Telecom Regulatory Authority of India

(IS/ISO 9001-2008 Certified Organisation)

GUIDELINES FOR 'THE REPORTING SYSTEM ON ACCOUNTING SEPARATION REGULATIONS, 2016 (5 of 2016)'

10th June 2016
NEW DELHI

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Chapter – 1: Introduction

1.1 The Telecom Regulatory Authority of India (TRAI) (hereinafter referred to as "Authority") has been established under the Telecom Regulatory Authority of India Act 1997 to regulate telecommunications services and matters connected therewith. One of the main objectives of the Authority is to provide a fair and transparent policy environment to promote a level playing field and facilitate fair competition. To achieve this objective, the Authority has to collect financial data from service providers to measure the financial performance of products and services, analyze costs, returns and capital employed in major areas of a telecom service provider's (TSP) business, monitor licensees' returns on products and services, identify cross subsidization which influences the profitability of any segments, investigate predatory pricing, discrimination and other anti-competitive conduct, and understand inter-operator arrangements in terms of their associated pricing and costs.

1.2 Accordingly, TRAI had issued the "Reporting System on Accounting Separation Regulation, 2004" on 23rd February 2004 (hereinafter referred to as ASR 2004), which was replaced by "The Reporting System on Accounting System Regulations, 2012 (7 of 2012)" notified on 10th April 2012 (hereinafter referred to as ASR 2012).

1.3 To incorporate the changes subsequent to issue of the ASR 2012 and accordingly to align the list of products, network elements and various proformae prescribed in Regulations 2012, "The Reporting System on Accounting System Regulations, 2016 (5 of 2016)" (hereinafter referred to as ASR 2016) was issued on 10th June 2016. These guidelines provide broad methodology and principles to be followed while preparing reports in compliance to ASR 2016.

Guidelines for System on Accounting Separation Regulations, 2016

1.4 The ASR 2016 mandate that every service provider shall, in order to execute and implement the accounting and reporting practices specified under these Regulations, prepare a manual containing policies, principles, methodologies and procedures for accounting and cost allocation and file with the Authority a copy of the Manual within 90 days from the date of commencement of these Regulations. This manual would contain service provider specific detailed procedures for preparation of reports to be furnished as per the ASR 2016.

1.5 The generation of financial reports on Accounting Separation assumes an underlying methodology and the Authority expects service providers to follow the same methodology for preparation of reports mentioned in the ASR 2016. In order to facilitate this, the Authority has issued these "Guidelines on System on Accounting Separation" (hereinafter referred as "Guidelines") which provide broad methodology and principles for accounting separation which should be followed by service providers while preparing the Accounting Separation Reports and Operators Specific Manual.

1.6 The purpose of the Guidelines is to:

(i) provide a structured approach to telecom service provider’s when submitting reports in compliance to ASR 2016;

(ii) ensure comparability of information submitted by telecom service providers to TRAI;

(iii) ensure that telecom service providers report to TRAI on a consistent and accurate basis; and

(iv) assist telecom service providers to better understand TRAI’s information requirements when preparing reports as required under ASR 2016 for submission to TRAI.

1.7 Some of the aspects as laid down in the ASR 2016 have also been reproduced in the Guidelines for a ready reference and completeness of the description provided in Guidelines wherever considered necessary.

1.8 These Guidelines do not intend to override the ASR 2016 and in case of any unintended conflict between the two, the Regulations shall prevail.

Chapter – 2: Framework for Accounting Separation

2.1 The Reporting System on Accounting Regulations shall be applicable to all service providers having aggregate turnover of not less than ₹ one hundred crore, during the accounting year for which report is required to be submitted under these Regulations, from operations under the telecom license(s) issued to them under section 4 of the Indian Telegraph Act 1885.

2.2 As per the requirement of the ASR 2016, the Accounting Separation Statements are to be generated into following segments:

- Telecom Service wise separation
- Licensed Service/Geographical area of Operation wise separation

2.3 In addition, there is reporting of Network Element wise cost, Support Functions and Department Costs and Non-financial Reports.

Telecom Service-wise Separation

2.4 The telecom service wise separation has been prescribed to measure and review the financial performance of individual telecom services.

2.5 According to ASR 2016, the accounting separation reports are to be furnished for different types of services provided by the service providers under the various telecom licenses. The service providers are required to submit the accounting separation reports for each of the following telecom services, as specified in Schedule - I of the ASR 2016:

- Access Services:
    - Wireless
    - Wire Line
- Internet Service
- National Long Distance Service (NLD)
- International Long Distance Service (ILD)
- Mobile Number Portability (MNP)
- Very Small Aperture Terminal Service (VSAT)

2.6 If a service provider is engaged in any business activity, which is other than the telecom services as referred above, the cost, revenue and capital employed relating to those business activities will be separated and the same shall form part of the reconciliation statement between regulatory reporting and audited annual accounts of the company

Licensed Service / Geographical Area of Operation wise separation

2.7 The Licensed Service /Geographical area wise (LSA) separation has been prescribed for Access Services to review and compare the results, across LSAs of operation.

2.8 As per Schedule I of the ASR 2016, the LSA of operation is licensed service area for the following telecom services:

- Access Services - Wireless
- Access Services – Wireline

Products / Components wise separation

2.9 The "products/components" for Accounting Separation means a sub-service within a telecom service. The separation of accounts for product/components is intended to make transparent the costs and returns involved in the provision of that product/component

2.10 A list of products/ components as prescribed in Schedule I of the ASR 2016 has been provided later in this chapter. The list provides the main products for reporting to TRAI and the balance products if any are grouped under a residual head – 'Others'.

Network Elements wise cost

2.11 The separation of Network Elements cost from 'other than network costs' has been prescribed in the ASR 2016 to study the costs involved in various network elements within a service /product and to provide a base for allocation of network elements costs amongst services/products.

2.12 A list of Network Elements has been prescribed in Schedule II of the ASR 2016. The list provides the main network elements for reporting to TRAI and the balance network elements if any are grouped under a residual head – 'Others'

2.13 The Network Elements wise reporting is to be done for the main network elements only as specified in Schedule II the Regulations. It may be noted that this schedule also provides a list of sub-components within each main network element to ensure uniform grouping of sub-components by the telecom service providers. It specifies the specific sub components have to be included under relevant Network Elements so that there is clarity and uniformity in furnishing the information.

List of Telecom Service/Geographical Area of Operation / Products/ Components and Network elements

2.14 A list of Telecom Service/ LSA of Operation / Products/ Components and Network Elements as prescribed in Schedule I and II of the ASR 2016 have been reproduced at **Annexure I** for a ready reference.

2.15 The service providers shall use the list of telecom services, LSA of operations and products/ components as prescribed in the ASR 2016. The service providers should map their services and products with the list prescribed in the ASR 2016.

2.16 The network elements defined in the regulations assume a standard network design and specified accordingly. The service providers should map their network elements to the network elements defined in Schedule II of the ASR 2016.

Chapter – 3: Reporting Requirement

3.1 According to ASR 2016, the service providers are required to prepare the following financial and non-financial reports for each service, LSA wise as well as consolidated report for all LSAs for a service. The list of telecom services, LSAs of operation, products / components and network elements as relevant for the reporting requirements have been laid down in ASR 2016 as explained in the Chapter 2 of the Guidelines.

Statements	Proforma Reference	Description
Profit &Loss Statement		
Profit & Loss Statement – Service	Proforma A	A statement, showing profit and loss account including revenue, cost and return on capital employed for a service. The revenue, cost and capital employed for all the products within a service shall be reported in this statement.
Profit & Loss Statement – Product	Proforma B	A statement, showing product wise profit/loss account including revenue, cost and return on capital employed within a service. This statement shall be prepared based on the product direct cost, cost of network elements allocated/apportioned as per Proforma C, cost of support functions / departments allocated/apportioned as per Proforma D and capital employed as per Proforma G.
Cost sheets		
Cost Sheet - Network Elements	Proforma C	This statement provides the following: • Network element wise total cost with break up into network element direct cost and cost transferred from support functions / departments (from Proforma D) • Allocation of network cost (network element wise) to products in Proforma B.

Statements	Proforma Reference	Description
Cost Sheet - Support Functions / Departments	Proforma D	This statement provides the following: • Support function / department wise total cost • Apportionment of each department cost to various network elements (Proforma C) and products (Proforma B)
Statements of Gross Block and Capital Employed		
Statement of Gross block, Depreciation and Net Block - Service	Proforma E	A statement showing assets category wise gross block, accumulated depreciation, net block and depreciation for the year for various fixed assets.
Capital Employed Statement - Service	Proforma F	A statement showing capital employed for a service. The total capital employed for a service will also be reflected in Proforma A.
Capital Employed Statement– Allocation to Products	Proforma G	A statement showing allocation of capital employed for a service as per Proforma F to different products. The total capital employed allocated to a product will also be reflected in Proforma B under that product.
Others		
Statement of Related Party Transactions (Revenue)	Proforma H	Statement showing gross revenue information on those products (prescribed in Proforma H) where service provider as well as service recipient both are a TSP.
Reconciliation Statement (covering all licensed and non-licensed services and area of operations) with Audited Financial Statements	Proforma I	A statement showing reconciliation of profit and loss account and capital employed covering all licensed and non-licensed services and area of operations with the company's audited annual accounts.
Non- Financial reports		
Statement of Non- financial information for each service	Proforma J	Statement showing non-financial information relating to subscribers, network usage, network capacity, bandwidth, OFC etc.

3.2 The above Proformae are attached as **Annexure II** to these Guidelines.

3.3 The above reports submitted to the Authority shall be accompanied by the relevant portion of the manual containing description of accounting policies for allocation and apportionment of revenue, cost, assets and liabilities and the basis of cost allocation and apportionment (cost driver) employed.

Periodicity of preparation and submission of Statements

3.4 As per the ASR 2016:

3.4.1 The service provider shall prepare financial reports and non-financial reports:

(a) every accounting year based on Historical Cost Accounting (HCA)for all the services specified in Schedule-I to these regulations ; and

(b) every second accounting year based on Replacement Cost Accounting (RCA) for the following services specified in Schedule-I to these regulations: -

i. Access Services – Wireless

ii. Access Services – Wireline

iii. National Long Distance Service

iv. International Long Distance Service

Provided that there shall be no obligation on a service provider to furnish the reports based on the replacement cost accounting for three accounting years from the date of issue of licence;

Provided further that such service provider shall immediately after the end of period of three years from the date of issue of license/authorisation, furnish the reports based on replacement cost accounting at the time interval and for the services as provided in clause 4 (2) (b) of ASR 2016.

3.4.2 The telecom service provider shall submit reports to the Authority within seven months of the end of accounting year:

(a) yearly audited reports based on the Historical Cost Accounting; and

(b) every second accounting year, audited reports based on Replacement Cost Accounting

3.4.3 The reports shall be submitted in hard copy and in soft copy in MS Excel format at the TRAI Headquarters Office, New Delhi. The Authority may by direction specify any other method including method of on-line submission of reports.

3.4.4 The reporting period shall be same as followed by the company for preparation of the annual financial accounts under sub section (2) of section 129 of the Companies Act, 2013.

3.4.5 Where the reporting period exceeds fifteen calendar months, the service provider shall submit the reports in two parts – one part comprising report of twelve month and the second part comprising of balance period.

3.5 It is clarified that the period of every second year for the purpose of replacement cost accounting under ASR 2016 shall be reckoned from the accounting period as indicated in the ASR 2016 for submission of reports based on replacement cost.

3.6 The financial reports on the basis of replacement cost accounting shall be prepared by:

(i) following financial capital maintenance methodology;

(ii) limiting cost adjustment to the fixed assets;

(iii) ignoring replacement cost adjustment for assets having life of less than three years;

(iv) taking cost of modern equivalent asset when existing asset is not available due to change in technology;

(v) indicating holding gain or loss and supplementary depreciation; and

(vi) indicating the change in operating expenditure when an old asset is replaced by a modern equivalent asset.

Consequences for failure of the service provider to submit reports or furnishing of false report

3.7 If any service provider contravenes the provisions of regulation 5 of ASR 2016, it shall without prejudice to the terms and conditions of its licence or the provisions of the Act or rules or regulations or orders made, or, directions issued, there under, be liable to pay an amount, by way of financial disincentive, not exceeding ₹ five lakh and in case the contravention continues beyond fifteen days from the last date of submission of the report, the service provider shall be liable to pay an additional amount not exceeding ₹ fifty thousand for every day of delay after fifteen days, during which the default continues, as the Authority may, by order, direct.

Provided that if a service provider contravenes the provisions of regulation 5 of ASR 2016 in the subsequent years, he shall be liable to pay an amount, by way of financial disincentive, not exceeding, ₹ ten lakh for each contravention and in case the default continues beyond fifteen days from the last date of submission of the report, the service provider shall be liable to pay an additional amount not exceeding ₹ one lakh for every day of delay after fifteen days during which the default continues, as the Authority may, by order direct.

