



Pursuant to Article 9, paragraph 1, item 10, Article 10, paragraph 2, items 3) and 4) and Articles 43, 44, 56 and 57 of the Telecommunications Law (*Official Gazette of RS*, nos. 44/03 and 36/06), and Article 18, item 11) and Article 20, paragraph 3, item (4) of the Statutes of the Republic Telecommunication Agency (*Official Gazette of RS*, no. 78/05),

the Managing Board of the Republic Telecommunication Agency on its session held on 14 October 2008 adopted the following

RULES

on the application of the cost-accounting principle, separate accounts and reporting of a telecommunications operator with significant market power

1. GENERAL PROVISIONS

1.1. Contents of the Rules

Article 1

These Rules shall regulate:

- Principles, models and basic methodology of cost accounting and performance with calculation of cost price for all types of final performances (market services) of a public telecommunications operator with significant market power (hereinafter: SMP operator);

- Principles and rules for the application of separate accounts for revenue, expenditure, profit and loss, assets and liabilities by types of market services, share directly attributable to the services or allocated thereto (segmented accounting);
- Principles and rules for cost accounting of the capital by types of market services (final performances) and proposed sales prices for the SMP operator;
- Material and formal contents, manner and deadline for submitting official and internal financial reports to the Republic Telecommunication Agency (hereinafter: Agency).

1.2. Aims of the Rules

Article 2

Aims of these Rules are to provide through the application thereof, for the purposes of the Republic Telecommunication Agency and the SMP operator, the following:

- appropriate business-financial information basis for planning and control of the activities oriented towards creating and maintaining the relations in the telecom services market pursuant to the relevant regulations;
- reliable information on costs, revenues, profits (or losses) and assets (capital employed) by types of market services of the public telecom operators with significant market power, as if the services were produced and sold by separate legal entities, for the purpose of determining a separate tariff regime for the services under exclusive business competence of the given operator according to “costs plus” method, and/or unit costs of such services increased by appropriate return on assets employed in service production and sales, recognizing legitimate business interest of the operator, protection of the service users’ interests and prevention of cost or price subsidizing between those services where the operator has significant market power and the services offered in the open competitive market;
- complete system of reliable, verifiable and transparent calculations of partial performances (internal services) of the cost centres, and/or types or groups of products whose costs are internally reallocated, and final performance (market services) of the operator; and
- the obligation of creating an appropriate internal accounting system, primarily Cost and Performance Accounting (Class 9 Account), but also appropriate analytic aspects (assets and liabilities account separation, i.e. capital employed) in Financial Accounting, as well as the obligation of coordinating the system with the Agency and making it available to the Agency.

1.3. Principles

Cost and Performance Accounting Principles and Models with Calculation

Article 3

Cost and performance accounting with calculation, i.e. application of cost-accounting principle and separate accounts by types of services with the operator providing several types of telecom services shall be based on the following principles:

- **completeness principle** refers to accounting and reporting of all primary and secondary costs and acknowledged performances by all cost centres (units), and/or all activities or groups of activities and by all cost origins (products and services) in terms of an overall reporting on revenues, expenditures and acknowledged performances by all market services and/or by geographic areas should the operator or the Agency decide to do so, in terms of an overall reporting on engaged capital, measured by the value of engaged assets, by all types of market services, furthermore always expressing non-allocated amounts and total amounts of the SMP operator, as well;
- **correlation principle** refers to comparing the revenues made in a certain period from the sales of market services (invoiced proceeds) with the relevant expenditures from the same period;
- **causation principle** refers to attributing the costs as accurately as possible to the cost origins and/or SMP operator's market services that incurred them, both directly (ultimate performance direct costs) and indirectly (through cost centres and/or an activity or group of activities (general costs from the viewpoint of cost origins and/or operator's market services), which implies a causal allocation of this type of primary costs by cost units and/or activities or group of activities, directly when the costs are attributable to these units or indirectly by means of appropriate cost drivers, as a causal reallocation of secondary costs (values of internal performances and/or services) between the cost units and/or activities or group of activities;
- **consistency principle**, refers to consistent application of selected cost and performance accounting procedures in time, in order to ensure an inter-periodic information comparability and a reliable inference thereupon, not excluding the openness of the system for feasible accounting innovations harmonized by and between the Agency and the operator;
- **transparency principle** refers to periodic and annual reporting to the Agency by the operator regarding the engaged capital, revenues, expenditures and results by types of market services, such as to enable the Agency to prevent potential non-competitive behaviour in the pricing policy in timely manner, as well as to familiarize itself with the business operations in order to take steps to boost the development of the SMP operator;
- **data verifiability principle** refers to reliance of all reports of the SMP operator with for the needs of the Agency on the applied accounting system of the SMP operator, including authentic documentation sources and protected software solutions, with a possibility for the Agency's departments in charge to access this system for monitoring purposes;

- **feasibility principle** refers to a gradual introduction of possible models and procedures of cost and performance accounting into the accounting information system of the SMP operator, given the comprehensiveness and complexity of the venture;
- **multi-purpose principle** refers to defining models and procedures for the implementation of the cost-based principle and reporting by segments (types of services) as a solution designed for providing information to both the Agency and the SMP operator's management;
- **confidentiality principle** refers to the obligation of the Agency to use the information obtained through the reports on costs, service pricing and reports on engaged capital, revenues, expenditures and results by types of only in order to prevent the anti-competitive behaviour thereof;
- **co-operation principle** refers to complete trust, openness and cooperation between the SMP operator and the Agency in the implementation of cost-accounting principle and separate accounts for the SMP operator's balance and profit performance by types of services sold.

1.4. Definitions

Article 4

Definitions given herein shall have the following meaning:

Cost and performance accounting is a part of accounting information system dedicated to analytic monitoring of costs, revenues and profit performance in order to provide reliable basis for performance cost price calculation, cost control and profit performance account separation by type of service and, if applicable, geographic areas;

Performance is result of business activity of the company or part of company;

Final performances are products and services of the company intended for external market or activation (inclusion into property) and consumption within the company itself, for the needs of creating future performances;

Partial performances are results of business activities of the company's organization units and intended directly for final performances or other organization units for consumption in the period of creation thereof (internal performance);

Cost origins (CO) or cost objects are final performances of the company;

Calculation is a unit cost accounting of final and partial performances;

Cost centre (CC) is a set of related and/or homogenous activities consolidated as a smaller organization part of the company, department, function, geographic area etc. For which the costs and partial performances are calculated for the sake of reliable calculations for the final performances of the company (cost centres), cost control and profit performance account separation by type of services.

