



# **Jersey Telecom**

## **Accounting Separation Methodology**

**30<sup>th</sup> June 2009**

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## Glossary

Term	Definition
Business	<p>Refers to the collection of Sub-businesses for which Jersey Telecom is to provide Separated Accounts in accordance with Condition 29 of its Licence, namely:</p> <ul style="list-style-type: none"> <li>- Core Network</li> <li>- Local Access Network</li> <li>- Retail Fixed</li> <li>- Mobile</li> <li>- Other Activities</li> </ul> <p>Definitions of each business are supplied in section 3 of the Methodology.</p>
Detailed Allocation Appendices (DAA)	<p>Refers to the document submitted under separate cover alongside the Methodology.</p> <p>The objective of the DAA is to set out the individual sender-receiver relationships which result from the application of these principles listed in the Methodology and which have been used to derive the Separated Accounts.</p>
Interconnect Agreement	<p>Refers to the Interconnect Agreement signed between Wave Telecom Limited and Jersey Telecom Limited. The Interconnect Agreement provides details of all services provided by the latter party to the former.</p>
Licence	<p>Refers to the Telecommunications Licence held by the Licensee.</p>
Licensee	<p>Refers to Jersey Telecom Limited.</p>
Methodology	<p>Refers to this document, the objective of which is to set out the principles to be used by Jersey Telecom in the preparation of the Separated Accounts for the period ended 31<sup>st</sup> December 2008.</p>
Metify	<p>Refers to the Activity Based Costing software package employed by Jersey Telecom to attribute costs, revenues and capital employed to Network Elements and Products.</p>
Network Elements	<p>Refers to those groups of General Ledger codes which are attributable to one or more Products by means of routing factors or other means.</p> <p>Definitions of Network Elements are provided at section 6.1 of the Methodology.</p>
Products	<p>Refers to those activities which comprise the Sub-businesses and which are separately identifiable within the Jersey Telecom Activity Based Costing system Metify. Examples include "Exchange Line Rental" and "Exchange Line Connection".</p>

Term	Definition
Separated accounts	Refers to the financial statements to be submitted in accordance with the JCRA's direction of 12 <sup>th</sup> May 2005, the proformas for which are provided in section 6.2 of the Methodology.
Sub-businesses	<p>Refers to the individual activities or groups of activities referred to in Condition 29 of the Licence and defined in the JCRA's Direction of May 12<sup>th</sup> 2005 and as amended by Jersey Telecom's letter to the JCRA of August 3<sup>rd</sup> 2005, namely:</p> <p>within the Business Retail Fixed:</p> <ul style="list-style-type: none"> <li>- Exchange Line Rental and Connection</li> <li>- Local calls</li> <li>- National calls</li> <li>- International Calls</li> <li>- Calls to Jersey Mobiles</li> <li>- Non-geographic calls free to calling customer</li> <li>- Non-geographic calls charged at local rate</li> <li>- Non-geographic calls charged at national rate</li> <li>- Non-geographic calls charged at premium rate</li> <li>- Internet Calls</li> <li>- Directory Enquiries</li> <li>- Public Payphones</li> <li>- Leased lines and data services</li> <li>- Broadband xDSL</li> <li>- Broadband Other</li> <li>- Remaining Activities</li> </ul> <p>and within the Business Mobile:</p> <ul style="list-style-type: none"> <li>- Mobile – Connections</li> <li>- Mobile – Rentals</li> <li>- Mobile – Prepaid sales</li> <li>- Mobile – Prepaid calls</li> <li>- Mobile – Calls from Mobile</li> <li>- Mobile – Calls to Mobile</li> <li>- Mobile – SMS</li> <li>- Mobile – Roaming</li> <li>- Mobile – Directory Enquiries</li> <li>- Mobile – Other</li> </ul> <p>Definitions of each Sub-business are supplied in section 3 of this document.</p>

Term	Definition
Transfer Charges	<p data-bbox="612 349 1382 483">Refers to the charges made between Businesses and Sub-businesses and disclosed within the Separated Accounts in accordance with paragraph 2 of the JCRA's direction of May 12<sup>th</sup> 2005.</p> <p data-bbox="612 506 1337 607">The transfer charges included in the Separated Accounts are calculated in accordance with paragraph 4.7.6 of the JCRA's consultation document of June 2<sup>nd</sup> 2004, namely:</p> <p data-bbox="612 629 1385 797">“the charge for any service/product within Jersey Telecom Ltd should be equivalent to the charge that would be levied if the product of service were sold externally rather than internally. This rule to apply regardless of whether the service/product is, at any particular point in time, actually supplied externally.”</p> <p data-bbox="612 819 1342 880">Further details of the principles employed in the calculation of transfer charges are set out in section 5 of the Methodology.</p>

# 1 Introduction

Jersey Telecom Limited (“Jersey Telecom”) has been directed under Condition 29 of its Telecommunications Licence (“the Licence”) to maintain accounting records in a form which enables the activities of any business unit specified in any direction given by the JCRA to be separately identifiable, and which the JCRA considers to be sufficient to show and explain the transactions of each of these business units.

In 2004 the JCRA issued the document A Consultation paper on Accounting Separation and Costing Methodologies. This document specified the JCRA’s proposals as to the activities of Jersey Telecom to be separately identifiable and the basis and timing of the reports to be provided to the JCRA. Subsequently in May 2005, Appendices 2 to 6 of this consultation were commuted into a Direction. These Appendices provided guidelines on:

- Attribution of operating costs
- Attribution of cost of capital and capital employed
- Attribution of revenue
- Proforma reporting formats; and
- Current cost accounting.

Jersey Telecom has used these guidelines as the basis for the Methodology, which sets out the methods by which its Separated Accounts are to be derived. The Methodology is provided to the JCRA in order to:

- set out the procedures to be followed in the construction of the Separated Accounts;
- highlight Jersey Telecom’s interpretation of the guidelines provided by the JCRA; and
- to assist eventual users of the Separated Accounts in understanding their preparation.

## 1.1. Contents of accounting documents

The Methodology is made up of the following:

- Regulatory accounting principles – which restate the general rules given in section 5 of the JCRA’s consultation document by which the Separated Accounts are to be prepared;
- Businesses – which provides the agreed definitions of the Businesses and Sub-businesses for which Separated Accounts are required;
- Attribution methods – which explains how costs (including transfer charges), revenue, assets and liabilities are to be attributed to the Businesses and components and Sub-businesses within those Businesses following the Regulatory Accounting Principles; and
- Transfer charges – which explains how the charges are raised from the Local Access Network Business, Core Network Business and Mobile Business to the Core Network, Fixed Retail and Mobile Businesses and Other Activities and for use of the respective networks.

Jersey Telecom notes that the Detailed Allocation information required by JCRA, detailing individual sender-receiver relationships used to allocate costs from the Jersey Telecom General Ledger to the Products with which this document deals, have been submitted to the JCRA as appendices to this document.

## 1.2. Method of preparing accounting records

Jersey Telecom is a unitary business sharing a common network and support functions. It consists of a number of customer facing divisions and divisions responsible for providing customers with telephony services, maintaining the core switching and transmission networks, and providing and maintaining customer connections to this network.

Jersey Telecom records its transactions in the accounting records in accordance with the legal requirements of the Bailiwick of Jersey and generally accepted accounting principles. Within these records detailed data is maintained in respect of the manner in which the transactions have arisen. Assets, liabilities income and costs are recorded by type.

### 1.3. Method of preparing separated accounts

The structure of the Businesses required by the JCRA (i.e. Local Access Network, Core Network, Fixed Retail, Mobile and Other Activities) does not correspond to the way in which the statutory accounting records of Jersey Telecom are structured. The Separated Accounts will therefore be prepared by overlaying the requirements of the JCRA's Direction on the accounting records and management structure of Jersey Telecom. The Separated Accounts have been prepared by attributing the balances in Jersey Telecom's general ledgers and other accounting records to the Businesses and disaggregated Sub-businesses as directed by the JCRA.

As set out in section 6.1 of the Consultation, wherever possible, revenue, costs, assets and liabilities have been directly associated with a Business, Activity or Network element using information recorded within Jersey Telecom's accounting records.

If no such direct association is possible the revenue, costs, assets and liabilities have been apportioned between two or more Sub-businesses, Network elements or Businesses on a basis that reflects the causality of the revenue, cost, asset or liability. Details of this process are given in the Attribution Methods which form an appendix to this document and list the drivers used for each such revenue, cost, asset and liability.

The allocation bases used in the preparation of the Separated Accounts were initially developed for management accounting purposes. In this context, Jersey Telecom has endeavoured to ensure that these allocation bases are the most appropriate for the purposes of accounting separation, subject to the limitations of time and data availability. Consequently, certain allocation bases may not meet the quality standard Jersey Telecom would normally require in the reporting of financial information for third party consumption.

*Notwithstanding this, Jersey Telecom continues to review and update attribution methods on an ongoing basis and has addressed those specific recommendations contained in the Annex to the JCRA's Second Direction of 18<sup>th</sup> October 2005 as well as points raised in subsequent correspondence received from the JCRA, specifically the letter "Accounting Separation" dated 28<sup>th</sup> April 2006.*

The Separated Accounts for the year ended 31<sup>st</sup> December 2008 have been prepared for disclosure to the JCRA alone and not for wider publication.

### 1.4. Restatement of Separated Accounts for the Year ended 31st December 2007

*In its letter "Accounting Separation" of 28th April 2006 the JCRA required a restatement of the prior year regulatory accounts to reflect methodological changes introduced for the current year. In accordance with this the 2007 accounts have been restated and provided as comparatives in this year's statements.*

*The restated results are different from last year's accounts for the following reasons:*

- Improved allocations driven by the comparison with 2008 data which enables a more detailed and thorough review ;



- Continued review by Product Managers and the Accounting Separation Panel leading to improved cost drivers;
- Improved data and its use in calculating cost allocations.

#### 1.5. *Exceptions from compliance with the Separated Accounts guidelines*

##### 1.5.1. *Exceptions from compliance with the Annex 2 of the JCRA direction*

This annex relates to the allocation of operating costs and the guidelines for the allocation of operating costs. The separated accounts are compliant with these guidelines with the following exceptions which were included in “Proposed Changes” submission from March 2006:

- The maintenance of power equipment is allocated based neither on work performed or time estimates as recommended by the JCRA because it is not considered appropriate given the nature of the maintenance involved. Instead a two-stage attribution process is used in which this cost is split across principal asset categories using power consumption, and then allocated to sub-categories based upon GBV. The allocation of maintenance costs for Wave Power Equipment has not been changed given that it is entirely within an un-regulated entity. This was included in the “Proposed Changes” submission to JCRA from March 2006 and no further comment has been received from the JCRA on these items.
- The provision of support to authorised dealers is not allocated based on time as per Robson Rhodes’ recommendations but rather on commissions paid to dealers since the principle activity involved is the payment of such commissions. Again this was included in the “Proposed Changes” submission with no further comment being received from the JCRA on this item.
- The maintenance of joint chambers is not allocated based on time as per Robson Rhodes’ recommendations, but gross book value, as the categories across which it is exhausted represent accounting entities rather than separate physical entities and therefore it has not been possible to establish a time recording process which would provide a meaningful attribution of costs between these entities. Again this was included in the “Proposed Changes” submission with no further comment being received from the JCRA on this item.
- Alcatel GSM costs associated with the support contract are allocated based on GBV rather than time as per Robson Rhodes’ recommendation which appeared to be based on a mistaken assumption that these were internal maintenance costs. This item was clarified in the “Proposed Changes” submission with no further comment being received from the JCRA on this item.
- Regarding the JCRA’s guidance for allocation from the GL using the tiered approach (section 6 of the Consultation) we would note that has been undertaken with a slightly different mapping approach to that suggested (summarised below in the Accounting Separation Methodology document at 4.5.3 and Appendix 1).

##### 1.5.2. *Exceptions from compliance with the Annex 5 of the JCRA direction*

This Annex sets out the Proforma Statements.

