; and

8.11.4 Non-direct costs.

8.12 Statement of Network Component Route Factors – used to allocate network component unit costs to retail services and to allocate network component unit costs to interconnection services. For both the retail route factors and the interconnection route factors, a Service/Component/Route Factor matrix shall be used:

a. Statement of Service (retail or interconnection);

b. Statement of Network Component Unit Costs; and

c. Statement of Route Factors.

8.13 Statement of Retail Services Route Factors – used to allocate retail costs to the retail services as outlined in Article 9.3.

8.14 Further to Article 8.1 a Reporting Licensee shall also submit, in accordance with these Instructions, RFS LRIC Outputs which contain, at a minimum, the following information.

8.15 Statement of Annualised Interconnection Unit Costs - for each of the interconnection services listed in Article 9.5 of these Instructions.

8.16 Statement of Network Component Unit Costs - for each individual network components used in the provision of the interconnection services listed in Article 9.5 of these Instructions.

8.17 For both the Statement of Annualised Interconnection Unit Costs and Statement of Network Component Unit Costs the relevant service/network component unit cost shall be calculated on the following LRIC basis:

8.17.1 Annualised unit costs on a Standalone Cost Basis (SAC) basis;

8.17.2 Annualised unit costs on a ‘pure LRIC’ basis;

8.17.3 Annualised unit costs on a D-LRIC basis; and

8.17.4 Annualised unit costs on a LRIC-plus basis.

8.18 For both the Statement of Annualised Interconnection Unit Costs and Statement of Network Component Unit Costs the relevant service/network component on LRIC-plus based unit costs (only) shall be disaggregated by:

8.18.1 The cost of capital (i.e., Mean Capital Employed multiplied by the WACC, as determined by the TRA);

8.18.2 Depreciation;

8.18.3 Direct operating costs;

8.18.4 Non-direct costs; and

8.18.5 Fixed common and joint costs allocated under mark-up.

8.19 Statement of Annualised Network Unit Costs for Retail Services - as per Article 8.8, for each retail service listed in Article 9.3, the annualized network unit costs incurred in providing these services, calculated on a LRIC-plus basis only.

8.20 Statement of Network Component Route Factors – used to allocate network component unit costs to retail services and used to allocate network component unit costs to interconnection services. For both the retail route factors and the interconnection route factors, a Service/Component/Route Factor matrix shall be used:

a. Statement of Service (retail or interconnection);

b. Statement of Network Component Unit Costs; and

c. Statement of Route Factors.

8.21 Statement of Retail Services Route Factors – used to allocate retail costs to the retail services as outlined in Article 9.3.

8.22 Statement of Responsibility - the RFSs shall be accompanied by a Statement of Responsibility in the form of a signed statement from the Chief Financial Officer or the Chief Executive Officer of a Reporting Licensee, or if no such position exists the person holding the equivalent posts, that there is no additional information that should be brought to the attention of the TRA in relation to the submitted accounts.

8.23 Statement of Land Parcel Ownership - the RFS shall be accompanied by a Statement of Land Parcel Ownership in the form of a signed statement from the Reporting Licensee's Chief Executive Officer or Chief Legal Counsel, or if no such position exists the person holding an equivalent post, and an appropriate representative of the Reporting Licensee's major shareholder:

8.23.1 In respect of Land Parcels without a Title Deed as declared by the Reporting Licensee in the format set out in Table 2 of Appendix 8 to these instructions: the Statement of Land Parcel Ownership shall expressly declare that no Land Parcel so declared has been granted to the Reporting Licensee pursuant to the provisions of Federal Law No (1) of 1991 regarding Emirates Telecommunications Corporation, or the provisions of Federal Law No (3) of 2003 regarding the Organisation of the Telecommunications Sector, as amended, or any provision in the Reporting Licensee's Public Telecommunication Licence pertaining to the access to and use of land.

8.24 In cases where the RFS (or part of the RFS) is provided as a number filled table (such as an excel spreadsheet) the table shall clearly disclose relationships (formulae/calculations, etc) between input and output data provided in that table.

8.25 The RFS prepared on an annual basis for HCA, CCA and LRIC shall be submitted to the TRA no later than seven (7) months from the end of the Financial Year to which they relate and shall be accompanied by a Regulatory Audit Report and Opinion together with a copy of the Regulatory Accounting Documentation previously approved by the TRA and upon which a Reporting Licensee has prepared the HCA, CCA and LRIC RFSs.

8.26 For a Reporting Licensee who has not been required to comply with versions of the TRA's Cost Accounting, Accounting Separation and LRIC Modelling Instruction prior to these Instructions, upon approval of the Reporting Licensee's Regulatory Accounting Documentation the TRA will inform the Reporting Licensee in writing of the date upon which it shall submit its RFS and a copy of the Regulatory Accounting Documentation previously approved, as well as whether the RFS shall be accompanied by a Regulatory Audit Report and Opinion. Thereafter, the Reporting Licensee shall submit on an annual basis RFS statements accompanied by a Regulatory Audit Report and Opinion and a copy of the Regulatory Accounting Documentation previously approved.

9. Business Units and Services

9.1 HCA RFS and CCA RFS, as set out in Article 8.2 shall be prepared by a Reporting Licensee for the Business Units as specified below:

9.1.1 Fixed access network;

9.1.2 Fixed core network;

9.1.3 Fixed retail services;

9.1.4 Other Fixed services;

9.1.5 International network;

9.1.6 Mobile network;

9.1.7 Mobile retail services;

9.1.8 Interconnection services (those services which are provided on a wholesale basis to other Licensed Operators);

9.1.9 Subsidiary companies and partnership investments; and

9.1.10 Other.

9.2 The list of Business Units, for which RFS shall be prepared, may be amended by the TRA from time to time.

Retail Services

9.3 On a HCA and CCA basis, and for annualized unit costs on a LRIC-plus basis, a Reporting Licensee is required to provide disaggregated RFS for fixed retail services, mobile retail service and other fixed services businesses into the following services. For the avoidance of doubt, and in line with Paragraph 8.19, a Reporting Licensee is only required to provide LRIC-plus unit cost information for the network part of the following services:

<u>Fixed retail services</u>

9.3.1 Fixed line installation and rental (reported (i) separately for connection and line rental, (ii) for PSTN, ISDN and (iii) residential and business subscribers;

9.3.2 Local calls;

9.3.3 Fixed to fixed calls outside of local call area;

9.3.4 Fixed to mobile calls;

9.3.5 Fixed international calls;

9.3.6 Fixed non-geographic toll-free calls;

9.3.7 Fixed non-geographic charged calls (standard rate);

9.3.8 Fixed non-geographic charged calls (premium rate);

9.3.9 Fixed internet (dial up) calls;

9.3.10 Fixed directory assistance calls;

9.3.11 Payphones calls; and

9.3.12 Other fixed services.

Mobile retail services

9.3.13 Post paid connection;

9.3.14 Post paid rental;

9.3.15 Prepaid connection;

9.3.16 Prepaid renewal;

9.3.17 Mobile to fixed calls;

9.3.18 Mobile to mobile calls (on-net and off-net);

9.3.19 Mobile non-geographic toll-free calls;

9.3.20 Mobile non-geographic charged calls (standard rate);

9.3.21 Mobile non-geographic charged calls (premium rate);

9.3.22 Mobile international calls;

9.3.23 SMS;

9.3.24 MMS;

9.3.25 2G data services;

9.3.26 3G (and above) data services;