Previous cost centres are those cost centres wholly or mainly giving their performances (internal services) to other cost centres which spend them in the same period, whereby they may

have cost origins if producing performances activated for the proper needs of the company (e.g. personally handled investment activities)

Final cost centres are those cost centres wholly or mainly giving their performances (services) to the final performances of the company (cost origins), whereby they may give a portion of their performances to other cost centres as internal performances (services);

Activities are analytical descriptions (results of the accounting break-down) of the company activities used for the needs of the activity based costing (ABC) mechanism;

Group of activities (GA) is a set of related activities formed according to the criteria of general costs homogeneity in terms of the possibility of finding a common cost driver for further cost allocation;

Conventional (functional) approach to cost accounting is a two-step accounting where the first step involves the selection of cost centres, allocation of direct costs to cost origins, allocation of general costs to cost centres, internal reallocation of costs from the previous cost centres and setting rates for final centres costs according to their performance units (cost drivers), whereas the second step involves allocation of the costs of the final cost centres to final performances (products and services) of the company by applying single pools cost quotas (rates) to the quantity of their performances (cost drivers) used by individual cost origins (products and services);

Activity based costing (ABC) is a two-step cost accounting where the first step involves indentifying the activities, allocation of direct costs to cost origins, allocation of general costs to activities, associating related activities into group of activities, forming homogeneous pools for general costs and calculation of rates for general costs pools by performance unit (cost driver), whereas the second step involves charging general costs to cost origins (company products and services) by applying quotas (rates) of the final cost centres costs to the quantity of resources (performances, cost drivers) used by individual products and services, all to the end of more accurate calculations of the company product and services, in view of the fact that the activities outnumber the cost centres and that a greater number of drivers is employed in respect to the conventional cost accounting;

Primary costs are monetary expression of spending any material and non-material elements of the business process of the company, along with the mandatory taxes and contributions of the company independent of its results, included and expressed by types of resources used for the company as a whole, in order to ensure the data needed for making the company balance sheet, for analytical cost and performance accounting with calculation and for profit performance account separation by types of produces and sold services;

Secondary costs are monetary expression of spending internal performances (services) of the previous cost centres or activities and/or group of activities by other cost centres or activities and/or group of activities;

Direct costs (DC) are those primary costs which are allocated to the company cost origins (products and services) with certainty and related directly thereto on the grounds of a document on cost incurred;

General costs (GC) are those primary costs which are shared by two or more cost origins and, therefore, in order to be finally allocated to cost origins they need to be previously calculated by cost centres or activities and/or group of activities, where they may be associated thereto directly or indirectly through cost drivers;

Historical cost accounting (HCA) is an accounting system which uses, throughout the accounting phases, really incurred costs of the company within the accounting period, which is visible by access to the system and the reports based thereupon;

Fully allocated costs (FAC) is a value concept requiring all company costs within the accounting period to be allocated (calculated in the cost price) by all cost origins (products and services) of the company, both those intended for the external sales market and those subject to the obligation of activation for proper needs of the company;

Capital is the sum of the equity and borrowed capital;

Equity is the sum of capital assets, reserves, revalorized reserves and unappropriated profit, minus uncalled issued capital and any loss;

Borrowed capital consists of debt and/or total liabilities of the company plus interest;

Company assets consist of business (operating) assets incurring business (operating) costs and generating business (operating) revenue;

Direct assets (DA) are business assets for which the type of cost origins (products or services) they are employed for is known with certainty and, therefore, when separating the balance account according to services as if performed by separate legal entities, they are directly allocated thereto;

Indirect assets (IA) are business assets shared by two or more cost origins (products and services) of the company and, therefore, when separating the assets account by type of service, they are allocated thereto using selected cost drivers;

Costs of capital are the sum of reasonable targeted yield (profit) on equity and net financial expenditure of the company (financial expenditure minus financial profit, having excluded the share in profit and loss of the related legal entities and joint investments, as well as the associated expenditure of financing the share in the capital of these entities);

Weighted average cost of capital (WACC) is average cost of equity and debt weighted by the share of equity and loss in the total capital;

Rate of return on non-risk investment is interest rate which is assumed to be feasible by investing in risk free financial instruments, usually government debt securities;

Telecommunications operator is a public telecommunications operator designated by the Agency decision as having significant market power pursuant to the applicable provisions of the Telecommunications Law (hereinafter: Law);

Regulated services are telecommunications services provided by the public telecommunications operator designated by the Agency decision as having significant market power in the provision of that type of telecommunications service;

1.5. Models of Cost and Performance Accounting

Article 5

Having regard to the international practice and accounting capacities of the SMP operator, in accordance with the degree of requirements met, the Agency shall monitor the application of three models of cost and performance accounting, i.e. cost-based principle, as follows:

- Historical (actual) Cost Accounting – HCA,
- Current Cost Accounting (reproduction costs) – CCA and
- Long Run Incremental Cost – LRIC.

In the light of these Rules, cost and performance accounting models, i.e. the implementation of the cost-based principle, according to the feasibility principle, are developmental phases in that area.

2. HISTORICAL (ACTUAL) COST ACCOUNTING – HCA

2.1. Basis of the Model

Article 6

The basis for HCA are the actual primary costs incurred by the SMP operator during the accounting period, measured and included in the Financial Accounting, Class 5 Account - Expenditures, according to the official Chart of Accounts and the thereupon based company's Chart of Accounts (Top-down method).

For the purpose of obtaining actual primary costs and expenditures incurred from the Financial Accounting for the Cost and Performance Accounting and further accounting thereof, they are split into the following four groups:

- Acquisition value of the sold goods (account group 50);

- Operating costs, which include: the costs of material, costs of salaries together with salary reimbursements and other personal expenses, costs of production services, costs of amortization, costs of reservation and intangible costs (account groups 51 – 55);
- Financial expenses (account group 56);
- Other expenses, including the remaining expenses, expenses relative to asset devaluation and suspended business loss (account groups 57 – 59).

