RTÉ Transmission Network Limited
(T/A 2rn)

REGULATED ACCOUNTS
MARKET A

YEAR ENDED
31 DECEMBER 2013

PRIMARY
ACCOUNTING DOCUMENTATION

25th June 2014

RTÉ Transmission Network Limited (T/A 2rn)

PRIMARY ACCOUNTING DOCUMENTATION – FOR THE YEAR ENDED 31 DECEMBER 2013

Introduction

The European Communities (Electronic Communications Networks and Services) (Framework) Regulations 2011 (S.I. No. 333 of 2011), which revoked and replaced its predecessor 2003 (S.I. No. 307 of 2003), the European Communities (Electronic Communications Networks and Services) (Access) Regulations 2011 (S.I. No. 334 of 2011, which revoked and replaced its predecessor S.I. No. 305 of 2003) (respectively "the Framework Regulations" and "the Access Regulations") establish the framework for the regulation of the provision of electronic communications networks and services in Ireland. Under this framework, the Commission for Communications Regulations (ComReg) may designate operators as having Significant Market Power (SMP) in respect of specific markets, in which case ComReg may impose on such operators a range of ex ante obligations including, pursuant to Regulation 11 of the Access Regulations and Regulation 13 of the Access Regulations, a requirement for accounting separation and cost accounting respectively. RTÉ Transmission Network Limited ("RTENL", "2rn" or "the Company") trading as 2rn has been designated with SMP in the market for wholesale access to national terrestrial broadcast transmission services and accordingly is subject to obligations of accounting separation and cost accounting in this market. This market is referred to and defined as Market A in ComReg Decision No. D11/13.

Decision No. D11/13 and the Decision Instrument Market A sets out the relevant detail and manner in which 2rn is required to meet these obligations. Sections 11 and 12 of the Decision Instrument Market A refer to these obligations and they are each further detailed at Annex 1 to the Decision Instrument Market A in an annex titled "Detail of the Accounting Separation Obligations- Market A" ("referred to as Annex 1 Market A").

Section 2 of Annex 1 Market A requires 2rn's financial records and accounting systems to be sufficiently detailed and supported by sufficient data to ensure that (i) 2rn is in a position to comply with the transparency, non-discrimination, accounting separation, price control and cost accounting obligations imposed on it and (ii) 2rn is in a position to prepare Regulated Accounts which it is obliged to maintain for Market A and, where specified, for Services.

As specified at Section 3 of Annex 1 Market A, Separated Accounts are required to be maintained by 2rn in respect of Market A. This requires that Separated Accounts maintained by 2rn contain Regulated Accounts which consists of Historical Cost Accounts ("HCA"), Additional Financial Data and Accounting Documentation. The term "Accounting Documentation" is further defined and detailed at Section 5 of Annex 1 Market A and consists of two principal documents, Primary Accounting Documentation and Secondary Accounting Documentation. This document sets out the Primary Accounting Documentation for Market A.

Regulated Accounts are required to be performed for the following market group:

Market	Market description
Market A	Market for Wholesale supply of Transmission and Distribution Services

Market A is the wholesale market where 2rn as the upstream transmission network provider supplies a transmission and distribution service via its towers / masts infrastructure and relevant associated facilities (including transmission and distribution equipment, buildings etc) in order to enable (i) the broadcast of national analogue terrestrial radio signals to end users; and (ii) the broadcast by a Multiplex Operator of its digital multiplexing service.

Introduction (continued)

The Regulated Accounts are prepared in accordance with the Primary Accounting Documentation. The Primary Accounting Documentation set out the framework under which the Regulated Accounts have been prepared, which is set out in the Decision Notices, insofar as they apply to the year ended 31 December 2013.

The Primary Accounting Documentation is made up of the following:

1. Description of the business of 2rn explaining the main activities and functions performed and RTÉ services offered.

2. Definitions of the 2rn functional cost categories.

3. Regulatory Accounting systems and underlying principles including the conceptual flow of cost and revenues from the source financial systems.

