

Manx Telecom plc

Separated Regulatory Accounts

For the Year Ended 31 December 2017

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Purpose of the Separated Regulatory Accounts

These Separated Regulatory Accounts are prepared in accordance with Condition 43.2.7 of Manx Telecom's Telecommunications Licence issued under the Telecommunications Act 1984 which provides the basis for requiring separated accounts to be provided to the Isle of Man Communications Commission (the "Purpose"):

conditions requiring the Communications Provider to maintain a separation for accounting purposes between such different matters relating to Network Access to the Relevant Network as the Commission may from time to time direct, as well as conditions imposing requirements about the accounting methods to be used in maintaining the separation.

The accounting methods used in maintaining the separation as compared to those used in the preparation and maintenance of Manx Telecom's accounting records and published Statutory Financial Statements are discussed on pages 6 to 9 of this document.

These Separated Regulatory Accounts are not prepared under accounting standards or generally accepted accounting principles. The only stipulations relating to their form and content are imposed under Licence Condition 43.2.7 as set out above and any Decision Notices issued by the Isle of Man Communications Commission to ensure the satisfaction of that and any other relevant Licence Conditions.

As such, this document should not be used for any reason other than to satisfy the Purpose described above including, but not limited to, use in making investment decisions and understanding the financial performance and position of Manx Telecom.

In no circumstances shall Manx Telecom be liable for any loss or damage (including, without limitation, damage for loss of business or loss of profits) arising directly or indirectly from use of or inability to use, this document or any of the material contained within it.

Introduction

The Manx Telecom plc group (“Manx Telecom”) has prepared its Separated Regulatory Accounts (the “Separated Accounts”) for the year ended 31 December 2017 based on the following categories of business:

- regulated markets in which Manx Telecom has significant market power;
- defined markets in which Manx Telecom does not have significant market power; and
- unregulated markets.

The Isle of Man Communications Commission (“IOMCC”) issued a series of Notifications of Market Power Determination (“Decision Notices”) defining the regulated markets in which Manx Telecom operates along with a designation of significant market power (“SMP”), where applicable. Where a market has no SMP designation but would be subject to regulation if there were a determination of SMP, this market is classified as a defined market in which Manx Telecom does not have significant market power.

The decision notices identified the following categories of markets:

- Decision notice 2012/01 – Retail fixed markets
- Decision notice 2012/02 – Wholesale fixed markets
- Decision notice 2012/03 - Mobile Communications Markets (retail and wholesale)

The categories of business used in the preparation of the Separated Accounts are disaggregated further in the notes to the Separated Accounts on pages 6 to 18 to reflect this distinction between retail and wholesale markets. The markets can be summarised as follows:

Category of business	Market name
Regulated market in which Manx Telecom has significant market power	Retail fixed access market
	Retail voice calls from a fixed location
	Retail dedicated capacity (leased lines)
	Wholesale call origination
	Wholesale call termination
	Wholesale broadband access
	Wholesale on-island dedicated capacity (leased lines)
Defined market in which Manx Telecom does not have significant market power	Wholesale mobile call termination
	Retail fixed broadband
	Retail mobile communications
	Wholesale mobile access and call origination
Unregulated markets	Wholesale off-island dedicated capacity (leased lines)
	Hosting
	Business development (Global Solutions)
	Handsets and accessories
	Emergencies
	Telephone directories

Basis of Preparation of the Separated Accounts

Wherever possible, revenue and costs have been directly associated with a category of business, market or network element using information recorded within Manx Telecom's accounting records. If no such direct association is possible, the revenue and costs have been apportioned between the categories of business, market or network element on a basis that reflects the causality of the revenue or cost.

In selecting appropriate attribution methods and appropriate non-financial data for use within the attribution models employed in the production of these Separated Accounts, Manx Telecom has had to make certain estimates and exercise its judgement. Manx Telecom will continue to review and update the cost allocation methods used on an ongoing basis and where deemed appropriate, will make necessary improvements.

Further details of the attribution methodologies used are set out in the notes to these Separated Accounts on pages 6 to 18.