Article 7

Differentiation of the groups of costs and expenses referred to in Article 5 herein is conditioned by the information needs for the calculation of services sales prices and the analysis and internal reporting to the Agency and the operator's management on the profitability of services sold and the company as a whole, and/or the account separation by types of services as if they were provided by separate legal entities.

Article 8

Calculation of the services sales prices of the SMP operator referred to in Article 6 herein shall include the operating costs of services and relevant weighted average cost of capital, which consist of the costs of personal capital and costs of borrowed capital calculated in the manner set out hereby.

Acquisition value of the sold commercial goods has its own separate revenues from the sales of goods and shall not be included in the operating costs of the cost units and/or activities or group of activities, nor in the calculation of sales prices of telecom services.

Financial expenditures shall be included in the calculation of telecom services through the costs of the borrowed capital, therefore they cannot be included in the operating costs for the purpose of sales price formation for the services.

Other expenses, including the remaining expenses, expenses relative to asset devaluation and suspended business loss shall not be considered operating costs, therefore the operator can include them, in part or in whole, in the calculation of sales prices of services as separate expenditure items provided they have not been included in the calculation costs of the personal (ownership) capital as business financial risks, and provided a prior consent of the Agency has been obtained therefor.

Article 9

In internal financial report on profitability (profit performance) of the services and company as a whole, and/or internal balance sheet, referred to in Article 8 herein, separate data shall be provided for the following:

- Gross profit or loss of the operator for the turnover of commercial goods, and/or commercial margin made in the operator's commercial activity.

- Business profit or loss of a commercial activity of single telecom services and the company as a whole once the operating costs are covered from the revenues from the sold goods and services;
- Regular profit or loss of a commercial activity of single telecom services and the company as a whole once the actual net financial expenditures have been covered, and/or once the financial expenditures and financial revenues have been included in the calculation of the periodic result (profit performance);
- Net profit or loss of the company once other expenses (the remaining expenses, expenses relative to asset devaluation and suspended business loss) and/or by single services if these expenditures are allocated, in part or in whole, to the services sold.

Article 10

Pursuant to the goals of providing information basis for:

- Calculation of the sales prices and control of implementation of the set sales price policy and
- Account separation by types of services, and/or analysis and reporting to the Agency and the SMP operator's management,

An integral application of the cost-based principle according to HCA shall entail the following:

- appropriate separation of revenues by types of services;
- appropriate allocation of primary costs, and/or company's expenditures;
- internal reallocation of costs among the cost units, and/or activities or group of activities (calculation of secondary costs, i.e. calculation of performance of the previous cost units, and/or activities or group of activities by means of reallocation of the costs thereof to final cost units, and/or activities or group of activities);
- cost allocation for the final cost units, and/or activities or group of activities by types of market services, and/or final calculation of cost origins (objects);
- provision of calculations for unit costs (cost price by unit) of market services;
- calculation of weighted average cost of capital and their allocation (attribution) by types of market services, by means of forming targeted sales prices for these services.

2.2. Revenue Allocation

Article 11

Revenues of the SMP operator shall be split into groups and types of revenues in the way stipulated under the Charts of Accounts for Businesses and the company's Chart of Accounts, developed so as to ensure account separation by types of services as if they were provided by separate legal entities.

Within business revenues:

- Revenues from the sales of goods shall be considered direct revenues from commercial activities of the company and shall be directly linked thereto;
- Revenues from the sales of products and services shall be considered revenues from the operator's single market services and shall be directly linked thereto;
- Revenues from launching the goods and performances shall be considered direct revenues from commercial activities from the operator's single market services and shall be directly linked thereto;
- Revenues from the premiums, subsidies, grant-in-aids, donations and other business income shall be:
 1. Directly linked to the SMP operator's commercial activities and single telecom services provided these are direct revenues thereof;
 2. Allocated to the SMP operator's commercial activities and single telecom services using appropriate cost drivers, provided these are directly caused thereby;
 3. Left as the SMP operator's unallocated revenues, provided these are caused by other activities of the company.

Financial revenues shall be considered revenues of the company as a whole and shall remain among the unallocated revenues, except in case of separate financial revenues from the commercial activities and single telecom services which would be allocated thereto.

Other revenues, i.e. the remaining revenues, revenues from property value reconciliation and suspended business profit shall be considered revenues of the SMP operator as a whole and shall remain unallocated, except in case of separate revenues from the commercial activities and single telecom services which would be allocated thereto.

2.3. Primary Cost and/or Expenditure Allocation

Article 12

Primary cost and/or expenditure allocation of an SMP operator, measured and included in the SMP operator's Financial Accounting, shall be carried out by placing the costs and/or expenditures in the Cost and Performance Accounting, while observing the completeness principle and the causation principle.

Acquisition value of the sold goods shall be considered a direct expenditure of the SMP operator's commercial activities and/or sold commercial goods and shall be directly linked thereto.

Operating costs shall be:

- Linked directly to the cost origins, and/or commercial activities, SMP operator's single telecom services and other activities of the company, in those areas where these are considered direct costs thereof;
- Previously linked to the cost origins (where functional-based costing is applied) and/or activities or group of activities (where activity-based costing is applied), in those areas where these are considered general costs from the viewpoint of cost origins and/or commercial activities and single telecom services of the SMP operator, and shall be charged thereto by means of selected cost drivers, previously agreed upon with the Agency, in the final calculation of cost origins;
- Left and declared unallocated operating costs of the company, in those areas where they are, directly or by means of appropriate cost drivers, related to other general activities of the company (e.g. activities related to managing and administrative and other activities deriving from relations with the subordinated companies).

Financial expenditures as a separate group of expenditures and/or costs shall be:

- Directly linked to commercial activities and single telecom services of the operators in those areas where these are considered direct financing expenditures (costs) thereof;
- Allocated to commercial activities and single telecom services of the operator according to the cost driver of engaged property (assets and/or capital), used in calculating weighted average costs of capital for the purpose of sales price formation for the services of the SMP operator;
- Left and declared unallocated financial expenditures (costs) in the area where they are related to financing other activities of the company (activities not related to procurement and sales of commercial goods and production and sales of telecom services) from the borrowed financing resources.

Other expenditures, and/or the remaining expenditures, expenditures based upon devaluation of assets and loss of suspended business shall be:

- Linked directly to commercial activities and single telecom services in those areas where these are considered direct expenditures thereof;
- Allocated according to previously set cost drivers to commercial activities and single telecom services if jointly caused thereby;
- Left and be declared unallocated expenditures of the company in the remaining areas thereof.

