

Manx Telecom Limited
Separated Regulatory Accounts 2021

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Separated Regulatory Accounts

For the Year Ended 31 December 2021

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Purpose of the Separated Regulatory Accounts

These Separated Regulatory Accounts are prepared in accordance with Condition 85.2.8 of Manx Telecom's Telecommunications Licence issued under the Communications Act 2021 (the 'Act') (which replaced the Telecommunications Act 1984) which provides the basis for requiring separated accounts to be provided to the Isle of Man Communications and Utilities Regulatory Authority ("CURA") (the "Purpose"):

Conditions requiring the licenceholder to maintain a separation for accounting purposes between such different matters relating to —

- (i) network access to the relevant network; or*
- (ii) the availability of the relevant facilities;*

as the Authority may from time to time direct, including 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 85.2.8 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

In 2020 the Isle of Man Communications Commission (“IOMCC”) was renamed to Communications and Utilities Regulatory Authority (“CURA”) in order to better describe its new remit as identified via the Communications and Regulatory Authority Order 2020. In this document, and in an attempt to limit complexity, any reference to IOMCC and / or CURA shall have the same meaning. In addition, ‘regulator’ shall be held to have the same meaning as IOMCC and / or CURA.

The Manx Telecom Limited group (“Manx Telecom”) has prepared its Separated Regulatory Accounts (the “Separated Accounts”) for the year ended 31 December 2021 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.

In 2012 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)
	Wholesale mobile call termination
Defined market in which Manx Telecom does not have significant market power	Retail fixed broadband
	Retail mobile communications
	Wholesale mobile access and call origination
	Wholesale off-island dedicated capacity (leased lines)
Unregulated markets	Hosting
	Business development (OV & Synapse)
	Handsets and accessories
	Emergencies
	Telephone directories

In 2019, CURA issued a series Decision Notices to further inform on the Market:-

- Decision notice 2019/01 – Wholesale Local Access – Regulated market where MT is designated as having SMP
- Decision notice 2019/02 – Wholesale Broadband Access – Regulated market where MT is designated as having SMP
- Decision notice 2019/03 – Wholesale Fixed Voice Call Termination – Regulated market where MT is designated as having SMP
- Decision notice 2019/04 – Wholesale Traditional Interface Leased Lines – Regulated market where MT is designated as having SMP
- Decision notice 2019/05 – Wholesale Modern Interface Leased Lines – Regulated market where MT is designated as having SMP
- Decision notice 2019/06 – Retail Fixed Access – Regulated market where MT is designated as having SMP
- Decision notice 2019/07 – Retail Traditional Interface Leased Lines – Regulated market where MT is designated as having SMP

For the new market “Retail Modern Interface Leased Lines”, CURA determined that Manx Telecom does not have SMP.

For the existing market “Retail voice calls from a fixed location”, CURA determined that Manx Telecom no longer has SMP in this market.

For the existing market “Wholesale call origination”, CURA determined that Manx Telecom no longer has SMP in this market.

Category of business	Market name
Regulated market in which Manx Telecom has significant market power	Wholesale Local Access
	Wholesale Broadband Access
	Wholesale Fixed Voice Call Termination
	Wholesale Traditional Interface Leased Lines
	Wholesale Modern Interface Leased Lines
	Retail Fixed Access
	Retail Traditional Interface Leased Lines
Defined market in which Manx Telecom does not have significant market power	Retail Modern Interface Leased Lines
	Retail voice calls from a fixed location
	Wholesale call origination

In 2020, CURA issued a further Decision Notices relating to Mobile Markets. The outcome of the review was that existing Market determinations would be maintained.

The result of these reviews and determinations is that the Market framework is now :-

Category of business	Market name
Regulated market in which Manx Telecom has significant market power	Retail fixed access
	Retail traditional interface on-island dedicated capacity (leased lines)
	Wholesale call termination
	Wholesale broadband access
	Wholesale traditional interface on-island dedicated capacity (leased lines)
	Wholesale modern interface on-island dedicated capacity (leased lines)
	Wholesale Local Access
	Wholesale mobile call termination
Defined market in which Manx Telecom does not have significant market power	Retail fixed broadband
	Retail mobile communications
	Wholesale mobile access and call origination
	Wholesale off-island dedicated capacity (leased lines)
	Retail Modern Interface on-island dedicated capacity (leased lines)
	Retail voice calls from a fixed location
	Wholesale call origination
Unregulated markets	Hosting
	Business development (OV & Synapse)
	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 exercised 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 8 to 21.