The Separated Accounts are based on Manx Telecom's 2017 accounting separation model. This model uses the published statutory accounts (the "Statutory Financial Statements") for the year ended 31 December 2017 as the basis for the calculations. The historic cost base associated with certain network assets has been restated on a bottom up basis to reflect the costs that would be incurred if those assets were to be deployed in the financial year. Further details on the regulatory accounting principles followed are provided in note 1 on page 6. A reconciliation between the Statutory Financial Statements and the Separated Accounts is provided in note 5.

Applicable Rate of Return

The applicable rate of return used in these Separated Accounts is 8.9%.

For more information on how the applicable rate of return is determined and used, refer to page 8.

Statement of Responsibility

Manx Telecom has been directed under Condition 43.2.7 of its Telecommunications Licence (“the Licence”), issued under the Telecommunications Act 1984, to maintain a separation for accounting purposes between such different matters relating to Network Access to the Relevant Network as the Commission may from time to time direct, as well as conditions imposing requirements about the accounting methods to be used in maintaining the separation.

These Separated Regulatory Accounts for the year ended 31 December 2017 are comprised of a Consolidated Income Statement with accompanying notes to the Separated Regulatory Accounts including:

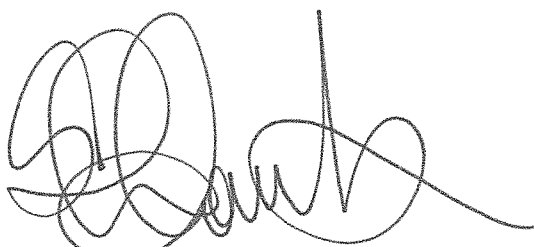
- i. a summary of business categories and market definitions;
- ii. a wholesale and retail market summary of the income statement; and
- iii. a statement of reconciliation of Regulatory Accounts to Statutory Accounts.

The Directors of Manx Telecom plc confirm that the Separated Regulatory Accounts for the year ended 31 December 2017 have been reconciled to the relevant Statutory Financial Statements and, to the best of their knowledge, have been prepared in accordance with:

- i. Condition 43.2.7 of Manx Telecom’s Licence; and
- ii. The Accounting Separation Methodology submitted to the IOMCC in support of these accounts.

Signed for and on behalf of the Board of Manx Telecom on

7th DECEMBER by:



Gary Lamb
Chief Executive Officer

Consolidated Income Statement

For the year ended 31 December 2017

	31 Dec 2017				31 Dec 2016			
	Total	Regulated markets with SMP	Defined markets without SMP	Unregulated markets	Total	Regulated markets with SMP	Defined markets without SMP	Unregulated markets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
External revenue	78,491	21,741	27,926	28,824	80,823	21,530	28,148	31,145
Transfer charges	26,295	17,353	8,942	-	24,105	17,663	6,442	-
Total revenue *	104,786	39,094	36,868	28,824	104,928	39,193	34,590	31,145
Costs	(71,341)	(22,624)	(18,493)	(30,224)	(75,408)	(23,976)	(19,878)	(31,554)
Transfer charges	(26,295)	(10,026)	(15,389)	(880)	(24,105)	(10,676)	(12,504)	(926)
Total costs *	(97,636)	(32,650)	(33,882)	(31,104)	(99,514)	(34,652)	(32,382)	(32,480)
Return	7,150	6,444	2,986	(2,280)	5,414	4,541	2,208	(1,335)

* Note that total revenue and costs as reported above do not represent actual revenue from transactions with customers as they include internal transfer charges. A reconciliation between these figures and revenue reported in the Statutory Financial Statements is included in note 5 on page 17.

Notes to the Separated Regulatory Accounts for the year ended 31 December 2017

1. Regulatory accounting principles

Manx Telecom plc ('the Company') is a company incorporated and domiciled in the Isle of Man in accordance with the Isle of Man Companies Act 2006. The Group Statutory Financial Statements consolidate those of the Company and its subsidiaries (together referred to as 'the Group').

The information contained in these notes has been extracted from the same models and files used for the preparation of the Separated Accounts and so follows the same basis of preparation.

These Separated Accounts are based on Manx Telecom's 2017 accounting separation model. This model uses the published statutory accounts (the "Statutory Financial Statements") for the year ended 31 December 2017 as the basis for the calculations.

The calculations use inputs from a bottom up cost model which was developed to simulate the costs that Manx Telecom would be subject to were its core, access and mobile networks developed at the reporting date such that the precise demand generated by its customers in regulated markets would be met. The assumptions used in determining this level of demand require the use of population density and various other geographical and market data.

