



Manx Telecom Limited

Isle of Man Business Park Cooil Road Braddan Isle of Man IM99 1HX
T +44 (0)1624 633633 **F** +44 (0)1624 636011 **E** mail@manx-telecom.com
www.manx-telecom.com

www.manx-telecom.com





2

“To support the prosperity of the Isle of Man by being the best small island telecommunications company in the world.”

3



4 “I am pleased to report another successful year for Manx Telecom in which we delivered great service to our customers, invested heavily in the Island’s communications infrastructure and achieved strong financial results.”

Chris Hall, Managing Director Manx Telecom

Our Directors: W A Gilbey (Chairman), C J Hall (Managing Director), Ms D Gray, Ms S Cowdry, R J Dunne, Sir Miles Walker, J H Webster.



I am pleased to report another successful year for Manx Telecom in which we delivered great service to our customers, invested heavily in the Island’s communications infrastructure and achieved strong financial results.

We have been successful in meeting the challenge of unavoidable rises in operating expenses, in particular system support, staff and energy costs, by implementing new and more efficient systems which have assisted us in increasing productivity.

A major theme this year has been the new, emerging Internet protocol (IP) based technologies, which are creating an increasingly competitive market. As a company we have taken the view that we must rapidly embrace and invest in these technologies and ensure that our people have the right skills to provide them to our customers.

Our first major deployment of IP-based technologies is the Isle of Man Government’s Connect Mann project which will use a state-of-the-art IP network to provide integrated voice and data services to 5,000 government employees across 25 departments, statutory boards and offices.

The skills our engineers and operational support staff have acquired as the project has progressed are now available to all our business customers who wish to adopt these market-leading technologies for themselves in the future.

A significant element of our revenue this year has come from our increased ability to compete and provide innovative products and solutions off-Island. Our association with Tyntec, a German communications company, now in its second year, has seen significant growth and has given us excellent experience of working with a demanding international business partner at the forefront of modern technology.

Our strong financial position has allowed us to make significant reductions in both fixed and mobile tariffs and to move towards less complex tariff structures. It has also allowed us to commit to a major new investment programme which will see us investing around £30 million over the next three years in advanced fixed and mobile technology.

The investment, which includes Europe’s first ‘3.5G’ mobile broadband network, using High Speed Download Packet Access (HSDPA) technology, and our ‘Next Generation’ fixed network, will allow us to bring advanced products at competitive prices to all our customers.

A key part of this investment is our £7.5 million Douglas North Telecommunications Centre which is now nearing completion. In

addition to its role as one of the two main nodes of our Next Generation fixed network, this facility will provide a world-class hosting environment which will support the Isle of Man Government in its strategy to make the Island a leading location for online gaming companies.

Another area where we have seen major investment over the last few years has been the provision of ADSL broadband services around the Island. Our aim has been to provide our customers with a top-quality Internet experience and to offer better connectivity for small businesses operating across the Island. I have been delighted to watch as our customers have enthusiastically embraced broadband. At the end of the financial year around 17% of households and businesses on the Island were connected to the Internet via ADSL and this number continues to grow strongly.

In February, I was very pleased to sign an agreement with Jersey Telecom and Wave Telecom which will enable us to provide seamless telecommunications solutions for customers with a presence in Jersey, Guernsey and the Isle of Man. This coordination will ensure customers of all three companies are provided with a consistent approach to their telecommunication requirements and will only need to liaise with a single point of contact for projects spanning all three Islands.

Our new residential fixed line tariff package, Choice, which offers free calls for an increased line rental, marks a new direction in the way we charge our customers for our services. It was made possible by the implementation of a new billing platform and one of our aims for the next financial year will be to continue to make use of this new facility to offer further imaginative tariff packages, both fixed and mobile, to our customers.

Other aims will be to bring more kudos to the Island through the successful launch of HSDPA-based services, to introduce even more of our customers to the enhanced Internet service offered by broadband, and to continue to increase our revenues from off the Island.

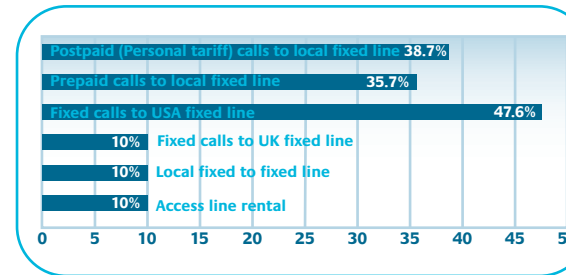
We will continue to strive to make tangible improvements in the quality of service we offer to our customers. This year’s Customer Satisfaction results have been excellent and I thank all our staff for their hard work and commitment throughout the year..