3.8 If the report furnished by the service provider under regulation 5 of ASR 2016 is false and which such service provider knows or believes to be false or does not believe to be true, or omits any material fact knowing it to be material, it shall, without prejudice to the terms and conditions of its licence, or the provisions of the Act or rules or regulations or order made, or, direction issued there under, be liable to pay an amount, by way of financial disincentive, not exceeding ₹ ten lakh, as the Authority may, by order, direct.

3.9 No order for payment of any amount by way of financial disincentive shall be made by the Authority unless the service provider has been given a reasonable opportunity of representing against the contravention of the regulations observed by the Authority.

Chapter – 4: Costing Approach

4.1 In this chapter, the costing approach that is to be followed for Accounting Separation is discussed. The accounting methodologies to derive cost base and cost allocation principle include the following:

- Cost Base
- Cost Allocation Principle

Cost Base

4.2 Historical Cost Accounting (HCA) is the conventional accounting method, wherein assets are valued and depreciated at the cost recorded at the time of their purchase. The Replacement Cost Accounting (RCA) methodology prescribes valuation of assets at current costs. However, in the context of telecom industry, where cost trends rapidly leave historic accounts out of step with current realities, RCA is considered equally relevant for analyzing costs and revenues. In view of this**,** the ASR 2016 provides that Accounting Separation Reports shall be generated on Historical Cost as well as on Replacement Cost basis.

4.3 The overall framework for RCA has been described in **Annexure III**.

Cost Allocation Principles

4.4 The Cost Allocation Principles indicate how various costs should be treated and allocated/apportioned to different services/products /network elements. Under the ASR 2016, it is envisaged that the accounting separation reports shall be prepared following Fully Allocated Method (FAC) for allocation/apportionment of cost. Under FAC, the direct costs and costs other than direct costs are allocated to services/ products based on suitable cost drivers.

4.5 For Accounting Separation, revenue and cost are to be allocated or attributed to different services, products and network elements. The accounting standards/principles that should be generally followed for allocation / attribution are provided below:

- *Causation* - Revenues /costs should be allocated to those services/ products/network elements that cause the cost or revenue to arise.

- *Survey and sampling* - Service providers can use survey and sampling techniques such as pattern of usage of network element for each type of product, minutes of usage, number of subscribers, employee activity data, engineering information etc. in order to allocate costs to the relevant services/products/network elements. The fundamental objective of this activity is to arrive at an appropriate basis of attribution to comply with the principle of causation. Where sampling is used it should be based either on generally accepted statistical techniques or other methods, which should result in accurate attribution of cost, revenue, etc.

- *Consistency* - To assist comparability, the same bases and assumptions should be used from year to year. However, it is recognised that with rapidly changing technologies, it may be necessary to review attribution principle annually.

- *Materiality* - The principle of materiality may be followed to avoid any detailed/ cumbersome procedures if the impact is not considered very material. For example the iterative attribution methods should not be used for certain items, if the effect of that particular item is not expected to be material to the ultimate outcome.

- *Practicality* -The principle of practicality would reflect the need in any system to undertake sampling analysis, and at times use prudent and unbiased estimates of cost and volumes.

- *Objectivity* - This principle requires that the allocation method proposed should be reasonable, substantiated and arbitrary allocation method should be minimal.

- *Transparency* - The methodologies followed for attribution and preparation of statements by each service provider should be comprehensively documented so as to be transparent to the regulator / other users of the statement.

4.6 The Institute of Cost and Works Accountants of India has also issued Generally Accepted Cost Accounting Principles (GACAP). These may be kept in mind for cost allocation / appropriation to the extent not conflicting with any principles laid down in these Guidelines.

Chapter – 5: Allocation and Attribution Methods

5.1 This chapter provides a broad framework to allocate/ attribute revenue, costs, assets and liabilities to telecom services/products/ network elements and support functions & departments for preparation of accounting separation statements.

5.2 Service Providers shall maintain adequate records to enable the company to identify the capital employed, fixed assets, working capital etc. to different telecom services

Allocation and Attribution of Revenue, Costs and Assets

5.3 The revenue, costs and assets are required to be attributed to each product within a service, LSA wise as per the list of services /geographical areas of operation / products defined in the Regulations for preparation of cost sheets and profit and loss account.

5.4 In the context of apportionment and allocation of costs and assets, the following aspects are explained:

- **Profit Center** – The Profit Center is a service or product for which costs and revenue are reckoned and matched to arrive at the profit or loss incurred.
- **Cost Center** – The Cost Center is a unit for which costs are reckoned for the purpose of allocation/apportionment of costs on product or service. Broadly, the following cost centers are identified:
    - **Network Cost Center (Element-wise)** – The network elements for a service has been discussed in Chapter 2. Each network element shall be a cost center and all costs pertaining to that network element, would be accumulated for cost center of that network element. The cost of network will be apportioned to services or products, based on suitable cost driver.
    - **Support functions/departments**– The support function /department shall include marketing, customer care, finance, legal, administration, transport department, etc. Support functions are also referred to as functional departments. The cost of support functions /departments will be apportioned to the products/network cost centers based on suitable cost drivers as explained later in the this chapter.
    - The service provider can identify and define the cost centers as relevant/ applicable to them within the overall framework of the cost centers provided above.

The directly identifiable costs to a profit centre shall be allocated directly to the concerned profit centre. The cost attribution process should reflect the principle of cost causation, as far as possible.

5.5 In case of telecom service providers providing multiple services, the revenue, cost and assets would need to be captured / apportioned service wise. Telecom service providers would follow appropriate and consistent basis for recognition of common/shared costs based on its organisational set up and details kept in its books and accounts following generally accepted costing principles. TRAI is of the view that telecom service provider is the decisive authority to recognise any item of revenue, cost or assets as of common/shared nature.

5.6 The service revenue, cost and capital employed would be allocated / apportioned to different product as per the allocation / apportionment process laid down in these Guidelines.

5.7 As mentioned in the previous chapter, the FAC Method shall be followed for allocation / apportionment of costs. The costs can be categorised as direct costs or costs other than direct costs as under:

(a) *Direct Costs*

- Cost, which are solely on account of a particular telecom service or product or network element and are recorded in the accounts against the relevant telecom service or product or network element e.g. license fees for a service can be directly allocated to that telecom service, cost incurred exclusively for providing value added services can be directly allocated to VAS product.

- Costs, which are attributable to a particular product or network elements but are not recorded in the accounts against the relevant product/ or network elements e.g. advertisement and publicity expenses paid to external agencies, annual maintenance charges, etc. are costs which are generally recorded in a common account head and not against a particular product/ network element. However these costs may be directly identifiable to the service for which it has been incurred based on some underlying records. For example advertisement and publicity expenses incurred by a cellular service provider for promoting data service may be booked under a common advertisement expense head but can be identified to data service profit centre based on detailed records/ subsidiary registers.

(b) *Costs other than direct costs*

- Costs, which are part of a pool of common cost but which can be attributed to a particular product or network element through a non-arbitrary and verifiable cause and effect relationship. There is no requirement for this to be a one-to-one relationship and it may be multi-step. For example, costs such as (i) corporate office expenses, legal expenses, finance & accounts cannot be identified to a particular telecom service or (ii) in a telecom service, billing expenses, customer care expenses, expenses of human resource department, rent of office building, etc. cannot be identified to a particular product, but can be apportioned by using certain cost drivers to different telecom services or products. Costs falling under this category have been termed as 'common/shared costs' in the guidelines. Ceasing of one service will not avoid occurrence of common/shared costs.

5.8 Similar classification of 'direct' and 'other than direct' shall apply in the case of assets also.

Allocation of Revenue

5.9 The revenue earned by providing various products are generally directly identifiable to each product based on accounting records / ledgers and the billing system information. In respect of certain revenue items if the direct allocation is not possible, in such cases the revenue shall be allocated on basis of causation principle.

5.10 In case of bundled services, the guiding principle shall be the use of some rational and equitable basis to allocate properly the revenue from bundled services to each service / product. For example the value of free minutes can be computed by multiplying average voice realisation per minute, value of free SMS can be computed by multiplying average SMS realisation per SMS etc.

Allocation / Appropriation of Cost and Assets

5.11 Unlike revenue, apportionment of common/shared costs and assets to different services/products/network elements is a significant step particularly when the technological development is taking place at rapid pace in the telecom service sector which is more and more relying on the shared infrastructure for providing multiple telecom services. A logical apportionment of such common assets and related operating expenses to different services gains considerable importance, especially when the objective is to get the segregated costs for each telecom service and to measure the service wise profitability and performance. However, the TSPs, depending on their network architecture and utilisation, are in the best position to identify the items of cost/asset as direct or common/shared.

5.12 In the modern telecom network architecture, there are many assets and costs which are common or shared by different services/LSAs/products. As a general accounting principle, revenue earned from an activity should be matched with costs incurred to produce that activity in order to have apposite assessment of the profitability and performance of the activity. In this background, apportionment of common assets and costs to different services/LSAs/products gains significant importance. The exercise of apportionment of common/shared assets and costs can be divided into two parts –

(1) **Entity Level** common/shared assets and costs i.e. shared by two or more telecom service or LSAs (in the case of access service); and

(2) **Service Level** common/shared assets and costs i.e. shared by products and networks elements.

The process of apportionment of common/shared assets and costs of these two categories has been explained below:

(i) Entity Level apportionment of common/shared assets and associated operating costs to user telecom services or LSAs (in case of Access Service).

This has been further divided into following three categories:-

(a) **<u>Common/shared assets (Network Elements) and associated operating costs</u>:** In case the network element is intended to be used by two or more services or LSAs (in case of Access Service), the capital expenditure (CAPEX) of such network element will be attributed to user services/LSAs in the capacity allocated/projected by management for such services/LSAs separately. In case no such prior allocation/projection has been decided by the management, capital cost will be attributed to user services/LSAs in the ratio of average consumption in the last 3 financial years.

Operating costs (OPEX) on common/shared assets (Network Elements) will be attributed to user services/LSAs based on usage of such common/shared Network Elements by each user service/LSA as follows:

Operating Costs on	Basis of Apportionment
Telephony Switches/Mobile Switching Center	To user services/LSAs in the ratio of traffic handled
Leased circuit/bandwidth	To user services/LSAs in the ratio of bandwidth used in kilometers
Router/switch	To user services/LSAs in the ratio of data traffic handled
Copper Loops	To user services/LSAs in the ratio of number of connections
Dark Fiber	To user services/LSAs on the basis of fiber strands in kilometers
SMS server	To user LSAs in the ratio of outgoing SMS
Mobile Switch Service	To user LSAs in the ratio of subscribers
IN server	To user LSAs in the ratio of number of prepaid subscribers
Billing Server	To user LSAs in the ratio of number of post-paid subscribers
Home Location register	To user LSAs in the ratio of subscribers
SGSN/GGSN	To user LSAs in the ratio of data traffic (in MBs) handled

It may be noted that above list of common/shared assets (Network Elements) is indicative. There may be many more common/shared assets (Network Elements) depending upon network architecture planned and built by the TSP and / or not discussed above. Capital costs of such assets should be apportioned on the principles enumerated above and should be based on the principle of cost causation and utilisation of the assets.

(b) Common/shared assets (Other than Network Elements): In case the assets (other than network element is intended to be used by two or more services or LSAs (in case of Access Service), capital expenditure (CAPEX) of such assets will be apportioned to user services/LSAs in the allocated/projected by management to such each service/LSA. In case no such prior allocation/projection has been decided by the management, the attribution to user services/LSAs shall be done in the following manner:

Common/shared fixed assets (other than network elements)	Basis of Apportionment
Buildings	To services/LSAs on the basis of the space occupied
Computers	Number of employees of each service/LSAs
Furniture and Fixtures	To services/LSAs on the basis of the space occupied
Vehicles	To services/LSAs on the basis average usage in last 3 years
Office Equipments	To services/LSAs on the basis of the space occupied
Debtors/Accrued Income	To services/LSAs on the ratio of gross revenue generated
Cash and Cash Equivalents	To services/LSAs in the ratio of total cost
Stock	To services/LSAs in the ratio of total cost
Current Liabilities	To services/LSAs in the ratio of total cost

The operating costs (OPEX) related to above mentioned assets (Other than Network Elements) shall be apportioned to user services/LSAs using a same cost driver that was applied while apportioning capital expenditure (CAPEX) of respective assets.

It may be noted here that above list of common/shared assets (other than network elements) is <u>indicative</u>. There may be many more common/shared assets (other than Network Elements) and associated operating costs depending upon organisation policies followed by the TSP and / or not discussed above, should be apportioned on the principles enumerated above and should be based on the principle of cost causation and utilisation of the assets.

