connecting everyone and everything

manx telecom plc
annual report and accounts 2017

We are the leading communications solutions provider on the Isle of Man. One way or another we connect everyone on the Island and increasingly our business is about connecting everyday things in a more connected world.

Contents

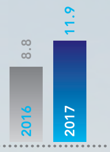
highlights

Revenue

£78.5m
-2.9%

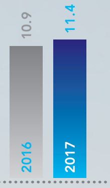
Reported profit after tax

£11.9m
+35.2%



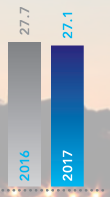
Total dividend per share

11.4p
+4.6%



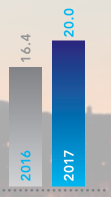
Underlying EBITDA

£27.1m
-2.2%



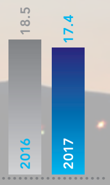
Underlying free cash flow

£20.0m
+22.1%



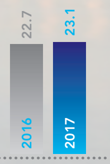
Underlying operating profit

£17.4m
-6.3%



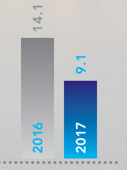
Reported EBITDA

£23.1m
+1.5%



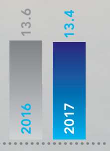
Reported free cash flow

£9.1m
-35.7%



Reported operating profit

£13.4m
-1.5%



company overview

We are the leading communications solutions provider on the Isle of Man. Our operations touch the lives of almost every individual and business on the Island. And in international markets we have a growing portfolio of 'smart SIM' solutions, marketed since 2000 by our Global Solutions team through key partners.

The Isle of Man in numbers

Population
c85,000

Households
c37,000

Annual TT tourist visitors
c42,000

Businesses
c4,000

GDP (2015/16)
£4.45bn

Unemployment (Jan 2018)
0.8%

Core business

Fixed line, broadband and data

We provide fixed line, broadband and connectivity services, connecting approximately 37,000 homes and 4,000 businesses locally and internationally. Our Ultima and Ultima Plus high-speed broadband services are now available to 93% of households, and our 'lightning-fast' optimal fibre products are being rolled out in 2018.

Mobile

Our mobile business offers pre-paid and post-paid tariffs to all market segments, supports inbound roaming traffic from international visitors, and sells mobile handsets, laptops and accessories. We're especially proud of our 4G service, providing high-speed mobile broadband to 99% of the population.

Data Centre

Our data centre business offers co-location, managed hosting, cloud, storage, disaster recovery and business continuity services to an international and local corporate client base, via three data centres on the Island at Douglas North, Douglas Central and Greenhill Data Centre (GDC).

Other services

Includes advertising revenue from our phone book and business directory as well as from our own online news channel MTTV, and portal manx.net. This area also includes hardware equipment sales, managed services and interconnection fees, as well as revenues from our standalone business, Vannin Ventures, and its subsidiaries.

Core revenue

£62m

Global solutions

Internet of Things/Critical Connections

Our Smart SIM solutions offer users the ability to roam across multiple networks on a single SIM, intelligently seeking out the best signal and the most commercially attractive network. This is supported by a flexible 'Service Management Platform' to enable strategic partners real time control of tariffs, provisioning and usage control. The proposition is especially attractive to customers where mobile connectivity is critical for the delivery of an end service such as Lone Working, Alarm Monitoring and Telehealth. Increasingly, we see demand in growing 'Internet of Things' sectors such as logistics, transport, security monitoring, utilities and energy.

Mobile Virtual Network Enabler (MVNE)

With extensive roaming partnerships across mainland Europe, the USA, and the UK, we provide extremely competitive solutions for every type of business enterprise looking to offer a specialist mobile communications service of its own. Via proprietary interfaces, we enable mobile service providers to manage calls, texts, and data sessions in real time to create flexible and cost effective mobile solutions. Our service powers solutions targeting international travellers, unique traveller markets such as India, and diaspora communities such as Chinese nationals living in the UK.

Global Solutions revenue

£16.5m

2017	16,533
2016	15,565
2015	14,122

Strategic investments

Vannin Ventures –

our dedicated 100%-owned subsidiary focusing on new innovative technologies, products and services.

Partitionware –

an Isle of Man-based company offering a wide range of innovative telecoms solutions to service providers worldwide.

Goshawk Communications –

67% ownership of a company with patented technology targeting phone users suffering hearing loss with an improved service.

chairman's statement

I am pleased to present a solid set of full year results for 2017, with stable trading performance and strong underlying cash flow which continues to support our progressive dividend policy.

Kevin Walsh
Non-Executive Chairman

Our core business continues to perform solidly. As announced previously, revenue levels in 2017 were impacted by customer consolidation in our Data Centre operations during 2016 and the rescheduling of our directory distribution. This revenue reduction was offset in part through continued growth in our Global Solutions business, driven by our Strongest Signal Mobile solution, M2M, and international traveller propositions. The agreement signed with China Unicom in December 2016 to provide connectivity for China Unicom's UK based Mobile Virtual Network Operator (MVNO) service grew slowly in 2017, due to technological challenges which have now been addressed, and we expect this agreement to bring further growth in 2018.

Our Transformation Programme, launched in October 2016, is progressing well with the implementation of IT systems and improvements in our internal processes and organisational structure. The associated costs are on track and the programme is due to complete in 2018.

Vannin Ventures was launched in 2016 to create future medium-term growth opportunities for the Company. Following on from its acquisition of Partitionware in 2016, it acquired a second company, Goshawk Communications Limited, a business focused on services to help the hard of hearing.

The Isle of Man economy remains stable and resilient with unemployment at only 0.8%. We continue to work with the Isle of Man Government on attracting business to the Island, and our telecommunications infrastructure and services play an important part in the Island's continued success.

Dividend

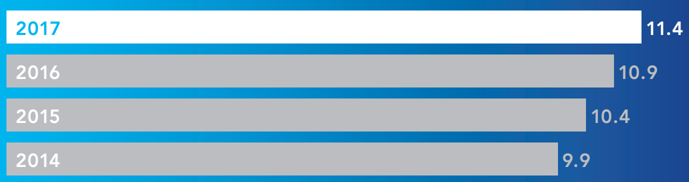
The Board has declared a final dividend of 7.5p per share to be paid on 29 June 2018. This will bring the full year dividend to 11.4p (2016: 10.9p). The shares will trade ex-dividend on 24 May 2018 and will have a record date of 25 May 2018.

Outlook

The Company's strategy continues to focus on both maintaining our core market position on the Isle of Man through high quality customer service enhanced by our Transformation Programme, and seeking on- and off-island growth by leveraging our mobile infrastructure and exploring new innovative products and services for our customers.

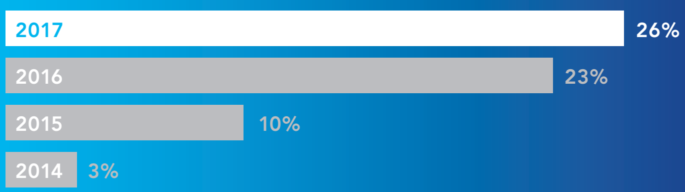
Total dividend

11.4p



Total shareholder return

26%



We expect that our core domestic business (Fixed Line, Broadband and Data) and Mobile revenue streams will be supported by continued improvement in our on-island network infrastructure, resulting in overall stable revenues in our core lines of business.

We remain positive about the future progress in our Global Solutions business, building upon the successes of 2017 and with new opportunities also starting to contribute revenue. Following the return to growth within our Data Centre business in H2 2017, we expect this area of the business will continue to grow in 2018, supported by new product development.

The recent acquisitions of Partitionware in 2016 and Goshawk in 2017 by our business incubator, Vannin Ventures, are exciting opportunities that we expect will contribute to the Group's growth strategy.

Our net debt/underlying EBITDA ratio of 2.1x (2016: 1.9x) and £10m of committed and unutilised loan facilities at year end means that we are well capitalised.

The Group's excellent cash conversion enables us to support our ongoing Transformation Programme and our progressive dividend policy.

Kevin Walsh
Non-Executive Chairman

investment case

① Favourable macro backdrop

The Isle of Man is a leading international business centre renowned for innovation, professionalism, and a policy of positive engagement with other jurisdictions. Best known for its financial services industry, the Island has successfully diversified across sectors including e-business, e-gaming and high-tech manufacturing. As such, the Isle of Man is a growing, affluent, low tax economy keen to embrace new technology.

② Strong core market position

Manx Telecom is the leading communications solutions provider on the Island with market share positions in mobile, broadband, data centre and fixed-line segments. We have a 128-year heritage and own the entire copper network, most of the fibre network, and have invested over £100m in the last 12 years to grow our position. We have a strong affiliation with the Isle of Man Government and a relationship with nearly every business and consumer on the Island.

③ Differentiated and competitive offering

Manx Telecom focuses on providing a superior network and customer service and with it, a reliable and trustworthy reputation, competing on value rather than price alone. We are especially proud of the fact that after 10 years of competition in the local mobile market, we have retained a market share of over 70%. This has been underpinned by investment in a world-class 4G network providing 99% population coverage on the Island.

⑤ Progressive dividend policy backed by strong free cash flow

Since its admission to AIM in 2014, Manx Telecom has recorded stable trading performance and strong underlying cash flow. Our Transformation Programme will help to ensure this is maintained, and an experienced management team is in place to drive further efficiencies and growth in free cash flow, especially. This supports our progressive dividend policy, which has been maintained since admission at an annual increase of c.5%.

④ Exploiting new market growth opportunities

Off-Island, Manx Telecom has successfully developed its Global Solutions business, such that it now represents c.20% of revenues. We utilise our domestic mobile technology platform and international roaming agreements to offer a range of SIM-based solutions to UK and international partners. This strategy was supplemented in 2016 by the creation of Vannin Ventures, a 100%-owned business incubator targeting new innovative technologies and opportunities.

year in review

In this section, we illustrate some of our highlights and announcements over 2017.

Milestones

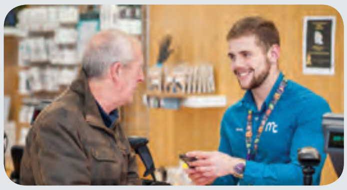
additional homes connected to fibre

5,000+

24 March

Superfast fibre broadband available to 5,000 more homes and businesses

15 fibre broadband street cabinets were installed, extending our Ultima service to 93% of premises and our Ultima Plus service to 73%, adding coverage to parts of Douglas, Laxey, Peel, Castletown and Ramsey.



05 April

Savings for loyal customers

Amongst a variety of price changes, we announced, for the first time, monthly 'bundled' savings for loyal customers taking multiple services across fixed line, broadband and mobile pay monthly subscription services.

31 March

Flagship Manx Telecom Parish Walk sponsorship extended to 2020

We were delighted to extend our sponsorship of the Island's leading mass participation sporting event to 2020, with the Parish Walk being heralded by CEO Gary Lamb as "a shining example of the Island's tremendous community spirit and enthusiasm for sport".

average island-wide 4G speed

27.74Mbps

11 May

4G mobile speed and coverage ahead of the UK

Comparing the latest published figures on OpenSignal's live app and website (opensignal.com), Manx Telecom's average Island-wide speed of 27.74Mbps and our 99% 4G coverage placed us ahead of all major UK cities.

12 May

New company to help telephone users with hearing loss

Vannin Ventures, the subsidiary of Manx Telecom established to identify new long-term growth opportunities, announced its majority shareholding in a new company, Goshawk Communications Limited, that will provide pioneering technology to help phone users with hearing loss.

Learn more about Goshawk on page 24

1 August

Another first; inclusive UK and EU roaming for mobile customers

We were the first Isle of Man operator to offer our pay monthly customers inclusive roaming within the UK and EU. Our New 'Smartroam' tariffs provide mobile customers up to 5GB of roaming data, 500 minutes call time, and 500 texts of inclusive roaming allowance, for use when travelling to UK and EU destinations. We also became the first Isle of Man operator to offer a completely unlimited allowance of minutes, texts and data for use on the Island.

potential speeds after fibre investment

1Gbps

20 June

Major investment in faster fibre broadband

We announced the roll-out of an Ultrafast broadband service of Fibre To The Premises (FTTP), whereby a fibre-optic cable is provided all the way to an individual home or business, providing download speed options up to 1Gbps. The initial roll-out will target 77 locations, covering all major business districts and industrial estates across the Island.

12 December

Fastest fibre first! Registrations opened for new fibre broadband service

Expressions of interest were invited from customers keen to be among the first on the Island to receive the new 'Lightning Fast' Fibre broadband service next year. Monthly pricing options starting from £42 per month were also announced.

market review

Change is a constant in the telecoms industry, which means we are challenged daily to grow our revenue profitably and sustainably. Here we review some of the market trends affecting us.

The telecoms market

The telecommunications industry is continuing to change at breakneck speed, especially as data-hungry customers with smart devices consume even more bandwidth. The smartphone revolution has triggered a growth in mobile applications which has seen a range of disruptive players enter the industry. The markets we operate in are characterised by:

- regular technology changes.
- product convergence.
- increasing competition.
- falling prices.
- rapid changes in customer behaviour.
- a widening digital ecosystem.
- shortening product life cycles.

In our home market, we are well placed to act as a catalyst of transformation in a fast-changing digital society. We do this by paying close attention to the changes we see in our industry and adapting our strategies and behaviour to ensure we stay relevant to the businesses and consumers we serve.

Fewer minutes, more data

So-called 'over-the-top' (OTT) providers such as WhatsApp, Facebook, Google and Apple have redefined the customer experience in messaging and video services. Increasingly sophisticated smartphones have become the focus and customer control-point for these services. Consumers and businesses have embraced the value and utility in these applications, which has had a direct impact on legacy telecommunications services, and a positive impact on our industry as a whole.

Like all operators, we have seen a sustained decline in the use of traditional fixed line and mobile calling and text usage on our network. However, this has been more than offset by growth in the use of connectivity and data, the driving force behind many new applications. In 2017, we saw a 43% increase in data usage on our fixed line network and a 89% increase in data usage on our mobile network.

The long-term growth in data demand from our customers has fundamentally impacted our capital investment strategy over recent years. Our 4G mobile network was specified to the highest levels of quality and provides 99% population coverage on the Isle of Man. For our fixed line network, we have adopted twin strategies of increased Fibre to the Cabinet (FTTC) roll-out, supported by the introduction of direct Fibre to the Premise (FTTP) connectivity. Mobile or fixed, we are well placed to meet the Island's growing demand for high-speed and low-latency data services.

The Internet of Things

'Machine to machine' communication is becoming instantaneous, continuous and cheap. It's also at the very heart of the Internet of Things (IoT) market, in which almost anything – processes, machines and everyday objects – can automatically exchange data. In doing so, this is creating new opportunities, new ways of doing things, new revenue streams, and in some cases entirely new products, services and sectors. Some market estimates predict over 50 billion devices will be connected worldwide by 2020. Smart cities and connected, driverless cars are regularly quoted as examples of major initiatives falling within the scope of the IoT market.

By working with a network of UK and internationally based partners who specialise in extracting maximum value from the opportunities that the IoT market affords, our smart SIM technology provides the connectivity necessary for any organisation to begin to transform the way they do business. Our Global Solutions business is well placed to capitalise on the opportunities in the IoT market, and we're already seeing huge potential for example in the logistics, transport, security monitoring, utilities and energy sectors.

Fixed line market share

93%

Mobile market share

+70%

A digital customer experience

Delivering a high-quality customer experience is one of our top goals – it's already a cornerstone of our brand reputation. We aim to put customers at the front and centre of everything they do, which means we have to be even more agile, efficient and focused on network quality – and must have differentiators in a world where our customers have an ever-widening set of relationships with Manx Telecom and a range of digital newcomers.

A new generation of 'millennial' customers have different and higher expectations from a service provider such as Manx Telecom. These customers have never lived in a world without digital. As such, they expect seamless online and offline interactions and will quickly make their voices heard should convenience and quality fail to live up to their expectations.

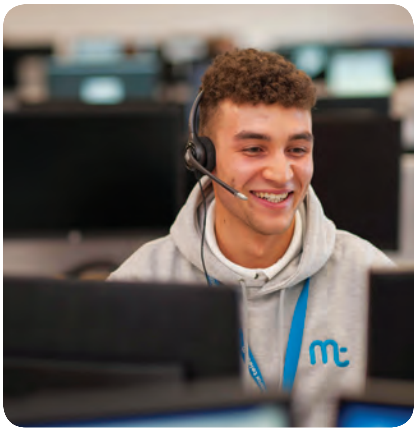
Investment in IT systems and process improvement is a fundamental pre-cursor to an improved digital customer experience, and is a major part of our own transformation programme. Higher levels of support, more personalised services and greater adoption of online 'self-care' services are all goals we are striving to attain to unlock a new experience for the businesses and consumers we serve.

Analytics and virtualisation

Analytics-based insights and virtualised networks and IT are arguably the top drivers of innovative capabilities in the telecommunications market. Analytics is widely perceived as being mainly about gaining a deeper understanding of customers, whereas virtualisation is technology that allows the creation of IT services that are traditionally bound to hardware.

We were one of the first operators in the world to embrace virtualisation, when we migrated our entire fixed line customer base onto a software based, cloud computing fixed line platform, which, in the longer term, will make it possible to introduce new services faster for consumers and businesses. It means that we're now a world leader in the evolution of fixed line network technology and a great example of continued investment and innovation enabling the Isle of Man to keep up with the ever-increasing advancements in communications technology.

We're also determined to bring the benefits of virtualisation to our customers with products such as Virtual Desktop Infrastructure (VDI), which effectively removes and hosts the application software for a regular business desktop in the Manx Telecom Cloud, providing cost and efficiency benefits with no loss of capability.



a sustainable business model

Our purpose: to deliver a more connected Island, more connected customers, businesses and 'everyday things' in an increasingly connected world.

Resources & relationships

Infrastructure
We are proud to have invested over £100m in the Isle of Man's infrastructure in the last 12 years, owning all the Island's copper network and the majority of its fibre network.

People
We have a great team of approximately 300 locally-based skilled, motivated people, over 90% of whom own shares or share options.

Technology
Innovation is in our DNA. Recently we embraced the latest 'Software Defined Network' architecture, migrating our entire fixed line customer base onto a software-based cloud computing platform.

Suppliers
We partner and work with many of the leading telecommunications and IT network and equipment suppliers such as Huawei, Cisco, VMWare, Metaswitch and Nimble.

Financial position
A long-term stable trading position and strong underlying free cash flow have been the cornerstones of a solid financial performance since our AIM listing in 2014.

Revenue streams

Broadband
100% ADSL broadband coverage and superfast broadband availability to 93% of homes.

Mobile
99% population coverage for 4G and 4G+ services.

Fixed line
Covering 100% of the Island with one of the world's first cloud-based, software-centric networks.

Data hosting
The Island's only operator to own and run two Tier 3 designed data centres.

Managed services
Bespoke services utilising our full portfolio of connectivity, hosted and cloud-based solutions.

Global solutions
'Smart SIM' mobile services marketed in the UK and internationally through strategic partners.

Supported by our values

Enterprising
We are resourceful, spirited, enthusiastic and keen. We make things happen.

Proactive
We are alert, hard-working and committed. We are the first to take responsibility.

Competitive advantage

Excellent network quality

- 99% 4G mobile coverage; one of the highest in the world.
- 93% superfast broadband coverage.

High service standards

- Monthly transactional NPS (Net Promoter Score) results benchmark positively against UK operators.
- ISO 9001 and ISO 27001 certified.

Innovation

- Vannin Ventures – a 100%-owned business incubator with an autonomous team; exploring and developing new technologies and services such as Goshawk Communications.

Staff expertise

- Largest pool of IT and telecoms engineers on the Island.
- Dedicated Isle of Man based customer support team.

Customer relationships

- Connecting with almost every individual on the Island and millions worldwide.
- Large and small, global and local, we help keep over 4000 businesses running.

Brand reputation and heritage

- Servicing and investing in the Isle of Man for over 125 years.
- Proud supporter of Island community life through charity schemes and sponsorships.

Value creation

Customers

- Key technology enabler for the Island to grow and flourish.
- High levels of superfast broadband and 4G mobile adoption.

Shareholders

- Strong underlying free cash flow.
- Progressive dividend policy.

Staff

- Great place to work.
- Trusted employer with a loyal workforce.

Isle of Man

- Contributing nearly £50m to the Manx economy annually.
- Investing to ensure 'IoM plc' benchmarks favourably on a global basis.

Annual contribution

c£50m

Community

- Helping individuals and communities use technology to improve their lives.
- Promoting Digital Inclusion for the elderly and isolated.

Confident

We are positive, commercially assertive taking credit where its due. We lead by example.

Trusted

We are dependable, credible, reputable and community-minded.

delivering our strategy

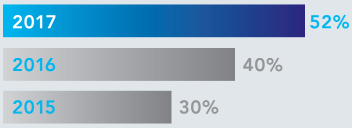
We continue to evolve our strategy in a dynamic market, striking the optimal balance between enhancing our core business and pursuing new growth opportunities.

Key strategies	Progress
1 Strengthen our core business on the Isle of Man by innovating and providing high levels of network quality and customer service. Read the case study on page 20	Fast deployment of the latest telecommunications technologies backed by innovative and market-leading customer focused propositions continues to be at the heart of our core business performance. We continue to see growth in mobile and broadband data usage, which we fulfil by rolling out higher-speed broadband services alongside attractive incentives for customers to upgrade. Our mobile Smartroam packages, offering inclusive roaming to UK and EU destinations, have proved especially popular amongst consumers and will be rolled out to businesses in 2018. Our core domestic business performed to expectation, contributing to a strong underlying cash flow.
2 Transform our operating model re-shaping our business and investing in technology to deliver an improved customer experience. Read the case study on page 22	We launched our Transformation programme in October 2016 with the aim of improving competitiveness and our front-line customer experience. The programme progressed well in 2017, with the first major stage of the programme being a review of our business processes and organisational structure. The implementation of new IT systems to underpin the goals of the programme is well underway, and we expect to see the benefits of this investment coming onstream through 2018. Wherever possible, we have taken the opportunity to introduce proprietary established vendor software to replace in-house customised systems to improve functionality and efficiency.
3 Realise sustainable new growth by exploiting new market opportunities on and off-Island. Read the case study on page 24	Several strategies to pursue new growth were established and operational in 2017. As well as pursuing opportunities closely aligned to our Global Solutions business – such as the partnership with China Unicom to facilitate its 'CUniq' service – we were able to explore several new opportunities through our Vannin Ventures standalone business incubator. In 2017, we successfully acquired a 67% shareholding in Goshawk Communications, and significant progress was made towards our objective of launching this service to the wider UK market.

KPIs

VDSL uptake

52%



Premises passed by FTTP by end 2018

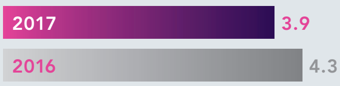
4,600

Programme costs – Capex

£3.2m

Total programme costs – Opex

£8.2m



Goshawk addressable UK market

2.5m

Roaming agreements

400+

Challenges

- New disruptive global competitors.
- Decline of traditional minutes and texts.
- Talent acquisition, especially in IT and engineering.

- New rapidly changing digital services and applications.
- Adopting new GDPR standards within the necessary timeframes.
- Increasing importance of cyber-security policies and methodologies.

- Prioritising the optimal growth opportunities.
- Impact of further EU roaming regulation on Global Solutions Business.
- Growth of eSIM capability.

2018 priorities

Fibre investment – fibre is our most strategic physical asset and we will continue to deploy all key broadband technologies (VDSL/FTTC/FTTP), prioritising areas that offer lower cost to connect and a higher propensity of users to adopt higher speed solutions.

Investing in our people – we'll continue to define, communicate and take steps towards our goal of a better place to work in all aspects of leadership, management and HR practice.

Continued transformation – we are midway through a 2 year programme to improve competitiveness and our customer experience. Re-developing our IT systems is a necessary starting point and remains a work in progress. We anticipate these benefits coming on-stream through 2018.

Digital development – adopting the appropriate 'digital platforms' for our key consumer and business segments is also a key part of our new customer experience, to include 'self-care' initiatives, digital process improvement and online proposition development.

The business managed hosting services market is forecast to grow significantly in many markets over the next 5 years. As such, it represents a growth opportunity, which we intend to target with a range of 'Infrastructure as a Service' and 'Software as a Service' solutions.

Growth by acquisition – we proactively monitor all the segments within which we compete to look for companies that would offer scale, market share, cost and operational synergies or fast-track capability development as part of the larger Manx Telecom group.

ceo's review

I am very pleased to report a solid performance for 2017. The dedication and hard work of our people has been outstanding during 2017 and is the reason we have delivered a very good result in a period of significant change during our Transformation Programme.

Gary Lamb
Chief Executive Officer

Our core business has remained stable, with a solid performance in Fixed Line, Broadband and Data Services, Mobile and further growth in our Global Solutions business.

Overview

The Company has had a busy year operationally, and continues to provide a wide range of telecommunications services to consumers, businesses and the public sector on the Isle of Man as we continue to demonstrate our commitment to the Island community. Our core domestic business performance in Fixed Line, Broadband, Data and Mobile remained solid during the year. Availability and take-up of high-speed broadband services continues to increase, and the introduction of our Smartroam tariffs has been a success, with a positive take-up by our post-pay customer base. Our 4G network is performing well, supporting our significant market share of mobile subscribers.

Our International Global Solutions business performed well during the year, with continued year-on-year growth across the majority of the product portfolio.

Results overview

Revenue was lower than 2016 due to the previously noted consolidation of some of our Data Centre customers and rescheduling of the directory distribution, partially offset by continued growth in Global Solutions.

Cash performance in the year has been exceptionally strong as a result of tight control of our working capital and capital expenditure, and continues to support our progressive dividend policy for 2017.

Underlying EBITDA declined slightly to £27.1m (2016: 27.7m). Reported EBITDA was up for the year at £23.1m (2016: 22.7m) as a result of a reduction in the costs relating to the Transformation Programme compared with 2016 and a lower impairment charge for obsolete assets. The cash performance triggered the provision for incentive payments, resulting in a moderately lower underlying EBITDA, while decreased revenues were offset by cost saving initiatives made throughout the year.

Underlying profit after tax decreased to £15.1m (2016: £16.3m), as a result of a lower underlying EBITDA and increased depreciation. Underlying diluted earnings per share was therefore reduced to 13.15p (2016: 14.26p). Reported profit after tax increased year-on-year to £11.9m (2016: £8.8m), primarily due to a non-recurring £1.3m loss on the revaluation of property costs in the prior year and a £0.8m profit on interest rate swaps (2016: £1.2m loss).

In 2017, the Company continued to invest in its infrastructure, specifically in the mobile network, increasing the availability of our VDSL high speed broadband network, and in key back office systems as part of the Transformation Programme.

Revenue	2017 £m	% Total revenue	2016 £m	% Total revenue	Y-o-Y %
Fixed Line, Broadband and Data	31.5	40.1%	31.6	39.1%	-0.5%
Mobile	19.9	25.3%	20.2	24.9%	-1.4%
Data Centre	4.7	6.0%	5.9	7.3%	-19.0%
Global Solutions	16.5	21.1%	15.6	19.3%	6.2%
Other	5.9	7.5%	7.6	9.4%	-23.0%
Total Revenue	**78.5**		**80.8**		**-2.9%**

Fixed, Broadband and Data services

Fixed, Broadband and Data services provide fixed line voice, broadband and connectivity services for customers, connecting approximately 37,000 homes and 4,000 businesses on the Isle of Man. Fixed, Broadband and Data is our largest business, representing 40% of all company revenues. In 2017 revenue was stable, at £31.5m (2016: £31.6m).

Take up of our high-speed broadband services, known as Ultima and Ultima plus, delivered Broadband revenue growth of 2.2% during 2017 to £9.3m. During 2017, we commenced our trial rollout of our fibre to the premises (FTTP) programme, with the first businesses and consumers expected to be serviced in H1 2018. Our planned investment in FTTP for 2018 is included in our 2018 capital expenditure budget, and is expected to result in ARPU accretion as customers upgrade to the new service.

In May 2017, we introduced changes to our Fixed Line and Broadband Tariff Charges. The price changes increased fixed line rental charges, but offered the opportunity to deliver greater value for money to customers who subscribe to multiple services.

