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Guidelines for Accounting Separation

23 June 2010

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Definitions

1. The terms, words and phrases used in these Guidelines shall have the same meaning as in the Act, Bylaw, Ordinance and Regulatory Framework, unless stated otherwise.

2. For the purpose of these Guidelines, the followings definitions apply:

   2.1. **Accounting Separation** or **Separated Accounts** shall mean the preparation of accounting information (including costs and revenues) related to regulated and non regulated activities of a Designated Service Provider at a level of detail that allows the Communications and Information Technology Commission (CITC), or a third party appointed by CITC, to trace back and forth all internal and external transactions and ensure compliance with the Service Provider’s regulatory obligations. Accounting Separation uses Regulatory Accounts or cost models to provide the required information.

   2.2. **Accounting Separation Manual** shall mean a document explaining in detail the methodological principles, main assumptions, internal structure and calculation flows of the Accounting Separation system and related Regulatory Accounting system. The Accounting Separation Manual shall be self explanatory, well structured, provide a complete overview to a third party of the Accounting Separation system and related Regulatory Accounting system and be in full compliance with the provisions of the Accounting Separation Regulatory Framework and Guidelines.

   2.3. **Accounting Separation Regulatory Framework or Regulatory Framework** shall mean the Regulatory Framework adopted by CITC on [date], decision [no].

   2.4. **Accounting Separation system** shall mean a system able to produce Accounting Separation information.

2.5. **Asset Class** shall mean a group of assets that have similarities and are grouped under the same class. For example, "computer software" includes all software used in computers, such as an operating system and a word processing software.

2.6. **Common costs** shall mean costs that are shared by all or several activities of a firm.

2.7. **Current Cost Accounting** or **CCA** shall mean an accounting convention that considers assets based on current values.

2.8. **Day** shall mean working day.

2.9. **Designated Service Provider(s)** shall mean any Service Provider licensed in the Kingdom and designated by CITC to prepare Separated Accounts in accordance with the Regulatory Framework for Accounting Separation and these Guidelines.

2.10. **Dominant service provider** shall mean any service provider designated as such by CITC pursuant to Chapter 4 of the Bylaw.

2.11. **Fully Allocated Costs** or **FAC** shall mean an accounting method to distribute all costs amongst a firm's various products and services.

2.12. **Gross Replacement Costs** or **GRC** shall mean the cost of replacing an asset with an equivalent new item.

2.13. **Historical Cost Accounting** or **HCA** shall mean an accounting convention that leaves all costs with the same value as per the financial accounts; this will typically correspond to the original purchased price of the asset, except in case of revaluated assets in the Fixed Assets Register.

2.14. **Individual Relevant Service** shall mean any service produced by a Designated Service Provider that is a natural part of a market.

2.15. **LRIC** shall mean Long Run Incremental Cost.

2.16. **LRIC Model Guidelines** shall mean CITC's Guidelines for the preparation of the LRIC Model issued with Decision No. (194/1429) Dated 23/02/1429 H.

2.17. **Management** shall mean, unless otherwise indicated, a Designated Service Provider's senior manager(s), responsible of the regulatory accounts and Accounting Separation system such as Chief Regulatory and Financial Officer.

2.18. **Principle of Proportionality** shall mean that the measures applied in a decision are appropriate and limited to what is necessary to achieve the pursued regulatory objective.

2.19. **Platform** shall mean supporting software and equipments, part of the access and core networks used in modern networks such as Value Added Services System, Operating Support System or Billing Support System platforms.

2.20. **Reference year** shall mean the year to which the accounts refer.

2.21. **Regime or Accounting Separation Regime** shall mean the Accounting Separation Regulatory Framework and Guidelines prepared and issued by CITC and any other relevant documents published by CITC on Accounting Separation.

2.22. **Regulatory Accounts** shall mean accounts prepared for regulatory purposes.

2.23. **Regulatory Accounting** shall mean record keeping rules and processes used for the preparation of accounts and reports for regulatory purposes (e.g. for the verification of cost-based pricing obligations).

2.24. **Remedies** shall mean the specific measures imposed by CITC on a dominant service provider to counter, control, mitigate or neutralize the impact of market dominance.

2.25. **Statutory Accounts or Statutory Financial Accounts** shall mean the audited statutory financial accounts prepared by a Designated Service Provider in satisfaction of the Saudi Regulations of Companies, Exchange law of Saudi Arabia and The Capital Market Authority (CMA). Statutory Accounts shall be prepared in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia by the Saudi Organization for Certified Public Accountants (SOCPA).

2.26. **Statutory Financial Statements** shall mean the audited financial statements prepared from Statutory Accounts (e.g. Balance Sheet).

1 Purpose and Scope of the Guidelines

1.1. Introduction

3. The Telecommunications Act (the "Act") states, in its Article 3, that the telecommunications sector shall be regulated to ensure, among other objectives, "the creation of a favorable atmosphere to promote and encourage fair competition in all fields of telecommunications."

4. Article 12 of the Bylaw allows CITC to impose certain conditions on individual licenses to implement the objectives of the Act. The list of such conditions includes "the level of segregation of telecommunications services for accounting and regulatory purposes as may be determined by the Commission".

5. Article 4.30 of the Regulatory Framework for Accounting Separation stipulates that CITC shall issue and publish Guidelines on the implementation of the regulatory framework.

6. These Guidelines are prepared pursuant and as a complement to the Regulatory Framework for Accounting Separation ("Regulatory Framework"). They include instructions on how Designated Service Providers shall prepare the regulatory accounts necessary for the preparation of separated accounts and on the manner in which detailed reports, analysis, information and data related to the separated accounts shall be prepared and submitted to CITC.

7. For the avoidance of doubt, these Guidelines do not address the issue of whether a Service Provider is dominant in the markets concerned by the accounting separation.

8. These Guidelines may be amended in part or in full at any time by CITC, following a public consultation.

1.2. Purpose of the Guidelines

9. The purpose of the Accounting Separation Guidelines is:

- to complement the Regulatory Framework for Accounting Separation
- to encourage good practice with respect to accounting separation
- to provide specific guidance for a Designated Service Provider on how to prepare and present separated accounts
- to instruct a Designated Service Provider on how to submit information and reports to CITC
- to provide instruction on preparing regulatory accounting systems and information for Accounting Separation systems

1.3. Application

10. These Guidelines apply to all Designated Service Providers.

11. Designated Service Providers shall keep detailed and easily accessible records of all matters (e.g. information, data, reports, studies, notes and methodologies) relevant and necessary for the purposes of preparing the Accounting Separation Accounts, Documentation, Reports and related Regulatory Accounting System(s).

1.4. Accounting Separation and Regulatory Accounts

12. Accounts for regulatory purposes (hereafter regulatory accounts) shall be prepared according to the principles, rules and methodologies described in these Guidelines. For Separated Accounts prepared under the LRIC accounting convention, and unless otherwise stated in these Guidelines, the LRIC Model Guidelines shall be followed.

13. Accounting Separation systems use regulatory accounts that calculate costs and revenues prepared under cost accounting convention (Historical, Current or LRIC), and allocate these costs/revenues in sequential stages at increasing levels of detail (granularity) in order to provide the information required to fulfill the objectives of Accounting Separation (Section 2.2).

1.5. Structure of the Guidelines

14. The Guidelines are structured to facilitate the development of separated accounts and cover the following topics:

- Objectives and Principles of Accounting Separation (Section 2)
- The level of Accounting Separation (Section 3)
- The cost accounting conventions used for preparation of Accounting Separation systems and reports and related costing issues (Section 4)
- The preparation of the Accounting Separation system (Section 5)
- The reporting requirements (Section 6)
- Audit and Review (Section 7)

2 Accounting Separation

2.1. Introduction

15. This section explains the objectives of Accounting Separation and the principles to be followed by a Designated Service Provider.

2.2. Objective of Accounting Separation

16. The main objectives of Accounting Separation are to:

    16.1. verify adherence of a Designated Service Provider to the obligations of non-discrimination, objectivity, cost based pricing and transparency set down in the Bylaw;

    16.2. facilitate CITC's understanding of a Designated Service Provider's costs and revenues at the required level of detail;

    16.3. identify and prevent potential abuses of dominance or other anticompetitive practices by a Designated Service Provider and/or

    16.4. ensure implementation of any associated objectives of the Act.

17. Through an Accounting Separation system, a Designated Service Provider shall be able to provide evidence, in particular, that:

    17.1. regulated services are provided to third parties on a non-discriminatory basis relative to those provided internally and, in particular, that the same fees are paid by its own business units, affiliates and/or third parties;

    17.2. there are no anti-competitive cross-subsidization practices between different operations or business units, in particular from areas of market dominance to competitive services (thus providing an unfair advantage to a Designated Service Provider);

17.3. there are no margin squeeze or predatory pricing practices; and

17.4. cost based pricing is effectively achieved for regulated services where such obligation is applicable.

2.3. Principles

18. Designated Service Providers shall ensure that all processes and procedures related to the preparation of separated accounts and regulatory accounting systems are consistent with the principles listed below.

19. *Regulatory Principles* refer to regulatory obligations of a Designated Service Provider in accordance with the CITC statutes. In the context of these guidelines, these principles are:

19.1. **Principle 1: Non-discrimination**; decisions and processes shall be unbiased, and shall not be taken, designed or implemented in ways that may damage or negatively affect the rights of external parties.