4. Regulatory Accounting Policies including an explanation of the key accounting policies adopted by 2rn and the key cost allocation methodologies employed.

5. Inter/Intra transactions – an overview of the basis of calculation of any inter/intra transactions.

6. Material period on period changes – describing the period on period changes to the form and content of the Regulated Accounts and changes to the cost allocation methodologies having a material impact.

The Primary Accounting Documentation contain the regulatory accounting principles and methodologies on which the Regulated historical cost accounts are based and the detailed methods applied in attributing revenues, costs, assets and liabilities to Market A activities. The procedures describing how these principles are applied are contained in more detail in the Secondary Accounting Documentation. The Secondary Accounting Documentation is provided privately to ComReg, in accordance with the requirements of Decision No. D11/13, the Decision Instrument Market A and Annex 1.

It is intended that this primary accounting documentation is read in conjunction with the statutory financial statements of 2rn. This document will be updated annually in the event of any changes to the Regulatory Accounting Principles or detailed attribution methods.

1. Business, activities and functions

2rn, provides terrestrial broadcast transmission and distribution services on an arm's length basis to RTÉ as the Multiplex operator and to Irish national radio broadcasters, including RTÉ. This has been defined as Market A in the Decision Instrument No. D11/13.

2rn provides Broadcast Transmission and Distribution services and Multiplexing services and Tower and Mast rental (collectively the *Services*) to the Irish Multiplex Operator (RTÉ), to National Radio Broadcasters, including RTÉ and to a range of telecommunication operators, government departments and others. (collectively known as *Customer Groups*).

2rn is organised on a regional basis and is structured to operate a single national transmission network which supports all of its customer groups who in turn operate in a variety of markets.

2. Functional Cost Categories

Annex 1 of the Market A Decision Instrument requires the cost of the following functional cost categories to be calculated by the Company. Set out below are the specified functional cost categories and the related definitions pertaining to 2rn.

Category	Definition
Employee and personnel related costs	Includes all direct staff payroll costs, related employer cost, and staff related training and welfare costs.
Network electricity	Costs of electricity required for the operation of multiplexing, transmission and distribution equipment and ancillary equipment on transmission and distribution sites.
Maintenance costs	Cost of routine maintenance and repair of equipment necessary for the delivery of services in relevant markets including common equipment and assets such as motor vehicles and fixtures and fittings. Maintenance costs are exclusive of related personnel costs.
Depreciation and amortisation	Includes all depreciation and amortisation of fixed assets, tangible and intangible assets.
Central shared service costs	Cost of services provided by RTÉ to 2rn such as Human Resources support (including staff development and training and pensions' administration), I.T. support (including access to shared systems) and legal support as appropriate.
Rent and rates	Includes rental payable in respect of various transmission and distribution sites and head office. This also includes local authority rates levied on network infrastructure assets.
Other operating costs	Includes all operating costs of 2rn not part of the elements listed above.

3. Regulatory Accounting System and underlying Principles

The structure of the Regulated Accounts required pursuant to Decision No. D11/13 and the relevant Decision Instrument, Market A, do not correspond to the way in which the Company is organised and operates and hence do not correspond to the way the statutory accounting records are structured and prepared. The Regulated Accounts are therefore produced by overlaying the requirements of the Decision Notice on the statutory accounting record structure of 2rn and supplementing them with certain balances from the RTÉ general ledger.

These Regulated Accounts are prepared by attributing the balances in 2rn's general ledger and other accounting records to the relevant Market as required by the Decision Instrument.

The purpose of Accounting Separation is to provide an analysis of information derived from the financial records of 2rn to reflect as closely as possible the performance of Market A as if it were operating as a separate business.

The Regulated Accounts have been prepared in accordance with the accounting policies as set out in the Statutory Financial Statements of 2rn ("the Statutory Financial Statements"), unless any specific deviation (as set out in the regulatory accounting policies in section 4) is required as a result of conforming to this documentation, together with the regulatory accounting principles and attribution methods as set out in this Primary Accounting Documentation.