Mobile

Our Mobile business performed well with encouraging revenues following successful Christmas promotions and well-received additional complementary products, offset by the anticipated impact on revenues from our roaming proposition (Smartroam). In August 2017, we launched inclusive roaming usage for our post-pay customers, and reduced roaming rates to all our mobile customers; a first for the Isle of Man market. These price reductions were supported by improved cost control and have proved popular with our customer base.

Our award-winning 4G network, which provides 99% population coverage at speeds of up to ten times faster than 3G services, continues to perform well and enable us to defend our mobile subscribers market share.

Data Centre

The Data Centre business offers co-location, managed hosting, cloud and disaster recovery services to an international and local corporate client base. These services are supplied by

Dividend growth

+4.6%

High speed broadband take up

52%

ceo's review continued

Vannin Ventures, our business incubator, has successfully integrated Partitionware following its acquisition in December 2016, and has acquired a majority stake in Goshawk Communications, a provider of technology for those with hearing loss, bringing exciting growth potential in the medium term.

three data centres at Douglas North, Douglas Central and Greenhill Data Centre ('GDC'). The data centres at GDC and Douglas North are Tier 3 designed data centres providing high standards of data security, resilience, and expandable hosting capacity, including business continuity and distributed denial of service protection ('DDoS').

Following a decline in Data Centre revenue last year due to customer consolidation, it is good to see underlying growth for the year. H2 saw improved performance, with revenues up 4.9% compared with H1. This growth was primarily due to recurring revenues from a good uptake of our intelligent cloud services and from some non-recurring sales. We continue to be responsive in seeking to re-populate capacity in our data centres, with a focus on managed service business, to better utilise our investment, as well as through new complimentary product offerings.

Global Solutions

The Global Solutions business generates revenue from services which run on our domestic mobile technology platform and utilise our international roaming agreements. This enables us to offer a variety of products to UK and international partners who use our Global Solutions SIM cards. There are four key revenue areas: wholesale SMS and voice, international traveller market, M2M and strongest signal mobile (branded 'Chameleon').

Global Solutions continues to perform well with increased year on year revenues, up 6.2% during the year to £16.5m (2016: £15.6m), with most of the product portfolio enjoying growth, in particular M2M and the international traveller market.

In 2016, we signed an agreement with China Unicom Global Limited, a subsidiary of China Unicom Group, the world's fourth largest mobile service provider by subscriber base, to provide the connectivity to facilitate China Unicom's 'CUniq' UK mobile and roaming product. Whilst there were some delays in the project in the first half of 2017 (as explained at the half year), the partnership performed better in H2. We remain excited about the potential of this collaboration and other growth opportunities for the Global Solutions business in 2018.

Other revenues

Other revenues include the advertising revenue from our telephone directory, hardware equipment sales, interconnection fees and managed services. Other revenue also includes our revenues from our standalone business, Vannin Ventures and its subsidiaries.

Other revenue decreased in line with management's expectations by 23% during the year to £5.9m (2016: £7.6m) due to the rescheduling of the directory distribution and lower kit sales.

In August 2016, we launched Vannin Ventures, a standalone business established to support the Company's long-term growth strategy. Wholly owned by Manx Telecom, its purpose is to identify new and promising business opportunities in the telecoms and technology sectors, acting as an incubator to bring innovative products and services to market. There is a dedicated team behind the new business with a view to fostering a creative environment and an entrepreneurial ethos.

The acquisition of Partitionware, an Isle of Man software developer specialising in telecommunication platforms, at the end of 2016 has proven successful, with Partitionware supporting Vannin Ventures throughout the year as it seeks to acquire new businesses in line with our transformational growth strategy.

In May 2017, the Group acquired a 67% interest in Goshawk Communications UK Limited ('Goshawk'). Goshawk is a UK-based company which develops and exploits technology-based solutions that enhance audio quality. Goshawk was acquired in order to support the Group's growth strategy by developing disruptive technologies and bringing innovative products and services to the market.

Transformation Programme

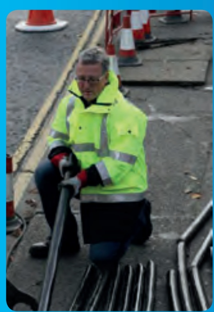
In October 2016, the Company launched a two-year programme aimed at improving the experience it delivers to customers.

The programme progressed well in 2017 with the introduction of new IT systems supporting improvements in processes and organisational structure. We are still on track to incur exceptional costs of approximately £10m over a 24-month period with £8.2m recognised up to the year end (2017: £3.9m, 2016: £4.3m), in addition, capital expenditure of £3.2m has been incurred to date (2017: £3.2m, 2016: nil) over the course of the programme. The cash cost of the programme in 2017 was £8.9m (2016: £0.5m).

"We remain confident in the outlook for the Group, which is reflected in the maintenance of our progressive dividend policy. The strong underlying cashflow performance during the year reflects our focus on working capital and control over capital expenditure, and enables us to create value for our shareholders and invest in our network infrastructure in the Isle of Man."

Gary Lamb
Chief Executive Officer

CEO in touch with the business



CEO Gary Lamb is often seen around the business in our data centres, out in the field and through our retail and sponsorship activity.

our strategy in action

Strengthen our core business

1

Mobile market share

+70%

Countries with inclusive roaming available

39

maximising mobile value and market share

In August 2017 we became the first and only local operator to offer consumers inclusive UK and EU roaming allowances, helping retain and deliver excellent value to our mobile users.

Offering bundled roaming allowances is accepted practice for EU operators and their customers, but much more demanding for operators such as Manx Telecom which sit outside the EU.

Indeed, wholesale roaming rates made it especially challenging to deliver the value we knew our customers craved, alongside an acceptable margin. At the end of an 18-month period, leveraging over 400 roaming agreements and ensuring our IT and billing systems were adapted to fulfil the new requirements, we launched our 'Smartroam' tariffs, providing more freedom for our customers to use their mobile in the UK and across EU without having to worry so much about roaming charges.

With four levels of tariffs to choose from, maximum value is achieved by those customers opting for our 'Smartroam Unlimited' tariff – the Isle of Man's first truly unlimited on-island tariff for minutes, texts and data usage, in addition to allowances of 500 minutes, 500 texts and 5GB of UK and EU inclusive roaming.

The response was hugely positive. Many of our customers switched to an equivalent or higher cost monthly Smartroam tariff to date, retaining their loyalty for up to 24-month terms, and upgrading to the new benefits.

Following the success of our consumer Smartroam proposition, a corporate equivalent was launched in Q1 2018, including the additional benefit of shared allowances across multiple users.

our strategy in action continued

Transform our operating model 2

Transformation Programme
£10m

Headcount efficiencies in 2017
15%

Transforming for a future-proof customer experience

Following the launch of our Transformation Programme, several supporting workstreams ran throughout 2017 with the overall objective of delivering outstanding internal and external customer experience.

Driven by changes in customer demands, new disruptive competition and technology, and the continual need to invest in our people, working environments, IT systems and processes, our Transformation Programme is quite simply the largest change programme in the Company's 128-year history.

A significant slice of the transformation budget was allocated to IT projects that, from 2017 through to mid-2018, will serve to replace legacy in-house platforms with proprietary 'as-a-service' alternatives. This will deliver a new 'systems architecture' with enhanced scalability, self-serve functionality and flexible integration with other applications.

Headcount was reduced in Q1 2017 by nearly 15% following a carefully considered voluntary redundancy programme that will deliver net cost savings from 2018 onwards. Our ageing vehicle fleet was refreshed, changing from an outright ownership model to a new leased agreement, also delivering more fuel-efficiency and fewer environmental emissions. Working spaces have also been re-designed to be more modern, open and productive – the first being completed in December 2017 for our Customer Experience Team.

Most importantly, we have defined new target operating models for key functions that define a Manx Telecom that is more agile, creative and effective in its ability to rapidly take advantage of market opportunities and deliver a superior customer experience.

The Transformation Programme is due to complete in 2018 and transition towards an Operational Excellence function – supported by a new in-house team – that will deliver continuous improvement across the Company thereafter.

our strategy in action continued

Realise sustainable new growth 3

UK hearing loss sufferers

9.2m

Global sufferers

1 in 6

Award-winning and life-changing help for millions with hearing loss

A majority shareholding in Goshawk Communications is now primed for penetrating new growth markets amongst 1 in 6 hearing loss sufferers.

In May 2017, Vannin Ventures – the growth incubating wholly-owned subsidiary of Manx Telecom – acquired a 67% shareholding in a new Isle of Man company, Goshawk Communications Limited, that will provide pioneering technology to help mobile phone users with hearing loss.

In the UK alone, nine million people experience varying degrees of hearing loss, affecting their ability to use voice services on mobile phones. Using personalised auditory profiles that are created for each user, the new company combines intellectual property with the commercial and technological capability of Vannin Ventures.

Clinical trials conducted over the last 24 months have shown that the technology can have a transformative effect in improving communication for those suffering from hearing loss. One trialist said "It changed my life, I was no longer afraid to use the phone."

Goshawk Communications Limited CEO Matthew Turner said: "We are really proud to see our technology become part of something that has all the ingredients and potential to improve the lives of millions of global users. As a hearing impaired person myself, I am passionate about the benefits this technology can bring. I am particularly impressed with the Isle of Man as an international business centre, and look forward to the future success of this venture."

In November, the new company was recognised at The Isle of Man Newspapers Awards for Excellence as winner in the category of 'Excellence in the use of Technology'.

Hear from the trialists at mt.im/goshawk

financial review

Revenues resulted in £78.5m for the year (2016: £80.8m). In underlying terms, our EBITDA was £27.1m (2016: £27.7m) and our profit after tax was down 7.4% to £15.1m. After our Transformation Programme and after other charges, our reported profit after tax was £11.9m (2016: £8.8m).

Paul J Tierney
Chief Financial Officer

The Fixed Line, Broadband and Data business continues to perform solidly, with a small decrease in revenue of 0.5% to £31.5m (2016: £31.6m). As expected, the Data Centre business saw a decrease in revenue to £4.7m (2016: £5.9m), due to the previously reported consolidation and from lower kit sales than in previous years.

Mobile revenues declined as expected to £19.9m (2016: £20.2m) due to a reduction in retail roaming revenues resulting from the introduction of our Smartroam tariffs. Smartroam is our roaming proposition in response to the changes to EU Roaming regulations. Excluding retail roaming, Mobile revenues were up 3.1%.

Global Solutions performed well, with full year revenue of £16.5m (2016: £15.6m), a 6.2% increase year-on-year, driven by continuous growth in our Strongest Signal Mobile solution (branded Chameleon), M2M, and international traveller propositions.

Other revenues declined by 23% to £5.9m (2016: £7.6m), back in line with 2015 levels due to the rescheduling of our directory distribution and one-off revenues for hardware equipment sales which have not repeated.

The Group generated £27.1m of underlying EBITDA (2016: £27.7m) which was marginally lower year-on-year due to certain incentive payments being triggered by the Group's excellent cash conversion. Reported EBITDA for the year was £23.1m (2016: £22.7m). The Group's underlying EBITDA margin was slightly higher at 34.5% (2016: 34.2%), as reduced revenue was offset by a reduction in costs across the business.

Depreciation and amortisation increased in the year to £9.7m (2016: £9.1m), impacted by prior-year investment in billing platforms with shorter economic lives.

Underlying operating profit declined to £17.4m (2016: £18.5m) as a result of an increase in depreciation and amortisation and lower underlying EBITDA. Reported operating profit was £13.4m (2016: £13.6m).

Reported profit before tax increased from the prior year to £11.9m (2016: £8.8m) due to favourable movements on interest swaps in 2016, including a £1.3m loss on revaluation of properties. Underlying profit before tax decreased to £15.1m (2016: £16.3m) as a result of decreased underlying EBITDA and increased depreciation.

"The main component of administrative costs is staff, the cost of which decreased by 2.2% in the period. This was partly as a result of the reduction in costs for part of the year following voluntary redundancy under the Transformation Programme."

Revenue

Fixed line, broadband, data	**40.1%**
Mobile	**25.3%**
Global Solutions	**21.1%**
Other services	**7.5%**
Data Centre	**6.0%**

Underlying diluted EPS was lower at 13.15p (2016: 14.26p). Reported diluted EPS was 10.40p (2016: 7.72p).

The Company paid an interim dividend of 3.9p per share in October 2017 and declared a final dividend for 2017 of 7.5p per share on 15 March 2018, resulting in a full year dividend for 2017 of 11.4p per share, a 4.6% increase from 2016.

Costs

Reduced Cost of Sales and Administrative expenses in the year contributed to an improved underlying EBITDA margin, from 34.2% to 34.5%.

Energy costs were down 9% during 2017 due to a full year of customer consolidation in our Data Centre business. Mobile handset costs were up 16% due to successful Christmas promotions and the introduction of Smartroam, supporting an increase in post-paid contract subscribers and upsell of customers on legacy tariffs to the new Smartroam tariffs.

Administrative expenses decreased by 3.7% to £33.7m (2016: £35.0m), as a result of cost saving initiatives throughout the year, offset in part by increased depreciation. Administrative expenses excluding depreciation were down 7.1%. The main component of administrative costs is staff, the cost of which decreased by 2.2% in the period. This was partly as a result of the reduction in costs for part of the year after voluntary redundancies under the Transformation Programme.

Net finance costs

Net finance costs increased to £2.4m (2016: £2.3m). Included in this figure is the cost of interest at £2.0m (2016: £2.1m).

We recorded an unrealised gain of £0.8m on interest rate swaps (2016: £1.2m loss), resulting from changes in market interest rates. No swaps have been exited during the year, therefore there are no realised gains or losses. This charge does not form part of the underlying results and has no impact on cash.

Taxation

There is no corporate taxation payable on our profits for either 2017 or the comparative year. We have the benefit of an Isle of Man 0% corporate tax rate.

financial review continued

Cash flow

Underlying cash flow from operations increased by 17.3% to £26.5m (2016: £22.6m) due to tight control of working capital. Reported cash flow from operations decreased by 8.8% from £22.0m to £20.0m.

Underlying free cash flow, which excludes Transformation Programme cash outflows of £8.9m (2016: £0.5m) and acquisition cash outflows of £2.0m (2016: £1.8m), was up 22.1% at £20.0m (2016: £16.4m). Reported free cash flow decreased to £9.1m (2016: £14.1m), primarily as a result of the restructuring costs associated with the Transformation Programme paid during the year.

Reported cash flow	2017 £'000	2016 £'000
Reported operating cash flow	**20,023**	**21,963**
Transformation Programme operating costs	6,419	495
Acquisition costs	30	110
Underlying operating cash flow	**26,472**	**22,568**
Reported operating cash flow conversion	**86.9%**	**96.7%**
Underlying operating cash flow conversion	**97.9%**	**81.6%**

Free cash flow	2017 £'000	2016 £'000
Reported free cash flow	**9,074**	**14,120**
Transformation Programme operating costs	6,419	495
Transformation Programme capital expenditure	2,480	–
Acquisition costs	30	110
Acquisition of Subsidiary	2,007	1,668
Underlying free cash flow	**20,010**	**16,393**
Reported free cash flow conversion	**76.4%**	**160.1%**
Underlying free cash flow conversion	**132.6%**	**100.6%**

Capital expenditure

Capital expenditure in 2017, including intangibles, was £8.6m (2016: £6.7m), of which a significant portion (£3.2m) was related to the Transformation Programme, including £2.0m of improvements to our information systems and £0.7m of property renovation costs. Of the remainder, we invested £0.7m in our broadband network to increase the reach of our VDSL high-speed broadband, and a further £0.7m in our mobile network. The remaining capital expenditure was spread across a number of business areas, including network development for our Global Solutions products, off-island connectivity, and a Data Centre maintenance capital spend.

Balance sheet

Property, plant and equipment decreased during the year by £1.0m to £59.3m (2016: £60.3m). Capital additions were £8.5m (2016: £6.7m), as described above. Depreciation increased to £9.4m (2016: £8.9m) due to prior year investment in billing platforms with shorter economic lives.

We retain goodwill of £87.9m on the balance sheet; £84.3m arising from the purchase of Manx Telecom from Telefónica in 2010, and £3.6m from the purchase of Partitionware Limited in 2016, both of which are robustly supported by current valuations.

The Group operates two pension schemes, a defined benefit scheme, and a defined contribution plan. During 2014 the defined benefit scheme was closed to future accruals, and all current members transferred to a defined contributions scheme. In 2016, the Group completed a triennial revaluation of the scheme and, as part of this process, agreed reduced annual funding obligations to the scheme for 2017 onwards, down from £1.2m per annum to £0.6m per annum. Under accounting standard IAS 19, the defined benefit scheme is shown as a net liability of £3.8m (2016: £5.4m net liability); there was a 5.5% return on scheme assets during the period. Scheme liabilities decreased by £0.4m, mainly due to a decrease in the discount rate tied to deteriorating corporate bond yields.

Current assets increased to £41.7m (2016: £40.8m). Cash held at the end of the period decreased to £12.3m (2016: £16.7m) following £8.5m of payments in relation to the Transformation Programme, offset by tight working capital and capital expenditure. Trade and other receivables increased by £5.4m, of which other receivables increased by £3.2m, due to an increase in roaming discount receivables compared to the prior year. A large outstanding amount of the roaming discount receivables was settled in January 2018.

Current liabilities increased to £30.9m (2016: £30.6m), due to an increase in trade payables of £3.3m and £0.3m of the interest rate swaps the Group has entered into that mature within 12 months of the financial year end. These increases were offset by £3.3m of provisions against the Transformation Programme being utilised.

Non-current liabilities reduced to £73.9m (2016: £76.3m) as a result of a £1.6m reduction in the net defined benefit pension scheme liability and a £0.8m reduction in the interest rate swap liability. Interest bearing loans and borrowings were relatively unchanged at £69.3m (2016: £69.0m).

Our loan facility matures on 30 June 2020. On 28 December 2017, Lloyds Bank plc as arranger, novated its portion of the loan to DNB Bank ASA whilst remaining agent and security agent.

The Group has entered into two interest rate swaps, one maturing in June 2018 and one maturing in June 2020. As at 31 December 2017, the fair value of the interest rate swap maturing in June 2018 was a £0.3m liability (2016: £0.9m), while fair value of the interest rate swap maturing in June 2020 was a £0.9m liability (2016: £1.0m liability). During the year, the portion of the swap held with Lloyds changed counterparty to DNB Bank ASA.

Net debt for the year increased to £56.9m (2016: £52.4m) as a result of the Transformation Programme cash outflows of £8.9m paid during the year, offset in part by strong underlying cash generation. Period end Net Debt was equivalent to 2.1x underlying EBITDA (2016: 1.9x).

Alternative Performance Measures

The Directors of the Group have presented a number of additional performance measures which they believe are relevant to an understanding of the Group's financial performance but which are not defined in IFRS and are therefore termed 'non-GAAP' measures. The Group's definition of these terms may not be comparable with similarly titled performance measures and disclosures by other entities. Such non-GAAP measures should not be viewed in isolation or as an alternative to the equivalent GAAP measure.

Reconciliations from these non GAAP measures to the most directly comparable IFRS measure have been provided within this Financial Review and within note 29 of Financial Statements.

EBITDA	2017 £'000	2016 £'000
Operating Profit	**13,361**	**13,567**
Depreciation and Amortisation	9,695	9,142
Reported EBITDA	**23,056**	**22,709**
Impairment of Equipment	102	464
Transformation costs	3,863	4,335
Acquisition costs	30	161
Underlying EBITDA	**27,051**	**27,669**

Operating Profit	2017 £'000	2016 £'000
Operating Profit	**13,361**	**13,567**
Impairment of Equipment	102	464
Acquisition costs	30	161
Transformation costs	3,863	4,335
Underlying operating profit	**17,356**	**18,527**

Profit before/after tax	2017 £'000	2016 £'000
Profit before/after tax	**11,876**	**8,821**
Impairment of Equipment	102	464
Acquisition costs	30	161
Transformation costs	3,863	4,335
Loss on property revaluation	–	1,274
Net (profit)/loss on interest rate swaps	(777)	1,238
Underlying profit before/after tax	**15,094**	**16,293**

Net debt	2017 £'000	2016 £'000
Loans and other borrowings	69,288	69,036
Cash and cash equivalents	(12,341)	(16,674)
Net debt	**56,947**	**52,362**

risk management approach

Our risk management process aims to support the delivery of the Board's strategy by managing the risk of failing to achieve our business objectives.

The main focus of the Board is on ensuring that the response to the key risks is appropriate and ensuring that the Group's residual risk position is within its risk appetite.

Risk management & principal risks

Our risk management process aims to support the delivery of the Board's strategy by managing the risk of failing to achieve our business objectives. By focusing our risk management system on the early identification of key risks, we are able to consider the existing level of mitigation and the management actions required to avoid, reduce, tolerate or share the risk. Where the reduction or removal of the risk is not possible, the Group formulates a management action plan to respond to the risk should the risk materialise (e.g. the Business Continuity Plan). The Board agrees the appetite for risk, and endorses that of the Executive Team.

While the Board has the ultimate responsibility, the Audit Committee, as described in the Audit Committee Report, is charged with ensuring that appropriate measures are in place to validate the strength of internal controls.

Ongoing monitoring

The Board performs regular reviews of the most significant risks, with interim updates from management if significant issues arise. It evaluates key areas of risk through a series of presentations from management and functional leads on matters most relevant to the organisation e.g. regulation, pensions, cyber-attacks and information security, technology and the competitive environment.

The quality and consistency of risk reporting is supported through a number of other monitoring and reporting processes including:

- annual group strategy process and Board presentations;
- monthly Chief Executive business review reports of key financial and operational performance levels within each area of the business; and
- monthly detailed finance reviews.

Group Operating Executive and Senior Leadership Team

There are also defined roles within the process for the Group Operating Executive and the Group Senior Leadership Team.

The Group Operating Executive, meeting as the Board of Manx Telecom Trading Ltd, reviews summary reports based on the information submitted by the operational and functional leads from each area, each of whom perform a detailed risk review exercise and update the Group risk register.
The register ensures consistency of approach in reporting of risks and requires management to:

- identify and classify each risk as financial, operational or strategic;
- assess the inherent risk impact and likelihood;
- identify mitigation measures;
- allocate an owner who has responsibility for the timely implementation of the agreed action plan; and
- report on implementation of strategies to address residual risk exposures.

Principal risks

We acknowledge that our processes can only provide reasonable assurance that the principal risks facing the business are identified and that we can subsequently manage these risks so that any potential impacts are reduced appropriately. We recognise that we cannot guarantee that all risks are identified, or that the nature of identified risks will remain constant.

Three lines of defences: The Group adopts a systematic approach to risk management to provide assurance to the Board that risks are managed effectively – this approach is known as the 'three lines of defence'.

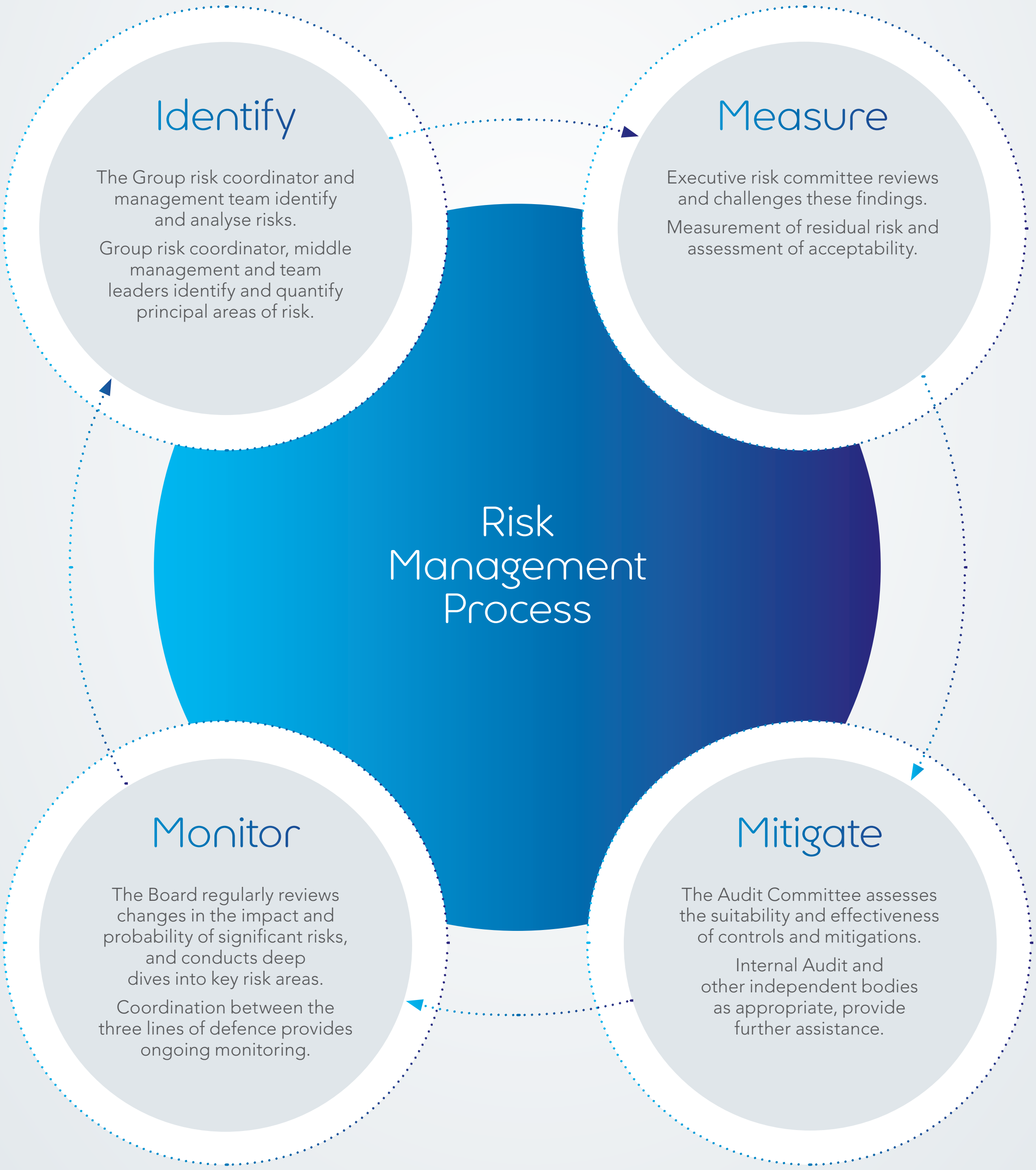
Control framework
The Group has developed a robust control framework, with reviews performed by management. The result is high levels of assurance over internal controls, including the financial reporting process and financial and general IT controls.

Management oversight
Risk management activities of management, which includes controls self-assessment, are supplemented by the oversight of the control framework by the Board and committees of the Board. Company Secretarial and our advisers provide further assurance over the Group's conformity with relevant laws and regulation.

Independent assurance
Our Revenue and Internal Assurance function and engagement with a number of specialist third party assurance providers, ensures a strong third line of defence.

Risk management framework

The Group have adopted a framework for managing business risks in line with the risk appetite of the Board. The three lines of defence and risk management process is designed to ensure the Board and the Group Operating Executive have full oversight over group risks.



principal risks

Operational

The Board has identified the following as the principal operational risks the Group faces.