19.2. **Principle 2: Equality**; products, services, infrastructure and essential facilities provided to other licensed operators under regulatory conditions shall be equal to products, services, infrastructure and essential facilities provided internally in terms of quality, timing, processes and prices.

20. *Regulatory Accounting Principles* refer to best practice principles used in the preparation of accounts for regulatory purposes. In the context of these guidelines, these principles are:

20.1. **Principle 3: Causality**; when one event (e.g. activity, product or service) causes a corresponding cost or revenue, that cost or revenue shall be reflected in the preparation of accounts. In particular, costs shall be allocated directly or indirectly to those activities or services that cause the costs to arise. Revenues shall be allocated directly to those activities or services that cause the revenue to be earned.

20.2. **Principle 4: Transparency**; accounts, data, reporting and information shall be clear, traceable, easy to understand for third parties and self-explanatory. The information must be maintained and submitted for review in a medium and format that can be easily accessed and replicated at any time, without restriction, using standard software document and data processing tools (e.g. MS Office).

20.3. **Principle 5: Reliability**; information shall be detailed, accurate, legitimate and error-free.

20.4. **Principle 6: Materiality**; information shall be prepared in a way that ensures that there is no significant omission or misstatement that influences the results and reports. Where a judgment is required concerning the appropriateness of a particular accounting decision, the "materiality" principle requires that this should only be addressed if the issue is "significant" or "material" to the results.

20.5. **Principle 7: Relevance**; any information that can impact the results, can influence economic decisions and is considered necessary for the exercise shall be provided.

20.6. **Principle 8: Reconciliation**; transparent reconciliation between information databases, reports and statements and the corresponding separated accounts shall be ensured.

20.7. **Principle 9: Consistency**; the same and consistent practices shall be maintained over time. Necessary variations due to technological or market changes are to be documented, explained and reasoned in detail explaining why other options are not possible and describing the impact on accounts and results. Data integrity shall be ensured.

20.8. **Principle 10: Statistical Accuracy**; accepted statistical methods shall be applied, for example in sampling. Statistics shall be documented, replicable and consistent over time.

20.9. **Principle 11: Objectivity**; accounts, attributions, decisions and other information employed in the Accounting Separation system shall be based on verifiable data, which must be maintained and submitted for review.

20.10. **Principle 12: Fairness**; accounting and procedural decisions in the preparation of Separated Accounts and related Regulatory Accounts shall fairly represent the treatment of internal and external parties. The fairness of decisions shall be properly ensured by Designated Service Provider's process and procedures and constantly supervised by its Management.

21. *Preparation Principles,* are the principles of a **procedural nature** in the preparation of regulatory accounts and Accounting Separation systems. In the context of these guidelines, these principles are:

21.1. **Principle 13: Responsibility**; Management shall be personally responsible for the quality and correctness of information provided to CITC, in particular for Separated Accounts, Regulatory Accounts, Accounting Separation data, reports and statements.

21.2. **Principle 14: Consistency with Financial Accounts**; when Separated Accounts or other related statements or reports are prepared, the same criteria and information used in the preparation of financial accounts shall be maintained - unless otherwise stated in these Guidelines or in conflict with one of the above mentioned regulatory principles and regulatory accounting principles.

3 Level of Accounting Separation

3.1. Level of Separation of the Accounts

22. Consistent with the principles of "Non-discrimination" and "Transparency", a Designated Service Provider shall prepare Separated Accounts, at market level for all markets in which it operates, as described in Section 5.1.

23. This includes markets

    23.1. in which a Service Provider has been imposed an accounting separation remedy,

    23.2. in which a Service Provider has not been imposed an accounting separation remedy,

    23.3. which have not been defined by CITC (as described in Section 5.1).

24. Additionally, for the markets with an Accounting Separation obligation, a Designated Service Provider shall prepare separated accounts as described in paragraphs 97-99, at the level of individual relevant services.

25. Individual relevant services shall be understood as all services provided by a Designated Service Provider that are a natural part of a market. Services that can have several configurations and/or products, such as Bitstream, shall be broken down in more detail.

26. A Designated Service Provider shall prepare and present to CITC for approval a complete list of relevant services. The list shall cover all services available during the last calendar year. The list of the relevant services, shall be presented for the first time, within 15 days from the designation or approval of these Guidelines. After the first implementation, an updated list of relevant services shall be prepared and presented every year no later than 15 days after end of the calendar year. CITC shall approve, reject or amend the list of relevant services.

27. In execution of its duties, CITC can at anytime, request a Designated Service Provider to prepare and report ad-hoc specific information of costs and revenues up to the service or product level.

4 Cost Accounting Convention and Related Issues

4.1. Cost Conventions

28. Separated accounts shall be prepared for Historical Cost Accounting (HCA), Current Cost Accounting (CCA) and Long Run Incremental Cost (LRIC) cost accounting conventions.

29. In adherence to the principle of "Proportionality" of regulatory intervention, CITC may postpone, on a case-by-case basis and after consultation with the party involved, implementation of this obligation with regard to one or more cost accounting conventions.

4.1.1. Historical Cost Accounting

30. The HCA convention shall be based on audited statutory financial accounts, statements and data from internal reporting systems, with the exception of the cost of capital that shall be calculated as defined in these Guidelines.

31. Statutory financial statements are understood to comprise:

    31.1. Balance Sheet Statement

    31.2. Profit and Loss Statement

32. In case of a Designated Service Provider being part of a Group of companies (e.g. investments in subsidiaries, associates and joint ventures) statutory financial accounts and statements shall be presented for the Group including detailed financial accounts, statements and information of the Designated Service Provider, its subsidiaries, associates and joint ventures.

33. Data from internal reporting systems include (non exhaustive list):

    33.1. General Ledger

    33.2. Fixed Assets Register

    33.3. Billing System

    33.4. Data Warehouse

    33.5. Network Routing Factors

    33.6. Management Accounting System

34. In case of inconsistency between the data available in the systems listed above, the order in which the systems take priority, shall be:

    34.1. first, the Statutory financial accounts and statements (paragraph 31) and,

    34.2. second, other internal reporting systems in the same order as they appear in paragraph 33.

35. According to the Historical Cost Accounting convention, the value of assets and installation costs shall be reported with the same value as per the financial accounts and Fixed Assets Register record.

4.1.2. Current Cost Accounting

36. The Current Cost Accounting (CCA) convention requires recording assets and costs at current value.

37. The Financial Capital Maintenance (FCM) methodology shall be used to calculate company's capital in financial terms. The FCM methodology implies that variations in price assets must not result in a variation of the company shareholders' funds (e.g. such variations must be compensated against a corresponding amount in reported gains or losses).

38. The FCM methodology requires adjustments to the depreciation of assets as consequence of the "Holding Gains and Losses" deriving from the

revaluation of the asset (any increase or decrease in the current costs of assets forms part of gains or losses).

39. The starting point for a CCA valuation is the information prepared according to Historical Cost Accounting convention. Some categories of assets presented in the Fixed Assets Register are registered at their current value using an evaluation method.

4.1.3. Revaluation methods in CCA

40. In revaluating assets under the CCA convention, the Designated Service Provider shall use one of the following methods:

    40.1. Absolute valuation

    40.2. Modern Equivalent Asset

    40.3. Appraisal

    40.4. Indexation

Absolute valuation

41. The absolute valuation methodology requires using the current market unitary price for an asset, maintaining the number of units of that asset owned by the company.

42. The current market unitary price shall be calculated as the average price paid by the Designated Service Provider for assets purchased or ordered during the reference year. This shall include all applicable discounts and conditions of payment. The ordered assets shall be supported by a signed confirmation letter or approval document from the purchasing department of the Designated Service Provider.

43. The absolute valuation methodology, as described above, shall be the preferred choice among the proposed methodologies for revaluation.

Modern Equivalent Asset

44. The Modern Equivalent Asset (MEA) methodology requires assets to be valuated according to the current price of an equivalent asset in terms of capacity and functionality.

45. When the equivalent modern asset has higher capacity or functionality than the original, it is necessary to adjust prices and operational costs accordingly.

46. The MEA methodology can be used when an absolute valuation is not possible; for example, when the asset is obsolete and a new asset, with exactly the same capacity and functionality, is not available for purchase.

Appraisal

47. The appraisal method relies on expert opinion for the determination of the asset's value.

48. It shall be used for assets that have a market value and are of heterogeneous nature and use. In particular appraisal method shall be used for the valuation of real estate (land, buildings and sites) owned by the Designated Service Provider.

49. The independent expert's opinion shall follow in particular the principles of "Statistical Accuracy" and "Reliability".

50. The expert shall be independent and impartial, that is, the expert shall not have worked directly or indirectly for the Designated Service Provider or for one of the companies controlled by or controlling the Designated Service Provider in the previous six months and shall not accept other assignments from the Designated Service Provider in the following 12 months.

51. The expert shall produce a statement of independence where it declares its compliance to and acceptance of the obligations defined in paragraph 50. The statement shall be submitted with the Separated Accounts.

