



GENERAL INFORMATION AND ETECSA' S COST MODEL CUBA

Indicator	1999	2005
Total Installed telephone lines (Fixed+Mobile)	434,394	991,492
Fixed Lines		855,958 (86%)
Main residential lines		71.02%
Main lines connected to digital exchanges		80.90%
Mobile lines		135,534 (14%)
Cellular Mobile Network coverage (territory)		60%
Cellular Mobile Network coverage (population)		70%
National Telephone Density	3.9%	8.8%
Public Telephones in service for every 1000 inhabitants	1.05	3.08

D-series Recommendation: Related to Valuation, Accounting and Billing of International Telecommunications Services.

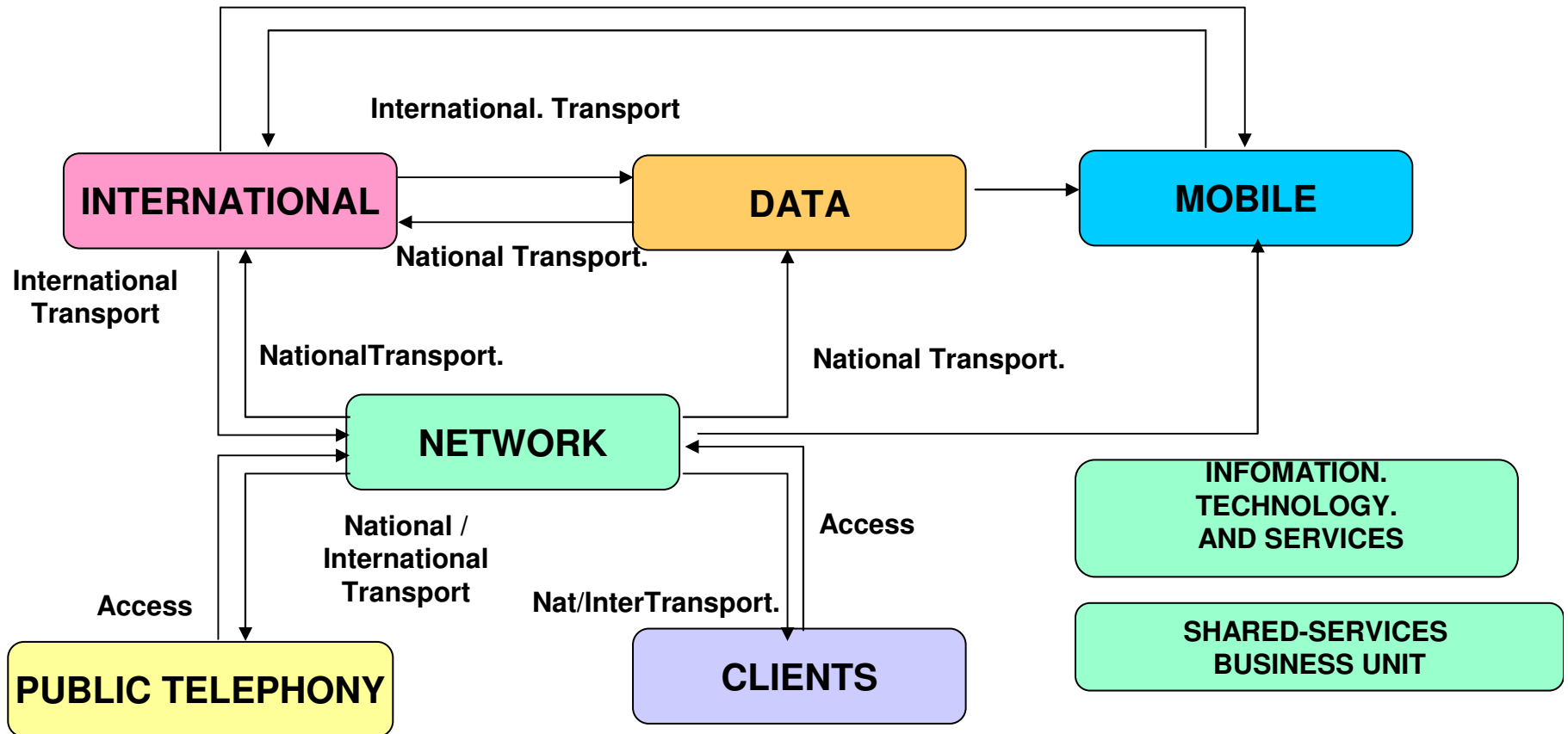
ETECSA is a joint venture which has been operating since 1994. In 2003, the Executive Committee of the Council of Ministers issued Decree 275 which extended, for another 20-year period, the Concession for the operation of Fixed Telephony, Cellular Mobile, Signal transmission, Data Transmission, Telex, Virtual Telephony, Public Telephone Exchange, Internet Access, Value-added and Trunking Mobile Services; and 15 years sole rights for the first 5 services.