The Separated Accounts are based on a revised accounting separation model developed by CURA with support from Manx Telecom. This model uses the audited statutory accounts (the "Statutory Financial Statements") for the year ended 31 December 2021 as the basis for the calculations. A change to previous methodologies has been undertaken in collaboration with, and at the direction of, CURA to re-target the allocation of network assets on a historical cost basis. Further details on the regulatory accounting principles followed are provided in note 1 on page 8. 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 10.

Statement of Responsibility

Manx Telecom has been directed under Condition 85.2.8 of its Telecommunications Licence (“the Licence”), issued under the Communications Act 2021, 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.

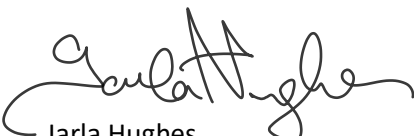
These Separated Regulatory Accounts for the year ended 31 December 2021 are comprised of a Consolidated Income Statement with accompanying notes to the Separated Regulatory Accounts including:

- 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 Limited confirm that the Separated Regulatory Accounts for the year ended 31 December 2021 have been reconciled to the relevant Statutory Financial Statements and, to the best of their knowledge, have been prepared in accordance with:

- i. Condition 85.2.8 of Manx Telecom’s Licence; and
- ii. The Accounting Separation Methodology submitted to CURA in support of these accounts.

Signed for and on behalf of the Board of Manx Telecom Limited on 5th May 23 by: 


Iarla Hughes
Chief Financial Officer

Consolidated Income Statement

For the year ended 31 December 2021

	31 Dec 2021				31 Dec 2020			
	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	82,498	10,757	33,024	38,717	81,936	11,608	30,638	39,691
Transfer charges	18,535	16,500	2,035	-	17,686	15,827	1,859	-
Total Revenue *	101,033	27,257	35,059	38,717	99,622	27,435	32,497	39,691
Costs	(74,016)	(15,219)	(16,183)	(42,613)	(79,650)	(14,800)	(16,705)	(48,146)
Transfer charges	(18,535)	(7,169)	(11,339)	(27)	(17,686)	(6,811)	(10,846)	(29)
Total costs *	(92,551)	(22,389)	(27,522)	(42,640)	(97,336)	(21,611)	(27,551)	(48,174)
Return	8,482	4,868	7,537	(3,923)	2,286	5,824	4,946	(8,484)

Presentation reflects the outcomes of the 2019 fixed market review

* 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 20.

Notes to the Separated Regulatory Accounts for the year ended 31 December 2021

1. Regulatory accounting principles

Manx Telecom Limited ('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 2020 accounting separation model. This model uses the audited statutory accounts (the "Statutory Financial Statements") for the year ended 31 December 2021 as the basis for the calculations.

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 CURA 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 CURA'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 CURA, following the guidance arising from the various market reviews.

To create the reporting of the Separated Regulatory Accounts for the period 2021, Manx Telecom and CURA have used the model developed to determine the simpler approach to the process, as agreed in 2020. This approach was proposed by CURA and is based upon a recognition of 'Network

1. Regulatory accounting principles (continued)

Elements' which are the building blocks for each service provided in a market. The allocation to Network Elements relates to cost allocation only, with costs allocated directly to Network Elements, and then allocated across markets on a basis reflective of causality using an appropriate 'driver'.

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 network element and market to which the relevant employees provide services.

If the individual's role does not relate to specific markets or network elements (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 model. Common costs are described in more detail below. Costs which are classified as outside the scope of the model 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.

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 network elements, they are allocated directly or on the basis of allocation keys or drivers which attribute costs on the basis of one or more aspects of 'causality'. If no suitable allocation is available, the costs may be 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 markets or network elements to which the costs should be allocated.

1. Regulatory accounting principles (continued)

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 functions. Common costs are costs which cannot be directly attributed to a specific network element or 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.

Consistent with the approach to the allocation of other costs, fixed assets are determined to be aligned to specific network elements and / or markets, with the resultant depreciation allocated accordingly.

To ensure that costs reflect a return for Manx Telecom, Capital costs include an Applicable Rate of Return based on the weighted average cost of capital determined by CURA and subject to periodic review. 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 regulator but for which no SMP designation has been made for Manx Telecom, as well as those markets which are unregulated.