The Statutory Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations approved by the International Accounting Standards Board (IASB) as adopted by the European Union (EU) that are effective for the year ended 31 December 2013. Where a conflict arises between the regulatory and statutory requirements the regulatory requirements take precedence.

The following Regulatory Accounting Principles are applied in the preparation of the Regulated Accounts, in the application of the Attribution Principles, the Transfer Charging system, and the Regulatory Accounting Policies.

- **Causality**: Revenue (including transfer charges), costs (including transfer charges), assets and liabilities are attributed to markets in accordance with the activities which cause the revenues to be earned or costs to be incurred or the assets acquired or liabilities incurred. Where such a direct relationship does not exist, the attribution shall be such as to present fairly the revenues, costs, assets and liabilities in the Regulated Accounts for each Market.

- **Objectivity**: Attribution must not benefit the access provider, any access seeker, service or business. Attribution is based on verifiable information, with the use of management estimates to calculate costs being limited.

- **Transparency**: The Attribution Methods used should be transparent. Attributed items are traceable back to their source and the elements that contribute to the cost of the service are visible.

3. Regulatory Accounting System and Underlying Principles (continued)

- **Consistency**: The Regulated accounts are prepared on a consistent basis from one year to the next to allow for meaningful year on year comparison. Where there are material changes to the Regulatory Accounting Principles, the Attribution Methods, or the Accounting Regulatory Policies that have a material effect on the information reported in the Markets within the Regulated Accounts, the parts of the previous year's Regulated Accounts affected by the changes shall be restated.

2rn's general approach to attribution is to identify revenue, costs, assets and liabilities which can be directly attributed to Markets. For all remaining items 2rn identify the appropriate driver for each item, and, insofar as possible, use objective operational, engineering and/or financial data relevant to that driver to generate apportionment bases.

Apportionment bases are reviewed at least annually and methodologies regularly reviewed with enhancements introduced to reflect changes in the nature or structure of the Market in which 2rn operates.

4. Regulatory Accounting Policies

4.1 Revenue

External revenues comprise revenues of 2rn derived from Market A, national radio broadcasters.

Intercompany revenue comprises revenue of 2rn derived from Market A from RTÉ radio services.

External and intercompany revenues arising in respect of wholesale supply of transmission and distribution services provided to national analogue terrestrial radio broadcasters are separately identified in the general ledger and directly allocated to Market A.

Intra Market revenue comprises revenue of 2rn derived from RTÉ as Multiplex operator.

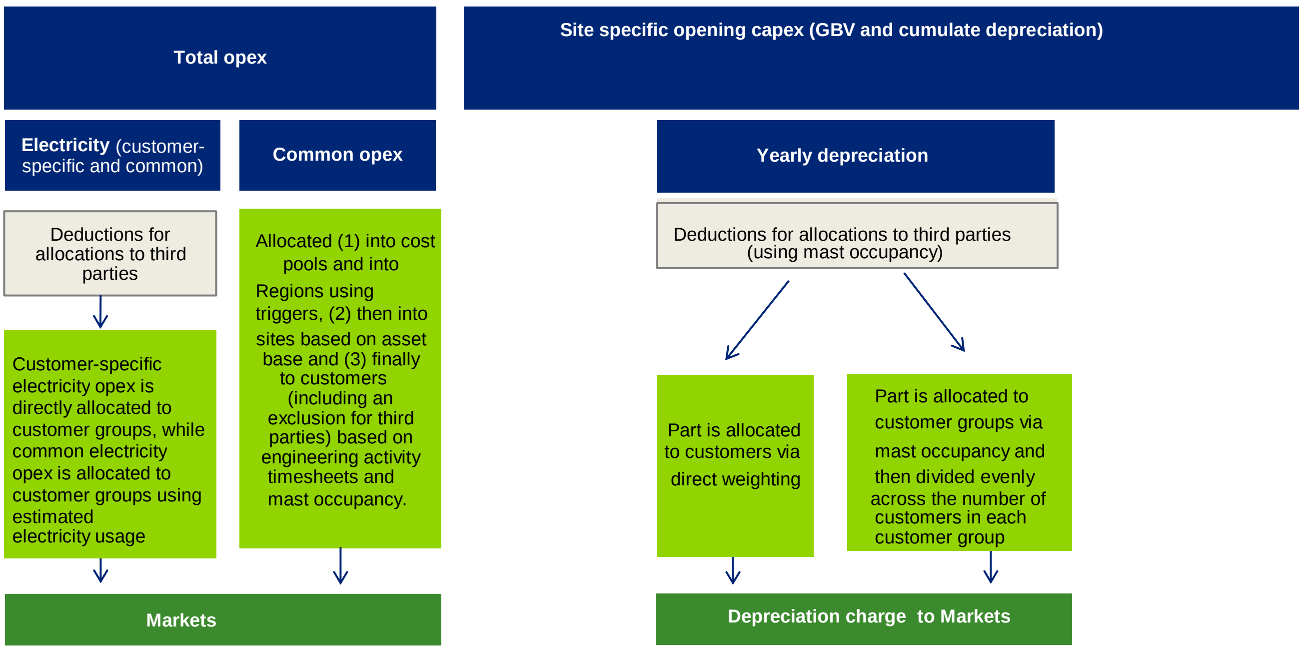
The treatment of Intra revenues for the supply of services between markets A and B are outlined in section 5 below.