In the main the **Profit and loss statements and statements of mean capital employed** are compliant with JCRA requirements with the following exceptions to reflect the features of the Jersey network and market:

- CCA adjustments have not been included as the accounts are prepared using historical cost accounting;

- Revenues for the Core Network Business include transfer revenues received from the Other Activities Business relating to the use of the core network in the provision of Wave Telecom's services;
- Revenues for the Core Network Business include transfer revenues received from the Mobile Business relating to the use of the core network in the provision of calls originating on the mobile network and terminating/ transiting the core network;
- Revenues for the Access Network Business include transfer revenues received from the Core Network Business relating to the use of the local loop in the provision of wholesale leased lines and xDSL services;
- Revenues for the Mobile Business include transfer revenues received from the Other Activities Business relating to the use of the mobile network in the provision of Wave Telecom's services and from Fixed Retail for Mobile termination;
- Revenues for the Other Activities Business include transfer revenues received from the Fixed Retail and Mobile Businesses relating to the use of the Liberty subsea cable (Wave asset) in the provision of fixed and mobile national and international services and internet services.
- Operating costs for the Core Network Business include transfer charges payable to the Local Access Network Business relating to the use of the local loop in the provision of wholesale leased line and xDSL services;
- Operating costs for the Retail Fixed Business include transfer charges payable to the Mobile Business relating to the use of the mobile network in the provision of fixed to mobile services;
- Operating costs for the Retail Business include transfer charges payable to the Other Activities Business relating to the use of the Liberty subsea cable (Wave asset) in the provision of fixed national and international services and internet services.
- Operating costs for the Sub-Business Exchange Line Rental & Connection include transfer charges payable to the Core Network relating to the use of the core network in the provision of operator assistance and emergency services;and
- Operating costs for the Sub-Businesses International Calls, Freephone Calls, Local Rate Calls and Premium Rate Calls include transfer charges payable to the Mobile Business relating to the transit of the mobile switching centre to access the Intelligent Network platform.
- Operating costs for the Mobile Business include transfer charges payable to the Other Activities Business relating to the use of the Liberty subsea cable (Wave asset) in the provision of mobile national and international services and mobile internet services.
- Operating costs for the Other Activities Business include charges payable to Core, Access and Mobile Business relating to the use of fixed and mobile networks in the provision of Wave and other unregulated services.

The **statements of costs of network services** provided in the Separated Accounts are compliant with the guidelines with the following exceptions, which reflect the features of the Jersey network and market:

- Core and mobile network element unit costs, usage and total costs are included: the Jersey Telecom RIO includes mobile wholesale services;
- No information has been included for RIO services with no volume in the period

- Reconciliation of the statement of costs to the total costs of the Core Network Business and the network costs of the Mobile Business are included;
- The statement of costs provided in the separated accounts do not reconcile to the transfer charge statements included in note 4.11 and 4.13 to the Separated Regulatory Accounts. This reflects the fact that transfer charges are calculated with reference to RIO component prices and to retail-minus prices for leased line and xDSL services and are only partially calculated with reference to 2008 costs.
- In addition, time of day gradients were not provided for the RIO services for the same reasons set out above.

The **statement of transfer charges** provided in the Separated Accounts is compliant with JCRA's proformas and guidance with the following exceptions, which reflect the features of the Jersey market:

- Charges are stated in thousands of pounds;
- Additional businesses are provided to reconcile to the Inter-Business Cost Summary; and
- The statement of transfer charges does not reconcile to the network statement of costs: the statement of transfer charges includes RIO-based and retail-minus based transfer charges while the network statement of costs includes costs only.

## 2 Regulatory accounting principles

The following Regulatory Accounting Principles have been applied in:

- the production of the Separated Accounts;
- the application of the Attribution Methods;
- the application of the Transfer Charging System; and
- the application of the Accounting Policies.

### 2.1 Definition of principles to be applied

#### 2.1.1 Principle 1 - Priority

Within the Regulatory Accounting Principles, insofar as there is conflict between the requirements of any or all of these Principles, the Principles are to be applied in the same order of priority in which they appear in this document.

#### 2.1.2 Principle 2 - Definitions

Any word or expression used in the Accounting Documents shall, unless the context otherwise requires, have the same meaning as it has in Jersey Telecom's Licence.

#### 2.1.3 Principle 3 - Cost Causality

Revenue (including transfer charges), costs (including transfer charges), assets and liabilities shall be attributed to cost components, services and businesses or disaggregated businesses in accordance with the activities which cause the revenues to be earned or costs to be incurred or the assets to be acquired or liabilities to be incurred.

Where it is not possible to attribute revenues, costs, assets and liabilities in accordance with the preceding paragraph, the attribution shall be such as to present fairly the revenues, costs, assets and liabilities accounted for in the Financial Statement for each Business as disaggregated, and to present fairly a comparison between the Businesses as disaggregated.

#### 2.1.4 Principle 4 – Objectivity

The attribution shall be objective and not intended to benefit either Jersey Telecom or any other Operator, product, service, component, Business or disaggregated activity.

#### 2.1.5 Principle 5 - Consistency

There shall be consistency of treatment from year to year. Where there are material changes to Regulatory Accounting Principles, the attribution methods, or the accounting policies that have a material effect on the information reported in the financial statements of the businesses, the parts of the previous year's financial statements affected by the changes shall be restated with appropriate explanatory notes.

#### 2.1.6 Principle 6 - Use of UK GAAP

Unless expressly provided for, generally accepted accounting principles and practices in the United Kingdom are to be followed.

### 2.1.7 Principle 7 - Transparency

The Methodology should provide a transparent description of the accounting and other methods used in the preparation of the Separated Accounts such that a suitably informed reader can:

- gain an understanding of the overall structure of Jersey Telecom's financial and information systems from which regulatory accounting data is derived and in particular the sequence of the processing and 'cascade' effect of the intermediate cost centres;
- gain an understanding of all the material, methodologies and drivers (e.g. systems, processes and procedures) applied in the preparation of regulatory accounting data; and
- make their own judgement as to the reasonableness of these methodologies and driver data and any changes to them.

### 3 Businesses

Jersey Telecom will prepare Separated Accounts for each of the following Businesses and Sub-businesses:

<b>Business</b>	<b>Sub-Business</b>
Local Access Network Business	Not applicable
Core Network Business	Not applicable
Retail Fixed Business	Exchange Line Rental and Connection Local calls National calls International Calls Calls to Jersey Mobiles Non-geographic calls free to calling customer Non-geographic calls charged at local rate Non-geographic calls charged at national rate Non-geographic calls charged at premium rate Internet Calls Directory Enquiries Public Payphones Leased lines and data services Broadband xDSL Broadband Other <sup>1</sup> Remaining Activities <sup>2</sup>
Mobile Business	Mobile – Connections Mobile – Rentals Mobile – Prepaid sales Mobile – Prepaid calls Mobile – Calls from Mobile Mobile – Calls to Mobile Mobile – SMS Mobile – Roaming Mobile – Directory Enquiries Mobile – Other
Other Activities Business	Not applicable

The full definition of the Businesses and Sub-businesses are set out in the below.

#### *3.1 Definition of businesses and sub-businesses*

The JCRA's Initial Direction provides no definition of the Business and Sub-businesses listed above.

For the purposes of clarity and future consistency, Jersey Telecom has employed the following definitions in preparing the Separated Accounts of each Business and Sub-business.

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1 Jersey Telecom did not provide any such services during either the period ending 31st December 2007 or the period ending 31st December 2008. As such, no statements are included for this Sub-business for the periods ending 31st December 2007 and 31st December 2008.

2 Jersey Telecom did not provide any such services during either the period ending 31st December 2007 or the period ending 31st December 2008. As such, no statements are included for this Sub-business for the periods ending 31st December 2007 and 31st December 2008.

Jersey Telecom notes that the costs and revenues attributable to Wave Telecom are separately accounted for in accordance with the terms defined in the Interconnect Agreement between Jersey Telecom Limited and Wave Telecom. The costs and revenues attributable to Wave Telecom are accounted for in the Business "Other Activities" as they relate to a non-regulated activity.

### 3.1.1 Core Network business

The business containing the revenues, costs, assets and liabilities of that part of Jersey Telecom's fixed network relating to core interconnection and wholesale services provided to other operators or similar services provided to Retail Fixed Business and Mobile Business. Income comprises revenues from operators and transfer charges to Retail Fixed Business and Mobile Business for their respective use of the network.

The revenues are:

- i. the amounts due from other operators for core interconnection and wholesale services;
- ii. other amounts due from other operators for use of core network facilities; and
- iii. the amounts attributable by Jersey Telecom from its downstream retail businesses in respect of similar or equivalent services provided to other operators; and

The costs are the capital and operating costs of:

- i. the traffic sensitive portion of the switching, transmission and other apparatus and systems, used in providing the fixed telecommunications services consisting in the conveyance of messages and information including calling, leased lines and managed data services, including DSLAMs but excluding dedicated customer access network;
- ii. operator services provided or procured by Jersey Telecom for the provision of call assistance, emergency and directory information services;
- iii. the land, cables, ducts, poles, plant and facilities associated with the activities and services described in paragraph (i) above; and
- iv. including, without limitation, the costs of planning, installing, removing, moving, adjusting, maintaining, monitoring and controlling, and undertaking any other necessary operations in respect of, these things and the costs of the equipment and facilities used in undertaking these activities;
- v. the costs of dealing and communicating with other operators, international operators and others who convey messages for which payments are made, including, without limitation, the costs of rendering bills to, and collecting payments from other operators in respect of the activities and services described above;
- vi. the costs of improving and developing the facilities, equipment, systems, processes and procedures used in providing the activities and services described above; and
- vii. the costs of any overheads and any other appropriate costs attributed to the activities causing the costs described above to be incurred;

The assets and liabilities are all of the facilities and equipment related to the provision of the services and activities described above plus the associated working capital and long term provisions and liabilities attributable to the business.

### 3.1.2 Local Access Network Business

The business containing the revenues, costs, assets and liabilities of that part of Jersey Telecom's fixed network relating to wholesale access services provided to other operators or similar services provided to Retail Fixed Business. Income comprises revenues from operators and transfer charges to Retail Fixed Business for their respective use of the network.

The revenues are:

- i. other amounts due from other operators for use of local access network facilities, however, Jersey Telecom received no such revenue in either period; and
- ii. the amounts attributable by Jersey Telecom from its downstream retail businesses in respect of similar or equivalent services provided to other operators.

The costs are the capital and operating costs of:

- i. the non traffic sensitive portion of the switching, transmission and other apparatus and systems, used in providing the fixed telecommunications services consisting in the conveyance of messages and information including calling, leased lines and managed data services, including local loop, line cards, and ports at concentrators and exchanges dedicated to the purpose of connecting a customer to the Core Network;
- ii. the land, cables, ducts, poles, plant and facilities associated with the activities and services described in paragraph (i) above; and
- iii. including, without limitation, the costs of planning, installing, removing, moving, adjusting, maintaining, monitoring and controlling, and undertaking any other necessary operations in respect of, these things and the costs of the equipment and facilities used in undertaking these activities;
- iv. the costs of dealing and communicating with other operators, including, without limitation, the costs of rendering bills to, and collecting payments from other operators in respect of the activities and services described above;
- v. the costs of improving and developing the facilities, equipment, systems, processes and procedures used in providing the activities and services described above; and
- vi. the costs of any overheads and any other appropriate costs attributed to the activities causing the costs described above to be incurred.

The assets and liabilities are all of the facilities and equipment related to the provision of the services and activities described above plus the associated working capital and long term provisions and liabilities attributable to the business.



### 3.1.3 Retail Fixed Business

The businesses comprising the revenues, costs, assets and liabilities associated with retailing its constituent services – which are detailed below – to third parties. The businesses will purchase, via transfer charges, the network services required to provide their eventual customers with service from the Core Network Business and Local Access Network Business as appropriate.

#### 3.1.3.1 Retail Fixed - Exchange Line Rental and Connection

The provision of connections and take-over of ordinary and ISDN residential and business telephone exchange lines, including private payphones. Connections include the provision of emergency services and operator assistance services to which Jersey Telecom subscribers have access on connection of the line. Revenue is shown net of any minutes bundled into the line rental price with these calls being allocated to the appropriate call business.

#### 3.1.3.2 Retail Fixed - Local calls

Local dialled calls charged at local tariff rates originating from ordinary, ISDN and private payphone telephone exchange lines, excluding non-geographic calls.

#### 3.1.3.3 Retail Fixed - National calls

Dialled calls charged at Guernsey and national tariff rate originating from ordinary, ISDN and private payphone telephone exchange lines (excluding non-geographic calls). This also includes receipts from UK telecommunication operators for incoming national calls.