9.3.27 Other mobile data services;

9.3.28 Outbound international roaming - voice;

9.3.29 Outbound international roaming – Other services;

9.3.30 Mobile directory assistance calls; and

9.3.31 Other mobile services.

Fixed data retail services

9.3.32 Data (ATM, Frame Relay, Ethernet);

9.3.33 Domestic leased line (for internet connection);

9.3.34 Domestic leased line (other than for internet connection);

9.3.35 International leased line;

9.3.36 IP-VPN National;

9.3.37 IP-VPN International;

9.3.38 Standalone broadband service installation and rental (reported separately for symmetric and asymmetric service where applicable) for residential subscribers reported separately for each speed package provided in the retail market;

9.3.39 Standalone broadband service installation and rental (reported separately for symmetric and asymmetric service where applicable) for business subscribers reported separately for each speed package provided in the retail market;

9.3.40 Stand alone IPTV service installation and rental provided to residential subscribers;

9.3.41 Stand alone IP TV service installation and rental provided to business subscribers;

9.3.42 Double play service (combination of voice and broadband service) installation and rental (reported separately for symmetric and asymmetric service where applicable) for residential subscribers reported separately for each speed package provided in the retail market;

9.3.43 Double play service (combination of voice and broadband service) installation and rental (reported separately for symmetric and asymmetric service where applicable) for business subscribers reported separately for each speed package provided in the retail market;

9.3.44 Triple play service (combination of voice, broadband and IP TV service) installation and rental (reported separately for symmetric and asymmetric service where applicable) for residential subscribers reported separately for each speed package provided in the retail market;

9.3.45 Triple play service (combination of voice, broadband and IP TV service) installation and rental (reported separately for symmetric and asymmetric service where applicable) for business subscribers reported separately for each speed package provided in the retail market;

9.3.46 Others fixed data services (such as hosting services).

9.4 The list of retail services for which RFS shall be prepared, may be amended by the TRA from time to time.

Interconnection Services

9.5 A Reporting Licensee is required to calculate costs for the following interconnection services on a HCA and CCA and a LRIC basis. For the services specified in Articles 9.5.6 to 9.5.17, costs shall be calculated based on the blended costs of 2G and 3G mobile networks:

9.5.1 Fixed originating call conveyance - single transit;

9.5.2 Fixed originating call conveyance - double transit;

9.5.3 Fixed transit call conveyance;

9.5.4 Fixed terminating call conveyance - call terminating service - single transit;

9.5.5 Fixed terminating call conveyance - call terminating service - double transit;

9.5.6 National roaming interconnection service – pre-pay mobile call origination;

9.5.7 National roaming interconnection service – post-pay mobile call origination;

9.5.8 National roaming interconnection service – pre-pay mobile data origination (SMS);

9.5.9 National roaming interconnection service – post-pay mobile data origination (SMS);

9.5.10 National roaming interconnection service – pre-pay mobile data origination (MMS);

9.5.11 National roaming interconnection service – post-pay mobile data origination (MMS);

9.5.12 Mobile pre-pay call origination;

9.5.13 Mobile post-pay call origination;

9.5.14 Mobile terminating call conveyance;

9.5.15 Mobile Data termination (SMS);

9.5.16 Mobile Data termination (MMS);

9.5.17 Mobile Data termination (Other);

9.5.18 Terminating call conveyance - directory assistance services- single transit;

9.5.19 Terminating call conveyance - directory assistance services - double transit;

9.5.20 Terminating call conveyance - operator services - single transit;

9.5.21 Terminating call conveyance - operator services - double transit;

9.5.22 Terminating call conveyance - emergency call services - single transit;

9.5.23 Terminating call conveyance - emergency call services - double transit;

9.5.24 Terminating call conveyance - short number call services - single transit;

9.5.25 Terminating call conveyance - short number call services - double transit;

9.5.26 Terminating call conveyance - Value Added Services- all value added services other than 8+0+0+Y+XXXXX numbers, including, but not limited to 2+0+0+Y+XXXXX, 3+0+0+Y+XXXXX, 4+0+0+Y+XXXXX, 5+0+0+Y+XXXXX, 6+0+0+Y+XXXXX, 7+0+0+Y+XXXXX, 9+0+0+Y+XXXXX -

single transit;

9.5.27 Terminating call conveyance - Value Added Services- all value added services other than 8+0+0+Y+XXXXX numbers, including, but not limited to 2+0+0+Y+XXXXX, 3+0+0+Y+XXXXX, 4+0+0+Y+XXXXX, 5+0+0+Y+XXXXX, 6+0+0+Y+XXXXX, 7+0+0+Y+XXXXX, 9+0+0+Y+XXXXX - double transit;

9.5.28 Terminating call conveyance - Toll Free Services for 8+0+0+Y+XXXXX numbers - single transit;

9.5.29 Terminating call conveyance - Toll Free Services for 8+0+0+Y+XXXXX numbers - double transit;

9.5.30 Directory database services;

9.5.31 Customer-sited interconnection links – separate costs shall be provided for E1, STM1, STM4, STM16 and STM64 links on a per kilometre basis;

9.5.32 In-span interconnection links - separate costs shall be provided for E1, STM1, STM4, STM16 and STM64 links on a per kilometre basis;

9.5.33 Leased circuits services - separate costs shall be provided for the range of bandwidths as defined by a Reporting Licensee's existing retail services on a per kilometre basis;

9.5.34 Residential Bitstream access services (copper) - separate costs shall be provided for the range of bandwidths offered by a Reporting Licensee in the retail market. These shall be based on a Reporting Licensee's contention ratios (pre-approved by the TRA)[4]. The following scenarios shall be covered:

9.5.34.1 Asymmetric regional level of interconnection;
9.5.34.2 Asymmetric national level of interconnection;
9.5.34.3 Symmetric regional level of interconnection; and
9.5.34.4 Symmetric national level of interconnection.

[4] In cases where there are no contention ratios approved by the TRA, the contention ratios as defined by the TRA' Determination No (2) of 2010 regarding Interconnection Charges for Bitstream Access Interconnection Services, issued 5 September 2010, updated 14 December 2010 (as amended from time to time) shall apply,

Costs of relevant ancillary services (pre-approved by the TRA) shall be based on the principles of cost causality reflecting the relevant processes, definitions and work flows, with appropriate labour rates for grades of staff involved in performing the activity.

9.5.35 Business Bitstream access services (copper) - separate costs shall be provided for the range of bandwidths offered by a Reporting Licensee in the retail market. These shall be based on a Reporting Licensee's contention ratios (pre-approved by the TRA). The following scenarios shall be covered:

9.5.35.1 Asymmetric regional level of interconnection;
9.5.35.2 Asymmetric national level of interconnection;
9.5.35.3 Symmetric regional level of interconnection; and
9.5.35.4 Symmetric national level of interconnection.

Costs of relevant ancillary services (pre-approved by the TRA) shall be based on the principles of cost causality reflecting the relevant processes, definitions and work flows, with appropriate labour rates for grades of staff involved in performing the activity.

9.5.36 Residential Bitstream access services (fibre) - separate costs shall be provided for the range of bandwidths offered by a Reporting Licensee in the retail market. These shall be based on a Reporting Licensee's contention ratios (pre-approved by the TRA). The following scenarios shall be covered:

9.5.36.1 Asymmetric regional level of interconnection;
9.5.36.2 Asymmetric national level of interconnection;
9.5.36.3 Symmetric regional level of interconnection; and
9.5.36.4 Symmetric national level of interconnection.

Costs of relevant ancillary services (pre-approved by the TRA) shall be based on the principles of cost causality reflecting the relevant processes, definitions and work flows, with appropriate labour rates for grades of staff involved in performing the activity.