2.4. Internal Reallocation of Operating Costs

Article 13

Ultimate operating cost drivers shall be ultimate performances of the SMP operator (cost origins) and/or commercial activities of the company as a whole.

Direct operating costs of cost origins shall be directly linked to commercial activities of the company, single telecom services and other activities of the company.

Indirect (general) operating costs from the viewpoint of cost origins shall be previously linked to the cost unit and/or activities or group of activities, as follows:

- As their direct costs by means of direct linking, or
- As their indirect (general) costs using previously selected cost drivers coordinated with the Agency.

Article 14

Cost units and/or activities or group of activities of the SMP operator, from the viewpoint of the relation with the cost origins, shall be divided into:

- Ancillary (previous) cost units and/or activities or group of activities;
- Final cost units and/or activities or groups of activities whose performances are primarily related to the cost origins (related activities with cost origins), but also to other final cost units and/or activities or groups of activities (for instance, cost units and/or activities of network elements);
- Final cost units and/or activities or group of activities whose performances are related exclusively to cost origins as operator's final performances (for instance, cost units and/or activities of network elements).

Article 15

Internal allocation of cost units' operating costs and/or activities or group of activities shall be carried out by:

- Transfer of realized performances of the ancillary (previous) cost units and/or activities or group of activities at cost price (operating costs per unit) of the performances to other ancillary cost units or activities, if there is an accounting need therefore, and to final cost units and/or activities, or only to these latter provided this is not contrary to the causality principle, and is in line with the feasibility principle (rationality) of cost accounting;
- Transfer of a part of performances of the final cost units and/or activities or group of activities to other final cost units at cost price (operating costs per unit) of the performances, provided there is an internal exchange of performances between the final cost units and or activities or group of activities.

Unit of measure chosen for cost unit performance and/or activity or group of activities, within the meaning of this Article of the Rules, may be any suitable physical unit of measure or

unit of the cost driver selected for the internal reallocation of general operating costs, and it is subject to a prior choice and coordination with the Agency and subsequent consistent application thereof, but also to a possible coordinated modification in order to enhance the internal reallocation of the operating costs.

2.5. Allocation of General Operating Costs to Cost Origins

Article 16

Cost origins, i.e. final performances of an SMP operator shall be as follows:

- Commercial activities if any;
- Telecom services intended for a free competition market;
- Telecom services with an exclusive or significant market power (services subject to control by the Agency);
- Other activities of the company (for instance, activities of the company deriving from relations with the subordinated companies, other activities of the company which are not conditioned by the aforesaid identified cost origins, whose revenues, operating costs and expenditures are treated as unallocated to commercial activities and single telecom services).
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Article 17

During the allocation of primary operating costs, direct operating costs are directly linked to the relevant cost origins, whereas the joint costs are allocated to cost units, and/or activities or group of activities for the purpose of linking them as accurately as possible to appropriate cost origins (final performances of the company).

Article 18

During the internal allocation of the operating costs, the total amount of general operating costs is placed at the final cost units, and/or activities or groups of activities, wherefrom it shall be allocated to cost origins and/or commercial activities of the company, single telecom services and other activities of the company, this being the final accounting for cost origins according to operating costs.

Article 19

Allocation of general operating costs from the final cost units and/or activities or groups of activities to cost origins shall be carried out as follows:

- By direct linking to single cost origins if the performances (operating costs included) of the final cost origin, and/or activities or group of activities, are related to only one final performance of the company (operator's market service);
- By direct linking using previously selected cost drivers, agreed upon with the Agency, if the performances (operating costs included) of the final (related to market service) cost origin, and/or activities or group of activities, joint costs are joint (general) costs for several cost origins (final cost performances, and/or company's services).

Article 20

Final calculation for cost origins by operating costs results in total cost price by types of performances (market services) of the operator, with the two most important information purposes, namely:

- to provide, within the Cost and Performance Accounting by transferring full (direct and general) operating costs of the cost origins to appropriate expenditure accounts for the services sold, stipulated under Chart of Accounts for businesses and Chart of Accounts of the company, appropriate information foundation for balance account separation (revenue, expenditure and profit or loss) for by types of services as if these were produced by separate legal entities, as stipulated hereunder according to the international and national legal framework;
- to provide, within the Cost and Performance Accounting, appropriate information foundation for the calculation of unit cost prices for each type of operator's market services.

2.6. Telecom Services Unit Cost Calculation

Article 21

Telecom services unit cost calculation of the SMP operator shall be of a particular importance for the information system of the Operator's management and the Agency, since they provide principle information foundation for drawing up a sales price policy and operational forming thereof, and therefore it is required that they be based upon a sufficiently dissected (analytical) Cost and Performances Accounting which has been coordinated with the Agency, i.e. that they be in line with the causation principle to the maximum reasonable extent in linking the costs with the final performances (operator's market services).

Article 22

The SMP operator shall prepare and submit to the Agency, within the timeframe stipulated hereunder, unit cost calculation for all market services, in order to provide full and reliable information foundations, and/or necessary evidence that the SMP operator is not subsidizing the costs of one telecom service with another.

Article 23

The subject of telecom service unit cost calculation shall be operating costs declared as follows:

- by types of primary costs of the company stipulated under the official Chart of Accounts for business or in a greater detail according to the Chart of Accounts of the company in the part relative to primary costs (class 5);
- or by operating costs grouped in another way, coordinated with the Agency;
- always in the total amount and per unit of final performance (telecom services), whereby the sum of total operating costs of all final performances calculations (market services) of the operator shall correspond to total operating costs attributed to all telecom services as cost origins; and
- always marked, i.e. split into direct and general costs.

Notwithstanding paragraph 1 of this Article, telecom service unit cost calculation may include parts of other expenditures relative to single services, provided that these are not included in the weighted average costs of capital by means of rate against business-financial risks, and that such calculation procedure has been coordinated with the Agency.

2.7. Cost of Capital Accounting and Drafting Telecom Services Sales Prices

Article 24

Controlled prices of telecom services shall be formed as by:

- consistent application of cost-based principle,
- supplemented with the results of a gradual elimination of disparity in prices in the national market compared with the countries in the region, as regards comparable services,
- starting from a policy which has been coordinated between the Agency and the operator, based on the requirements of user protection and provision of material basis for the development of the SMP operator.