4.2 Costs

All costs are captured in costpools and drawn from 2rn's primary accounting records i.e. general ledger. Costs associated directly or indirectly with Market A are extracted from the accounting system and analysed further (by expenditure category).

Costs allocated to the Markets and Services are divided into operating costs (Opex) and capital costs (Capex), i.e. depreciation.

Operating costs can be categorised into directly attributable costs, indirectly attributable costs and into common costs.



4. Regulatory Accounting Policies *(continued)*

4.2.1 Direct and directly attributable operating costs

Certain costs can be allocated to specific Markets and, therefore, do not require apportionment. These costs include the costs which are directly related to the provision of services to an individual market or the acquisition or maintenance of infrastructure used specifically in the provision of services to an individual market. Material direct and directly attributable costs include;

- Costs associated with acquisition of licences and maintenance of microwave link distribution equipment specific to Market A.
- Market A electricity costs which are directly attributed to the customer groups for which the individual electricity consumption is metered.

4.2.2 Indirectly attributable operating costs

Costs which cannot be directly associated with particular Markets require indirect apportionment. General costs of 2rn's business which services various Markets are recorded on a costpool basis and attributed to Markets where a specific apportionment basis can be identified and measured.

The initial steps involve the exclusion of financing cost, depreciation and costs directly attributable to the unregulated business. These costs are deducted from the actual operating costs incurred for the period before any attribution to regulated markets is made.

The remaining operating costs are then aggregated into costpools. Each costpool has been designated with an allocation trigger. The costs are allocated to regions directly or indirectly using triggers such as headcount, number of sites per region, regulatory asset base per region or based on capacity usage of the distribution system. Where costpools cannot be allocated indirectly using the allocation triggers, the Equi-Proportional Mark-Up Method (EPMU) of allocation is applied. Refer to section 4.2.3 below.

Further, based on the activity time sheets maintained by 2rn, the costs per region are allocated to the customer groups.

The appropriate costs per region and customer group are then attributed to sites based on the regulatory asset base at each site and based on the size of the site. The costs per site per customer group are then allocated across the number of customers connected to that site using drivers such as connections per site, capacity usage and mast occupancy. The costs per site per customer group are then aggregated by market for the purposes of the Regulated Accounts.

The costs related to common infrastructure are attributed to the customer groups proportional to their site specific mast occupancy calculations.

4. Regulatory Accounting Policies *(continued)*

4.2.3 Common operating costs

Expenditure for which no direct or indirect apportionment bases can be readily identified is apportioned initially to regions using the EPMU method. Under the EPMU method each region will receive a proportionate allocation of common operating costs equal to its proportionate allocation of direct and indirectly attributable operating costs. Once allocated to regions common operating costs are allocated to sites and then customer groups using drivers such as connections per site, capacity usage and mast occupancy. The material common operating costs comprise, central overheads, business development and network management.