9.5.37 Business Bitstream access services (fibre) - separate costs shall be provided for the range of bandwidths offered by a Reporting Licensee in the retail market. These shall be based on a Reporting Licensee's contention ratios (pre-approved by the TRA). The following scenarios shall be covered:

9.5.37.1 Asymmetric regional level of interconnection;
9.5.37.2 Asymmetric national level of interconnection;
9.5.37.3 Symmetric regional level of interconnection; and
9.5.37.4 Symmetric national level of interconnection.

Costs of relevant ancillary services (pre-approved by the TRA) shall be based on the principles of cost causality reflecting the relevant processes, definitions and work flows, with appropriate labour rates for grades of staff involved in performing the activity.

9.5.38 Handover link for bitstream access service - separate costs shall be provided for 1Gb port and 10 Gb port, 1Gb transmission and 10 Gb transmission and any other applicable charges;

9.5.39 Voice channel with 128 kbps bandwidth for bitstream access service;

9.5.40 Management channel with different bandwidths (128 kbps, 256 kbps, 512 kbps, 1Mbps) for bistream access service;

9.5.41 IP TV unicast service provided via bitstream access service;

9.5.42 IP TV multicast service provided via bistream access service (separate costs for multicast domain server (MDS) and multicast virtual access circuit (MVAC));

9.5.43 Co-location (Facilities Access) service - separate costs shall be provided for space, power, racking and cooling along with other relevant costs for each of the following co-location scenarios:

9.5.43.1 Internal co-location at the exchange;
9.5.43.2 External co-location at the exchange; and
9.5.43.3 External co-location at the cabinet;

9.5.44 Duct Access (Core Network) – Separate costs shall be provided for duct in the core network on a per kilometre basis;

9.5.45 Duct Access (Access Network) – Separate costs shall be provided for duct in the access network on a per kilometre basis for each of the following situations:

9.5.45.1 Feeder duct;
9.5.45.2 Distribution duct; and
9.5.45.3 Lead-in duct.

9.5.46 Dark Fibre (Core Network) – Separate costs shall be provided for dark fibre in the core network on a per kilometre basis;

9.5.47 Dark Fibre (Access Network) – Separate costs shall be provided for dark fibre in the access network on a per kilometre basis for each of the following situations:

9.5.47.1 Feeder network;
9.5.47.2 Distribution network; and
9.5.47.3 Lead-in network

9.5.48 Mobile Site Sharing – separate costs shall be provided for annual rental charges applicable to different types of structures (monopole, short tower, medium tower and tall tower), site feasibility study charge, and additional structural usage charges along with other charges applicable to this service. A Reporting Licensee shall provide costs for all Mobile Site Sharing Charges defined in the TRA Determination No (3) of 2010 (as amended from time to time).

9.6 The list of interconnection services for which RFS shall be prepared, may be amended by the TRA from time to time.

10. Accounting Separation – Accounting Principles and Practices

10.1 In preparing RFS under HCA and CCA, a Reporting Licensee shall comply with the following cost accounting principles:

10.1.1 Principle 1 (Definitions) – Any, term and/or expression used in Regulatory Accounting Documentation shall have the meaning as set out in a Section entitled “Definitions”. This section shall include a detailed description of each term.

10.1.2 Principle 2 (Priority) – If any two Regulatory Accounting Principles conflict with each other, the order in which the Principles take priority shall be in the same order as they appear in these Instructions.

10.1.3 Principle 3 (Revenue Causality) – Wherever possible, revenues, including transfer charges, shall be allocated to regulated Business Units/Services according to the underlying retail or interconnection services which comprise the regulated Business Unit/Service. If a Reporting Licensee is offering bundled services of two or more of the retail services listed in Article 9.3, the corresponding revenues from these bundles shall be fully allocated to the underlying services. The applied allocation process shall be clearly described in the Regulatory Accounting Documentation.

10.1.4 Principle 4 (Cost Causality) – Insofar as possible, operating costs (including transfer charges), depreciation, assets and liabilities shall be allocated to network components and/or retail/interconnection services in accordance with the activities which cause the operating costs, depreciation, assets and liabilities to be incurred.

10.1.5 Principle 5 (Objectivity and Non-Discrimination) – Revenues and costs shall be objectively allocated to Business Units/Services and not intended to benefit a Reporting Licensee or any Business Unit/Service.

10.1.6 Principle 6 (Disclosure) – Where revenues (including transfer charges), operating costs (including transfer charges), depreciation, assets and liabilities cannot be allocated to regulated Business Units/Services in accordance with Principles 3 and 4, the basis of allocation shall be documented in Regulatory Accounting Documentation and disclosed to the Regulatory Auditor.

10.1.7 Principle 7 (Consistency) – Where there are material changes to (i) accounting policies or (ii) allocation methodologies that have a material effect on information reported in RFS, a Reporting Licensee shall restate those parts of the previous year's RFS affected by the changes.

10.1.8 Principle 8 (Use of IAS/IFRS) – A Reporting Licensee shall use the same standard in preparing its RFS that it uses in preparing its Statutory Financial Statements. It is strongly recommended that RFS are prepared in accordance with leading accounting standards such as IFRS. Further, the Reporting Licensee shall disclose the standard it has adopted in preparing the RFS.

10.1.9 Principle 9 (Transparency) – The methods used to allocate revenues, operating costs, depreciation, assets and liabilities shall be transparent. Revenues, operating costs, depreciation, assets and liabilities that are allocated directly to regulated Business Units/Services shall be separately identified from those that are allocated indirectly.

10.1.10 Principle 10 (Sampling) – Where sampling is used to allocate revenues, operating costs, depreciation, assets or liabilities, or used to revalue assets, it shall be based on generally accepted statistical techniques.

10.1.11 Principle 11 (Management Estimates) – It is acceptable to use management estimates by subject matter experts to allocate revenues, operating costs, depreciation, assets and liabilities. Any and all such management estimates shall be adequately documented.

10.2 Regulatory Accounting Policies used to prepare a Reporting Licensee's RFS shall be consistent with those policies used to prepare its Statutory Accounts. A Reporting Licensee shall describe all Regulatory Accounting Policies used to prepare RFS in its Regulatory Accounting Documentation and highlight and explain any differences from Statutory Accounting Policies.

10.3 Underlying information sources (either financial or operational) used by a Reporting Licensee to prepare RFS shall be the same as those used to prepare Statutory Financial Statements. In conducting its Regulatory Audit of a Reporting Licensee's RFS, the Regulatory Auditor shall verify that said information sources are the same as those used to prepare Statutory Financial Statements.

10.4 The TRA reserves the right to ask a Reporting Licensee to provide information on the reconciliation of operational data underlying the RFS to the operational information provided to the TRA by a Reporting Licensee as part of other submissions.

11. Accounting Separation – Historic Cost Accounting – General Principles

11.1 Under the historic cost convention the value of assets recorded in the General Ledger and Fixed Asset Register (FAR) is stated at the value/price/cost of each asset when it was acquired. Assets are then recorded on the Balance Sheet (B/S) at their original purchase price and installation cost. This is commonly referred to as the original transaction value of assets.

11.2 A Reporting Licensee shall apply the principles and practices set out in Article 10 (which relate to allocation) to revenues, operating expenditure, depreciation, assets and liabilities calculated using the original transactional value of assets (historic cost convention).

11.3 A Reporting Licensee may only include those assets in their HCA RFS which have a positive NBV in its audited statutory accounts for the particular year to which the RFS relate. That is, fully depreciated assets shall be excluded from RFS.

11.4 Working capital balances included in a Reporting Licensee's HCA RFS should be appropriate and consistent with the Weighted Average Cost of Capital determined by the TRA. All working capital items included in the RFS shall be justified by a Reporting Licensee in its Regulatory Accounting Documentation.