1.1 Method of preparing accounting records

Manx Telecom is a unitary business sharing a common network and support functions. It consists of several customer-facing divisions and divisions responsible for providing customers with communications services, as well as divisions responsible for the design, operation and maintenance of its access, core and mobile networks, and providing and maintaining customer connections to these networks.

Manx Telecom records its financial transactions in the accounting records in accordance with the legal requirements of the Isle of Man Companies Act 2006 and International Financial Reporting Standards. Within these records detailed data is maintained in respect of the way in which transactions have arisen. Assets, liabilities, income and costs are recorded by type.

Revenue is classified according to internal product groupings. However, the Group is not structured on a market basis and has functional departments, processes, assets and obligations which serve multiple revenue streams. Consequently, the statutory financial statements do not disclose any segmentation of profits and net assets. Details of the accounting policies adopted in the preparation of the Statutory Financial Statements can be obtained in the latest annual report and accounts.

1.2 Method of preparing separated accounts

The structure of the Separated Accounts required by the IOMCC does not correspond to the way in which the statutory accounting records of Manx Telecom are structured. The Separated Accounts have therefore been prepared by overlaying the IOMCC's requirements on the accounting records and management structure of Manx Telecom. The Separated Accounts have been prepared by attributing the balances in Manx Telecom's general ledgers and other accounting records to the categories of businesses and markets set out by the IOMCC.

1. Regulatory accounting principles (continued)

Wherever possible, revenue and costs have been directly associated with a category of business or market using information recorded within Manx Telecom's accounting records. If no such direct association is possible, the revenue and costs have been apportioned between the categories of business or market on a basis that reflects the causality of the revenue or cost.

The main categories of costs and the methods by which they are apportioned are set out below.

Remuneration costs

As far as practicable, pay costs are allocated directly to the market to which the relevant employees provide services. Where this is not possible because employees' roles are non-market specific, and so their services represent indirect costs, if part of the employee's time can be directly attributed to a specific market, then it is, with any remainder being allocated against the particular network (or networks) that the individual's work relates to. Network allocation keys derived from the bottom-up cost models are then used to apportion these costs out to the markets that are determined to be appropriate by the output from the relevant model.

If the individual's role does not relate to specific markets or networks (for example human resources personnel) or there is a proportion of their time which does not, then this is either classed as a common cost or outside the scope of the bottom up models. Common costs are described in more detail below. Costs which are classified as outside the scope of the bottom up models cannot be allocated to any of the identified markets and so are excluded from the separated accounts.

Where a particular individual or department's time can be allocated to specific markets on a basis supportable by data captured within Manx Telecom's systems, it is. For example, auxiliary staff such as Information Technology support personnel time is recorded on the basis of helpdesk calls logged. The department the call originated from is then used to determine the appropriate market or network for allocation of pay costs or is used to allocate to common costs where appropriate.

Computer and network systems maintenance costs

Systems maintenance costs are allocated similarly to pay costs, inasmuch as, where costs can be attributed to systems used by specific markets or networks, they are allocated directly or on the basis of bottom up network allocation keys. Where they cannot be directly allocated, the pay cost allocation for the employees responsible for the costs is used to allocate to appropriate markets. If no suitable allocation is available, the costs are treated as common costs.

Energy costs

Energy costs are allocated according to the meter for which energy consumption is billed. The locations of meters are used to determine the cost driver (for example purpose of building or cabinet consuming the energy) and hence the appropriate market or markets to which the costs should be allocated.

Common costs

As stated above, Manx Telecom uses, wherever possible, objective data relating to cost allocation. There is however some expenditure for which no specific apportionment basis can be determined. These costs mainly represent central overheads such as central accounting and human resources

1. Regulatory accounting principles (continued)

functions. Common costs are costs which cannot be directly attributed to a specific market. They are apportioned across markets using an equi-proportional mark-up approach. This means that any market will receive a proportionate allocation of unattributable costs equal to its proportionate allocation of attributable costs.