I would also like to take this opportunity to thank Bob Dowty, who retired this year, for his service to our Board. Bob has been a director of Manx Telecom since its formation in 1986 and we wish him well for his retirement. We are delighted to welcome John Webster to our Board.

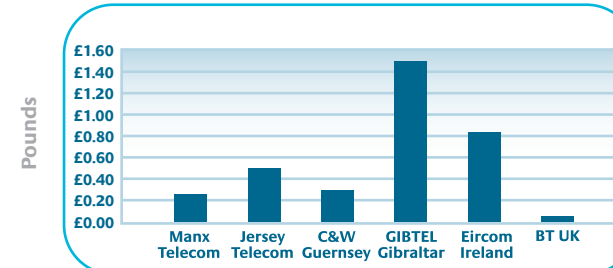
Managing Director's Report



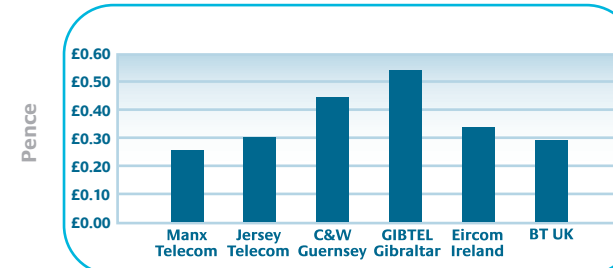
% real reductions in Manx Telecom tariffs March 2001 to Dec 2004



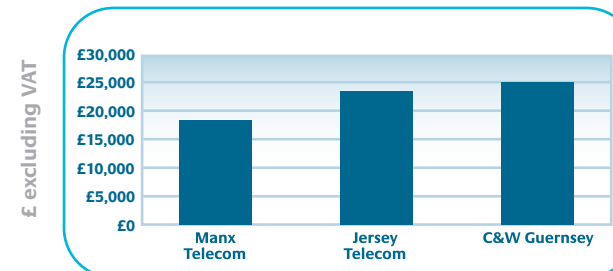
10 minute call to UK fixed, evening (per call)



3 minute call to local mobile, evening (per call)



2Megabits leased circuit to London



Source: Pure Pricing

A major investment in new billing systems has enabled Manx Telecom to offer innovative tariff packages to both fixed line and mobile customers.

The first of these packages 'Choice' was introduced on March 1 2005. It gives those fixed line customers who opt for the package free evening and weekend calls to Manx Telecom fixed line numbers, plus a 30% reduction in the corresponding daytime call tariffs. The monthly charge for the Choice tariff is just £13 (inc VAT). Early in the next financial year we plan to introduce a further Choice package targeted primarily at business customers and also to re-structure our mobile contract tariffs with the introduction of bundled free minutes.

Manx Telecom's standard residential line rental charges are still among the lowest in Europe and have not been raised since 1993, remaining at just £7.83 per month (inc VAT).

In December 2004 we simplified the structure of our international call tariffs, removing the distinction between calls made during the day and evening and weekend calls. This resulted in a significant reduction in the tariffs for daytime and evening calls which are now charged at the previous weekend rates. This change brings real benefits to businesses on the Island by reducing their costs for communicating with overseas customers, suppliers and business partners, and also to residential customers with family members or friends overseas.

This followed a 50% reduction in call charges to Spain, Portugal, Andorra and Gibraltar on November 1 2004.

In addition to lower call charges, all our residential customers continue to benefit from our Family Plus Discount which automatically gives them a 15% reduction in the cost of their top ten numbers (by value) called in each billing period. Business customers have their own discount scheme which gives them 10% off all their local and mobile calls, 15% off all their national calls and 20% off all their international calls. Both these discount schemes have been in operation for nearly five years.

We have significantly reduced the costs for our pay-as-you-go mobile customers to keep their account in active service. Previously, customers needed to use a £20 call voucher within one year but now they simply need to make one voice call or send one text in a six-month period to be able to continue using their mobile on our network.