(c) Common/shared costs (other than operating costs on assets):

Common/Shared Costs on	Basis of Apportionment
Employees cost	On the basis of head counts in each service or LSAs (in the case of Access Service)
Sales and Marketing Costs	On the basis of gross revenue of each service or LSAs (in the case of Access Service)
Administration Costs	On the basis of head counts in each service or LSAs (in the case of Access Service)
Finance & Accounts Department costs	On the basis of total direct identified costs of each service or LSAs (in the case of Access Service)
IT & EDP department cost	On the basis of head counts in each service or LSAs (in the case of Access Service)
Legal and Regulatory Costs	In the ratio of directly allocated costs to each service/ LSA (in the case of access service)
Rent for Building	Attribute to services/LSAs (in the case of Access Service) on the basis of the space occupied
Insurance (other than fixed assets)	On the basis of head counts in each services or LSAs (in the case of Access Service)

It may be noted here that above list of common/shared costs is indicative. There may be many more common/shared costs which may differ from TSP to TSP and or not discussed above, should also be apportioned on the principles enumerated above which is based on the principle of cost causation and utilisation of the service.

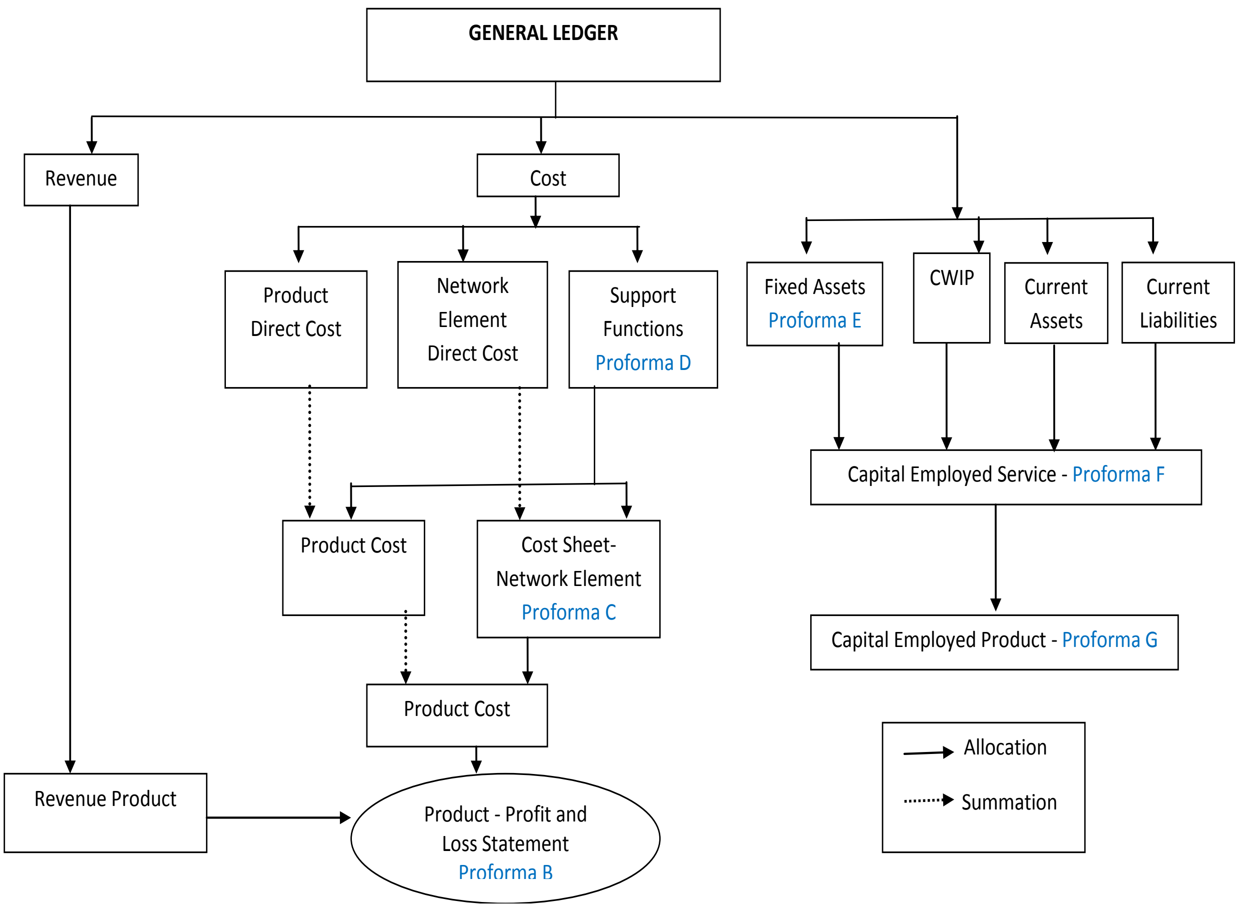
(ii) Service Level apportionment of common/shared costs to Products and Network Elements of a telecom service:

Since the Accounting Separation Regulations requires capturing of separate costs for products and networks elements, the costs directly identifiable with products or networks elements are allocated directly to respective category. However, there are still number of cost heads which cannot be directly identified and allocated either to products or network elements. These costs are basically incurred by the support functions/departments such as Personnel/Human Resource Department, Billing Department, Finance & Accounts Department, Corporate Office etc. Under this category the common/shared costs shall be grouped function/department wise and the costs shall be apportioned to products and network elements on the basis of following cost drivers:

SL No.	List of Departments	Basis of Apportionment
1.	Human Resource/Personnel	In the ratio of head counts in Products and Network Elements
2.	Administration	In the ratio of directly allocated costs to Products and Network Elements
3.	Repairs and Maintenance	In the ratio of directly allocated costs to Products and Network Elements
4.	Information Technology/EDP	In the ratio of head counts in Products and Network Elements
5.	Legal and Regulatory	In the ratio of directly allocated costs to Products and Network Elements
6.	Finance & Accounts	In the ratio of directly allocated costs to Products and Network Elements
7.	Corporate/Circle Office	In the ratio of directly allocated costs to Products and Network Elements
8.	Other Departments	In the ratio of directly allocated costs to Products and Network Elements

5.13 The overall framework for allocation and apportionment of costs and generation of profit and loss statement and cost sheets for a telecom service has been provided in Exhibit 5.1:

Exhibit 5.1



5.14 As per the process presented for a telecom service in Exhibit 5.1 above:

- Each item of cost shall be attributed to a "product" or "cost centre" according to the way in which the product or network element or support function department gave rise to that cost.

- The pool of costs of each cost centre shall then be attributed to further cost centres or products until each cost centre is exhausted and all revenue and costs are associated with products.

- The allocation process is a tiered attribution process beginning with the identification of direct cost and progressively attributing indirect cost on the basis of appropriate cost drivers (as indicated above).

5.15 Based on the overall framework given above, the steps generally involved in the allocation / apportionment process of costs in a telecom service are described below:

Step 1	Capture revenue and cost from the books of account i.e. general ledger/ and allocate them to Products, Network elements and Support Functions/Department.
Step 2	Apportion the cost of support functions/departments to profit centers (i.e. products) and other cost centers (i.e. network elements). These costs would have to be apportioned to products and network elements using apportionment basis as prescribed in Para 5.12 (2) above. Apportioned cost of support functions to product will be re-apportioned to each product on the basis of ratio of direct cost of each product. Similarly, cost of support functions to network elements will be re-apportioned to each network on the basis of ratio of direct cost of each network element. From the point of simplicity the cost of support function may not be apportioned to the other support functions as it may involve iterative allocation process.
Step 3	After undertaking the above two steps, the cost for each network element would be available. The cost for each network element would include direct cost incurred for operation and maintenance of the respective network elements and also the apportioned cost of support functions. The next step is to apportion the network element cost to various products. The cost of each network element is to be attributed to different products based on a causation effect i.e. cost is directly allocated to the products for which the network element is used, will be allocated that product e.g. in Access Service (Full Mobility) SMS server cost is directly allocable to product SMS. In case network element is used for producing more than one product, cost of such network element will be apportioned to each product on the basis of ratio of direct cost of

	each product.
Step 4	After undertaking the above steps, the cost for each product would be available. The cost for each product would include direct cost incurred for respective product and also the apportioned cost of network elements and support functions/departments.
Step 5	This step involves aggregating costs of various services / products for preparation of profit and loss statements.

Allocation / Attribution of Capital Employed in a Telecom Service

5.16 The capital employed of the telecom service is required to be attributed to each product within a service geographical area wise as per the list of services / geographies / products defined in the Schedule I to the ASR 2016 for working out return on capital employed.

5.17 The statement of capital employed shall include fixed assets, capital work in progress, current assets and current liabilities. The capital employed here shall be the closing capital employed as at the end of the accounting year.

5.18 For the purpose of apportionment, the capital employed shall be broadly segregated into 'network elements' and 'other than network element'. Sub components of capital employed which are directly identifiable/attributable to a particular product shall be allocated to that product.

5.19 The gross book value, deprecation and accumulated depreciation of Gross block (fixed assets) need to be identified to network elements cost centres and support function cost centers. This is required for the purpose of allocation of depreciation and determination of fixed assets value to the respective cost centres.

5.20 Capital employed of each cost centre (i.e. network element and support functions/departments), which can be directly indentified to a particular product, shall be fully allocated to that product e.g. in Access Services (Wireless), capital employed of network element SMSC would be allocated fully to product SMS. In case network element or support functions/departments is used for producing more than one product, capital employed of such network element or support function/department will be apportioned to each product on the basis of identified direct cost of each product.

Weighted Average Cost of Capital (WACC)

5.21 The ASR 2016 requires the service providers to report their Weighted Average Cost of Capital (WACC) in Proforma F – Capital Employed Statement – Service.

5.22 WACC is a method of establishing an organization's cost of capital by taking each source of funds (i.e., Equity or Debt) from the balance sheet and assigning a 'Required Rate of Return' to each source of funds. The amounts of each of the sources of funds are used as weights applied to such returns and the total return is divided by total weights to give the WACC expressed as a percentage. The WACC shall be taken as Pre-tax.

Mathematically,

$$\text{WACC (Pre Tax)} = \frac{Re*\omega 1 + Rd*\omega 2}{(1-T)}$$

Where:

Rd = Cost of debt
Re = Cost of equity capital
T = Corporate Tax rate
$\omega 1$ = *proportion of equity in capital structure*
$\omega 2$ = *proportion of debt in capital structure, and;*
$\omega 1 + \omega 2 = 1$

Geography / Service wise separation

5.23 The ASR 2016 requires that the revenue, cost and capital employed should be captured / apportioned licensed area wise in respect of Access Services – Wireless and Access Services – Wireline. Further in case of service providers providing multiple services, the revenue, cost and capital employed should be captured or apportioned to each such telecom service. The service providers should follow appropriate and consistent basis for geography / service wise separation based on its organisational set up and details kept in its books and accounts based on the principles of allocation and apportionment discussed above.

5.24 The revenue, cost and capital employed should be allocated / apportioned within the telecom service to each product as per the basis of allocation / apportionment process discussed above.

Assets/Liabilities/Income/Expenses excluded

5.25 Non relevant items shall be excluded while determining the charges for services or products. The non-relevant items shall be shown as 'reconciling items' with the annual audited accounts.

5.26 In case of closure of any telecom service or in a LSA (in case of Access service), the expenditure incurred (both operation and capital) in this process shall be part of reconciliation statement (Proforma I).

5.27 The non-relevant items shall comprise of the following items:

Assets and liabilities

- Related assets, liabilities, revenue and costs of telecom or non-telecom service(s) for which submission of accounting separation reports have not been mandated as per the ASR 2016.

- Investments – such as in shares, joint ventures, subsidiary company etc.
- Financing transactions – such as inter corporate lending, borrowings
- Goodwill

Income and expenses

- Non-operating income
- Interest cost on borrowed funds/loans
- Corporate Tax
- Dividend distributions (paid and proposed)
- Amortisation of goodwill
- Return on investments
- Extra- ordinary items – such as abnormal loss due to fire/ theft etc.

Reconciliation of Accounting Separation Reports with Audited Annual Accounts

5.28 The service providers are required to reconcile the Profit and Loss Statement as per Proforma A of Schedule III to the Regulations and Capital Employed as per Performa F of Schedule III to the Regulations prescribed on the basis of the Historical Cost, with the audited Annual Financial Statements prepared under section 129 of the Companies Act, 2013. The reconciliation statement shall cover all telecom services (including LSAs wise consolidated where applicable) and non-telecom services and shall be furnished in Proforma H of Schedule III to the Regulations.

Chapter – 6: Books of Accounts

6.1 All licensed telecom service providers are incorporated as companies under the Companies Act, 2013. Books of account maintained by the service providers include all the records required to be maintained under the Companies Act, 2013. These books of account would form the underlying basis for preparation of Accounting Separation Reports (ASR). The service providers may decide if they need to maintain any additional books of account/ records, besides those prescribed under the statutes, rules, regulations and notifications, for furnishing of reports required under the ASR 2016.