Indexation

52. Assets can be revaluated using a price index, that is, a weighted average of purchasing prices for the same asset class during a period of time, to determine the evolution of the price of the asset over that period of time. The price index can be based on internal or external studies.

53. An indexation valuation method can be used when:

    53.1. assets within a same asset class are non homogenous and their value is difficult to determine (e.g. the value may depend on multiple characteristics or variables), for example the case of software applications developed in-house.

    53.2. there is a clear correlation between the current and the historical use and technical specifications of the asset.

54. Indexation method, processes and studies shall be documented in detail.

Non Revaluated Assets

55. An asset may be maintained at Historical Cost and not be revaluated, when

    55.1. its value is very small and following the materiality principle a revaluation does not affect the results, or

    55.2. it has a short useful life, below or equal to three years or

    55.3. it is already at current cost, as it has been purchased and paid for in the last calendar year.

56. An asset shall be maintained at Historical Cost and not be revaluated, when

    56.1. it does not have a market price, or

    56.2. it is fully depreciated, or

    56.3. it is not tradable (such as rights of way or licenses), or

    56.4. it has been granted, received free of charge, or

56.5. it has been revaluated in the last calendar year; so far the revaluation is consistent with the revaluation methodologies described in this Section.

57. The value of non revaluated assets, which are left at historical cost, shall not be higher than 20% of the total assets value, measured by the Gross Replacement Cost.

58. License costs and assets that are already at current cost (as they have been purchased in the last calendar year) will not be taken into consideration for the calculation of the 20% threshold and can be maintained at historical costs.

4.1.4. Long Run Incremental Cost

59. The Long Run Incremental Cost (LRIC) convention has been described in detail in the LRIC Model Guidelines.

60. Unless otherwise specifically stated in these guidelines, the instructions contained in the LRIC Model Guidelines shall be applicable for the purposes of Accounting Separation.

4.1.5. Cost of Capital

61. The cost of capital represents the opportunity cost of funds invested in the business and ensures that other profit mark-ups are not required.

62. The methodology used in Accounting Separation systems for calculating the cost of capital shall be the Weighted Average Cost of Capital.

63. The *WACC* shall be the whole company cost of capital, while a "divisional" cost of capital (e.g. at business unit level) is not allowed.

64. The WACC shall be calculated on pre-tax basis using the following formula.

$$\boxed{\mathrm{WACC} = \left(\frac{C_E * \mathrm{E}}{(\mathrm{D} + \mathrm{E})} + \frac{C_D * D * (1 - T)}{(\mathrm{D} + \mathrm{E})} \right) / (1 - T)}$$

where C_E represents the cost of equity; C_D is the cost of debt; E is the total value of equity, D is the total value of debt and T is the effective tax rate paid on net profit..

65. The cost of equity shall be calculated using the Capital Asset Price Model formula:

$$\boxed{C_E = R_F + \beta_E * P_M}$$

Where RF is the risk free rate; βE represents the risk of the asset relative to market risk; PM is the market risk premium.

66. The Designated Service Provider shall prepare and present with the annual Accounting Separation Documents a detailed description of the methodology, sources, and calculation used in the determination of the annual WACC.

67. The WACC value used shall be the same for HCA, CCA and LRIC cost conventions.

4.1.6. Consistency between HCA, CCA and LRIC

68. Unless otherwise stated in these Guidelines, a Designated Service Provider shall use consistent treatment of costs/revenues, methodologies and processes under HCA, CCA and LRIC conventions.

4.2. Depreciation

69. In adherence to the principle of "Consistency", assets lifetimes used in HCA, and CCA conventions shall be the same, unless otherwise stated by CITC.

70. Assets lifetimes for LRIC convention can be different to CCA convention when justified by efficiency factors, in particular innovation and cost savings technology.

71. A Designated Service Provider shall use economic depreciation or the tilted annuity method for the LRIC convention.

72. A Designated Service Provider shall use the straight line depreciation method for the HCA and CCA conventions.

73. A Designated Service Provider shall provide for all cost conventions, together with the annual Documentation, a complete list of assets and asset classes, their lifetimes and detailed calculations showing the applied depreciations.

4.3. Other Costing Issues

74. Costs shall be categorized as either direct or indirect costs, as follows:

74.1. Directly attributable costs: costs that can be directly and unambiguously charged (or related) to a service or product. All other costs are indirectly attributable.

74.2. Indirectly attributable costs: all other costs not falling in the directly attributable category that can usually be apportioned to service or product on an objective basis.

75. Certain types of indirectly attributable costs are "common" to a number of activities and are usually called "common costs".

5 Preparation of the Accounting Separation System

76. Costs prepared under the Historical and Current cost conventions shall be used in a top-down Fully Allocated Cost (FAC) System.

77. Cost prepared under the LRIC convention shall be used in a top-down LRIC system as described in the LRIC Model Guidelines.

78. Information prepared under the HCA, CCA and LRIC cost conventions shall be prepared and structured in a way that makes it possible for a third party to trace each allocation step and stage back to the original accounts and information systems (for example the ones listed in paragraph 31). The attribution stages are described in this Section.

5.1. Stages of the Accounting Separation System

79. The Designated Service Provider shall prepare its Accounting Separation system following the minimum cost attribution stages described below:

    79.1. Stage 1: Corporate Financial Account Level

    79.2. Stage 2: Activity Level

    79.3. Stage 3: Function Level

    79.4. Stage 4: Relevant market (and service) Level

80. The table below presents in graphical form the above four Stages.

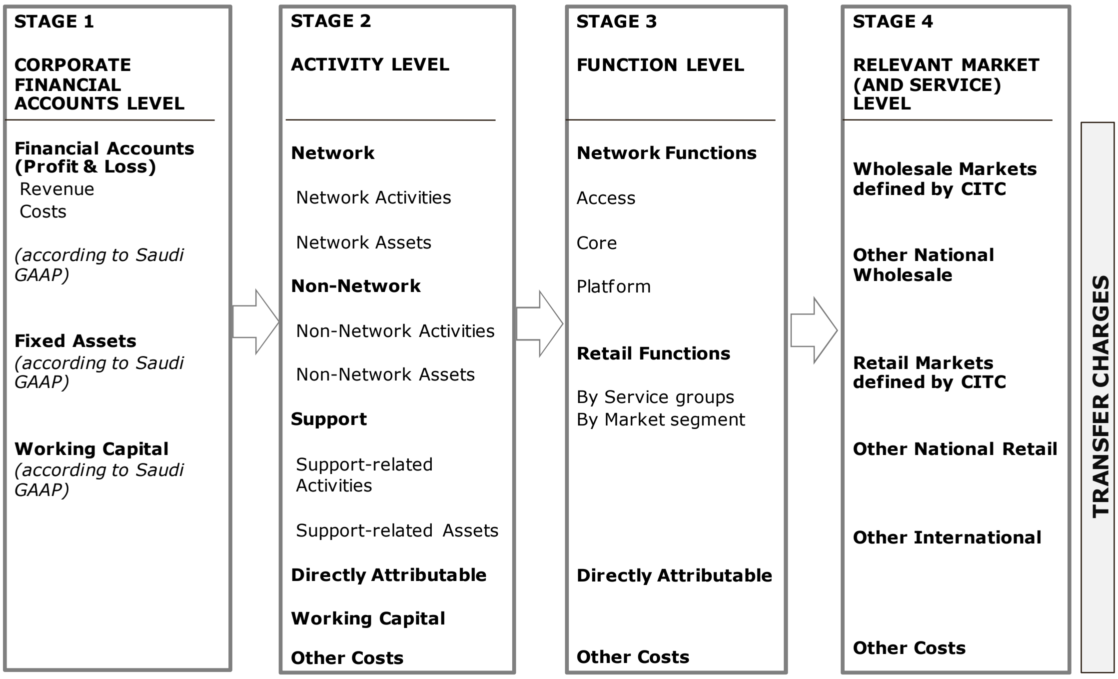

Figure 5.1: Minimum Set of Attribution Stages (left to right)

81. The Designated Service Provider may propose additional cost attribution stages if it considers them appropriate to improve the ”Causality” and ”Objectivity” of the Accounting Separation system.

82. In adherence to the principle of “Transparency”, for each attribution stage it shall be possible to trace costs and revenues associated to each account. In particular, all costs shall be attributed from one stage to the following one, so that a clear direct link (reconciliation) is possible between the overall costs included in each stage. Revenues shall be attributed directly to markets or services (stage 4) in a single step.

83. The above attribution stages are expanded in the following paragraphs:

Stage 1: Corporate Financial Account Level

84. Stage 1 represents the starting input level at which costs (and revenues) that shall be attributed to services are presented.

85. Cost and Revenues shall be presented at their original input value, in a way that makes it possible to reconcile each input value directly to its original source. When transformation or aggregation of inputs is needed, these shall

be clearly visible and explained. Transformations should particularly conform to the principles of “Transparency”, “Reconciliation” and “Fairness”.

86. A clear separation shall be presented at stage 1 between accounts corresponding to the Service Provider’s Profit & Loss statement, accounts corresponding to the fixed assets, and accounts corresponding to the Working Capital.

87. The structure of accounts presented in stage 1 shall be built following the same structure employed for the Designated Service Providers’ internal financial accounts based on Saudi GAAP.