Article 25

The application of the cost-based principle in price formation of telecom services under special tariff regime (telecom services prices regulated by the Agency) according to the HCA model:

- shall begin with the calculations of actual unit costs of such services for the previous reporting period, stemming from an integral calculation system for all SMP operator's market services as stipulated hereunder;
- then, relative weighted average cost of capital shall be added to the regulated services, calculated to a reasonable extent.

Pricing of the regulated telecom services referred to in paragraph 1 of this Article shall be according to the following formula:

$$R = O + (V - D)r,$$

where:

R = target revenue,

O = operating costs,

V = gross value of total engaged assets,

D = accumulated depreciation (amortization) of permanent assets,

V-D = total engaged assets minus amortization (investment basis for the application of output rate, and/or costs of capital rate)

r = rate of return on engaged assets (cost of capital rate).

Article 26

Rate of return on engaged assets (capital) shall be the weighted average cost of capital of the operator calculated using the following formula:

$$WACC = \frac{R_e}{1-T} \times \frac{E}{(D+E)} + R_d \times \frac{D}{(D+E)},$$

where:

- Re = Rate of return on equity, or cost of equity
Rd = Rate of return on borrowings, or cost of debt
D = Total debt with interests
E = Equity
T = Tax rate on profit.

Rate of return on equity, or cost of equity, shall include targeted return rate on non-risk investments and adequate rate on business-financial risks of the company.

Rate of return on borrowings, or cost of debt, shall be calculated by confronting effective net financial expenditures with, i.e. financial expenditures of the company minus financial revenues, with the total liabilities of the company.

The treatment of the business-financial risks, within the meaning of paragraph 2 of this Article, i.e. other expenditures, expenditures relative to devaluation of assets and suspended business loss, compensated by homogeneous revenues, which are not separately identified and allocated to single services as a supplement to operating costs of services according to a procedure coordinated with the Agency, pursuant to hereto.

Article 27

Costs of capital relative to each regulated telecom service of an SMP operator shall be calculated by applying the weighted average price (cost rate) of capital, referred to in Article 26 of herein, to the engaged total permanent assets (capital) in the production and sales of these services.

Assets within the meaning of paragraph 1 hereof shall be:

- fixed assets without long-term financial placements, and/or relevant non-material investments, real-estate, plants and equipment at net value (gross value minus accumulated amortization, and/or accumulated depreciation) throughout reporting period;
- current assets without short-term financial placements minus short-term liabilities.

Pursuant to the requirement of account separation by types of telecom services as if they were provided by separate legal entities, engaged assets, referred to in paragraph 2 of this Article, shall be calculated and declared in the reports by all types of activities of the operator (commercial activities, single types of telecom services and other activities of the company, and/or unallocated assets of the company):

- as direct assets engaged in performing the aforementioned activities,
- as indirect assets allocated to the aforementioned activities using previously determined cost drivers coordinated with the Agency.

3. FINANCIAL REPORTING TO THE AGENCY BY AN SMP TELECOM OPERATOR

Article 28

An SMP telecom operator shall submit reports to the Agency concerning the cost-based principle application and account separation (division) relative to performance and engaged assets (capital), as follows:

- by means of official financial reports and
- by means of internal reports.

Article 29

Official financial reports and/or Balance Sheet, Income Sheet, Report on Cash Flows, Report on changes in Capital and Notes to Financial Reports, shall be submitted to the Agency by the SMP operator as single and consolidated financial reports, on prescribed forms, for prescribed reporting periods and by prescribed deadlines for submission of financial reports to the National Bank of Serbia, which also applies to revised financial reports. The deadline for submitting the official financial reports to the Agency for the previous business year shall be 31 March.

Article 30

Internal financial reports shall be submitted to the Agency by the SMP operator at least semi-annually cumulatively from the beginning of the calendar year by means of reports stipulate hereunder, Appendices and/or given tables in basic form and notes on possible coordinated adjustments, which are printed herein and are an integral part hereof.

Along with the filled out Appendices, the SMP operator shall be required to submit to the Agency the Business Report relative to the previous year, Company Financial Plan for the forthcoming business year and valid Pricelists for all the services of the SMP operator, clearly indicating the dates of the changes therein. Also, all general revenues and expenditures accounts for which breakdown into applicable synthetic accounts is required by the tables shall also be given analytically – in no less than six/figure accounts.

Depending on information needs, in the event of urgent measures taken in order to prevent irregular behaviour of the SMP operator, the Agency may also require a short-term internal financial reporting more frequent than semi-annual.

4. CURRENT COST ACCOUNTING MODEL

Article 31

The SMP operator shall be required to work on developing a Current Cost Accounting (CCA) model, together with the Agency, in order to begin with its application as of 1 July 2010. The first relevant reporting to the Agency shall begin as of 30 April 2011 and continue according to the dynamics stipulated hereunder.

5. LONG-TURN INCREMENTAL COSTING MODEL

Article 32

The SMP operator shall be required to work on developing a Long-Turn Incremental Costing Model (LRIC), together with the Agency, in order to begin with its application as of 1 July 2012. The first relevant reporting to the Agency shall begin as of 30 April 2013 and continue according to the dynamics stipulated hereunder.

6. TRANSITIONAL AND FINAL PROVISIONS

Article 33

The SMP operator is hereby required to submit to the Agency the filled out Appendices, which are printed herein and are an integral part of hereof, within the stipulated timeframes, as follows:

- Deadline for submitting list of cost allocation cost drivers – 31 January;
- Deadline for the approval to allocation cost drivers by the Agency, and for including other expenses of the operator in the calculation of cost price for the telecom services if these are not already included in calculation costs of the equity – 1 March;
- Deadline for submitting the filled out tables, which are an integral part of hereof shall be 30 April (for the first reporting period of the operator) and 31 October (for the second reporting period).

Only during the first year of the application hereof shall the operator be allowed to submit the filled out Appendices in a single reporting period.

The deadline for submitting the first internal report for the Agency needs shall be one year following the day the operator is designated as having significant market power.

Article 34

The Agency may engage an independent auditor to perform the verification of accounting separation with the Operator, pursuant to the applicable regulations and standards.