Capital costs

Within the Statutory Financial Statements, fixed assets are stated at historical cost less depreciation with depreciation calculated based on that historical cost, subject to the revaluation of land and buildings. Within the Separated Accounts, the historic cost base associated with certain network assets has been restated on a bottom up basis to reflect the costs that would be incurred if those assets were to be deployed in the financial year. The annual capital costs are then expressed in terms of an annuity that comprises a depreciation charge derived with reference to the re-valued asset base and the asset lives detailed in the Manx Telecom fixed asset register and a cost of capital based on applying the regulated weighted average cost of capital rate to the derived net replacement value of the asset base.

A reconciliation statement detailing the adjustments made between the Statutory Financial Statements and the figures used in the accounting separation model is included in note 5.

The notes to the Separated Accounts include a disaggregation of the regulatory accounts into a Wholesale and Retail Market Summary (note 4) for regulated markets with SMP and for regulated markets which have been defined by the IOMCC but for which no SMP designation has been made for Manx Telecom, as well as those markets which are unregulated.

1.3 Transfer charges

Within the statutory accounting records maintained by Manx Telecom, no revenue or costs are recorded for services provided internally. In preparing the Separated Accounts, transfer charges between different markets were calculated in accordance with the principles outlined below.

1.3.1 Wholesale charges

The wholesale markets sell a range of network and wholesale services to meet the needs of other operators and the retail markets. Wholesale services are charged to the retail markets at the relevant wholesale price as would be charged to other Licensed Operators. No price discrimination occurs between sales made by Manx Telecom wholesale to other licenced operators and its own retail or downstream businesses.

Where Manx Telecom's markets sell services to each other, they are set at a rate equivalent to the charge that would be levied if the product or service were sold externally rather than internally to ensure that no preferential treatment is given to markets within Manx Telecom.

The transfer charges use existing published wholesale prices where available. Where no such price exists, the determinants of the price are based on bottom up cost models which take account of the cost of capital and the capital used to provide the service. The IOMCC has agreed the weighted average cost of capital (the Applicable Rate of Return) to be applied in the Accounting Separation model as 8.9%.

1. Regulatory accounting principles (continued)

1.3.2 Reporting of transfer charges

The Separated Accounts record transfer charges as specified above as:

- revenue accruing in one distinct separated market
- a matching operating cost recognised in another separated market

The main transfer charging processes are explained below:

- i. Wholesale on-island dedicated capacity – Manx Telecom’s retail markets provide local leased lines to retail customers. This transfer charge reflects the charges that a licenced operator external to the Manx Telecom group would incur if it were to purchase the same volume and mix of leased lines. The total is charged as a cost to the retail dedicated capacity (leased lines) market and revenue to Manx Telecom’s wholesale on-island dedicated capacity market.
- ii. GSM leased lines – Manx Telecom’s mobile markets make use of a variety of leased lines for the operation of its mobile network. This transfer charge reflects the charges that a licenced operator external to the Manx Telecom group would incur if it were to purchase the same volume and mix of leased lines to supply their mobile network. The total is charged as a cost to the mobile markets and revenue to Manx Telecom’s wholesale on-island dedicated capacity market.
- iii. Fixed to mobile customer sited interconnect (CSI) Links – This transfer charge reflects the cost levied on the mobile markets by the wholesale on-island dedicated capacity market.
- iv. Retail Broadband Services (IP Stream, DSL and FTTP services) – the retail fixed broadband markets make use of wholesale broadband services. The full wholesale charge for services used by the retail fixed broadband market is transfer charged.
- v. Retail Fixed Access– the retail fixed access market makes use of wholesale services. The full wholesale charge for services used by the retail fixed access market is transfer charged.
- vi. Mobile termination – Manx Telecom’s Retail voice calls from a fixed location and Retail mobile communications markets both benefit from termination of calls to mobile customers. The charge to these markets is transferred as a cost to them and a revenue in the wholesale mobile call termination market.