#### 3.1.3.4 Retail Fixed - International Calls

Continental, Intercontinental and Irish Republic calls originating from ordinary, ISDN and private payphone telephone exchange lines. This also includes receipts from overseas telecommunication operators for incoming international calls and cashless calling.

#### 3.1.3.5 Retail Fixed - Calls to Jersey Mobiles

Dialled calls originating on ordinary, ISDN and private payphone lines that terminate on the Jersey Telecom mobile network as opposed to the fixed network.

#### 3.1.3.6 Retail Fixed - Non-geographic calls free to calling customer

Non-geographic dialled calls (i.e. numbers beginning 080X) which are free to the calling party originating from ordinary, ISDN and private payphone telephone exchange lines.

#### 3.1.3.7 Retail Fixed - Non-geographic calls charged at local rate

Non-geographic dialled calls charged at tariff rates consistent with United Kingdom local rates (i.e. numbers beginning 084X, not including calls to the Jersey Telecom ISP service (identified in 3.1.3.10 as 0845 8006 XXX)) originating from ordinary, ISDN and private payphone telephone exchange lines.

#### 3.1.3.8 Retail Fixed - Non-geographic calls charged at national rate

Non-geographic dialled calls charged at national tariff rates (i.e. numbers that begin 087X) originating from ordinary, ISDN and private payphone telephone exchange lines.

#### 3.1.3.9 Retail Fixed - Non-geographic calls charged at premium rate

Non-geographic dialled calls charged at a premium tariff rate (defined as a tariff rate other than zero, local or national tariff rate) originating from ordinary, ISDN and private payphone telephone exchange lines (i.e. numbers that begin 09XX).

#### 3.1.3.10 Retail Fixed - Internet Calls

Dialled calls originating on ordinary, ISDN and private payphone lines that terminate on numbers with the number range 0845 8006 XXX for the purpose of narrowband Internet access.

#### 3.1.3.11 Retail Fixed - Directory Enquiries

Calls placed with the operator to obtain information about Jersey, UK and Overseas telephone numbers, whether made from business or residential telephone exchange lines or from public payphones.

#### 3.1.3.12 Retail Fixed - Public Payphones

Local, national, international dialled calls and calls to mobile, originating from public payphones, using cash, phone cards or credit cards.

#### 3.1.3.13 Retail Fixed - Leased lines (private circuits)

Rental, maintenance, connection, shift and change of on-land and off-island private circuits and managed data services extending beyond customers' curtilages and which have access to the public network, not including wiring of buildings or other wiring that does not have access to the public network.

#### 3.1.3.14 Retail Fixed - Broadband xDSL

Rental, maintenance, connection, shift and change of broadband digital subscriber lines enabling simultaneous two-way transmission of voice and high-speed data over copper pairs and associated ancillary services such as packaged firewalls, web-space, etc. xDSL refers to the family of digital subscriber line technologies such as ADSL, HDSL, VDSL, SDSL etc.

#### 3.1.3.15 Retail Fixed - Broadband other

Rental, maintenance, connection, shift and change of broadband access services enabling simultaneous two-way transmission of voice and high-speed data and associated ancillary services such as packaged firewalls, web-space, etc excluding services included in "Retail Fixed - Broadband xDSL" above. Jersey Telecom did not provide any such services during the period ending December 31<sup>st</sup> 2007 or December 31<sup>st</sup> 2008. As such, no statements are included for this Sub-business for either period.

#### 3.1.3.16 Retail Fixed - Remaining activities

All other fixed retail telecommunications services provided by Jersey Telecom. Jersey Telecom does not provide any such service currently.

#### 3.1.4 Mobile Business

The businesses comprising the retail and network revenues, costs, assets and liabilities associated with the provision of mobile telephony services analysed into the following constituent services.

##### 3.1.4.1 Mobile – Connections

The connection of Jersey Telecom mobile phones supplied to contract customers.

##### 3.1.4.2 Mobile – Rentals

The rental and maintenance of GSM phones and telephony service supplied to contract customers. Revenue is shown net of any bundled minutes.

##### 3.1.4.3 Mobile - Prepaid sales

The sale of SIM cards. Revenue is shown net of any minutes bundled.

##### 3.1.4.4 Mobile – Prepaid calls

Calls originated on Jersey Telecom mobile prepaid handsets.

##### 3.1.4.5 Mobile – Calls from Mobile

Calls originated on Jersey Telecom contract mobile handsets. This includes calls terminating on Jersey Telecom mobile handsets (“on-net calls”) as well as calls terminating on subscribers of other networks (“off-net calls”) and calls terminating on a fixed line in Jersey. This includes calls made to UK fixed and mobile numbers as well as to international fixed and mobile numbers.

##### 3.1.4.6 Mobile - Calls to Mobile

The termination of calls from other operators to Jersey Telecom mobile customers as well as the relevant mobile termination revenue for calls originating on Jersey Telecom’s fixed network (recorded as a transfer charge between Sub-businesses). This does not include “on-net calls”.

##### 3.1.4.7 Mobile – SMS

Short message services provided to Jersey Telecom mobile customers. Includes receipts and payments from and to other operators in respect of the inter operator transmittal of SMS messages including roamed and roaming SMS. Revenues and costs relating to short message services generated by or delivered to Wave Telecom are accounted for according to the principles set out in the Interconnect Agreement. Revenues relating to the amounts due from third parties in respect of

the delivery of automatically-generated outgoing messaging services are separately identifiable in Jersey Telecom's main accounting system and are attributable to the Sub-business Mobile – Other.

#### 3.1.4.8 Mobile – Roaming

This category comprises:

- i. calls made and received by customers of other mobile operators while roaming on Jersey Telecom's mobile network; and
- ii. calls made and received by customers of Jersey Telecom while roaming on the network of other mobile operators (outbound roaming revenue).

This does not include SMS or GPRS services either made and received by customers of other mobile operators while roaming on Jersey Telecom's mobile network or those made and received by customers of Jersey Telecom while roaming on the network of other mobile operators. The revenue, volumes and costs associated with these are included within the SMS and GPRS products and sit in the relevant Sub-business. Revenues and costs relating to calls made and received by customers of Wave Telecom while roaming on Jersey Telecom's network as well as those calls made and received by customers of other mobile operators while roaming on Wave Telecom's network are accounted for according to the principles set out in the Interconnect Agreement.

#### 3.1.4.9 Mobile – Other

Activities and services provided to mobile customers other than those defined above.

#### 3.1.5 Other Activities

Other activities and services provided by Jersey Telecom which are not included in any of the defined businesses and services set out above. This includes the sale, rental and connection of customer premises equipment (CPE); the provision of structured cabling services; the provision of maintenance contracts; Jersey Insight; the sales of directories; and offshore services.

This Business also includes the costs, revenues and capital employed attributable to Wave Telecom, a subsidiary of JT Group Limited which trades in the Bailiwick of Guernsey and for which a separate ledger is maintained within the accounting system of Jersey Telecom.

## 4 Attribution methods

### 4.1 Introduction

This section describes the Attribution Methodologies used to allocate fully Jersey Telecom's revenue, costs, assets and liabilities to its Businesses and, where applicable, their disaggregated Sub-businesses and gives an explanation of the different methods used for attributing revenue, costs and capital employed. Cost types and the processes involved in their allocation or apportionment are described, showing how costs are treated from their initial appearance in Jersey Telecom's accounting records to their ultimate attribution to Businesses, Sub-businesses or Network Elements. It explains both the system used to produce the Separated Accounts and the methodologies employed in that system.

The purpose of Accounting Separation is to provide an analysis of information derived from financial records to reflect as closely as possible the performance of parts of a business as if they were operating as separate businesses. The aim of Accounting Separation is to assist in ensuring that charges are transparent and non-discriminatory. The principal objectives of the Accounting Separation (AS) system are:

- To provide a high quality mechanism for the production of Separated Accounts which will include:
  - Profit and loss accounts and capital employed statements for the Businesses on a fully allocated cost basis; and
  - Supporting notes.
- To provide visibility of cost attributions; and
- To demonstrate that Jersey Telecom's Fixed Retail and Mobile Businesses pay network charges equivalent to those paid by other operators.

The fundamental feature of this approach to attribution is the principle of causality. Each item of income, cost and capital employed recorded in the Jersey Telecom accounts has been attributed to the Sub-businesses and Network Elements which make up the separate Businesses defined under Accounting Separation.

Income and cost items are attributed to the relevant activities and components by either "allocation" keys or "re-allocation" keys.

"Allocated" income and costs represent items of income, operating costs and capital employed which can be assigned wholly to a particular Business or activity by virtue of information in the accounting records.

"Reallocated" income and costs represent items of income, cost and capital employed that cannot be wholly assigned directly to any one Business or activity, and are shared between two or more Businesses or activities on an appropriate basis.

Jersey Telecom's approach to apportionment is to seek to identify the appropriate driver for each item, and, as far as possible, to use objective operational and/or financial data relevant to that driver to generate apportionment bases.

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

- review each item of cost and revenue;
- establish the driver, i.e. the process that caused the cost to be incurred or the revenue to be earned;
- use the driver to attribute the cost to activities and to components; and
- use the driver to attribute revenue to the retail activities or to the Network Business.

The Methodology will be regularly reviewed and enhancements introduced to reflect, for example, changing technologies while the apportionment bases, which are the practical application of these methods to actual values, will be updated at least annually.

#### 4.2 Reconciliation principles

Jersey Telecom's Activity Based Costing system – and as a result the Separated Accounts – take as their source the main accounting system and accounting records of JT Group Limited. This main accounting system comprises separate ledgers for each of its subsidiary entities, of which the Licensee is one and Wave Telecom is another.

Accordingly, the Separated Accounts of the Licensee will reconcile to the statutory accounts of JT Group Limited. Jersey Telecom notes that all costs, revenues and capital employed relating to any entity other than the Licensee are attributed to the Business "Other Activities".

#### 4.3 Attribution principles

The general concepts of revenue and cost attribution to be followed in the production of the Separated Accounts are set out below.

##### 4.3.1 Revenue

Revenue is recorded in the accounting records in such a manner that it is usually possible to allocate it directly to Fixed Retail or Mobile or Other activities, to the Local Access Network Business or to the Core Network Business. The accounting records also allow rental revenue to be distinguished from call revenue, connection revenue or revenue from other operators.

##### 4.3.2 Costs

Costs are drawn from the accounting records. The methodologies applied to the costs, which vary according to the nature of the costs and the way in which they are recorded, are set out below.

###### 4.3.2.1 Allocation methods

Certain costs can be directly allocated to specific Businesses, Sub-businesses or Network Elements and, therefore, do not require apportionment. These costs include most of the costs directly related to customer-facing activities, such as maintenance of customer premises equipment. They also include directly appropriated and plant costs which relate solely to individual Elements of the network. Some of these specific costs can be directly allocated to Network Elements, such as International Transmission, or Directory Enquiry.

#### 4.3.2.2 Reallocation methods

Other costs cannot be directly associated with particular Businesses, Sub-businesses or Network Elements, and require apportionment. In the case of network costs this process makes extensive use of engineering data.

Certain other costs can be identified within the accounting records as relating to a discrete function such as repair centre costs, computing or billing. A review of this function, often by the means of work/application analyses or a survey of staff activity, establishes the cost driver and is used to apportion its costs between activities and, if applicable, network elements. The remaining costs to be apportioned cover a number of central support units (e.g. motor transport, accommodation) and other specialist departments that support network activities, customer facing operations and head office functions (e.g. the legal department).

Hence costs are initially either linked to directly allocated costs or apportioned to support functions, activities or network elements using appropriate cost drivers. Jersey Telecom uses a number of techniques and sources to apportion these costs, such as analyses of applications or operational data such as space occupancy records

#### 4.3.3 Capital employed

Mean capital employed is defined by Jersey Telecom as mean total assets less current liabilities less finance lease liabilities and provisions other than those for deferred taxation, excluding corporate taxes, dividends payable, adjustments to dividends and exceptional items. The mean is calculated from the start and end values for the period. The apportionment of capital employed follows a similar approach to that used for operating costs.