88. In the case of accounts corresponding to fixed assets, the structure of the Company’s Fixed Asset Register (FAR) may be used, provided that it is fully consistent with Saudi GAAP.

89. The structure of the accounts in stage 1 shall facilitate and streamline the data importing process (e.g. from the FAR to the Accounting Separation system), and shall require very limited manipulation by the Designated Service Provider, and only when strictly required by the nature of the accounts.

90. In addition to importing costs and revenues into the first stage of the Accounting Separation system, cost and revenue types shall be identified. In particular, the following minimum set of revenue and cost types shall be identified:

- operating revenue,
- non-operating revenue,
- personnel-related costs,
- non-personnel operating costs
- taxes
- depreciation costs
- cost of capital for fixed assets
- cost of working capital

Stage 2: Activity Level

91. The aim of stage 2 is to group all costs into cost pools representing specific activities or asset groups, or representing costs with certain specific characteristics such as being directly attributable to specific services or falling out of scope of the Accounting Separation system (grouped in the category “Other Costs”).

92. Cost pools at stage 2 shall be grouped under the following categories:

92.1. Network-related Activities, containing cost pools that will gather operating costs associated with network specific activities such as network planning and development, operations and maintenance or technical assistance.

92.2. Network-related Assets, containing cost pools that will gather capital-related costs associated to network-specific assets, such as telecommunications equipment or network-related land and buildings. Pools at this stage shall provide a clear separation among different network technologies and asset classes.

92.3. Non-network Activities, containing cost pools that will gather operating costs that are not associated with network specific activities, for example retail activities such as marketing, sales or customer care of retail customers.

92.4. Non-network Assets, containing cost pools that will gather capital-related costs associated with assets that are not network-related, including building space for commercial use, commercial software and hardware and assets employed for commercial logistics or commercial billing. Pools at this stage shall provide a clear separation among different asset classes.

92.5. Support-related Activities, containing cost pools that will gather operating costs associated with support activities shared among network and non-network operations, including administrative activities such as human resources, financial planning and control, and general management.

92.6. Support-related Assets, containing cost pools that will gather capital-related costs associated to assets shared among network and non-network operations, such as buildings or information systems employed for shared support activities. Pools at this stage shall provide a clear separation among different asset classes.

92.7. Directly Attributable Costs, containing cost pools that will gather operating costs and capital related costs that can be attributed directly to final services on the basis of a direct, purely causal driver. These shall include, among others, interconnection costs and other costs that may be categorized as cost of goods sold (COGS).

92.8. Working Capital Costs, containing cost pools that will gather relevant working capital costs such as those associated to payables, receivables and cash or cash equivalents.

92.9. Other Costs: containing cost pools that will gather non-relevant operating costs and capital related costs that fall out of the scope of the Accounting Separation system and that shall not be allocated to any of the relevant markets or services because

i. They are related to operations considered of no relevance for the purpose of Accounting Separation; this will typically correspond to costs related to Non-Telco or Non-Saudi operations, or

ii. They do not fall under the relevant costs that should be allocated to services under the relevant standard, or

iii. Other reasons make the specific cost item not relevant for the purpose of accounting separation.

Stage 3: Function Level

93. At stage 3, both operating and capital-related costs shall be grouped from a functional perspective.

94. The functional cost pools shall represent the overall costs that the Designated Service Provider incurs in performing certain functions that constitute the building blocks of the services being provided.

95. Cost pools at stage 3 shall be grouped under the following categories:

95.1. Network Functions, containing all cost pools related to network functional elements. Pools corresponding to network functional elements shall meet the following criteria:

i. Network functional elements shall be defined in such a way that the attribution of costs to services can be made on the basis of the volumes of different services and the appropriate routing factors as defined in Section 5.2.1 of these Guidelines.

ii. Network functional elements shall be separated in three broad categories: Access, Core and Platforms.

iii. Network functional elements shall be clearly separated according to the underlying technology or communication standard being employed, as well as to the hierarchical position of the network functional elements within the network architecture[1].

95.2. Retail Functions, containing all cost pools related to retail functional elements. Pools corresponding to retail functions shall meet the following criteria:

i. Groups of retail services: Costs corresponding to different broad groups of retail services being commercialized by different internal organizational units shall be clearly separated. In particular, costs related to the commercialization of fixed and mobile services shall be kept separated unless the commercialization of such services is carried out jointly by the Designated Service Provider. In such cases, commercial costs

1 Further indications of the required split of functional network elements by technology and hierarchical position can be found in templates D (Detailed Service Costing) and E (Cost Attribution) in Annex A.

may be kept together at this stage and a causal driver shall be employed to attribute them to different retail services.

ii. Market segments: Costs corresponding to different market segments shall be separated. In particular, costs related to residential, corporate and government customers shall be kept separated.

95.3. Directly Attributable Costs: corresponding to directly attributable costs as defined in stage 2.

95.4. Overheads: corresponding to costs for which an appropriate causal attribution method cannot be determined and that shall be attributed on the basis of previously allocated costs. Overhead costs shall not, in any case, represent more than 5% of the overall cost base.

95.5. Other Costs: corresponding to non-relevant costs as defined in stage 2.

Stage 4: Relevant Market (and Service) Level

96. Stage 4 aims to map costs and revenues to the relevant markets, and where appropriate, to services within the markets. Each market may include a number of relevant services.

97. Cost/revenue pools at stage 4 shall meet the following criteria:

97.1. Cost pools shall be grouped in categories corresponding to each of the relevant market as per the most-updated definitions approved by CITC. Services that do not fall under any of the relevant markets defined by CITC shall be grouped under the 'Other National Wholesale Services', 'Other National Retail Services' and 'Other International Services' categories as appropriate. The 'Other Costs' category shall group costs and revenues that are outside of the scope of the Accounting Separation system, as defined in stages 2 and 3.

97.2. For those markets where an obligation to present separated accounts at service level applies (as per paragraph 25), at least an individual cost pool per relevant service shall be defined that shall gather costs and revenues associated to that individual service.

97.3. For relevant services offered under different technical or commercial configurations, such as different bandwidths, quality of service parameters, bundle services or any other options that may be applicable, CITC may require of the Designated Service Provider a further split of the relevant services into several cost pools at stage 4, in order to achieve the required degree of transparency.

97.4. In the case of wholesale markets and services, cost/revenue pools shall be further disaggregated to separate costs (and revenues) for internal and external provision of services.

98. Cost pools at stage 4 shall incorporate revenues and costs resulting from the application of transfer charges as described in Section 5.2.1. Costs and revenues that result from the application of transfer charges shall be clearly recognizable.

99. After this Stage the Designated Service Provider shall be able to produce the separation reports, as per templates available in "Annex A" at least for:

99.1. Wholesale Markets

99.2. Retail Markets

99.3. Other National Wholesale Services

99.4. Other National Retail Services

99.5. Other International Services

Request of results at Service or Product Level

100. In adherence to the principles of "Non-Discrimination" and "Transparency", CITC can require the disaggregation of costs at stage 4 at Service or Product Level for any of the services/products marketed by the Designated Service Provider.

5.2. Attribution Methods

101. Attribution methods refer to the criteria employed to *attribute* (also sometimes referred to as *allocate or apportion*) costs and revenues between the different stages of the Accounting Separation system.

102. The attribution method shall consist at least of the following information:

102.1. A Name and/or Code of the Attribution Method that uniquely identifies the attribution method.

102.2. A Summary Description of the Attribution Method that indicates the purpose and philosophy behind the attribution method.

102.3. A listing of accounts or cost/revenue pools to which the attribution method applies (e.g. the originating cost pool). An attribution method may be specific to one single cost pool or may be shared by more than one cost pool.

102.4. Description of the Driver – a precise definition of the variable that determines how the costs or revenues of the originating cost pool are distributed to a number of receiving cost/revenues pools.

102.5. Data Source employed to determine the Driver and, if applicable, a description of the adjustments made to the original data to calculate the driver.

103. Attribution methods shall mainly respond to the principles of ”Non-discrimination”, ”Causality”, “Transparency”, “Reliability”, ”Objectivity”, “Consistency” and ”Statistical Accuracy”.

103.1. Attribution methods shall be consistent across cost/revenue elements and time.

103.2. Attribution methods applied to different accounts which are similar in nature shall be consistent among themselves. In particular, the selection of dissimilar attribution criteria for similar cost elements shall be considered a breach of the consistency principle. This consideration applies even if each attribution method is compliant with the accounting principles as such (per-se) when considered on a stand-alone basis.

Directly attributable costs / revenues

104. The attribution of directly attributable costs/revenues shall be done on the basis of direct causation to individual services. This may be the case, for example, for costs such as call termination charges.

Attribution of functional elements

105. The attribution of costs of functional network elements to services shall be based on the consumption that services make of that functional element.

106. This attribution shall be done on the basis of:

    106.1. service volume, which is the number of units actually produced of a particular service or good (measured in number of lines, circuits, calls, call minutes, Mbytes, messages, or some other relevant metric) and

    106.2. if applicable, weighting factors (denominated routing factors) which express the average consumption that a unit of service makes of a given network resource.

107. The LRIC Guidelines include a requirement for routing factors (Section 4.5) and explains how they should be calculated.