Article 35

These Rules shall enter into force on the eighth day following the day they are published in the *Official Gazette of RS*.

Ref. no: 1-02-110-17/1-08

Chairman of the Managing Board

In Belgrade, 14 October 2008

Prof. Dr. Jovan Radunovic

Table 1

Internal Income statement
for the period from _____ to _____ 20__

in RSD

Group	Position name	Commercial activities	Type of telecom services					Other activities of the company	Unallocated	Total for the company
	I Operational/business income (60 to 65)									
60	Income from sale of goods									
61	Income from sale of products and services									
62	Income from activating performances and goods									
64	Income from premiums, subventions, subsidies, donations, etc.									
65	Other operational incomes									
	II Operational expenses (50 to 55)									
50	Purchase value of sold goods									
51	Material costs									
52	Costs for salaries, contributions, compensations to salaries and other personal costs									
53	Costs of manufacturing services									
540	Costs of amortization									
541 to 549	Provision costs									
55	Non-material costs									
	III Operational income/gain (loss) I-II									
	IV Net financial income (expenses)									
66	Financial income									
55	Financial expenses									
	V Net other income (expenses)									
67, 68	Other income									
57, 58	Other expenses									
	VI Regular income/gain (loss) III + IV + V									
69, 59	VII Net income/gain (loss) of operation being suspended									
	VIII Income/gain (loss) before taxation									
	IX income tax									
	X Net income/gain (loss)									

Table 2

Allocation of income for the period from__ to__ 20__

Group and account	Position name	Mark D-direct G-general	Commercial activities	Types of telecom services				Other activities of the company	Unallocated	Total for the company
	I Operational incomes (total: all, D and G)									
60	Income from sale of goods	D								
61	Income from sale of products and goods (separated further to official synthetic accounts)	D								
62	Income from activating performances and goods (separated further to official synthetic accounts)	D								
64	Income from premiums, subventions, subsidies, donations, etc. (separated further to official synthetic accounts and further to direct and general within each account)									
65	Other operational income (separated further to official synthetic accounts and further to direct and general within each account)									
	II Financial income (total: all, D and G) (separated further to official synthetic accounts and further to direct and general within each account)									
	III Other income (total: all, D and G) (separated further to official synthetic accounts and further to direct and general within each account)									
	IV Income from coordinating value of assets (total: all, D and G) (separated further to official synthetic accounts and further to direct and general within each account)									
	V Income of operation being suspended (total: all, D and G) (separated further to official synthetic accounts and further to direct and general within each account)									

	T o t a l									
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In RSD

Table 3 Distribution of general income
for the period from__ to__ 20__
according to cost driver_____

in RSD

Type of activities	Income from unit of the cost driver	Cost driver value	Income amount (2x3)
1	2	3	4
I Commercial activities			
II Telecommunication services			
1.			
2.			
3.			
4.			
5.			
Etc.			
III Other activities of the company			
Total allocated (I + II + III)			
IV Unallocated			
T o t a l			

Note:

The form *Distribution of general income* is done for each common (general, indirect) income which, pursuant to the causation principle, should and can be allocated to stated activities and telecommunication services, according to adequate cost driver, and which is marked as general income in the overall report *Allocation of income for the period*.

Table 4

**Allocation of primary operational (business) expenses
for the period from __ to __ 20__**

In RSD

Group and account	Name of position	Mark: D-direct G-general	Commercial activities	Types of telecom services				Cost centres- Group of activities	Other activities of the company	Unallocated	Total for the company
50	Purchase value of sold goods (501+502)										
501	Purchase value of sold goods										
502	Purchase value of sol real-estate acquired for sale										
51	Material costs (total: all, D and G) (distributed further to official synthetic accounts and to direct and general within every account)										
52	Costs for salaries, contributions, compensations to salaries and other personal costs (total: all, D and G) (distributed further to official synthetic accounts and to direct and general within every account)										
53	Costs of production services (total: all, D and G) (distributed further to official synthetic accounts and to direct and general within every account)										
540	Costs of amortization (total: all, D and G)										
	Amortization of non-material investments										
	Amortization of real-estate										
	Amortization of plants and equipment										
	Other amortization										
	(Every group of amortization distributed to direct and general costs)										
541 to 549	Provision costs (total: all, D and G) (distributed further to official synthetic accounts and to direct and general within every account)										
55	Non-material costs (total: all, D and G) (distributed further to official synthetic accounts and to direct and general within every account)										
Total operational (business) costs											

Notes:

1. Characteristics of direct costs or expenses for the need of this report have only those costs and analytical parts of costs which directly refer to commercial activities, individual telecommunication services and other activities of the company.
2. Characteristics of general costs have those costs or analytical parts of costs which cannot be directly be connected with cost origins and commercial activities, individual telecommunication services and other activities of the company, but are previously connected to cost centres (functional approach to Accounting of costs and performances), i.e. activities or group of activities (Accounting of costs and performances further to activities = ABC - Activity Based Costing). General costs in this form are stated together in the column “Cost centres– Groups of activities”.
3. In the form there is a possibility to divide each type of expenses into direct and general and shall be applied only to those type of costs in which such division is materially significant.
4. General operational costs of the company are entered in the column “Unallocated” which do not relate in any way to the stated cost origins, nor to the cost centres and group of activities, or their allocation to these objects of costs is irrational.

Table 5 Survey of primary general (operational) costs connected to cost centres (CC) or group of activities (GA)

In RSD

Group and account	Costs further to types and method of their connection	Previous CC or GA					Final CC or GA					Total
						Total					Total	
51	Costs of material											
	- Directly connected											
	- Indirectly connected											
511	Costs of material production											
	- Directly connected											
	- Indirectly connected											
512	Costs of other material											
	- Directly connected											
	- Indirectly connected											
513	Costs of fuel and energy											
	- Directly connected											
	- Indirectly connected											
	Etc. according to types of general costs collectively allocated to CC or GA from the report Allocation of primary operational (business) costs, distributed further to character of connecting to CC or GA											
Total general operative (business) costs												
- Directly connected												
- Indirectly connected												

Notes:

1. Directly connected costs are those general costs from the point of view of cost origins and according to their documents it is well known to which cost centres or group of activities they belong.
2. Indirectly connected costs are those general costs from the point of view of cost origins which are simultaneously general (common) and from the point of view of cost centres or group of activities and are allocated to them by previously determined cost drivers that have been coordinated with the Agency.
3. The Agency can request additional reports regarding distribution of indirectly connected costs and the application of cost drivers.