12. Accounting Separation – Current Cost Accounting – General principles

12.1 CCA is the accounting convention whereby assets are valued and depreciated according to their current value, while maintaining the operating or financial capital of a Reporting Licensee. Current costs are based on current prices, even if legacy networks are being used for providing services.

12.2 A Reporting Licensee shall apply the principles and practices set out in Section 10 (which relate to cost allocation) to revenues, operating expenditure, depreciation, assets and liabilities calculated using the current cost value of assets (current cost convention).

12.3 A Reporting Licensee may only include those assets classes in their CCA RFS which have a positive NBV value in their audited statutory accounts for the particular year to which the RFS relate.

12.4 Working capital balances included in a Reporting Licensee's CCA RFS should be appropriate and consistent with the Weighted Average Cost of Capital determined by the TRA. All working capital items included in the RFS shall be justified by a Reporting Licensee in its Regulatory Accounting Documentation.

12.5 A Reporting Licensee shall prepare its CCA RFS using the FCM concept. Holding gains and losses shall be included in the annual capital charges. This means that shareholders' fund at the end of the period shall be maintained at the same level as at the beginning of the period. As a result holding gains and losses shall be included within the cost base used to calculate transfer charges in the CCA-RFS and, where applicable, network component unit costs in a Reporting Licensee's LRIC model.

12.6 The outputs from the CCA revaluation shall be used as an input to the preparation of a Reporting Licensee's CCA RFS and its LRIC model results. Specifically, the outputs shall include, for each asset category:

12.6.1 GRC and NRC;

12.6.2 CCA depreciation charge (showing supplementary depreciation separately);

12.6.3 Backlog depreciation; and

12.6.4 Gross holding gain or loss.

12.7 The application of CCA may create 'windfall' losses (or gains), i.e. material changes in the value of assets on a CCA basis versus an HCA basis. These losses or gains shall be separately identified. The TRA shall consider, on a case by case basis, whether or not they shall be included in the RFS.

13. Accounting Separation – Current Cost Accounting - Determining Gross Replacement Costs

13.1 A Reporting Licensee shall derive both GRC and NRC of their asset base.

13.2 A Reporting Licensee shall, for each asset category, calculate an opening and a closing GRC, corresponding to the GRC of that asset category at the start and end of the Financial Year under consideration. These values shall then be used as the basis for calculating any holding gains and losses in a Reporting Licensee's RFS.

13.3 The GRC for each asset category in a Reporting Licensee's FAR shall be calculated using one of four methods:

13.3.1 Historic cost as a proxy for current cost;

13.3.2 Indexation;

13.3.3 Absolute valuation; or

13.3.4 MEA valuation

13.4 Historic cost as a proxy for current cost shall be appropriate where historic and current cost valuations could be expected to yield similar results. When historic pricing is used, a Reporting Licensee shall provide clear demonstration that the methodology is appropriate. In particular, a Reporting Licensee shall only use HCA values as a proxy for CCA costs where:

13.4.1 The total NBV of that category is less than 2% of the total NBV of all fixed asset categories; and/or

13.4.2 The average age of assets in a category is less than 3 years.

13.5 Notwithstanding the above, a Reporting Licensee shall revalue to current cost all those asset categories which cumulatively account for the first eighty percent (80%) of the total net book value included in their HCA RFS.

13.6 Under indexation, GRC is calculated by applying a price index to the GBV of additions in each year, as recorded in the operator's FAR. A Reporting Licensee shall only use indexation where insufficient data exists to apply an absolute valuation method and where a Reporting Licensee can demonstrably show that:

13.6.1 The assets subject to the revaluation have not been the subject of technological change such that an MEA valuation would be required; and

13.6.2 The price index used in the revaluation accurately reflects the trend in costs faced by a Reporting Licensee for bringing the asset into service. In any instances where a Reporting Licensee applies an external price index (i.e., an index not derived from its own purchasing data), it shall set out clearly in its DVM Document why it considers this index to be most appropriate; why other price indices were not available and a timetable for enhancing its valuation of that asset category. Where an asset category includes a number of different cost components, (for example labour and material costs), a Reporting Licensee shall apply a separate index to revalue each cost component.

13.7 For asset categories requiring valuation using a direct approach, current market prices and the efficient level of capacity shall be considered when defining the current value of the assets. The revaluation shall use physical volumes and current replacement costs to derive a GRC. Where appropriate the fixed asset shall be disaggregated into its constituent parts and current purchase prices applied to those constituent parts. In each case, the prices assigned to fixed assets shall be based on current contracts of a Reporting Licensee and/or quotations from suppliers, and they shall be verifiable.

13.8 Where rapid technological change has occurred and assets deployed by a Reporting Licensee are not readily replaceable, a Reporting Licensee shall use a MEA revaluation method. A MEA is defined as the asset with the required capacity and functionality that has the lowest discounted cost over future years. Lifetimes for equipment shall reflect actual lifetimes of the asset or its MEA replacement. Therefore, whenever an asset falls into one of the following categories, a Reporting Licensee shall derive the GRC using the MEA valuation technique:

13.8.1 The asset is no longer available for purchase from network equipment vendors; or

13.8.2 The asset no longer represents the technology that would be used by a new entrant if it was to roll out a network today.

13.9 There may be a number of possible modern equivalent assets that a Reporting Licensee could use as the basis for the revaluation. A Reporting Licensee shall apply and clearly document in its DVM Document, the following four steps when defining appropriate modern equivalents:

13.9.1 Identify where “on the ground” assets no longer represent current technology;

13.9.2 Identify possible MEAs;

13.9.3 Select the most appropriate MEA in each case, based on the option which would provide the required capacity and functionality at the lowest discounted cost; and

13.9.4 Document how each potential MEA compares and how the selected MEAs compare to the actual asset in place.

13.10 When applying a MEA valuation, a Reporting Licensee shall make functionality abatements to the value of the asset, to reflect the greater functionality of the MEA, and make any associated revisions to operating costs, to reflect the lower operating costs associated with the MEA. A Reporting Licensee shall document, as part of its DVM document, the analysis used to derive the appropriate level of these adjustments (including, for the avoidance of doubt, documenting any cases where no adjustments are made). Any reduction in operating cost as a consequence of a MEA valuation should be reflected in the total cost of the network component to which it refers. As part of its reconciliation to its Statutory Financial Statements, a Reporting Licensee should note the relevant cost reduction as a reconciling item.

13.11 The TRA recognizes that indexation or absolute valuation or MEA valuation may be appropriate for valuing an asset category in particular circumstances. Given the availability of suitable data, absolute valuation and MEA valuation techniques are likely to give more robust values of current costs. The TRA requires a Reporting Licensee to use absolute valuation and MEA valuation techniques wherever possible. However, the chosen approach shall also be consistent with how an asset has been valued in a Reporting Licensee's FAR. That is, if an asset's value in a Reporting Licensee's FAR does not reflect the true market value of the asset at the time it was acquired, a Reporting Licensee shall base the CCA valuation on the asset's value as recorded in its FAR.

13.12 In all cases, a Reporting Licensee's DVM document shall justify the valuation approach applied to each asset category. Further, in any instances where a Reporting Licensee applies indexation to revalue a particular asset category it shall set out in its DVM document a timetable for moving to an absolute form of valuation (either absolute valuation or MEA).

13.13 The most appropriate form of valuation for any asset category may change over time. As such, a Reporting Licensee shall annually review the most appropriate approach for calculating the current cost value of each asset category.

14. Accounting Separation – Current Cost Accounting - Determining Net Replacement Cost and CCA Depreciation Charges

14.1 Once the GRC of an asset has been calculated, a Reporting Licensee shall derive the net asset value by deducting accumulated current cost depreciation from GRC.