108. CITC recognizes that routing factors for FAC HCA and FAC CCA systems and top-down LRIC may not be the same, since the nature of a LRIC model (efficient provision of services) may require routing factors to be optimized.

109. Routing factors for FAC HCA and FCA CCA systems shall be based upon technical studies of the network and shall be determined taking into consideration the following factors whenever applicable:

    109.1. Average number of elements (or resources) of the network component used by each service on per unit basis of the service.

109.2. Quality of Service Considerations.

109.3. Time distribution of demand, in case of network elements dimensioned according to a peak demand criterion.

109.4. Other relevant technical criteria.

Personnel related costs

110. The attribution of personnel-related costs shall be done on the basis of a causal driver, such as the time effectively dedicated by employees to a number of relevant *activities* or *functions*. In the case of personnel-related costs, linked to variable pay or incentives, these shall be attributed according to criteria consistent with the factors that determine the variable pay.

111. If such information is not available, other relevant information such as the assignment of employees to organizational units (such as departments or working groups) may be employed.

Asset related costs

112. The attribution of asset-related (including telecommunications equipment) costs shall be done on the basis of the *functionality* of the asset.

113. In the case of assets employed to support a variety of functions, such as buildings, power equipment or ducts, a causal driver directly linked to the cost incurred, shall be employed; such as space occupied or energy consumed.

Attributions based on previously allocated costs or based on revenues

114. Attributions of costs based on previously allocated costs or based on revenues (e.g. allocated as a proportional mark-up over costs or revenues already attributed) shall be avoided; except in cases where a strong causal relationship exists that justifies the use of such cost driver, or in cases where the use of such methodology has been explicitly endorsed by CITC, such as the allocation of common costs in the LRIC standard.

115. Zakat, Government Royalties and Fees (including annual license and spectrum fees) shall be allocated to services according to the way they are charged; for example using a customer (e.g. additional customer) or revenue (generated by the service) allocation key.

Attribution of revenues

116. The attribution of revenues shall be done to services on the basis of direct causation.

117. In case of bundles of services (e.g. groups of services being sold or provided together at a price lower than the sum of the individual prices of each of the services), the attribution of revenues shall ensure that savings obtained by consumers associated to the bundled offer are distributed among the different service components contained within the bundle according to a causal criterion.

118. "Savings obtained by consumers" refer to the difference between the revenues effectively obtained by the Designated Service Provider from the bundle compared to the sum of the revenues that would have been obtained if services within the bundle had been acquired individually.

119. The attribution of revenues shall be consistent with the attribution of corresponding costs, meaning that revenue and cost items that are related to each other – and therefore maintain a causal relationship between each other - shall be attributed to the same services.

Relation with internal management accounting systems

120. In the case that the Designated Service Provider prepares a management accounts system internally for its own use, for example employing Activity-Based Costing (ABC) or some other similar methodology, the attribution criteria employed in the preparation of the separated accounts shall be consistent with the criteria employed in the internal management accounts.

    120.1. This rule shall not apply in case the attribution criteria employed in the internal management accounts is not compliant with regulatory principles and regulatory accounting principles.

120.2. In cases of divergence between the methods employed to attribute costs in internal managerial costing systems and the Accounting Separation system, the Designated Service Provider shall report the divergence and the rationale for the difference.

5.2.1. Transfer Charges

121. Transfer Charges refer to the imputation of costs (and associated revenues) among relevant accounting separation entities related to the self-provision of services.

122. Transfer charges are required to ensure non-discrimination and transparency.

123. Transfer charges occur whenever the Designated Service Provider self-provides a service belonging to one *offering* (*upstream)* market in order to make possible the provision of another service(s) in a different *receiving (downstream)* market.

124. Transfer charges may occur under different combinations of offering and receiving markets.

124.1. Typically, transfer charges will be established from a wholesale market to a retail market, for example, from the wholesale call origination or termination markets to a retail telephony market.

124.2. Transfer charges may also be established between two wholesale markets. This may be the case, for example, of transfer charges established between an access market providing the raw physical access to the end-user and a wholesale data transmission or leased lines market providing a more elaborate data connectivity service.

124.3. Other less common but also possible instances of transfer charges may occur when retail markets act as originating market. This may be the case, for example, for a wholesale access market acquiring services from a mobile retail unit for the operational support of its field workforce.

124.4. In any of these cases, these transactions shall generate a revenue related to the self-provision accounted for the originating (typically wholesale) market, and a cost of the same absolute amount accounted for the receiving (retail or wholesale) market.

125. Transfer charges shall be calculated, whenever possible, as the product of a relevant quantity of the service or good being provided and a reference unit price. Both terms in the calculation (units and price) shall be distinctly recognizable in the calculation.

126. In case that transfer charges between two accounting separation entities correspond to the provision of more than an individual service, the transfer charge components corresponding to each of the services shall be calculated and stated separately.

127. The relevant quantity of the service being provided shall be based on data from official databases, documents or systems (such as CDR, invoices and orders) , and shall show consistency – to the extent that the nature of the service makes possible - with the volumes of equivalent services being provided in the receiving market.

127.1. Sources and methodology employed for the determination of quantities shall have to be properly explained and recorded in the Transfer Charges Methodology document.

128. The unit price employed for the determination of transfer charges shall be based on the following sources by strict order of priority:

128.1. Regulated Tariffs, meaning that whenever regulated tariffs for the service exist, these shall be employed for the calculation of transfer charges.

128.2. Arm’s length Price, meaning that, in the absence of a regulated tariff, a price representative of the average price of actual commercial transactions of the service shall be employed.

128.3. Average Unit Cost, meaning that, in the absence of any relevant price reference, and only under these circumstances, the average unit cost of the service as calculated internally in the Accounting Separation system (according to the corresponding cost convention) shall be employed.

128.4. Sources and methodology employed for the determination of transfer charges shall be properly explained and documented.

129. In case that volume discounts or other kind of conditional discounts can be applicable for a service for which transfer charges have to be calculated, the Designated Service Provider shall not apply to itself a discount higher than the average discount being provided to third parties.

130. Transfer charges can be established as an overall cost (without quantities and unit prices information) only and exclusively when the service being provided is not subject to any specific regulatory obligation and objective technical reasons prevent the calculation of transfer charges as the multiplication of quantities and prices.

131. In any case, transfer charges corresponding to such services shall have to be individually recognizable, and the services to which they correspond shall have to be properly explained and documented.

6 Reporting Requirements

6.1. Introduction

132. The Designated Service Provider shall prepare two sets of Accounting Separation Documents, one specifically for publication (6.3) and the other for internal use of CITC and the Auditor.

6.2. Accounting Separation Documents

133. Accounting Separation Documents are data, reports, manuals and statements that provide information on:

133.1. The results of the Accounting Separation.

133.2. Models and systems used for preparing Separated Accounts and the Accounting Separation system.

133.3. Principles and conventions used in the preparation of the accounts.

133.4. Technical and economic studies prepared as supporting evidence to the Separated Accounts and the Accounting Separation system.

133.5. Results of audits.

133.6. Reconciliation between the statutory accounts and the separated accounts.

133.7. Adjustments to the cost base introduced under the CCA and LRIC standards.

133.8. Transfer Charges.

134. Accounting Separation Documents (except the Auditor Report) shall be reviewed, mutually approved and signed by the Service Providers' Chief Financial Officer and Chief Regulatory Officer (or equivalent functions reporting directly to the Chief Executive Officer).

135. In particular, the "Profit and Loss Statements", "Mean Capital Employment Statements" and "Detailed Transfer Charges Statement" shall be signed on all pages by the Service Providers' Chief Financial Officer and Chief Regulatory Officer (or equivalent functions reporting directly to the Chief Executive Officer).

136. The management responsibility statement in Annex B, must be signed by the Service Providers' Chief Executive Officer and provided to CITC along with the Accounting Separation Documentation.

137. In case of failure in providing the requested approvals (paragraph 134) and management responsibility statement (paragraph 136), the Documentation will be rejected by CITC.

6.2.1. Separated Accounts Reports

138. The following reports shall be submitted to CITC for each cost convention:

138.1. Detailed "Profit & Loss Statements" at market level identifying revenues and costs for internal (self) and external provision as for Annex A.

138.2. In those markets where separated accounts have to be prepared at service level, detailed "Profit & Loss Statements" at relevant service level as for Annex A.

138.3. Detailed "Mean Capital Employed Statements" at market level as for Annex A.

138.4. In those markets where separated accounts have to be prepared at service level, detailed "Mean Capital Employed Statements" at relevant service level as for Annex A.

138.5. Detailed “Transfer charges statements” as for Annex A.

138.6. Detailed “Reconciliation report”.

138.7. Detailed “Cost Attribution Report”” as for Annex A.

138.8. Detailed “ Service Costing Statement” ” as for Annex A.

138.9. “Changes Report” as per paragraph 139.10.

138.10. “Audit statement” and “Auditor’s report on Regulatory Accounting and Accounting Separation systems” as for Section 7.2.1.

6.2.2. Related Information and Notes

139. The following related documents, manuals, information and notes shall be submitted to CITC for all required cost conventions (HCA, CCA and LRIC):

139.1. “Detailed Accounting Separation Manual”.

139.2. “Detailed Attribution Methodology” including detailed description of each Stage used.

139.3. “Detailed Transfer Charge Methodology”.