2. Determination of markets and SMP

Within the IOMCC's Decision Notices described on page 2, Manx Telecom was identified as operating in the following separable, markets:

Decision Notice	Market name	SMP designation	Description
2012/01 Retail markets	Retail fixed access market	SMP	The provision of a physical connection from a fixed location to the public telephone network. This market is separate from the services carried over the physical connection. It includes access from homes and offices.
	Retail voice calls from a fixed location	SMP	Includes all calls from a fixed line, including calls to Isle of Man mobiles and landlines, and calls off-island to fixed and mobile numbers. Calls from both business and residential customers are included in the market, but calls from mobiles are excluded.
	Retail dedicated capacity (leased lines)	SMP	Includes all dedicated capacity which provides broadly symmetric capacity between two points, where there is no switching, and the connection is dedicated to the user. The market definition is technologically neutral and would include SDH, PDH and Ethernet point-to-point services.
	Retail fixed broadband	No SMP	Includes xDSL, Fixed Wireless Access and (when and where available) FTTx. It excludes narrowband internet access and leased lines and excludes mobile broadband.
2012/02 Wholesale fixed markets	Wholesale call origination	SMP	For call services originated on the fixed public telecommunications network.
	Wholesale call termination	SMP	For call services terminating on the fixed public telecommunications network.
	Wholesale broadband access	SMP	For Separated Accounts purposes, this market represents all wholesale access services, including the market for wholesale broadband access and wholesale inputs associated with the provision of retail narrowband access (for which no separate wholesale market was defined). The provision of physical and non-physical connection. This market is separate from the services carried over the connection. It includes access from homes and offices.

2. Determination of markets and SMP (continued)

Decision Notice	Market name	SMP designation	Description
2012/02 Wholesale fixed markets (continued)	Wholesale on-island dedicated capacity (leased lines)	SMP	Includes all dedicated capacity which provides broadly symmetric capacity between two points (both located on-island), where there is no switching, and the connection is dedicated to the user. The market definition is technologically neutral and would include SDH, PDH and Ethernet point-to-point services.
	Wholesale off-island dedicated capacity (leased lines)	No SMP	Includes all dedicated capacity which provides broadly symmetric capacity between two points (one of which is an off-island location), where there is no switching, and the connection is dedicated to the user. The market definition is technologically neutral and would include SDH, PDH and Ethernet point-to-point services. On further consultation, it was determined that, as Manx Telecom only purchases wholesale off-island dedicated capacity and does not supply in this market, that there is no SMP designation.
	Wholesale mobile call termination	SMP	For call services terminating on the mobile network.
2012/03 Mobile	Retail mobile communications	No SMP	Services offered over the mobile network.
Communications Markets	Wholesale mobile access and call origination	No SMP	The provision of a mobile connection for call services to the public telephone network.

3. Categories of business

These Separated Accounts have been prepared such that all markets have been allocated to a category of business with three categories of business identified:

- regulated markets in which Manx Telecom has significant market power;
- defined markets in which Manx Telecom does not have significant market power; and
- unregulated markets.

Within each category of business for regulated and defined markets, a further categorisation between retail and wholesale business has been made. Retail business includes activities related to the sale of services to end customers. Wholesale business includes activities related to the sale of services to other operators and sales of wholesale inputs or products to Manx Telecom's own retail or downstream arm. The markets have been categorised as follows:

Category of business	Retail or wholesale	Market name	Decision Notice
Regulated markets with SMP	Wholesale	Wholesale call origination	2012/02
		Wholesale call termination	
		Wholesale broadband access	
		Wholesale on-island dedicated capacity (leased lines)	
		Wholesale mobile call termination	2012/03
	Retail	Retail fixed access market	2012/01
Retail voice calls from a fixed location			
Retail dedicated capacity (leased lines)			
Defined markets without SMP	Wholesale	Wholesale mobile access and call origination	2012/03
		Wholesale off-island dedicated capacity (leased lines)	2012/02
	Retail	Retail fixed broadband	2012/01
		Retail mobile communications	2012/03

The unregulated markets category of business includes all other business undertaken by Manx Telecom which does not fall under any of the markets identified by the IOMCC in the Decision Notices and so relates to competitive markets. The main sources of revenue in unregulated markets include but are not limited to:

- Business Development (e.g. Global Solutions, Vannin Ventures and Partionware) which consists of revenues from off-island customers including services such as mobile termination, strongest signal mobile and machine to machine;
- Hosting services;
- Handsets and accessories; and
- Telephone directories.

3. Categories of business (continued)

3.1 Markets categorised as wholesale

The wholesale market figures contain the revenues and costs of that part of Manx Telecom's business providing interconnection and wholesale services to other operators or, similar services provided to the Manx Telecom retail markets including the Core, Access and Mobile networks over which these products are provided.