Table 6

Internal reallocation of operational (business) cost (performances)

previous (subsidiary) CC or GA_____

for the period from____ to____ 20__

according to cost driver _____

in RSD

Groups and account	Type of costs	Costs further to unit of performance (of cost driver)	CC or GA – receivers of internal performances						T o t a l	
									Cost driver value	Cost amount
			Cost driver value	Cost amount	Cost driver value	Cost amount	Cost driver value	Cost amount		
1	2	3	4	5 (4x3)	6	7 (6x3)	8	9 (8x3)	10	11 (10x3)
51	Cost of material (distributed further to official synthetic accounts)									
52	Costs for salaries, contributions, compensations to salaries and other personal costs (distributed further to official synthetic accounts)									
	Etc. further to groups of costs until the group 55-Non-material costs and further to official synthetic accounts within every group from the report Survey of primary general operational costs connected to CC or GA.									
T o t a l										

Notes:

1. This report is made for each previous (subsidiary) CC or GA.
2. If one cost driver is used (cost driver) for reallocation of all types of costs and subsidiary (previous) CC or GA, then its name is entered in the fields “of cost drivers” in the heading, and in the annex to this report a survey of cost driver value is given according to CC or GA receivers of internal performances, when columns “cost driver value” are cancelled.
If different cost drivers are used (cost drivers) for individual types of costs then the columns “cost driver value” are used and in the annex of the report there should be a list of used cost drivers.

Table 7

Allocation of operational (business) costs (performances)

of final CC or GA _____ to other final CC or GA

for the period from _____ to _____ 20__

according to cost driver _____

in RSD

Group and account	Type of cost	Costs further to cost driver unit	Final CC or GA – receivers of performances						Cost origins		Total costs	
									Cost driver value	Cost amount	Cost driver value	Cost amount
			Cost driver value	Cost amount	Cost driver value	Cost amount	Cost driver value	Cost amount				
1	2	3	4	5 (4x3)	6	7 (6x3)	8	9 (8x3)	10	11 (10x3)	12	13 (12x3)
51	Cost of material (distributed further to official synthetical accounts)											
52	Costs for salaries, contributions, compensations to salaries and other personal costs (distributed further to official synthetic accounts)											
	Etc. further to groups of operational costs and further to official synthetic accounts from the report Survey of primary general operational costs connected to CC or GA.											
Total												

Notes:

1. This report is made only for final CC or GA the performances of which are not only with cost origins (commercial activities, commercial Telecom services and other activities) of the company but other final CC or GA as well.
2. Amounts for cost origins are entered only collectively because in the report Allocation of operational costs of final CC or GA cost origins will have distributed analytical costs further to cost origins.

3. If one cost driver is used (cost driver) for reallocation of all types of costs of a relative final CC and GA, then its name is entered in the fields “of cost driver” ” in the heading, and in the annex to this report a survey of cost driver value is given according to CC or GA receivers of internal performances, when columns “cost driver value” are cancelled.
If different cost drivers are used (cost drivers) for individual types of costs then the columns “cost driver value” are used and in the annex of the report there should be a list of used cost drivers.

Table 8

Allocation of operational (business) costs (performances) of final CC or GA _____ to cost origin
for the period from ____ to ____ 20__
further to cost driver _____

in RSD

Group and account t	Type of cost	Costs further to cost driver unit	Commercial activity		Types of telecommunication services						Other activities of the company		Total	
			Cost driver value	Cost amount	Cost driver value	Cost amount	Cost driver value	Cost amount	Cost driver value	Cost amount	Cost driver value	Cost amount	Cost driver value	Cost amount
1	2	3	4	5 (4x3)	6	7 (6x3)	8	9 (8x3)	10	11 (10x3)	12	13 (12x3)	14	15 (14x3)
51	Cost of material (distributed further to official synthetical accounts)													
52	Costs for salaries, contributions, compensations to salaries and other personal costs (distributed further to official synthetic accounts)													
	Etc. further to groups of operational costs and further to official synthetic accounts until the group 55- Non-material costs in amounts collected on CC and GA.													
Total														

Notes:

- This report is made for every final CC or GA and includes: (a) part of operational costs of CC and GA which refers to cost origins at CC and GA and besides performances for cost origins directs its performances to other final CC or GA as well (6) all operational costs of final CC or GA if it directs its performances exclusively to cost origins (market performances of the company).
If one cost driver is used (cost driver) for reallocation of all types of costs of a relative subsidiary (previous) CC and GA, then its name is entered in the fields "of cost driver" in the heading, and in the annex to this report a survey of cost driver value is given according to CC or GA receivers of internal performances, when columns "cost driver value" are cancelled. If different cost drivers are used (cost drivers) for individual types of costs then the columns "cost driver value" are used and in the annex of the report there should be a list of used cost drivers..

Table 9 **Calculation of unit costs (cost price)**
of commercial TC service _____
for the period from__ to__ 20__

measurement unit_____ Quantity_____

In RSD

Group of accounts	Elements of cost price	Total costs	Costs per unit
51	Costs of material		
	a. Directly allocated costs		
	б. Allocated costs of final CC or GA		
52	Costs for salaries, contributions, compensations to salaries and other personal costs		
	a. Directly allocated costs		
	б. Allocated costs of final CC or GA		
53	Costs of production services		
	a. Directly allocated costs		
	б. Allocated costs of final CC or GA		
part 54	Amortization costs		
	a. Directly allocated costs		
	б. Allocated costs of final CC or GA		
part 54	Provision costs		
	a. Directly allocated costs		
	б. Allocated costs of final CC or GA		
55	Non-material costs		
	a. Directly allocated costs		
	б. Allocated costs of final CC or GA		
Total operational (business) costs			

Notes:

1. Directly allocated costs are taken from the report Allocation of primary operational (business) costs.
2. Allocated costs of final CC and GA are taken from relative reports Allocation of operational (business) costs (performances) of final CC or GA to cost origins and are entered: (a) only as collection of allocated costs of all final CC or GA engaged in production and sale of a particular Telecom service or (б) also analytically further to particular concerned final CC or GA by a concrete Telecom service.
3. The calculation could be widened for other expenses, i.e. other expenses further to devaluation of assets and loss in operation that is being suspended (group of accounts 57,58 and 59) for which it has been coordinated with the Agency to be separately calculated by market Telecom services (and not within operational and financial risks as part of costs of own capital/equity), in their net amounts after compensation with other incomes of the same type (from group of accounts 67,68 and 69) and after taking parts which refer to market activity and other activities of the company. A separate report would be made for this under the name Allocation of other expenses to costs origins. .
4. For the needs of forming the sale price of regulated Telecom services capital costs are added to the calculation and have been accounted in the method defined by this Rulebook.