Fixed assets are recorded by asset classes and can be segmented into three categories:

- (i) those assets that can be directly allocated to Businesses, Sub-businesses or Network Elements, e.g. Channel Islands Electricity Grid, which is directly attributable to the International Transmission network element;
- (ii) assets relating to a group of Businesses, Sub-businesses and Network Elements which are apportioned on the basis of cost drivers, e.g. switching asset classes, which provide both line termination and switching functions and are thus apportioned both to the Local Access Network Business and various switching Network Elements; or
- (iii) assets of a general nature, for example general IT or motor transport, where an appropriate apportionment base, derived from the attribution of the operating costs of the associated activity, is applied.

For current assets and liabilities, those elements that can be directly attributed to Businesses, Sub-businesses and Network Elements (specific debtors and creditors, stocks and provisions) are directly allocated; for the remainder appropriate apportionment bases are derived for each element. Creditors relating to outpayments for call termination are an example of the former and are allocated directly to the relevant product. Trade debtors are an example of the latter and are attributed on the basis of an analysis of revenue.

Cash balances are attributed to Businesses, Sub-businesses and Network Elements on the basis of an analysis of operating and capital expenditure in the period.

#### 4.3.4 Non-financial data

Wherever costs cannot be directly allocated to activities and network elements an apportionment is required. Depending on the cost involved, the appropriate basis of apportionment may be of a non-financial nature. In these instances the relevant data may be extracted from non-financial data sources, such as operational systems giving circuit numbers or routing factors.

By way of example, the apportionment to products of billing is dependent upon the number of times a product has been billed for; the apportionment of building costs is dependent upon a survey of the space allocated to discrete activities. Surveys are frequently specially commissioned for the purpose of cost attribution and are carried out at a level appropriate to the activities and network elements in question and updated at least annually.

#### 4.4 Attribution of revenue

##### 4.4.1 Overview

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

##### 4.4.2 Local Access Network Business

Income comprises revenue from other operators and transfer charges to Retail Fixed Business for their respective use of the network.

Otherwise stated, the revenues of this business comprise:

- (i) amounts due from other operators for use of local access network facilities, however, Jersey Telecom received no such revenue for either period;
- (ii) the amounts attributable by Jersey Telecom from the Core Network Business in respect of similar or equivalent services provided to other operators;
- (iii) the amounts attributable by Jersey Telecom from its unregulated activities, including from Wave Telecom, a subsidiary of JT Group Limited which trades in the Bailiwick of Guernsey, in respect of similar or equivalent services provided to other operators; and
- (iv) the amounts attributable by Jersey Telecom from its downstream retail businesses in respect of similar or equivalent services provided to other operators.

The revenue arising from the provision of services to the Retail Fixed Business – and to the Sub-businesses of Private Circuits and Broadband xDSL – has been calculated within the Transfer Charge (see section 5) element of the Accounting Separation system, on the basis of recorded volumes of usage, rather than in Jersey Telecom's main accounting systems.



#### 4.4.3 Core Network Business

Income comprises revenue from operators and transfer charges to Retail Fixed Business, Mobile Business and Other Activities for their respective use of the network.

Otherwise stated, the revenues of this business comprise:

- (i) the amounts due from other operators for core interconnection and wholesale services;
- (ii) other amounts due from other operators for use of core network facilities; and
- (iii) the amounts attributable by Jersey Telecom from its downstream Retail Fixed Business, Mobile Business and Other Activities in respect of similar or equivalent services provided to other operators.

Receipts from other operators in respect of use of core network facilities are separately identified in the accounting records and attributed to this Business.

The revenue arising from the provision of services to the Retail Fixed Business, Mobile Business and Other Activities has been calculated within the Transfer Charge (see section 5) element of the Accounting Separation system, on the basis of recorded volumes of usage, rather than in Jersey Telecom's main accounting systems.

#### 4.4.4 Retail Fixed Business

Income comprises revenues from the resale to third parties of network services purchased as appropriate, via transfer charges, from the Core Network Business and Local Access Network Business. The services sold to third parties are detailed below.

##### 4.4.4.1 Exchange line rental and connection

Rental charges relating to the Exchange Line Rental and Connection Sub-business are separately identifiable in Jersey Telecom's accounting records and can therefore be directly allocated to this Sub-business. In addition, the rental element of call inclusive packages is attributed to the Exchange Line Rental and Connection Sub-business.

Connection charges and other single payments (e.g. for moving connections for existing customers) are also directly allocated to the Exchange Line Rental and Connection Sub-business.

Jersey Telecom notes that rental and connection charges relating to DSL lines (JT Rapid) are not separately identifiable in Jersey Telecom's main accounting system and are therefore attributed to the Broadband xDSL Sub-business using information from Jersey Telecom's billing system, which produces an analysis of customer volumes. This information is weighted by the retail prices of PSTN exchange line rental, PSTN connection, Rapid rental and Rapid connection.

##### 4.4.4.2 Call services

Call revenue relates both to calls for which customers have been billed and calls for which bills have not been issued at the year-end, for which an accrual

is made. Jersey Telecom's billing system includes an analysis programme that records the volumes and duration of all calls by the following types:

- Local
- National
- International
- Calls to Jersey mobiles
- Internet (08452 and 08456)
- Directory Enquiries
- Operator Assistance
- Non-geographic, specifically:
  - o Freephone
  - o Local rate
  - o National rate
  - o Premium rate

The billing system is used to record the revenue by call types; this revenue can therefore be attributed to the relevant Sub-businesses.

For the PSTN residential customer, the standard line rental price includes a call allowance, which entitles the customer to make certain types of calls up to a given value without incurring any additional charges. The value of this standard line rental charge is allocated to access net of the minutes. Calls up to the value of the inclusive call allowance are apportioned to the appropriate call Sub-business.

#### 4.4.4.3 Public payphones

Public payphone revenue arises from the collection of cash from payphones and the sale of phone cards. These can both be identified directly from the accounting records and the revenue can therefore be attributed to the Sub-business.

#### 4.4.4.4 Private Circuits

Rental and connection charges for private circuits can be separately identified in the accounting records and the revenue can therefore be directly allocated to the activity.

Rental of customer premises equipment and other services associated with private circuits are separately identified and attributed to the Business "Other Activities".

#### 4.4.4.5 Broadband xDSL

Rental and connection charges relating to broadband digital subscriber lines (JT Rapid) are not separately identifiable in Jersey Telecom's main accounting system and are therefore attributed between the Broadband xDSL Sub-business and the Exchange Line Rental and Connection Sub-business using information from Jersey Telecom's billing system, which produces an analysis of customer volumes. This information is weighted by the retail prices of PSTN exchange line rental, PSTN connection, Rapid rental and Rapid connection

and takes into account any promotional activity that may have taken place in the period (e.g. free connection, reduced rental).

#### 4.4.4.6 Remaining activities

Jersey Telecom does not currently supply any products corresponding to the Sub-business definition agreed with the JCRA; accordingly no revenues are attributed to this Sub-business.

#### 4.4.5 Mobile Business

Revenue relating to rental, connection and call and messaging charges for mobile services as well as handsets and ancillary equipment is separately identifiable in Jersey Telecom's main accounting systems and is attributable to the Mobile Business.

Revenues relating to the amounts due from International Operators in respect of the delivery of incoming international calls and messaging services and the delivery of outgoing international calls and messaging services initiated by a mobile subscriber roaming in Jersey are also separately identifiable in Jersey Telecom's main accounting system and are attributable to the Mobile Business.

The revenue arising from the provision of call termination services to the Retail Fixed Business has been calculated within the Transfer Charge (see section 5) element of the Accounting Separation system, on the basis of recorded volumes of usage, rather than in Jersey Telecom's main accounting systems.

#### 4.4.6 Other activities

Revenue accruing to the Business "Other Activities" comprises:

- (i) revenue relating to the rental, sale, maintenance and connection of Customer Premises Equipment for non-residential subscribers;
- (ii) revenue relating to Jersey Telecom's website, Jersey Insight, and ancillary services such as domain name registration and modem hosting; and
- (iii) revenue relating to the provision of non-telephony based products including the provision of telephone directories; and
- (iv) offshore revenues relating to Maritime GSM services, Call Back Roaming, M2M and Direct Connect (amounts due from third parties in respect of the delivery of automatically-generated outgoing messaging services)

Each of these types of revenue is separately identifiable in Jersey Telecom's main accounting systems and is therefore directly attributable.

Revenue accruing to the Business "Other Activities" also comprises revenue arising from calls, rentals, connection charges, sales and other activities provided in Guernsey by Wave Telecom, a wholly owned subsidiary of JT Group Limited. As separate ledgers are maintained for Wave Telecom and Jersey Telecom Limited, this revenue is separately accounted for in accordance with the principles set out in the Interconnect Agreement between Wave Telecom and Jersey Telecom Limited and are attributed to the Business "Other Activities".

## 4.5 Attribution of costs

### 4.5.1 Overview

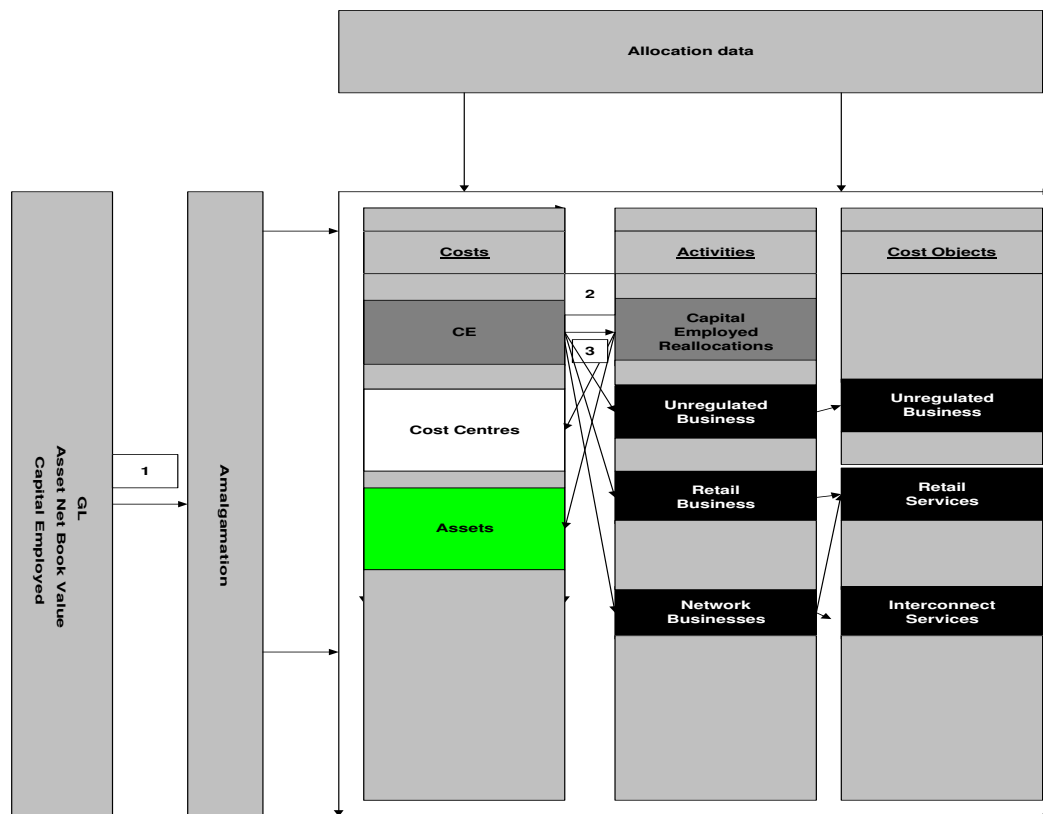
The first stage of the process of attributing costs is to review each element of Jersey Telecom's costs to establish its cost driver (the factor that caused the cost to be incurred). Where an item of cost can be directly and uniquely associated with a cost centre no apportionment is required; and the item can be assigned directly to its cost centre. Examples of items which can be directly assigned to products or businesses include outpayments to Other Licensed Operators.

Costs which cannot be directly assigned to a product or business are apportioned using an Activity Based Costing methodology. This consists of a two stage process comprising apportionment of costs to defined Activity Based Costing activities and a mapping of these activities to Businesses, Sub-businesses and Network Elements as defined by Accounting Separation.

The following paragraphs summarise the methodology followed by Jersey Telecom to apportion those costs which cannot be directly assigned.

### 4.5.2 Summarised Jersey Telecom methodology

The methodology used by Jersey Telecom is summarised in the diagram below.