6.2 The service providers are required to maintain a Fixed Asset Register as per the requirements laid down under the Companies Act 2013. The service providers would need to ensure that the Fixed Asset Register contains necessary information required to facilitate Network Elements based costing and generation of accounting separation reports. For example the information required to be maintained would include the following:

- LSA wise identification of fixed assets is required in case of Access service providers.
- Identification/ mapping of a fixed asset are required to each network element. This would help in determining total capital cost of a particular network element.
- Break up of cost of individual assets required in case of assets pertaining to more than one network element are purchased / constructed together
- Identification / extent of usage of assets in case any assets item is used for more than one network element or cost centre. For common assets such as land and building, etc. details of the network elements / department using the assets along with proportion of use would need to be maintained.

6.3 In order to generate accounting separation statements, the operators would need to have an appropriate costing system in place, which would enable generation of prescribed statements. Based on the costing system, the revenue, costs, assets, liabilities or any other information maintained in financial records would be attributed, allocated or apportioned to various profit centres and cost centers for preparation of accounting separation reports.

6.4 The quantitative records of traffic data with regard to number of calls, total minutes of usage, number of subscribers, transmission capacity etc. to be maintained in such a manner so as enable service providers to generate reports on non-financial information in the Proforma prescribed in Schedule III to draft Regulations, 2016. The records would have to be maintained in such manner that information available therein should support the allocation or apportionment procedures also.

Chapter – 7: Administrative Requirements

7.1 This chapter provides the administrative requirements for implementing Accounting Separation and submitting reports/statements to TRAI.

Service provider-specific Accounting Separation Manual

7.2 As per the ASR 2016, every service provider shall, in order to execute and implement the accounting and reporting practices specified under these regulations, prepare a manual containing policies, principles, methodologies and procedures for accounting and cost allocation.

7.3 The Manual should be sufficiently detailed so that it is transparent to the Regulator, independent auditor or any third party, of the specific policies and methodologies that have been used in preparing the accounting separation reports.

7.4 In line with the regulation, the Manual shall particularly include the following:

Organisational structure	Details of the organisational structure of the service provider
Group companies	List of the all entities within the group operating in the telecom sector and relationship of the service provider with such entities and other group companies and related parties with regard to interconnection and sharing of common resources etc.
Financial accounting system	Details of the financial accounting system adopted by the service provider including policies relating to capitalisation, depreciation, advance receipts of revenue, security deposits, provision for bad and doubtful debts etc.;
Related party transactions	Description of the related party transactions, allocation of shared services and jointly used assets;
Segmentation	Details of products, services, network elements and geographical areas which shall be treated as separate segments for preparing Accounting Separation Statements;
Costing principles/ method of allocation and apportionment for accounting separation	Description of accounting policies for allocation and apportionment of revenue, cost, assets and liabilities; Accounting system followed for recording and generation of the accounting separation information and reports which shall include list of cost and profit centres, linkages of financial heads to cost and profit centres; Description of studies, surveys and model employed in cost apportionment and allocation process;

Maintenance and Updation Procedures	Procedure adopted for maintenance and updating of the Manual
Glossary	Definition of terms used in the Manual

Filing of Manual

7.5 As per the ASR 2016 every service provider is required to file with the Authority a copy of the Manual within 90 days from the date of commencement/applicability of these regulations. Further Any change in the manual and reasons thereof, shall be furnished along with reports submitted to the Authority after such changes made.

7.6 The Manual may require updation to reflect changes in the procedures resulting from the organizational changes, improvements in costing techniques, technological innovations etc.

7.7 In case a service provider who has earlier filed the Manual with the Authority feels that there is no change in the Manual, then such service providers shall submit the copy of the Manual already filed with the Authority along with a letter confirming that the Manual earlier filed remains valid for ASR 2016 too.

Audit and Accountability requirements

7.8 The ASR 2016 provides the following with respect to the audit and accountability requirements:

- Every service provider shall appoint an auditor qualified for appointment as an auditor under section 141 or 148 of the Companies Act, 2013 to audit the reports prepared by the service provider under regulation 4 of the regulations and obtain a certificate from the auditor in the proforma specified in the Regulations in which is reproduced in the **Annexure IV.**
- The Accounting Separation reports prepared by the service provider under regulation 4 of Regulations shall be adopted by the Board of Directors of the company and shall be signed by the authorized signatory before submitting the same to Auditor.
- The Accounting Separation reports prepared by the service provider and the audit report shall be signed by the auditor or a partner of the firm, if a firm is appointed as auditor.
- The Accounting Separation reports along with the audit report shall be submitted to the Authority within seven months of the end of the accounting year.

7.9 All audit related costs shall be borne by the service providers.

7.10 TRAI may hold discussions with the auditor and seek clarifications from them. However, this would be done after intimation to the Service provider. The Service provider shall ensure that this requirement is provided for in the Letter of Engagement with their auditors.

Annexure I

SCHEDULE I

Name of Telecom Service	Licensed Service Area of Operation	Product/ Components
(1)	**(2)**	**(3)**
(I) Access service - Wireless (II) Access service – Wireline	Licensed Service Area i.e. Telecom Circle	(a) Rental / Activation / One time / Recharge fees (b) Voice Calls (i.e. by own subscribers in home service area): 1) Local 2) STD 3) ISD (c) Non-voice: Short Messaging Service (SMS)/ Multimedia Messaging Service (MMS) (d) Value Added Services (e) Out Roaming (i.e. by own subscribers outside home service area): (i) National (ii) International (f) Data (g) Leased circuit (h) Sharing/Leasing of Towers (i) Wholesale (Interconnection): (i) Termination Voice call (ii) Termination SMS/ MMS (iii) Port charges including Co-Location (iv) Transit Carriage Charges (v) Access Charges (Calling Cards) (vi) In-Roaming (vii) Intra Circle Roaming (viii) Other interconnect charges (j) Any other product (please specify name of each product separately)
(III) Internet service	Licensed Service Area	(a) Internet – Broadband (b) Internet – Narrowband (c) Internet Telephony (d) Internet Protocol (IP) TV

		(e) Internet Content (f) Webhosting and Web-collocation (g) Dark Fiber (h) Any other product (please specify name of each product separately)
(IV) National Long Distance service	All India	(a) Voice (i) Carriage Services (ii) Calling Cards (b) Leased Circuits: (i) Domestic Dedicated Leased Circuit (ii) Managed Data Services (VPN/ CUG) (c) Dark Fiber (d) Any other product (please specify name of each product separately)
(V) International Long Distance service	All India	(a) Voice (i) Carriage Services (ii) Calling Cards (b) Leased Circuit: (i) International Private Leased Circuit (IPLC) (ii) Managed Data Services (VPN/ CUG) (c) Cable Landing Station (i) Collocation; (ii) Access facilitation (d) Dark Fiber (e) Any other product (please specify name of each product separately)
(VI) Mobile Number Portability service (MNP)	All India	No product sub-classification
(VII) Very Small Aperture Terminal service (VSAT)	All India	No product sub-classification

SCHEDULE II

Sl No.	Name of Telecom Service	Network Elements
(1)	**(2)**	**(3)**
(I)	Access service– Wireless	**(a)CORE NETWORK:** (Mobile services Switching Centre (MSC)/ Gateway Mobile services Switching Centre (GMSC), MSC-Server/ Virtual MSC, Media Gateway (MGW)/ Gateway Media Gateway (GMGW), Visitor location register (VLR), Serving GPRS Support Node (SGSN), Gateway GPRS Support Node (GGSN), EIR (Equipment Identity Register), HLR (Home Location Register), AUC (Authentication Centre), Transponder, Signalling gateway, Others) **(b) RADIO ACCESS NETWORK:** (Node B (RAN-Radio Access Network), BTS (Base Transceiver Station), RNC (Radio Network Controller), BSC (Base Station Controller), Others) **(c) TRANSMISSION MEDIA / EQUIPMENTS** (Transmission Media Between the Network Element i.e. OFC/Cable/Microwave, Transmission equipments, Others) **(d) OTHER NETWORK ELEMENTS:** (SMSC (Short Message Service Centre), MMSC (Multimedia Messaging Service Centre), HSS (Home Subscriber server), Application servers for Value added service, NMS (Network Management System), Billing servers, IUC servers/ ICB Server (Interconnect Billing Server), IN Servers, LIS (Lawful Interception Server), Facilitation for MNP, Tower and Associated Infrastructure, Others)
(II)	Access service - Wireline	(a) Equipment at Subscriber's end – POTS, ISDN, PABX, VPT Equipment etc. (b) Access Media between Local Switches & Subscriber's end – Copper loop/ Optical Fiber etc. (c) Local Switches – Local switch (including NGN and IP), Remote Switching Unit, Remote Logical Unit etc. (d) Tandem/TAX switches (e) Media Gateway (MGW) (f) Transmission Media / Equipments (g) Other (please specify)
(III)	Internet service	(a) Customer Premises Equipments (CPE) (b) Access Media (Copper Loop/Optical/Fiber, Cables/Wireless network etc. (c) DSLAM

		(d) Router (EDGE/ PE/ CORE) (e) MuX/ Switches (f) Transmission media/systems between networking elements (g) Dedicated Servers (h) Fiber (i) Other (please specify)
(IV)	National Long Distance service	(a) Switches (including NGN and IP) (b) Media Gateway (MGW) (c) Transmission Media and Equipment (d) Fiber (e) Other (please specify)
(V)	International Long Distance service	(a) Switches (including NGN and IP) (b) Media Gateway (MGW) (c) Transmission –Domestic (d) Transmission –International (e) Transmission line from Cable Landing Station to Meet Me Room (MMR) (f) Network Equipment at Meet Me Room (MMR) in Cable Landing Station (g) Fiber (h) Other (please specify)
(VI)	Mobile Number Portability service (MNP)	(a) Server (b) Router/Switch (c) Transmission Media (d) Gateway (e) Other (please specify)
(VII)	Very Small Aperture Terminal service (VSAT)	(a) Space Segment Transponder (b) Ground Segment (c) Other (please specify)

Annexure II

SCHEDULE III

LIST OF PROFORMAE		
Sl No.	**Proforma**	**Description of the Proforma**
1	Proforma A	Profit and Loss Statement – Service
2	Proforma B	Profit and Loss Statement – Product
3	Proforma C	Cost Sheet – Network Elements
4	Proforma D	Cost Sheet – Support Functions/Departments
5	Proforma E	Statement of Gross Block, Depreciation and Net Block – Service
6	Proforma F	Capital Employed Statement- Service
7	Proforma G	Capital Employed Statement: Allocation to Products
8	Proforma H	Statement of Related Party Transactions (Revenue)
9	Proforma I	Reconciliation Statement (covering all services and area of operations) with Audited Financial Statements.
10	Proforma J	Statement of Non financial information for each telecom service

SCHEDULE III

Proforma A

PROFIT & LOSS STATEMENT – SERVICE

Name of The Company :
Name of Service:
Licensed Service Area of Operation :
Period :
Cost Base: Historical cost accounting / Replacement cost accounting

(₹ in Lakh)

S No.	Particulars	Current Year	Previous Year
1	**REVENUE**		
1.1	REVENUES (NET OF SERVICE TAX) :		
1.2	Less: Pass through Charges:		
1.2.1	*To Access Service Providers*		
1.2.2	*To NLD Service Providers*		
1.2.3	*To ILD Service Providers*		
1.2.4	*Others (please specify)*		
1.3	*Revenue(net of Pass through)*		
2	**COSTS:**		
2.1	**Employees cost:**		
2.1.1	Salaries and wages		
2.1.2	Contribution to provident fund and other funds		
2.1.3	Staff welfare		
2.1.4	Training and recruitment		
2.1.5	Others (please specify)		
	Sub total		
2.2	**Administration cost:**		
2.2.1	Rent (Other than Network Element Equipments and Cell sites)		
2.2.2	Rates and taxes		
2.2.3	Insurance charges (Other than Network Element Equipments)		
2.2.4	Communication costs		
2.2.5	Electricity		
2.2.6	Travel and conveyance expenses		
2.2.7	Legal and professional charges		
2.2.8	Printing and stationery		
2.2.9	Audit fees		
2.2.10	Outsourcing Charges		
2.2.11	Porting Charges for MNP		
2.2.12	Others (please specify)		
	Sub total		