During the period of review, Manx Telecom and the Department for Enterprise ('DfE') began a collaboration to accelerate fibre broadband services into the remote areas of the Island. The project involves DfE supporting the provision of fibre through the payment of a subvention to Manx Telecom as suggested as a result of an extensive consultation (directed by Dot-e-com) and agreed through a competitive tender process. It is noted that the separated accounting rationale would determine that this support effectively reduces the capital outlay for assets created for the fibre broadband services which would otherwise provide an Applicable Rate of Return (see above). This relates solely to the separated accounting process. To achieve this the support provided is recorded and 'amortised' over the equivalent life of the applicable assets, and applied to the depreciation costs in the model as a credit to the network elements to which the costs are applied.

A reconciliation note to the statutory accounts is provided at Note 5, page 20.

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. Regulatory accounting principles (continued)

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 will take account of any direct costs associated with the service as well as the cost of capital and the capital used to provide the service. CURA has agreed the weighted average cost of capital (the Applicable Rate of Return) to be applied in the Accounting Separation model as 8.9%.

1.3.2 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. This applies to both the traditional interface market, and the modern interface market.
- ii. 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.
- iii. 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.
- iv. 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 CURA'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 Communications Markets	Retail mobile communications	No SMP	Services offered over the mobile network.
	Wholesale mobile access and call origination	No SMP	The provision of a mobile connection for call services to the public telephone network.
2019/01 Fixed Market Review	Wholesale local access	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.
2019/02 Fixed Market Review	Wholesale Broadband Access	SMP	See decision notice 2012/02 – Wholesale Broadband Access
2019/03 Fixed Market Review	Wholesale Fixed Voice Call Termination	SMP	See decision notice 2012/02 – Wholesale Call Termination

2. Determination of markets and SMP (continued)

Decision Notice	Market name	SMP designation	Description
2019/04 Fixed Market Review	Wholesale Traditional Interface Leased Lines	SMP	Includes 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 relates specifically to 'kiloline' and 'megaline' technology which is end-of-life and is likely to be phased out during the course of the current review.
2019/05 Fixed Market Review	Wholesale Modern Interface Leased Lines	SMP	Includes 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 relates specifically to all dedicated capacity EXCEPT 'kiloline' and 'megaline' technology.
2019/06 Fixed Market Review	Retail Fixed Access	SMP	See decision notice 2012/01 – Retail Fixed Access Market
2019/07 Fixed Market Review	Retail Traditional Interface Leased Lines	SMP	Includes 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 includes 'kiloline' and 'megaline' services.
N/A 2019 Fixed Market Review	Retail Modern Interface Leased Lines	No SMP	Includes all other dedicated capacity (except 'kiloline' and 'megaline') 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.
N/A 2019 Fixed Market Review	Retail voice calls from a fixed location	No SMP	See decision notice 2012/02 – Retail voice calls from a fixed location
N/A 2019 Fixed Market Review	Wholesale Call Origination	No SMP	See decision notice 2012/02 – Wholesale Call Origination

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 termination	2019/03
		Wholesale broadband access	2019/02
		Wholesale traditional interface on-island dedicated capacity (leased lines)	2019/04
		Wholesale modern interface on-island dedicated capacity (leased lines)	2019/05
		Wholesale mobile call termination	2012/03
		Wholesale Local Access	2019/01
	Retail	Retail fixed access	2019/06
		Retail traditional interface on-island dedicated capacity (leased lines)	2019/07
Defined markets without SMP	Wholesale	Wholesale mobile access and call origination	2012/03
		Wholesale call origination	2019/NA
		Wholesale off-island dedicated capacity (leased lines)	2012/02
	Retail	Retail fixed broadband	2012/01
		Retail mobile communications	2012/03
		Retail voice calls from a fixed location	2019/NA
		Retail Modern Interface on-island dedicated capacity (leased lines)	2019/NA

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 CURA 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. OV (formerly 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;
- Solutions and technology sales (Synapse 360);
- 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 2021