The revenues are:

- i. the amounts due from other operators for the provision of interconnection and wholesale services; and
- ii. the amounts attributable by Manx Telecom from its downstream retail businesses in respect of similar or equivalent services provided to other operators.

The costs are the capital and operating costs of:

- i. apparatus and systems used in providing the fixed telecommunications services consisting of the conveyance of messages and information including calling, leased lines and managed data services, including ISAMs, local loop and line cards;
- ii. network operation centre services.
- iii. the land, cables, ducts, poles, plant and facilities associated with the activities and services described in paragraph (i) above;
- iv. the mobile switching and radio access equipment and other apparatus and systems used in providing the mobile telecommunications services consisting of the conveyance of messages and information including calling and data;
- v. including, without limitation, the costs of planning, installing, removing, moving, adjusting, maintaining, monitoring and controlling, and undertaking any other necessary operations in respect of, these things and the costs of the equipment and facilities used in undertaking these activities;
- vi. the costs of dealing and communicating with other operators, international operators and others who convey messages for which payments are made, including, without limitation, the costs of rendering bills to, and collecting payments from other operators in respect of the activities and services described above;
- vii. the costs of improving and developing the facilities, equipment, systems, processes and procedures used in providing the activities and services described above; and
- viii. the costs of any overheads and any other appropriate costs attributed to the activities causing the costs described above to be incurred.

3. Categories of business (continued)

3.2 Markets categorised as retail

The retail market figures contain the revenues, costs, assets and liabilities associated with retailing constituent services to third parties. The businesses will purchase from the Manx Telecom Wholesale Business, via transfer charges, the network services required to provide their customers with services.

4. Wholesale and Retail Market Summary
For the year ended 31 December 2017

	Total	Wholesale markets					Retail markets			Defined markets without SMP	Unregulated markets
		Regulated markets with SMP					Regulated markets with SMP				
		Wholesale call origination	Wholesale call termination	Wholesale on-island dedicated capacity	Wholesale broadband access ¹	Wholesale mobile call termination	Retail voice calls from a fixed location	Retail dedicated capacity	Retail fixed access market		
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
External revenue	78,491	30	378	1,137	1,699	822	4,292	4,355	9,028	27,926	28,824
Transfer charges	26,295	200	142	4,740	10,429	1,842	-	-	-	8,942	-
Total revenue	104,786	230	520	5,877	12,128	2,664	4,292	4,355	9,028	36,868	28,824
Costs	(71,341)	(1,144)	(2,139)	(2,827)	(11,043)	(1,378)	(2,575)	(472)	(1,046)	(18,493)	(30,224)
Transfer charges	(26,295)	(14)	(136)	(457)	(131)	(91)	(304)	(3,129)	(5,764)	(15,389)	(880)
Total costs	(97,636)	(1,158)	(2,275)	(3,284)	(11,174)	(1,469)	(2,879)	(3,601)	(6,810)	(33,882)	(31,104)
Return	7,150	(928)	(1,755)	2,593	954	1,195	1,413	754	2,218	2,986	(2,280)

¹ Note that this category includes costs and revenues associated with the provision of broadband and narrowband services. It therefore includes costs and revenues from the Wholesale Broadband Access market, and from wholesale inputs corresponding to the supply of retail fixed access, for which no separate corresponding wholesale market was defined.

4. Wholesale and Retail Market Summary (continued)
For the year ended 31 December 2016

	Total	Wholesale markets					Retail markets			Defined markets without SMP	Unregulated markets
		Regulated markets with SMP					Regulated markets with SMP				
		Wholesale call origination	Wholesale call termination	Wholesale on-island dedicated capacity	Wholesale broadband access ¹	Wholesale mobile call termination	Retail voice calls from a fixed location	Retail dedicated capacity	Retail fixed access market		
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
External revenue	80,823	20	304	1,064	1,495	778	4,800	4,742	8,327	28,148	31,145
Transfer charges	24,105	234	140	5,228	10,552	1,509	-	-	-	6,442	-
Total revenue	104,928	254	444	6,292	12,047	2,287	4,800	4,742	8,327	34,590	31,145
Costs	(75,408)	(1,277)	(2,387)	(3,124)	(11,716)	(1,711)	(2,138)	(385)	(1,238)	(19,878)	(31,554)
Transfer charges	(24,106)	(17)	(160)	(487)	(154)	(85)	(345)	(3,543)	(5,885)	(12,504)	(926)
Total costs	(99,514)	(1,294)	(2,547)	(3,611)	(11,870)	(1,796)	(2,483)	(3,928)	(7,123)	(32,382)	(32,480)
Return	5,414	(1,040)	(2,103)	2,681	177	491	2,317	814	1,204	2,208	(1,335)

¹ Note that this category includes costs and revenues associated with the provision of broadband and narrowband services. It therefore includes costs and revenues from the Wholesale Broadband Access market, and from wholesale inputs corresponding to the supply of retail fixed access, for which no separate corresponding wholesale market was defined.