4.2.4 Network electricity costs

Total actual power costs charged by site are allocated to Customer Groups based on detailed power consumption measurements for all services on all high power sites. For low power sites power costs are allocated based on calculated usage derived from operational power and efficiency for each significant item of equipment on site.

4.3 Mean capital employed

Mean Capital employed is defined as the mean of assets and liabilities of 2rn as defined below adjusted to amend for certain assets and liabilities which are excluded for regulatory purposes.

The exclusion covers items not relevant in assessing the rate of return (i.e. long term debt, associated derivative instruments, and restricted cash, non trading net intercompany receivables and taxation assets or liabilities).

4.4 Fixed assets

The statutory fixed asset register of 2rn, as adjusted, forms the basis of the regulatory fixed asset register and related depreciation as disclosed in the regulated accounts.

The statutory fixed asset register of 2rn is adjusted to exclude the revaluation surpluses arising on transfer of assets to 2rn from RTÉ and other group companies on incorporation of 2rn.

For regulatory pricing and accounting purposes, the carrying value of long life assets cost and related depreciation is calculated based on an annuity calculation to determine a consistent annual return.

Material fixed assets are allocated to Markets as outlined below.

Certain network equipment assets can be allocated directly to Markets on the basis of the asset class recorded in the statutory fixed asset register. These include the following categories of plant:

- DTT Transmission equipment, fully allocated to Market A
- Radio Transmission equipment, fully allocated to Market A

Assets specifically relating to individual Customer Groups within Markets are directly allocated to the relevant customer group (National Radio broadcasters/ DTT multiplex operator) and thereafter to Markets.

4. Regulatory Accounting Policies *(continued)*

Distribution equipment is apportioned to Markets based on usage of the system. See 4.9.3. below.

Land and buildings, towers and masts and other common assets are allocated to a region based on their geographical location and to Markets based on mast occupancy calculated on a site by site basis.

Spare parts which form part of fixed assets are allocated to markets based on the nature of the equipment to which they relate.

Depreciation

Depreciation is provided on the regulatory fixed asset register, at rates calculated to write off the cost less estimated residual value, of each asset on a straight line basis over its regulated useful life.

The principal rates used are as follows:

Masts and towers	15 - 40 years
Transmission and distribution equipment	13.33 years
Land and Buildings	10 – 40 years
Other equipment	5 - 8 years

The regulatory depreciation is allocated to Markets in accordance with the allocation of the regulatory fixed assets as set out above.

4.5 Trade, other receivables, prepayments and accrued income

Trade and other receivables are analysed by type, based on information in the accounting records. The appropriate apportionment bases are then applied. Trade and other receivables include the following categories:

- Trade debtors, including intercompany trade debtors, are directly allocated to Markets according to customer detail.
- Prepayments and accrued income are directly allocated to Markets where possible or are apportioned to Markets using appropriate bases for each prepayment balance.
- Other debtors and prepayments are apportioned to Markets using bases appropriate to the particular debtor type or where applicable directly to a Market.

4. Regulatory Accounting Policies *(continued)*

4.6 Cash and cash equivalents

Cash and cash equivalents are managed at a group level. Total group cash and cash equivalents, including marketable securities, are apportioned to RTÉ and subsidiaries, including 2rn, and to markets on the basis of operating costs and depreciation incurred in the year.

4.7 Intercompany balances

Year end non trading intercompany balances have been excluded from the statement of mean capital employed as these balances are not relevant in assessing the rate of return requirement of Market A.

4.8 Current Liabilities

Current liabilities (including accruals) are analysed by type from the general ledger codes and the appropriate apportionment bases are then applied in the following categories:

- Trade creditors, including capital creditors, are apportioned directly to Markets, where applicable, or on the basis of operating and capital expenditure in the year, excluding payroll which are separately apportioned.

- Employee benefits including payroll creditors are apportioned to Markets in accordance with total payroll costs.

- VAT payable balance is apportioned to Markets on the basis of external turnover which is chargeable to VAT.