120/2003 Resolution from the Ministry of Informatics and Communications states the illegal-natured alternative procedures of calls for another carrier rather than ETECSA.

ETECSA's Cost Analysis System

It aims to provide useful information to make the company's decision-making easier at all its levels.

Main relations between Business Units.



- Basics for cost-oriented prices.
 - The concept allows to recoup the cost caused by the provision of service, and at the same time contributes to the development of the infrastructure and to the social commitments to the country.
 - ITU accepts the legitimacy of cost-oriented prices concept

Main aims

- Basis for fixing the selling prices
- Establishing the termination costs for national and international calls.
- Setting up marketing policies.
- Providing easier decision-making.
- Efficiency Control.
- Contributing to the planning, control and management of the company.

What is procured to our company?



- Costs of the relations between the different Business Units,
- Outcome status with respect to the Business Units,
- Outcome status with respect to ETECSA's provided service,
- Profitability of the main services and that of the company's business units.
- Cost of international services regarding:
 - Cost of switching and international transmission.
 - Cost of the national extension
 - Access shortfall.
 - Obligations of universal service (social commitments, granting)

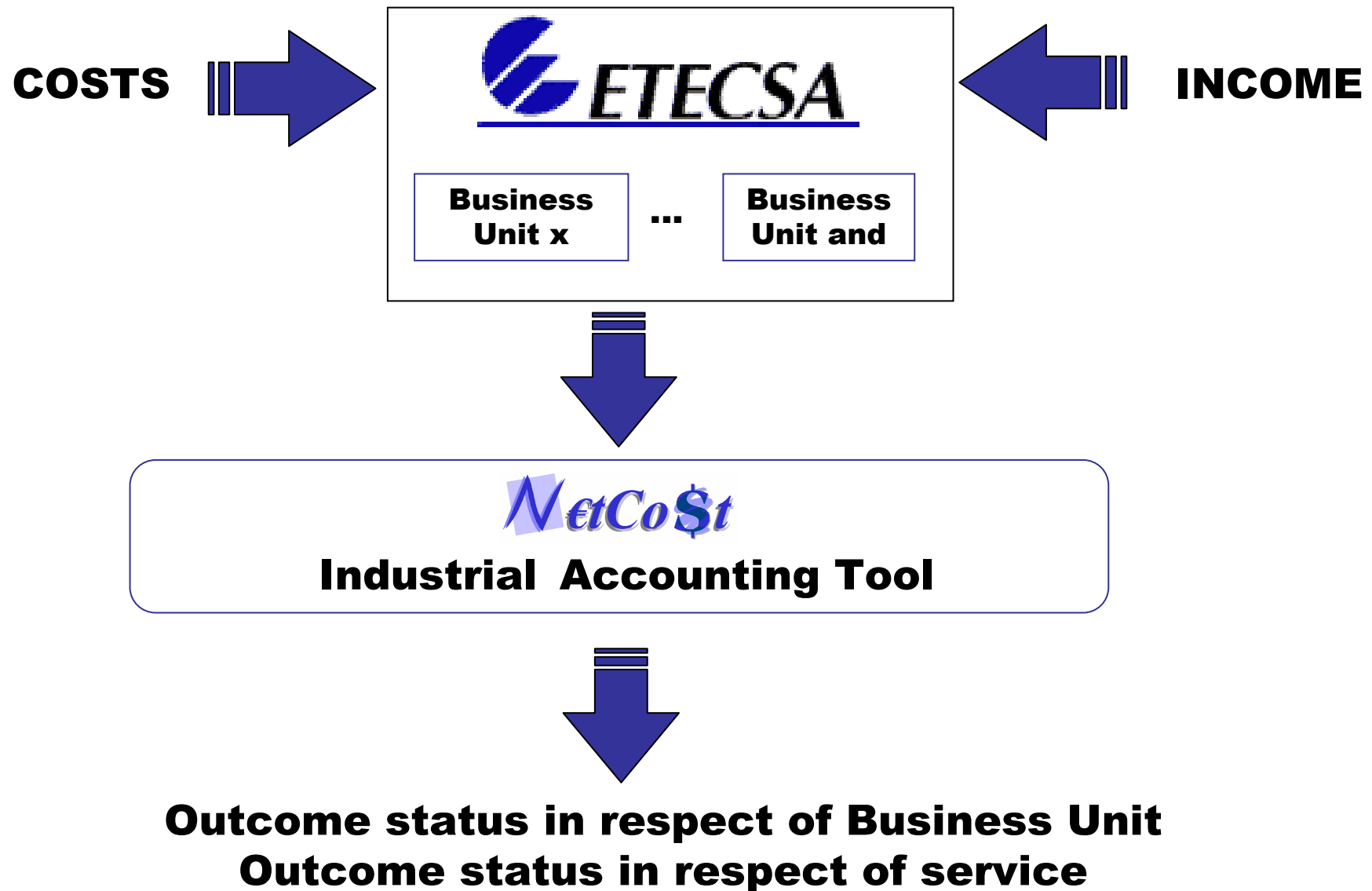
Netcost ETECSA's Cost Accounting System

- It is analytic since planning is made on a corporate segment basis, and not on a total basis.
- Predicts the future and at the same time registers facts occurrence.
- Shows the main accounts movements.
- Just registers the internal operation.
- Shows the link between a series of elements affecting services costs.
- Ascertain the costs per different services.
- Cost diminishment is its tacit idea.
- Allows to establish the average cost per minute for terminating an international call.

- The analysis procedures for cost allocation in respect of the different services, guarantee to establish all the costs of the company, through the Fully Distributed Costs method (FDC), through the causality approach (driver).
- The unit cost is figured out based on fixed and variable costs, taking into account the outsourcings.

IMPORTANT ISSUE

The industrial accounting system will control the production costs, but not the increasing or diminishing of the share capital of the company, which will be recorded in the general accounting system.



The margin of either Business Area can be figured out taking into consideration:

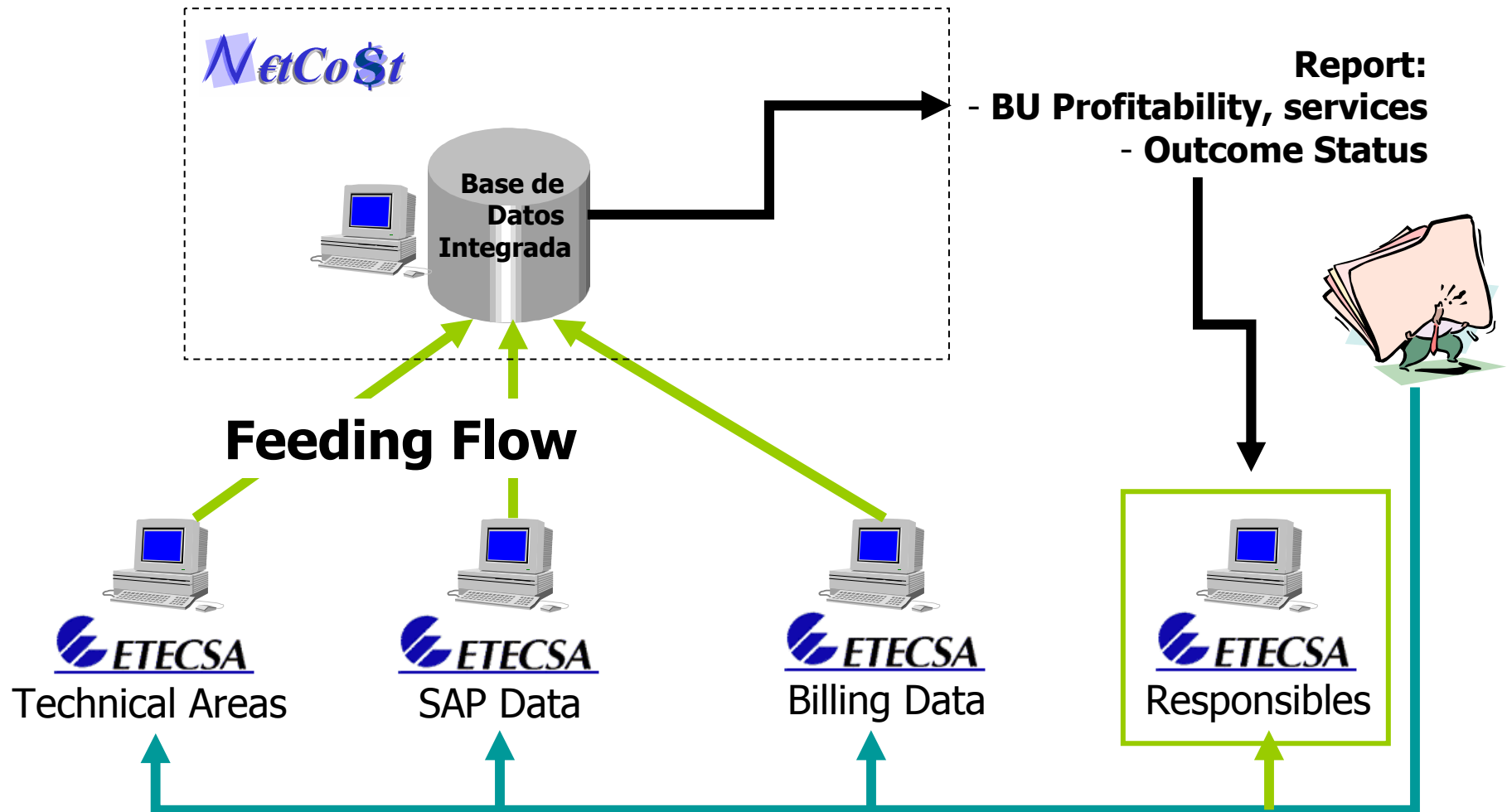
- **DIRECT COSTS:** In respect of the Business Units through the Costs Centers.
- **TRANSFERRED COSTS:** From other Business Units. These costs consider the use of means of other Business Units for the production of their own services. The assignment of these costs are made through technical drivers (traffic minutes...) and network technical models (switching....)
- **CORPORATE COSTS:** (structure cost....). These costs are charged through “convention” drivers (income....)
- **DIRECT INCOME:** This value is found in the company’s accounting system.

Each service rendered by the Business Units may be analyzed regarding:

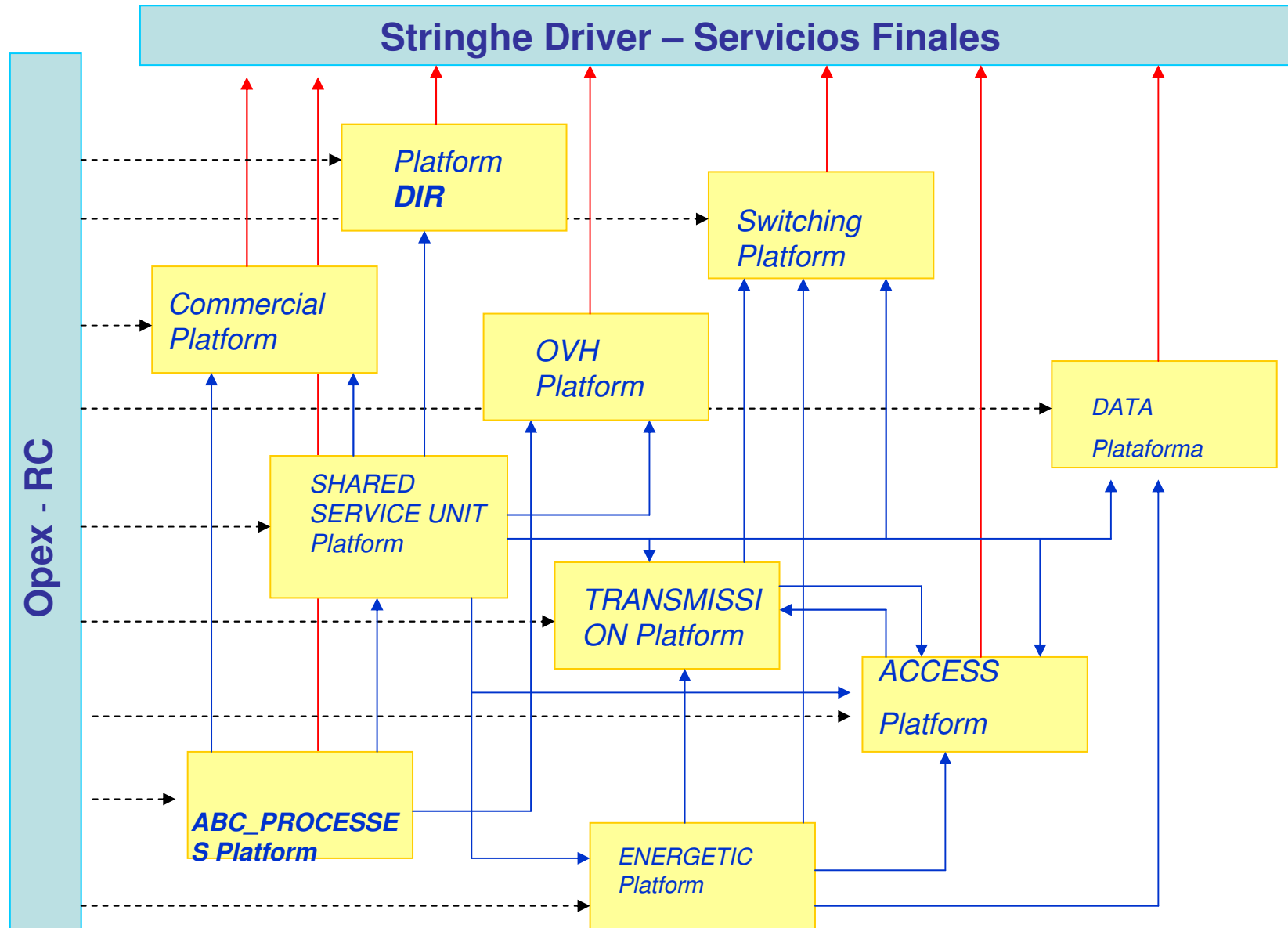
- The composition of the cost itself and generated by other Business Units (transfer).
- Geographical details (origin affiliate, destination affiliate)
- Modality by means of which the service is provided (automatic, by operator assistance...)
- Customer's typology
- Way of payment (prepayment, later payment)
- In addition, the unit cost and outcome status can be calculated per service, so as to assess its profitability.

The system allows to assess the composition per service, according to the different features of costs:

- Variable Costs (International Services, Energy, Billing...)
- Personnel Costs (Training, food,...)
- Maintenance (of Operations, Informatics....)
- Other expenses for Operation (Technical Support, Directory)
- Depreciation



Relation between Platforms



(Example)

Voice - International Long-Distance Call