Risk	Underlying risk level	Impact	Mitigation	Changes in the year
Cyber	Increasing	The nature of our network and infrastructure creates a risk of cyber threat and telephony fraud. In the event of breaches in our information security systems from cyber-attacks, the impact is likely to be felt beyond any initial revenue loss. It is also likely to extend to reputational damage and a loss of customer confidence, with the attendant impact on future business.	The cyber strategy places significant emphasis on information security systems and mitigating the risk of cyber-attacks and other threats to confidential data.	We have continued to implement a programme of information security measures and controls to mitigate the threat of cyber attacks and other threats to data. In particular, a number of cloud based technologies have been implemented during the year, each with their own security arrangements. Our ISO27001:2013 certification was also re-validated during the year. A number of security technical controls (part of our cyber security programme) will be delivered during Q1 2018.
Technology	Stable	The market in which the Group operates creates a high reliance on technology for the provision of services to our customers. In the event that elements of the service provision fail as a result of failures in our network, it is likely to be impacted by initial revenue loss, which is likely to extend to reputational damage and loss of customer confidence, with the attendant impact on future business.	The technology strategy focuses on network resilience, future-proofing wherever possible, decreasing the dependency on a single supplier, and the use of 'off the shelf' technologies rather than bespoke solutions.	Further investment has been made during the year, directed towards meeting the objectives of the IT Transformation project, continuing the trend of reducing key supplier and bespoke technology dependency. The ongoing IT Transformation delivered some key functionality and business benefits towards the end of 2017. The remainder of the IT Transformation function and benefits will land during 2018.
Pension fund	Stable	The Group supports a defined benefit pension scheme for some employees. Changes to investment returns and actuarial assumptions could cause an increase in funding requirements.	Regular review of the Scheme's funding strategy provides an opportunity to ensure that the Scheme operates efficiently, and that any issues that arise can be addressed in a timely manner. The Trustees are provided with support to ensure that the Scheme continues to deliver the necessary returns to fund its ongoing liabilities.	After a detailed review of the Scheme's investment strategy during 2016, undertaken by external consultants and supported by the Group, the recommended strategy was implemented during Q3 2017. The new strategy aims to further reduce exposure to equity market risks.

Commercial and strategic

The Board has identified the following as the principal commercial and strategic risks the Group faces.

Risk	Underlying risk level	Impact	Mitigation	Changes in the year
Regulation	Stable	Manx Telecom operates under a licence from the Isle of Man Communications Commission, which regulates the telecoms market on the Island. An adverse change to our licence or in the focus of regulation remains a principal risk to the business.	We remain committed to open dialogue and transparent reporting with the regulator so that we can work to support the continuing growth of the economy. We provide the regulator with annual separated accounts based on a bottom-up cost model that was developed with the assistance of an independent consultant and ensures that they have a proper assessment of our portfolio pricing and margins.	The regulatory environment has not changed significantly during the year. The Director of the Communications Commission stepped down. A replacement is being sought.
Competition	Stable	Competition in the domestic and wider markets has the potential to significantly impact our revenue streams.	The Group regularly benchmarks product pricing against domestic competition, and against other markets, to ensure that our strategy remains effective. We also recognise the importance of key customers to our business and apply ourselves to developing relationships to ensure that we can understand and support their strategic objectives.	Our principal competitors have continued to focus their efforts on gaining market share through pricing. Expansion to our network and products, including the introduction of Vectoring and VPlus to our DSL portfolio and new Carrier Ethernet Services during the year. These developments, along with the continued Transformation Programme, reinforce the Group strategy of focusing on customer service and value-added propositions across the portfolio of our products, enabling us to maintain market share and build customer loyalty, rather than trying to compete purely on price.
Legislative Change	Stable	Current corporate tax arrangements make the Isle of Man an attractive economy in which to invest and do business. The Group benefits from this environment both directly, from the 0% corporate tax rate, and from the wider economic benefit that arises from a growing economy. Significant changes to legislation both on the Isle of Man and further afield could result in a deterioration of the economy.	The Group has limited opportunity to directly influence Government policy or legislation, although we communicate our position through regular discussion with members of the legislature.	The principal legislation affecting the Group has not changed. However, a new Telecommunications Bill is making its way through legislative process following consultation. Brexit has generated some discussion around possible changes to corporation tax in the UK and perhaps in the Isle of Man. We continue to monitor developments.

a responsible leader in our local community

Communities on the Isle of Man share a heightened sense of national pride and 'belonging' that binds us all tightly together.

For over 125 years, Manx Telecom has played and continues to play a role in making this happen every day, not just through telecommunications, but also through a wide range of activities, charitable donations and sponsorships. Wherever possible, we use our technology – and our skills and expertise in deploying it – to underpin and shape our support for the community.

In total, in 2017 over 40 organisations benefitted from over £100,000 of our support – here are just some that make us particularly proud to be 'Manx'.

Every step counts

Around 1,500 Manx Telecom Parish Walk participants raise in excess of £0.5m every year for local charities and causes. The timing and SMS text update service for family and friends is powered by Manx Telecom.

a responsible leader in our local community continued

In 2017, we were the major sponsor for flagship events in the Manx sporting and cultural calendar, including; The Parish Walk – an 85-mile 24-hour endurance event through all 17 parishes; Tough Mann Adventure Challenge – a 10km mud-laden obstacle course; The Royal Manx Agricultural Show – the Island's most attended outdoor event outside of the annual TT motorcycle races; The End2End Mountain Bike Challenge – 46 miles and over 1500m of ascents tackling some of the most testing terrain.

Now in its tenth year, 'It's Our Community' is an initiative that provides the opportunity for any organisation to apply for community project funding. Complemented by a sister scheme for internal staff-related causes called 'Giving Back', in all over £55,000 to date has supported hundreds of local charities, groups, clubs, schools and societies of all sizes and causes. We've learned that even a small donation can make a big difference – the initiative continues in 2018.

Other smaller-scale activities cover sport, youth, the elderly, music, culture, environmental and wildlife projects. We also share and spread our staff's knowledge, skills and experience through our active involvement with schools, University College Isle of Man, work experience placements and Junior Achievement, and we are a supporting member of The Manx ICT Association (MICTA) – a totally inclusive organisation which represents, supports, promotes and grows the Island's ICT Sector. Our responsibility to younger people further extends to staying safe online, preventing cyber bullying, and upholding the principles of the Child Exploitation and Online Protection Command (CEOP).

Leaving no-one behind
Working with the charity Live At Home, we've set up a digital inclusion programme involving over a dozen iPad equipped staff who volunteered to show the older generation how to explore a whole new world of content, convenience and the chance to chat online! Our free to view local community portal manx.net and complementary local video news service MTTV are viewed millions of times each month and also form part of our broader digital outreach and inclusion activity.

Home from home
Local charity Friends of Chernobyl's Children have visited Manx Telecom for over 10 years to allow free calls back home to loved ones whilst the children are on summer vacation on the Island. One of our very first visitors now accompanies new groups as an adult interpreter.

Fields of joy
The Royal Manx Agricultural Show in association with Manx Telecom is the Island's most attended local event, outside of the annual TT motorcycle races. Thanks to the rural reach of our 4G mobile network, the 'MT Big Screen' live-streamed showground action, and wireless card payments could be processed from the show field.

board of directors

Kevin Walsh
Non-Executive Chairman

Kevin was appointed Chairman on the Company's admission to AIM in February 2014. He is also Chairman of the Nomination Committee. Kevin was an Executive Director of KCOM Group plc between May 2004 and August 2014. In addition, he was the Chief Executive for the KC brand, which is the market-leading internet and telecoms provider for Hull and East Yorkshire. Prior to joining KCOM in 2000, Kevin was Managing Director of a listed internet business startup and held a number of Divisional Managing Director roles within the Electrolux group.

Committee membership
Kevin is Chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee.

Gary Lamb
Chief Executive Officer

Gary Lamb joined the business in October 2011 as Chief Financial Officer, and on 1 July 2015 became Chief Executive Officer for the Manx Telecom group. Gary is a qualified accountant (ACMA, CGMA) who has gained extensive business experience over the past 25 years in numerous senior roles. Prior to joining Manx Telecom, Gary was a Founding Director of Bladon Jets Limited
Prior to this, Gary was the Finance & IT Director of Strix Limited, a world-leading innovator and manufacturer of thermostatic controls for water boiling appliances. Strix became an AIM listed company in August 2017, and Gary was appointed Non-Executive Chairman.

Committee membership
None

Jeffrey Hume
Senior Independent
Non-Executive Director

Jeffrey Hume joined the business in 2013 as an Independent Non-Executive Director and Chairman of its Audit Committee. He became the Senior Independent Director of Manx Telecom plc on its IPO. He is also an Independent Non-Executive Director at Ports of Jersey Ltd and a member of the London Stock Exchange's Primary Markets Group. He is a Fellow of the Institute of Chartered Accountants and the Association of Corporate Treasurers.

Committee membership
Jeffrey is Chairman of the Audit Committee, and also a member of the Remuneration Committee and Nomination Committee.

Chris Hall
Independent
Non-Executive Director

Chris Hall rejoined the business in 2016 as an independent Non-Executive Director. He has been Chairman of the Remuneration Committee since June 2017. He previously held the position of Managing Director at Manx Telecom Ltd from 1999 until 2011. He is currently a Non-Executive Director of several companies, including Utmost Ltd, SiRRAN Communications Ltd, Isansys Lifecare Ltd, ManSat Ltd, Cherry Godfrey Finance (IOM) Ltd and Scout4 Ltd. Active in the local community, Chris is also a Director of the Manx ICT Association, a Member of the Board of Governors of Hospice Isle of Man, and Chairman of the Isle of Man e-Gaming Strategic Advisory Board. He is a Fellow of the Institute of Directors.

Committee membership
Chris is Chairman of the Remuneration Committee, and a member of the Audit Committee and Nomination Committee.

directors' report

The Directors are pleased to present their Annual Report and consolidated financial statements of Manx Telecom plc for the year ended 31 December 2017.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 37 which is incorporated into this report by reference together with the Corporate Governance Report on pages 42 to 44. These together contain certain forward-looking statements and forecasts with respect to the financial condition, results, operations and business of Manx Telecom plc which may involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this Annual Report to shareholders should be construed as a profit forecast.

Results and dividends

Results for the year are set out in the financial statements on pages 62 to 108. The financial position of the Group, its cash flows and liquidity position, are further described in the Financial Review on pages 26 to 29.

Details of the proposed final dividend for the year ended 31 December 2017 are given in the Strategic Report on page 5. An interim dividend of 3.9p per share for the six months ended 30 June 2017 was paid on 6 November 2017.

Directors

The names and biographies of the current directors of the Company are set out on page 38 of this Annual Report.

Danny Bakhshi, Finance Director, resigned with effect from 2 October 2017. Paul Tierney joined the Group as Chief Financial Officer from 5 October 2017 and attends Board meetings without being a director.

Directors' share interests

Particulars of the number of ordinary shares of the Company in which the Directors were beneficially interested during the year are set out below.

	At 1 January 2017	At 31 December 2017
Gary Lamb	507,103	516,826
Jeffrey Hume	70,422	70,422
Kevin Walsh	70,422	70,422
Chris Hall	–	–
Danny Bakhshi	–	n/a

Directors' remuneration

The Directors' Remuneration Report is set out on pages 48 to 55.

Related parties

The Group has no related parties other than the Directors and key management personnel.

Directors' indemnities

The Articles permit the Board to grant the Directors indemnities in relation to their duties as directors, including third-party indemnity provisions (within the meaning of the Isle of Man Companies Act 2006) in respect of any liabilities incurred by them in connection with any negligence, default, breach of duty or breach of trust in relation to the Company. Deeds of indemnity have been granted to each director, but do not cover criminal acts.

Directors' and Officers' liability insurance

Directors' and Officers' liability insurance cover is in place at the date of this report. The Board remains satisfied that an appropriate level of cover is in place, and a review of cover takes place on an annual basis.

directors' report continued

Articles of Association
The Articles of Association ('Articles'), adopted on 3 February 2014, may only be amended by special resolution of the shareholders. A copy of the Articles is available on request from the Company Secretary.

Share capital: structure, rights and restrictions
Details of the Company's share capital are set out in note 17 to the financial statements on pages 91 and 92. The Company has a single class of share capital divided into 114,847,637 ordinary shares of £0.002 each. The rights and obligations attaching to these shares are governed by Isle of Man law and the Company's Articles.

Voting rights attaching to shares
Ordinary shareholders are entitled to receive notice and to attend and speak at any general meeting of the Company. On a show of hands every shareholder present in person or by proxy (or being a corporation represented by a duly authorised representative) shall have one vote, and on a poll every shareholder who is present in person or by proxy shall have one vote for every share of which he is the holder. The Notice of Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies.

Deadlines for exercising voting rights attaching to shares
The Articles provide a deadline for the submission of proxy forms (whether by an instrument in writing or electronically) of not less than 48 hours before the time appointed for the holding of the meeting or the adjourned meeting.

Shares in uncertificated form
Directors may determine that shares may be held in uncertificated form and title to such shares may be transferred by means of a relevant system, or that shares should cease to be so held and transferred.

Variation of rights attaching to shares
The Articles provide that rights attached to any class of shares may be varied with the written consent of the holders of not less than three quarters in nominal value of the issued shares, or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting, the quorum shall be two persons holding or representing by proxy at least one third in nominal value of the issued shares (calculated excluding any shares held in treasury). The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking pari passu with them.

Restrictions on the transfer of shares and voting rights attaching to shares
There are no restrictions on the transfer of the ordinary shares other than:
- awards made at Admission under the co-investment plan are conditional upon there being only limited disposals by the participants of their own investment shares;
- where, from time to time, certain restrictions may become imposed by laws and regulations (for example, insider trading laws); and
- pursuant to the Listing Rules of the Financial Conduct Authority whereby certain directors, officers and employees of the Company require the approval of the Company to deal in the ordinary shares.

No shareholder holds securities carrying special rights as to the control of the Company. There are no limitations on the holding of securities. There are no restrictions on voting rights or any arrangements by which, with the Company's cooperation, financial rights carried by securities are held by a person other than the holder of the securities. There are no agreements between holders of securities that are known to the Company which may result in restrictions on the transfer of voting rights.

Authority to purchase own shares
The Directors have been authorised to purchase up to 10% of the Company's issued ordinary share capital as at the Annual General Meeting held on 14 June 2017. This authority will expire at the Annual General Meeting in 2018 at which a resolution to renew the authority for a further year will be proposed. Further to the shareholders resolution dated 15 June 2016, the Company purchased 29,670 ordinary shares with a nominal value of £59 and representing 0.03% of the Company's called up ordinary share capital, for a consideration of £58,451. The reason for the purchase was to satisfy employee bonus awards and as such all shares were immediately transferred.

As at 31 December 2017 and 25 April 2018, being the latest practicable date prior to the publication of this report, the Company did not hold any shares in treasury.

Appointment and replacement of directors
Unless determined by ordinary resolution of the Company, the number of directors shall not be less than two. A director is not required to hold any shares in the Company by way of qualification.

The Board may appoint any person to be a director and such director shall hold office only until the next AGM, when he or she shall be eligible for appointment by the shareholders. The Articles provide that at each AGM, one third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not exceeding one third) shall retire from office. A director who retires at any AGM shall be eligible for reappointment. In addition, any director appointed by the Board shall hold office only until the next following AGM and shall then be eligible for appointment.

Power of directors

Subject to the Articles, the Isle of Man Companies Act 2006 and any directions given by special resolution, the business of the Company shall be managed by the Board, which may exercise all the powers of the Company to, for example: borrow money, mortgage or charge any of its undertakings, property and uncalled capital; and issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company.

Political donations

The Company has made no political donations during the year and intends to continue its policy of not doing so for the foreseeable future.

Post-balance sheet events

Post-balance sheet events are set out in note 28 to the financial statements on page 106.

Major interests in shares

As at 25 April 2018, the Company had been advised, in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, of the following notifiable interests (whether directly or indirectly held) in 3% or more of its voting rights:

	%
Standard Life Aberdeen Limited	16.92
AXA Investment Managers UK Limited	6.46
Unicorn Asset Management Limited	5.54
Hargreave Hale Limited	3.56

Number of securities in issue – 114,847,637. AIM securities not in public hands – 17.55%.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. In making this assessment they have considered the Company and Group budgets, and cash flow forecasts for the period to December 2019. The Group has considerable financial resources, minimal liquidity risk and is operating within a sector that is experiencing relatively stable demand for its products. The Directors therefore have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Audit information

Each of the Directors at the date of the approval of this report confirms that: so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware; and he has taken all the reasonable steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

Registered agent

The registered agent of the Company at 31 December 2017 was Estera Trust (Isle of Man) Limited, which served throughout the year and has continued to date.

Auditors

The auditors, KPMG Audit LLC, have indicated their willingness to continue in office and a resolution seeking to reappoint them will be proposed at the Annual General Meeting.

Annual General Meeting

The Company's Annual General Meeting will be held at the Company's main office at the Isle of Man Business Park, Cooil Road, Braddan, Isle of Man IM99 1HX on 13 June 2018 at 9am. Details of the meeting venue and the resolutions to be proposed are set out in a separate Notice of Meeting.

The Directors' Report has been approved by the Board of Manx Telecom plc.

By order of the Board

Sally Lawrence
Company Secretary
2 May 2018
Manx Telecom plc
Registered Office:
33-37 Athol Street
Douglas
Isle of Man IM1 1LB
Company No: 005328V

corporate governance report

Dear Shareholder

Principles of corporate governance

As a Board, we recognise that applying sound governance principles in running the Company is essential to provide a solid platform for growth and to maintain the trust of our stakeholders. The Directors have decided to apply the principles set out in the QCA Code, which is a similar but simplified version of the UK Corporate Governance Code ('the Code'). The Directors also acknowledge the importance of the principles set out in the Code and, although adherence to the Code is not compulsory, the Directors aim for the Company to apply the Code to a greater extent, relative to its size.

The Board

The Board has arranged a schedule of meetings to consider strategy, performance and the framework of internal controls. We have a Board that has and will support and challenge management to deliver its objectives. The Company has established Audit, Remuneration and Nomination Committees of the Board with formally delegated duties and responsibilities. To enable the Board and its committees to discharge their duties, all directors receive appropriate and timely information. Briefing papers are distributed to all directors in advance of Board meetings. All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with.

As Chairman, I would like to state my full commitment to maintaining high standards of corporate governance and to being transparent about our arrangements.

Kevin Walsh
Chairman

Operation of the Board and its committees

The role of the Board

The Board has an approved Schedule of Matters Reserved for the Board which sets out the Board's responsibilities. The key tasks of the Board are:

- setting the Company's values and standards;
- approving of the Group's strategic aims and objectives;
- approving of operating and capital expenditure budgets;
- overseeing operations ensuring adequate systems of internal controls and risk management are in place; ensuring maintenance of accounting and other records and compliance with statutory and regulatory obligations;
- reviewing performance in light of strategy and budgets ensuring any necessary corrective actions are taken; and
- approving the financial statements, Annual Report and Accounts, material contracts and major projects;
- approving dividend policy;
- implementing changes to the structure, size and composition of the Board;
- determining remuneration policy for directors and senior executives and the remuneration of the Non-Executive Directors; and
- approving communications with shareholders and the market.

Composition of the Board

The Board comprises four directors; one is an Executive Director and three are Non-Executive Directors, reflecting a blend of different experience and backgrounds. Gary Lamb and Chris Hall are resident on the Isle of Man. The Chief Financial Officer, Paul Tierney, attends Board meetings. Details of each of the Directors' experience and background is given in their biographies on page 38.

Appointments to the Board and re-election

Kevin Walsh will stand for re-election at the 2018 Annual General Meeting. The process for re-election of directors of the Company is governed by its Articles. At each Annual General Meeting of the Company, one third of the Directors, who are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to but not exceeding one third, shall retire from office. If there are fewer than three directors who are subject to retirement by rotation, one director shall retire from office. Under the Articles, the Board has the power to appoint a director during the year, but any person so appointed must stand for election at the next Annual General Meeting.

Division of responsibilities

Chairman and Chief Executive Officer

The division of responsibilities between the Chairman and Chief Executive Officer has been agreed by the Board.

Senior Independent Director

The Senior Independent Director is Jeffrey Hume, who is available to shareholders as an additional communication channel if required.

Non-Executive Directors

The Non-Executive Directors' letters of appointment set out the duties and commitment expected of directors. Non-Executive Directors are appointed for an initial three-year term with typical expected tenure of two three-year terms, subject to re-election by the shareholders. They are expected to commit at least 24 days per annum to their role. Key elements of a Non-Executive Director's role are:

Strategy – to constructively challenge and develop proposals.

Performance – to scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

Risk – Non-Executive Directors should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust.

People – to determine appropriate levels of remuneration of Executive Directors and play a prime role in appointing Executive Directors and planning succession.

Development, information and support

Directors are encouraged to attend training and continuing professional development courses as required. All directors have access to company operations and staff.

Sally Lawrence is the Company Secretary and supports the Chairman in ensuring that the Board members receive the information and support they need in order to carry out their roles. She has access to Prism CoSec, the Company's adviser. All directors have access to services of the Company Secretary, who is responsible for ensuring Board procedures are complied with.

Conflicts of interest

A process has been developed to identify any directors' potential or actual conflicts of interest. This includes declaring any new conflicts before the start of each Board meeting.

Performance evaluation

An internal performance evaluation of the Board and its committees was carried out and the results analysed in order to identify areas for improvement. The outcome of the review indicated that the Board and its committees were effective in carrying out their duties.

Stakeholder engagement

The Company holds scheduled bi-annual meetings with analysts and shareholders, in addition to adhoc meetings as requested. We also hold a number of meetings each year with both members of the Isle of Man Government and the regulator (The Communications Commission) in order to maintain a constructive dialogue. The Customer Experience Team has enhanced engagement with retail customers through more surveys, leading to an improvement in service provided by the team as described in the strategy in action section on page 23.

Board and committee attendance

The number of formal scheduled Board and committee meetings held and attended by directors during the year was as follows:

	Board	Audit	Remuneration	Nomination
Kevin Walsh	7/7	3/3	6/6	1/1
Gary Lamb	7/7	–	–	–
Jeffrey Hume	7/7	3/3	6/6	1/1
Chris Hall	7/7	3/3	6/6	1/1
Danny Bakhshi[1]	5/5	–	–	–

1. Danny Bakhshi resigned as a director of the Company on 2 October 2017.

The Board Committees

Membership of all three Board committees is comprised of the Chairman and the two Non-Executive Directors. As such, they are compliant with both the UK Corporate Governance and QCA Codes.

Members of the Committees are authorised to obtain, at the Company's expense, professional advice on any matter within their terms of reference and to have access to sufficient resources in order to carry out their duties. The role of the Nomination Committee is set out on the following page. A report of the Audit Committee is provided separately on pages 45 to 47 and the Directors' Remuneration Report is provided on pages 48 to 55.

corporate governance report continued

The role of the Nomination Committee

The Nomination Committee consists entirely of independent Non-Executive Directors. The Chairman is Kevin Walsh.

Duties

The main duties of the Nomination Committee are set out in its Terms of Reference and include:

- regularly reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and making recommendations to the Board with regard to any changes;
- giving full consideration to succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in the future;
- keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace;
- keeping up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates;
- being responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- evaluating the balance of skills, knowledge, experience and diversity on the Board and preparing a description of the role and capabilities required for a particular appointment before any appointment is made by the Board.
- reviewing the results of the Board evaluation process that relate to the composition of the Board and discussing the outcome with the full Board; and
- reviewing annually the time required from Non-Executive Directors.

report of the audit committee

Dear Shareholder

I am pleased to set out below an account of our role and activities during 2017 and up to the publication of this Annual Report.

The primary responsibilities of the Audit Committee are to provide effective governance over the appropriateness of the Group's financial reporting including the adequacy of related disclosures, the judgement whether the Annual Report as a whole is 'Fair, Balanced and Understandable', the performance of both Internal Audit and the External Auditor, and the management of the Group's systems of internal control and business risks.

The Board has ultimate responsibility for determining the nature and extent of the significant risks facing the business, and for ensuring that risks are managed effectively across the Group. Risk management is a regular agenda item at Board and Audit Committee meetings and the Board considers the impact of the Group's principal risks in detail during the annual Group strategy process. In addition, bi-annual Board risk meetings commenced in 2017 to bring focus to key risks facing the business.

As part of this the Company has further developed its mapping of key risks in terms of gross impact and probability together with the residual position after mitigation, plus its Risk Assurance mapping including the Three Lines of Defence. This is designed to ensure that the Board and Audit Committee understand the key risks within the business and the methods by which these risks are managed.

The Committee will continue with these priorities during the following year.

Jeffrey Hume
Chairman of the Audit Committee

Who we are

The Audit Committee consists entirely of independent Non-Executive Directors:

- Jeffrey Hume (Chairman)
- Kevin Walsh
- Chris Hall

The Board has determined that Jeffrey Hume has the recent and relevant financial experience, which would be required under the Corporate Governance Code, to chair this Committee. He is also a Fellow of both the Institute of Chartered Accountants and the Association of Corporate Treasurers. The Committee has relevant Telecoms competence as described on page 38 of this annual report.

How we meet

The Committee met three times during 2017, and has so far met once in 2018. KPMG Audit LLC, our External Auditor, attended each of these meetings as has the Company Secretary.

The Chief Executive Officer, Chief Financial Officer and the Head of Internal Audit also attended Committee meetings by invitation. The Committee sought the views of the External Auditor and the Head of Internal Audit, each without the other or any executives present.

What we have been asked to do

The Board has set Terms of Reference for the Committee which require us:

a) to monitor the integrity of the financial statements of the Company, including its annual and interim reports;
b) to review and challenge where necessary any changes to, and consistency of, accounting policies, whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the External Auditor, the going concern assumption, and all material information presented with the financial statements;
c) to keep under review the effectiveness of the Company's internal control systems (including financial, operational and compliance controls and risk management) and to review and approve the statements to be included in the Annual Report concerning internal controls and risk management;
d) to review the appointment or termination of the Head of Internal Audit, the Internal Audit programme and monitor and review the effectiveness of the Group's internal audit function;
e) to consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, reappointment and removal of the Company's External Auditor;
f) to oversee the relationship with the External Auditor, including approval of their remuneration, approval of their terms of engagement, assessment annually of their independence and objectivity taking into account relevant professional and regulatory requirements, and the relationship with the auditor as a whole, including the provision of any non-audit services;

report of the audit committee continued

g) to meet regularly with the External Auditor and, at least once a year, without any Executive Director or other member of management present, to discuss any issues arising from the audit;
h) to review and approve the annual external audit plan and review the findings of the audit; and
i) to review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns in confidence about possible improprieties in financial reporting or other matters, the Company's procedures for detecting fraud and the Company's anti-bribery procedures.

Key accounting matters

The Committee members reviewed the 2017 Preliminary Results announcement and Annual Report, the 2017 Interim Results announcement and reports from the external auditor, KPMG Audit LLC, on the planning for and outcome of their reviews and audit.

We considered key accounting matters in relation to the Group's financial statements and disclosures. The primary areas in relation to the 2017 accounts and how these were addressed:

Key Accounting Matter	Audit Committee Response
Revenue KPMG Audit LLC shared their audit approach in a detailed audit plan before commencement of the audit fieldwork, which identified the significant risks of misstatement in relation to revenue as: a) presumed risk of fraud; and b) accuracy of revenue recorded. This is a recurring key accounting matter.	The Committee is satisfied that the internal control environment is appropriately designed and implemented to enforce the segregation of duties, supported on an ongoing basis by Internal Audit, and to ensure the correct capture of billing events. We also interrogated management reports on the ageing and content of debtor balances and formed a judgement that provision levels held against these balances were appropriate. As a result, the Committee is satisfied with the accuracy and appropriateness of the revenue recognised in this Annual Report.
Property Plant and Equipment Judgements in the timing of assets in the course of construction and the determination that expenditure meets the requirements for capitalisation as contained in IAS 38. The Group holds its Land and Buildings on the Statement of Assets and Liabilities at Fair Value, being a combination of Market values and Value in use. An annual assessment is required to update those of the valuations This is a recurring key accounting matter.	The Committee satisfied itself on the key projects, and in particular the IT improvements within the ongoing Transformation Programme, that only the appropriate expenditure had been capitalised and that depreciation had commenced when the assets had been put into use. We also received and interrogated a management report on a comprehensive fixed asset review which had been performed. including details of a number of assets which required impairment. The Committee received and reviewed detailed reporting from management setting out the bases for these valuations and challenged the appropriateness of the assumptions including market movements since the last triennial external valuation, the income forecasts utilised for assets held at value-in-use, the discount rates then applied and the physical condition of those properties.
Defined Benefit Pension Scheme Whilst the valuation of the Scheme is, for accounting purposes, only a small net Retirement benefit liability, the valuation of the gross liability is large, complex and involves key assumptions as to the future. This is a recurring key accounting matter.	The Committee noted that the valuation had been performed by AON Hewitt using scheme specific assumptions derived by it as an independent expert. It also considered the reasons for the relatively small changes in assumptions since 2016 and heard from KPMG as to its benchmarking against other companies. The Committee noted that changes made to the scheme during the year and in connection with the triennial actuarial valuation had increased the matching of assets with liabilities to reduce volatility. The exercise had necessitated a greater degree of analysis before implementation, giving further comfort. Consequently, the Committee became satisfied that the scheme had been appropriately valued in this Annual Report.
Intercompany Balances Material intercompany balances are payable to the Parent Company from subsidiaries. This is a recurring key accounting matter.	The Committee is satisfied that the going concern assessment over the Group provides sufficient comfort surrounding the recoverability of the intercompany balances.