- Other creditors, including deferred income, are apportioned directly to markets or are apportioned to Markets using bases appropriate to the particular creditor type.

4.9 Use of recorded non-financial data

Wherever costs cannot be directly allocated to Services or to Markets, an apportionment is required. Depending on the cost involved the appropriate basis of apportionment may be of a non-financial nature. In these instances the relevant data may be extracted from non-financial data sources, such as mast occupancy, usage of systems (see distribution use of systems below), or may be collected through activity reports.

Main types of non-financial data used in the preparation of Regulated Accounts include;

4. Regulatory Accounting Policies *(continued)*

4.9.1 Mast occupancy

In order to establish the proportions of limited capacity on structures consumed by equipment required for each Customer Group, the percentage of usable capacity taken up by antennae is calculated.

On an annual basis a detailed analysis of each structure is carried out. Details of antennae are taken including size, height on the structure, type of antenna (solid grid etc) and bearing.

Data of structure size and strength and precise location, including height above sea level is also recorded.

Using appropriate specialist software, the stresses placed on the structure by each antenna, is calculated and applied to give the Mast Occupancy summarised by Customer Group and by site. Mast Occupancy data thus calculated is used to allocate costs to Markets as appropriate.

4.9.2 Activity reports

All operational staff record details of time worked. Time is recorded against Markets by staff as they complete the activity sheets dependent on the work done. Categories included in activity sheets comprise all Customer Groups and common infrastructure.

Returns are submitted every two weeks to engineering or rigging supervisors and managers as appropriate for validation.

All activity reports are then submitted centrally. Data is then consolidated and summarised to provide annual rolling totals of time spent by operational staff by customer group. Activity analysis by customer group by site is then used as a basis for cost allocation.

4.9.3 Distribution, use of system

The links distribution system has a fixed capacity designed to carry signals for the DTT Multiplexes and all national analogue radio broadcasters. Capacity used is fixed for each type of user, i.e. each Multiplex requires a standard capacity and each analogue radio broadcaster requires a standard capacity. Costs are allocated to each Multiplex and to each radio broadcaster in proportion to the capacity used such that the cost allocated to each Multiplex will be equal and the cost to each radio channel will be equal.

5. Inter/intra transactions

Regulated Accounts are required to be prepared using Transfer Charges calculated in accordance with the following principles established by ComReg for inter/intra and external segment transactions:

- Transfer charges (revenues and costs) shall be attributed to Cost Components, for regulated and unregulated Services, and markets in accordance with the activities, which cause the revenues to be earned, or costs to be incurred.

- The attribution shall be objective and not intended to benefit any market (regulated or unregulated).

5. Inter/intra transactions *(continued)*

- There shall be consistency of treatment of transfer charges from period to period.

- The transfer charging methods used shall be transparent. There shall be a clear rationale for the transfer charges used and each charge shall be justifiable (with supporting calculations available).

- The charge for Inter/Intra usage shall be equivalent to the charge that is levied if the Service(s) were an External transaction rather than an Inter/Intra transaction. Where no equivalent charge exists the Nearest Equivalent Charge shall be charged and fully justified to ComReg by 2rn. Where no Nearest Equivalent Charge exists for the Inter/Intra transaction, a cost based charge shall be transferred and fully justified to ComReg by 2rn.

The Intra (transfer) charges between Markets A and B for 2013 are based upon the derivation of the consumption of services on a nearest equivalent basis to those available to 2rn's external customers. These transfer charges are directly linked to the external charges from Market B. The Market B external charges for the DTT services are inclusive of Transmission, Distribution and Multiplexing services. An apportionment for multiplexing services is determined based on recovery of operating costs incurred in Market B and a return on the relevant asset base. The charge for the underlying Transmission and Distribution services, as supplied by Market A, are derived based on deducting the apportionment for multiplexing services from Market B external charges.

6. Material period on period changes

This is the first publication of the primary accounting documentation and thus does not contain any changes to the previous year documentation.

In future, this section will contain details of any applied changes to the accounting systems or to any other systems or processes of 2rn in relation to the regulatory regime.