The important components of this structure are set out below.

#### 4.5.3 Allocation of General Ledger Costs to Activities

Cost centre costs are allocated to activities, which fall into one of the following categories:

- (i) Accounts Reallocated (for example Unallocated Postage);
- (ii) Capital Employed - Reallocated (for example Accruals);
- (iii) Support Activities - Reallocated (for example "Manage Premises Provision");
- (iv) Network Activities - Reallocated (for example "Maintain Residential Lines);
- (v) Retail Activities, Retail Capital Employed (for example "Provide Retail Sales Outlet");
- (vi) Network Business Activities (for example "Remote Concentrators (Call Set-Up)");
- (vii) Direct Costs (For example "Outpayments-National Fixed to Other Mobile"); or
- (viii) Unregulated Business (For example "Maintain Business Systems (CPE)");

#### 4.5.4 Reallocation of Accounts

Allocation of Unattributed Profit and Loss. For example the cost of account activity "Pension and Medical costs" is allocated to cost centres which benefit, on the basis of basic pay.

#### 4.5.5 Reallocation of Support Activities to Cost Centres

The principle involved here is that support activities exist primarily to support other cost centres. For example the costs of the activity Premises Administration are allocated to those cost centres which benefit, on the basis of floor space utilised.

#### 4.5.6 Allocation of Network Support Activities to Asset Categories

The principle involved here is that network activity costs must be driven on to the asset categories which they support. For example the costs of the activity 'Maintain local switches' are allocated to the different switching assets. In order to address concerns expressed in the JCRA's Second Direction, the allocation of Network Support Activities to Asset Categories has been done largely on the basis of a time survey of engineering staff.

#### 4.5.7 Allocation of Asset Category costs (Depreciation and cost of capital) to Network Elements

Network Elements are groupings of primary plant, whose costs have a causal link to products. Thus, switch costs divided into intermediate cost pools of "non-traffic sensitive" (the element used to perform subscriber line termination) and "traffic sensitive" (the element which is related to call volumes).

#### 4.5.8 Allocation of Network Elements, Retail Business, Unregulated Business costs to Cost Objects

Cost objects are the products, or groups of products, to which costs are ultimately attributed. For each product defined, the rate of network business element consumption or activity consumption related to the level of product output is identified.

Network elements were allocated to products based on volumes. For example local switching (traffic sensitive) is allocated to traffic products based on the number of minutes generated by the product multiplied by the product route factor (the average number of times the switch is accessed in each call).

#### 4.5.9 Allocation of Direct Costs

Jersey Telecom's existing model allocates all direct costs to services. In order to meet Accounting Separation requirements, it is necessary to allocate these costs to activities or network elements.

#### 4.5.10 Allocation of Revenue and Cost of Sales to Products

Each Revenue and Cost of sales account in the General Ledger has been mapped directly to Products in the costing system. The values are summarised and imported to the costing system.

### 4.6 Attribution of capital employed

#### 4.6.1 Overview

The definition of mean capital employed for Accounting Separation purposes is contained in section 4.3.3. The apportionment of mean capital employed follows a similarly detailed and careful approach to that for operating costs. For some items, such as trade debtors, turnover is the appropriate driver rather than costs. Where reference is made to processes described elsewhere, full details of these processes are not repeated here. For example, reference may be made to apportionment on the basis of "total pay". This is used wherever pay is the causal driver, e.g. for payroll creditors. Thus, the attribution of payroll creditors will follow the same procedure as the corresponding pay costs. The record of pay costs attributed to Businesses, Sub-businesses and Network Elements in the cost attribution process is used to attribute related creditors in such a way as to reflect fully the complexities of the analysis of those pay costs.

#### 4.6.2 Fixed Assets

Some network equipment assets can be allocated directly to Businesses, sub-businesses or Network Elements on the basis of the asset class recorded in the general ledger, or apportioned to Businesses, Sub-businesses or Network Elements on the basis of network studies. These include the following categories of plant:

- (i) Local loop;
- (ii) Exchange equipment;
- (iii) Transmission cable; and
- (iv) Duct.

Motor vehicles, computers, land and buildings are apportioned across Businesses, Sub-businesses and Network Elements using bases which replicate the total apportionment to services of the costs of the operations supported by the assets

concerned. The fixed assets of specialist operating units are directly allocated to the appropriate Business, Sub-business, Network Element or Activity by virtue of the operations undertaken by those specialist units. Where direct allocation is not possible each unit will apportion the relevant assets between activities using an appropriate cost driver specifically selected to reflect the operations concerned.

#### 4.6.3 Current Assets, Current Liabilities, Provisions and Charges

##### 4.6.3.1 Stock

Stock is allocated based on the relevant cost of sales.

##### 4.6.3.2 Debtors

Debtors are analysed by type and sub-analysed where appropriate (e.g. by billing system) from information in the accounting records. At this stage, the appropriate apportionment bases (e.g. relevant turnover) are then applied. Debtors include the following categories:

- (i) Trade debtors (directly allocated to Businesses, Sub-businesses and Network Elements on the basis of relevant turnover);
- (ii) Wholesale debtors and creditors (attributed to the core network within the Outpayments Network Elements);
- (iii) Accrued income (directly allocated to Businesses, Sub-businesses and Network Elements on the basis of relevant turnover); and
- (iv) Other debtors and prepayments (apportioned to Businesses, Sub-businesses and Network Elements using bases appropriate to the particular debtor type).

##### 4.6.3.3 Cash at bank and in hand

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

##### 4.6.3.4 Loans and other borrowings falling due within one year

This category includes bank overdrafts and short term loans, which are apportioned on the basis of operating and capital expenditure in the period.

##### 4.6.3.5 Other creditors

Creditors are analysed by type from the general ledger codes and the appropriate apportionment bases then applied in the following categories:

- (i) Trade creditors are apportioned to Businesses, Sub-businesses and Network Elements on the basis of operating expenditure excluding pay and international outpayments;
- (ii) Capital creditors are apportioned to Businesses, Sub-businesses and Network Elements on the basis of an analysis of value of capital Work In Progress (WIP) balances in the period;
- (iii) Payroll creditors are apportioned to Businesses, Sub-businesses and Network Elements on the same basis as total pay; and
- (iv) Other creditors are apportioned to Businesses, Sub-businesses and Network Elements using bases appropriate to the particular creditor type

#### 4.6.3.6 Provisions

Provisions are either allocated directly to Businesses, Network Elements or Sub-businesses or are apportioned using a base appropriate to the particular charge.



## 5 Transfer charges

### 5.1 Background and overview

In accordance with the JCRA's Direction of May 12th 2005, Jersey Telecom is to prepare Separated Accounts for the following separate Businesses: Core Network, Local Access Network, Mobile, Fixed Retail and Other Business as disaggregated. Jersey Telecom is required to prepare Separated Accounts on an historical cost basis; the principles used in the calculation of Transfer Charges are outlined below.

### 5.2 Network charges

The Core Network Business sells a range of network services to meet the differing needs of other operators, the Fixed Retail Business, the Mobile Business and the Other Activities Business respectively. A Network Element is a unit of network plant or activity which can be separately costed but, in most cases, cannot be separately supplied, e.g. a remote concentrator to local switch link. All services sold by the Core Network Business, either to other operators or to other Businesses, are built up from combinations of one or more Network Elements.

In accordance with the JCRA's Direction of 12<sup>th</sup> May 2005, these network services are to be sold to Fixed Retail Business, to Mobile Business and to Other Activities Business on an arm's length basis – that is to say that market prices of services should be used where such services are sold externally. The application of this principle in the Separated Accounts is set out in the paragraphs below.

The range of services sold externally is inevitably smaller than the range of network services provided internally by the Core Network Business: there are a number of unregulated services which have no external equivalent. For these services, the transfer charge is based on the fully allocated cost of the Network Elements or parts thereof, including a return on capital, used to provide the service.

Finally, outpayments to other operators are handled by the Core Network Business; these are allocated directly to the Fixed Retail Business, to the Mobile Business, to the Other Activities Business and to other operators based on consumption. For these services, the transfer charge is equal to the total amount of outpayments incurred on behalf of the Fixed Retail Business, the Mobile Business and the Other Activities Business including a return on capital for the debtor/ creditor balance associated with those outpayments for the period.

The Local Access Network Business currently sells services to the Fixed Retail Business, to the Other Activities Business and to the Core Network Business. Services sold to the Fixed Retail Business comprise local loop facilities associated with the businesses PSTN Exchange Line Rental & Connection, Leased Lines and xDSL. Services sold to the Core Network comprise local loop facilities associated with wholesale leased line and wholesale xDSL services.

The Mobile Business currently sells services solely to the Fixed Retail Business and to the Other Activities business. As for the Core Network Business, these network services are to be sold to the Fixed Retail Business and the Other Activities Business on an arm's length basis – that is to say that market prices of services should be used where such services are sold externally. The application of this principle in the Separated Accounts is set out in the paragraphs below. Again, as for the Core Network Business, the range of services which could

be sold externally is inevitably smaller than the range of network services provided internally: there are a number of unregulated services which have no external equivalent. For these services, the transfer charge is based on the fully allocated cost of the Network Elements or parts thereof, including a return on capital, used to provide the service.

The Other Activities Business currently sells services to the Fixed Retail Business and Mobile Business relating to the use of the Liberty subsea cable (Wave asset) for the provision of fixed and mobile national and international services and internet services.

### 5.3 Transfer charges from the Core Network Business

#### 5.3.1 Principle

Transfer charges and charges to other operators contained in the Separated Accounts are the product of unit prices and usage of network services.

#### 5.3.2 Unit prices

Unit prices used in the calculation of transfer charges fall into three groups:

- Those based on prices published in the Reference Interconnect Offer (RIO) published by Jersey Telecom;
- Those based on retail price minus avoidable retail costs; and
- Those based on fully allocated costs including cost of capital.

#### RIO-based prices

Unit prices for wholesale core network services are published in the Reference Interconnect Offer of Jersey Telecom. Such services include, but are not restricted to, the following services:

- PSTN Termination (Call set-up and Call duration)
- On-Island Transit (Call set-up and Call duration)
- Off-Island Transit (Call set-up and Call duration)

It is apparent that such services do not have an identical counterpart among the retail services sold by the Fixed Retail Business and by the Mobile Business. In order to account for the dual requirement to demonstrate consistency with RIO prices and to demonstrate consistency with retail services sold, Jersey Telecom has adopted the following approach to calculating transfer charges for such services:

- Calculate the unit component cost implied in the published RIO price
- Calculate the usage of components by retail and wholesale services sold by Jersey Telecom; and

- Calculate the resulting RIO-based transfer charge for retail and wholesale services sold by Jersey Telecom.

The source for the unit component cost implied in the published RIO price is the model used to calculate the current Jersey Telecom RIO prices; the source for the usage of these components is the Jersey Telecom network management system.

It is inevitable that the transfer charges calculated differ from the costs incurred by Jersey Telecom. To this end, Jersey Telecom has published a schedule of unit costs of core and mobile components together. A second schedule sets out the cost associated with the use of each component by the Fixed Retail Business, the Other Activities Business and the Mobile Business. This second schedule reconciles to the total direct costs incurred by Core Network business and the Mobile Business respectively. These schedules are included in Notes 4.3 to 4.10 to the Separated Accounts for the Financial Year ending 31<sup>st</sup> December 2008 and 31<sup>st</sup> December 2007.

#### Retail-minus prices

Jersey Telecom currently provides wholesale equivalents of its leased line and xDSL services on a retail-minus basis. Retail-minus pricing represents the retail price of the service less those retail costs avoided through the sale of the service to a competing service provider instead of to a retail customer. Avoidable costs would include (inter alia) marketing and advertising costs and would exclude (inter alia) a proportion of billing and customer management costs.

For the financial years ending December 31<sup>st</sup> 2007 and 31<sup>st</sup> December 2008, prices for wholesale leased lines services were set at retail prices minus a discount of 9%. For the financial years ending December 31<sup>st</sup> 2007 and 31<sup>st</sup> December 2008, prices for wholesale xDSL services were set at retail prices minus a discount of 40%.