139.4. “Detailed Statement of Service Volumes and Data Sources” employed to extract volumes.

139.5. “Detailed Routing Factors Statement” and “Supporting Technical Studies to the Routing Factors”.

139.6. “Detailed Asset Revaluation Methodology”.

139.7. “Detailed Methodology and Calculation of the Weighted Average Cost of Capital”.

139.8. “Audit Statement” and “Audit Report” for the statutory accounts.

139.9. “Management Responsibility Statement” as for Annex B.

139.10. “Detailed Changes Report” that explains and reports any changes to the Accounting Separation system, regulatory accounting systems, methodology and documentations made compared to the previously approved version.

139.11. In addition, when a change (as for the above paragraph) may produce “material” variations in the results of the Accounting Separation system, an “Impact Statement” shall be provided. The latter should quantify the variations introduced in the results of the system due to that change and explain the reasons for the change. In particular, an “Impact Statement” shall be provided for changes made to relevant accounting policies, allocation criteria or valuation methodologies.

6.2.3. Submission of the Accounting Separation Documentation

140. Accounting Separation Documentation shall be submitted to CITC in a sealed envelope or package, signed by Management with the official stamp of the Designated Service Provider as follows:

140.1. One (1) printed original signed by Management on the first page and with initials on all other pages.

140.2. One (1) original DVD signed on its front by Management that shall include:

i. Files in PDF format (not protected or scanned).

ii. Files in MS word or excel format depending on the nature of the document (not protected).

140.3. Three (3) printed copies of all the original Documents.

140.4. Three (3) DVD copies of the original DVDs.

141. Reports consisting of numerical data tables, including all accounting separation reports, shall be provided both in document format (such as a

PDF file) as well as in the form of a widely used database or spreadsheet format (such as MS Excel). For Spreadsheet files all links and formulas shall be visible and editable.

142. In case of failure to provide the requested documentation in the required format, the Documentation shall not be evaluated further and shall be rejected.

6.3. Publication of Accounting Separation Documents

143. The Designated Service Provider shall prepare a set of documents for publication.

144. The publication of accounting separation documents aims at the following objectives:

144.1. Provide transparency on the Separated Accounts and Accounting Separation system used by the Designated Service Provider.

144.2. Demonstrate compliance with obligations set down in the Regulatory Framework and Guidelines.

145. The documentation prepared for publication shall include at least:

145.1. "Accounting Separation Manual".

145.2. "Detailed Attribution methodology" at each stage of the allocation chain for HCA, CCA and LRIC conventions.

145.3. "Auditor Statement" explaining the results of the audit as per Section 7.

145.4. "Declaration of Conformity of the Auditor" to the changes required to the system as per Section 7.

6.4. Timeframe for submission and publication

Submission of Documents

146. The Designated Service Provider shall submit, at least on an annual basis, the Accounting Separation documentation (for publication and use of CITC) for the previous financial year.

147. The Designated Service Provider shall present the Accounting Separation Documentation (for publication and internal use) to CITC no later than two months after the approval by the Auditor of the Designated Service Provider’s annual Statutory Financial Statements.

Submission of Information

148. CITC can at anytime, with 10 days advance notice, request a Designated Service Provider to prepare and report ad-hoc specific information of costs and revenues for any retail or wholesale services or products (regulated and unregulated).

149. CITC can request ad-hoc non audited Accounting Separation information, based on updated financial and operating data covering a period ending no less than two calendar months before the date of CITC request.

150. A Designated Service Provider shall prepare its systems, processes, procedures and resources to fulfill the requirements of paragraphs 148 and 149 above.

Publication

151. The Designated Service Provider shall publish on its website the documentation meant for publication within 10 days after approval by CITC.

152. Without limitation to the Designated Service Provider’s responsibility for this publication, CITC may publish directly any information from the Accounting Separation documents that meets the conditions for publication set out in Article 4.23-4.25 of the Regulatory Framework.

The Designated Service Provider shall include a clear reference to the published documentation in its homepage. The documentation shall be prepared in a downloadable and easily accessible format. CITC shall publish a link to access the published documentation.

153. CITC may publish in respect to the public interest (Article 4.25 of the Regulatory Framework) the approval and general conclusions regarding the outcome of its review of the Accounting Separation Documentation.

Conditions for submission and publication

154. The Designated Service Provider shall ensure that additions or deletions from the previously approved documentation (as per paragraphs 139.1-139.7), are clearly marked and highlighted in a separated version.

Early notification of relevant changes

155. Before implementing modifications that may be material or difficult to reverse, the Designated Service Provider shall submit information to CITC describing the intended changes. CITC shall approve or reject the intended changes within 20 days.

6.5. Approval of Accounting Separation Documentation

156. CITC can approve, conditionally approve or reject the Accounting Separation Documentation.

157. Within three months of receiving the complete Accounting Separation Documentation CITC shall provide the Designated Service Provider with a decision on its adequacy.

158. This period may be extended by CITC in case that the Designated Service Provider fails to cooperate adequately in providing whatever other relevant information or clarification may have been required as part of the review process.

6.6. Failure to comply with these Guidelines

159. Failure, by a Designated Service Provider, to comply with the Regulatory Framework and/or these Guidelines, including failure to present for approval any required document or information on time or in a form that can be approved by CITC, shall be considered as violation of the Act, Bylaw and Framework.

Precautionary Measures

160. CITC shall apply precautionary measures to minimize the impact on competition of failure to comply with the Regulatory Framework and Guidelines. These measures shall be applicable until the Designated Service Provider's obligations are properly fulfilled.

161. If compliance is not achieved within 10 days from notification of the failure to comply, CITC may, without further communication to the Designated Service Provider, apply wholesale and/or retail rates regulated under cost-oriented or non-discriminatory basis according to the results of cost studies conducted by CITC or through an international benchmark, or through a retail minus methodology.

162. In the case of a retail minus methodology, the "minus" is defined as the savings that the Designated Services Provider will have selling in the wholesale instead of in the retail market (e.g. advertising costs).

163. In case of Tariff Approval Obligations, CITC - in the absence of assurance of cost information - may suspend, refuse or withdraw the approval of new services, products or tariffs from the Designated Service Provider until the required information is considered by CITC to have been effectively provided.

Additional Measures

164. In case of failure to comply with these Guidelines, CITC can require the Designated Service Provider to organize compliance courses to the Framework and Guidelines. All Designated Service Provider's employees involved in the preparation of Regulatory Accounting and Accounting

Separation systems, shall participate and be required to take the compliance course.

165. The course shall be of at least one week of duration and delivered by independent external experts, appointed by CITC, with at least 10 years of practice in Regulatory Accounting and Accounting Separation systems.

166. The Designated Service Provider shall bear all the costs of these compliance courses.

167. Additionally, CITC can appoint an observer to supervise the adherence of the courses to the Accounting Separation Framework and Guidelines.

6.7. First Implementation

168. First Implementation refers to the first time, following publication of the Accounting Separation Framework and these Guidelines, that the Designated Service Provider will have to prepare separated accounts for a fiscal year.

Submission of the Accounting Separation Methodology

169. A Designated Service Provider shall present to CITC the proposed accounting separation methodology no later than two months after the official approval date of these Accounting Separation Guidelines, or where applicable, after the publication of CITC's decision to impose such remedy on them.

A Designated Service Provider shall present to CITC for approval any relevant changes to the Accounting Separation Methodology no later than two months after the end of each fiscal year.

170. The proposed accounting separation methodology shall contain sufficient degree of detail to verify compliance with the instructions of the Regulatory Framework and these Guidelines.

Approval of the Accounting Separation Methodology

171. CITC shall review the proposed methodology to verify its compliance with the Accounting Separation Framework and these Guidelines.

172. CITC shall issue a decision within two months stating whether or not the proposed methodology is approved, and whether amendments or modifications are required to achieve a full degree of compliance with the Guidelines. Designated Service Providers shall incorporate to the proposed methodology and implement in the Accounting Separation system any amendments or modifications that CITC may consider necessary to achieve a full degree of compliance.

173. In case of failure by a Designated Service Provider to present an Accounting Separation Methodology that is compliant with the conventions of the Accounting Separation Framework and Guidelines, CITC may itself prepare and issue an Implementation Manual.

174. The Implementation Manual will explain in detail how the Designated Service Provider has to implement the Accounting Separation Framework and Guidelines. The Designated Service Provider shall provide full support to CITC in the preparation of the manual.

Publication of the Accounting Separation Methodology

175. CITC may publish the Accounting Separation Methodology of Designated Service Providers for transparency purposes.

Submission of the first set of Accounting Separation results

176. The Designated Service Provider shall submit the Accounting Separation Documentation and results to CITC within three months from the approval of the Accounting Separation Methodology or, otherwise, from the issuance by CITC of an Implementation Manual.

7 Audit and Review

177. An auditor is required to review the Accounting Separation system and related Separated Accounts.

178. The auditor shall do the review on the basis of "fairly presented" in accordance with the Accounting Separation Regime approved by CITC.

179. The auditor shall be preliminarily appointed by the Designated Service Provider, according to the requirements set down in Section 7.1, at least three months before submitting accounts and documents to CITC.