In respect of Alternative Performance Measures, the Committee carefully examined and agreed the case for and means of publishing underlying profitability results. In particular it focussed on the treatment of expenditure under the Transformation Programme including its timing and materiality.

Corporate Governance

The Board asked the Committee to formally consider whether the Annual Report, taken as a whole, is fair, balanced and understandable, and also that it provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Committee members were provided with a draft copy of the Annual Report early in the drafting process in order to assess the broad direction and key messages being communicated. Committee members provided feedback highlighting any areas where they believed further clarity was required. This feedback was incorporated into the draft report provided to the Audit Committee meeting for final comment and approval and the External Auditor was given an opportunity to comment. The Committee was able to give the Board the requested assurance.

External audit

The effectiveness of the external audit process is dependent on appropriate audit risk identification at the start of the audit cycle. We received from KPMG Audit LLC a proposed audit plan which identified their assessment of the key risks. The audit plan set out the scope of the audit, areas to be targeted and the audit timetable. This plan was reviewed and agreed in advance by the Audit Committee and KPMG Audit LLC and subsequently presented their report on their findings to the Audit Committee for discussion.

The Audit Committee monitored the relationship with KPMG Audit LLC to ensure that auditor independence and objectivity were maintained. Our assessment was primarily based upon the reports we received, how our challenges were met, the enquiries we made into their work, and the insights they were able to contribute. We also received feedback from the management team. As part of its review, the Committee monitored the provision of non-audit services by KPMG Audit LLC, which were small in comparison to the audit fee.

Having reviewed the auditor's independence and performance, the Audit Committee is recommending that KPMG Audit LLC be reappointed as the Company's auditor at the 2018 Annual General Meeting.

Internal Audit

The Audit Committee monitored and reviewed the scope, extent and effectiveness of the activity of Internal Audit. Reports from Internal Audit routinely include updates on audit activities, progress on the audit plan, management action plans to address areas requiring improvement, and the changing resource requirements of the Internal Audit department. The Committee discussed the implications of these reports with management and ensured that the recommendations and agreed actions received proper focus. The Committee Chairman oversaw the recruitment of a new Head of Internal Audit and Revenue Assurance.

Internal controls and risk management

The Company has in place a system of internal financial controls appropriate to its current size and activities, which is designed to ensure that the possibility of misstatement or loss is kept to a minimum. A suite of internal policies and procedures has been compiled and is subject to continuous review and amendment. These procedures include the preparation of management accounts, forecast variance analyses, and other ad hoc reports. There are clearly defined authority limits throughout the Group, including those matters which are reserved specifically for the Board. These are reviewed by the Board on an annual basis. Risks throughout the Group are considered and reviewed on a regular basis. Risks are identified and mitigating actions put into place as appropriate. The principal risks identified are set out in the Strategic Report on pages 30 to 33.

Further governance

The Committee conducted a formal evaluation of its effectiveness including taking the views of management and the external auditors. All members of the Board participated and it was determined that the Audit Committee has been effective in performing its duties as determined by the Terms of Reference.

directors' remuneration report

Chairman's statement

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2017. This is my first time of writing to you as Chair of the Remuneration Committee, having taken over from Kevin Walsh on 1 June 2017.

This report is divided into two parts: the first describes our directors' remuneration policy, and the second describes how we intend to implement our policy for 2018 and, separately, the basis for the remuneration paid to directors in respect of 2017. We will once again be submitting the report for shareholder approval at this year's Annual General Meeting, via an advisory resolution, to ensure that there is accountability to shareholders for the policy and its implementation.

Our level of disclosure and accountability on directors' pay significantly exceeds the reporting and voting requirements for an AIM-listed company, in line with the Board's commitment to high standards of corporate governance transparency.

Our remuneration policy is aligned with our strategy of generating shareholder returns, maintaining our core market position while exploiting new market opportunities, and operating a progressive dividend policy. Alignment with our strategy is achieved through incentive plans that are growth focused, targeting short and longer-term improvements in profitability, cash generation, and revenue growth. We also have a bias towards delivering variable pay earned in company shares, with part deferral of annual bonus into shares, and through our share-based long-term incentive plan. Our plans also include recovery and withholding provisions in the event of an overpayment, and we have minimum share ownership guidelines in place for the executives. This ensures that management and shareholders are aligned over the longer term.

Application of remuneration policy in 2017

The base salaries of the Executive Directors were not increased in 2017, and no changes were made to the annual bonus structure. As in prior years, bonuses were eligible to be earned based on performance against challenging Underlying EBITDA, Free Cash Flow and revenue growth targets. The choice of bonus metrics reflects the Company's focus on delivering profitable growth, generating increased Free Cash Flow, delivering against the Transformation Programme, and operating a progressive dividend policy.

However, the Committee did refine the operation of the long-term incentive plan in 2017. The Committee reviewed the ongoing appropriateness of granting long-term incentive awards against EPS and cumulative Free Cash Flow targets, and concluded that the awards in 2017 would be granted 50% subject to the level of cumulative Free Cash Flow achieved over the period through to 31 December 2019 and 50% based on Manx's relative TSR performance versus the FTSE All Share constituents (excluding Investment Trusts) over the same period. The Committee considered that the use of growth in Free Cash Flow and delivering above median TSR directly aligns the executive team with the Board's strategy of creating an above median rate of total return underpinned by profitable, cash generative, growth.

2017 performance related pay

Stretching performance conditions were set at the start of the year for the annual bonus plan, and the solid performance delivered resulted in an annual bonus payable to the Chief Executive Officer of 36.8% of salary out of the maximum opportunity of 100% of salary.

May 2018 will mark the third anniversary of the awards granted under the Company's long-term incentive plan in 2015. Subject to remaining in employment, these awards are eligible to vest in May, based on the extent to which challenging Earning Per Share (EPS) and Cash Flow targets were met over the three years to 31 December 2017. With the Company achieving 2.81% compound annual growth in EPS over the period, and generating cumulative Free Cash Flow of £52.0m, the awards are expected to vest at 55.3% of the maximum, based on the performance achieved relative to the targets originally set.

The Committee believes that the overall remuneration delivered in relation to 2017 represents a fair outcome for the recipients and for the Company's shareholders and wider stakeholders, given the financial performance of the Company, which has been delivered in challenging market conditions and during a period of significant change for the Group.

Application of remuneration policy in 2018

The Committee has reviewed the operation of the policy in advance of the current financial year. The base salaries of the Chief Executive Officer will be the subject of review with effect from 1 April 2018.

The annual bonus plan was subject to a review during the year and the Committee concluded that while the maximum bonus opportunity remained appropriate, revisions should be made to the performance metrics to better align the 2018 scheme with the Company's current strategic priorities. Accordingly, the 2018 annual bonus will include targets relating to improving our customers' experiences and how effective we are at engaging our people in addition to delivering against our plans for underlying EBITDA, Free Cash Flow and Revenue. As in prior years, payment of any bonus will rely on threshold levels of financial performance being achieved.

Following a review of the metrics applying to long-term incentives in 2017 (as detailed above), the Committee concluded that the same general approach (granting awards subject to cumulative Free Cash Flow and relative TSR) will be retained for the awards to be granted in 2018. Further details are included in page 52.

I trust that shareholders will support the resolution to approve this report.

Chris Hall
Chairman of the Remuneration Committee

Membership of the Remuneration Committee

The members of the Committee are listed in the table below. All of these are Independent Non-Executive Directors, as defined under the QCA Corporate Governance Code, with the exception of the Company Chairman, who was independent on his appointment.

The members of the Committee during the last financial year and their attendance at the meetings of the Committee were:

	Number of meetings attended
Kevin Walsh (Chairman)	6/6
Jeffrey Hume	6/6
Chris Hall	6/6

Duties

The main duties of the Remuneration Committee are set out in its Terms of Reference, and include:

- determining the framework or broad policy for the remuneration of the Company's Chief Executive, the Executive Directors, the Company Secretary and such other members of the executive management as it is designated to consider;
- reviewing the ongoing appropriateness and relevance of the remuneration policy;
- approving the design of, and determining targets for, any performance-related pay schemes operated by the Company and approving the total annual payments made under such schemes;
- reviewing the design of all share incentive plans for approval by the Board and shareholders;
- determining the policy for, and scope of, pension arrangements for each Executive Director and other senior executives;
- ensuring that the duty to mitigate loss is fully recognised in contractual terms on termination;
- determining the total individual remuneration package of each Executive Director and other senior executives, including bonuses, incentive payments and share awards; and
- establishing the selection criteria, and selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee.

directors' remuneration report continued

Part 1 – Remuneration policy for Executive Directors

The objective of the Company's remuneration policy for Executive Directors is to ensure that it supports the long-term strategy of the business and provides a strong alignment of interest between executives and shareholders.

The total remuneration package is structured so that a significant proportion is linked to performance conditions measured over both the short term and longer term. A high proportion of the potential remuneration is paid in shares, thereby ensuring that executives have a strong ongoing alignment with shareholders through the Company's share price performance.

When setting the levels of short-term and long-term variable remuneration and the balance of cash and share-based elements, consideration is given to obtaining the appropriate balance so as not to encourage unnecessary risk-taking, whilst ensuring that performance hurdles are suitably challenging.

The table below summarises the key aspects of the Company's remuneration policy for directors:

Element	Purpose and link to strategy	Operation	Maximum opportunity
Base salary	To recruit and reward executives of a suitable calibre for the role and duties required.	Reviewed annually by the Committee, taking account of company performance, individual performance, changes in responsibility and levels of increase for the workforce generally. Reference is also made to comparator benchmarks from time to time. The Committee considers the impact of any basic salary increase on the total remuneration package.	In relation to the policy for salary increases, there is no prescribed maximum annual increase. The Committee is guided by movements in market rates, the performance of the business and the general salary increase for the broader employee population, but on occasions may need to recognise, for example, development in role, change in responsibility, and/or specific retention issues.
Benefits	To provide market-competitive benefits and to ensure the well-being of employees.	The Company typically provides: – car allowance – medical insurance – death and disability insurance – other ancillary benefits, including relocation expenses (as required) In addition, the Company operates a share save scheme. Executive Directors are also entitled to 30 days' leave per annum.	Car allowance is determined by seniority. The value of other benefits is based on the cost to the Company and is not predetermined.
Pension	To provide market-competitive benefits and to assist post-retirement financial planning.	A company contribution to a money purchase pension scheme or provision of cash allowance in lieu of pension at the request of the individual.	Up to 10% of base salary.
Annual bonus	To encourage and reward delivery of the Company's operational objectives.	The annual bonus is based on performance against a range of the Company's key performance indicators. One third of any bonus earned will be paid in shares, which must be held for at least two years. A recovery and withholding mechanism applies in the event of a material misstatement of the Group's Financial Statements and also for other defined reasons.	100% of salary at stretch performance.

Element	Purpose and link to strategy	Operation	Maximum opportunity
Long-term incentives ('LTIP')	To encourage and reward delivery of the Company's long-term strategic objectives and provide alignment with shareholders through the use of share-based remuneration.	Annual awards of performance shares. Awards are released subject to continued employment and satisfaction of challenging performance conditions measured over three years. A recovery and withholding mechanism applies to all participants in the event of a material misstatement of the Group's accounts and also for other defined reasons.	The maximum limit in the plan rules is 150% of salary (face value of shares at grant). The current policy within the plan limit is up to 100% of base salary. 25% of the award is payable for threshold performance. Dividends that would be payable on the share awards are rolled up and paid out (in cash or shares) at the end of the vesting period based on the proportion of the award that actually vests.
Non-Executive Director fees	To attract and retain a high-calibre Chairman and Non-Executive Directors by offering a market-competitive fee level.	Fees are reviewed periodically. Fee levels are set as appropriate for the role and responsibility for each NED position and with reference to market levels in comparably sized public companies. Fees are paid in cash. The Chairman is paid a single fee for all his responsibilities. The Non-Executives are paid a basic fee. The Senior Independent Director and Chairmen of both the Audit and Remuneration Committees receive an additional fee to reflect extra responsibilities.	There is no prescribed maximum annual increase. Any increases to fee levels are guided by movements in market rates, the performance of the business and the general salary increase for the broader employee population, but on occasions may need to recognise, for example, change in responsibility, and/or time commitments.

Service contracts and payments for loss of office

The Remuneration Committee reviews the contractual terms for new Executive Directors to ensure that these reflect best practice.

Service contracts normally continue until the Director's agreed retirement date or such other date as the parties agree. The service contracts contain a provision for early termination subject to six months' notice from either the Company or the Executive Director.

A director's service contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct. If the employing company terminates the employment of an Executive Director in other circumstances, compensation is limited to salary due for any unexpired notice period and any amount assessed by the Remuneration Committee as representing the value of other contractual benefits (including pension) which would have been received during the period. Payments in lieu of notice are not pensionable. In the event of a change of control of the Company there is no enhancement to contractual terms.

Service contracts are available for inspection at the Company's registered office.

Part 2 – Annual remuneration report

How the remuneration policy will be applied in 2018

2018 salary review

The salary level for Gary Lamb is currently £290,000. The next review date will be April 2018. In deciding whether to award any increase the Committee will consider movements in market rates, the performance of the business, the general salary increase for the broader employee population, and whether there is a need to recognise any change in responsibility and development in role.

directors' remuneration report continued

Performance targets for the 2018 annual bonus

As noted in the Chairman's statement, the annual bonus has been the subject of review. The conclusion was that the metrics we target for improvement in 2018 should be broadened to better reflect our current strategic priorities. As a result, the metrics and weightings we are to operate in relation to the 2018 annual bonus for Executive Directors are as follows:

Metric	Weighting
Underlying EBITDA	20%
Underlying Cash Flow	20%
Revenue	20%
Customer Experience	20%
People Engagement	20%

In all cases a threshold level of financial performance (based on predetermined levels of EBITDA and cash flow) must be achieved before bonuses are eligible to become payable.

The 2018 targets are structured using sliding scales that have been set around our internal plans. The Customer and People targets are based on our Net Promoter scores (which include data collated externally). Improving customer satisfaction and employee engagement are core priorities in 2018 and, in tandem with our financial targets, support our overall objectives of delivering profitable growth and generating the cash flow to support our progressive dividend policy and investment objectives.

The specific targets for the 2018 annual bonus are not disclosed prospectively in this report as they are considered to be commercially sensitive. However, it is our intention that details of the target ranges, and achievement against them, will be set out in next year's report.

Bonuses will be capped at 100% of base salary, with two thirds payable in cash. One third of a bonus earned must be invested in shares and held for two years.

LTIP awards to be granted in 2018

LTIP awards will be made over shares worth up to 100% of base salary. Consistent with the approach taken in 2017, the 2018 long-term incentive awards will be granted subject to cumulative Free Cash Flow and relative TSR targets. The Committee remains comfortable that focusing on delivering growth in Free Cash Flow and above median TSR is directly aligned with the Company's strategy.

The actual targets (tested over the three financial years ending 31 December 2020) are set out below:

For the 50% of the award subject to cumulative Free Cash Flow (FCF):

Cumulative CF for financial years 2018, 2019 and 2020	Percentage of the half of the award subject to the FCF condition that vests
Below £54.9m	0%
£54.9m	25%
Between £54.9m–£59.9m	Vesting on a straight-line basis between 25% and 100%
Above £59.9m	100%

For the 50% of the award subject to total shareholder return (TSR):

Manx Telecom plc ranking versus constituents of the FTSE All Share Index (excluding Investment Trusts	Percentage of the half of the award subject to the TSR condition that vests
Below median	0%
Median	25%
Between median and upper quartile	Vesting on a straight-line basis between 25% and 100%
Upper quartile or better	100%

overview
strategic report
governance report
financial statements
other

How the Remuneration Policy was applied in 2017

Single figure of directors' remuneration for the financial year 2017

The table below sets out the remuneration payable to the Directors in relation to the financial year 2017.

		Salary and fees £	Benefits[1] £	Pension £	Annual bonus[3] £	Long-term incentives[4] £	Total £
Executive Directors							
Gary Lamb	2017	290,000	15,048	29,000	106,720	186,572	627,340
	2016	290,000	14,604	29,000	67,570	551,558	952,732
Danny Bakhshi[2]	2017	158,315	10,731	–	–	–	169,046
	2016	192,500	30,667	–	44,850	–	268,017
Non-Executive Directors							
Kevin Walsh	2017	90,000	–	–	–	–	90,000
	2016	87,500	–	–	–	–	87,500
Sir Miles Walker[5]	2016	18,361	–	–	–	–	18,361
Jeffrey Hume[6]	2017	53,000	–	–	–	–	53,000
	2016	52,250	–	–	–	–	52,250
Chris Hall[7]	2017	44,667	–	–	–	–	44,667
	2016	21,803	–	–	–	–	21,803

1. Benefits are as set out in the remuneration policy.
2. Danny Bakhshi's employment terminated in October 2017. In addition to the 2017 remuneration detailed above for Danny Bakhshi, he also received a payment totalling £38,000 which related to 2 months' pay in lieu of notice. The payment included £35,000 in relation to 2 months' base salary and £3,000 in relation to 2 months' pension and benefits. The payment, restricted to 2 months, was well within the contractual notice period of 6 months. Danny Bakhshi remained in employment during the period he received payment, and no further payments will be made in connection with his termination. His entitlement to a £100,000 recruitment award; all outstanding long-term incentive awards and, entitlement to 2017 annual bonus lapsed on termination of employment. In relation to his 2016 annual bonus, he is expected to hold the deferred shares for the full two-year period as required by the Company's remuneration policy. No further payments will be made in connection with his departure.
3. This relates to the payment of the annual bonus for the year ending 31 December 2017 set out in the annual bonus pay outcome for 2017 on page 53. The annual bonus is subject to a mandatory deferral policy as set out in the policy table on page 50.
4. Further information regarding the vesting of the 2015 long-term incentive award is set out on page 54 below. Details of the 2016 long-term incentive vesting (under the CIP) was set out in last year's Remuneration Report on page 44.
5. The 2016 remuneration of Sir Miles Walker relates to his role as an Independent Director up to 15 June 2016.
6. For Jeffrey Hume, included in the number were additional fees of £8,000 payable for chairing the Audit Committee and £5,000 payable for the role of Senior Independent Director.
7. The 2016 remuneration of Chris Hall relates to his role as an Independent Director from 15 June 2016. Chris was appointed as Chairman of the Remuneration Committee with effect from 1 June 2017 and included in the 2017, number are fees of £4,667 for his role as Chairman of the Committee. Kevin Walsh did not receive any additional fees beyond his fee for Chairing the Board while chairing the Remuneration Committee.

Annual bonus pay outcome for 2017

Annual bonuses for the Executive Directors are determined by the Committee based on an assessment of performance measures which are selected to achieve a relationship between progress towards the Group's strategic goals and the bonuses that are awarded:

Criteria	Weighting	Actual £m	% of stretch vesting
Underlying EBITDA	40%	27.1	10.0%
Underlying Cash Flow	40%	20.0	100%
Revenue	20%	78.5	0%
Total Annual Bonus outcome (weighted average)			40%

Bonus outcomes

Name	Role	Salary	Bonus %	Total
Gary Lamb	Chief Executive Officer	£290,000	36.8%	£106,720

directors' remuneration report continued

Danny Bakhshi was not eligible for a bonus based on 2017 performance following his cessation of employment during the year.

The maximum annual bonus that the Chief Executive was eligible to earn was 100% of salary. The actual bonus payable, as detailed above, was 36.8% of salary. This compared to a formulaic bonus outcome of 40%. The difference is the result of the application of individual performance multiples across the Company, which may increase or reduce an individuals bonus entitlement. The application of these multiples cannot increase the total company bonus outturn. Although these multiples do not formally apply to Executive Directors, in order to hold total bonus spend constant there was a proportional scaling of all individual bonus awards. One third of the bonus earned must be invested in shares and held for two years.

The Committee has the discretion to adjust the final outcome upwards or downwards in the event that an exceptional event outside the Executive Directors' control occurs which, in the Committee's opinion, materially affects the bonus outcome. There were no such events during 2017.

Both cash and share elements of the bonus are subject to clawback.

2015 long-term incentive plan award

The LTIP awards granted on 11 May 2015 and 28 January 2016 are eligible to vest on 11 May 2018, subject to continued employment and satisfying the relevant performance conditions. The performance conditions relating to these awards were 50% based on Underlying EPS performance and 50% based on cumulative Free Cash Flow (i.e. the sum of the Free Cash generated in 2015, 2016 and 2017).

The performance conditions, and the Company's performance against them, are set out below. The value included in the 2017 single figure table above (on page 53) is summarised below.

Criteria	Weighting	Threshold (25% of the relevant part of the award vests)	Maximum (100% of the relevant part of the award vests)	Manx Telecom	% of total award expected to vest
Underlying EPS	50%	2.0%	6.0%	2.81%	20.1%
Cumulative Free Cash Flow	50%	£50.18m	£53.18m	£52.0m[1]	35.2%
Total					**55.3%**

1. Cumulative Free Cash Flow calculated on a consistent basis to take into account the impact of the Transformation Programme.

LTIP outcomes[1]

Name	Role	Awards granted	% of awards to vest	Awards vesting (shares)	Dividend equivalent (shares	Pay-out[1]
Gary Lamb	Chief Executive Officer	95,576	55.3%	52,854	£16,807	£119,343
		56,361[2]	55.3%	31,168	£6,763	£67,229
Total						**£186,572**

1. The value of these awards has been determined using the share price of 194p to 31 December 2017.
2. This award was granted to Gary Lamb in January 2016 so that his 2015 LTIP award equated to 100% of his salary, after this was increased to £290,000 on his promotion to Chief Executive. The terms of this additional award are identical to the terms of his 2015 award.

LTIPs granted in 2017

The performance conditions for the LTIP award granted in 2017 are set out below and will be measured over the three financial years to 31 December 2019.

For the 50% of the award subject to cumulative Free Cash Flow (FCF):

Cumulative FCF for financial years 2017, 2018 and 2019	Percentage of the half of the award subject to the FCF condition that vests
Below £54.89m	0%
£54.89m	25%
Between £54.89-£59.72m	Vesting on a straight-line basis between 25% and 100%
Above £59.72m	100%

LTIPs granted in 2017 continued

For the 50% of the award subject to total shareholder return (TSR):

Manx Telecom plc ranking versus constituents of the FTSE All Share Index (excluding Investment Trusts)	Percentage of the half of the award subject to the TSR condition that vests
Below median	0%
Median	25%
Between median and upper quartile	Vesting on a straight-line basis between 25% and 100%
Upper quartile or better	100%

Directors' interests in share-based incentive plans to 31 December 2017

Executive	Scheme	Grant date	Exercise price	Number of shares at 31 December 2016	Granted during year	Vested during year	Lapsed during year	Number of shares at 31 December 2017	End of performance period	Vesting date
Gary Lamb	CIP[1]	10.02.14	Nil	250,000	–	250,000	–	–	09.02.17	15.03.17
	LTIP[2]	11.05.15	Nil	95,576	–	–	–	95,576	31.12.17	11.05.18
	LTIP[3]	28.01.16	Nil	56,361	–	–	–	56,361	31.12.17	11.05.18
	LTIP[4]	04.07.16	Nil	145,217	–	–	–	145,217	31.12.18	03.07.19
	LTIP[5]	07.07.17	Nil	–	153,710	–	–	153,710	31.12.19	06.07.20
Danny Bakhshi[(6)]	LTIP[4]	04.07.16	Nil	105,157	–	–	105,157	–	–	–
	LTIP[5]	07.07.17	Nil	–	111,307	–	111,307	–	–	–

1. The awards granted under the CIP on 10 February 2014 vested on 15 March 2017. See full detail on page 44 of the 2016 Annual Report.
2. 50% subject to underlying EPS growth (nothing vests below 2% p.a., 25% at 2% p.a. increasing to 100% for 6% p.a. or more), 50% subject to underlying cumulative FCF performance for the 2015, 2016 and 2017 Financial Years (nothing vests below £50.18m, 25% at £50.18m increasing to 100% for £53.18m or more).
3. Gary Lamb was granted an additional LTIP award on 28 January 2016 so that his 2015 LTIP award equated to 100% of his salary; after, this was increased to £290,000 on his promotion to Chief Executive. The terms of this additional award are identical to the terms of his 2015 LTIP award.
4. 50% subject to underlying EPS growth (nothing vests below 2% p.a., 25% at 2% p.a. increasing to 100% for 6% p.a. or more), 50% subject to underlying cumulative FCF performance for the 2016, 2017 and 2018 Financial Years (nothing vests below £51.62m, 25% at £51.62m increasing to 100% for £54.62m or more).
5. Subject to performance conditions as set out on page 54.
6 All of Danny Bakhshi's outstanding long-term incentives lapsed on his cessation of employment on 2 October 2017.

Directors' shareholding and share interests to 31 December 2017

To align the interests of the Executive Directors with shareholders, participating executives are required to build up shareholdings through the retention of shares vesting under the Company's share plans. The Executive Directors are required to build up a shareholding equivalent to at least 100% of salary, to be achieved through retaining at least 50% of their net of taxes gain arising from any shares vesting or acquired under the long-term incentive share plans, until such time as the share ownership target has been met. The Chairman and Non-Executive Directors are encouraged to hold shares in the Company but are not subject to a formal shareholding guideline. Details of the Directors' interests in shares are shown in the table below:

Director	Beneficially owned at 1 January 2017	Beneficially owned at 31 December 2017	Outstanding LTIP awards	% Shareholding guideline achieved at 31 December 2017
Gary Lamb	507,103	516,826	450,864	>100%
Kevin Walsh	70,422	70,422	–	–
Jeffrey Hume	70,422	70,422	–	–
Chris Hall	–	–	–	–

This report was approved by the Board of Directors and signed on its behalf by:

Chris Hall
Chairman of the Remuneration Committee

statement of directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) and applicable law. They have elected to prepare the Parent Company financial statements on the same basis.

The financial statements are required to give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group for that period.

In preparing each of the Group and Parent Company financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Sally Lawrence
Company Secretary
2 May 2018
Manx Telecom plc
Registered Office:
33-37 Athol Street
Douglas
Isle of Man IM1 1LB
Company No: 005328V

independent auditor's report

to the members of Manx Telecom plc

1. Our opinion is unmodified

We have audited the financial statements of Manx Telecom plc ("the Company") for the year ended 31 December 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity and the Consolidated Statement of Cash Flows, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), as applicable to an Isle of Man Company; and
- the financial statements have been prepared in accordance with the requirements of the Isle of Man Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview

Materiality: Group and Parent Company Financial Statements	£0.6m (2016: £0.6m)
	0.8% (2016: 0.7%) of Total Group Revenue 0.6% (2016: 0.6%) of Total Parent Company Assets
Coverage: based on components of Group subject to full scope audit	96% (2016: 100%) of Group profit before tax

Risks of material misstatement 2017 vs 2016

Recurring risks	Total Revenue	< >
	Property, plant and equipment	< >
	Gross pension liability	< >
	Parent Company balances due from related parties (subsidiaries)	< >

independent auditor's report continued

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2016):

The risk		Our response
Revenue – All captions (£78 million; 2016: £81m) Refer to page 45 (Audit Committee Report), page 73 (accounting policy) and page 79 (financial disclosures).	**Processing error:** Manx Telecom has multiple systems which are used to collect usage data and record revenue. There is thus an inherent risk over the accuracy of revenue recorded. **Effect of irregularities:** There is a risk that management could manipulate financial records in order to overstate revenue due to the following factors: – Incentives & Pressures to meet analyst expectations to grow revenue, EBITDA and dividends; – Directors participate in Share Based Payments programs and are thus incentivised to increase share price	Our procedures included: – **Control design and operation:** We tested General IT Controls over Billing Systems and General Ledger and the operating effectiveness over reconciliation controls between billing systems and general ledger; – **Outsourcing controls:** We assessed the control environment and controls within the service organisation based on reports from other auditors; – **Data comparisons:** We re-performed the reconciliations between billing systems and the general ledger and followed up on any reconciling differences; – **Expectation vs outcome:** We performed substantive trend analysis over revenue streams. Where unusual movements were identified, we corroborated these through inspection of supporting documentation and inquiry; and – **Tests of details:** We assessed recoverability of trade debtors through an inspection of ageing and subsequent receipts testing. We selected a sample of revenue transactions and agreed these to source documentation. We selected a sample of accrued income and agreed these to post year-end billing.
Property, plant and equipment ('PPE') (£59 million; 2016: £60m) Refer to page 45 (Audit Committee Report), page 69 (accounting policy) and page 82 (financial disclosures).	The Group operates in a competitive environment which is subject to rapid technological advances, creating an increased risk of obsolescence of PPE. **Subjective valuation:** The following management judgment impacts the carrying amount of property, plant and equipment and intangible assets: – Identification of impairment indicators; and – Selection of model and assumptions used to determine recoverable amount of relevant assets with an impairment indicator or fair value for assets held at fair value.	Our procedures included: – **Benchmark model and assumptions:** We assessed the model and assumptions used in the valuation. The model was assessed against generally accepted valuation models. Market assumptions were agreed to external independent information and subjective assumptions were assessed for basis; and – **Historical comparison:** We evaluated the track-record of future assumptions to actual performance.