In order to be compliant with the JCRA's Direction of May 12<sup>th</sup> 2005, transfer charges for wholesale leased line and wholesale xDSL services provided to the Fixed Retail Sub-businesses of Leased Lines and xDSL have been calculated on a retail-minus basis. In addition certain of the mobile links comprise core network assets for which a retail-minus transfer charge is calculated using an equivalent leased line product.

In practice, this means that the transfer charge paid by the Leased Lines Sub-business to the Core Network Business is equal to 91% of revenue generated from the sale of leased line services to retail customers. Equally the transfer charge paid by the xDSL Sub-business to the Core Network Business is equal to 60% of revenue generated from the sale of xDSL services to retail customers.

Retail xDSL is charged by the Core Business at retail-minus 40% for the use of the network components specific to an equivalent wholesale xDSL service. However, in additions to these network components, a retail xDSL service uses internet backhaul (internet backbone, IP feeds), which is charged by the Core Business at cost. Equally, any leased line service including internet access is charged by the Core Business at cost for the usage of the internet backhaul network components.

Jersey Telecom notes that the services acquired by the Leased Lines and xDSL Sub-businesses represent a combination of access and core network services. In order to account for this and for the distribution of unavoidable retail costs across access and core network

services, the Separated Accounts for these Sub-businesses include a transfer charge to the Local Access Network Business and to the Core Network Business. The distribution of the charge between the two businesses represents the distribution of network costs associated with the service between the access network and the core network.

Jersey Telecom also notes that the wholesale leased line and xDSL services provided to other operators by the Core Network Business represent a combination of network services sold by the Local Access Network Business and by the Core Network Business. In order to account for this, the Separated Accounts contain a transfer charge paid by Core Network Business for the use of assets operated by the Local Access Network Business. The value of this transfer charge represents the access network cost associated with the wholesale leased line and xDSL services including a return on capital equal to the cost of capital of Jersey Telecom.

### Cost-based prices

As noted in the preceding paragraphs, there are a number of network services for which no equivalent wholesale service existed for the financial periods ending 31<sup>st</sup> December 2007 and 31<sup>st</sup> December 2008. Such network services include, but are not restricted to, the use of GPRS assets and the use of the Intelligent Network platform.

Transfer charges relating to the use of such network components have been calculated using their fully-allocated historic cost including a return on capital equal to the cost of capital of Jersey Telecom.

#### 5.3.3 Volumes and usage data requirements

The system used to calculate the transfer charges and produce the Separated Accounts contains non-financial data, including detailed analyses of service volumes and network usage data:

- Call conveyance and Network Element usage
  - o Call traffic by product/service (in minutes)
  - o Route factors by Network Element by product/service
  - o Network Element usage (in minutes/km minutes)
- Allocation bases other than Call conveyance and Network Element usage
  - o Various allocation bases including value of outpayments, time and sales volume

For the purposes of clarity, Jersey Telecom has distinguished between those transfer charges which have been calculated based on Call conveyance and Network Element usage and those transfer charges which have been calculated using other allocation bases. This distinction has been included in Notes 4.3 through to 4.10 of the Separated Accounts, with the latter group referred to as:

- o "Other network elements charged at retail-minus" and

- “Outpayments etc not allocated through routing factors”.

#### 5.3.4 Calculation of the Core Network Business transfer charges to Retail

Calculated Network Element charges and allocation bases other than network element usage form the basis of transfer charges to the Businesses of Fixed Retail, Mobile, Other Activities and to other operators. For those charges based on Network Element charges, Jersey Telecom Retail’s route factors and volumes are applied to the calculated Network Element charges to derive its transfer charge. The route factors are calculated based on a probabilistic survey combined with actual traffic volumes for a twelve week or twenty-four week period for all products and services.

Transfer charges are calculated through an aggregation of unit Network Element charges into unit network service charges.

The following table is an example of the process for transfer charging:

	Network Element 1	Network Element 1	Network Element 1	Service specific cost	Overall
Unit cost	X	X	X		
Route factor	X	X	X		
Service charge	X	X	X	X	X

#### 5.4 Transfer charges from the Local Access Network Business

##### 5.4.1 Principle

Transfer charges, and charges to other operators, are based on the product of unit costs and usage. Jersey Telecom will produce Separated Accounts containing transfer charges based upon the calculated unit cost (including the applicable return on capital employed) and usage for the year in question.

##### 5.4.2 Volumes and usage data requirements

The system used to calculate the transfer charges and produce the Separated Accounts contains non-financial data, including detailed analyses of service volumes and network usage data. The table below summarises the main classes of information:

##### Local Access Network Element Usage

- Volumes by product/services;
- Usage factor by local access network elements by product/service;
- Local Access Network Element Usage

##### Ancillary Services

- Various volumes and usage information by product/service.

#### 5.4.3 Calculation of the Local Access Network Business transfer charges to the Retail Business

Calculated Network Element charges form the basis of the Local Access Network Business transfer charges to the Retail Business. The volumes of customers of relevant Retail businesses (i.e. Retail Fixed – Exchange Line Rental and Connection, Retail Fixed – Public Payphones and Retail Fixed – Leased Lines) are applied to the calculated Local Access Network Element charges to derive its transfer charge.

Transfer charges are calculated in two stages:

- aggregation of unit Network Element charges into unit network service charges; and
- multiplication of unit network service charges and network service volumes.

The calculation of transfer charges payable by the Sub-businesses xDSL and Leased Lines differ from the method outlined above and are described in section 5.3 above.

## 5.5 Transfer charges from the Other Activities Business

### 5.5.1 Principle

Transfer charges are based on the product of unit costs and usage. Transfer charges relating to the use of Wave network components have been calculated using their fully-allocated historic cost including a return on capital.

## 6 Appendices

### 6.1 Jersey Telecom Network element definitions

This below sets out the definitions of the Network Elements currently employed in the Jersey Telecom network.

NE Ref	Network Element	Description
<b><u>A</u></b>	<b><u>Access Network</u></b>	
	<b><u>PSTN Access</u></b>	
A101	PSTN Local Loop	Copper/ fibre cabling and ducting (including joints, cabinets, manholes) between ordinary subscribers and concentrators
A102	Concentrators (line sensitive)	Line sensitive elements are the line cards and associated racks
A106	Provide HSBS Residential Maintenance	Activity wholly attributable to the Access Network.
A107	Install and Maintain HSBS Residential Lines (Access)	Activity wholly attributable to the Access Network.
A108	Install residential lines Direct Costs	Activity wholly attributable to the Access Network.
A109	ISDN 30	ISDN 30 access equipment
A110A	MSANS PSTN Line Sensitive Access	Line sensitive part (line cards dedicated to voice) of the Multi Service Access Node (MSAN)
A111	MSANS Broadband Access	Broadband part (line cards dedicated for data) of the Multi Service Access Node (MSAN) for XDSL
A112	Install and configure lines on the MDF	Activity for Line provisioning on the MDF
	<b><u>Payphone &amp; Card phones Access</u></b>	
A104	Local Loop Payphone & Card phones (e.g. Prison)	Copper/ fibre cabling and ducting (including joints, cabinets, manholes) between ordinary subscribers and concentrators
	<b><u>Leased Line Access</u></b>	
A105	Local Loop Leased Lines	Fibre/ copper cabling from customer premises to transmission network
<b><u>C</u></b>	<b><u>Core Network</u></b>	
<b><u>C1</u></b>	<b><u>Switching</u></b>	



C101	Remote Concentrators (Call Set Up)	Remote concentrators concentrate traffic from 64kbs to 2mbs. The traffic sensitive elements are the processor and associated racks costs split between call set up and duration
C102	Remote Concentrators (Call Duration)	Remote concentrators concentrate traffic from 64kbs to 2mbs. The traffic sensitive elements are the processor and associated racks costs split between call set up and duration
C103	Local Switches (Call Set Up)	System X switches – the switch processor is deemed to be fully traffic sensitive. Split between call set-up and Duration
C104	Local Switches (Call Duration)	System X switches – the switch processor is deemed to be fully traffic sensitive. Split between call set-up and Duration
C105	PSTN Switching Softswitch	Softswitch (SCA)- new switch taking over from old System X Switches
C106	Signalling Transfer Point	A pair of routers relaying SS7 messages between signalling end points.
C108	MSANS Traffic Sensitive	Traffic sensitive part of the Multi Service Access Node (MSAN)
<b><u>C2</u></b>	<b><u>Transmission</u></b>	
C201	Local Switch - Remote Concentrator links	Fibre cabling + SDH between switches and remote concentrators
C202	Inter switch links	Fibre cabling + SDH between switches
C203	Backhaul voice links-Fixed	Fibre cables +SDH between switches and the submarine cables/ microwave
C204	Backhaul private circuit	Dedicated links for private circuits
C205	Private circuit links	Transmission network which is dedicated to private circuits
C206	MSC – BTS links (core)	Core network assets dedicated to providing mobile links.
C207	MSC – MSC link (core)	Core network assets dedicated to providing mobile links.
C208	Local Switch – MSC link (core)	Core network assets dedicated to providing mobile links.
C209	Voicemail platform – Mobile/Comverse/SMS Platform (core)	Core network assets dedicated to providing mobile links.
C210	Backhaul Voice Links – Mobile (core)	Core network assets dedicated to providing mobile links.
C211	RIO Link	Fibre cabling + SDH providing OLO's physical access to JT Exchange to enable

		call origination and call termination
C212	Ethernet Private Circuit Equipment	Point to point circuit delivering internet access over short distance
<b><u>C3</u></b>	<b><u>Other Core Components</u></b>	
<b><u>C31</u></b>	<b><u>Special Service Components</u></b>	
C311	Directory Maintenance	Directory Number Inclusion
C312	Operator Assistance	Operator Functions
C313	Emergency Services	999 Services
<b><u>C32</u></b>	<b><u>Outpayments-Fixed</u></b>	
C322	Outpayments-National Fixed	Cost of sales relating to the termination of National Fixed calls
C323	Outpayments-National Fixed PRS	Cost of sales relating to the termination of Fixed Premium Rate Service calls
C324	Outpayments-National Fixed LCFA	Cost of sales relating to the termination of Fixed Local Call Fee Access calls
C325	Outpayments-National Fixed to Other Mobiles	Cost of sales relating to the termination of Calls to Other Mobiles
C326	Outpayments-Guernsey Fixed	Cost of sales relating to the termination of Fixed Calls to Guernsey
C327	Outpayments-Internet	Cost of sales relating to the termination of JustConnect calls
C328	Outpayments - Fixed Line Freephone	Cost of Sales relating to the termination of Freephone calls
C329	Outpayments - Fixed Line Operator Assistance	Cost of Sales relating to the termination of Operator Assistance calls.
C330	Outpayments – Off Island Transit Service	Cost of Sales relating to Off Island Transit Service.
C332	Outpayments – Fixed Line Directory Enquiries	Cost of Sales relating to the termination of Directory Enquiries call's
C333	Outpayments – National Rate Fixed	Cost of Sales relating to the termination of Non-geographic fixed line calls charged at a National Rate.
<b><u>C33</u></b>	<b><u>Interconnect Specific-Fixed</u></b>	
C331	Interconnect Product Management Fixed	Activity wholly attributable to core network services.