2.3	**Sales and Marketing cost:**		
2.3.1	Advertisement and business promotion expenses		
2.3.2	Sales commission		
2.3.3	Provision for bad and doubtful debts		
2.3.4	Bad debts write off		
2.3.5	Outsourcing (Billing Services and Customer Care Services)		
2.3.6	Others (please specify)		
	Sub total		
2.4	**Maintenance cost:**		
2.4.1	Annual maintenance charges		
2.4.2	Network Consumables		
2.4.3	Repairs and maintenance:		
2.4.3.1	Buildings		
2.4.3.2	Plant and machinery		
2.4.3.3	Others		
2.4.4	Outsourcing Charges for Maintenance activities		
2.4.5	Others (please specify)		
	Sub total		
2.5	**Government charges:**		
2.5.1	License fee		
2.5.2	License fee penalty, if any		
2.5.3	WPC charges:		
2.5.3.1	Radio Spectrum Charges		
2.5.3.2	Microwave Charges		
2.5.4	Others (please specify)		
	Sub total		
2.6	**Network operating Cost:**		
2.6.1	Leased Circuits and Gateway Charges		
2.6.2	Royalty for technical knowhow fees		
2.6.3	Rent (Network Element Equipments and Cell sites)		
2.6.4	Power and fuel		
2.6.5	Interconnection:		
2.6.5.1	Port charges		
2.6.5.2	Others (please specify)		
2.6.6	Passive Infrastructure Charges:		
2.6.7	Insurance Charges (Network Element Equipments)		
2.6.8	Outsourcing Charges for Network Element Equipments		
2.6.9	Others (please specify)		
	Sub-total		
2.7	**Depreciation and Amortisation:**		

2.7.1	Depreciation on Network Elements		
2.7.2	Amortisation of One time entry fees/license fees		
2.7.3	Amortisation of spectrum auction money		
2.7.4	Depreciation/amortisation on Others (please specify)		
	Sub-total		
2.8	**Other cost:**		
2.8.1	Loss on sale of fixed assets(net)		
2.8.2	Corporate office expenses		
2.8.3	Others (please specify)		
	Sub-total		
2.9	**Finance charges** *(Refer Note 1)*		
2.9.1	Bank charges		
2.9.2	Others (please specify)		
	Sub-total		
2.10	**TOTAL COST**		
3	**Profit & Loss Before Interest and Tax**		
4	**Replacement Cost Adjustment** ***(Refer Note 2)***		
4.1	Holding gain/Loss		
4.2	Supplementary Depreciation		
4.3	Change in Operating Cost due to replacement of assets		
4.4	Total adjustment		
5	**Profit & Loss Before Interest and Tax**		
6	**Total Capital Employed**		
7	**Return on Capital Employed (%)**		
8	**Return on turnover (%)**		

Notes:
1. Excluding interest on loans/borrowed funds
2. Relevant for reporting on the basis of replacement cost accounting. No requirement to fill previous year's figures in reports based on replacement cost accounting.
3. This Proforma shall be prepared separately for each service prescribed in Schedule I to Regulation

Proforma B
PROFIT & LOSS STATEMENT - PRODUCT

Name of The Company :
Name of Service:
Licensed Service Area of Operation :
Period :
Cost Base: Historical cost accounting / Replacement cost accounting

(₹ in Lakh)

S No.	Particulars	Product Type *(See Note 1)*				Total
		Product A	Product B	Product C	Product........	
1	**REVENUE**					
1.1	REVENUES (NET OF SERVICE TAX)					
1.2	Less: Pass through Charges					
1.2.1	*To Access Service Providers*					
1.2.2	*To NLD Service Providers*					
1.2.3	*To ILD Service Providers*					
1.2.4	*Others (please specify)*					
1.3	*Revenue(net of Pass through)*					
	COSTS:					
2	**PRODUCT DIRECT COST**					
2.1	**Employee cost**					
2.1.1	Salaries and wages					
2.1.2	Contribution to provident fund and other funds					
2.1.3	Staff welfare					
2.1.4	Training and recruitment					
2.1.5	Others (please specify)					
	Sub total					
2.2	**Administration cost**					
2.2.1	Rent (Other than Network Element Equipments and Cell sites)					
2.2.2	Rates and taxes					
2.2.3	Insurance charges (Other than Network Element Equipments)					
2.2.4	Communication costs					
2.2.5	Electricity					
2.2.6	Travel and conveyance expenses					
2.2.7	Legal and professional charges					
2.2.8	Printing and stationery					
2.2.9	Audit fees					
2.2.10	Outsourcing Charges					
2.2.11	Porting Charges for MNP					
2.2.12	Others (please specify)					
	Sub total					

2.3	**Sales and Marketing cost**					
2.3.1	Advertisement and business promotion expenses					
2.3.2	Sales commission					
2.3.3	Provision for bad and doubtful debts					
2.3.4	Bad debts write off					
2.3.5	Outsourcing (Billing Services and Customer Care Services)					
2.3.6	Others (please specify)					
	Sub total					
2.4	**Maintenance cost**					
2.4.1	Annual maintenance charges					
2.4.2	Network Consumables					
2.4.3	Repairs and maintenance:					
2.4.3.1	Buildings					
2.4.3.2	Plant and machinery					
2.4.3.3	Others					
2.4.4	Outsourcing Charges for Maintenance activities					
2.4.5	Others (please specify)					
	Sub total					
2.5	**Government charges**					
2.5.1	License fee					
2.5.2	License fee penalty, if any					
2.5.3	WPC charges:					
2.5.3.1	Radio Spectrum Charges					
2.5.3.2	Microwave Charges					
2.5.4	Others (please specify)					
	Sub total					
2.6	**Network operating Cost:**					
2.6.1	Leased Circuits and Gateway Charges					
2.6.2	Royalty for technical knowhow fees					
2.6.3	Rent (Network Element Equipments and Cell sites)					
2.6.4	Power and fuel					
2.6.5	Interconnection:					
2.6.5.1	Port charges					
2.6.5.2	Others (please specify)					
2.6.6	Passive Infrastructure Charges:					
2.6.7	Insurance Charges (Network Element Equipments)					
2.6.8	Outsourcing Charges for Network Element Equipments					
2.6.9	Others (please specify)					
	Sub-total					

2.7	**Depreciation and Amortisation:**					
2.7.1	Depreciation on Network Elements					
2.7.2	Amortisation of One time entry fees/license fees					
2.7.3	Amortisation of spectrum auction money					
2.7.4	Depreciation/amortisation on Others (please specify)					
	Sub-total					
2.8	**Other cost**					
2.8.1	Loss on sale of fixed assets(net)					
2.8.2	Corporate office expenses					
2.8.3	Others (please specify)					
	Sub-total					
2.9	**Finance charges *(Refer Note 2)***					
2.9.1	Bank charges					
2.9.2	Others (please specify)					
	Sub-total					
	TOTAL DIRECT COST (I)					
3	**NETWORK ELEMENT COST *(refer note 3)*:**					
3.1	Network element 1					
3.2	Network element 2					
3.3	Network element 3					
3.4	Network element 4					
3.5	Network Element………					
	Total NETWORK ELEMENT COST (II)					
4	**SUPPORT FUNCTION / DEPARTMENT COST *(refer note 4):***					
	TOTAL SUPPORT FUNCTIONS/DEPARTMENT COST (III)					
5	**TOTAL COST (I+II+III)**					
6	**Profit & Loss Before Interest and Tax**					
7	**Replacement Cost Adjustment *(refer note 5)***					
7.1	Holding gain/Loss					
7.2	Supplementary Depreciation					
7.3	Change in Operating Cost due to replacement of assets					
7.4	Total adjustment					

8	**Profit & Loss Before Interest and Tax**					
9	**Total Capital Employed**					
10	**Return on Capital Employed (%)**					
11	**Return on turnover (%)**					

Notes:

1. This sheet is to be prepared for each relevant Product as prescribed in Schedule I to Regulation
2. Excluding interest on loans/borrowed funds
3. As transferred from Proforma C
4. As transferred/apportioned from Proforma D
5. Replacement cost adjustment is to be used when report is made on the basis of replacement cost accounting.

Proforma C
COST SHEET: NETWORK ELEMENTS

Name of The Company :
Name of Service:
Licensed Service Area of Operation :
Period :
Cost Base: Historical cost accounting / Replacement cost accounting

(₹ in Lakh)

S No.	Particulars	Network Element 1	Network Element 2	Network Element....	Total
	COSTS:				
1	**NETWORK DIRECT COST**				
1.1	**Employee cost**				
1.1.1	Salaries and wages				
1.1.2	Contribution to provident fund and other funds				
1.1.3	Staff welfare				
1.1.4	Training and recruitment				
1.1.5	Others (please specify)				
	Sub total				
1.2	**Administration cost**				
1.2.1	Rent (Other than Network Element Equipments and Cell sites)				
1.2.2	Rates and taxes				
1.2.3	Insurance charges (Other than Network Element Equipments)				
1.2.4	Communication costs				
1.2.5	Electricity				
1.2.6	Travel and conveyance expenses				
1.2.7	Legal and professional charges				
1.2.8	Printing and stationery				
1.2.9	Audit fees				
1.2.10	Outsourcing Charges				
1.2.11	Porting Charges for MNP				
1.2.12	Others (please specify)				
	Sub total				
1.3	**Sales and Marketing cost**				
1.3.1	Advertisement and business promotion expenses				
1.3.2	Sales commission				
1.3.3	Provision for bad and doubtful debts				
1.3.4	Bad debts write off				

1.3.5	Outsourcing (Billing Services and Customer Care Services)				
1.3.6	Others (please specify)				
	Sub total				
1.4	**Maintenance cost**				
1.4.1	Annual maintenance charges				
1.4.2	Network Consumables				
1.4.3	Repairs and maintenance				
1.4.3.1	Buildings				
1.4.3.2	Plant and machinery				
1.4.3.3	Others				
1.4.4	Outsourcing Charges for Maintenance activities				
1.4.5	Others (please specify)				
	Sub total				
1.5	**Government charges**				
1.5.1	License fee				
1.5.2	License fee penalty, if any				
1.5.3	WPC charges:				
1.5.3.1	Radio Spectrum Charges				
1.5.3.2	Microwave Charges				
1.5.4	Others (please specify)				
	Sub total				
1.6	**Network operating Cost**				
1.6.1	Leased Circuits and Gateway Charges				
1.6.2	Royalty for technical knowhow fees				
1.6.3	Rent (Network Element Equipments and Cell sites)				
1.6.4	Power and fuel				
1.6.5	Interconnection:				
1.6.5.1	Port charges				
1.6.5.2	Others (please specify)				
1.6.6	Passive Infrastructure Charges:				
1.6.7	Insurance Charges (Network Element Equipments)				
1.6.8	Outsourcing Charges for Network Element Equipments				
1.6.9	Others (please specify)				
	Sub-total				
1.7	**Depreciation and Amortisation:**				
1.7.1	Depreciation on Network Elements				

1.7.2	Amortisation of One time entry fees/license fees				
1.7.3	Amortisation of spectrum auction money				
1.7.4	Depreciation/amortisation on Others (please specify)				
	Sub-total				
1.8	**Other cost**				
1.8.1	Loss on sale of fixed assets(net)				
1.8.2	Corporate office expenses				
1.8.3	Others (please specify)				
	Sub-total				
1.9	**Finance charges** *(Refer Note 1)*				
1.9.1	Bank charges				
1.9.2	Others (please specify)				
	Sub-total				
	TOTAL COST				
1.10	**Replacement Cost Adjustment (Refer Note 2)**				
1.10.1	Holding gain/Loss				
1.10.2	Supplementary Depreciation				
1.10.3	Change in Operating Cost due to replacement of assets				
1.10.4	Total adjustment				
	TOTAL NETWORK DIRECT COST (I)				
2	**COST TRANSFERRED FROM SUPPORT FUNCTION / DEPARTMENT**				
2.1	**Dept 1**				
2.2	**Dept 2**				
2.3	**Dept 3**				
2.4	**Dept........**				
	TOTAL SUPPORT FUNCTIONS/DEPARTMENT COST (II)				
3	**TOTAL NETWORK COST (I+II)**				

ALLOCATION OF NETWORK ELEMENTS COST TO PRODUCTS

Particulars	Product A	Product B	Product C	Product....	Total
Network Element 1					
Network Element2					
Network Element…….					
Total					

Notes:

1 Excluding interest on loans / borrowed funds

2 Replacement cost adjustment is to be used when report is made on the basis of replacement cost accounting.

3 In case there is any Joint network element with any other service, the cost of the same will be split and shown under the respective service wise cost sheet.

4 The list of network elements is provided in Schedule II to Regulation. The service provider should use this list. In case any network element is not relevant, the same may be shown as Nil.