14.2 When calculating NRC, depreciation values based on historic cost asset values are no longer applicable and therefore a Reporting Licensee shall restate the depreciation charges in its CCA-RFS. Specifically, a Reporting Licensee shall calculate the following three forms of depreciation.

14.2.1 Current Cost Depreciation Charge. The annual depreciation charge calculated on the basis of the new asset valuation.

14.2.2 Supplementary Depreciation. The difference between historical cost depreciation and the current cost depreciation charge. It may be positive or negative depending on whether the asset's GRC is greater or less than its GBV.

14.2.3 Backlog depreciation. The difference between required accumulated depreciation (i.e., the depreciation that would have been charged through the life of the asset had it always been at its current value) and the depreciation that has actually been charged. It may be positive or negative depending on whether the value of the asset has risen or fallen in the past year. Backlog depreciation shall equal zero where there has been no change in the value of an asset over the course of the year.

14.3 In all cases a Reporting Licensee shall apply straight line depreciation, in line with the depreciation methodology used in their HCA-RFS, taking into account any holding gains or losses that may be incurred in revaluing the assets and any backlog depreciation that may be required. Holding gains or losses shall be identified separately and included in the model.

14.4 Where GRC has been calculated at an asset category level, rather than for individual assets in a Reporting Licensee's FAR, a Reporting Licensee may use either the Ratio Method or the Roll Forward Method to calculate depreciation charges.

14.4.1 The Ratio Approach is a method for deriving the depreciation charge for a particular asset category under CCA which calculates opening and closing accumulated CCA depreciation charges from the ratio of Gross Replacement Cost and Gross Book Value. The Ratio Method should be used in situations where the volume of assets in a category is relatively stable and the material impacts on GRC are from price fluctuations only; and

14.4.2 The Roll Forward Approach is an alternative method for deriving the depreciation charge for a particular asset category where the opening accumulated depreciation (on a CCA basis) is calculated according to the ratio of GRC and GBV, multiplied by the historic cost accumulated depreciation, and the closing accumulated depreciation (on a CCA basis) is calculated as the sum of opening CCA accumulated depreciation and annual CCA depreciation charges. A Reporting Licensee should use the Roll Forward Method where the asset category has sub-categories of assets with a marked range of asset lives or if there are significant levels of current year additions.

14.5 Disposals and write outs made within the accounting period shall also be calculated on a CCA basis. A Reporting Licensee shall state clearly in its DVM document how asset disposals and write-outs are treated within its CCA-RFS. Where this treatment differs by asset category, this shall be specified clearly.

15. LRIC Cost Modelling – General Principles

15.1 The TRA requires a Reporting Licensee to prepare a forward looking top-down LRIC model. The inputs of the model shall therefore be taken from a Reporting Licensee's GL and FAR and be capable of reconciliation to its Statutory Financial Statements and RFS.

15.2 The LRIC models prepared by a Reporting Licensee shall conform to internationally recognized standards of incremental cost modelling. In particular, the models shall adhere to the following principles:

15.2.1 The model shall be based on a scorched node approach which accepts the existing numbers and locations of switching nodes as given;

15.2.2 The time horizon used for the modelling shall be long enough to consider all costs as variable. The TRA considers that a modelling horizon of 10 years is appropriate;

15.2.3 CCA principles, in line with Sections 12 to 14 shall be used to determine the appropriate NRC of assets and associated depreciation charges. The CCA inputs to the LRIC model shall be directly reconcilable to the results of the CCA asset revaluation exercise for the preparation of CCA RFS;

15.2.4 The annual capital charge shall be based on a Reporting Licensee's WACC, as determined by the TRA;

15.2.5 Allocated costs shall in all cases represent the costs of an efficient telecommunications operator;

15.2.6 Work-in-progress (WIP) shall be allocated to HCCs according to the actual accounting records of a Reporting Licensee, thus reflecting the actual projects for which WIP has been recorded;

15.2.7 Common costs shall be allocated on the basis of an Equi-

Proportionate Mark-Up (EPMU) scheme; and

15.2.8 Costs which are common or fixed between modelled and non-modelled services shall be included in the model and recovered across all the products to which those costs are common.

16. LRIC Modelling – Model structure

16.1 For the purpose of calculating LRIC a Reporting Licensee shall sub-divide its network into increments. These Instructions do not specify a particular increment hierarchy or set of defined increments which a Reporting Licensee shall use, but the TRA considers that the increment structure defined by a Reporting Licensee shall at least have the following levels:

16.1.1 Level 0 – At the highest level the whole business of a Reporting Licensee shall be considered as a single increment, with the incremental cost equal to the total cost of the business;

16.1.2 Level 1 – The total business shall be divided into the network increment consisting of the cost of operating and maintaining the network and the “Retail and other” increment which consists of non-network activities;

16.1.3 Level 2 – If applicable, the network increment shall be divided into mobile network and fixed network. As in integrated fixed/mobile businesses, the fixed network typically makes greater use of the transmission network; the TRA would expect the transmission network to be included in the fixed network;

16.1.4 Level 3 – The fixed and mobile network increments shall be subdivided into separate logical sub-network increments, for example including access, core conveyance and data networks, as applicable;

16.1.5 Level 4 – The sub-network increments shall be further divided into the individual network components used in the provision of network services. These shall in most parts correspond to the network components identified by a Reporting Licensee in its RFS.

16.2 The key modelling steps to be followed by a Reporting Licensee are as follows:

16.2.1 A Reporting Licensee shall allocate all costs to HCCs. These HCCs shall represent costs that share a cost driver and cost volume relationship. That is, if two or more accounting separation cost categories have equivalent cost drivers and cost volume relationships then these cost categories may be classified as belonging to one HCC. A Reporting Licensee shall clearly document in their DLRICM document how HCCs have been derived, including a mapping from GL cost items to accounting separation cost categories and HCCs.

16.2.2 A Reporting Licensee shall allocate costs to HCCs based on activity drivers based on underlying cost drivers and incorporating an Activity Based Costing (ABC) methodology.

16.2.3 The LRIC of each HCC shall then be determined by applying a calculated CVR to the cost category, with the CVR created in accordance with these Instructions.

16.2.4 A Reporting Licensee shall add only efficient working capital to the LRIC cost base. Efficient working capital is working capital (including stock, debtors, creditors, cash in hand, cash in bank and any other related items) demonstrably sufficient and reasonable to the efficient operation of the business and the provision of services. Working capital balances in excess of those required for the efficient operation of the business shall be excluded from the balance included in the model.

16.2.5 A Reporting Licensee shall adjust input costs for any structural or operational inefficiency present in a Reporting Licensee's network or business. A Reporting Licensee shall provide a detailed explanation for the scale of efficiency adjustments included in its LRIC model.

16.2.6 A Reporting Licensee shall allocate common costs to LRIC values and then derive unit costs for the required network components and services.

16.3 For each of these steps in the modelling process, a Reporting Licensee shall supply to the TRA in its DLRICM document a detailed description of the adopted methodology, the relevant data sets and the assumptions used. Requirements for key inputs and steps in the modelling process are set out further below.

17. LRIC Cost Modelling - Cost Drivers

17.1 A Reporting Licensee shall identify a cost driver for each HCC. The cost driver shall describe the activity which gives rise to the costs incurred in that particular HCC. This may either be an exogenous driver (e.g. traffic volumes), or endogenous to the model (i.e., dependent on internal demand from other activities within a Reporting Licensee's business and their related cost categories). In a small number of cases a HCC may have two cost drivers.