<b><u>C34</u></b>	<b><u>Other</u></b>	
C341	Payphones & Card phones	Public payphones including card phones
C344	Telex	Telex platform
C345	Intelligent Network	Provides call forwarding, waiting etc – the intelligence is separated from the switching platform
C346	Voicemail platform-Fixed	Voicemail platform/
C347	Private circuit dedicated equipment	Private circuit switching and routing equipment, which is dedicated to private circuit, leased line services and Broadband.
C348	ADSL equipment	Asymmetrical digital subscriber line equipment, used in the access network and private circuits, to provide high speed transmission
C349	Broadcast Circuits	Broadcast Dedicated Equipment
C350	JustConnect equipment	Consists of JustConnect's hosting platform, and the routers which route IP traffic
C351	TV Circuits	TV dedicated equipment
C352	Internet backbone	Consists of JustConnect's hosting platform, and the routers which route IP traffic
C353	Install datacomms circuits	Data installation
	<b><u>Private Circuit Charges – Direct Costs</u></b>	
C401	Local Private Circuit Rentals	Cost of Sales allocated to Local Private Circuit Rentals
C402	UK Private Circuit Transit Charges	Cost of Sales allocated to UK Private Circuit Rentals
C403	IOM Private Circuit Transit Charges	Cost of Sales allocated to Isle Of Man Circuit Rentals
C404	Local Private Circuit Connections	Cost of Sales allocated to Local Private Circuit Connections
C405	Guernsey Private Circuit Connections	Cost of Sales allocated to Guernsey Private Circuit Connections
C406	UK Private Circuit Connections	Cost of Sales allocated to UK Private Circuit Connections
C407	Private Circuits – Third Party Commissions	Cost of Sales-Third Party Commissions (e.g. JT Rapid)
C408	Guernsey Private Circuit Rentals	Cost of Sales allocated to Guernsey Private Circuit Rentals

C409	CIEG Private Circuit Transit Charges	Cost of Sales allocated to Inter-Island Microwave Circuit Rentals
C410	CIEG Private Circuit Connections	Cost of Sales allocated to Inter-Island Microwave Circuit Connections
C411	Guernsey On Island Private Circuit Transit Charges	Cost of Sales allocated to Guernsey Private Circuit Rentals
<b>I</b>	<b><u>International Network</u></b>	
I101	Voice subsea & microwave links	Subsea cabling and microwave links connecting Jersey and UK/ France
I102	Subsea and microwave private circuit links	Dedicated international links for private circuits
I103	Provide Link to London (BT 155VPOP)	Customer Facing cost attributable to link to London
I104	Provide IP Feed (Arbinet)	Cost attributable to Arbinet link
I105	Provide C&W IP Feed	Cost attributable to link to Cable & Wireless
I106	Provide services to France using CIG	Cost attributable to CIEG link
I107	Provide IP Feed (FT 45M)	Cost attributable to FT 45M IP Feed
I108	Provide Frame Relay Interconnect Link	Cost attributable to Frame Relay Interconnect Link
I109	Provide Linx IP Feed	Cost attributable to Linx link
<b>I2</b>	<b><u>Outpayments-International</u></b>	
I201	Outpayments-International Fixed	Cost of sales relating to the termination of the International Fixed Calls e
I301	Direct Cost - International Circuit Transit Charges	Cost of sales used for International Circuits (rentals)
I302	Direct Costs - International Private Circuit Connections	Cost of sales used for International Circuits (connections)
<b>M</b>	<b><u>Mobile Network</u></b>	
M101	Mobile Towers & Antennae	The physical towers and masts used to support GSM
M102	Base Station controller	Base station controller
M103	Base Transceiver station	GSM transmitter and receiver equipment
M104	Mobile Switching Centre	Circuit switch dedicated to GSM network

M105	Home Location Register	Data Base holding Customer details
M106	Mobile Switching Centre –Base Transceiver Station links	Mobile assets providing fibre/ copper links between the MSC and BTS
M107	MSC – MSC link	Mobile assets providing links between Jersey Telecom’s two MSCs
M108	Local switch – MSC link	Mobile assets providing links between mobile and system X switches
M109	Mobile GPRS	GPRS Dedicated Equipment
M110	Backhaul Voice Links – Mobile	Fibre cables +SDH between switches and the submarine cables/ microwave
M111	Voicemail platform/Comverse/SMS Platform	Mobile assets providing voicemail platform/ Comverse/SMS Platform
M112	Telsis Mobile Signalling System	Used for assisting SMS / Mobile Roaming
M113	Mobile MMS	Used for providing MMS
M114	Mobile SMS	Used for providing SMS
M115	Signalling Transfer Point (Mobile)	A pair of routers relaying SS7 messages between signalling end points.
M117	Directed Roaming Tayana	Mobile Assets assisting roaming networks
<b><u>M2</u></b>	<b><u>Outpayments-Mobile</u></b>	
M201	Outpayments-National Mobile	Cost of sales relating to the termination of the National Mobile Calls
M202	Outpayments-National Mobile PRS	Cost of sales relating to the termination of the National Mobile Premium Rate Calls
M203	Outpayments-National Mobile LCFA	Cost of sales relating to the termination of the National Mobile Local Fee Access Calls
M204	Outpayments-National Mobile to Other Mobile	Cost of sales relating to the termination of the National mobile other mobile calls
M205	Outpayments-Mobile Internet	Cost of Sales relating to Mobile calls to Internet/JustConnect
M206	Outpayments-Mobile Calls to Guernsey	Cost of Sales relating to the termination of the Mobile calls to Guernsey
M207	Outpayments-Mobile Directory Enquiries	Cost of Sales relating to Mobile DQ
M208	Outpayments-National Rate Mobile	Cost of Sales relating Mobile – National Rate Calls
M251	Outpayments-SMS Interworking	Cost of Sales relating to termination of Jersey Telecom-originated SMS services
M253	Outpayments - Premium Rate SMS	Cost of Sales relating to Premium Rate SMS

M254	Outpayments – Mobile Content	Cost of Sales relating to Mobile content
M255	Outpayments – Internat Mobile	Cost of sales relating to termination of the International Mobile Calls
<b><u>M33</u></b>	<b><u>Interconnect Specific-Mobile</u></b>	
M331	Interconnect Product Management Mobile	Activity wholly attributable to Calls to Mobile
	<b><u>Mobile Other</u></b>	
M401	Manage and develop Premium Rate SMS	Activity wholly attributable to Premium Rate SMS
M402	Manage Off Island Businesses	Activity wholly attributable to Off Island Businesses
M403	Manage GSM Maritime Services	Activity wholly attributable GSM Maritime Services
M404	Manage Call Back Roaming	Activity wholly attributable to Call Back Roaming
M405	Manage M2M Telemetry	Activity wholly attributable to M2M Telemetry
M406	Manage Direct Connect	Activity wholly attributable to Direct Connect products
<b><u>U</u></b>	<b><u>Unregulated Business</u></b>	
U101	Customer Premises Equipment	Customer premises equipment owned by Jersey Telecom and rented to customers (for example PABX's)
U102	Install business systems (CPE)	Unregulated Business
U103	Maintain business systems (CPE)	Unregulated Business
U104	Provide Co-Location and Business Continuity	Unregulated Business
U107	Support Police Projects	Unregulated Business
	<b><u>Wave Telecom</u></b>	
<u>U206</u>	<u>Wave PSTN Switching Softswitch</u>	Softswitch (SCA)- for Wave Telecom
<u>U207</u>	<u>Wave Internet Backbone</u>	Consists of hosting platform, and the routers which route IP traffic
<u>U208</u>	<u>Wave CIEG PW Circuits</u>	Subsea Circuits
<u>U211</u>	<u>Wave Customer Premises Equipment</u>	Customer premises equipment owned by Wave Telecom and rented to customers

<u>U214</u>	<u>Wave Base Transceiver Station</u>	GSM transmitter and receiver equipment
<u>U215</u>	<u>Wave Mobile Towers and Antennae</u>	The physical towers and masts used to support GSM
<u>U216</u>	<u>Wave Private Circuit Equipment</u>	Private circuit switching and routing equipment, which is dedicated to private circuit, leased line services and Broadband
<u>U218</u>	<u>Wave PSTN Local Loop</u>	Copper/ fibre cabling and ducting (including joints, cabinets, manholes) between ordinary subscribers and concentrators
<u>U219</u>	<u>Wave Backhaul Network</u>	Network assets dedicated to providing links.
<u>U221</u>	<u>Wave Ethernet Private Circuit Equipment</u>	Network assets dedicated for Ethernet services
<u>U222</u>	<u>Wave Voice Subsea Liberty</u>	Subsea Cables
	<b><u>Unregulated Direct Costs</u></b>	
U303	Direct Costs – Wave CPE Sales & Connections	Unregulated Business
U304	Direct Costs – Wave GSM Sales	Unregulated Business
U309	Outpayments – Wave ISR to National	Unregulated Business
U310	Outpayments –Wave ISR International	Unregulated Business
U311	Direct Costs- Wave Dealer Top Up Cards	Unregulated Business
U315	Outpayments – Wave Mobile Calls	Unregulated Business
U316	Outpayments – Wave ISR to Mobiles	Unregulated Business
U317	Direct Costs – Wave GSM Roaming	Unregulated Business
U318	Outpayments – Wave Incoming Off Island Transit	Unregulated Business
U319	Outpayments – Wave ISR to Local	Unregulated Business
U320	Direct Costs – Wave Maintenance Contracts	Unregulated Business
U324	Direct Costs – Wave PDS Structured Cabling	Unregulated Business
U329	Direct Costs – Wave Off-island circuits 2Mb and above (retail)	Unregulated Business
U330	Direct Costs – Wave Off-island circuits less than 2Mb (retail)	Unregulated Business

U331	Direct Costs – Wave On-island circuits 2Mb and above (retail)	Unregulated Business
U332	Direct Costs – Wave On-island circuits less than 2Mb (retail)	Unregulated Business
U333	Outpayments – Wave PRSMS	Unregulated Business
U334	Direct Costs – Wave GSM Service Rentals	Unregulated Business
U335	Direct Costs –Wave Broadband	Unregulated Business
U501	Off-shore Maritime BTS	Unregulated Business
U502	Offshore Third Part SMSC	Unregulated Business
U503A	Offshore Call Back Roaming Trident Platform	Unregulated Business
U504	Offshore Tekelec Probe HK	Unregulated Business
U505	Offshore Maritime Infrastructure	Unregulated Business
U550	Outpayments for C B Roaming	Unregulated Business
U551	Outpayments for GSM Maritime Service	Unregulated Business
U552	Outpayments for Direct Connect SMS	Unregulated Business
U553	Outpayments for M2M Telemetry	Unregulated Business
U901	Cost of Sales – CPE	Unregulated Business
U902	Cost of Sales – Datacomms	Unregulated Business
U903	Direct Costs – Telex	Unregulated Business
U904	Direct Costs – Maintenance	Unregulated Business
U905	Direct Costs - Co-Location	Unregulated Business
U906	Direct Costs - Datacomms Rentals	Unregulated Business
U907	Direct Costs - PDS (Structured Cabling)	Unregulated Business



## 6.2 Proformas for Jersey Telecom Separated Accounts

The following paragraphs set out the formats of the Separated Accounts to be submitted by Jersey Telecom to the JCRA by June 30th 2009 in order to comply with the JCRA Direction issued May 12<sup>th</sup> 2005.

### 6.2.1 Proforma reporting formats – Core Network Business

#### (a) Profit and Loss statement

		<u>Year ending</u> <u>31.12.08</u> <u>(£000)</u>	<u>Comments</u>
Turnover			
	Receipts from other operators	X	1
	Transfer receipts from Fixed Retail	X	2
	Transfer receipts from Mobile	X	3
	Transfer receipts from Other Activities	X	4
Total turnover		----- X	5 = 1+2+3+4
Operating costs			
	Direct operating costs	X	6
	Transfer payments to Access	----- X	7
Total operating costs		----- X	8 = 6+7
Return		----- X	8 = 5-7

(b) Statement of Mean Capital Employed

	<u>Year ended 31.12.08</u>	<u>Year ended 31.12.07</u>	<u>Comments</u>
	<u>(£000)</u>	<u>(£000)</u>	
Fixed assets			
Tangible fixed assets	X	X	
Intangible fixed assets	X	X	
Investments	X	X	
<b>Total fixed assets</b>	<hr/> X	<hr/> X	<b>1</b>
Current assets			
Stocks	X	X	
Debtors	X	X	
Investments	X	X	
Cash at bank & in hand	X	X	
<b>Total current assets</b>	<hr/> X	<hr/> X	<b>2</b>
Creditors	X	X	3
Provisions for liabilities and charges	X	X	4
<b>Mean capital employed</b>	<hr/> X	<hr/> X	<b>5 = 1+2-3-4</b>
Return	X	X	6 (from Profit and Loss statement)
Return on mean capital employed	X	X	7 = 6/5

6.2.2 Proforma reporting formats – Local Access Network Business

(a) Profit and Loss statement

		<u>Year ending</u> <u>31.12.08</u> <u>(£000)</u>	<u>Comments</u>
Turnover			
	Receipts from other operators	X	1
	Transfer receipts from Core	X	2
	Transfer receipts from Fixed Retail	X	3
	Transfer receipts from Other Activities	X	5
Total turnover		<hr/> X	5 = 1+2+3+4
Operating costs			
	Direct operating costs	X	6
Total operating costs		<hr/> X	7 = 6
Return		<hr/> <hr/> X	8 = 5-7