6 “Since the ICC report was published in 2001, Manx Telecom’s main fixed and mobile tariffs have not been increased ...and in some areas have been significantly reduced, resulting in substantial reductions in real tariff level”

Extract from study by independent consultants, Pure Pricing





8 “For the financial services and technology companies ... access to reliable world class telecoms services is business critical and a major factor influencing decisions to locate on the Island.”

Extract from study carried out by independent consultants, Pure Pricing, benchmarking Manx Telecom's pricing against telecoms in competitor jurisdictions



In December 2004, a study carried out by independent consultants, Pure Pricing, on behalf of Manx Telecom and Isle of Man Government endorsed Manx Telecom's pricing strategy and confirmed that it compares favourably in many areas with competitor jurisdictions, including the UK, Eire and Jersey.

Pure Pricing was commissioned to benchmark Manx Telecom's tariffs for products most commonly used by businesses against those of other offshore centres with which the Island competes for inward investment.

Overall Pure Pricing found that Manx Telecom's business tariffs were in line with the international benchmarks.

Areas where Manx Telecom's tariffs were found to compare very favourably were calls to local mobiles, standard peak time call costs to the UK, USA and Eire and the cost of leased circuits, both those up to 20km and those to London.

The study detailed the percentage real reductions in Manx Telecom's tariffs since March 2001 and concluded that 'Since the ICC report was published in 2001, Manx Telecom's main fixed and mobile tariffs have not been increased ...and in some areas have been significantly reduced, resulting in substantial reductions in real tariff level'.

The Pure Pricing study also pointed out that 'for business customers in particular, service quality is at least as important as pricing. For the financial services and technology companies ... access to reliable world class telecoms services is business critical and a major factor influencing decisions to locate on the Island.'

In the fast-moving world of telecommunications it is vital that we continue to invest, to ensure that we can continue to provide these world class services and offer our customers all the latest products and services.

Our continuing successful performance allowed us to commit, in August 2004, to a £30 million, three-year capital investment programme.

This is being spent in a number of ways. Our new Douglas North Telecommunications Centre is due for completion shortly and

represents a £7.5 million investment in a facility which will help to future-proof the resilience of the Island's infrastructure and provide a world-class hosting and disaster recovery environment for both on- and off-Island customers.

We are also undertaking a number of planned projects which will enhance our mobile, fixed and Internet infrastructure. One of these

projects is a £2 million upgrade of our mobile network which last December made it possible for us to offer picture messaging (MMS) to our 49,000 Pronto Go prepay customers.

A vital element of world class telecommunications is the skills of our people. New technology means new and increasingly complex skill sets being required by the engineers, technicians and IT experts who install and manage ground-breaking products and services.

We spend around £300,000 each year on training, focussing in particular on technical skills, with industry-standard Cisco and Microsoft training.

One of the areas in which our investment has been most visible is the provision of ADSL broadband services for the Island. Broadband services were already provided from all our local exchanges around the Island, making them available to around 98% of households and business premises. In September 2004 we began a programme of augmenting this provision through the installation of 'mini DSLAMs' (a scaled-down version of the Digital Subscriber Line Access Modules in our exchanges) in key areas around the Island, where we were aware of customer demand which could not be supplied from a local exchange.

At the end of March 2005, nearly 6,000 households and businesses on the Island – around 17% – were connected to the Internet via ADSL broadband.

Our retail outlet in Douglas has been subject to a major refurbishment, to provide customers with an enhanced shopping environment. We have also added to our range of products, making Sony Vaio laptops and Apple iPods available in the shop.





Exceptional quality of service is a major focus for everyone in the company and is measured each year in a number of ways. During the last year customer satisfaction, as measured in regular monthly telephone surveys, achieved the 'Very Satisfied' targets across seven out of nine measures and achieved three out of nine stretch targets (see graph on the right).

Network availability for our fixed, mobile Internet and ADSL networks, exceeded targets in all seven measured areas, achieving the best performance for over three years and providing a sound basis upon which to deliver outstanding service to our customers.

The storms in January 2005 which brought down hundreds of trees around the Island, also caused damage to overhead cables, causing over 200 faults and disrupting service to over 500 customers. In these exceptional circumstances, Manx Telecom engineers responded superbly and all faults were restored within a matter of days.

Over the year, 83.9% of business faults were cleared within five working hours and 92.5% of residential faults were cleared within 7.5 working hours.

In November, all 49,000 prepay mobile accounts were transferred, without incident, to the new Alcatel platform. As well as offering new services such as Picture Messaging (MMS) and Roaming to our prepay customers, the new platform features a split geographic architecture, which will provide a high degree of resilience.

