

Manx Telecom Limited  
Separated Regulatory Accounts 2020

**Manx Telecom Limited**

**Separated Regulatory Accounts**

**For the Year Ended 31 December 2020**

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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

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 2020 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)
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

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 market Retail Modern Interface Leased Lines, CURA determined that Max Telecom does not have SMP

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

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 :-

<b>Category of business</b>	<b>Market name</b>
Regulated market in which Manx Telecom has significant market power	Retail fixed access
	Retail voice calls from a fixed location
	Retail traditional interface on-island dedicated capacity (leased lines)
	Wholesale call origination
	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)
Unregulated markets	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 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 published statutory accounts (the "Statutory Financial Statements") for the year ended 31 December 2020 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 an 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 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 2020 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 2020 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 CURA in support of these accounts.

Signed for and on behalf of the Board of Manx Telecom Limited on 21/10/2022 by:



Iarla Hughes  
Chief Financial Officer

## Consolidated Income Statement

For the year ended 31 December 2020

	31 Dec 2020				31 Dec 2019			
	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	81,936	15,449	26,796	39,691	87,783	20,349	24,801	42,633
Transfer charges	17,686	15,873	1,812	-	27,007	18,655	8,352	-
<b>Total Revenue *</b>	<b>99,622</b>	<b>31,323</b>	<b>28,609</b>	<b>39,691</b>	<b>114,790</b>	<b>39,004</b>	<b>33,153</b>	<b>42,633</b>
Costs	(79,650)	(15,268)	(16,236)	(48,146)	(90,505)	(21,954)	(16,747)	(51,804)
Transfer charges	(17,686)	(7,036)	(10,621)	(29)	(27,007)	(10,778)	(15,107)	(1,122)
<b>Total costs *</b>	<b>(97,336)</b>	<b>(22,304)</b>	<b>(26,857)</b>	<b>(48,174)</b>	<b>(117,512)</b>	<b>(32,732)</b>	<b>(31,854)</b>	<b>(52,926)</b>
<b>Return</b>	<b>2,286</b>	<b>9,018</b>	<b>1,751</b>	<b>(8,484)</b>	<b>(2,722)</b>	<b>6,272</b>	<b>1,299</b>	<b>(10,293)</b>

\* 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 2020

### 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 published statutory accounts (the "Statutory Financial Statements") for the year ended 31 December 2020 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.

In preparation for the creation of the reporting of the Separated Regulatory Accounts for the period 2020, Manx Telecom and CURA worked to determine a simpler approach to the process. This approach was proposed by CURA and is based upon a recognition of 'Network Elements' which are the building blocks for each service provided in a market. The allocation to Network Elements

## 1. Regulatory accounting principles (continued)

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 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.

### **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 agreed weighted average cost of capital. 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.

### 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.

## 1. Regulatory accounting principles (continued)

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, and also the .
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 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.

### 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	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 voice calls from a fixed location	2012/01
		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 off-island dedicated capacity (leased lines)	2012/02
	Retail	Retail fixed broadband	2012/01
		Retail mobile communications	2012/03
		Retail Modern Interface on-island dedicated capacity (leased lines)	

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. 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 2020

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 - Traditional Interface	Wholesale broadband access	Wholesale mobile call termination	Wholesale (fixed) local access	Wholesale on-Island dedicated capacity - Modern Interface	Retail voice calls from a fixed location	Retail on-Island dedicated capacity - Traditional Interface	Retail fixed access market				
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
External revenue	81,936	32	311	4	1,552	591	535	986	3,810	120	7,510		26,796	39,691
Transfer charges	17,686	46	43	239	5,608	854	5,520	3,562	-	-	-		1,812	-
Total Revenue	99,622	78	354	242	7,160	1,446	6,055	4,548	3,810	120	7,510	-	28,609	39,691
Costs	(79,650)	(56)	(117)	(66)	(5,503)	(76)	(5,662)	(1,633)	(412)	(74)	(1,669)		(16,236)	(48,146)
Transfer charges	(17,686)	-	-	(16)	(379)	(1,142)	-	(142)	(225)	(239)	(4,892)		(10,621)	(29)
Total costs	(97,336)	(56)	(117)	(82)	(5,883)	(1,218)	(5,662)	(1,775)	(637)	(313)	(6,561)	-	(26,857)	(48,174)
Return	2,286	22	237	161	1,277	227	393	2,773	3,173	(193)	949	-	1,751	(8,484)

#### 4. Wholesale and Retail Market Summary (continued)

For the year ended 31 December 2019

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	Wholesale mobile call termination	Wholesale (fixed) local access		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	£'000	£'000	£'000	
External revenue	87,783	24	289	1,149	1,968	701	-		3,878	4,119	8,221		24,801	42,633
Transfer charges	27,007	130	100	6,576	10,542	1,307	-		-	-	-		8,352	-
Total Revenue	114,790	154	389	7,725	12,510	2,008	-	-	3,878	4,119	8,221	-	33,153	42,633
Costs	(90,505)	(1,169)	(2,185)	(2,891)	(11,255)	(1,253)	-		(1,563)	(574)	(1,064)		(16,747)	(51,804)
Transfer charges	(27,007)	(19)	(102)	(413)	(182)	(83)	-		(199)	(4,659)	(5,121)		(15,107)	(1,122)
Total costs	(117,512)	(1,188)	(2,287)	(3,304)	(11,437)	(1,336)	-	-	(1,762)	(5,233)	(6,185)	-	(31,854)	(52,926)
Return	(2,722)	(1,034)	(1,898)	4,421	1,073	672	-	-	2,116	(1,114)	2,036	-	1,299	(10,293)