Proforma D

COST SHEET: SUPPORT FUNCTIONS/DEPARTMENTS

Name of The Company :
Name of Service:
Licensed Service Area of Operation :
Period :
Cost Base: Historical cost accounting / Replacement cost accounting

(₹ in lakh)

S No.	Particulars	Deptt 1	Deptt 2	Deptt 3	Deptt 4	Deptt 5	Others	Total
	COSTS							
1.1	**Employee cost**							
1.1.1	Salaries and wages							
1.1.2	Contribution to provident fund and other funds							
1.1.3	Staff welfare							
1.1.4	Training and recruitment							
1.1.5	Others (please specify)							
	Sub total							
1.2	**Administration cost**							
1.2.1	Rent (Other than Network Element Equipments and Cell sites)							
1.2.2	Rates and taxes							
1.2.3	Insurance charges (Other than Network Element Equipments)							
1.2.4	Communication costs							
1.2.5	Electricity							
1.2.6	Travel and conveyance expenses							
1.2.7	Legal and professional charges							
1.2.8	Printing and stationery							
1.2.9	Audit fees							
1.2.10	Outsourcing Charges							
1.2.11	Porting Charges for MNP							
1.2.12	Others (please specify)							
	Sub total							
1.3	**Sales and marketing cost**							
1.3.1	Advertisement and business promotion expenses							
1.3.2	Sales commission							
1.3.3	Provision for bad and doubtful debts							
1.3.4	Bad debts write off							
1.3.5	Outsourcing (Billing Services							

	and Customer Care Services)							
1.3.6	Others (please specify)							
	Sub total							
1.4	**Maintenance cost**							
1.4.1	Annual maintenance charges							
1.4.2	Network Consumables							
1.4.3	Repairs and maintenance:							
1.4.3.1	Buildings							
1.4.3.2	Plant and machinery							
1.4.3.3	Others							
1.4.4	Outsourcing Charges for Maintenance activities							
1.4.5	Others (please specify)							
	Sub total							
1.5	**Government charges**							
1.5.1	License fee							
1.5.2	License fee penalty, if any							
1.5.3	WPC charges:							
1.5.3.1	Radio Spectrum Charges							
1.5.3.2	Microwave Charges							
1.5.4	Others (please specify)							
	Sub total							
1.6	**Network operating Cost**							
1.6.1	Leased Circuits and Gateway Charges							
1.6.2	Royalty for technical knowhow fees							
1.6.3	Rent (Network Element Equipments and Cell sites)							
1.6.4	Power and fuel							
1.6.5	Interconnection:							
1.6.5.1	Port charges							
1.6.5.2	Others (please specify)							
1.6.6	Passive Infrastructure Charges:							
1.6.7	Insurance Charges (Network Element Equipments)							
1.6.8	Outsourcing Charges for Network Element Equipments							
1.6.9	Others (please specify)							
	Sub-total							
1.7	**Depreciation and Amortisation:**							
1.7.1	Depreciation on Network Elements							
1.7.2	Amortisation of One time entry fees/license fees							

1.7.3	Amortisation of spectrum auction money							
1.7.4	Depreciation/amortisation on Others (please specify)							
	Sub-total							
1.8	**Other cost**							
1.8.1	Loss on sale of fixed assets(net)							
1.8.2	Corporate office							
1.8.3	Others (please specify)							
	Sub-total							
1.9	**Finance charges** *(Refer note 1)*							
1.9.1	Bank charges							
1.9.2	Others (please specify)							
	Sub-total							
	TOTAL COST							
1.10	**Replacement Cost Adjustment (Refer Note 2)**							
1.10.1	Holding gain/Loss							
1.10.2	Supplementary Depreciation							
1.10.3	Change in Operating Cost due to replacement of assets							
1.10.4	Total adjustment							
	TOTAL COST - SUPPORT FUNCTIONS/DEPARTMENTS							

Notes:

1. Excluding interest on loans/borrowed funds
2. Replacement cost adjustment is to be used when report is made on the basis of Replacement cost accounting.
3. The indicative List of departments is provided below.

SL No.	**List of Departments**
1.	Human Resource/Personnel
2.	Administration
3.	Repairs and Maintenance
4.	Information Technology/EDP
5.	Legal and Regulatory
6.	Finance & Accounts
7.	Corporate/Circle Office
8.	Other Departments

ALLOCATION OF COST OF SUPPORT FUNCTION/DEPARTMENT TO PRODUCT / NETWORK ELEMENTS

(₹ in Lakh)

Departments	**Deptt 1**	**Deptt 2**	**Deptt 3**	**Deptt 4**	**Deptt 5**	**Others**	**Total**
Allocation to Products							
Product A							
Product B							
Product C							
Product D							
Product E							
Product …………							
Allocation to Network Elements							
Network Element 1							
Network Element 2							
Network Element 3							
Network Element 4							
Network Element 5							
Network Element……							
Total							

Proforma E

STATEMENT OF GROSS BLOCK, DEPRECIATION AND NET BLOCK - SERVICE

Name of The Company :
Name of Service:
Licensed Service Area of Operation :
Period :
Cost Base: Historical cost accounting / Replacement cost accounting

Gross Block/Depreciation/Net Block **(₹ in Lakh)**

Particulars	Tangible Assets								Intangible Assets					Total
	Land	Building	Plant and machinery	Computers	Office equipment	Furniture and fixtures	Vehicles	Others	Right to use spectrum/ Auction Money for Spectrum	License Fee/ One Time Entry Fee	Bandwidth	Patents / Technical know how	Others	
NETWORK ELEMENTS (refer note 1)														

Sub Total (A)														
SUPPORT FUNCTIONS/ DEPARTMENTS/ OTHERS (refer note 2)														

Sub Total (B)														
TOTAL (A+B)														

Notes:

1. As prescribed in Schedule II to regulations. This includes common network elements as well as network elements directly identifiable/attributable to product (s)
2. This includes fixed assets (other than network elements) directly identifiable/ attributable to product (s)
3. Separate Forms for Fixed Asset (Gross Block/ Net Block) and Accumulated Depreciation.
4. Form should specifically mention whether it is prepared on historical cost basis or replacement cost
5. A statement indicating rate of depreciation charged during the reporting period on various fixed assets will be annexed to Proforma E
6. Information in above format under each category should be inclusive of value of impaired assets

Proforma F
CAPITAL EMPLOYED STATEMENT- SERVICE

Name of The Company :
Name of Service:
Licensed Service Area of Operation:
Period :
Cost Base: Historical cost accounting / Replacement cost accounting

(₹ in Lakh)

Particulars	**Current Year**			**Previous Year**	
	Components of Capital Employed	**Adjustment for replacement cost of Assets (refer note 2)**	**Total**	**Components of Capital Employed**	**Total**
Fixed Assets (Gross Book Value)					
Less: Accumulated Depreciation					
NET BOOK VALUE OF FIXED ASSETS (I)					
CAPITAL WORK IN PROGRESS:					
Right to use spectrum/Auction Money for Spectrum					
License Fee/ One Time Entry Fee					
Others					
Total CAPITAL WORK IN PROGRESS (II)					
CURRENT ASSETS:					
Current investments					
Trade Receivables					
Inventories					
Cash and cash equivalents					
Short Term Loans and advances					
Others (please specify)					
Sub total					
CURRENT LIABILITIES:					
Short term borrowings					
Trade Payables					

Short term provisions					
Other (please specify)					
Sub total					
NET WORKING CAPITAL *i.e. Current Assets Less Current Liabilities* **(III)**					
TOTAL CAPITAL EMPLOYED (I + II+ III)					
Weighted Average Cost of Capital i.e. WACC (in %) (refer note 3)					

Notes:
1. Capital Employed is the closing capital employed at the end of the Accounting period.
2. Replacement cost adjustment and net replacement cost is relevant for reports prepared on the basis of replacement cost accounting. No requirement to fill previous year's figures in reports based on replacement cost accounting.
3. WACC is pre tax Weighted Average Cost of Capital. Statement of computation of pre tax WACC should be attached.

Proforma G
CAPITAL EMPLOYED STATEMENT: ALLOCATION TO PRODUCTS

Name of The Company :
Name of Service:
Licensed Service Area of Operation :
Period :
Cost Base: Historical cost accounting / Replacement cost accounting

(₹ in Lakh)

Products	**Current Year**	**Previous Year**
	Allocation of Capital Employed (As per Proforma F) to different products	**Allocation of Capital Employed (As per Proforma F) to different products**
Product A		
Product B		
Product C		
Product D		
Product E		
Product F		
Products…..		
TOTAL		

Notes:
1. Capital Employed is the closing capital employed at the end of the accounting period.
2. Replacement cost adjustment and net replacement cost is relevant for reports prepared on the basis of replacement cost accounting. No requirement to fill previous year's figures in reports based on replacement cost accounting.

Proforma H

STATEMENT OF RELATED PARTY TRANSACTIONS (REVENUE)

Name of The Company :

Name of Service:

Licensed Service Area of Operation:

Period :

Cost Base: Historical cost accounting

GROSS REVENUE

Particulars		Sale (Gross Revenue) - within Group/Company (refer note 1)								
		Product A (refer note 5)			**Product B**			**Product...**		
		Related Party 1 (refer note 2)	Related Party 2	Related Party...	Related Party 1	Related Party 2	Related Party...	Related Party 1	Related Party 2	Related Party...
At maximum rate per unit charged	Rate Per Unit (₹)									
	Unit (refer note 3)									
	Gross Revenue (₹ in Lakh)									
At lowest rate per unit charged	Rate Per Unit (₹)									
	Unit (refer note 3)									
	Gross Revenue (₹ in Lakh)									
Total Gross Revenue (sum of revenue at all rates)	Volume (refer note 4)									
	Gross Revenue (₹ in Lakh)									
	Average Gross Revenue per unit (₹)									

Note:

1. Group means the parties defined as "Related Party" in the Regulation. Separate information to be provided for each company separately covered under the definition of related party and also includes inter telecom service transactions with in a company.
2. Please mention name of related party (in case of other entity) or name of telecom license in case of inter service transaction.
3. Minutes of Usage, number of messages, number of towers etc.
4. Total unit transacted with related party.
5. Related party information on gross revenue in above Proforma shall be given for the following products under different telecom services:

Name of Telecom Service	Product
(I) Access Service - Wireless (II) Access Service – Wireline	(i) Wholesale (Interconnection): Termination Voice call Charges (other than international calls) (ii) Wholesale (Interconnection): International Termination Charges – Voice calls (iii) Wholesale (Interconnection): Termination SMS (iv) Wholesale (Interconnection): Port charges including Co-Location (v) Wholesale (Interconnection): Access Charges (Calling Cards) (vi) Wholesale (Interconnection) In-Roaming (vii) Sharing of Towers (viii) Leasing of Towers
(III) Internet Service	(i) Dark Fiber
(IV) National Long Distance Service	(i) Voice: Carriage Services (ii) Dark Fiber
(V) International Long Distance Service	(i) Voice: Carriage Services (ii) Cable Landing Station: Collocation (iii) Cable Landing Station: Access facilitation (iv) Dark Fiber

Proforma I

RECONCILIATION STATEMENT (COVERING ALL SERVICES AND AREA OF OPERATION) WITH AUDITED FINANCIAL STATEMENTS

Name of The Company :
Name of Service: Consolidated for all telecom services
Licensed Service Area of Operation: Service provider as a whole (at entity level) covering all telecom services
Period :
Cost Base: Historical cost accounting

(₹ in Lakh)

Sl No.	Particulars	Telecom Services *(refer Note 1)*								Inter Service/inter LSA Adjustment (if any)	Total of Services (net of inter service/ inter LSA adjustment)	Other than telecom services as prescribed in Schedule I to Regulation (refer note 2)	Total as per Audited Annual Financial Statements
		Access Service – Wireless		Access Service - Wireline	Internet Service	National Long Distance Service	International Long Distance Service	Mobile Number Portability	Very Small Aperture Terminal Service				
1	**Revenue:**												
1.1	Revenue (net of service tax)												
1.2	Less: pass through charges												
1.3	Revenue (net of Pass through)												
2	**Costs:**												
2.1	Employees Cost												
2.2	Administration Cost												
2.3	Sales and marketing Cost												
2.4	Maintenance Cost												
2.5	Government Charges												
2.6	Network operating Cost												
2.7	Depreciation and												

	Amortisation												
2.8	Others Cost (please specify)												
2.9	Finance Charges *(refer note 3)*												
	TOTAL COST												
3	**Profit before Interest and Tax (PBIT)**												
4	**Capital Employed**												

Note:
1. For Telecom services, revenues, costs and capital employed should be in agreement with Proforma A of that particular service.
2. A separate list shall be annexed with this Proforma for individual item / head of account having value more than ₹ 10 crore.
3. Excluding interest on loans /borrowed funds

PROFORMA J

STATEMENT OF NON-FINANCIAL INFORMATION FOR EACH TELECOM SERVICE

(A) Statement of Non-Financial Information for ACCESS SERVICE – WIRELESS					
I. Basic Information					
Information as of (date)					
1.1 Name of License					
1.2 License No. and date of issue/migration					
1.3 Licensed Service Area					
1.4 License Period					
1.5 Date of commencement of commercial service					
II. Subscriber Details					
2.1 Number of Subscribers (in lakh)	Opening		Closing		
(a) Urban					
(b) Rural					
Total					
2.2 Number of Internet Subscribers (in lakh):					
III. Traffic Details					
3.1 Usage:	On Net		Off Net		Total
	Originating	Terminating	Originating	Terminating	
(a) Voice Minutes of Usage (in lakh)					
(b) Non-voice Messages-SMS/MMS (in lakh)					
3.2 Data Usage (in MB) (in lakh):					
3.3 Total bandwidth (Mbps) sold through leased circuits:					
3.4 Transmission Capacity Details	Length in Route Kilometer				
(A) OFC:					
- Owned					
- Leased In					
(B) Microwave:					
- Owned					
- Leased In					
(C) Satellite					

IV. Towers Details				
Particulars	Number of Towers			Average Tenancy Ratio
	Owned	Leased		
		Exclusive	Shared	
Ground Base Tower (GBT)				
Roof Top Tower (RTT)				
Roof Top Pole (RTP)				
V. Details of Spectrum Allotted				
Spectrum Band (frequency)	Spectrum Allotted (in MHz)			
(a) ……				
(b) …….				
Note: Information shall be given for the last day of financial year being reported.				