Traffic on our Manxnet Mail platform has almost doubled over the year with nearly 500,000 e-mails being handled daily.

In August and January, external audits of our ISO9001:2000 quality standard procedures were carried out, the auditor commenting on the high number of unsolicited compliments received by Manx Telecom.

The Customer Service Centre was relocated from Dalton Street to Manx Telecom headquarters in May 2004. Operator Services and Residential Sales have now become part of the Service Centre, with the aim of giving customers a comprehensive 'first point of contact'.

Total calls to our Customer Service Centre went up to 130,000, an increase of 12% on the previous year.

In January 2005, we introduced our new directory enquiry service, 'Just Ask 118695', which provides enhanced directory searches and a range of local information.

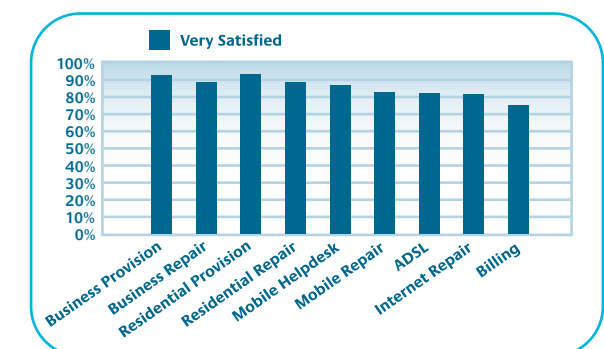
More of our customers opted to pay their bills over the telephone this year, an increase of 30% over the previous year.

A total of 5,200 business and 13,000 residential orders were processed during the year. The 'Configurator' service, offering assistance to customers setting up ADSL, has proved popular with additional engineers being trained for this role to fulfil demand.

There have been three incidences of Internet Distributed Denial of Service (DDOS) attacks on corporate customers websites' this year. We have responded by investing in state of the art analysis and defence technology and by implementing a number of changes in the network to improve resilience, with further enhancements planned to combat this growing threat.

We first began setting up roaming agreements in 1996, following the launch of our Pronto mobile service, initially with UK operators. We now have roaming agreements in 79 countries around the world. This year, we signed our 150th roaming agreement with People's Phone in Hong Kong. We also have in place mobile data (GPRS) roaming agreements with 19 operators in 10 countries.

Customer satisfaction



10 "I don't recall any other company with so many unsolicited compliments"

Quote from Lloyd's auditor in Manx Telecom's quality audit report.





12 “The service is great ... well done! This is just the sort of initiative we need in order to present the Isle of Man as properly geared up for business in the 21st century.”

Customer e-mail, commenting on the provision of free WiFi Internet access at key Island locations including the airport and Manx Museum.



In December we initiated a project, in partnership with our parent company, O2, and Lucent Technologies, to deploy Europe's first super-fast (3.5G) mobile data network.

The 3.5G network will incorporate High-Speed Downlink Packet Access (HSDPA) technology and IMS (Internet Protocol Multimedia services) and is due to go live in November 2005. We will simultaneously launch 3G services, with mobile handsets, and 3.5G services, with network cards.

The HSDPA technology will overlay Manx Telecom's existing mobile network and will allow customers to access next-generation services on the move at speeds equivalent to those enjoyed by fixed broadband networks: downloading high quality film clips, audio and video, and accessing interactive multiplayer games, multimedia music tracks, 'push-to-watch' services and large email attachments – 3 times faster than today's commercial 3G networks.

We have another project team working on the Isle of Man Government's Connect Mann voice and data network. When completed, this will be the first network of its kind in the public sector in the world to offer end-to-end connectivity. As well as voice calls it will carry everything from financial data to health service and legal data – a wide range of government information from a diversity of sites, from GPs' surgeries to sub-post offices, linking 5,000 government employees around the Island.

Designs for the Connect Mann network received final approval last year and it is currently being installed by Manx Telecom and their partners in this project, Dimension Data.

As well as linking sites which had not previously been connected to the government network, existing local area network components will be replaced and upgraded as required – the Department of Home Affairs, for example, will move from a data-only network to an integrated voice and data network. In all, 175 government offices and sites will be connected, sending voice and data traffic via the latest VOIP (Voice Over Internet Protocol) technology.

The knowledge and skills acquired by our technicians and engineers who are working on this project will now be available to Manx companies as they increasingly adopt this market-leading technology themselves.