(b) Statement of Mean Capital Employed

As for Core Network Business

6.2.3 Proforma reporting formats – Retail Fixed Business

(a) Profit and Loss statement Profit and Loss statement

		<u>Year ending</u> <u>31.12.08</u> <u>(£000)</u>	<u>Comments</u>
Turnover			
	Connections & Rental charges	X	1
	Call/ usage charges	X	2
Total turnover		<hr/> X	3 = 1+2
Operating costs			
	Direct operating costs	X	4
	Transfer payments to Core	X	5
	Transfer payments to Access	X	6
	Transfer payments to Mobile	X	7
	Transfer payments to Other Activities	<hr/>	8
Total operating costs		<hr/> X	9 = 4+5+6+7+8
Return		<hr/> <hr/> X	10 = 4-9

(b) Statement of Mean Capital Employed

As for Core Network Business

6.2.4 Proforma reporting formats – Mobile Business  
(c) Profit and Loss statement

		<u>Year ending</u> <u>31.12.08</u> <u>(£000)</u>	<u>Comments</u>
Turnover			
	Turnover	X	1
	Receipts from other operators	X	2
	Transfer receipts from Fixed Retail	X	3
	Transfer receipts from Other Activities	X	4
Total turnover		<hr/> X	5 = 1+2+3+4
Operating costs			
	Direct operating costs	X	6
	Transfer payments to Core	X	7
	Transfer payments to Other Activities	<hr/> X	8
Total operating costs		<hr/> X	9 = 6+7+8
Return		<hr/> <hr/> X	10 = 5-9

(d) Statement of Mean Capital Employed

As for Core Network Business

6.2.5 Proforma reporting formats – Other Activities

(a) Profit and Loss statement

		<u>Year ending</u> <u>31.12.08</u> <u>(£000)</u>	<u>Comments</u>
Turnover			
	Turnover	X	1
	Transfer receipts from Fixed Retail	X	2
	Transfer receipts from Mobile	X	3
Total turnover		X	4 = 1+2+3
Operating costs			
	Direct operating costs	X	5
	Transfer payments to Core	X	6
	Transfer payments to Access	X	7
	Transfer payments to Mobile	X	8
Total operating costs		X	9 = 5+6+7+8
Return		X	10 = 4-9

(b) Statement of Mean Capital Employed

As for Core Network Business

## 6.2.6 Proformas for Notes to Jersey Telecom Separated Accounts

### 6.2.6.1 Statement of costs of network services

(a)

#### Routing factors

	Network element Voice subsea and microwave links	Remote Concentrators (call set up)	Remote Concentrators (call duration)	Local Switches (Call set-up)	Local Switches (call duration)	PSTN Switching Softswitch	Local Switch - Remote Concentrator links	Inter switch links	Backhaul voice links	JustConnect equipment & backbone (Freesurf)	Intelligent Network	Voicemail platform	Total
Total operating costs	A												
Total cost of capital	B												
Total cost	C = A+B												
Service volumes	D												
Unit cost per minute (pence)	E = (C/D)*100												
Routing factor													
Business	Product												
Core network Fixed Line - Incoming													
Retail Fixed	Emergency Services Operator Assistance Fixed Line - Calls to Guernsey Fixed Line - National Calls Fixed Line - Calls to JT Mobiles Fixed Line - Calls to Local Fixed Fixed Line - Calls to Other Mobiles Fixed Line - International Calls Fixed Line - Internet/JustConnect Fixed Line - Freephone Fixed Line - Local Call Fee Access Fixed Line - Premium Rate Services Payphones & Cardphones												
RIO service	PSTN Termination - Call Set-up PSTN Termination - Call duration PLMN Termination On-Island Transit Service - Call Set-up On-Island Transit Service - Duration Outgoing Off-Island Transit Service - Call Set-up Outgoing Off-Island Transit Service - Duration Incoming Off Island Transit Service - Call set-up Incoming Off Island Transit Service - Call duration Directory Number inclusion Operator Assistance - Call set-up Operator Assistance - duration Emergency Services - call set-up Emergency Services - duration Inspan Interconnect Carrier Selection - set-up Carrier Selection - duration Local Call Rate - Jersey to Jersey (mobile) Local Call Rate - Jersey to UK (mobile) Local Call Rate - Jersey to Jersey (fixed) Local Call Rate - Jersey to UK (fixed) Freephone - Jersey to Jersey Freephone - Jersey to UK												

Note: No information has been included for RIO services, with no volumes in the period.

(c) Service costs

	Network element	Remote Concentrators (call set up)	Remote Concentrators (call duration)	Local Switches (Call set-up)	Local Switches (call duration)	PSTN Switching Softswitch	Local Switch - Remote Concentrator links	Inter switch links	Backhaul voice links	JustConnect equipment & backbone (Freesurf)	Intelligent Network	Voicemail platform
Total operating costs	A											
Total cost of capital	B											
Total cost	C = A+B											
Service volumes	D											
Unit cost per minute (pence)	E = (C/D)*100											
Service cost												
Business	Product											
Core network	Fixed Line - Incoming	= RF x unit cos	-	-	-	-	-	-	-	-	-	-
Retail Fixed	Emergency Services											
	Operator Assistance											
	Fixed Line - Calls to Guernsey											
	Fixed Line - National Calls											
	Fixed Line - Calls to JT Mobiles											
	Fixed Line - Calls to Local Fixed											
	Fixed Line - Calls to Other Mobiles											
	Fixed Line - International Calls											
	Fixed Line - Internet/JustConnect											
	Fixed Line - Freephone											
	Fixed Line - Local Call Fee Access											
	Fixed Line - Premium Rate Services											
	Payphones & Cardphones											
RIO service	PSTN Termination - Call Set-up											
	PSTN Termination - Call duration											
	PLMN Termination											
	On-Island Transit Service - Call Set-up											
	On-Island Transit Service - Duration											
	Outgoing Off-Island Transit Service - Call Set-up											
	Outgoing Off-Island Transit Service - Duration											
	Incoming Off-Island Transit Service - Call set-up											
	Incoming Off-Island Transit Service - Call duration											
	Directory Number inclusion											
	Operator Assistance - Call set-up											
	Operator Assistance - duration											
	Emergency Services - call set-up											
	Emergency Services - duration											
	Inspan Interconnect											
	Carrier Selection - set-up											
	Carrier Selection - duration											
	Local Call Rate - Jersey to Jersey (mobile)											
	Local Call Rate - Jersey to UK (mobile)											
	Local Call Rate - Jersey to Jersey (fixed)											
	Local Call Rate - Jersey to UK (fixed)											
	Freephone - Jersey to Jersey											
	Freephone - Jersey to UK											

Note: No information has been included for RIO services, with no volumes in the period.



6.2.6.2 Transfer charge statement (£)

Service	Core Network	Local Access Network	Mobile	Other	Total transfer charges
Exchange line rental & connection					
Local calls					
National calls					
International Calls					
Calls to Jersey Mobiles					
Non-geographic calls free to calling customer					
Non-geographic calls charged at local rate					
Non-geographic calls charged at national rate					
Non-geographic calls charged at premium rate					
Internet Calls					
Directory Enquiries					
Public Payphones					
Leased lines (private circuits)					
xDSL services					
Remaining Activities					

6.2.6.3 Inter Business Cost Summary (£)

To	Local Access Network	Core Network	Retail Fixed	Mobile	Other	Total
From						
Local Access Network						
Core Network						
Retail Fixed						
Mobile						
Other						
Total						

## 7 Overview of Detailed Allocation Appendices

This section provides details of all the allocation methods used in attributing the values in the General Ledger to the Businesses and Sub-businesses required for the purposes of Account Separation. The information is based on the files used in building the Activity Based Costing model in Metify software. It traces allocations through the three phases within Metify, namely:

- General Ledger to Activities;
- Activities to Activities (Reallocations); and
- Activities to Products.

Each of these phases – and the contents of the corresponding document submitted in conjunction with this methodology – is set out in more detail in the paragraphs which follow.

### Description of Appendix 1 - Allocation of General Ledger Costs to Activities

As described in section 4 of the Methodology, the first phase of the Metify systems sees the allocation of GL cost centres to activities.

Appendix 1 provides the following information for each GL cost centre:

Heading	Definition
Cost code	Unique identifying code for the GL cost centre e.g. 'AAA'
General Ledger Costs	Cost Centre name per the General Ledger e.g. 'Un-attributed Profit and Loss – Dentist Charges'
Activity Name	Activity performed by the cost centre. E.g. 'Unallocated - Pension & Medical'
Activity Code	Unique identifying code for the activity

Note the following:

1. A cost centre may be attributable to more than one activity. For example the cost centre 'ABS Cash Control - Capital Employed' is divided into the "activities" 'Bank & Cash' (RE04) and 'Wave Bank & Cash' (RE17)
2. An "activity" may comprise more than one cost centre. For example, the activity 'Unallocated - Pension & Medical' (AR01) comprises five cost centres from the General Ledger.
3. The data is shown in order of Cost Code.

## Description of Appendix 2: Reallocations of Activities

Appendix 2 gives the reallocations for the activities that are not directly attributable to a product or service. The activities shown fall into the following categories:

- Accounts Reallocated: for example, the reallocation of 'Unallocated – Pension & Medical' onto cost centres according to Basic Pay;
- Capital Employed Reallocated: for example, 'Bank & Cash' which is reallocated onto cost centres according to Opex and Capex;
- Support Activities Reallocated: for example, 'Perform Financial Accounting' which is reallocated based on 'Opex'; and
- Network Activities Reallocated: for example, 'Maintain masts' which is reallocated to the asset 'Mobile-BSS-CEMASTS'.

For each reallocated activity the following information is provided:

Heading	Definition
Activity	Name of the activity e.g. 'Unallocated – Pension & Medical'
Activity Code	Unique identifying code for the activity e.g. AR01
Type	Account reallocation type e.g. 'Accounts – Reallocated'
Allocation Method	Method by which the activity is reallocated, e.g. 'Basic Pay'
Method Code	Unique identifying code for the method e.g. RM_001
Description	Explanatory narrative for the method code e.g. 'This driver apportions Unallocated Pension & Medical on the basis of employees' basic pay.'
Source	General Ledger cost centre and unique identifying code for General Ledger cost centre
Destination	Cost centre(s) and unique identifying code(s) that the Activity is reallocated onto, e.g. 'Access Network Administration CFA'

Note the following:

1. "Source" provides information on source activity at the level of component GL cost centre.
2. "Source" does not show any reallocations from activity onto activity: such reallocations can be found by locating the General Ledger item under 'Destination' in Appendix 2. For example, 'Un-attributed Profit and Loss – Dentist Charges AAA'
3. Activities have been ordered according to Type and then Activity Code. For example, all Accounts Reallocated are grouped together.
4. Although each record may be longer than one page, each new record is started on a new page.

5. When an Activity requires more than one page the initial information up to the 'Description' field is repeated as a page header above the additional Sources and/or Destinations.
6. If an Activity is reallocated onto a Reallocate Activity it will be redirected again based on the Allocation Method of the Destination. Otherwise put, a Reallocate Activity will appear more than once in this Appendix in the Source column and in the Destination column.

### Description of Appendix 3: Allocations to Products

Appendix 3 is the Cost Object level as described in the Methodology. It is the final stage of cost attribution and shows how costs are allocated onto Products.

For each allocation the following information is provided:

Heading	Definition
Activity	Name of the activity e.g. 'PSTN Local Loop'
Activity Code	Unique identifying code for the activity e.g. A101
Type	Account reallocation type e.g. 'Access Network Business'
Allocation Method	Method by which the activity is reallocated, e.g. 'Direct – PSTN Rentals 3'
Method Code	Unique identifying code for the method e.g. CD_101
Description	Explanatory narrative for the method code e.g. 'The PSTN local loop is allocated directly to PSTN Rentals'
Source	General Ledger cost centre and unique identifying code for General Ledger cost centre
Destination	Product(s) and unique identifying code(s) that the Activity is reallocated onto, e.g. 'PSTN Rentals'

Note the following:

- Cost Objects are ordered according to activity type
- Although each record may be longer than one page, each new record is started on a new page.
- Each new record is started on a new page though it may be longer than one page depending on the number of Sources or Destinations.
- When an Activity requires more than one page the initial information up to the 'Description' field is repeated as a page header above the additional Sources and/or Destinations.