(B) Statement of Non-Financial Information for ACCESS SERVICE – WIRELINE		
I. Basic Information		
Information as of (date)		
1.1 Name of License		
1.2 License No. and date of issue/migration		
1.3 Service Area licensed		
1.4 License Period		
1.5 Date of commencement of commercial service		
II. Subscriber Details		
2.1 Details of Direct Exchange Lines (Subscribers) (in lakh)	Opening	Closing
(a) Urban		
(b) Rural		
Total		
2.2 Number of Internet subscribers (in lakh):		
(a) Internet – Broadband		
(b) Internet – Narrowband		

III. Traffic Details					
3.1 Transmission Capacity Details:	Length in Route Kilometre				
(A) OFC:					
- Owned					
- Leased In					
(B) Microwave:					
- Owned					
- Leased In					
(C) Satellite					
3.2 Usage:	On Net		Off Net		Total
	Originating	Terminating	Originating	Terminating	
(a) Voice Minutes of Usage (in lakh)					
3.3 Data Usage (in MB):					
(a) Internet – Broadband					
(b) Internet – Narrowband					
3.4 Total bandwidth (Mbps) sold through leased circuits:					
3.5 Total length (Km): -					
(a) Local Loop Copper					
(b) Fiber					

(C) Statement of Non-Financial Information for INTERNET SERVICE	
I. Basic Information	
Information as of (date)	
1.1 Name of License	
1.2 License No. and date of issue/migration	
1.3 License Category (please indicate whether A, B or C)/Licensed Area	
1.4 License Period	
1.5 Date of commencement of commercial service	
II. Subscriber Details	
2.1 Number of subscribers (in lakh):	

(a) Internet – Broadband	
(b) Internet – Narrowband	
(c) IP TV	
III. Network Information	
3.1 Capacity details:	
(a) Total owned capacity (bandwidth in Mbps)	
(b) Capacity Leased in (bandwidth in Mbps)	
(c) Capacity Leased out (bandwidth in Mbps)	
3.2 International Internet Bandwidth:	
3.3 Data Usage (in MB):	
(a) Internet – Broadband	
(b) Internet – Narrowband	
IV. Details of Spectrum Allotted	
Spectrum Band (frequency)	Spectrum Allotted (in MHz)
(a) ……	
(b) …….	
Note: Information shall be given for the last day of financial year being reported.	
V. Dark Fibre Transmission Media Details	
(a) Total Number of Route Kilometers of OFC	
(b) Number of Route Kilometers sold/leased out	

(D) Statement of Non-Financial Information for NATIONAL LONG DISTANCE SERVICE	
I. Basic Information	
Information as of (date)	
1.1 Name of License	
1.2 License No. and date of issue/migration	
1.3 License Period	
1.4 Date of Commencement of commercial service	
II. Traffic Details	
2.1 Details of Transmission Capacity available	Length in Route Kilometre
(A) OFC:	

(a) Owned		
(b) Leased In		
(B) Microwave:		
(a) Owned		
(b) Leased In		
(C) Satellite		
2.2 Voice Usage Minutes:	Minutes collected	Minutes handed over
- NLD Voice minutes carried including carried minutes of Calling Cards (in lakh):		
2.3 Calling Cards Minutes:	Minutes generated from Access Subscribers	
	Wireless	Wireline
- Voice Minutes (calling card) (in lakh)		
2.4 Managed Data Service (VPN/ CUG) (total bandwidth)		
2.5 Total bandwidth (Mbps) sold through leased circuits		
III. Dark Fibre Transmission Media Details		
3.1 Total Number of Route Kilometers of OFC		
3.2 Number of Route Kilometers sold/leased out		

(E) Statement of Non-Financial Information for INTERNATIONAL LONG DISTANCE SERVICE				
I. Basic Information				
Information as of (date)				
1.1 Name of License				
1.2 License No. and date of issue/migration				
1.3 License Period				
1.4 Date of Commencement of commercial service				
II. Traffic Details				
2.1 Details of Transmission Capacity (in Mbps) available	Capacity Utilisation			
	Capacity Sold- Retail	Capacity Sold- Leased Out	Captive Consumption	Total

(a) Capacity Owned				
(b) Capacity leased in				
Total Capacity				
2.2 Voice Usage Minutes:	Transit Minutes	Inbound Minutes handed over	Outbound Minutes collected	
- ILD Voice minutes carried including carried minutes of Calling Cards (in lakh):				
2.3 Calling Cards Minutes:	Minutes generated from Access Subscribers			
	Wireless		Wireline	
- Voice Minutes (calling card) (in lakh)				
2.4 Managed Data Service (VPN/ CUG) (total bandwidth)				
2.5 Total bandwidth (Mbps) sold through leased circuits				
III. Cable Landing Station Capacity Details				
3.1 Number of Cable Landing Stations:				
3.2 Number of submarine cables landing at the Cable Landing Stations:				
3.3 Capacity Utilisation (in Mbps)	Capacity Sold- Retail	Capacity Sold- Leased Out	Captive Consumption	Total
(a) Capacity Owned				
(b) Capacity Leased in				
Total Capacity				
3.4 Number of ILDO/ISP to whom landing facility provided:				
3.5 Number of ILDO/ISP to whom access facility provided:				
3.6 Number of ILDO/ISP to whom co-location provided:				
Note: Information in respect of 3.4, 3.5 & 3.6 shall be given for the last day of accounting year being reported.				
IV. Dark Fibre Transmission Media Details				
4.1 Total Number of Route Kilometers of OFC				
4.2 Number of Route Kilometers sold/leased out				

(F) Statement of Non-Financial Information for MOBILE NUMBER PORTABILITY	
I. Basic Information	
Information as of (date)	
1.1 Name of License	
1.2 License No. and date of issue	
1.3 Date of Commencement of commercial service	
II. Porting Details	
2.1 Number of porting requests	
2.2 Number of porting actual	

(G) Statement of Non-Financial Information for VSAT SERVICE	
I. Basic Information	
Information as of (date)	
1.1 Name of License	
1.2 License No. and date of issue	
1.3 Date of Commencement of commercial service	
II. Subscribers/Capacity details	
2.1 Number of Subscribers (in lakh):	
(a) Individual	
(b) (i) Closed User Group	
(b) (ii) Number of VSAT terminals in Closed User Group	
III. Details of Spectrum Allotted	
Spectrum Band	Spectrum Allotted (in MHz)
(a) ……	
(b) …….	
Note: Information shall be given for the last day of financial year being reported.	

Annexure III

Replacement Cost Accounting

Introduction

1. In context of telecom industry, Replacement Cost Accounting is considered to be a substitute for forward-looking costs. The current costs represent investments choices of service providers today; both for an incumbent service provider planning to modernise the network and for a new entrant planning to decide whether to build a new network.

2. The relevant extracts of the ASR 2016 in respect of Replacement Cost are reproduced below:

3. The service provider shall furnish to the Authority the financial reports and non-financial reports based on Replacement Cost Accounting for the following services specified in Schedule-I to these regulations from the accounting year ending 31st March 2017 and every second year thereafter:

    - Access Services – Wireless
    - Access Services – Wireline
    - National Long Distance Service
    - International Long Distance Service

   Provided that a service provider is not required to furnish the financial report based on Replacement Cost Accounting for three years from the date of issue of licence and thereafter shall submit reports based Replacement Cost Accounting as prescribed by the Regulations.

   - The financial reports on the basis of replacement cost accounting shall be prepared by:
     - applying Financial Capital Maintenance Methodology (FCM). Financial Capital Maintenance considers that financial capital for the company is maintained in the current price terms. Capital is assumed to be maintained in real terms at the same level as at the beginning of the period.
     - limiting cost adjustment to the fixed assets;
     - ignoring replacement cost adjustment for assets having life of less than three years;
     - taking cost of modern equivalent asset when existing asset is not available due to change in technology ;
     - indicating holding gain or loss and supplementary depreciation;
     - indicating the change in operating expenditure when an old asset is replaced by a modern equivalent asset.

Valuation of Assets

4. Valuation of assets is a major element of the Replacement Cost Accounting exercise. Normally, Net Replacement Cost of the asset is used as the current cost measure and the ASR 2016 also provides for the same.

5. Net replacement cost of an asset can be determined on following basis:

- When there is not much change in technology level, there are two methods of determining net replacement asset value.

    - **Indexation:** Net Replacement value is derived using indexation of historical book values. The index used should wherever possible be an asset specific index. The price indices can also be created for each class of asset by analysing trend of prices over a period of time. These price trends can be further modified / collaborated using inputs from external sources like RBI price indices etc. A base year is chosen and price trends over the year are compared to the base price. For the newer technologies, base year is set to the first year of expenditure.

    - **Absolute Value**: At times, indexation method may not be feasible for the lack of data or other issues. Hence it may be more reliable to use physical volumes and unit prices to derive an absolute valuation.

- **Modern Equivalent Asset (MEA)**: In situations where there is a technological change, existing assets would not be replaced in an identical form. This may happen because the existing asset is no longer manufactured or its capacity and functionality have been significantly updated. In such cases, value of Modern Equivalent Asset (MEA) is taken which is value of a currently available asset with same level of capacity and functionality.

6. The choice of method for a particular class of asset depends on individual set of circumstances. In context of Indian Telecom industry, major part of the total capital base is represented by assets, which have been acquired in the recent past. Thus many of the assets may fall under the existing technology.

Functionality abatement issues in MEA

7. In telecommunication industry, the calculation of MEA value is further complicated by rate of technological change in the industry. The identification of a suitable asset, which represents same level of functionality and capacity is a major issue. Moreover, the calculation of MEA value may also impact the value of another asset. For example, if copper cables were replaced by fiber cables in current cost valuation, then corresponding size of the fiber cable will be different from existing copper cable and hence the ducting and trenching cost will have to be modified to reflect the ducting and trenching estimates for fiber cable. If optical fiber cable (OFC) requires lesser manpower to

provide operation and maintenance as compared to the copper cable, corresponding operating and maintenance costs will also need to be modified as per the revalued asset. These adjustments are known as 'Functionality abatements'.

8. The following needs to be noted with respect to the MEA approach:

- The above operating costs readjustment corresponds to revaluation of asset only and not on the account of improvement of manpower efficiency.

- Emerging new technologies should not be treated as MEA until their cost of replacement is lower than that of existing assets. For example, use of OFC in access will not be an MEA till its cost is lower than copper access.

- The use of new technology as MEA does not assume any efficiency gain on account of improved network topology. The network architecture remains same as in existing network.

Surplus Capacity

9. If the capacity of an asset is not in use and is not expected to be used over the next few years' planning horizon, the capacity is considered to be surplus. For example, if the exchanges are revalued on MEA basis, corresponding area requirement are reduced because of smaller size of the equipment. This may lead to surplus capacity of the building housing the exchange equipment.

10. Only the operative capacity of business is valued for the Replacement Cost Accounting.

Other aspects

11. Following the above principles of valuation, in general the assets may be valued in the manner given below:

- The assets items where major programmes of modernisation are underway in the next 3-4 years should be valued based on the concept of Modern Equivalent Asset. Generally equipment such as exchanges, transmission equipment, etc. should be valued based on MEA.
- Specialised buildings, which are generally used for housing exchanges, should be valued at current cost of reconstruction as per the space requirements of modern equivalent asset.
- General use buildings should be valued at current cost of reconstruction.
- Land should be valued at land rates applicable for the same land use in the area.

12. The assets with low value or short life may be valued at their historical price only as they may not have material impact. Accordingly, asset items with life of less than three years or value upto ₹ 1 lakh may be stated at their historical costs.

CCA Adjustments

13. As per the ASR 2016, the FCM method shall be followed for CCA. Further CCA adjustments shall be made only in respect of the fixed assets. Other adjustments mentioned below which are otherwise required under CCA are not to be carried out:

- **Cost of Sales Adjustment (COSA):** This represents the difference between the value to business of the stock consumed during the period and its historical cost. Since telecom industry is largely a service-oriented industry with no "raw material" consumption, the COSA should not generally make a significant difference to the P&L. Hence, no COSA is required to be made for CCA.

- **Monetary Working Capital Adjustment (MWCA):** It reflects the amount of additional or reduced finance needed for monetary working capital as a result of changes in the input prices of goods and services used and financed by the business. In times of rising prices, a business needs more funds to finance monetary working capital. For the sake of simplicity, no adjustment may be made in respect of MWCA for CCA adjustment.