18. LRIC Cost Modelling – Excluded Costs

18.1 Costs that do not relate to the forward-looking long run costs of an efficient service provider shall be separately identified in specific cost pools to facilitate reconciliation and be excluded from the unit LRIC for the relevant services listed in Article 9.3 and Article 9.5. Examples of these costs include but are not limited to:

18.1.1 Bad debts;

18.1.2 Redundancy payments, such as early retirement compensation payments;

18.1.3 Costs which are unrecoverable past expenditures, such as losses on the disposal of fixed assets;

18.1.4 Costs of assets that are worth less on the market than on the balance sheet due to the fact that they have become obsolete in advance of complete depreciation;

18.1.5 Costs of assets that are fully depreciated;

18.1.6 Research and development costs that relate to possible future developments;

18.1.7 Costs incurred other than by services defined in Article 9.3 and Article 9.5 shall be excluded from the LRIC modelling;

18.1.8 Accounting items such as goodwill, provisions and extraordinary items;

18.1.9 Working capital cash balances in excess of those required to ensure the reasonable and efficient operation of the business;

18.1.10 Costs and investments in relation to any subsidiary or partnership investment within the UAE or internationally;

18.1.11 Financial investments and currency exchanges that generate revenues (or losses). Only efficient working capital levels shall be considered;

18.1.12 Interconnection and similar inter-operator payments; and

18.1.13 Inefficiently incurred costs.

19. LRIC Cost Modelling - Cost-Volume Relationships

19.1 A Reporting Licensee shall derive CVRs showing how the total cost of each HCC varies as the volume of the cost driver is reduced from its current level to a minimum level of demand. These CVRs shall identify both the level of costs that are fixed as the volume of the cost driver changes, and the form with which variable costs change as the cost driver volume changes.

19.2 Those costs which are fixed and common across increments shall then be recovered using an equi-proportionate mark-up, as described further below.

19.3 A Reporting Licensee shall use one of the following five main data sources for the generation of a CVR:

19.3.1 Statistical surveys - where detailed cost and cost driver information is available, a Reporting Licensee may derive a curve based on the relationship between the two types of information;

19.3.2 Interviews and field research - interviews may be used to identify where structural changes in CVRs take place;

19.3.3 Headcount analysis - where the costs of certain activities are principally related to staffing levels, it is appropriate to derive changes in cost from levels of headcount supporting an activity. This shall be achieved by reviewing the number of staff currently supporting an activity and assessing the number of staff hypothetically required to support the minimum level of activity in that function;

19.3.4 Benchmarking – this uses CVR information from other telecom operators' data. This methodology is permissible only where a Reporting Licensee can demonstrate, to the satisfaction of the TRA, that none of the other methods can be used to derive the CVR in question. Furthermore, a Reporting Licensee shall ensure that not more than 10% of its total costs are modelled via CVRs which rely on benchmarking data; or

19.3.5 Engineering simulation models – these model an asset's costs on the basis of underlying unit costs of component parts. The TRA expects that engineering simulation models shall form the basis for the bulk of the CVRs derived for network asset costs.

20. LRIC Cost Modelling - Treatment of Fixed and Joint Costs

20.1 A Reporting Licensee shall ensure that its LRIC model can separately report Increment Specific Fixed Costs (ISFC). A Reporting Licensee shall provide in its CVRM Document, for each CVR with increment specific fixed costs (ISFC), information on the ISFC's share of total fixed costs for that CVR.

20.2 The LRIC models developed by a Reporting Licensee shall be capable of adding Fixed Common and Joint Costs (FCJC) to pure-LRIC values. These LRIC-plus values shall be calculated on the basis of the FCJC being recovered using a EPMU on an HCC by cost category basis. The models shall also be capable of reporting DLRIC unit costs (Distributed-LRIC). DLRIC values include an equi-proportionate mark-up over 'pure' LRIC to recover intra-network FCJC, but exclude other FCJC. The results shall be submitted as required by Article 8.17.

21. Appointment of Auditor for Regulatory Financial Statements

21.1 A Reporting Licensee shall appoint as Regulatory Auditor a professionally qualified auditor to audit the RFS prepared in accordance with these Instructions.

21.2 The Regulatory Auditor to be appointed shall be licensed to conduct audits in the UAE and shall be an auditor of good standing.

21.3 The Regulatory Auditor to be appointed shall be independent from any firm that prepares, supports or advises in any way, the Reporting Licensee in the preparation of its RFS/Regulatory Accounting Documentation and /or regulatory cost modelling

21.4 Upon appointment of a Regulatory Auditor a Reporting Licensee shall provide the TRA, in writing with the following:

21.4.1 The name of the Regulatory Auditor;

21.4.2 The name of the audit firm together with its business address;

21.4.3 With respect to Article 21.3, a confirmation of the Regulatory Auditor's independence; and

21.4.4 The proposed duties of care and responsibilities of the Regulatory Auditor to the TRA.

21.5 Within 10 days of receiving notification from a Reporting Licensee of the appointment of a Regulatory Auditor the TRA may object, in writing, to the appointment of a Reporting Licensee's Regulatory Auditor, and may request that an alternative appointment be made if in its opinion the Regulatory Auditor does not meet the requirements or does not comply with Articles 21.1 to 21.3.

21.6 Within 10 days of receiving notification from a Reporting Licensee of the appointment of a Regulatory Auditor the TRA may object, in writing, to the proposed duties of care and responsibilities of the Regulatory Auditor to the TRA and may request a higher standard of care and responsibility be implemented.

21.7 The Regulatory Auditor is appointed by a Reporting Licensee and the responsibility for completion of the Regulatory Audit lies with a Reporting Licensee. The TRA may request meetings with the Regulatory Auditor to discuss the Auditor's work and such information and clarifications as it may consider appropriate. A Reporting Licensee shall ensure that this is provided for in the letter of engagement or contract entered into between a Reporting Licensee and the Regulatory Auditor.

22. Audit of Regulatory Financial Statements

22.1 The Regulatory Auditor shall conduct the process of the audit in accordance with Audit Standards applicable in the UAE save where these Instructions specify otherwise. For the avoidance of doubt the Regulatory Auditor in carrying out the audit shall comply with the following and shall resolve any conflict between them by applying the order of precedent as set out below (highest to lowest):

22.1.1 These Instructions;

22.1.2 UAE Accounting Standards or UAE Generally Accepted Accounting Principles (GAAP); and

22.1.3 International Financial Reporting Standards.

22.2 A Reporting Licensee shall procure for each Financial Year a Regulatory Audit report by the Reporting Licensee's Regulatory Auditor, in conformity with the UAE Auditing Standards in which the Auditor shall state whether in his opinion:

22.2.1 The RFS comply with the requirements of these Instructions;

22.2.2 The RFS have been properly prepared in accordance with these Instructions and the approved Regulatory Accounting Documentation prepared by the Reporting Licensee; and

22.2.3 Having reviewed these Instructions, and the Regulatory Accounting Documentation in forming his Opinion, whether anything has come to his attention that would lead him to conclude that the principles and procedures contained in these Instructions and/or the Regulatory Accounting Documentation have not been properly applied in the preparation of the accounts, disclosing where practicable any adjustments he considers to be required in respect of any such matter.

22.3 An example of the content of an Audit Report can be found in Annex 1 of these Instructions.

22.4 For each Financial Year, a Reporting Licensee shall procure a Regulatory Audit report by the Reporting Licensee's Regulatory Auditor of the LRIC model which shall conform to Auditing Standards and in which the Auditor shall include, but shall not be limited to, the examination of the following:

22.4.1 Checks on the relationship between the dimensioned network and underlying registers, statistics and other information not included in the annual report;

22.4.2 Checks on the current cost valuation of assets that is to say comparison with price lists/contracts, asset register or other appropriate documents;

22.4.3 Reconciliation of book values applied in the model against book values recorded in the fixed asset register;

22.4.4 Reconciliation of working capital and operating costs against the annual report;

22.4.5 Checks on the Activity Based Costing methodology and all other methodologies used to allocate costs;

22.4.6 Checks on volumes and traffic statistics not covered by the annual report;

22.4.7 Checks on consistency and accuracy of the application of the user manual with the reported results, and the checks/balances with the Statutory Financial Statements.