## 5. Consolidated Income Statement Reconciliation For the year ended 31 December 2020

	31 December 2020			31 December 2019		
	Revenue	Costs	Return	Revenue	Costs	Return
	£'000	£'000	£'000	£'000	£'000	£'000
Wholesale regulated markets with SMP	19,883	(14,793)	5,089	22,786	(19,552)	3,234
Retail regulated markets with SMP	11,440	(7,511)	3,929	16,218	(13,180)	3,038
Defined markets without SMP	28,609	(26,857)	1,751	33,153	(31,854)	1,299
Unregulated	39,691	(48,174)	(8,484)	42,633	(52,926)	(10,293)
<b>Total as per Separated Accounts</b>	<b>99,622</b>	<b>(97,336)</b>	<b>2,286</b>	<b>114,790</b>	<b>(117,512)</b>	<b>(2,722)</b>
<b>Adjustments</b>						
Elimination of transfer charges between retail and wholesale	(17,686)	17,686	-	(27,007)	27,007	-
Bottom up cost accounting adjustments	-	-	-	-	7,209	7,209
Calculation of Investment Return	-	4,936	4,936	-	-	-
Finance income	-	2	2	-	1	1
Finance costs (incl)	-	(7,588)	(7,588)	-	(5,388)	(5,388)
Unrealised FX losses	-	-	-	-	(538)	(538)
Net profit/loss on interest rate swaps	-	-	-	-	(43)	(43)
<b>Total as per the Statutory Financial Statements</b>	<b>81,936</b>	<b>(82,300)</b>	<b>(364)</b>	<b>87,783</b>	<b>(89,264)</b>	<b>(1,481)</b>

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 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;
- 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 2020 compared to 2019, driven to a great extent by the absence of additional costs associated with the acquisition of Synapse, and the establishment of the Goshawk entity which had been included in the prior year. In addition, the reporting year was impacted significantly by the issues faced across the world arising from the Covid 19 pandemic.

### Regulatory developments in the year

In 2019 the Regulator completed a review of Fixed Markets. Key changes arising from this review were the creation of a new wholesale market (wholesale (fixed) local access), and the division of the dedicated capacity markets (wholesale and retail) into a market for 'traditional' interface products and services, and a market for 'modern' interface products and services.

Alongside the regulator, Manx Telecom has adopted a revised methodology in the creation of the Separated Accounts for the current year. The change has been completed in an effort to introduce a more transparent approach to the exercise.

### 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. This determination has been included in the preparation of the Separated Accounts for the 2020 period.

### Exceptional events/methodology changes

There were no significant exceptional events impacting the Separated Accounts when compared to the prior period, except that the business was impacted by the restrictions to travel that arose from the Covid 19 pandemic. Business results (revenues and costs) were impacted during the period.

The methodology for the preparation of the Separated Accounts for the 2020 period has been changed to support the introduction of 'Network Elements'. This approach provides for the identification of common 'elements' which are the building blocks for the markets that are identified, and which support the services which Manx Telecom provide in each Market.

## Annex 1: Explanatory Report (continued)

### 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*

Direct revenues increased during the period as a result of changing patterns in customer behaviour arising from Covid 19. Associated costs, and transfer costs, moved as a result of the revised methodology used to create the separated accounts.

##### 1.2 Wholesale call termination

###### *Key Market Products*

Call services terminating on the fixed public telecommunications network.

###### *Trends in reported balances*

Revenues in this market were consistent with prior year whilst associated costs, and transfer costs, moved as a result of the revised methodology used to create the separated accounts.

##### 1.3 Wholesale on-island dedicated capacity – traditional interface

###### *Key Market Products*

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*

Marginal revenues reflect the fact that services provided in this market rely on outdated technologies.

##### 1.4 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.

## Annex 1: Explanatory Report (continued)

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.

### *Trends in reported balances*

Revenues, and transfer revenues, for this market previously included elements of fixed line business which are now contained in the market – wholesale (fixed) local access. Changes to the market definition and the introduction of the new methodology employed for revenue and cost identification, account for the remaining changes from the prior year.

### 1.5 Wholesale mobile call termination

#### *Key Market Products*

Call services terminating on the mobile network.

#### *Trends in reported balances*

Changes to results from prior periods were as a result of changes to customer behaviour, primarily from the Covid 19 pandemic.

### 1.6 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.

#### *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.

## Annex 1: Explanatory Report (continued)

### 1.7 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*

This is a new market derived from the separation of the previous ‘wholesale on-island dedicated capacity’ market.

## 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*

Impacted by the change to methodology in the calculation of the separated accounts and the changes to customer behaviour arising from the Covid 19 pandemic.

### 2.2 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 underpin the marginal nature of this market.

## 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*

Impacted by the changes to the separated accounting methodology as well as the significant reduction of ISDN services.