Manx Telecom plc
Separated Regulatory Accounts 2017

5. Consolidated Income Statement Reconciliation
For the year ended 31 December 2017

	31 December 2017			31 December 2016		
	Revenue £'000	Costs £'000	Return £'000	Revenue £'000	Costs £'000	Return £'000
Wholesale regulated markets with SMP	21,418	19,359	2,059	21,324	21,118	206
Retail regulated markets with SMP	17,676	13,291	4,385	17,869	13,534	4,335
Defined markets without SMP	36,868	33,882	2,986	34,590	32,382	2,208
Unregulated	28,824	31,104	(2,280)	31,145	32,480	(1,335)
Total as per Separated Accounts	104,786	97,636	7,150	104,928	99,514	5,414
Adjustments						
Elimination of transfer charges between retail and wholesale	(26,295)	(26,295)	0	(24,105)	(24,105)	-
Bottom up cost accounting adjustments	0	(6,321)	6,321	-	(6,915)	6,915
Finance income	0	(10)	10	-	(72)	72
Finance costs	0	2,382	(2,382)	-	2,342	(2,342)
Net profit/loss on interest rate swaps	0	(777)	777	-	1,238	(1,238)
Total as per the Statutory Financial Statements	78,491	66,615	11,876	80,823	72,002	8,821

Dividends declared by Manx Telecom which are included in the Statutory Financial Statements are excluded from the Separated Accounts.

5. Consolidated Income Statement Reconciliation (continued)

The main adjustments between the Statutory Financial Statements and the separated accounts are as follows:

- Manx Telecom's own use of wholesale fixed, and mobile telecoms services derived from components of its own networks are treated as a wholesale cost and recharged to the appropriate categories of business and market as internal transfer charges;
- The historic cost base associated with certain network assets has been restated on a bottom up basis to reflect the costs that would be incurred if those assets were to be deployed in the financial year. The annual capital costs are then expressed in terms of an annuity that comprises a depreciation charge derived with reference to the re-valued asset base, the asset lives detailed in the Manx Telecom fixed asset register and a cost of capital based on applying the regulated weighted average cost of capital rate to the derived net replacement value of the asset base;
- Interest payable and similar finance income and costs including fair value gains and losses on interest rate swaps and net interest on pension asset or liability are not included within the accounting separation model so as to be consistent with the calculation of cost of capital; and
- Dividends payable are not included within the accounting separation model to be consistent with the calculation of cost of capital.

Annex 1: Explanatory Report

This explanatory report sets out and clarifies trends relating to markets including, where applicable, any significant impact on the Group's business from Regulatory Decisions published by the Isle of Man Communications Commission.

Where applicable, the report includes commentary in respect of:

- Trends relating to revenue and costs by market;
- Significant period on period movements in the reported performance;
- One-off or exceptional events in the period; and
- The impact of material changes in accounting policies, methodologies and estimation techniques and the extent to which they impact on the Group's Separated Accounts.

Overall there was a decrease in costs in 2017 compared to 2016 of £1.9m from £99.5m to £97.6m.

The key drivers of this decrease were the £1.3m loss on revaluation of fixed assets in 2016 not replicated in 2017, a decrease in the impairment of fixed assets of £0.4m and an increase in capitalisation of pay costs, £0.5m.

The commentary below will focus on trends other than those driven by this change in common costs.

Regulatory developments in the year

There were no regulatory decisions made during the year which impacted the Separated Accounts.

Regulatory developments in the prior years

On 1 September 2015, Manx Telecom commenced provision of wholesale fixed line rental services. The IOMCC has not completed a market review since these wholesale services have been in operation, and therefore a separate regulated market has not been identified within the Separated Accounts. The wholesale broadband access market therefore continues to include all fixed access network costs.