On behalf of Isle of Man Government we have also completed the installation of WiFi hotspots at a number of key locations around the Island: Isle of Man Airport, the Sea Terminal, the Villa Marina, the Manx Museum and the International Business School.

Because government is keen to understand the potential benefits that such technology can bring to members of the public living, working and travelling in the Isle of Man, it has taken the decision to make Internet access free of charge at these WiFi hotspots for the first year. During this time, the WiFi hotspots will be run as a trial and government and Manx Telecom will analyse the usage and feedback that results.

In December 2004 we became the first company on the Island to achieve the ISO 17799 Information Security standard. This world-recognised standard is audited by Lloyd's Quality Assurance and the rigorous assessment required to achieve it involved training in security awareness for all staff.

Leading the way



14 “Thank you once again for the generous sponsorship given by Manx Telecom towards the running of the Computer Bus. ...this project continues to be of major benefit to schools around the Island.”

John Thorley, Department of education, ICT Adviser.



In December 2001 we achieved the ISO 14001 environmental standard, one of the first companies on the Isle of Man to do so. The process of assessment for this standard included identifying the main ways in which our business impacts upon the environment and developing an Environmental Management System to minimise this impact. An example of this was the investment put in place replace all our single-skinned underground diesel tanks with above ground double-skinned tanks, to minimise the possibility of leaks and spills.

Another area where our business impacts on the environment is the disposal of mobile handsets. If sent to landfill sites, these have component parts such as batteries and screens which contain elements harmful to the environment.

We participate in the Fonebak scheme, run with Shields Environmental, to recycle mobile phones, and during last year we recycled or reclaimed 394 mobiles. Those which are suitable are refurbished and used in developing countries where mobile coverage can be good but new mobile handsets typically cost more than the average person can afford to pay. Mobiles which are not suitable for this purpose are recycled, with reusable materials being recovered and hazardous elements disposed of safely. Revenue from this is to be used to help fund environmental programmes on the Island.

Our community investment activities are primarily focussed on youth, education and health, and areas where communications technology can enrich people's lives. A prime example of this is the Manx Telecomputer Bus, a resource enthusiastically received by children at schools around the Island since 1998. Kitted out with 24 of the latest Apple i-Macs, it allows the children do a range of computer-based work, including 3-D design.

Following a preliminary trial by our parent company O2, in the UK, we have set up an asthma study on the Island, using mobile technology to help asthma sufferers monitor their condition. The

study, conducted with the DHSS and Think Positive Asthma (a UK medical technology company), involves 15 patients between the ages of 19 and 25, and was featured at the British Irish Council summit meeting on Telemedicine, held recently on the Isle of Man.

We provide work placements for young people with special needs at our offices and support a number of junior sports teams and coaching programmes, including the Road to Wimbledon junior tennis tournament and a coaching programme for youngsters at Cronkbourne Cricket Club. We also supported the Isle of Man Under 15 Cricket Team who were victorious in the 2nd Division European Championships, held in Italy.

Manx Telecom employees have also been active in supporting the Hospice and Mighty Oak appeal over the last year, raising £20,000 for the appeal. This sum includes an element of matched funding from O2 and £4,000 prize money for the two organisers, Stevie Smith and Robbie Greenwood, as runners-up in the O2 Community Awards.

We support the Crimestoppers initiative on the Island and are represented on its board. We also promote Internet usage for older people through support for Help the Aged drop-in Internet centres and we have held evening workshops on new technology which have proved very popular.

Manx Telecom's Compliment scheme allows local charities to benefit when customers contact us to pay tribute to a member of staff who has given them especially good service. The winners of the 'best compliment' each month are given the chance to award a cheque to their favourite local charity. On behalf of the overall winner each year we donate a further £250 to their chosen charity.

Over the last four years we have donated a total of around £15,000 to local charities as a result of the Compliment scheme.





16 “Whilst in general margins are falling we continue to make significant investments in future technology to help support the Island in attracting new business opportunities.”

Mike Dee, Financial Director Manx Telecom



A satisfactory year with overall revenue growing by 7.5%, this included almost £1m of revenues from off-island activities. The promotion of the Company's services off-island remains a priority for the Company and for the first time we have dedicated resource based in the UK to focus on this activity.

Whilst revenues have increased this year, profits have remained broadly static. This reflects price reductions and the lower margins associated with the new business areas that are replacing the decline in traditional revenues in some areas, for example fixed line calls.