- **Gearing Adjustment:** Gearing adjustments reflects the impact of capital structure (debt and equity) of an organization on its profits. The payout to borrowings/loans is not affected by the changing prices. Hence, if a company is financed by external loans, it will be benefited during period of inflation as its payout is decreased in real terms during inflation periods. For the sake of simplicity, no adjustment may be made in respect of Gearing Adjustment for CCA adjustment

14. Current cost profit under FCM shall be derived as follows:

FCM profit = HC profit + holding gains/ (losses) +Supplementary Depreciation (The holding gain/ (loss) will be reflected net of backlog depreciation)

15. The above adjustments are explained below:

Supplementary Depreciation

- The charge to the Profit and Loss account due to depreciation should be equal to the value of the fixed assets consumed during the period. When the fixed assets are valued on the basis of Net Replacement cost, which may increase/decrease during the year, the charge is based on Net Replacement cost for the period. Hence supplementary depreciation needs to be provided to cover up the difference between current cost and historical cost of asset, as described below:

Supplementary depreciation = (for the year) (*Rate* of depreciation * Replacement cost of fixed assets) – (*Rate* of depreciation * Historical cost of fixed assets)

Holding gain /loss

- Holding gains / (loss) comprise two components:
  - The gain in the current replacement cost value of assets as a result of changes in the cost of assets; that is, as a result of asset revaluation; and
  - The element of the revaluation that is written off as depreciation during the year in question

- The gain in current replacement cost can be derived as:

  NBV (HC) t-1 x (GRCt/acquisition cost) less NBV (HC) t-1 x (GRCt-1/acquisition cost)

  where NBV (HC) t-1 is the written down historical cost of the asset at the end of the previous year, GRC is the gross replacement cost and acquisition cost is the original purchase consideration. The above formula reduces to the net book value in current cost terms at the end of the previous year multiplied by the change in the asset-specific price index.

Numerical Example:

The table below illustrates the above concepts for an asset purchased for Rs 10,000. The assumed life of the asset is 4 years. For simplicity, it is assumed that the asset is depreciated on a straight line basis. It is assumed that the cost of replacing the asset falls by 10% per annum.

Yr	Current Cost (NRV)	Depreciation					Holding Gain / (Loss)			CCA Adjustments (Supplementary Depreciation + Holding Gain/loss)
		Current Cost	Historical Cost	Supplementary	Cumulative	Required	Backlog Depreciation	Holding Gain / (Loss)	Holding Gain / (Loss) net of Backlog Depreciation	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)

Yr	Current Cost (NRV)	Depreciation					Holding Gain / (Loss)			CCA Adjustments (Supplementary Depreciation + Holding Gain/loss)
		Current Cost	Historical Cost	Supplementary	Cumulative	Required	Backlog Depreciation	Holding Gain / (Loss)	Holding Gain / (Loss) net of Backlog Depreciation)	
0	10,000									
1	9,000	2,250	2,500	(250)	2,250	2,250	-	(1,000)	(1,000)	750
2	8,100	2,025	2,500	(475)	4,275	4,050	(225)	(900)	(675)	200
3	7,290	1,823	2,500	(678)	5,873	5,468	(405)	(810)	(405)	(273)
4	6,561	1,640	2,500	(860)	7,108	6,561	(547)	(729)	(182)	(678)

Explanation of the above column headings:

- current cost is the gross replacement cost of the asset,
- current cost depreciation is derived as the gross replacement cost divided by the asset life,
- historical cost depreciation is the original acquisition cost divided by the asset life,
- supplementary depreciation is the additional depreciation charged as a result of revaluing the asset (it can also be derived as current cost depreciation less historical cost depreciation),
- cumulative depreciation is the sum of cumulative current cost depreciation as at the end of the previous period, backlog depreciation for the previous period and current cost depreciation for the current period. This is equivalent to required depreciation at the end of the previous plus current cost depreciation for the current period,
- `Required' depreciation is the cumulative depreciation that would have been charged given the current cost of the asset put another way, it is the difference between the gross and net replacement cost of the asset, and
- backlog depreciation is the difference between required depreciation and cumulative depreciation.
- holding gains/ (losses) - The gain/loss in the current cost value of assets as a result of changes in the cost of assets; that is, as a result of asset revaluation. As per the Regulation, the holding gain / loss will be shown net of backlog depreciation.

Annexure IV

SCHEDULE-IV

FORM OF AUDIT REPORT ON THE ACCOUNTING SEPARATION REPORT

I/We,...having been appointed as the Auditor(s) under the requirements laid down in the Reporting System on Accounting Separation Regulation, 2016 (here in after referred to as the Regulation) issued by Telecom Regulatory Authority of India (here in after referred to as the Authority) by .... (mention name of the Company) having its registered office at .... (mention registered office address of the company) (here in after referred to as the Company), have audited the attached Accounting Separation Reports covering..............................(mention name of service/ licensed service area) for the year ended .... (mention the accounting year) of the Company.

2. The Company is responsible for preparation of the Accounting Separation Reports and these have been approved by the Board of Directors of the Company. My/ Our responsibility is to audit the Accounting Separation Reports in accordance with the Regulation and generally accepted auditing standards in India.

3. Further to my/our comments/observations given in the enclosed Annexure (Annexure is required in case there are comments/observations on Accounting Separation Reports), I/We report that:

(a) I / we have received all the information and explanations, which to the best of my/our knowledge and belief were necessary for the purpose of my/our audit.

(b) In my / our opinion proper books of account have been kept by the Company so far as appears from my / our examination of those books to enable the preparation of complete and proper Accounting Separation Reports in accordance with the Regulation.

(c) The Accounting Separation Reports for the year ended ……... are in agreement with the books of accounts and have been properly drawn up in accordance with the Regulation and the methods and basis laid down in the Manual of the Company prescribed under the Regulation.

(d) In my/our opinion, and to the best of my/our information and according to the explanations given to me/us, the Accounting Separation Reports for the year ended.......... give the information required by the Regulation in the manner so required and give a true and fair view in conformity with the framework as per the Regulation.

4 I/ We also report that all changes to the Manual prescribed under Regulation that materially affect the Accounting Separation Reports for the year ended …………….have been filed with the Authority by the Company.

Dated : Signature

Place : Name of Proprietor/Partner

Membership No.

Name of the Firm with Stamp (Seal)

Definitions

(a) "accounting separation statement" means report furnished in Proforma specified in Schedule III to these regulations;

(b) "accounting year" means the financial year defined under sub-section (41) of section 2 of the Companies Act, 2013 (18 of 2013);

(c) "Act" means the Telecom Regulatory Authority of India Act, 1997 (24 of 1997);

(d) "annual financial statement" means financial statements prepared under section 128 of the Companies Act, 2013;

(e) "Authority" means the Telecom Regulatory Authority of India established under sub-section (1) of section 3 of the Act;

(f) "Broadband" or "Broadband service" means a data connection that is able to support interactive services including Internet access and has the capability of the minimum download speed of 512 kbps or higher speed, as may be decided by the licensor, to an individual subscriber from the point of presence (POP) of the service provider intending to provide Broadband service.

(g) "cable landing station" means the location,

(i) at which the international submarine cable capacity is connectable to the backhaul circuit;

(ii) at which International submarine cables are available on shore, for accessing international submarine cable capacity; and such location includes buildings containing the onshore end of the submarine cable and equipment for connecting to backhaul circuits;

(h) "co-location charges" means the charges payable by a service provider for using facilities including land, building space, apparatus and plants, environmental services, security, site maintenance, power, electrical installations, cables, transformers, fire detection, fire fighting systems and back-up power for the purpose of interconnection including installation of collocation equipments i.e. switches, racks and cages, cross-connects and other cabling at the premises owned by another service provider;

(i) "cost centre" means the support function or department of a company or a network element for which cost is incurred;

(j) "financial capital maintenance" is a methodology of recognising profit after taking account of holding gain or loss arising as a result of Replacement Cost Accounting;

(k) "historical cost accounting" means a system of accounting where assets, liabilities, costs and revenues are recorded at the value when the transaction was made and where assets are valued and depreciated according to their cost at the time of purchase or acquisition;

(l) "holding gain or loss" means gain or loss arising out of change in the replacement cost of an asset while the asset is still being held at the historical cost and is computed as under:-

Holding Gain or Loss= NBVt-1X (GRCt /HC) - NBVt-1X(GRCt-1 /HC)

Where, NBVt-1 = Written down value of an asset at historical cost at the beginning of year t,

GRCt = Gross replacement cost of an asset at the end of year t,

HC = Historical cost of an asset at the time of its purchase

(m) "Internet service" means all type of Internet access or Internet content services as provided in the licence;

(n) "licence" means a licence granted or having effect as if granted under section 4 of the Indian Telegraph Act, 1885 (13 of 1885) or the provisions of the Indian Wireless Telegraphy Act, 1933 (17 of 1933);

(o) "manual" means manual referred to in regulation 3;

(p) "Meet Me Room" means a place where telecom service providers connect their equipment;

(q) "modern equivalent asset" means the current value of available asset with the same level of capacity and functionality as that of the original asset;

(r) "off-net call" means a call other than on-net call ;

(s) "on-net call" means a call which originates and terminates in the network of the same service provider within same licensed service area;

(t) "pass through charges" means the charges excluded from gross revenue to arrive at adjusted gross revenue for the purpose of levying licence fee as provided under the licence agreement of the service provider;

(u) "profit centre" means a service or a product offered by a service provider to which revenue and cost can be traced to calculate profit from that activity;

(v) "regulations" means the Reporting System on Accounting Separation Regulations, 2016;

(w) "related party" has the meaning assigned to it in the Accounting Standard on Related Party Disclosures (AS 18) issued by the Institute of Chartered Accountants of India and also includes transactions within a company involving separate licensed activities;

(x) "related party transaction" means a transfer of resources or obligations between related parties whether a price is charged or not;

(y) "replacement cost accounting" means system of accounting where value of an asset is entered in the financial statement at the price which is required to be paid if same or equivalent asset is purchased or acquired;

(z) "report" mean financial and non-financial accounting separation reports furnished by service providers under regulation 4;

(za) "retail revenue" means revenue earned by the service provider from the sale of products and services directly to the end consumer;

(zb) "service provider" means the Government as a service provider and includes a licensee;

(zc) "supplementary depreciation" means the difference between depreciation on historical cost and depreciation on replacement cost of an asset;

(zd) "transit carriage charge" means charge for carriage of intra-circle traffic handed over from Cellular Mobile Networks to Fixed Network at Level II Trunk Automatic Exchange (TAX) of Long Distance Charging Area for terminating in Short Distance Charging Area of the same Long Distance Charging Area;

(ze) "Value Added Services" means services which are offered to add value to the core services, the core services being voice calls, voice or non-voice messages and data transmission;

(zf) "wholesale interconnection" means a transaction for which revenue is received from other service providers for carrying or terminating calls or messages or for providing interconnection facilities;

(zg) "wholesale revenue" means revenue realised from the sale of products and services other than to end consumers;

(zh) all other words and expressions used in these regulations but not defined, and defined in the Act and the rules and other regulations made there under, shall have the meanings respectively assigned to them in the Act or the rules or other regulations, as the case may be.

Abbreviations

ASR- Accounting Separation Reports
AUC - Authentication Centre
BSC - Base Station Controller
BTS - Base Transceiver Station
CAPEX - Capital Expenditure
COSA - Cost of Sales Adjustment
CPE - Customer Premises Equipments
EIR - Equipment Identity Register
FCM - Financial Capital Maintenance
GGSN - Gateway GPRS Support Node
GMG - Gateway Media Gateway
GMSC - Gateway Mobile services Switching Centre
GBT - Ground Base Tower
HCA - Historical Cost Accounting
HLR - Home Location Register
HSS - Home Subscriber server
ILD - International Long Distance Service
IPLC - International Private Leased Circuit
IP - Internet Protocol
LIS - Lawful Interception Server
MGW - Media Gateway
MMR - Meet Me Room
MMSC - Multimedia Messaging Service Centre
MNP - Mobile Number Portability
MSC - Mobile services Switching Centre
MEA - Modern Equivalent Asset
MWCA - Monetary Working Capital Adjustment
NLD - National Long Distance Service
NGN – Next Generation Network
NMS - Network Management System
OPEX - Operating Costs
OFC - Optical Fiber Cable
RAN - Radio Access Network
RCA - Replacement Cost Accounting
RNC - Radio Network Controller
RTP - Roof Top Pole
RTT - Roof Top Tower
SGSN - Serving GPRS Support Node
SMSC - Short Message Service Centre
TAX - Trunk Automatic Exchange
TRAI - Telecom Regulatory Authority of India
VAS - Value Added Services
VSAT - Very Small Aperture Terminal Service
VLR - Visitor Location Register
WACC - Weighted Average Cost of Capital