

# Regulatory Accounting

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# RETHINK

## Regulatory Accounting & Cost Modelling

For regulatory authorities and operators it is essential to have a thorough understanding of the underlying economics of telecommunications businesses.

SVP Advisors has relevant expertise in a wide range of regulatory accounting models. Our services under the Regulatory Accounting & Cost Modelling line of service include the following:

- Design and Review of Regulatory Accounting and Cost Models
- Price Squeeze and Competition Analysis

### Design and review of Regulatory Accounts

An effective accounting model provides a detailed and valuable insight into an operator's financial and operational situation.

However, because the stakes are so high, the process by which regulatory accounts are prepared and audited involves significant complexity and demands careful management. There are technical, economic and legal aspects that need to be examined closely. Our experts have a clear understanding of the importance of all these aspects. This allows for effective and well-balanced project management, so that milestones are met without compromising the accuracy and robustness of results.

SVP Advisors' experts have developed or reviewed Regulatory Accounting Models in more than a quarter of the European Union member states. This background provides a clear perspective concerning the potentialities and internal structure of such systems. We also enjoy an in-depth knowledge of international best practice and are familiar with a variety of model types and costing standards.

### Price Squeeze and Competition Analysis

It is well known that wholesale and retail tariffs have a decisive influence in shaping the competitive dynamics of telecommunications markets. In markets undergoing liberalisation – particularly during early phases – it is common to find complaints by new entrants that incumbent operators engage in anti-competitive practices. These claims, however, need to be examined through careful economic analysis in order to verify their existence before taking whatever action may be appropriate to the situation.

SVP Advisors has extensive experience assisting public administrations in the design and execution of effective tests to identify, and measures to avoid, price squeeze and other anti-competitive practices. By anticipating the positive and negative effects of measures within the range of regulatory decisions available, suggested measures can be effectively translated into the market.

Case Study: Retail-Minus Methodology

SVP Advisors assisted an NRA in an EU member state in the establishment of wholesale broadband access tariff on retail-minus basis.

SVP Advisors first examined which framework best corresponded to the market and operator conditions in the relevant country, considering previous international experiences and country-specific market data. A methodology was devised for the calculation of the retail-minus factor, as well as rules for the assessment of retail offers and the review of wholesale tariffs.

We then supported our client in carrying out a public consultation to ensure an adequate reflection of the different operator views and market realities.

A DCF model was developed in order to replicate the revenues and costs of a generic alternative operator. The results of the model were used to establish new wholesale tariffs.

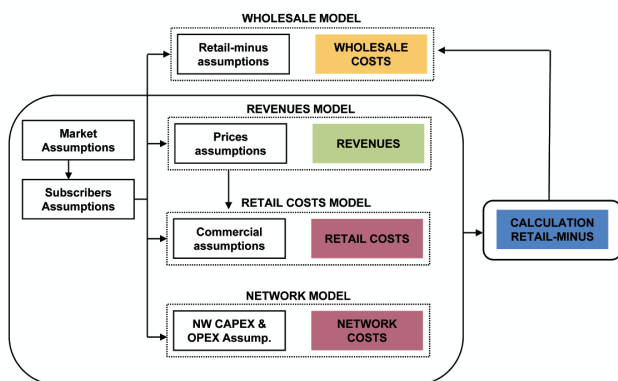


Exhibit 1. Retail-Minus calculation

Case Study: Review of the regulatory cost accounts of the Spanish fixed-line incumbent

On behalf of Spanish regulator CMT, SVP Advisors was commissioned to review the cost accounts of fixed-line incumbent Telefónica de España.

Our work comprised a review of the revenues and costs considered in the system, which comprised reconciliation with the financial statements and a review of the re-valuation of assets for the CCA standard. We also assessed the adequacy of the imputation of revenues and costs to services, including a review tailored to ensure that cost allocations between related retail and wholesale services were made on a non-discriminatory basis.

As part of our work, we evaluated the adequacy of modifications introduced in the system due to the evolution of the company operations and to ameliorative proposals made by the NRA.

At a general level, our review ensured that results were consistent with those of previous years, taking into account the market and operating trends affecting the company.

Our conclusions, including a general overview of the most relevant trends affecting the results, were presented to the board of the NRA. The results of regulatory accounts are used by the NRA for a range of applications, including establishment of wholesale tariffs and monitoring relevant markets to ensure they are functioning correctly.

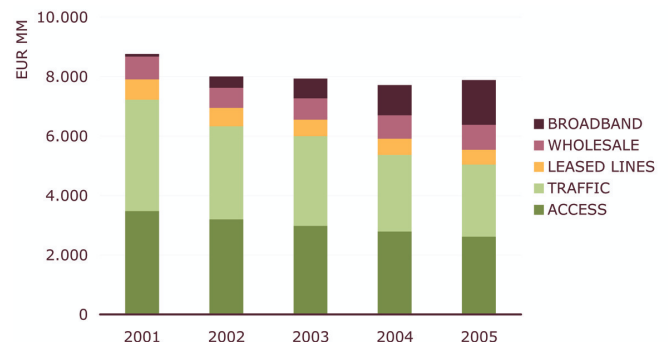


Exhibit 2. Evolution of current costs by regulated activity segment. (Note: based on public information available at CMT)