Table 10

**Calculation of rate of costs of borrowed capital
for the period from __ to__ 20__**

in RSD

Groups and accounts	E l e m e n t s	Amount
	I Net financial expenses of the company (1 to 7)	
	1. Net financial expenses (income) from relations with parent and dependant legal entities (10-11)	
560	10. Financial expenses from relations with parent and dependant legal entities (10-11)	
660	11. Financial expenses from relations with parent and dependant legal entities	
	2. Net financial expenses (income) from relation with other related legal (20-21)	
561	20. Financial expenses from relation with other related legal	
661	21. Financial income from relation with other related legal	
	3. Net expenses (income) interest (30-31)	
562	30. Interest expenses	
662	31. Interest income	
	4. Net negative (positive) exchange rates (40-41)	
563	40. Negative exchange rates	
663	41. Positive exchange rates	
	5. Net expenses (income) further to currency clause (50-51)	
564	50. Expenses further to currency clause	
664	51. Income further to effects of currency clause	
	6. Net expenses (income) further to participation in loss (gain) of dependant legal entities and collective investment (60-61)	
565	60. Expenses from participation in loss of dependant legal entities and collective investment	
665	61. Income from participation in gain of dependant legal entities and collective investment	
	7. Net other financial expenses (income) (70-71)	
569	70. Other financial expenses	
669	71. Other financial income	
	II Liabilities of the company	
40	Long term provisions	
41	Long term liabilities	
42 to 48	Short term liabilities	
	III Rate of costs of borrowed capital (I : II)	%

Table 11

**Calculation of engaged capital (based on invests)
for applying weighted average costs of capital (WACC)
on the date ____20__**

in RSD

Group and account	Position name	Commercial activities	Type of telecom services				Other activities of the company	Unallocated	Total
01	I Fixed asset (1+2)								
	a. Directly allocated FA								
02	6. Allocated values FA								
	1. Non-material investments								
020	a. Directly allocated NI								
	6. Allocated values NI								
021	2. Real-estate, plants, equipment and biological resources								
	a. Directly allocated RPEBR								
022	6. Allocated values RPEBR								
	20. Lands								
023	a. Directly allocated lands								
	6. Allocated values of lands								
024	21. Woods and plants								
	a. Directly allocated WP								
025	6. Allocated values WP								
	22. Buildings								
026	a. Directly allocated B								
	6. Allocated values B								
027	23. Plants and equipment								
	a. Directly allocated PE								
028	6. Allocated values PE								
	24. Real-estate for investment								
029	a. Directly allocated RI								
	6. Allocated values RI								
030	Etc. to account 029								

Table 11

First addition

in RSD

Group and account	Position name	Commercial activities	Types of telecom services				Other activities of the company	Unallocated	Total
10	II Net current assets -capital (1+2-3)								
	a. Directly allocated current capital								
	6. Allocated current capital								
	1. Stock								
	a. Directly allocated stock								
	6. Allocated stock values								
	10. Material stock								
	a. Directly allocated MS								
	6. Allocated MS								
	11. Uncompleted production								
11	a. Directly allocated UP								
	6. Allocated values UP								
12	12. Finished products								
	a. Directly allocated FP								
13	6. Allocated values FP								
	13. Goods								
14	a. Directly allocated goods								
	6. Allocated values of goods								
15	14. Fixed resources intended for sale								
	a. Directly allocated FRIS								
20	6. Allocated values FRIS								
	15. Given advance payments								
21	a. Directly allocated GAP								
	6. Allocated values GAP								
22	2. Short term claims and cash								
	a. Directly allocated SCC								
24	6. Allocated values SCC								
	20. Receivables further to sale								
21	a. Directly allocated RFTS								
	6. Allocated values RFTS								
22	21. Receivables from specific operations								
	a. Directly allocated RFSO								
24	6. Allocated values RFSO								
	22. Other receivables								
	a. Directly allocated other receivables								
	6. Allocated values of other receivables								
	24. Cash equivalents and cash								
	a. Directly allocated CEAC								

Table 11

Last addition

In RSD

Group and account	Position name	Commercial activities	Types of telecom services				Other activities of the company	Unallocated	Total
43	3. Short term liabilities								
	a. Directly allocated SL								
	6. Allocated SL								
	30. Liabilities from operation								
	a. Directly allocated LO								
	6. Allocated values LO								
44	31. Liabilities from specific activities								
	a. Directly allocated LSA								
	6. Allocated values LSA								
45	32. Liabilities further to salaries and contributions on salaries								
	a. Directly allocated liabilities further to SCS								
	6. Allocated liabilities further to SCS								
46	33. Other liabilities								
	a. Directly allocated other liabilities								
	6. Allocated other liabilities								
47	34. Liabilities for VAT								
	a. Directly allocated liabilities for VAT								
	6. Allocated liabilities for VAT								
48	35. Liabilities for other taxes, contributions and other fees								
	a. Directly allocated liabilities for OTCF								
	6. Allocated liabilities for OTCF								
49	36. Accruals and deferred income								
	a. Directly allocated ADI								
	6. Allocated ADI								
	III Total engaged resources - capital (I + II)								

Notes:

1. Stated positions are entered in this Report further to their net values, i.e. after reduction of their cumulative amortization and other writings off and corrections of values until the day of making the Report.
2. Rate of analytical approach and synthesizing of positions in this Report is determined by agreement between the operator and the Agency, taking into consideration the real structure of resources and liabilities of the operator and informational needs of the Agency.
3. Operator has the obligation of consistent application of criteria for distribution of positions to directly allocated and allocated with cost drivers of allocation for the latter, to submit to the Agency adequate explanation in the form of additional analytical reports for materially significant items and to allow unhindered approach to business books (financial records).