180. CITC shall approve or reject the proposed auditor based on the requirements in Section 7.1 within 15 days of notification by the Designated Service Provider. The Designated Service Provider shall bear all costs of the Audit.

181. The Designated Service Provider shall provide CITC with an Auditor report of the Separated Accounts and Accounting Separation System including the Accounting Separation documentation.

182. CITC can require the Designated Service Provider to perform a re-audit, in whole or in part, if it considers that regulatory certainty has not been achieved.

7.1. Capability of the Auditor

183. The Auditor shall have audit as well as technical (regulatory accounting, accounting separation and telecoms operations) experience and capabilities.

184. Its team shall include at least:

    184.1. one auditing expert, with at least seven years experience in auditing and/or accounting experience and great familiarity with the financial and accounting standards employed in the Kingdom;

184.2. one regulatory accounting expert, with at least seven years experience in regulatory accounting in the telecommunications industry;

184.3. one regulatory expert, with at least seven years experience in regulation in the telecommunications industry;

184.4. one technical expert, with at least seven years of relevant experience and familiarity with the auditing of regulatory accounts

185. The Auditor shall be fully independent from the Designated Service Provider, as well as its controlling firm or any subsidiary. In particular it shall declare that:

185.1. it has not reviewed the statutory accounts of the service provider in the past three years.

185.2. it shall not be already working for the Designated Service Provider for assignments exceeding two million SAR over the last 12 months.

185.3. it shall not accept other assignments except the audit of the separated accounts from the Designated Service Provider, its controlling firm or any subsidiary, of any nature or scope, during the audit and in the forthcoming nine months after completion of the audit.

185.4. it shall not accept other assignments from the Designated Service Provider, its controlling firm or any subsidiary, for any nature or scope, that cumulatively exceed four million SAR in the forthcoming 12 months after completion of the audit.

7.2. Tasks of the Auditor

186. The auditor appointed by the Designated Service Provider must perform the following minimum tasks and provide assurance of compliance with the Accounting Separation Regime:

186.1. Review of the methodologies used in the preparation of FAC HCA, FAC CCA and LRIC systems to ensure that they are prepared in accordance with these Guidelines.

186.2. Reconciliation with statutory accounts used as input data for the HCA, CCA and LRIC systems.

186.3. Review of the Accounting Separation Documentation.

186.4. Review of the functionality of FAC HCA, FAC CCA and LRIC systems.

186.5. Review of the valuation of assets under the CCA convention.

186.6. Review of the cost of capital methodology and calculation.

186.7. Review of technical studies prepared for the Accounting Separation system.

186.8. Recommendation of improvements required to the Accounting Separation and Regulatory Accounting System, including changes required for lack of consistency with these Guidelines, changes proposed for overall improvements in the system and change required for the next year.

186.9. Impact analysis of the proposed changes to the system.

187. The Designated Service provider shall implement the changes required by the Auditor to its system within 10 days from the Auditor's Report. The auditor shall present a declaration of conformity after its final review.

7.2.1. Content of the Audit report

188. The audit report shall include a letter from the auditor recommending to accept, conditionally accept or reject the systems.

189. The report shall contain the following minimum elements:

189.1. Executive Summary.

189.2. Detailed description of each analysis performed.

189.3. Results and conclusions from each of the reviews.

189.4. Impact analysis.

189.5. Recommendations for improvements that shall be done in the current and future system.

189.6. Reconciliation Statement.

190. The auditor shall also prepare an executive summary for publication. This executive summary shall not contain business sensitive information. The report shall be self-explanatory, cover main findings, recommendations and audit opinion.

7.3. CITC Review

191. In adherence to the principles of "Transparency", "Reliability", "Materiality" and "Objectivity", CITC shall appoint an internal or external Reviewer to undertake a conformity check of the Accounting Separation system and related documentation.

192. Main objectives of the Review are to:

192.1. Provide confidence in the Accounting Separation system, particularly in the first years of implementation.

192.2. Suggest changes (if appropriate) to the systems, reports and documentation to assure compliance with the Regime.

192.3. Assure adherence to the obligations of "Non-discrimination" and "Cost based pricing" of the Accounting Separation and regulatory accounting systems.

192.4. Support the analysis of the Accounting Separation Reports and the competitive impact of its results.

193. In the case that the Reviewer is an external party, CITC may recover all costs related to the Review from the Designated Service Provider. A review of the Accounting Separation systems and related Documentation shall be

carried out at least for the first implementation of these Guidelines or first designation.

194. In Adherence to the principles of “Transparency” and “Objectivity”, the Designated Service Provider shall provider full support to the Reviewer. In particular it shall permit access to:

- premises
- accounting and database systems
- experts and personnel
- all information and support required in the fulfilment of its tasks.

195. The Designated Service Provider shall prepare its systems, personnel and resources to support the Reviewer’s tasks. In particular it shall be able to respond to any question or request posed by the Reviewer in written or oral form within a maximum of five days.

Annex A: Reporting Templates

Template A.1. Profit & Loss Statement for Market X

P&L STATEMENT FOR MARKET X	External provision SAR	Internal provision SAR	TOTAL SAR
A Revenues			
A1 Externally Provided Services			
A2 Internally Provided Services			
Transfer Charges from Market 1			
Transfer Charges from Market 2			
Transfer Charges from Market 3			
Transfer Charges from Market N			
Total Revenues			A1+A2
B Directly Attributable Costs			
B1 Costs of Goods Sold from external source			
B2 Internal Costs of Goods Sold (transfer charges)			
Transfer Charges to Market 1			
Transfer Charges to Market 2			
Transfer Charges to Market 3			
Transfer Charges to Market N			
Total Directly Attributable Costs			B1+B2
GROSS MARGIN			A-B
C OPERATING COSTS			
C1 Personnel			
C2 Other Operating Costs			
EBITDA			A-B-C
D DEPRECIATION COSTS			
D1 Depreciation			
EBIT			A-B-C-D
E COST OF CAPITAL			
E.1 Cost of Capital			
E.2 Cost of Working Capital			
PROFIT or LOSS			A-B-C-D-E

Definitions:	Description	
External provision	Services provided by the Designed SP in this market to external clients	
Internal Provision	Services provided by the Designed SP in this market to internal business units	
Cell styles	**Input**	
	Calculation	
	Leave Empty	

Template A.2. Profit & Loss Statement for Market X

	A. REVENUE (SAR)		B. DIRECT COSTS (SAR)		C. OPERATING COSTS (SAR)			D/E CAPITAL-RELATED COSTS (SAR)					V Service Volumes			SAR / Unit	
MARKET X	A1 Internally Provided	A2 Externally Provided	B1 External Direct Costs	B2 Transfer Charges Costs	C1 Personnel Costs	C2 Other Operating Costs	EBITDA (SAR)	D1 Depreciation	E1 Cost of Fixed Capital	E2 Cost of Working Capital	TOTAL COST	PROFIT (LOSS)	V1 Internally Provided	V2 Externally Provided	Units	Average Unit REVENUE	Average Unit COST
External Provision																	
Service 1							A-B-C				B+C+D+E	A-B-C-D-E				A / V	(B+C+D+E)/V
Service 2																	
Service 3																	
Service N																	
Internal Provision																	
Service 1																	
Service 2																	
Service 3																	
Service N																	
TOTAL MARKET																	

Definitions:	Description
Service Volume	Number of Units of Service Produced (measured in Units provided in column "Units")
Units	Metric employed to measure the service volume, such as lines, accesses, minutes, Mbytes, etc. Units can be expressed in thousands, millions or billions in case of very large volumes
Cell styles	**Input**
	Calculation
	Leave Empty

Notes:
Detailed reports at service level must present cost, revenue and volume data at the level of relevant service for each marketIllustrative Relevant Services may include, for example, 'PSTN Access', 'Basic ISDN Access' or 'dial-up calls to Internet' in the case of a Retail Telephony Access Market, Illustrative relevant services may include, for instance, 'local calls', 'national calls', 'fixed to mobile calls', 'calls to premium services', 'calls to shortcodes',in the case of the retail local and national fixed calls services market.
These lists are for illustrative purposes and do not intende to be exhaustive

Template B.1. Mean Capital Employed Statement for Market X

MEAN CAPITAL STATEMENT FOR MARKET X	External provision SAR	Internal provision SAR	TOTAL SAR
A REVENUE			
A1 Externally Provided Services			
A2 Internally Provided Services			
Total Revenues			**A1+A2**
B DIRECTLY ATTRIBUTABLE COSTS			
C OPERATING COSTS			
D DEPRECIATION			
EBIT			**A-B-C-D**
F MEAN CAPITAL EMPLOYED			
F1 Fixed Assets			
F1.1 Tangible Assets			
Buildings and Land			
Ducts and Civil Infrastructure			
Cables			
Wireline Access Network Equipment			
Wireless Access Network Equipment			
Switching Telecommunications Equipment			
Transmission Telecommunications Equipment			
Other Telecommunications and related Equipment			
Computers and Platforms			
Customer-Premise Equipment			
Vehicles			
Other			
Tangible Assets under Construction			
F1.2 Intangible Assets			
Software			
Licenses			
Other Intangible Assets			
F2 Working Capital			
F2.1 Current Assets			
Cash and cash Equivalent			
Receivables			
Other			
F2.2 Deferred Expenses and Accrued Income			
Deferred Expenses			
Accrued Income			
F2.3 Current Liabilities			
Suppliers			
Creditors			
Other			
F2.4 Accrued Expenses and Deferred Income			
Accrued Expenses			
Deferred Income			
TOTAL MEAN CAPITAL EMPLOYED			**F1+F2**
RETURN ON MEAN CAPITAL EMPLOYED (%) Defined as EBIT/MCE			**EBIT / (F1+F2)**