The risk		Our response
Property, plant and equipment ('PPE') continued (£59 million; 2016: £60m) Refer to page 45 (Audit Committee Report), page 69 (accounting policy) and page 82 (financial disclosures).	**Subjective estimate:** The following management judgements impact the carrying value of PPE: – The decision to capitalise or expense costs; – The timeliness of the transfer from assets in the course of construction; and – Expected completion date and benefits from the Transformation Programme.	Our procedures included: – **Tests of detail:** We selected a sample of project additions and agreed these to business case/budget for management authority, invoice and employee timesheet, as appropriate, to test that costs are capital in nature. We assessed expenditure to-date to confirm that the project was within budget. Where over budget, we challenged management to consider whether the asset is impaired. We also challenged management as to why open projects had not yet been brought into use and depreciated; and – **Tests of detail:** We selected a sample of assets transferred from AICC to PPE and inspected authority for capitalisation from the project manager. We then confirmed that the transfer to PPE and commencement of depreciation occurred during the next month after project manager authorisation. – **Assessing transparency:** Assessing the adequacy of the Group's disclosures in respect of PPE.
Gross Pension liability (£95.9 million; 2016: £96.3m) Refer to page 45 (Audit Committee Report), page 71 (accounting policy) and page 87 (financial disclosures). General Note: Net liability recorded on balance sheet taking into account pension assets is £3.8 million; (2016: £5.4m)	**Subjective valuation:** The valuation of the defined benefit liability is complex and involves actuarial valuation models and assumptions in respect of future events. There is a risk that the correct valuation methodology may not be followed or that assumptions may not be correct.	Our procedures included: – **Assessing valuer's credentials:** We evaluated the competence and independence of the external actuary engaged by the Group; – **Methodology choice:** We used our own actuarial specialist to assess that the model and methodology used in the valuation is consistent with that specified by IFRS as adopted by the EU; and – **Benchmarking assumptions:** We used our own actuarial specialist to benchmark the assumptions used against market data. – **Assessing transparency:** Assessing the adequacy of the Group's disclosures in respect of the Gross pension liability.
Parent Company's balances due from related parties (subsidiaries) (£95.8 million;2016: £94.6m) Refer to page 45 (Audit Committee Report), page 68 (accounting policy) and page 98 (financial disclosures).	**Low risk, high value** The carrying amount of the debtor balances due from related parties represents 97% (2016: 98%) of the Parent Company's total assets. Their recoverability is considered to be at a lower risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.	Our procedures included : – **Tests of detail:** Assessing 100% of debtor balances due from related parties to identify, with reference to the relevant debtors' balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those debtor companies have historically been profit-making.

independent auditor's report continued

3. Our application of materiality and an overview of the scope of our audit

Group Materiality

Materiality for the Group financial statements as a whole was set at £0.6m (2016: £0.6m), determined with reference to a benchmark of Total Revenue, of which it represents 0.8% (2016: 0.7%).

We consider Total Revenue to be the most appropriate benchmark as it provides a more stable measure year on year than Group profit before tax.

Parent Company Materiality

Materiality for the Parent Company financial statements was set at £0.6m (2016: £0.6m), determined with reference to a benchmark of Total assets, of which it represents 0.61% (2016: 0.62%).

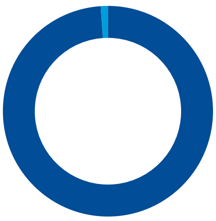
We design our procedures for both the Group and Parent Company financial statements to detect errors at a lower level of precision, set at £0.42m (2016: £0.42m).

We agreed to report to the Board of Directors any corrected or uncorrected identified misstatements exceeding £0.03m (2016: £0.03m) in addition to other identified misstatements that warranted reporting on qualitative grounds.

Scope

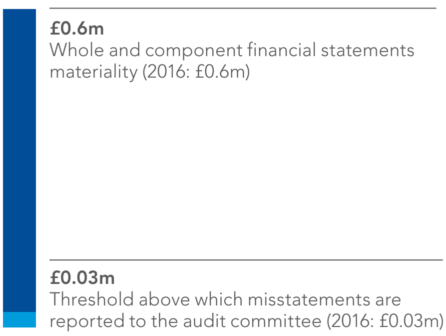
The work on the Group and its subsidiaries, including the audit of the Parent Company, was performed by the Group team.

Group Revenue: £78m (2016: £81m)



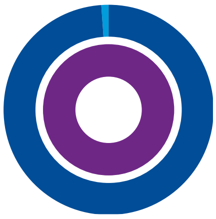
Revenue	£78m
Group materiality	£0.6m

Group and Parent Company materiality:
£0.6m (2016: £0.6m)



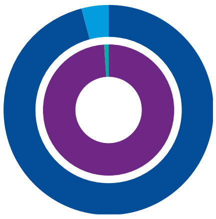
Coverage
based on components of group subject to full scope audit

Group revenue



Full scope for group audit purposes 2017	99%
Specified risk-focused audit procedures 2017	1%
Full scope for group audit purposes 2016	100%
Specified risk-focused audit procedures 2016	0%

Group profit before tax



Full scope for group audit purposes 2017	96%
Specified risk-focused audit procedures 2017	4%
Full scope for group audit purposes 2016	99%
Specified risk-focused audit procedures 2016	1%

Group total assets

Full scope for group audit purposes 2017	100%
Specified risk-focused audit procedures 2017	0%
Full scope for group audit purposes 2016	100%
Specified risk-focused audit procedures 2016	0%

4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Directors' report

Based solely on our work on the other information:

– we have not identified material misstatements in the strategic report and the directors' report;
– in our opinion the information given in those reports for the financial year is consistent with the financial statements;

6. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 56, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

7. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Section 80(c) of the Isle of Man Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

KPMG Audit LLC
Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man
IM99 1HN

2 May 2018

consolidated statement of comprehensive income

for the year ended 31 december 2017

	Note	2017 £'000	2016 £'000
Revenue	1.12,2	**78,491**	80,823
Cost of sales		**(31,395)**	(32,229)
Gross profit		**47,096**	48,594
Administrative expenses		**(33,735)**	(35,027)
Operating profit	4	**13,361**	13,567
Underlying EBITDA	29	**27,051**	27,669
Depreciation and amortisation	7,8	**(9,695)**	(9,142)
Underlying operating profit	29	**17,356**	18,527
Impairment of equipment	4,7	**(102)**	(464)
Transformation Programme	4	**(3,863)**	(4,335)
Acquisition costs	4	**(30)**	(161)
Operating profit		**13,361**	13,567
Other income	7,26	**110**	36
Financial income	5	**10**	72
Finance costs	5	**(2,382)**	(2,342)
Loss on property revaluation	7	**–**	(1,274)
Net profit/(loss) on interest rate swaps	18(d)	**777**	(1,238)
Profit before tax		**11,876**	8,821
Taxation	6	**–**	–
Profit for the year		**11,876**	8,821
Attributable to:			
Owners of the Group		**11,938**	8,821
Non-Controlling Interest		**(62)**	–

Underlying profit before tax	29	**15,094**	16,293
Impairment of equipment	4	**(102)**	(464)
Transformation programme	4	**(3,863)**	(4,335)
Acquisition costs	4	**(30)**	(161)
Loss on property revaluation	4	**–**	(1,274)
Net profit/(loss) on interest rate swaps	18(d)	**777**	(1,238)
Profit before tax		**11,876**	8,821
Other comprehensive income – items that will never be reclassified to profit or loss			
Remeasurement of defined benefit pension scheme asset	16	**1,100**	(7,000)
Gain on property revaluation	7	**–**	1,159
Total comprehensive profit for the year		**12,976**	2,980
Attributable to:			
Owners of the Company		**13,038**	2,980
Non-Controlling Interest		**(62)**	–
Earnings per share from continuing operations			
Basic	24	**10.50p**	7.82p
Diluted	24	**10.40p**	7.72p
Underlying basic	24	**13.28p**	14.44p
Underlying diluted	24	**13.15p**	14.26p

The Directors consider that all results are derived from continuing operations.

The notes on pages 67 to 108 form an integral part of these financial statements.

consolidated and company statements of financial position

as at 31 december 2017

	Note	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Non-current assets					
Property, plant and equipment	7	**59,294**	60,328	**–**	–
Goodwill	3	**87,911**	87,911	**–**	–
Intangible assets	8	**742**	881	**–**	–
Investments in subsidiaries	9	**–**	–	**2,667**	2,402
		147,947	149,120	**2,667**	2,402
Current assets					
Inventories	10	**878**	905	**–**	–
Trade and other receivables	11	**28,526**	23,230	**1**	1
Due from related parties	20	**–**	–	**95,811**	94,634
Cash and cash equivalents	12	**12,341**	16,674	**–**	–
		41,745	40,809	**95,812**	94,635
Current liabilities					
Due to subsidiary	20	**–**	–	**(9,537)**	(9,537)
Trade and other payables	14	**(30,094)**	(26,784)	**(5)**	(3)
Interest rate swaps	18(d)	**(290)**	–	**–**	–
Provisions	15	**(560)**	(3,840)	**–**	–
		(30,944)	(30,624)	**(9,542)**	(9,540)
Net current assets		**10,801**	10,185	**86,270**	85,095
Non-current liabilities					
Interest-bearing loans and borrowings	13	**(69,288)**	(69,036)	**–**	–
Interest rate swaps	18(d)	**(845)**	(1,912)	**–**	–
Retirement benefit liability	16	**(3,795)**	(5,400)	**–**	–
		(73,928)	(76,348)	**–**	–
Net assets		**84,820**	82,957	**88,937**	87,497
Share capital	17	**230**	226	**230**	226
Share premium	17	**1,265**	84,366	**1,265**	84,366
Revaluation reserve	1.6,7	**1,159**	1,159	**–**	–
Retained earnings/(deficit)		**82,238**	(2,794)	**87,442**	2,905
Equity attributable to the owners of the Group		**84,892**	82,957	**88,937**	87,497
Non-Controlling Interest	27	**(72)**	–	**–**	–
Total equity		**84,820**	82,957	**88,937**	87,497

The notes on pages 67 to 108 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors and were signed on its behalf by:

Gary Lamb
Director

2 May 2018

consolidated statement of changes in equity

for the year ended 31 december 2017

	Note	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Non-Controlling Interest £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016		226	84,347	–	–	6,474	91,047
Total comprehensive profit for the year							
Profit for the year		–	–	–	–	8,821	8,821
Other comprehensive income/(loss)		–	–	1,159	–	(7,000)	(5,841)
Total comprehensive profit for the year		–	–	1,159	–	1,821	2,980
Transactions with owners of the Group, recorded directly in equity							
Share-based payment transactions	23	–	–	–	–	887	887
Issue of shares	17	–	19	–	–	–	19
Dividend paid	25	–	–	–	–	(11,976)	(11,976)
Total contributions by and distributions to the owners of the Group		–	19	–		(11,089)	(11,070)
Balance at 31 December 2016		226	84,366	1,159	–	(2,794)	82,957
Balance at 1 January 2017		**226**	**84,366**	**1,159**	**–**	**(2,794)**	**82,957**
Total comprehensive profit for the year							
Profit/(loss) for the year		**–**	**–**	**–**	**(62)**	**11,938**	**11,876**
Other comprehensive income		**–**	**–**	**–**	**–**	**1,100**	**1,100**
Total comprehensive profit for the year		**–**	**–**	**–**	**(62)**	**13,038**	**12,976**
Transactions with owners of the Group, recorded directly in equity							
Reclassification of share premium as retained earnings	17	**–**	**(84,366)**	**–**	**–**	**84,366**	**–**
Adjustment arising from changes in non-controlling interest	26	**–**	**–**	**–**	**(10)**	**10**	**–**
Share-based payment transactions	23	**–**	**–**	**–**	**–**	**262**	**262**
Issue of shares	17	**4**	**1,265**	**–**	**–**	**–**	**1,269**
Dividend paid	25	**–**	**–**	**–**		**(12,644)**	**(12,644)**
Total contributions by and distributions to the owners of the Group		**4**	**(83,101)**	**–**	**(10)**	**71,994**	**(11,113)**
Balance at 31 December 2017		**230**	**1,265**	**1,159**	**(72)**	**82,238**	**84,820**

The notes on pages 67 to 108 form an integral part of these financial statements.

company statement of changes in equity

for the year ended 31 december 2017

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016		226	84,347	2,039	86,612
Total comprehensive profit for the year					
Profit for the year		–	–	11,955	11,955
Total comprehensive profit for the year		–	–	11,955	11,955
Transactions with the owners of the Company, recorded directly in equity					
Share-based payment transactions	23	–	–	887	887
Issue of shares	17	–	19	–	19
Dividend paid	25	–	–	(11,976)	(11,976)
Total contributions by and distributions to the owners of the Company		–	19	(11,089)	(11,070)
Balance at 31 December 2016		226	84,366	2,905	87,497
Balance at 1 January 2017		**226**	**84,366**	**2,905**	**87,497**
Total comprehensive profit for the year					
Profit for the year		**–**	**–**	**12,553**	**12,553**
Total comprehensive profit for the year		**–**	**–**	**12,553**	**12,553**
Transactions with the owners of the Company, recorded directly in equity					
Reclassification of share premium as retained earnings	17	**–**	**(84,366)**	**84,366**	**–**
Share-based payment transactions	23	**–**	**–**	**262**	**262**
Issue of shares	17	**4**	**1,265**	**–**	**1,269**
Dividend paid	25	**–**	**–**	**(12,644)**	**(12,644)**
Total contributions by and distributions to the owners of the Company		**4**	**(83,101)**	**71,984**	**(11,113)**
Balance at 31 December 2017		**230**	**1,265**	**87,442**	**88,937**

The notes on pages 67 to 108 form an integral part of these financial statements.

consolidated statement of cash flows

for the year ended 31 december 2017

	Note		2017 £'000		2016 £'000
Cash flows from operating activities					
Profit for the year			**11,876**		8,821
Adjustments for:					
Depreciation of property, plant and equipment	7	**9,438**		8,934	
Amortisation of intangibles	8	**256**		208	
Impairment of property, plant and equipment	4	**102**		464	
Profit on disposal of property, plant and equipment	7	**(100)**		(36)	
Finance income	5	**(10)**		(72)	
Finance costs	5	**2,382**		2,342	
Loss on property revaluation	7	**–**		1,274	
Net (profit)/loss on interest rate swaps	18(d)	**(777)**		1,238	
Negative Goodwill released to income	26	**(10)**		–	
Equity-settled share-based payments transactions	23	**266**		887	
Pension contributions	16	**(600)**		(1,200)	
Changes in:					
Inventories	10	**27**		(311)	
Trade and other receivables	11	**(5,296)**		(3,709)	
Trade and other payables	14	**5,749**		(717)	
Provisions	15	**(3,280)**		3,840	
			8,147		13,142
Net cash generated from operating activities			**20,023**		21,963
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment	7	**100**		178	
Purchase of property, plant and equipment	7	**(8,935)**		(5,700)	
Purchase of intangible assets	8	**(117)**		(725)	
Acquisition of subsidiary	26	**(2,007)**		(1,668)	
Interest received	5	**10**		72	
Net cash used in investing activities			**(10,949)**		(7,843)
Cash flows from financing activities					
Proceeds on issue of shares	17	**1,269**		19	
Repayment of obligations under finance leases	13	**(39)**		(40)	
Interest paid		**(1,993)**		(2,050)	
Dividends paid	25	**(12,644)**		(11,976)	
Net cash used in financing activities			**(13,407)**		(14,047)
Net (decrease)/increase in cash and cash equivalents			**(4,333)**		73
Cash and cash equivalents brought forward			**16,674**		16,601
Cash and cash equivalents at 31 December	12		**12,341**		16,674

The notes on pages 67 to 108 form an integral part of these financial statements.

notes

forming part of the financial statements for the year ended 31 december 2017

1 Accounting policies

Manx Telecom plc ('the Company') is a company incorporated and domiciled in the Isle of Man in accordance with the Isle of Man Companies Act 2006.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as 'the Group'). The Parent Company financial statements present information about the Company as a separate entity.

The principal accounting policies adopted are set out below.

Basis of preparation

The consolidated and company financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. Where necessary, comparative figures have been adjusted to conform to changes in presentation for the current year.

Going concern

The consolidated financial statements have been prepared on the going concern basis. The Group is profit making, generates cash inflows from operating activities, and is in a net asset and net current asset position. The Group has considerable financial resources, minimal liquidity risk and is operating within a sector that is experiencing relatively stable demand for its products.

The Group utilises secured lending facilities which require compliance with certain financial covenants. The Group has not breached any such financial covenants during the year or post year end, and had significant headroom within its requirements at year end as detailed in note 13. Under the terms of the secured bank facility, the Group also has the ability to draw a further £10m of funding, though currently it has no intention of drawing on this facility.

Alongside the factors noted above, the Directors have considered the Group's forecasts and budgets, including cash flow forecasts, together with a reasonably possible risk sensitivity analysis. The Directors are satisfied that the forecasts, alongside the Group's current and undrawn lending facilities, show that the Group will continue to be able to meet cash funding requirements as they fall due and operate for the foreseeable future.

Accordingly, after making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except for the revaluation of certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

1.2 Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company has the power over the investee, is exposed to, or has rights, to variable return from its involvement with the investee and has the ability to use its power to affect its returns. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. The investments in subsidiaries are held at cost.

1.3 Foreign currency

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the Company and the presentational currency for the consolidated financial statements.

notes continued

1 Accounting policies continued

1.3 Foreign currency continued

Transactions in foreign currencies are translated to the respective functional currencies of group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at the foreign exchange rates ruling at the dates the fair value was determined.

1.4 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, amounts due to/from the Group and related companies, loans and borrowings, and trade and other payables.

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

The Group initially recognises financial assets such as loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset.

The Group initially recognises financial liabilities such as payables and liabilities designated at fair value through profit or loss on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. Any interest in transferred financial liabilities that is created or retained by the Group is recognised as a separate liability.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Group takes into account the characteristics of the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payments within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

– Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
– Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
– Level 3: inputs for the asset or liability that are not based on observable market data.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses.

1 Accounting policies continued

1.4 Non-derivative financial instruments continued

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise deposits with banks and highly liquid financial assets subject to an insignificant risk of changes in their fair value and which are used by the Group in the management of short-term commitments.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Changes in expected cash flows due to changes in applicable interest rates will be accounted for through an adjustment of the carrying amount of the liability using the original effective interest rate.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Own shares

Own shares represent shares in the Company held by the Group employee benefit trust and are recorded at cost deducted from equity. When shares vest unconditionally or are cancelled, they are transferred from the own shares reserve to retained earnings at their weighted average cost. Other assets and liabilities of the employee benefit trust are consolidated within the assets of the Group.

1.5 Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to interest rate risk. Further details of derivative financial instruments are disclosed in note 18(d). Derivative financial instruments are recognised at fair value and classified as held for trading. Derivatives are initially recognised at fair value at the date a derivative contract is entered into, and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset, or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities. Any interest expense arising on derivative financial instruments is recognised separately from the fair value movement and is included in finance costs in the statement of comprehensive income.

1.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and accumulated impairment losses except for land and buildings which have been revalued to fair value. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any gain arising on the remeasurement of land and buildings is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve. The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation. Depreciation on revalued land and buildings is charged to the statement of comprehensive income.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

notes continued

1 Accounting policies continued

1.6 Property, plant and equipment continued

Property, plant and equipment in the course of construction are carried at cost, less any recognised impairment loss. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is provided on property, plant and equipment from the date they are brought into use, in equal instalments over their estimated useful lives. The lives assigned to property, plant and equipment are:

- Facilities (including property) 40 years
- Network assets 5 to 20 years
- Plant and machinery 4 to 10 years
- Computers, software and office equipment 3 to 10 years
- Motor vehicles 7 years

The estimated useful economic lives, residual value and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

No depreciation is provided on freehold land or assets in course of construction. Assets in the course of construction are carried at cost, less any recognised impairment loss. Depreciation of assets in the course of construction commences when the assets are ready for their intended use.

Where there is evidence of impairment, fixed assets are written down to recoverable amounts. Any such write-down is charged to operating profit as an impairment loss and separately disclosed if material.

Assets held under finance leases are depreciated over the shorter of their expected useful economic lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised within the statement of comprehensive income. When revalued assets are sold, the amounts included within the revaluation reserve are transferred to retained earnings.

1.7 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment by completing a goodwill assessment at the reporting date, or more frequently, when there is an indication that the unit may be impaired. An impairment loss recognised for goodwill is not reversed in a subsequent period. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

Other intangible assets

Software

Non-current assets which incorporate both tangible and intangible elements are assessed to determine whether they should be classed as an intangible asset or as property, plant and equipment. The treatment is determined by an assessment of which element is more significant.

Acquired software is capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over their estimated useful lives of three to five years. Amortisation is charged to cost of sales in the statement of comprehensive income on a straight-line basis.

Domain names

Domain names are not amortised but are assessed for impairment on an annual basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

1 Accounting policies continued

1.8 Inventories

Inventories mainly comprise items of equipment held for sale or rental and consumable items. They are stated at the lower of cost, including appropriate overheads, and estimated net realisable value. Where necessary, provisions are made for obsolete, slow-moving and defective inventories. Inventories are shown net of any provisions made. Cost is calculated using the first-in-first-out method.

1.9 Impairment excluding inventories

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and for intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating units', 'CGUs'). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs where appropriate.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.10 Employee benefits

Employee benefits – pension obligations

The Group operates two pension arrangements. The Manx Telecom Trading Limited Combined Pension Scheme is a defined benefit scheme and the Manx Telecom Employee Retirement Plan is a defined contribution plan.

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

notes continued

1 Accounting policies continued
1.10 Employee benefits continued
For the defined contribution plan, the Group pays fixed contributions to a privately administered pension plan on behalf of employees. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

A defined benefit scheme is a pension scheme that sets the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Remeasurements of the net defined benefit asset/liability comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled.

Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:
- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
- Net interest expense or income.
- Remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss in the line item 'Administrative expenses'. Curtailment gains and losses are accounted for as past service costs. Net interest expense or income is recognised within finance costs (see note 5).

The asset or liability recognised in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the period end date less the fair value of plan assets. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the scheme or reductions in future contributions to the scheme.

The assets of the schemes are held independently of the Group's finances.

Short-term benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payments
Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the equity instruments that will eventually vest. Fair value is measured using either a Black-Scholes or Monte Carlo method, whichever is most appropriate to the share-based payment arrangement.

At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions, and there is no true-up for differences between expected and actual outcomes.

1 Accounting policies continued

1.10 Employee benefits continued

Awards that lapse – or are forfeited – result in a credit to the income statement (reversing all previously recognised charges) in the year in which they lapse or are forfeited. SAYE share options granted to employees are treated as cancelled when employees cease to contribute to the scheme. This results in accelerated recognition of the expenses that would have arisen over the remainder of the original vesting period.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

1.11 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or by announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts which are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

1.12 Revenue

Revenue comprises the value of services provided, equipment sales and other revenue. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised on a gross basis where the Group's role is that of principal in a transaction. The gross basis represents the gross value of the billing to the customer after trade discounts, with any related costs being charged to operating expenses. Where the Group acts as agent in a transaction, the net revenue earned is recognised as revenue.

Revenue from telecommunications services provided to customers, which include Mobile, Fixed Line, Broadband and Data Services, as well as Global Solutions services, is recognised once the service is provided over the Group's network, regardless of whether the customer pays in advance or is billed in arrears. Prepayments made by customers are recorded in deferred income and recognised in revenue as and when usage occurs.

Inbound roaming revenue, earned from other mobile operators whose customers roam onto the Group's network, and outbound roaming revenue, earned from customers roaming outside their domestic coverage area, is recognised upon usage.

Subscription fees are recognised evenly throughout the periods to which they relate. Hardware revenue principally consists of revenue from the sale of wireless mobile devices. The revenue associated with the sale of wireless handsets and accessories is recognised when the products are delivered and accepted by the customer. The amount of revenue recognised is the value of the cash received from the sale.

In revenue arrangements including more than one deliverable, the arrangements are divided into separate units of accounting. Deliverables are considered separate units of accounting if the following two conditions are met: (1) the deliverable has value to the customer on a standalone basis; and (2) there is evidence of the fair value of the item. The arrangement consideration is allocated to each separate unit of accounting based on its relative fair value.

Revenue from Data Centre services, which include co-location, managed hosting, cloud and disaster recovery services, is recognised on a straight-line basis over the term of the contract. Power usage is recognised as the power is used by the customer. When services are required before related co-location services can be provided, these are recognised as they are provided.

Other revenue comprises managed services, equipment sales and revenue from the provision of mobile telecommunications software. All revenue is recognised when the goods and services have been provided and accepted by the customer. The value recognised for equipment sales is the value of the cash received from the sale. Managed service revenues are recognised in the period to which the services relate.

1.13 Expenses

Operating expenses

Operating expenses are recognised on an accruals basis.

notes continued

1 Accounting policies continued
1.13 Expenses continued
Operating lease payments
Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Finance lease payments
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessee. Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Financing income and expenses
Financing expenses comprise interest payable, loan repayment fee costs, finance charges on shares classified as liabilities, finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see note 1.3).

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use are capitalised as part of the cost of that asset. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Loan arrangement fees are capitalised and amortised over the loan term.

Finance income comprises interest receivable on funds invested, dividend income and net foreign exchange gains. Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.14 New currently effective requirements and forthcoming requirements
The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements.

	Amendments/improvements
IAS 7	Disclosure Initiative (Amendments to IAS 7)
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
IFRS 12	Annual Improvements to IFRSs 2014 – 2016 (Amendments to IFRS 12)

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

	Amendments/improvements	Effective date (applicable to annual periods beginning on or after stated date)
IFRS 2	Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRS 16	Leases	1 January 2019
IAS 28	Long-term interests in Associates and Joint Ventures (Amendments to IAS 28)	1 January 2019

1 Accounting policies continued

1.14 New currently effective requirements and forthcoming requirements continued

The Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future periods, with the exception of IFRS 15 and IFRS 16, of which the impacts have been outlined below.

1.14.1 Estimated impact of the adoption of IFRS 15 and IFRS 16

The Group is required to adopt IFRS 15 Revenue from Contracts with customers from 1 January 2018 and has elected to early adopt IFRS 16 Leases from 1 January 2018. The Group continues to refine its procedures in applying IFRS 15 and IFRS 16 and has not yet finalised the testing and assessment of controls over its new processes for collating the necessary data required. As a result of this ongoing work, it is possible that there may be some changes to the anticipated impact summarised below.

1.14.2 IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive framework for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation is satisfied i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Prescriptive guidance has been provided by IFRS 15 for specific scenarios and extensive disclosures are required.