Total	Wholesale markets						Retail markets		Defined markets without SMP	Unregulated markets	
	Regulated markets with SMP						Regulated markets with SMP				
	Wholesale call termination	Wholesale on-Island dedicated capacity - Traditional Interface	Wholesale broadband access	Wholesale mobile call termination	Wholesale (fixed) local access	Wholesale on-Island dedicated capacity - Modern Interface	Retail on-Island dedicated capacity - Traditional Interface	Retail fixed access market			
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
External revenue	82,498	290	3	1,632	531	565	838	74	6,824	33,024	38,717
Transfer charges	18,535	35	201	6,367	637	6,018	3,243	-	-	2,035	-
Total Revenue	101,033	325	204	7,998	1,168	6,583	4,081	74	6,824	35,059	38,717
Costs	(74,016)	(98)	(106)	(6,167)	(83)	(6,140)	(1,456)	(61)	(1,107)	(16,183)	(42,613)
Transfer charges	(18,535)	-	(14)	(802)	(1,038)	-	(131)	(201)	(4,984)	(11,339)	(27)
Total costs	(92,551)	(98)	(120)	(6,970)	(1,121)	(6,140)	(1,587)	(262)	(6,091)	(27,522)	(42,640)
Return	8,482	227	84	1,029	47	443	2,494	(188)	733	7,537	(3,923)

4. Wholesale and Retail Market Summary (continued)

For the year ended 31 December 2020

Total	Wholesale markets						Retail markets		Defined markets without SMP	Unregulated markets	
	Regulated markets with SMP						Regulated markets with SMP				
	Wholesale call termination	Wholesale on-Island dedicated capacity - Traditional Interface	Wholesale broadband access	Wholesale mobile call termination	Wholesale (fixed) local access	Wholesale on-Island dedicated capacity - Modern Interface	Retail on-Island dedicated capacity - Traditional Interface dedicated capacity	Retail fixed access market			
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
External revenue	81,936	311	4	1,552	591	535	986	120	7,510	30,638	39,691
Transfer charges	17,686	43	239	5,608	854	5,520	3,562	-	-	1,859	-
Total Revenue	99,622	354	242	7,160	1,446	6,055	4,548	120	7,510	32,497	39,691
Costs	(79,650)	(117)	(66)	(5,503)	(76)	(5,662)	(1,633)	(74)	(1,669)	(16,705)	(48,146)
Transfer charges	(17,686)	-	(16)	(379)	(1,142)	-	(142)	(239)	(4,892)	(10,846)	(29)
Total costs	(97,336)	(117)	(82)	(5,883)	(1,218)	(5,662)	(1,775)	(313)	(6,561)	(27,551)	(48,174)
Return	2,286	237	161	1,277	227	393	2,773	(193)	949	4,946	(8,484)

5. Consolidated Income Statement Reconciliation

For the year ended 31 December 2021

	31 Dec 2021			31 Dec 2020		
	Revenue £'000	Costs £'000	Return £'000	Revenue £'000	Costs £'000	Return £'000
Wholesale regulated markets with SMP	20,359	(16,036)	4,323	19,805	(14,737)	5,068
Retail regulated markets with SMP	6,898	(6,353)	545	7,630	(6,874)	756
Defined markets without SMP	35,059	(27,522)	7,537	32,497	(27,551)	4,946
Unregulated	38,717	(42,640)	(3,923)	39,691	(48,174)	(8,484)
Total as per Separated Accounts	101,033	(92,551)	8,482	99,622	(97,336)	2,286
Adjustments						
Elimination of transfer charges between retail and wholesale	(18,535)	18,535	-	(17,686)	17,686	-
Calculation of Investment Return		5,258	5,258		4,936	4,936
Depreciation diff		146	146		-	-
NBP adj		(219)	(219)		-	-
Finance income		-	-		2	2
Finance costs (incl)		(8,877)	(8,877)		(7,588)	(7,588)
Total as per the Statutory Financial Statements	82,498	(77,708)	4,791	81,936	(82,300)	(364)

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; and
- The annual capital costs are expressed in terms of a depreciation charge derived with reference to the 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 depreciation value of the asset base; and
- A derived charge / credit relating to the support received as a result of the implementation of the National Broadband Plan ('NBP'); and
- 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 reduction in costs in 2021 compared to 2020. This was mainly in the unregulated markets and was as a result of lower costs in our subsidiary business(es).

Regulatory developments in the year

No specific changes to the regulation / regulatory landscape were implemented during 2021, except that the methodology change for the Separated Accounts was implemented and 2020 separated accounts moved towards completion.

During the period, Manx Telecom received support from Department for Enterprise ('DfE') towards the implementation of the NBP. To the extent that this support is a contribution towards the infrastructure development cost of the fibre network, Manx Telecom and CURA have identified a mechanism to adjust the costs in the relevant market accordingly. The methodology, calculations and impact of the calculations are shared with CURA.