22.5 A Reporting Licensee shall be deemed to have complied with its obligations in relation to the preparation of the RFS and LRIC Model only if the Regulatory Auditor issues an unqualified Audit Opinion in relation to both the LRIC Model and the RFS (as a whole that the Reporting Licensee is required to submit to the TRA and not separately for each Business Unit).

22.6 With reference to Article 22.5, if the Regulatory Auditor issues a qualified Audit Opinion, that, in the TRA's opinion, does not give sufficient clearance of the RFS/Accounting Documentation to render them suitable for regulatory purposes the TRA may require the Reporting License to prepare a second set of RFS which correct, where possible, the Regulatory Auditor's identified reasons for qualifying the RFS. Any and all such subsequent RFSs shall be audited.

23. Restatement of previous Regulatory Financial Statements

23.1 Where the TRA or Regulatory Auditor considers that there has been a material change in the preparation of the RFS compared to previous years, a Reporting Licensee may be required to restate the Regulatory Accounts of the prior Financial Year in accordance with the most recently employed methodology.

23.2 Without prejudice to any other case where the Regulatory Auditor or the TRA consider that there is a material change, a change shall be considered as material, if the impact on the Company's RFS is five (5) percent or greater of the total revenue or cost (including cost of capital) for any individual Regulatory Financial Statement.

24. Ability to seek clarifications / explanations/ information from a Reporting Licensee

24.1 The TRA may require in writing and within such a period as it may specify, a Reporting Licensee to provide it with information, clarifications and or explanations in relation to all models, documents and/or Regulatory Accounts produced pursuant to these Instructions (and earlier versions of these Instructions), in a format specified by the TRA.

25. Retention of data

25.1 A Reporting Licensee shall ensure that it retains the accounts, information, records and documents upon which the RFS have been prepared for a period of no less than five (5) years from the date of submission to the TRA. This requirement is without prejudice to any other obligations that a Reporting Licensee may have for the retention of such documents pursuant to other legal or regulatory obligations that it is subject to.

26. Costs Incurred

26.1 All costs incurred in complying with these Instructions, including but not limited to, all Regulatory Audit costs, costs incurred for the Regulatory Auditor to respond to questions or meetings with the TRA, shall be borne by a Reporting Licensee. No costs shall be borne by the TRA.

27. Publication of Regulatory Accounting Documentation or Regulatory Financial Statements

27.1 The TRA may, at its discretion, but subject to prior consultation with a Reporting Licensee, publish or require a Reporting Licensee to publish any Regulatory Accounting Documentation (as specified in Section 6 of these Instructions) and/or Regulatory Financial Statements (as specified in Section 8 of these Instructions) a Reporting Licensee has submitted to the TRA in compliance with these Instructions. The TRA may also specify the manner and such other issues as it considers appropriate relating to this publication.

27.2 The TRA, in consulting with a Reporting Licensee regarding the publication of Regulatory Accounting Documentation or Regulatory Financial Statements, shall have regard to:

27.2.1 The nature of the information;

27.2.2 The reasons for the disclosure;

27.2.3 Whether, in the TRA's opinion, disclosure may seriously harm the Reporting Licensee's business interests; and

27.2.4 The duties and obligations of the TRA pursuant to the Telecommunications Law.

28. Effective date

28.1 These Instructions shall be published by the TRA and shall come into force on the Date of Issuance.

ANNEXES

Annex 1 - Content of Audit Report

The Regulatory Audit Report shall consist of at least the following components:

1. Title - The Report is addressed to the Board of Directors (BoD) of the Reporting Licensee.

2. Scope - The purpose of this section is to ensure that the elements of Regulatory Financial Statements which are subject to audit are identified (by reference to the relevant page numbers in the Regulatory Financial Statements). The following Regulatory Financial Statements shall be the subject of the audit:

a) Profit & Loss (P&L) Statement;

b) Statement of Mean Capital Employed;

c) Reconciliation Statement;

d) Statement of Transfer Charges;

e) Statement of Unit Costs;

f) Statement of Network Component Route Factors (for both retail and interconnection services); and

g) Statement of Retail Services Route Factors.

The Regulatory Auditor is under a regulatory duty to consider if:

a) proper accounting records have been kept;

b) Regulatory Financial Statements are in agreement with underlying records and returns; and

c) adequate evidence and explanations have been made available to the Regulatory Auditor by officers of a Reporting Licensee.

3. Basis of Opinion – To expressly confirm that the audit is conducted in accordance with these Instructions, any Directions issued by the TRA and the approved Regulatory Accounting Documentation.

4. The Opinion – To express an opinion that:

a) the Regulatory Financial Statements give a Properly Presents in Accordance (PPiA) view;

b) the Regulatory Financial Statements have been prepared in accordance with

   i. the Instructions, and

   ii. the approved Regulatory Accounting Documentation, and

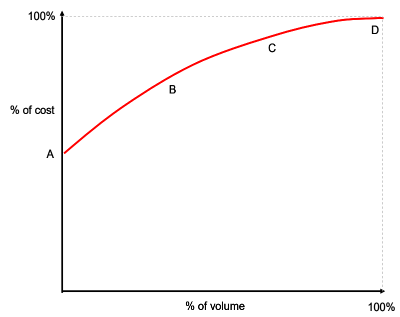
   iii. any Directions issued to the Reporting Licensee.

In the event that the opinion is qualified the heading to the opinion paragraph shall state “qualified opinion…”

5. Signature and Date: The Report shall be signed by the Regulatory Auditor and dated.

Annex 2 - Template for CVR reporting format

<table>
<tr><td>CVR name and number</td><td>[Add name and number of CVR, e.g. “ATM (CVR 1)”]</td></tr>
<tr><td>Cost driver</td><td>[List all cost drivers relevant to CVR, e.g.: “Data traffic”]</td></tr>
<tr><td>LRIC cost categories which use the CVR:</td><td>[List all cost categories which use this CVR, e.g.: “Data switching, Transmission”]</td></tr>
<tr><td>Description of CVR</td><td>[Provide, at the minimum, the following items:
▪ a description of the CVR shape;
▪ a graph and table showing the data points for the percentage of cost that is avoidable at each quintile
An example of the above is provided below:]

“Non-linear with fixed cost element
<table><tr><td><table><tr><th>Volume</th><th>Cost</th></tr><tr><td>0%</td><td>[X]%</td></tr><tr><td>20%</td><td>[X]%</td></tr><tr><td>40%</td><td>[X]%</td></tr><tr><td>60%</td><td>[X]%</td></tr><tr><td>80%</td><td>[X]%</td></tr><tr><td>100%</td><td>[X]%</td></tr></table></td><td>
</td></tr></table></td></tr>
<tr><td>Methodology:</td><td>[Provide a summary of the methodology used to derive the CVR ,e.g.:

“ATM transmission nodes are used for the transmission of data traffic. The cost of ATM transmission is dependent on the volume of data traffic. At the minimum point, the number of ATM nodes and equipment is kept constant, to be consistent with the Scorched Node principle, but all ATM nodes are reduced to their minimum capacity.
The costs of racks required to host all ATM cards is</td></tr>
</table>

	added to the total."]
Assumptions used:	[Provide a explanation of the rationale and all assumptions used when deriving the CVR ,e.g.: *"<u>Maximum Point</u>:* *The maximum point is defined as the total current cost of all ATM nodes installed in the network. It is calculated by multiplying the number of uplinks and cards installed in each of the existing nodes by their unit cost. This requires the conversion of number of ports into number of cards, using the factors defined above). The number of racks necessary to host all the installed cards is also calculated and added to the total cost.* *<u>Minimum Point</u>:* *At the minimum point, the number of ATM nodes is kept constant, consistently with the Scorched Node approach. However, at the minimum point all ports are assumed to be E1 ports."*].
Data sources:	[Provide a list of all data sources – as defined in Article 19.3- used to derive the CVR ,e.g.: *1) Inventory of total number of ATM cards installed* *2) Unit equipment costs are based on recent contracts* *3) Installation cost estimates based on interviews*

Annex 3 - HCA Profit & Loss Statement (Fixed Access Network)

HCA Profit & Loss for the Year Ended 20XX

	20XX	**20X(X-1)**
Revenue	(AED 1,000s)	(AED 1,000s)
External Sales	XXX	YYY
Internal Sales		
Fixed Access Network		
Fixed Core Network		
Fixed Retail Services		
Fixed Data Services		
International Network		
Mobile Network		
Mobile Retail Services		
Interconnection Services		
Subsidiary Companies		
Other		
Total Revenue	**XXX**	**YYY**
Own Operating Expenditure	(XXX)	(YYY)
Internal Transfer Charges		
Fixed Access Network		
Fixed Core Network		
Fixed Retail Services		
Fixed Data Services		
International Network		
Mobile Network		
Mobile Retail Services		
Interconnection Services		
Subsidiary Companies		
Other		
Total Operating Expenditure	**(XXX)**	**(YYY)**
HCA Depreciation		
Total HCA Operating Costs	**(XXX)**	**(YYY)**
HCA Profit (Loss)	**XXX**	**YYY**
Mean Capital Employed		
Return on Capital Employed	%	%

Annex 4 - HCA Statement of Mean Capital Employed (Fixed Access Network)

HCA Statement of Mean Capital Employed for the Year Ended 20XX

	20XX	20X(X-1)
Fixed Assets (Net Book Value)	(AED 1,000s)	(AED 1,000s)
Duct and Cables	XXX	YYY
Switching Equipment		
Transmission Equipment		
Other telecommunications equipment		
Land and buildings		
Computing equipment		
Other Fixed Assets		
Total Fixed Assets (a)	**XXX**	**YYY**
Current Assets	**XXX**	**YYY**
Cash and Short Term Deposits		
Accounts Receivables		
Stocks (Inventories)		
Other Current Assets		
Total Current Assets (b)	**XXX**	**YYY**
Total Assets (c) = (a + b)	**XXX**	**YYY**
Current Liabilities		
Short Term Loans/Borrowings	(XXX)	(YYY)
Accounts Payable		
Other Current Liabilities		
Total Current Liabilities (d)	**(XXX)**	**(YYY)**
Mean Capital Employed (e) = (c + d)	**XXX**	**YYY**

Annex 5 - CCA Profit & Loss Statement (Fixed Access Network)

CCA Profit & Loss for the Year Ended 20XX

	20XX	20X(X-1)
Revenue	(AED 1,000s)	(AED 1,000s)
External Sales	XXX	YYY
Internal Sales		
Fixed Access Network		
Fixed Core Network		
Fixed Retail Services		
Fixed Data Services		
International Network		
Mobile Network		
Mobile Retail Services		
Interconnection Services		
Subsidiary Companies		
Other		
Total Revenue (a)	**XXX**	**YYY**
Own Operating Expenditure	(XXX)	(YYY)
Internal Transfer Charges		
Fixed Access Network		
Fixed Core Network		
Fixed Retail Services		
Fixed Data Services		
International Network		
Mobile Network		
Mobile Retail Services		
Interconnection Services		
Subsidiary Companies		
Other		
Total Operating Expenditure (b)	**(XXX)**	**(YYY)**
HCA Depreciation (c)		
Supplementary Depreciation (d)		
CCA Depreciation (e = c + d)		
Total CCA Operating Costs (f = b + e))	**(XXX)**	**(YYY)**
Revaluation of Fixed Assets (g)		
Backlog Depreciation (h)		
Net Holding Gain/(Loss) (i = g – h)	**XXX**	**YYY**
CCA Profit (Loss) (a + f + i)		

Mean Capital Employed	**XXX**	**YYY**
Return on Capital Employed	%	%

Annex 6 - CCA Statement of Mean Capital Employed (Fixed Access Network)

CCA Statement of Mean Capital Employed for the Year Ended 20XX

	20XX	**20X(X-1)**
Fixed Assets (Net Replacement Cost)	(AED 1,000s)	(AED 1,000s)
Duct and Cables	XXX	YYY
Switching Equipment		
Transmission Equipment		
Other telecommunications equipment		
Land and buildings		
Computing equipment		
Other Fixed Assets		
Total Fixed Assets (a)	**XXX**	**YYY**
Current Assets	**XXX**	**YYY**
Cash and Short Term Deposits		
Accounts Receivables		
Stocks (Inventories)		
Other Current Assets		
Total Current Assets (b)	**XXX**	**YYY**
Total Assets (c) = (a + b)	**XXX**	**YYY**
Current Liabilities		
Short Term Loans/Borrowings	(XXX)	(YYY)
Accounts Payable		
Other Current Liabilities		
Total Current Liabilities (d)	**(XXX)**	**(YYY)**
Mean Capital Employed (e) = (c + d)	**XXX**	**YYY**

Annex 7 - Glossary of terms and abbreviations

Term	Description
CCA	Current Cost Accounting
CVR	Cost Volume Relationship
D-LRIC	Distributed Long Run Incremental Cost
EPMU	Equal Proportionate Mark-Ups
FAR	Fixed Asset Register
FCJC	Fixed Common and Joint Costs
FCM	Financial Capital Maintenance
GBV	Gross Book Value
GL	General Ledger
GRC	Gross Replacement Cost
HCA	Historic Cost Accounting
ISFC	Increment Specific Fixed Costs
LRIC	Long Run Incremental Cost
MEA	Modern Equivalent Asset
NBV	Net Book Value
NPV	Net Present Value
NRC	Net Replacement Cost
OCM	Operating Capital Maintenance
GAAP	Generally Accepted Accounting Principles
RFS	Regulatory Financial Statement
SAC	Stand Alone Cost
TRA	Telecommunications Regulatory Authority
WACC	Weighted Average Cost of Capital

Annex 8 – List of Land Parcel Ownership

Table 1 List of Land Parcels with Title Deed

Description (if relevant)	Location	Area (sq.m)	Historical value (AED)	Current value (AED)	Year of Title Deed [1]

[1] The TRA may through the process of investigation request a Reporting Licensee to produce the Title Deed for a specific Land Parcel or for a sample of Land Parcels. Failure to provide a Title Deed(s) for a Land Parcel(s) reported as a Land with Title Deed may result in the Land Parcel(s) being excluded from the RFS.

Table 2 List of Land Parcels without Title Deed [1]

Description (if relevant)	Location	Area (sq.m)	Historical value (AED)	Current value (AED)	Acquisition date	Rights of Use[2]

[1] Shall not include land granted to a Reporting Licensee as per Federal Law No (1) of 1991 regarding Emirates Telecommunications Corporation, or Federal Law by Decree No (3) of 2003 Regarding the Organization of Telecommunications Sector, as amended, or as per any condition in a Reporting Licensee's Public Telecommunication License pertaining to the access to and use of land.

[2] A detailed description of the manner in which the Reporting Licensee could or does derive a commercial value for such land (e.g. right of sale, rights of lease, currently leased to a third party etc). The TRA will approve the inclusion of these Land Parcels in the RFS on a case-by-case basis.