Annex 1: Explanatory Report (continued)

Exceptional events/methodology changes

There were no significant exceptional events impacting the Separated Accounts when compared to the prior period. There were also no methodology changes which impacted the Separated Accounts compared to the prior year.

Commentary on separate markets

1 Wholesale regulated markets with SMP

1.1 Wholesale call origination

Key Market Products

Call services originated on the fixed public telecommunications network.

Trends in reported balances

The movement generated by this market of £0.1m, was mainly a result of a cost decrease following the apportioned loss from fixed asset revaluation of £0.1m in 2016.

1.2 Wholesale call termination

Key Market Products

Call services terminating on the fixed public telecommunications network.

Trends in reported balances

Higher revenues in this market in comparison to prior year was a result of both external and transfer charged revenue increasing while costs decreased. External revenue increased due to higher Interconnect Incoming revenue £0.1m.

The cost decrease was driven by the apportioned loss from fixed asset revaluation in 2016 not replicated in 2017 and a reduction in the transfer charge cost.

Annex 1: Explanatory Report (continued)

1.3 Wholesale on-island dedicated capacity

Key Market Products

Includes all dedicated capacity which provides broadly symmetric capacity between two points, where there is no switching, and the connection is dedicated to the user. The market definition is technologically neutral and would include SDH, PDH and Ethernet point-to-point services.

Trends in reported balances

The return in this market decreased by £-0.9m on 2016. Increases in external revenue and decreases in external costs were offset by decreases in transfer charge revenue, principally relating to Megaline circuits, and increased transfer charge costs.

The introduction of new Wholesale Carrier Ethernet services in December 2017, providing savings, on existing Wholesale Ethernet monthly recurring charges of up to 63%, is expected to impact the 2018 Separated Accounts by reducing revenue.

1.4 Wholesale broadband access

Key Market Products

For Separated Accounts purposes, this market represents all wholesale access services, including the market for wholesale broadband access and wholesale inputs associated with the provision of retail narrowband access (for which no separate wholesale market was defined).

The provision of physical and non-physical connection. This market is separate from the services carried over the connection. It includes access from homes and offices.

Trends in reported balances

The return generated by this market increased in 2017 compared to 2016.

There was an increase in external wholesale line rentals from other operators offset partly by reduced transfer charged revenue. Reductions in POTS and ADSL lines were offset by the increased uptake in VDSL lines with transfer prices remaining relatively consistent for all line types between the two periods.

Costs decreased largely due to the capitalisation of pay costs associated with this market, £0.1m and the apportioned loss on revaluation of fixed assets in 2016, £0.2m.

Annex 1: Explanatory Report (continued)

1.5 Wholesale mobile call termination

Key Market Products

Call services terminating on the mobile network.

Trends in reported balances

There was an increase in return for this market in 2017 compared to 2016.

The major drivers were loss on revaluation of fixed assets in 2016, lower mobile network maintenance costs and a decrease in depreciation.

2 Retail regulated markets with SMP

2.1 Retail voice calls from a fixed location

Key Market Products

Calls from a fixed line, including calls to Isle of Man mobiles and landlines, and calls off-island to fixed and mobile numbers. Calls from both business and residential customers are included in the market, but calls from mobiles are excluded.

Trends in reported balances

There was a decrease in return for this market in 2017 compared to 2016 arising from a decrease in revenue. Call income fell by £0.7m and rental income by £0.2m due to the continued general decline in call volumes and migration to alternative VoIP services.

2.2 Retail dedicated capacity (leased lines)

Key Market Products

All dedicated capacity which provides broadly symmetric capacity between two points, where there is no switching, and the connection is dedicated to the user. The market definition is technologically neutral and would include SDH, PDH and Ethernet point-to-point services.

Trends in reported balances

The return generated by this market decreased in 2017 compared to 2016.

This was the result of decreased income from private apps and network of £0.3m.

Annex 1: Explanatory Report (continued)

2.3 Retail fixed access

Key Market Products

The provision of a physical connection from a fixed location to the public telephone network. This market is separate from the services carried over the physical connection. It includes access from homes and offices.

Trends in reported balances

Return increased in 2017 compared to 2016. Rental income increased by £0.8m.