The Group has performed a preliminary assessment of the impact of adoption of IFRS 15 on each of the revenue streams, affected cost areas and Statement of Financial Position and summarised the main impacts below. The Group's detailed assessment and testing over its new processes for collating the data required to account for revenue under IFRS 15 is ongoing, therefore it is possible that there could be differing impacts than summarised below.

i. Core Services

For Core Service revenues, based on its assessment to date, the Group has identified two main areas where the accounting treatment will change upon application of IFRS 15.

The main impact will be in relation to the provision of broadband routers within broadband service contracts. Under the current accounting policy, revenue recognised in relation to the provision of such assets is based on the corresponding customer charge when the asset is transferred to the customer. Generally, these assets are provided for free. Under IFRS 15, additional revenue will be allocated to all routers with reference to the asset's relative standalone value within the contract, regardless of contract pricing. As a result, on adoption of IFRS 15, there will be an acceleration of revenue for these items, with a corresponding reduction in ongoing service revenue over the contract period. The difference between the revenue and the customer charge will be recognised as a contract asset on the balance sheet.

For connection fee income associated with Fixed Line Services, Data Services and Broadband Services, the Group has preliminary assessed that such connection fees are not separate from the provision of the underlying service, accordingly, revenue will be recognised for this single performance obligation when control over the service is transferred to the customer.

The term in which connection fees are deferred over will differ from the current accounting treatment. Connection fee income is currently deferred over a period judged to equate to the average life of a customer. On application of IFRS 15, connection fee income will be deferred over the contract term, where there are enforceable rights and obligations held by the customer and the Group respectively.

notes continued

1 Accounting policies continued

1.14.2 IFRS 15 Revenue from Contracts with Customers continued

ii. Mobile

For Mobile revenues, based on its assessment to date, the Group expects the application of IFRS 15 to have a significant impact in this area.

The most significant impact is in relation to the provision of handsets or other related hardware items within post pay contracts. Under the current accounting policy, revenue recognised in relation to the provision of such assets is based on the corresponding customer charge when the asset is transferred to the customer. Generally, these assets are either provided for free or for a small upfront charge. Under IFRS 15, additional revenue will be allocated to all handsets and related hardware items with reference to the asset's relative standalone value within the contract, regardless of contract pricing. As a result, on adoption of IFRS 15, there will be an acceleration of revenue for these items, with a corresponding reduction in ongoing service revenue over the contract period. The difference between the revenue and the customer charge will be recognised as a contract asset on the balance sheet.

iii. Global Solutions

For revenues arising from the Global Solutions revenue stream, based on its assessment to date the Group expects there to be no significant impact on application of IFRS 15.

The Directors have considered the entity's contracts in the context of the new guidance within IFRS 15 specifically around principal versus agent considerations. It is concluded that in these arrangements the entity is principal which is consistent with the current accounting treatment.

iv. Data Centre

For Data Centre revenues, based on its assessment to date, the Group expects there to be no significant impact on application of IFRS 15.

The main area to be impacted is within managed service contracts which contain provision of hardware. For these contracts it is considered that the hardware does not constitute a separate performance obligation and therefore the associated revenue should be recognised over the contract term.

v. Other Revenues

For revenues included within the Other Revenue stream, based on its assessment to date, the Group does not expect there to be a significant impact on the Group's financial statements on application of IFRS 15.

The main consideration for this revenue stream is around the provision of hardware to customers. Such contracts will be reviewed on a contract by contract basis to consider the guidance offered by IFRS 15 in relation to principal versus agent. It is expected that there will be a change in accounting for some contracts where the current accounting policy would be to recognise the sale and associated cost on a gross basis with the entity as principal in the arrangement. Application of IFRS 15 may result in the entity being recognised as agent in the arrangement with the net revenue recognised in the Group's financial statements.

vi. Commission expenses

Under the Group's current accounting policy, sales commission costs directly related with obtaining a contract are expensed when incurred. However, IFRS 15 requires the recognition of an asset for those costs that are incremental to obtain a contract and to be subsequently amortised over the associated contract term.

vii. Transition

IFRS 15 allows for two transition methods, either the full retrospective method or the modified retrospective method with the cumulative effect from initial application recognised as an adjustment to the opening balance of retained earnings at the date of initial application. The Directors intend to use the modified retrospective method of transition to IFRS 15.

The process of implementing the new requirements involves changes within the Group's current accounting processes and systems. The above disclosure of expected changes in accounting policies are based on assessments undertaken to date and are subject to change until the Group presents its first financial statements under IFRS 15 as the Group finalises its detailed assessment and refines its processes and controls.

1 Accounting policies continued

1.14.3 IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 replaces existing leases guidance, including IAS 17 and the related interpretations when it becomes effective.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. The Group has elected to early adopt the standard being effective from reporting periods beginning on or after 1 January 2018.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments are split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Extensive disclosures are required by IFRS 16.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. It is anticipated that there will be a significant impact on the accounts recognised in the Group's financial statements. The Group will recognise new assets and liabilities for its site sharing arrangements, car parking sub-leases and shop premises. As at 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amounted to £3,146,000 (2016: £3,247,000) on an undiscounted basis (see note 19).

In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The Group does not expect the adoption of IFRS 16 to impact its ability to comply with the revised maximum leverage threshold loan covenant described in Note 13.

As a lessee, the Group can either apply the standard using a:
– retrospective approach; or
– modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Group plans to apply IFRS 16 initially on 1 January 2018, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2018, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

The Group is continuing its analysis of the expected impacts of the transition to IFRS 16.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these Standards until a detailed review has been completed.

notes continued

1 Accounting policies continued

1.15 Government grants

Government grants are recognised where there is a reasonable assurance that the grant will be received and all attached conditions complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, it is recognised as a reduction in the carrying amount of the asset. The grant is then recognised as income over the useful life of a depreciable asset by way of a reduced depreciation charge.

1.16 Subscriber acquisition costs

Subscriber acquisition costs, which include the commission costs associated with acquiring new subscribers and other incremental costs of customer acquisition, are charged to the statement of comprehensive income as incurred.

1.17 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Management consider the key estimates and judgements used in the preparation of these financial statements to be:

- Pension scheme assumptions used in the actuarial valuation prepared by independent actuaries Towers Watson for the financial year ended 31 December 2017 (and 31 December 2016). During 2011, the Isle of Man Government confirmed the use of CPI as the base index for pension scheme increases where the scheme provisions make direct reference to UK (as opposed to Isle of Man) statutory pension increase provisions. After taking legal advice, the trustees made the decision to reference CPI for pension increases in deferment for all sections, reference CPI for A/B section pension increases and reference RPI for section C pension increases. The Group's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, the quality of the bonds, and the identification of outliers which are excluded.
- Recoverability of receivables (for further details on credit risk related to trade receivables see note 18(b), for details of provisions in respect of doubtful debts see note 11).
- Useful lives for property, plant and equipment. Property, plant and equipment represents 32% (2016: 32%) of the Group's total assets; estimates and assumptions made regarding their useful economic lives may have a material impact on their carrying value and related depreciation charge. The depreciation charge for an asset is derived using estimates of its useful economic life and expected residual value, which are reviewed annually and changed when necessary to reflect current thinking on the remaining lives in light of technological change, network investment plans and the condition of the assets concerned.
- Impairment of goodwill arising on acquisition of Manx Telecom Trading Limited. The Group has only one cash-generating unit to which goodwill has been allocated, the investment in Manx Telecom Trading Limited. The recoverable amount of the investment in Manx Telecom Trading Limited has been determined based on an estimate of the fair value of Manx Telecom Trading Limited less costs of disposal. The key assumptions and estimates used in performing the annual impairment review are disclosed in note 3.
- Fair value measurements and valuation processes. Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or liability the Group uses market observable data to the extent it is available. Where level 1 inputs are not available, the Group engages third party valuers to perform the valuation. Further information about the fair value assumptions are included in the following notes:
  - Note 7 – Property, plant and equipment.
  - Note 18 – Financial instruments (derivative financial instruments).
  - Note 23 – Share-based payments.

1 Accounting policies continued

1.18 Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately.

Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

2 Operating segments

The Group has five reportable revenue segments which management report on and base their strategic decisions on:

	Group 2017 £'000	Group 2016 £'000
Fixed Line, Broadband and Data	**31,476**	31,633
Mobile	**19,878**	20,155
Global Solutions	**16,533**	15,565
Data Centre	**4,748**	5,862
Other	**5,856**	7,608
	78,491	80,823

The segmental analysis shows revenue classified according to market source. However, the Group is not structured on a divisional basis, and has functional departments, processes, assets and obligations which serve each of these revenue streams. These are not allocated in the financial reports received by the Board, and its decisions are not routinely based on any such identification. Consequently, the analysis shown above does not extend to any segmentation of profits and net assets.

The products and services included within each of the five segments are as follows:

Fixed Line, Broadband and Data includes revenues from ADSL and VDSL rental and connection charges, fixed line call charges, fixed line rental and connection charges, and private circuit rental and connection charges.

Mobile includes revenues from mobile calls, SMS and data charges, mobile rental charges, mobile handset and accessory sales, and roaming.

Global Solutions includes revenues from mobile termination, products such as Chameleon, strongest signal mobile, and M2M (machine to machine).

Data Centre includes revenues from hosting services provided.

Other includes kit sales, directory revenues, managed service rental charges and revenue from the provision of telecommunications software.

notes continued

3 Goodwill – Group

Cost	£'000
Balance at 1 January 2016	84,277
Additions during the year	3,634
Balance at 31 December 2016	**87,911**
Balance at 31 December 2017	**87,911**

Carrying amount	
As at 31 December 2017	**87,911**
As at 31 December 2016	87,911

On 29 June 2010, the Group acquired all of the ordinary shares in Manx Telecom Trading Limited for £133,800,000 satisfied in cash, giving rise to goodwill of £84,277,000.

On 1 December 2016, the Group acquired all of the ordinary shares in Partitionware Limited for £4,007,000 satisfied in cash, giving rise to goodwill of £3,634,000.

Goodwill is deemed to have an indefinite life and so is not subject to amortisation. An impairment review was undertaken as at the reporting date to determine whether any impairment has occurred. Upon review, the Board deemed that no impairment was necessary (2016: nil).

Goodwill is considered to be impaired if the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is considered to be the higher of its fair value less costs of disposal and its value in use. The Group has performed its impairment review based on an assessment of the fair value less costs of disposal.

The key assumptions for the value in use calculations are those regarding the discount rate, growth rates and expected changes to selling prices and direct costs in the period.

The discount rate used reflects current market assessments of the time value of money. The growth rate used reflects an assessment of the long term growth prospects of the market the CGU's operate in.

There is significant headroom in the Manx Telecom Trading Limited and Partitionware Limited. It is the Directors view that in the next financial year no reasonably possible changes in the key assumptions would cause the carrying amounts to exceed the recoverable amount.

Manx Telecom Trading Limited
The CGU to which goodwill has been allocated is the operations of Manx Telecom Trading Limited in its entirety due to the structure of the Company, which operates as one telecommunications business.

In 2017, the fair value less costs of disposal of Manx Telecom Trading Limited has been determined on a market approach by reference to the enterprise value of Manx Telecom plc, excluding the Fair Value less costs of disposal of Partitionware Limited (see below). The enterprise value of Manx Telecom plc is based on the market capitalisation of Manx Telecom plc as at 31 December 2017 (using the year end share price and shares in issue) plus debt. The enterprise value of Manx Telecom plc, adjusted for Partitionware Limited, is considered to provide a value comparable to that of Manx Telecom Trading Limited as, excluding Partitionware Limited, all the revenue-generating operations of the Group are contained within Manx Telecom Trading Limited. Using this methodology, fair value less costs to sell were considered to be higher than the total asset value, therefore no impairment was required. Management also performed an assessment of the fair value determined based on an income approach, using cash flows projected over a 20-year period, a growth rate of 1% per annum and an 7% discount rate. This approach also indicated that there was no impairment of goodwill. In 2016, the impairment review took the same approach, which also indicated that there was no impairment of goodwill.

Partitionware Limited
The CGU to which goodwill has been allocated is the operations of Partitionware Limited in its entirety due to the structure of the Company, which operates as one telecommunications solutions business. The fair value less costs of disposal of Partitionware Limited has been determined on an income approach using cash flows projected over a 20-year period, a growth rate of 1% per annum and an 7% discount rate. Using this methodology, fair value less costs to sell were considered to be higher than the total asset value, therefore no impairment was required. In 2016, the impairment review took the same approach, which also indicated that there was no impairment of goodwill.

4 Operating profit

The operating profit is stated after charging the following:

	2017 £'000	2016 £'000
Staff costs	**15,330**	15,675
Depreciation of property, plant and equipment – owned assets	**9,438**	8,934
Amortisation of software licences – intangibles	**256**	208
Impairment of property, plant and equipment	**102**	464
Net operating lease rentals payable – property	**289**	233
Acquisition costs	**30**	161
Transformation Programme	**3,863**	4,335
Trade receivables impairment	**81**	130
Audit services – statutory audit	**145**	129
– non-audit service fees	**89**	14

5 Finance income and expense

Recognised in profit or loss

	2017 £'000	2016 £'000
Finance income		
Other interest receivable	**10**	72
	10	72
Finance costs		
Interest on borrowings	**(1,986)**	(2,044)
Finance lease interest	**(6)**	(6)
Net interest on pension liabilities	**(100)**	–
Amortisation of loan transaction costs	**(290)**	(292)
	(2,382)	(2,342)
Net total finance expense	**(2,372)**	(2,270)

6 Taxation

The Company's profits are charged at the Isle of Man standard rate of 0% for 2017 (2016: 0%). Therefore, no provision has been made for taxation for 2017 (2016: £nil). Whilst the Group is required to apply Isle of Man Retail Tax to Isle of Man retail activity, profits from this revenue stream are not substantial enough to meet the taxable threshold.

notes continued

7 Property, plant and equipment – Group

	Land and buildings £'000	Plant and equipment £'000	Under construction £'000	Total £'000
Cost or valuation				
Balance at 1 January 2016	38,167	90,992	6,202	135,361
Additions	–	16	5,940	5,956
Transfer	933	8,947	(9,880)	–
Disposals	(170)	(38)	–	(208)
Acquisition of subsidiary	–	218	–	218
Impairment	(750)	(984)	–	(1,734)
Revaluation	(5,551)	–	–	(5,551)
Balance at 31 December 2016	32,629	99,151	2,262	134,042
Balance at 1 January 2017	**32,629**	**99,151**	**2,262**	**134,042**
Additions	**–**	**–**	**8,504**	**8,504**
Transfer	**41**	**3,414**	**(3,455)**	**–**
Disposals	**–**	**(69)**	**–**	**(69)**
Acquisition of subsidiary	**–**	**2**	**–**	**2**
Impairment	**(19)**	**(260)**	**–**	**(279)**
Balance at 31 December 2017	**32,651**	**102,238**	**7,311**	**142,200**
Depreciation and impairment				
Balance at 1 January 2016	10,888	60,505	–	71,393
Depreciation charge for the year	1,708	7,226	–	8,934
Disposals	(28)	(39)	–	(67)
Acquisition of subsidiary	–	160	–	160
Impairment	(597)	(673)	–	(1,270)
Eliminated on revaluation	(5,436)	–	–	(5,436)
Balance at 31 December 2016	6,535	67,179	–	73,714
Balance at 1 January 2017	**6,535**	**67,179**	**–**	**73,714**
Depreciation charge for the year	**1,381**	**8,057**	**–**	**9,438**
Disposals	**–**	**(69)**	**–**	**(69)**
Impairment	**(16)**	**(161)**	**–**	**(177)**
Balance at 31 December 2017	**7,900**	**75,006**	**–**	**82,906**
Net book value at 31 December 2017	**24,751**	**27,232**	**7,311**	**59,294**
Net book value at 31 December 2016	26,094	31,972	2,262	60,328

The Group's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation. A formal independent valuation of the four main properties and various telephone exchange sites owned by the Group was undertaken in 2016 by Black Grace Cowley, independent valuers not related to the Group. Black Grace Cowley are RICS Registered Valuers and have appropriate qualifications and recent experience in the fair value measurement of properties in the Isle of Man. Their valuation conforms to RICS Valuation – Professional Standards (January 2014, revised April 2015) including UKVS1, Valuation of Real Property, Plant and Equipment for Financial Statements and International Financial Reporting Standards. The fair value of the freehold land and buildings was determined based on the market comparable approach that reflects recent transaction prices for similar properties. Changes in these market conditions could have a corresponding impact on the fair value of the properties held.

7 Property, plant and equipment – Group continued

As at the end of the reporting period, the Group performed an assessment of the estimated fair value of land and buildings, using the valuation techniques described above, which estimated that the fair value did not materially differ from the carrying value and, as such, a revaluation of the land and buildings was not required. There has been no change to the valuation techniques used during the year. A full, independent third party valuation was not undertaken as at 31 December 2017 following the fair value estimates made by the Group.

The carrying value of land and buildings held by the Group under the revaluation model is the same as if it were held under the historical cost model.

In 2017, following continued investment in the Group's mobile network and equipment and platforms used to support Data Centre services, the Group made impairments of certain property, plant and equipment no longer in use with a net book value of £102,000 (2016: £464,000).

In 2017, the Group made a net profit on disposal of certain fixed assets of £100,000 (2016: £36,000).

The accounting policies set out in note 1.6 are applicable to assets under construction, and the capital commitments in respect of assets under construction are detailed in note 22.

Fair value hierarchy

The table below analyses land and buildings carried at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable (as described in the accounting policy in note 1.4).

31 December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Land and buildings	–	–	**24,751**	**24,751**

31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Land and buildings	–	–	26,094	26,094

There were no transfers between levels during the current or prior years.

8 Intangible assets – Group

	Domain names £'000	Computer software £'000	Total £'000
Cost			
Balance at 1 January 2016	109	1,636	1,745
Additions	–	725	725
Balance at 31 December 2016	109	2,361	2,470
Balance at 1 January 2017	**109**	**2,361**	**2,470**
Additions	–	116	116
Acquisition of subsidiary	–	1	1
Balance at 31 December 2017	**109**	**2,478**	**2,587**
Amortisation and impairment			
Balance at 1 January 2016	–	(1,381)	(1,381)
Amortisation for the year	–	(208)	(208)
Balance at 31 December 2016	–	(1,589)	(1,589)
Balance at 1 January 2017	**–**	**(1,589)**	**(1,589)**
Amortisation for the year	–	(256)	(256)
Balance at 31 December 2017	**–**	**(1,845)**	**(1,845)**
Net book value at 31 December 2017	**109**	**633**	**742**
Net book value at 31 December 2016	109	772	881

notes continued

8 Intangible assets – Group continued

The domain names were acquired on 1 March 2012. The Directors have considered the carrying value of the assets at 31 December 2017 and, in their opinion, there are no indicators of impairment as the revenue base is maintained.

9 Investments in subsidiaries – Company

The Company has the following investments in its subsidiaries:

Company	Holding	Principal activity	Country of incorporation and operation	Class of shares held	Ownership 2017	Ownership 2016
Trafford Shareholder Debtco Limited	Direct	Holding Company	Isle of Man	Ordinary	**100%**	100%
Trafford Midco Limited	Indirect	Holding Company	Isle of Man	Ordinary	**100%**	100%
Manx Telecom Holdings Limited	Indirect	Holding Company	Isle of Man	Ordinary	**100%**	100%
Manx Telecom Trading Limited	Indirect	Telecommunications provider	Isle of Man	Ordinary	**100%**	100%
Vannin Ventures limited	Indirect	Holding Company	Isle of Man	Ordinary	**100%**	100%
Partitionware Limited	Indirect	Telecommunications provider	Isle of Man	Ordinary	**100%**	100%
Goshawk Communications Limited	Indirect	Holding Company	Isle of Man	Ordinary	**67%**	0%
Goshawk Communications (UK) Limited	Indirect	Telecommunications solutions provider	UK	Ordinary	**67%**	0%
VV Mobile	Indirect	Telecommunications solutions provider	Isle of Man	Ordinary	**100%**	0%

During the current year, the investment by the Company in Trafford Shareholder Debtco Limited increased by £303,000 (2016: £889,000) due to capital contributions made in respect of share-based payments to be settled in the equity instruments of the Company for services received by Manx Telecom Trading Limited, which resulted in capital contributions being made to subsidiaries throughout the Group structure.

On 5 May 2017, the Group's subsidiary, Goshawk Communications Limited, a company incorporated in the Isle of Man, acquired 100% of the issued share capital of Goshawk Communications (UK) Limited ("Goshawk") in exchange for 33% of the issued share capital of Goshawk Communications Limited. As a result of the share for share exchange, the Group has a 67% shareholding in Goshawk Communications Limited, which in turn owns 100% of Goshawk (see note 26 for further information).

10 Inventories – Group

	Group 2017 £'000	Group 2016 £'000
Raw materials and consumables	**87**	80
Work in progress	**113**	97
Finished goods	**678**	728
	878	905

11 Trade and other receivables – Group

	Group 2017 £'000	Group 2016 £'000
Amounts falling due within one year:		
Trade receivables	**9,685**	8,917
Less provisions for impairment of receivables	**(489)**	(633)
Trade receivable – net	**9,196**	8,284
Other receivables	**13,993**	10,804
Prepayments	**2,169**	1,224
Accrued income	**3,168**	2,918
	28,526	23,230

Other receivables include roaming discounts receivable. These balances are due from large international operators and therefore related recoverability risk is considered to be low.

11 Trade and other receivables – Group continued

An analysis of the ageing of overdue trade receivables is disclosed in note 18(b). The movement in the trade receivables provision for doubtful debts during the year is as follows:

	£'000
Doubtful debt provision at 1 January 2016	**915**
Additions	–
Reductions/amount paid	(282)
Doubtful debt provision at 31 December 2016	**633**
Additions	–
Reductions/amount paid	(144)
Doubtful debt provision at 31 December 2017	**489**

Additions and reductions in the provision are recognised in administration costs within the Statement of Comprehensive Income.

12 Cash and cash equivalents – Group

	Group 2017 £'000	Group 2016 £'000
Bank balances	**11,741**	6,293
Call deposits	**600**	10,381
Cash and cash equivalents	**12,341**	16,674

13 Interest-bearing borrowings – Group

This note provides information about the contractual terms of the Group's interest-bearing bank loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and liquidity risk, see note 18.

	Group 2017 £'000	Group 2016 £'000
Non-current liabilities		
Finance lease liability	**14**	53
Secured bank loans	**69,274**	68,983
	69,288	69,036
Current liabilities		
Current portion of secured bank loans	**–**	–
	–	–

Terms and debt repayment schedule

	Currency	Nominal interest rate %	Date of maturity	Carrying amount 2017 £'000	Carrying amount 2016 £'000
Finance lease	GBP	2.92	31 July 2018	**14**	53
Revolving credit facility	GBP	1.50-3.00	30 June 2020	**70,000**	70,000
Unamortised finance costs	GBP			**(726)**	(1,017)
				69,288	69,036

In connection with the Admission on 10 February 2014, Manx Telecom Holdings Limited and Manx Telecom Trading Limited entered into an £80m revolving credit facility agreement on 3 February 2014 with Barclays Bank plc, Lloyds Bank plc and The Royal Bank of Scotland plc as arrangers and Lloyds Bank plc as agent and security agent ('the Facility Agreement').

notes continued

13 Interest-bearing borrowings – Group continued

The proceeds of the first drawdown under the Facility Agreement of £70m were used to (among other things) refinance the indebtedness existing at 31 December 2013 and to pay fees, costs and expenses in relation to the Admission process and the debt refinancing. Additional amounts may be drawn under the Facility Agreement for general corporate purposes and/or working capital purposes and the payment of fees, costs and expenses.

The loan is secured by way of a debenture in favour of the security agent providing a fixed and floating charge over certain of the Group's assets, including the shares of Manx Telecom Holdings Limited and Manx Telecom Trading Limited and the property, plant and equipment of the Group.

On 30 June 2015, the Group extended the term of the revolving credit facility agreement by a further two years, from 30 June 2018 to 30 June 2020. In connection with the modification to the lending arrangements, the Group also negotiated a reduction in the applicable margin range, based on the ratio of total net debt to adjusted EBITDA, from 2.0% p.a. to 3.5% p.a., to 1.5% p.a. to 3% p.a. As at 31 December 2016 and 31 December 2017, the margin applicable to the interest rate on the facility was 1.5%. The amended terms of the lending arrangement were not considered to be substantially different from the original terms, and, as such the Group did not treat the modification as an extinguishment of the original financial liability and the recognition of a new liability, in line with its accounting policy (see note 1.4).

On 28 December 2017, Lloyds Bank plc, as arranger, novated its portion of the loan to DNB Bank ASA whilst remaining agent and security agent.

Transaction costs incurred as part of the debt financing are amortised over the period of the loan. Transaction costs of £1,475,000 were capitalised in 2014 and will be amortised over the loan period (as amended from 30 June 2015). Transaction costs incurred due to amendment to the facility in 2015 of £438,000 were capitalised in 2015, and these expenses, together with the remaining unamortised element of the initial capitalised expenses, will be amortised over the amended loan term.

To mitigate the Group's exposure to interest rate risk, the Group has entered into interest swap agreements. See note 18(d) for further details of the interest swap agreements.

Amounts drawn under the Facility Agreement are to be repaid on the last day of each applicable interest period unless the relevant borrower elects otherwise, and amounts repaid will (subject to certain drawdown conditions) remain available for redrawing unless cancelled. The Facility Agreement will terminate, and all amounts outstanding must be repaid, on 30 June 2020.

The Facility Agreement also provides for the payment of a commitment fee, agency fee and arrangement fee, and contains certain undertakings, guarantees and covenants (including financial covenants) and provides for certain events of default. During both the current and prior periods, the Group has not breached any financial covenants contained within the Facility Agreement.

14 Trade and other payables – Group

	Group 2017 £'000	Group 2016 £'000
Current		
Trade payables	**8,184**	6,273
Other taxation and social security	**1,458**	1,597
Other payables	**1,328**	1,571
Accrued expenses	**17,677**	15,182
Deferred income	**1,447**	2,161
	30,094	26,784

	1 January 2017 £'000	Cashflow £'000	Repayment obligations under finance leases £'000	Unammortised finance cost £'000	31 December 2017 £'000
Reconciliation of Net Debt					
Cash and equivalent	(16,674)	4,333	–	–	(12,341)
Finance leases	53	–	(39)	–	14
Secured bank loans	68,983	–	–	291	69,274
Net debt	**52,362**	**4,333**	**(39)**	**291**	**56,947**

15 Provisions – Group

	Restructuring provision £'000	Total £'000
At 1 January 2017	**3,840**	–
Additional provision in the year	**560**	3,840
Utilisation of provision	**(3,840)**	–
At 31 December 2017	**560**	3,840

During 2016, the Group committed to a plan to restructure the business as part of the Transformation Programme. The restructuring provision relates to employee termination benefits, consulting fees and other costs of the Transformation Programme. Estimated costs were based on the terms of relevant contracts. As at 31 December 2017, 99% of affected employees had left the Group's employment.

16 Retirement benefit obligations – Group

The Group operates two pension schemes. The Manx Telecom Limited Combined Pension Scheme is a defined benefit scheme that is closed to new entrants, and the Manx Telecom Employee Retirement Plan is a defined contribution plan.

Defined benefit plan

The Manx Telecom Limited Combined Pension Scheme ('the Scheme') provides benefits based on final pensionable salary. The assets of the Scheme are managed by independent Trustees and are held separately from those of the Group with managed portfolios with Legal and General and Invesco. The Scheme also utilises cash deposits.

The Isle of Man does not have minimum funding requirements. The only requirement is for a Schedule of Contributions, agreed between the Company and the Trustees, to be put in place after each actuarial valuation that is deemed by the Actuary to be sufficient to cover any shortfall revealed by the triennial actuarial valuation.

The contributions relating to the Scheme have been assessed in accordance with the advice of independent qualified actuaries, and are funded by the Group. Independent actuarial valuations are carried out on a triennial basis by Towers Watson (formerly Watson Wyatt LLP), Actuaries and Consultants. The last such full valuation was carried out at 31 March 2016 and, in accordance with IAS 19, the defined benefit liabilities were measured using the 'projected unit method'.