Definitions:	Description
Service Volume	Number of Units of Service Produced (measured in Units provided in column "Units")
Units	Metric employed to measure the service volume, such as lines, accesses, minutes, Mbytes, etc. Units can be expressed in thousands, millions or billions in case of very large volumes
Cell styles	Input Calculation Leave Empty

Template B.2. Mean Capital Employed Statement for Market X (information at relevant Service Level)

MARKET X	EBIT (SAR)	F1 FIXED ASSETS MEAN CAPITAL EMPLOYED (SAR)																TOTAL FIXED ASSETS MCE	F2 MEAN WORKING CAPITAL EMPLOYED (SAR)				TOTAL MEAN WORKING CAPITAL EMPLOYED (SAR)	TOTAL MEAN CAPITAL EMPLOYED (SAR)	RETURN ON MCE (%)	V Units	Average MCE per Unit (SAR / Unit)
		F1.1 FIXED TANGIBLE ASSETS													F1.2 FIXED INTANGIBLE ASSETS												
		Buildings and Land	Ducts and Civil Infrastructure	Cables	Wireline Access Network Equipment	Wireless Access Network Equipment	Switching Telecommunications Equipment	Transmission Telecommunications Equipment	Other Telecommunications and related Equipment	Computers and Platforms	Customer-Premise Equipment	Vehicles	Other	Tangible Assets under Construction	Software	Licenses	Other Intangible Assets		F2.1 Current Assets	F2.2 Deferred Expenses and Accrued Income	F2.3 Current Liabilities	F2.4 Accrued Expenses and Deferred Income				Number of Service Units Unit	
External Provision																											
Service 1																		F1.1+F1.2					F2.1+F2.2+F2.3+F2.4	F1+F2	EBIT / (F1+F2)		(F1+F2)/V
Service 2																											
Service 3																											
Service N																											
Internal Provision																											
Service 1																											
Service 2																											
Service 3																											
Service N																											
TOTAL MARKET																											

Template C. Transfer Charges Statement

TRANSFER CHARGE STATEMENTS													
	QUANTITY DATA					PRICE DATA				TRANSFER CHARGE			
	Number of Service Units Self-Provided by Receiving Market					Average Unit Price applied in the calculation of transfer charges (SAR / Unit)				Total Transfer Charge (calculated on PxQ basis) (SAR)			
	Market 1	Market 2	Market N	TOTAL	Units (lines/minutes/Mbyte/etc.)	Market 1	Market 2	Market N	TOTAL	Market 1	Market 2	Market N	TOTAL
ORIGINATING MARKET AND SERVICE													
MARKET 1													
Service 1													
Service 2													
Service 3													
Service N													
MARKET 2													
Service 1													
Service 2													
Service 3													
Service N													
MARKET N													
Service 1													
Service 2													
Service 3													
Service N													
TOTAL													

Definitions:	Description
Originating Market	Market to which the service provided belongs to
Receiving Market	Market purchasing the service, for the provision of other services
Cell styles	**Input**
	Calculation
	Leave Empty

Template D. Service Costing Statement for Market X

MARKET X	A. ACCESS NETWORK COST (SAR) (1)			B. CORE NETWORK COST (SAR) (2)			C. NETWORK PLATFORMS COSTS (SAR)			TOTAL NETWORK COST (SAR)	D. NON-NETWORK COSTS (SAR) (4)			TOTAL COST (SAR)	V SERVICE VOLUMES		Average Unit COST (SAR / Unit)
	Access Network Element 1	Access Network Element 2	Access Network Element N	Core Network Element 1	Core Network Element 2	Core Network Element N	Platform Element 1	Platform Element 2	Platform Element N		Cost Element 1	Cost Element 2	Cost Element N		Volume	Units	
External Provision																	
Service 1										A+B+C				A+B+C+D			(A+B+C+D)/V
Service 2																	
Service 3																	
Service N																	
Internal Provision																	
Service 1																	
Service 2																	
Service 3																	
Service N																	
TOTAL COST MARKET X																	

Notes:

(1)
Access Network Elements shall clearly separate **at least** (where applicable):
Wireline Access technologies such as Copper, Optical Fibre, PSTN, ISDN, XDSL and other;
Wireless Access technologies such as GSM, GPRS, UMTS, HSPA, HSDPA, LTE, WiMAX and other

(2)
Core Network Elements shall clearly separate **at least** (where applicable):
Voice Switching technologies by Hierarchical Level (Remote unit, Local Exchange, Mobile Switching Center, etc.) and Technology (such as Class 5 Digital Switches);
Data Switching technologies by Hierarchical Level (Edge, Core) and basic underlying technology (such as IP, MPLS, ATM, X25 and other)
Conveyance Transmission by type of route (such as Remote to Local Node; BTS to BSC) and by basic underlying Technology (SDH, GbEthernet, Microwave Transmission and other)

(3)
Network Platform Elements shall clearly separate **at least** (where applicable):
Billing Platforms
Prepaid credit control platforms
Intelligent Network Platforms
Other Traditional Voice VAS platforms such as Voice Mail
Voice over IP Platforms
Video Streaming, Video on Demand and other Video VAS Platforms

(4)
Non-Network Cost Elements shall clearly separate **at least** (where applicable):
Marketing and Advertising
Customer Care and Technical Assistance
Sales
Billing and Invoicing
General Administration and Overheads
Interconnection and Data Connectivity, Costs of content

Template E. Cost Attribution Report

	TOTAL COSTS (SAR)									COST ALLOCATION BY MARKET						
	Operating Costs			Tangible Assets		Intangible Assets		Working Capital		Wholesale Markets			Retail Markets			
	B1 Directly Attributable Costs	C1 Personnel Costs	C2 Other Operating Costs	D1 Depreciation	E1 Cost of Capital	D1 Depreciation	E1 Cost of Capital	E2 Cost of Working Capital	TOTAL COST	Wholesale Market 1	Wholesale Market 2	Wholesale Market Y	Retail Market 1	Retail Market 2	Retail Market 2	TOTAL
NETWORK																
Access Network																
Network element 1									B1+C1+C2+D1+E1+E2							M1+M2+M3+...+MN
Network Element 2																
Network element N																
Core Network																
Network element 1																
Network Element 2																
Network element N																
Platforms																
Platform element 1																
Platform Element 2																
Platform element N																
NON-NETWORK																
Non-network Component 1																
Non-network Component 2																
Non-network Component N																
TOTAL																

Notes: The Structure of Cost Elements in this report shall correspond to the Organization of Cost Pools in Level 4

Annex B: Management Declaration

I, [*full names*], [*Chief Executive Officer or other equivalent title*] of [*Designated Service Provider*], hereby solemnly declare that, to the best of my knowledge and belief having made all reasonable enquiry, the following attached documents have been prepared in accordance with [reference to CITC Decision approving the Regulatory Framework and Guidelines on Accounting Separation], that they are true and complete, and that nothing relevant for the purposes of accounting separation has been omitted:

- [*Insert list of accounting separation documents to be certified*]

[*Signatures*]

[*Date*]

Annex C: Implementation Plan and Timetable

Implementation Plan - First Year

C1: Designated Service provider

#	Obligation	Deadline	
1	Present the list of relevant services	15 days	after approval date of the Accounting Separation Guidelines
2	Present the proposed accounting separation methodology	2 months	after approval date of the Accounting Separation Guidelines
3	Notification of the appointed Auditor	3 months	before submitting the Documentation to CITC
4	Approval of the Auditor	15 days	after notification of the Auditor
5	Present the Accounting Separation Documentation	3 months	after approval of the accounting separation methodology or, otherwise, from the publication by CITC of an implementation manual
6	Final decision on the Accounting Separation Documentation	3 months	after receiving the Audit Report, in any case after the full submission of the Accounting Separation Documentation
7	Publication of the Accounting Separation Documentation meant for publication	10 days	after CITC approval of the Documentation

Implementation Plan - After the First Year

C3: Regular Timetable for preparation and reporting of Accounting Separation

#	Obligation	Deadline		Refers to
1	Present the List of relevant services	15 days	after end of the fiscal year	All Designated Service Providers
2	Present changes to the accounting separation methodology	2 months	after end of the fiscal year	All Designated Service Providers
3	Notification of the appointed Auditor	3 months	before submitting the Documentation to CITC	All Designated Service Providers
4	Approval of the Auditor	15 days	after notification of the Auditor	CITC
5	Present the Accounting Separation Documentation	2 months	after the approval by the Auditor of the Designated Service Provider's annual Statutory Financial Statements	All Designated Service Providers
6	Final decision on the Accounting Separation Documentation	3 months	after receiving the Audit Report, in any case after the full submission of the Accounting Separation Documentation	CITC
7	Publication of the Accounting Separation Documentation meant for publication	10 days	after CITC approval of the Documentation	All Designated Service Providers