Regulatory developments in the prior years

The review of the Fixed Markets completed in 2019 identified that there was a requirement to recognise a 'new' market for wholesale fixed local access, and also changes to the dedicated capacity market(s) which made provision for traditional and modern interface services. In addition 2 markets which had previously been determined as Manx Telecom having Significant Market Power ('SMP'), were changed to defined markets where Manx Telecom does not have SMP. These changes have been reflected in the preparation of the Separated Accounts for the 2021 period, with comparators for 2020 adjusted accordingly.

Exceptional events/methodology changes

The business continued to be impacted by the restrictions to travel that arose from the Covid 19 pandemic in the early part of the year. Business results (revenues and costs) were impacted during the period, but are expected to return slowly to pre-Covid 19 levels. 'Brexit' was implemented in early 2021 but there was little immediate impact on the business results.

Annex 1: Explanatory Report (continued)

It was noted that significant costs relating to projects connected to the development of the broadband and fibre networks were incurred during the year, but as the projects were not completed, these investment costs have not been recognised in the cost calculations for the relevant markets. These costs support revenues generated in the current period, they will be recognised in the separated accounts in future periods.

Commentary on separate markets

1 Wholesale regulated markets with SMP

1.1 Wholesale call termination

Key Market Products

Call services terminating on the fixed public telecommunications network.

Trends in reported balances

Revenues and costs in this market were consistent with prior year using the revised methodology used to create the separated accounts.

1.2 Wholesale on-island dedicated capacity – traditional interface

Key Market Products

Includes all dedicated capacity where the provision interface supports kiloline and megaline services. This market was created from the fixed market review in 2019.

Trends in reported balances

Marginal revenues reflect the fact that services provided in this market rely on outdated technologies. The number of services using this traditional interface is largely static.

1.3 Wholesale broadband access

Key Market Products

This market represents all wholesale broadband access services, and as a result of the fixed market review in 2019, no longer includes wholesale inputs associated with the provision of narrow band access products.

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. The market does not differentiate between the different connection technologies utilised in the provision of wholesale broadband services.

Annex 1: Explanatory Report (continued)

Trends in reported balances

Revenues and costs have increased from the previous year, driven by the increased uptake of fibre services. Costs have not increased as quickly as there is a lag in the recognition of the significant investment in the broadband and fibre infrastructure.

1.4 Wholesale mobile call termination

Key Market Products

Call services terminating on the mobile network.

Trends in reported balances

Continuing switch from traditional call methods to data supported applications (whatsapp, messenger, etc.) are reflected in the downward trends identified in this market. Short term increases during the pandemic have been reversed.

1.5 Wholesale (fixed) local access

Key Market Products

New market created as a result of the fixed market review in 2019, includes all wholesale local access products, independent of the services (e.g. dedicated capacity, narrow band, broadband, etc.) being carried. Note that this market is technology agnostic in that both copper and fibre services are provided.

Trends in reported balances

Revenues arise from direct amounts from external partners who receive access services not included in other markets, and from retail markets where an internal transfer of revenues is required (self-supply). Internal transfer is calculated using the relevant wholesale rate. Costs have been calculated using the network element approach adopted for these separated accounts, and which is a departure from the bottom-up methodology previously used.

In the year transfer revenues have increased as a result of the increase in fibre services, which has been offset by the decline in transfer revenue from 'fixed' line services.

Annex 1: Explanatory Report (continued)

1.6 Wholesale on-island dedicated capacity – modern interface

Key Market Products

Includes all dedicated capacity where the provision interface does not include kiloline and megaline services (see 1.3) e.g. ethernet, carrier ethernet, etc.. This is a ‘new’ market arising from the fixed market review in 2019.

Trends in reported balances

Revenues have declined as a result of the reduction in the size of the market that Manx Telecom serves, whilst costs (largely direct costs) have remained static. As the migration of services related to the IOMG WAN network has not yet been delivered, the anticipated significant decline in revenues has not yet arisen.

2 Retail regulated markets with SMP

2.1 Retail on-island dedicated capacity – traditional interface

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 includes all dedicated capacity where the provision interface supports kiloline and megaline services. This is a ‘new’ market arising from the fixed market review in 2019.

Trends in reported balances

The reported revenues and costs continue underpin the marginal nature of this market.

2.2 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

Revenues in this market continue to decline as a result of the reduction to the number of fixed line services that Manx Telecom provides. This market is expected to decline further as customers continue to migrate to IP supported services (principally fibre based broadband services).