The Group paid contributions of £600,000 (2016: £1,203,000) with employee contributions of £nil (2016: £nil) to the Manx Telecom Combined Pension Scheme for the financial year ended 31 December 2017.

With effect from 1 October 2009 the Scheme changed to a career average revalued earnings basis for benefits earned from that date. Members had the option of choosing between a normal retirement age of 62 with an 8% employee contribution rate, or a normal retirement age of 65 with a 6% employee contribution rate. No changes were made to benefits earned before 1 October 2009. The Scheme was closed to new entrants in 2002.

On 31 August 2014, the Manx Telecom Combined Pension Scheme closed to future accrual. Under the terms of the plan amendment to close the Scheme to future accrual, participants in the Scheme were provided with a choice of three options regarding transition to the Manx Telecom Employee Retirement Plan.

The actuarial valuation of the Manx Telecom Limited Combined Pension Scheme as at 31 March 2016 has been updated to 31 December 2017. Scheme assets are stated at fair value.

notes continued

16 Retirement benefit obligations – Group continued

The main assumptions adopted for the Scheme under IAS 19 (per annum) are as follows:

	2017 %	2016 %
Nominal rate of increase for in-payment benefits	**2.25-3.00**	2.35-3.05
Nominal rate of increase for deferred benefits	**2.25**	2.35
Average longevity of a member at age 60 now (years) – males	**27.4**	27.3
Average longevity of a member at age 60 now (years) – females	**29.6**	29.4
Average longevity of a member at age 60 in 20 years – males	**29.7**	29.6
Average longevity of a member at age 60 in 20 years – females	**32.0**	31.9
Discount rate	**2.40**	2.55
Retail Price Index ('RPI')	**3.25**	3.35
Consumer Price Index ('CPI')	**2.25**	2.35
Rate of salary increase	**N/A**	N/A

During 2011, the Isle of Man Government confirmed the use of CPI as the base index for pension scheme increases where the scheme provisions make direct reference to UK (as opposed to Isle of Man) statutory pension increase provisions. After taking legal advice, the trustees made the decision to reference CPI for pension increases in deferment for all sections, reference CPI for A/B section pension increases, and reference RPI for section C pension increases.

The risks associated with the actuarial assumptions include longevity, inflation, interest rate and market (investment) risks. The Scheme is not exposed to any unusual, entity or scheme-specific risks.

Each year, the trustees of the Scheme review the strategic investment policies of the Scheme in terms of the risk and return profiles. The main strategic choices that are formulated are the asset mix. The Scheme does not utilise annuities or swaps to manage risk in relation to asset liability matching.

The Scheme holds a large proportion of equities which are expected to outperform bonds in the long term but give exposure to volatility and risk in the short term. The Trustees are responsible for investment strategy, and a reasonable proportion of equity investment is justified, given the time horizon of the Scheme and in order to provide a reasonable long-term return. If equity investments were to fall by 20%, the fair value of the Scheme's assets would reduce by approximately £4,600,000 which would result in a net defined benefit liability of £8,400,000.

However, a fall in equity prices would be associated with a fall in the value of corporate bonds and a rise in corporate bond yields. The former would lead to a further reduction in Scheme assets, around £9,100,000 of which were invested in corporate bonds at 31 December 2017. However, the increase in corporate bond yields, which are used to determine the value of the defined benefit obligation, would lead to a reduction in liabilities, which would partially or wholly offset the impact of the fall in asset values on the reported pension liability.

16 Retirement benefit obligations – Group continued

Sensitivity analysis on significant actuarial assumptions

The table below illustrates the impact on the financial statements that certain changes in the actuarial assumptions would have.

31 December 2017	Mortality –1 year £'000	Discount rate +1% £'000	Inflation (including CPI and salary) +0.5% £'000	Real salary escalation +0.25% £'000	CPI inflation only +0.25% £'000
Balance sheet deficit	**+3,600**	**–18,200**	**+9,100**	**N/A**	**+3,100**
Net benefit expense	**+100**	**–600**	**+200**	**N/A**	**+100**
Service cost	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Net interest cost	**+100**	**–600**	**+200**	**N/A**	**+100**

31 December 2016	Mortality –1 year £'000	Discount rate +1% £'000	Inflation (including CPI and salary) +0.5% £'000	Real salary escalation +0.25% £'000	CPI inflation only +0.25% £'000
Balance sheet deficit	+3,600	–18,100	+9,300	N/A	+3,100
Net benefit expense	+100	–600	+200	N/A	+100
Service cost	N/A	N/A	N/A	N/A	N/A
Net interest cost	+100	–600	+200	N/A	+100

Changes are marked 'N/A' above as there would be no financial impact if the salary escalation assumption is varied, given the Scheme is closed to future accrual. Similarly, there would also be no financial impact on the service cost.

In presenting the sensitivity analysis above, the present value of the defined benefit obligation has been calculated using the projected unit method, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position. The sensitivity analysis was conducted by altering and measuring the impact each assumption had on the level of expected future cash flows and discounting back to the valuation data.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years with the exception of the mortality assumption, which is updated to reflect the latest available published tables and future projections to mortality. The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation, as it is unlikely that the change in assumptions would occur in isolation of one another, as some of the assumptions may be correlated. Extrapolation beyond the sensitivity figures shown may not be appropriate.

notes continued

16 Retirement benefit obligations – Group continued

The amounts recognised in the statement of comprehensive income in respect of defined benefit obligation for the year ended 31 December 2017 are as follows:

	2017 £'000	2016 £'000
Analysis of the amount debited to profit or loss:		
Net interest cost	**100**	–
Total debited in profit before tax	**100**	–

Analysis of the amount recognised in other comprehensive income:

	2017 £'000	2016 £'000
Actuarial (gain)/loss due to liability experience	**–**	(1,700)
Actuarial loss due to liability assumption changes	**1,500**	23,200
Actuarial loss arising during the period	**1,500**	21,500
Return on scheme assets (greater)/less than discount rate	**(2,600)**	(14,500)
Remeasurement effects recognised in other comprehensive income	**(1,100)**	7,000

The pension assets and liabilities recognised in the statement of financial position are as follows:

	2017 £'000	% of total fair value of scheme assets 31 Dec 2017 %	2016 £'000	% of total fair value of scheme assets 31 Dec 2016 %
Fair value of assets:				
– Equity instrument funds	**44,700**	**37.5**	34,100	37.5
– Debt instrument funds	**46,400**	**62.4**	56,700	62.4
– Cash and cash equivalents	**1,005**	**0.1**	100	0.1
Fair value of assets	**92,105**		90,900	
Present value of defined benefit obligations	**(95,900)**		(96,300)	
Net (liability)/asset recognised in the balance sheet	**(3,795)**		(5,400)	
Deferred tax assets	**–**		–	
Net pension (deficit)/surplus	**(3,795)**		(5,400)	

On 3 July 2017, £18,343,000 of investments were transferred from Legal and General to Invesco Perpetual. Therefore, as at 31 December 2017, assets of the scheme are held within managed portfolios with Legal & General and Invesco Perpetual and are therefore indirectly invested in assets in quoted markets with active prices. The assets held directly with Invesco Perpetual and Legal & General are invested in funds for which regular quoted prices are readily available and for which transactions regularly occur and are therefore classified as level 1 instruments in the fair value hierarchy (see note 1.4 for further information on the fair value hierarchy).

Analysis of the movement in the statement of financial position

Movements in the present value of defined benefit obligations in the current period were as follows:

	2017 £'000	2016 £'000
At start of year	**96,300**	74,700
Interest cost	**2,400**	2,800
Actuarial (gain)/loss due to liability experience	**–**	(1,700)
Actuarial loss due to liability financial assumption changes	**1,500**	24,100
Actuarial (gain)/loss due to liability demographic assumption changes	**–**	(900)
Benefits paid from scheme assets	**(4,300)**	(2,700)
At end of year	**95,900**	96,300

16 Retirement benefit obligations – Group continued

Movements in the fair value of scheme assets in the current and preceding year were as follows:

	2017 £'000	2016 £'000
At start of year	**90,900**	75,100
Interest income on scheme assets	**2,300**	2,800
Return on scheme assets greater/(less) than discount rate	**2,600**	14,500
Contributions from the employer	**600**	1,200
Benefits paid	**(4,295)**	(2,700)
At end of year	**92,105**	90,900

The defined benefit scheme's impact on the Group's future cash flows is affected by:

- Funding policy and arrangements – the Isle of Man does not have minimum funding requirements. A Schedule of Contributions is agreed between the Group and the Trustees and put in place following each successive actuarial valuation that is deemed by the actuary to be sufficient to cover any shortfall revealed by the triennial valuation.
- Contributions to the Scheme for the next annual reporting period – expected employer contributions for the year ended 31 December 2017 are £600,000, and expected benefit payments from Scheme assets are £2,200,000.
- Timing of benefit payments and duration of the defined benefit obligation – the weighted average duration of the defined benefit obligation is 22.0 years (2016: 22.0 years), and benefit payments are expected as set out in the below maturity profile.

Expected benefit payments during annual reporting period ended:	£'000
31 December 2018	2,200
31 December 2019	2,200
31 December 2020	2,200
31 December 2021	2,400
31 December 2022 through 31 December 2026	15,100

Defined contribution plan

The Manx Telecom Employee Retirement Plan is a defined contribution pension scheme which operates for employees who commenced employment after 1 July 2002. The assets of the Scheme are held separately from those of the Group in an Aviva administered pension plan. The total cost charged to the statement of comprehensive income for this plan during the period ended 31 December 2017 was £1,029,000 (year ended 31 December 2016: £1,170,000).

17 Capital – Company

Share capital

The Company's shares were admitted for trading on 10 February 2014. The table below sets out the amounts recorded in equity in respect of existing and newly issued shares.

	Number of shares in issue (thousands)	Ordinary share capital £'000	Share premium £'000	Total £'000
Opening balance as at 1 January 2016	112,964	226	84,347	84,573
Shares issued on exercise of SAYE scheme options	13	–	19	19
At 31 December 2016	**112,977**	**226**	**84,366**	**84,592**
Opening balance as at 1 January 2017	112,977	226	84,366	84,592
Reclassification of share premium as retained earnings	–	–	(84,366)	(84,366)
Shares issued on exercise of SAYE share options (note 23)	943	2	1,265	1,267
Shares issued on exercise of CIP scheme options	849	2	–	2
At 31 December 2017	**114,769**	**230**	**1,265**	**1,495**

	2017 £'000	2016 £'000
Allotted, called up and subject to payment		
Ordinary shares of 114,769,217 @ 0.2p each (2016: ordinary shares of 112,976,571 @ 0.2p each)	**230**	226
	230	226

notes continued

17 Capital – Company continued

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares rank pari passu in all respects, including voting rights and dividend entitlement.

On 24 November 2015, the Company made a block listing application to the London Stock Exchange for admission of 30,000 ordinary shares of 0.2p each in the Company to trading on AIM. The shares will be issued from time to time pursuant to the exercise of share options under the Company's Save As You Earn share option scheme and will rank pari passu in all respects with the existing ordinary shares of the Company. On 10 December 2015, 3,214 shares were issued in respect of options exercised under this scheme.

During 2017, 900,144 shares were issued in respect of options exercised under this scheme (2016: 13,570).

On 14 June 2017, by way of a special resolution passed at the Annual General Meeting of the Company, it was resolved that share premium of £84,366,271 be cancelled and reclassified as retained earnings.

See note 23 for further information regarding share-based payments which may impact the capital of the Company in future periods.

Own shares

Own shares relate to shares in the Company held by the Group employee benefit trust, Manx Telecom plc Share Incentive Plan Trust.

	Number of shares in issue	Ordinary share capital £'000
Opening balance as at 1 January 2016	134,000	–
Own shares issued	–	–
Share options vested	(500)	–
At 31 December 2016	**133,500**	**–**
Opening balance as at 1 January 2017	133,500	–
Own shares issued	43,301	–
Share options vested	(114,000)	–
At 31 December 2017	**62,801**	**–**

On 2 December 2014, 137,500 new ordinary shares were issued and transferred to the Manx Telecom plc Share Incentive Plan Trust for nil consideration. The shares are held for the benefit of employees of the Group in respect of the free share options granted under the Share Incentive Plan described in note 23.

On 1 December 2017, 114,000 free share options under this scheme were exercised and the shares transferred from the Trust to the employee. In respect of the share options under the scheme which lapsed during the year, 19,500 ordinary shares remain in the trust for future schemes.

On 1 December 2017, 43,301 new ordinary shares were issued and transferred to the Manx Telecom plc Share Incentive Plan Trust for nil consideration. The shares are held for the benefit of employees of the Group in respect of the free share options granted under the Share Incentive Plan 2017 described in note 23.

At the year end, there were 62,801 shares in the Trust, which had a market value of £121,000 (2016: 133,500 shares with a market value of £269,000).

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may make dividend payments to shareholders, return capital to shareholders, or issue new shares. The Group ensures that banking covenants are met as part of its capital management; see note 13 for further details of the Group's lending arrangements, including covenant compliance.

17 Capital – Company continued

Gearing ratio

The gearing ratio at the year end is as follows:

	2017 £'000	2016 £'000
Secured bank loans	**(69,288)**	(68,983)
Cash and cash equivalents	**12,341**	16,674
Net debt	**(56,947)**	(52,309)
Equity	**84,892**	82,957
Net debt to equity ratio	**0.67**	0.63

Debt is defined as long and short-term borrowings (excluding derivatives) as detailed in note 13. Equity includes all capital and reserves of the Group that are managed as capital.

18 Financial instruments

18(a) Fair values of financial instruments

The fair values of all financial assets and financial liabilities by class, together with their carrying amounts shown in the consolidated statement of financial position, are as follows:

	Carrying amount 2017 £'000	Fair value 2017 £'000	Carrying amount 2016 £'000	Fair value 2016 £'000
Financial assets measured at amortised cost				
Cash and cash equivalents (note 12)	**12,341**	**12,341**	16,674	16,674
Trade and other receivables (note 11)	**28,526**	**28,526**	23,230	23,230
Financial assets designated as fair value through profit or loss				
Derivatives (note 18(d))	**–**	**–**	–	–
Total financial assets	**40,867**	**40,867**	39,904	39,904

	Carrying amount 2017 £'000	Fair value 2017 £'000	Carrying amount 2016 £'000	Fair value 2016 £'000
Financial liabilities measured at amortised cost				
Finance leases (note 13)	**14**	**14**	53	53
Other interest-bearing loans and borrowings (note 13)	**69,274**	**69,274**	68,983	68,983
Trade and other payables (note 14)	**30,094**	**30,094**	26,784	26,784
Financial liabilities designated as fair value through profit or loss				
Derivatives (note 18(d))	**1,135**	**1,135**	1,912	1,912
Total financial liabilities	**100,517**	**100,517**	97,732	97,732

The Directors consider that the carrying amount of financial assets and liabilities measured at amortised cost approximates to their fair value.

No financial assets or liabilities have been reclassified during the current or prior year.

Financial risk management

The Group's operations expose it to a variety of financial risks, including credit risk, currency risk, interest rate risk and liquidity risk. The Group's overall risk management policies focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Group's financial performance and net assets.

notes continued

18 Financial instruments continued

The principal financial risks of the Group and how the Group manages these risks are discussed below.

18(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables due from customers and cash and cash equivalents.

Trade receivables are presented in the statement of financial position net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. Management has a credit policy in place, and the exposure to credit risk is monitored on an ongoing basis using credit checks. The Group manages its exposure to credit risk on cash and cash equivalents by only placing its financial assets with reputable financial institutions with strong credit ratings.

At the reporting date, there were no significant concentrations of third-party credit risk, with exposure spread over a large number of counterparties and customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position. The Group does not require collateral in respect of financial assets.

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at 31 December 2017 was £40,867,000 (2016: £39,904,000), being the total of the carrying amount of cash and cash equivalents, trade and other receivables and related party receivables.

The aging of trade receivables, including trade receivables past due but not impaired, is as follows:

		Overdue on the reporting date				
	Carrying amount £'000	Not overdue on the reporting date £'000	Less than 90 days £'000	Between 90 and 180 days £'000	Between 180 and 360 days £'000	Over 360 days £'000
Trade receivables as at 31 December 2017	**9,685**	**3,934**	**3,011**	**1,057**	**855**	**828**
Allowance for doubtful debts		**(35)**	**(13)**	**(39)**	**(100)**	**(302)**
Of which not subject to impairment		**3,899**	**2,998**	**1,018**	**755**	**526**

		Overdue on the reporting date				
	Carrying amount £'000	Not overdue on the reporting date £'000	Less than 90 days £'000	Between 90 and 180 days £'000	Between 180 and 360 days £'000	Over 360 days £'000
Trade receivables as at 31 December 2016	8,917	3,061	4,125	884	279	568
Allowance for doubtful debts		(24)	(80)	(57)	(81)	(391)
Of which past due but not impaired		3,037	4,045	827	198	177

For those debtors which are not impaired and which are overdue at the reporting date, there has been no indication that their payment obligations will not be met.

18(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash for the Group to meet its obligations. The Group aims to maintain appropriate liquidity through the regular monitoring of its actual and projected cash position. Mitigation of liquidity risk is also provided by the undrawn amount of £10,000,000 under the revolving credit facility described in note 13, and by the use of interest rate swaps to partially offset interest rate movements impacting variable rate loans and borrowings.

18 Financial instruments continued

18(c) Liquidity risk continued

The following are the contractual maturities of non-derivative financial liabilities and financial instruments, including estimated interest payments (all cash flows are undiscounted and include both interest and principal cash flows).

2017	1 year or less £'000	1 to <2 years £'000	2 to <5 years £'000	5 years and over £'000	Total £'000	Carrying amount £'000
Non-derivative financial liabilities						
Finance leases	**16**	**–**	**–**	**–**	**16**	**14**
Secured bank loans	**1,413**	**1,413**	**70,707**	**–**	**73,532**	**69,274**
Trade and other payables	**30,094**	**–**	**–**	**–**	**30,094**	**30,094**
Derivative financial instruments						
Derivatives (note 18(d))	**593**	**590**	**295**	**–**	**1,478**	**1,135**
	32,116	**2,003**	**71,001**	**–**	**105,120**	**100,517**

2016	1 year or less £'000	1 to <2 years £'000	2 to <5 years £'000	5 years and over £'000	Total £'000	Carrying amount £'000
Non-derivative financial liabilities						
Finance leases	44	15	–	–	59	53
Secured bank loans	1,309	1,309	71,964	–	74,582	68,983
Trade and other payables	26,784	–	–	–	26,784	26,784
Derivative financial instruments						
Derivatives (note 18(d))	670	667	996	–	2,333	1,912
	28,807	1,991	72,960	–	103,758	97,732

18(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments.

The Group incurs foreign currency risk on purchases that are denominated in currency other than sterling. However, the Group's exposure to currencies other than sterling is not considered to be material.

The Group's exposure to the risk of changes in market interest rates relates primarily to bank loans borrowed at floating interest rates. The terms of the bank loans and interest rates are disclosed in note 13.

Market risk – interest rate risk

At the balance sheet date the interest rate profile of the Group's interest-bearing financial instruments was:

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Variable rate financial instruments				
Financial assets	**10,300**	15,302	**–**	–
Financial liabilities	**(70,000)**	(70,000)	**–**	–
	(59,700)	(54,698)	**–**	–
Fixed rate financial instruments				
Financial liabilities	**–**	–	**–**	–
	(59,700)	(54,698)	**–**	–

The Group's exposure to interest rate risk is managed by the interest rate swaps entered into by the Group, under which the Group agrees to exchange floating interest rates for fixed interest rates on agreed notional principal amounts.

notes continued

18 Financial instruments continued

18(d) Market risk continued

The Group held the following interest rate swaps as at 31 December 2017:

Bank	Interest rate %	Expiry date	Notional amount £'000	Fair value £'000
Royal Bank of Scotland PLC	1.711	29/06/2018	25,000	(145)
DNB Bank ASA	1.711	29/06/2018	25,000	(145)
DNB Bank ASA	1.698	30/06/2020	50,000	(845)
				(1,135)

The Group held the following interest rate swaps as at 31 December 2016:

Bank	Interest rate %	Expiry date	Notional amount £'000	Fair value £'000
Royal Bank of Scotland PLC	1.711	29/06/2018	25,000	(476)
Lloyds Bank PLC	1.711	29/06/2018	25,000	(476)
Lloyds Bank PLC	1.698	30/06/2020	50,000	(960)
				(1,912)

The net movement in unrealised gains/(losses) on interest rate swaps in the year gave rise to a gain of £777,000 in the current year (2016: loss of £1,238,000).

Sensitivity analysis

If interest rates had been 100 basis points higher, the Group's profit for the year ended 31 December 2017 would have increased by £916,000 (2016: increase £1,447,000). If interest rates had been 100 basis points lower, the Group's profit for the year ended 31 December 2017 would have decreased by £916,000 (2016: decrease £1,447,000). This calculation assumes that the change occurred across the whole period and had been applied to risk exposures existing at the year end which were either not fixed or had not been mitigated by interest rate swaps.

This analysis assumes that all other variables, in particular foreign currency rates, remained constant, and considers the effect of financial instruments with variable interest rates and financial instruments at fair value through profit or loss (the fixed rate element of interest rate swaps).

Fair value hierarchy

The table below analyses financial instruments carried at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable (as described in the accounting policy in note 1.4). Interest rate swaps are valued using discounted cash flows, under which future cash flows are estimated based on forward interest rate yields (from observable yield curves at the end of the reporting period) and contract interest rates.

31 December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets	**–**	**–**	**–**	**–**
Financial liabilities	**–**	**(1,135)**	**–**	**(1,135)**

31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets	–	–	–	–
Financial liabilities	–	(1,912)	–	(1,192)

There were no transfers between levels during the current or prior years.

19 Operating leases

During the year, the following lease payments under operating leases were recognised as expenses in the year:

	2017 £'000	2016 £'000
Vehicle operating lease payments	**84**	–
Property operating lease payments	**290**	267
Site sharing operating lease payments	**408**	348

Sublease income of £41,000 (2016: £34,000) was recognised within income in the year.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable land and buildings operating leases which fall due as follows:

	2017 £'000	2016 £'000
Not later than one year	**743**	561
Later than one year not later than five years	**1,756**	1,755
Expiring in more than five years	**647**	931
Total	**3,146**	3,247

The Group leases various offices, shops, vehicles and mast sites under non-cancellable operating lease agreements. These leases have various terms and renewal rights.

At the balance sheet date, the Group had contracted with tenants for the following future minimum sublease payments:

	2017 £'000	2016 £'000
Not later than one year	**9**	21
Later than one year not later than five years	**–**	13
Expiring in more than five years	**–**	48

20 Related parties – Group and Company

The compensation of key management personnel, including the Directors, is as follows:

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Salaries and short-term employee benefits	**1,694**	1,679	**–**	–
Share-based payments	**57**	655	**–**	–
Post-employment benefits	**84**	84	**–**	–
	1,835	2,418	**–**	–

Dividends of £75,000 were paid in the year in respect of ordinary shares held by the Company's directors (2016: £75,000).

During 2017, the Company appointed Paul Tierney as interim Chief Financial Officer. Compensation of £18,000 was paid to Gransha Enterprises Limited (2016: £103,000).

notes continued

20 Related parties – Group and Company continued

Other related party transactions – Company

Related party	Relationship	Receivables outstanding 2017 £'000	Payables outstanding 2017 £'000	Receivables outstanding 2016 £'000	Payables outstanding 2016 £'000
Trafford Shareholder Debtco Limited	Direct subsidiary	**49,323**	**100**	36,747	100
Manx Telecom Trading Limited (formerly Manx Telecom Limited)	Indirect subsidiary	**46,488**	**7,437**	57,887	7,437
Manx Telecom Holdings Limited	Indirect subsidiary	**–**	**2,000**	–	2,000
		95,811	**9,537**	94,634	9,537

Intercompany balances arise through the capital management of the Group, as capital and financial resources are raised and deployed through the Group as required. The intercompany loans are unsecured, repayable on demand, and non-interest bearing. No provisions have been made for doubtful debts in respect of amounts owed by related parties.

21 Ultimate Parent Company and Parent Company

In 2014, Manx Telecom plc was admitted to trade its shares on AIM. Subsequent to Admission to AIM, there is not considered to be any ultimate Parent Company.

22 Capital and other financial commitments

	2017 £'000	2016 £'000
Contracts placed for future capital expenditure relating to property, plant and equipment	**1,240**	908

23 Share-based payments

Following the Admission in 2014, the Company created a number of share-based payment arrangements. The arrangements may be operated in conjunction with an employee benefit trust established by the Company. Any such employee benefit trust may be used to hold shares for the purposes of these share plans or other employee share schemes established by the Company from time to time.

Equity-settled share-based payments

The total expense in respect of equity-settled share-based payments for the year ended 31 December 2017 was £262,000 (2016: £887,000).

23 Share-based payments continued

Equity-settled share option schemes which operated during the current and prior year are described in detail below. Details of the share options outstanding during the year are as follows:

2017	Outstanding at the beginning of the year	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Outstanding at the end of the year	Exercisable at the end of the year
Co-investment plan – number of shares	**756,350**	**–**	**–**	**(756,350)**	**–**	**–**	**–**
Co-investment plan – weighted average exercise price (£ per share)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Save as you earn – number of shares	**1,558,524**	**–**	**(200,579)**	**(866,836)**	**–**	**491,109**	**157,743**
Save as you earn – weighted average exercise price (£ per share)	**1.46**	**–**	**1.50**	**1.41**	**–**	**1.53**	**1.40**
Share incentive plan – number of shares	**118,000**	**62,801**	**(4,000)**	**(114,000)**	**–**	**62,801**	**–**
Share incentive plan – weighted average exercise price (£ per share)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Long-term incentive plan – number of shares	**809,189**	**480,832**	**(446,840)**	**–**	**–**	**843,181**	**–**
Long-term incentive plan – weighted average exercise price (£ per share)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Recruitment award – number of shares	**49,140**	**–**	**(49,140)**	**–**	**–**	**–**	**–**
Recruitment award – weighted average exercise price (£ per share)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Shadow save as you earn – number of shares	**14,398**	**–**	**–**	**–**	**–**	**14,398**	**–**
Shadow save as you earn – weighted average exercise price (£ per share)	**1.44**	**–**	**–**	**–**	**–**	**1.44**	**–**

2016	Outstanding at the beginning of the year	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Outstanding at the end of the year	Exercisable at the end of the year
Co-investment plan – number of shares	756,350	–	–	–	–	756,350	–
Co-investment plan – weighted average exercise price (£ per share)	–	–	–	–	–	–	–
Save as you earn – number of shares	1,172,675	566,826	(167,407)	(13,570)	–	1,558,524	198,470
Save as you earn – weighted average exercise price (£ per share)	1.40	1.592	1.51	1.40	–	1.46	1.41
Share incentive plan – number of shares	126,000	–	(7,500)	(500)	–	118,000	–
Share incentive plan – weighted average exercise price (£ per share)	–	–	–	–	–	–	–
Long-term incentive plan – number of shares	288,532	520,657	–	–	–	809,189	–
Long-term incentive plan – weighted average exercise price (£ per share)	–	–	–	–	–	–	–
Recruitment award – number of shares	–	49,140	–	–	–	49,140	–
Recruitment award – weighted average exercise price (£ per share)	–	–	–	–	–	–	–
Shadow save as you earn – number of shares	18,000	2,827	(6,429)	–	–	14,398	–
Shadow save as you earn – weighted average exercise price (£ per share)	1.40	1.592	1.40	–	–	1.44	–

notes continued

23 Share-based payments continued

Co-investment plan ('CIP')
Under the CIP established in connection with the Admission, on 10 February 2014 the Executive Directors of the Company received a total of 538,114 conditionally awarded shares, and other directors of Manx Telecom Trading Ltd (classified under IAS 24 as 'Key Management') received a total of 376,773 conditionally awarded shares, in both cases on the basis of a matching award of one share for every two invested shares then held by them. Such matching shares will only vest to the extent that the individual remains employed by the Group and that invested shares remain held by the participant on 10 February 2017, and are also subject to satisfaction of a three-year relative Total Shareholder Return performance condition.