Mobile revenues continue to grow, in particular pre-paid and SMS revenues, but the rate of growth in on-island revenues has slowed substantially.

Fixed line revenues continue to decline, reflecting the continuing fall in prices and the growth in use of Voice Over Internet Protocol (VOIP) technology. The significant growth in broadband coverage on the Island has assisted the use of the internet to by-pass traditional forms of communication.

The work on the Isle of Man Government Connect Mann project has been significant this year and revenues from this project have contributed to this year's revenue growth, but at a low margin. The ongoing installation of the Government network will further reduce local call revenue by allowing all calls between sites on the Government network to be free of charge.

Capital investment during the year was over £10 million, a further increase on last year with a significant portion of this spend on the

new Douglas North Telecommunications Centre. This project is expected to be completed mid 2005. Further significant investment decisions are required in the next twelve months in particular with the introduction of the next generation of mobile and fixed line services planned for the next 2 – 3 years.

The desire to support the growth in the Island's economy by helping to attract new business remains a priority for the Company. In order to do this capital commitments remain high and it is essential that the company continues to generate funds to support these initiatives whilst giving good value for money to all our customers.

As expected the actuarial valuation for the defined benefit pension scheme which took place in April 2004 indicated a significant deficit. The deficit reported under FRS17 would have been £8.7m resulting in a reduction in the net assets of the company and a significant increase in the ongoing funding costs of the scheme.

As the company moves to reporting under the new IFRS standards next year this deficit will clearly be identified on the balance sheet. As a result of this deficit, the company contributions to the pension fund were increased from September 2004.

In summary, another satisfactory year with revenue growth continuing but from different areas of the business than in previous years. The shape of the revenue streams are changing significantly in particular from fixed line and these changes are expected to continue into the future. Movement to non-traditional and off-island business is essential to maintain revenue growth in the future.



Profit and Loss Account

Balance Sheet

For the year ended 31st March 2005

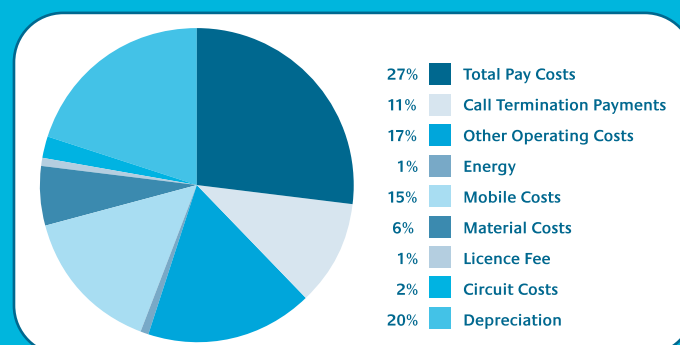
	2005 £'000	2004 £'000
Turnover - continuing operations	53,286	49,588
Operating costs	(37,893)	(34,388)
Operating profit - continuing operations	15,393	15,200

As at 31st March 2005

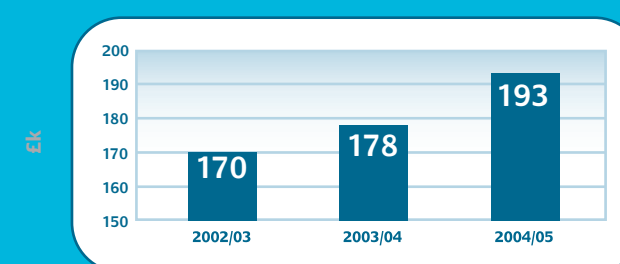
	2005 £'000	2004 £'000
Fixed assets		
Intangible assets	-	58
Tangible assets	56,498	53,988
	56,498	54,046
Current assets		
Stocks	526	606
Debtors	34,267	42,450
Cash at bank and in hand	1,467	1,891
	36,260	44,947
Creditors:		
Amounts falling due within one year	(13,958)	(34,673)
Net current assets	22,302	10,274
Total assets less current liabilities	78,800	64,320
Provisions for liabilities and charges	(4,829)	(4,775)
Net assets	73,971	59,545
Capital and reserves		
Called up share capital	12,000	12,000
Profit and loss account	61,971	47,545
Equity shareholders' funds	73,971	59,545



Manx Telecom Operating Costs 2004/2005



Revenue per Head



Capital Investment