On 9 February 2015, the terms of the three-year relative Total Shareholder Return performance condition were modified to align the opening share price to the IPO placed at £1.42p per share. This will give rise to a total additional expense of £180,000 over the vesting period. On 4 June 2015, the service conditions of the award previously made to Mike Dee as Chief Executive Officer were modified such that the total award was reduced by one third as a consequence of his retirement, while retaining the existing performance conditions.

On 10 February 2017, on satisfaction of the service and performance conditions including modifications, 756,350 shares vested.

The total expense recognised by the Group in respect of the CIP for the year ended 31 December 2017 was £26,000 (2016: £236,000).

Long-term incentive plan ('LTIP')
In 2015, the Group established an LTIP for Key Management of the Group. On 11 May 2015, 288,532 share awards were granted under the plan. Executive Directors of the Company received a total of 95,576 share awards. The share awards will only vest to the extent that the individual remains employed by the Group on 10 May 2018, and are also subject to the Group results satisfying three-year cumulative non-market performance conditions.

The estimated fair value of options granted in 2015 was £1.905 per share. The aggregate of the estimated fair value of the options granted in 2015 under the LTIP, which is to be recognised on a straight line basis over the vesting period, was £550,000. Due to forfeiture of awards, and based on a reduced vesting percentage as a result of non-market performance conditions, the revised estimate at 31 December 2017 was £240,000.

On 28 January 2016, 62,732 share awards were granted under the plan. Executive Directors of the Company received a total of 56,361 share awards. The share awards will only vest to the extent that the individual remains employed by the Group on 27 January 2019, and are also subject to the Group results satisfying three-year cumulative non-market performance conditions. The estimated fair value of the options granted was £2.035, and the aggregate of the estimated fair value of the options, which will be recognised over the vesting period was £128,000. Due to forfeiture of awards, and based on a reduced vesting percentage as a result of non-market performance conditions, the revised estimate at 31 December 2017 was £62,000.

On 4 July 2016, 457,922 share awards were granted under the plan. Executive Directors of the Company received a total of 250,374 share awards. The share awards will only vest to the extent that the individual remains employed by the Group on 11 July 2019, and are also subject to the Group results satisfying three-year cumulative non-market performance conditions. The estimated fair value of the options granted was £1.98, and the aggregate of the estimated fair value of the options, which will be recognised over the vesting period. was £907,000. Due to forfeiture of awards, the revised estimate at 31 December 2017 was £510,000.

On 4 July 2017, 480,832 share awards were granted under the plan. Executive Directors of the Company received a total of 265,017 share awards. The share awards will only vest to the extent that the individual remains employed by the Group on 6 July 2020, and are also subject to the Group results satisfying three-year cumulative market and non-market performance conditions. The estimated fair value of the options granted was £1.88, and the aggregate of the estimated fair value of the options to be recognised over the vesting period, was £590,000. Due to forfeiture of awards during the year, the revised estimate at 31 December 2017 was £365,000.

The fair value of the awards, with the exception of those granted in 2017, has been estimated using a Black-Scholes method, the inputs for which are detailed below. Awards granted in 2017 have been estimated using both a Black-Scholes method and a Monte Carlo method; 50% of the shares are subject to a market-based performance condition and 50% of the shares are subject to a non-market performance condition.

The total expense recognised by the Group in respect of the LTIP for the year ended 31 December 2017 was £76,000 (2016: £373,000). As at 31 December 2017, the LTIP awards had a weighted average remaining contractual life of 1.51 years (2016: 1.51 years).

23 Share-based payments continued

Save as you earn ('SAYE')

In October 2014, the Group established a SAYE scheme for employees of the Group based in the Isle of Man. The scheme was open for a limited period only during the year, and permits the granting of options to Isle of Man resident employees of the Group linked to a bank SAYE contract for a term of three years. Contributions from employees range from £10 to £500 per month. Options may be exercised at the end of the three-year period at an exercise price of £1.40 per share if individuals continue to be employed by the Group at the maturity of the savings contract. The SAYE scheme contains provisions for 'good leavers' as defined in the SAYE scheme, which enable 'good leavers' to exercise options under the savings contract at the date the participant ceases to hold employment with the Group. The options must be exercised within six months of the maturity of the savings contract, otherwise they lapse and the savings are returned to employees.

On 11 July 2016, a further 566,826 share options were granted under the scheme. These options may be exercised at the end of the contract term of three years, at an exercise price of £1.592 per shares.

On 1 December 2017, the share options issued in 2014 vested, and 834,395 shares options were exercised, including those under good leaver provisions (2016: 13,570 share options under good leaver provisions), and 91.521 were forfeited (2016: 167,407 share options). In 2017, 32,441 options were exercised under good leaver provisions in respect of the options issued in 2016, and 109,058 options were forfeited.

At 31 December 2017, the options had a weighted average remaining contractual life of 1.01 years (2016: 1.41 years).

The estimated fair value of options granted in 2014 was £0.35 per share. The aggregate of the initial estimated fair value of the options granted in 2014 under the SAYE scheme was £422,000. The actual expense to have been recognised on a straight line basis over the vesting period is £370,000. The estimated fair value of options granted in 2016 was £0.37 per share. The aggregate of the initial estimated fair value of the options granted in 2016 under the SAYE scheme was £189,000, due to forfeiture of awards the revised estimate at 31 December 2017 was £130,000, which will be recognised on a straight-line basis over the vesting period (subject to further revisions for the estimated number of shares expected to vest and cancellations). The fair value has been estimated using a Black-Scholes method, the inputs for which are detailed below.

The total expense recognised by the Group in respect of the SAYE scheme for the year ended 31 December 2017 was £149,000 (2016: £157,000).

An equivalent share option scheme for non-Isle of Man resident employees was established in 2015; see below.

Shadow save as you earn ('Shadow SAYE')

In 2015, the Group established a Shadow SAYE for employees of the Group based in the United Kingdom. The Shadow SAYE mirrors the terms of the SAYE. On 1 February 2015, 18,000 share options were granted. The estimated fair value of the options granted was £0.387 per share. During 2017, no shares were fortified (2016: 6,429 shares were forfeited). On 1 August 2016, 2,827 shares options were granted, mirroring the terms of the SAYE options granted on 11 July 2016. No shares were fortified over 2017 or 2016. The estimated fair value of the options granted was £0.413 per share. The fair value has been estimated using a Black-Scholes method, the inputs for which are detailed below. At 31 December 2017, the options had a weighted average remaining contractual life of 0.38 years (2016: 1.38 years). The aggregate of the initial estimated fair value of the options granted in 2014 under the Shadow SAYE scheme was £7,000; due to forfeiture of awards, the revised estimate at 31 December 2017 was £4,000 which will be recognised on a straight-line basis over the vesting period. The aggregate of the initial estimated fair value of the options granted in 2016 under the Shadow SAYE scheme was £1,000, which will be recognised on a straight-line basis over the vesting period.

The total expense recognised by the Group in respect of the Shadow SAYE scheme for the year ended 31 December 2017 was £2,000 (2016: £1,000).

notes continued

23 Share-based payments continued

Share incentive plan ('SIP')

In October 2014, the Group established a SIP for employees of the Group based in the Isle of Man. Under the SIP, all permanent Isle of Man resident employees of the Group as at 17 October 2014 were invited to receive 500 free shares each. 275 employees accepted the offer, resulting in 137,500 share options being granted on 1 December 2014.

The shares granted were issued and transferred by the Company to the Manx Telecom plc Share Incentive Plan Trust for nil consideration. The Manx Telecom plc Share Incentive Plan Trust is an employee benefit trust established by the Company to hold shares awarded under the SIP for the benefit of employees of the Group.

Options granted under the SIP may be exercised on 30 November 2017 if individuals either continue to be employed by the Group at that date or are considered to be 'good leavers' as defined in the SIP, at which point shares will be released from the Manx Telecom plc Share Incentive Plan Trust to the employee. During 2017, 31,500 shares were exercised under good leaver provisions (2016: 500 shares), and 82,500 shares were exercised by individuals who continued to be employed by the Group.

On 7 November 2017, all permanent Isle of Man resident employees of the Group as at 6 November 2017 were invited to receive 250 free shares each. 258 employees accepted the offer, resulting in 62,801 share options being granted on 4 December 2017.

The shares granted were issued and transferred by the Company to the Manx Telecom plc Share Incentive Plan Trust for nil consideration. Options granted under the SIP will be exercised on 3 December 2020 by individuals who continue to be employed by the Group at that date or are considered to be 'good leavers' as defined by the SIP, at which point the shares will be released from the Manx Telecom plc Share Incentive Plan Trust to the employee. During 2017, there were no shares exercised under good leaver provisions.

As at 31 December 2017, the aggregate of the estimated fair value of the options granted under the SIP was £325,000 (2016: £208,000), which has been recognised on a straight-line basis over the vesting period. The fair value has been estimated using a Black-Scholes method, the inputs for which are detailed below.

The total expense recognised by the Group in respect of the SIP for the year ended 31 December 2017 was £57,000 (2016: £74,000).

An equivalent cash settled share option scheme for non-Isle of Man resident employees was established in 2015, see below.

Recruitment Award

Pursuant to his employment contract, on 1 February 2016 an Executive Director of the Company became entitled to an award in respect of 49,140 ordinary shares of the Company. The award will only vest to the extent that the individual remains employed by the Group on 31 January 2018. During the year, the service condition was not met and, as a result, all share options were forfeited. The total expense reversal recognised by the Group in respect of the recruitment award was £46,000 (2016: £46,000 expense).

Cash-settled share-based payments

In 2015, the Group established a shadow share incentive plan ('Shadow SIP') for employees of the Group based in the United Kingdom. The Shadow SIP mirrors the terms of the SIP, except that employees will be issued with the cash equivalent of 500 shares each on the vesting date. On 1 February 2015, 2,000 share options were granted. The estimated fair value of options granted was £1.815 per share. The fair value has been estimated using a Black-Scholes method, the inputs for which are detailed below. At 31 December 2017, the options had a weighted average remaining contractual life of 0.08 years (2016: 1.08 years). The total expense in respect of cash-settled share-based payments for the year ended 31 December 2017 was £1,000 (2016: £1,000).

23 Share-based payments continued

Valuation model inputs

The inputs into the Monte Carlo and Black-Scholes models for purposes of estimating the fair values of the share options granted in the year are as follows:

Scheme	Valuation method	Grant/ modification date	Share price on grant/ modification date	Exercise price	Expected volatility	Expected life	Risk-free rate	Expected dividend yield
CIP original grant	Monte Carlo	10/02/2014	1.60	0	29.06%	3 years	0%	0%
CIP modification[1]	Monte Carlo	09/02/2015	1.84	0	25.91%	3 years	0%	0%
LTIP 2015	Black-Scholes	11/05/2015	1.905	0	29.06%	3 years	0%	0%
SAYE 2014	Black-Scholes	01/12/2014	1.7675	1.40	29.06%	3 years	0.95%	5.60%
SIP	Black-Scholes	01/12/2014	1.7675	0	29.06%	3 years	0%	0%
Shadow SAYE 2015	Black-Scholes	01/02/2015	1.815	1.40	29.06%	3 years	0.95%	5.45%
Shadow SIP	Black-Scholes	01/02/2015	1.815	0	29.06%	3 years	0%	0%
Recruitment award	Black-Scholes	01/02/2016	2.025	0	29.06%	2 years	0%	0%
LTIP 2015 additional grant	Black-Scholes	28/01/2016	2.035	0	29.06%	3 years	0%	0%
LTIP 2016	Black-Scholes	04/07/2016	1.98	0	29.06%	3 years	0%	0%
SAYE 2016	Black-Scholes	11/07/2016	1.975	1.592	29.06%	3 years	0.1%	5.27%
Shadow SAYE 2016	Black-Scholes	01/08/2016	2.03	1.592	29.06%	3 years	0.1%	5.12%
LTIP 2017[2]	Combination	04/07/2017	1.88	0	29.06%	3 years	0%	0%
SIP 2017	Black-Scholes	01/12/2017	1.95	0	29.06%	3 years	0%	0%

1. Valuation model also used for the grant of additional shares on 4 June 2015.
2. A combination of Black-Scholes and Monte Carlo valuation methods has been used due to the existence of both market and non-market performance conditions.

Expected volatility would normally be determined by reference to share price movements (with dividends reinvested) over a period of time commensurate with the remaining performance period immediately prior to the date of grant. However, given that the Company was listed on 10 February 2014, there is insufficient data to calculate the volatility of the Company's share price. Therefore, a proxy volatility figure has been used. The proxy volatility figure has been derived from the median volatility of the 11 companies in the comparator group for the TSR performance condition in the CIP (as at the grant date) over the relevant period.

A risk-free rate of 0% has been used for the CIP, LTIP, SIP and Shadow SIP, as the valuation of awards with no exercise price is not affected by the risk-free rate input, as no investment is required by the recipient and therefore no gain could be derived elsewhere.

The dividends that would be paid on a share in the period between grant and vesting reduce the fair value of an award if, in not owning the underlying shares, a participant does not receive the dividend income on these shares during the vesting period. An expected dividend yield of 0% has been used in respect of the CIP, LTIP, SIP and Shadow SIP as under these plans participants are entitled to receive an amount equal to the dividends payable to the vesting date. Accordingly, the dividend yield input has been set at nil so as not to discount for the loss of dividends. The expected yield used for the 2014 SAYE and 2015 Shadow SAYE schemes has been based on the share price on the grant date and the Company's intention to maintain a dividend yield of 7% on the Admission placing price of £1.42 per share. The expected yield used for the 2016 SAYE and 2016 Shadow SAYE schemes has been based on the share price on the grant date and the annual dividend per share at the grant date.

24 Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	Note	31 Dec 2017 000	31 Dec 2016 000
Weighted average number of ordinary shares at 31 December (Basic)		**113,664**	112,841
Effect of Co-Investment plan	23	**83**	744
Effect of Long-term incentive plan	23	**627**	249
Effect of Save as you earn plan	23	**320**	325
Effect of Share incentive plan	23	**111**	95
Effect of Shadow save as you earn plan	23	**3**	4
Effect of Shadow share incentive plan	23	**2**	1
Weighted average number of ordinary shares at 31 December (Diluted)		**114,810**	114,259

notes continued

24 Earnings per share continued

The own shares held as detailed in note 17 are excluded from the calculation of the weighted average number of shares.

None of the instruments noted above which potentially dilute earnings per share have any effects recorded within profit or loss which may be saved upon exercise, therefore no adjustments to earnings have been made in the calculation of diluted earnings per share.

24.1 Reported earnings per share

The calculation of the reported earnings per share has been based on the weighted average number of shares outstanding during the period (as above) and the Profit/(loss) for the period after tax attributable to the owners of the Group ('Earnings').

	Earnings £'000	Thousands of shares (Basic)	Basic earnings per share	Thousand of shares (Diluted)	Diluted earnings per share
31 December 2016	8,821	112,841	7.82p	114,259	7.72p
31 December 2017	**11,938**	**113,664**	**10.50p**	**114,810**	**10.40p**

24.2 Underlying earnings per share

The calculation of underlying earnings per share has also been included to enable shareholders to assess the results of the Group excluding specific items detailed in note 29 that are unpredictable in nature, significant, and distort the Group's underlying performance.

	Earnings £'000	Thousands of shares (Basic)	Basic earnings per share	Thousand of shares (Diluted)	Diluted earnings per share
31 December 2016	16,293	112,841	14.44p	114,259	14.26p
31 December 2017	**15,094**	**113,664**	**13.28p**	**114,810**	**13.15p**

25 Dividends

The following amounts were recognised as distributions to equity holders in the year:

	2017 £'000	2016 £'000
Final dividend for the year ended 31 December 2016 of 7.2p (2015: 6.9p) per share	**8,197**	7,795
Interim dividend for the year ended 31 December 2017 of 3.9p (2016: 3.7p) per share	**4,447**	4,181
Total dividends recognised in the year	**12,644**	11,976
Final dividend for the year ended 31 December 2017 of 7.5p (2016: 7.2p) per share	**8,608**	8,134

The final dividend for the year ended 31 December 2017 was declared on 15 March 2018. The final dividend was declared after the reporting period and has not been included as a liability in these financial statements. The final dividend is payable to all shareholders on the Register of Members on 24 May 2018. The total dividend to be paid is 7.5p per share. The payment of this dividend will not have any tax consequences for the Group.

26 Acquisition of subsidiaries

On 5 May 2017, the Group's subsidiary, Goshawk Communications Limited, a company incorporated in the Isle of Man, acquired 100% of the issued share capital of Goshawk Communications (UK) Limited ("Goshawk") in exchange for 33% of the issued share capital of Goshawk Communications Limited.

As a result of the share for share exchange, the Group has a 67% shareholding in Goshawk Communications Limited, which in turn owns 100% of Goshawk.

Goshawk is a company which develops and exploits technology-based solutions that enhance audio quality. Goshawk was acquired in order to support the Group's transformational growth strategy by developing disruptive technologies and bringing innovative products and services to the market.

26 Acquisition of subsidiaries continued

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed from the acquisition of Goshawk on 5 May 2017 and Partitionware Limited on 1 December 2016 are as set out in the table below:

Financial assets	2017 £'000	2016 £'000
Financial assets	**23**	618
Identifiable Intangible Assets	**1**	–
Property, plant and equipment	**–**	58
Financial liabilities	**(14)**	(303)
Total identifiable assets	**10**	373
(Gain on bargain purchase)/goodwill	**(10)**	3,634
Total consideration	**–**	4,007
Satisfied by:		
Cash	**–**	2,000
Deferred consideration arrangement	**–**	2,007
Total consideration transferred	**–**	4,007
Net cash outflow arising on acquisition		
Cash considerations	**–**	2,000
Less cash equivalent balances acquired	**–**	(323)
	–	1,668

The gain on bargain purchase arising from the acquisition of Goshawk is the result of nil consideration transferred and the fair value of the identifiable net assets acquired.

Acquisition related costs incurred in the period related to the acquisition of Goshawk (included in administrative expenses) amounted to £30,000. Acquisition related costs incurred in 2016 related to the acquisition of Partitionware (including administrative expenses) amounted to £161,000.

Goshawk contributed nil revenue and £111,000 of losses to the Group's consolidated profit for the period between the date of acquisition on 5 May 2017 and the balance sheet date of 31 December 2017.

If the acquisition of Goshawk had been completed on the first day of the financial period, group revenues for the year to 31 December 2017 would have been £20,000 more and group profit would have been £15,000 less.

During the year, the Group paid £2,007,000 of deferred consideration in relation to the acquisition of Partitionware Limited in 2016.

27 Non-Controlling Interest

Summarised consolidated financial information in respect of Goshawk Communications Limited, which has a material non-controlling interest, is set out below. The summarised financial information below consolidates Goshawk Communications (UK) Limited and represents amounts before other intragroup eliminations.

notes continued

27 Non-Controlling Interest continued

Goshawk Communications Limited

	31 Dec 2017 £'000
Current Assets	184
Non-Current Assets	1
Current Liabilities	(4)
Non-Current Liabilities	(369)
Equity attributed to the owners of the Group	(126)
Non-Controlling Interests	(62)

	31 Dec 2017 £'000
Revenue	10
Expenses	(200)
Total Comprehensive (Loss) for the year	(190)
Attributable to:	
Owners of the Group	(128)
Total consideration	(62)

Goshawk Communications Limited, a newly formed company, was acquired by the Group on 2 May 2017 for the purpose of acquiring Goshawk Communications (UK) Limited. Therefore there is no comparative information for the period ended 31 December 2016.

28 Post-balance sheet events

The following significant events occurred after the year end date of 31 December 2017 and prior to the signing of this Annual Report on 2 May 2018:

- a final dividend for the year ended 31 December 2017 was declared, as detailed, in note 25;
- on 24 April 2018, the Remuneration Committee of the Company approved a fourth Long Term Incentive Plan for the Executive Directors of the Company and directors of the subsidiary Manx Telecom Trading Limited; and
- on 7 March 2018, the Remuneration Committee of the Company approved a fourth Save As You Earn share option scheme for employees of the Group.

Other than as noted above, there are no events after the balance sheet date which require disclosure.

29 Alternative performance measures

The Directors of the Group have presented a number of additional performance measures which they believe are relevant to an understanding of the Group's financial performance which are not defined in IFRS and are therefore termed 'non-GAAP' measures. The Group's definition of these terms may not be comparable with similarly titled performance measures and disclosures by other entities. Such non-GAAP measures should not be viewed in isolation or as an alternative to the equivalent GAAP measure.

EBITDA

EBITDA is defined as the Group profit or loss before depreciation, amortisation, net finance expense and taxation. Underlying EBITDA is defined as EBITDA, adjusted for the specific items listed below. EBITDA is a common measure used by investors and analysts to evaluate the operating financial performance of companies, particularly in the telecommunications sector. The Directors consider EBITDA and underlying EBITDA to be useful measures of operating performance. This presentation is consistent with the way that financial performance is measured by management and reported internally and assists in providing a meaningful analysis of the trading results of the Group.

29 Alternative performance measures continued

A reconciliation from group operating profit, the most directly comparable IFRS measure, to EBITDA and Underlying EBITDA is provided below.

	2017 £'000	2016 £'000
Operating profit	**13,361**	13,567
Depreciation and Amortisation	**9,695**	9,142
Reported EBITDA	**23,056**	22,709
Impairment of Equipment	**102**	464
Transformation costs	**3,863**	4,335
Acquisition costs	**30**	161
Underlying EBITDA	**27,051**	27,669

Underlying operating profit and underlying profit before tax

Underlying operating profit and underlying profit before tax are based on equivalent IFRS reported measures from the consolidated statement of comprehensive income, adjusted for the specific items listed below.

Reconciliations from group operating profit, and group profit before tax, the most directly comparable IFRS measures, to underlying operating profit and underlying profit before tax respectively are provided below.

	2017 £'000	2016 £'000
Operating profit	**13,361**	13,567
Impairment of Equipment	**102**	464
Acquisition costs	**30**	161
Transformation costs	**3,863**	4,335
Underlying operating profit	**17,356**	18,527

	2017 £'000	2016 £'000
Profit before/after tax	**11,876**	8,821
Impairment of Equipment	**102**	464
Acquisition costs	**30**	161
Transformation costs	**3,863**	4,335
Loss on property revaluation	**–**	1,274
Net (profit)/loss on interest rate swaps	**(777)**	1,238
Underlying profit before/after tax	**15,094**	16,293

Underlying operating cash flow

Underlying operating cash flow is based on the equivalent reported measure from the consolidated statement of cash flows and cash flow from operating activities, adjusted for the cash impact of the specific items listed below.

	2017 £'000	2016 £'000
Reported operating cash flow	**20,023**	21,963
Transformation programme operating costs	**6,419**	495
Acquisition costs	**30**	110
Underlying operating cash flow	**26,472**	22,568

Free cash flow

Free cash flow is defined as net cash generated from operating activities less net cash used in investing activities. Underlying free cash flow is defined as free cash flow, adjusted for the cash impact of the specific items listed below. Free cash flow represents the cash that the Group is able to generate from operations after taking into account cash outflows required to maintain or expand its asset base. The Directors consider free cash flow and underlying free cash flow to be important performance measures as they determine the amount of cash available for strategic investments, repayment of debt or distribution to shareholders in the form of dividends.

A reconciliation from net cashflow from operating activities, the most directly comparable IFRS measure, to underlying operating cash flow, free cash flow and underlying free cash flow is provided below.

notes continued

29 Alternative performance measures continued

	2017 £'000	2016 £'000
Reported free cash flow	**9,074**	14,120
Transformation programme operating costs	**6,419**	495
Transformation programme capital expenditure	**2,480**	–
Acquisition costs	**30**	110
Acquisition of Subsidiary	**2,007**	1,668
Underlying free cash flow	**20,010**	16,393

Net debt
Net debt is not a term defined by IFRS, but consists of interest bearing loans and borrowings, less cash and cash equivalents, both of which are captions which exist on the statement of financial position. Net debt provides a single measure of the Group's indebtedness and an indication of overall balance sheet strength.

A reconciliation from loans and other borrowings and cash and cash equivalents, the IFRS measures used to calculate Net Debt are provided below.

	2017 £'000	2016 £'000
Loans and other borrowings	**69,288**	69,036
Cash and cash equivalents	**(12,341)**	(16,674)
Net Debt	**56,947**	52,362

Underlying earnings per share
Earnings per share, both basic and diluted, are terms which are defined in IFRS. Underlying earnings per share, both basic and diluted are not terms defined by IFRS. They are calculated based upon underlying profit before tax (defined above) and the basic and diluted number of shares as determined for use in the terms defined in IFRS. Note 24.2 provides the components used in the calculation.

Specific items
Specific items are identified by virtue of their size, nature or incidence. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

Adjusting measures for specific items assists with the comparability of measures between reporting periods, as well as with removing volatility or distortions from significant events.

The adjustments made to reported profit before tax and operating profit are income and charges that are unpredictable in nature, significant, and distort the Group's underlying performance. For the year ended 31 December 2017, these adjustments included:
- Transformation Programme. In 2016, the Group commenced a programme to transform the business, aimed at improving competitiveness and the customer experience by reshaping the organisation, streamlining processes, and investing in supporting technology. As part of this programme, costs of £3,863,000 were incurred to 31 December 2017 (2016: £4,335,000) relating to employee termination benefits, consulting fees and other programme-related costs.
- Acquisition costs. Costs of £30,000 (2016: £161,000) were incurred in the acquisition of Goshawk Communications (UK) Limited in May 2017 and the acquisition of Partitionware in December 2016.
- Loss on property revaluation. During 2016, the Group revalued land and buildings, with the revaluation of some properties resulting in a loss on revaluation of £1,274,000. There has been so such loss in the current year.
- Unrealised gains and losses on interest rate swaps. In 2017, the Group made an unrealised gain on interest rate swap fair value movements of £777,000 (2016: £1,238,000 loss).
- Impairment of property, plant and equipment. Following continued investment in the Group's mobile network and equipment and platforms used to support Data Centre services, the Group made impairments of certain property, plant and equipment no longer in use, resulting in an expense of £102,000 (2016: £464,000).

Additionally, there are the following adjustments to reported cash flows from operating activities and free cash flow that are unpredictable in nature, significant and distort the Group's underlying performance:
- Transformation Programme. The Group made cash outflows of £8,899,000 (2016: £495,000) in relation to the Transformation Programme costs described above.
- Acquisition of subsidiary. The net cash outflow on the acquisition of Partitionware Limited was £2,007,000 (2016: £1,668,000), as detailed in note 26. In addition, the Group also made cash outflows of £30,000 in relation to acquisition costs (2016: £161,000).

directors, secretary and advisers

Directors
Kevin Walsh (Independent Non-Executive Chairman)
Gary Lamb (Chief Executive Officer)
Chris Hall (Independent Non-Executive Director)
Jeffrey Hume (Senior Independent Non-Executive Director)

Company Secretary
Sally Lawrence

Registered Agent
Estera Trust (Isle of Man) Limited
33–37 Athol Street
Douglas
Isle of Man
IM1 1LB

Head office of the Company
Isle of Man Business Park
Cooil Road, Braddan
Isle of Man
IM99 1HX

Nominated Adviser and Corporate Broker to the Company
Liberum Capital Limited
Ropemaker Place, Level 12
25 Ropemaker Street
London
EC2Y 9LY

Financial Adviser to the Company
Oakley Advisory Limited
3 Cadogan Gate
London
SW1X 0AS

Isle of Man legal advisers to the Company
Cains
Fort Anne,
Douglas
Isle of Man
IM1 5PD

Reporting Accountants and Auditors
KPMG Audit LLC
Heritage Court
41 Athol Street
Douglas
Isle of Man
IM99 1HN

Registrars
Computershare Investor Services (Jersey) Limited
Queensway House
Hilgrove Street
St Helier
Jersey
JE1 1ES

Financial PR advisers
Powerscourt
1 Tudor Street
London
EC4Y 0AH
+ 44 (0) 207 250 1446

Website www.manxtelecom.com/investors

MIX
Paper from responsible sources
FSC® C023105
FSC www.fsc.org

Designed and produced by emperor
Visit us at emperor.works

manx telecom
Isle of Man Business Park
Cooil Road, Braddan
Isle of Man
IM99 1HX

www.manxtelecom.com