

JT (Jersey) Limited
Regulatory Financial Reports 2023
Explanatory Note
Version 1.0



Non-Confidential Version

25th October 2024

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Glossary

Abbreviation	Full Name
DC	Data Centre
FAR	Fixed Asset Register
GL	General Ledger
JCRA	Jersey Competition Regulatory Authority
HCA	Historic Cost Accounts
JT	JT (Jersey) Limited
RFR	Regulatory Financial Reports or Template
RFRL	Regulatory Financial Report Line
SDR	Service Distribution Ring
TB	Trial Balance
WBA	Wholesale broadband access
WLL	Wholesale on-island leased
WVA	Wholesale voice access
WVI	Wholesale voice interconnect

Introduction

The Jersey Competition Regulatory Authority (JCRA) issued a statutory Final Decision (Final Decision) on 29th May 2024 for regulatory financial reporting, which applies to JT (Jersey) Limited (JT). This requires JT to supply, for each year, a publishable and full version of the regulatory financial reporting (RFR) template as well as a publishable and full version of this explanatory note. This document is the non-confidential publishable version of the explanatory note.

The form and content of the RFR are based on the template accompanying the Final Decision. In essence, the RFR includes the following:

- Income Statement by market;
- Statement of Mean Capital Employed by market;
- Operating cost breakdown by market (broad categories such as General Management, Network Operations, Electricity etc.);
- Network asset values and Depreciation breakdown by market (broad asset categories such as Buildings, Radio Access Network, Fibre Cable etc.); and
- Reconciliation - for revenues, costs, returns and capital employed to JT (Jersey) Limited's annual financial statements.

The markets included in the published RFR are:

- Wholesale voice access (WVA);
- Wholesale broadband access (WBB);
- Wholesale on-island leased lines (WLL); and
- Wholesale voice interconnect (WVI).

The remainder of the document is set out as follows:

- **Principles** describes the basis on which the RFR have been prepared;
- **Products and Markets** describes which products are mapped to each Market;
- **Model Overview** describes the inputs to and outputs from the cost model used to prepare the RFR;
- **Model Design** sets out the overall design of the cost model;
- **Allocation Methodologies** provides details of how costs are allocated in the cost model;
- **Transfer Charges** describes how transfer charges reported in the RFR are calculated; and
- **RFR Preparation** provides details of how the outputs of the cost model are presented in the RFR.

Principles

The RFR are prepared on a fully allocated historic cost basis (HCA). Allocations are made between products, using the following rules:

- **Causality:** Revenue (including transfer charges), costs (including transfer charges), assets and liabilities are allocated to cost components, products and markets in accordance with the activities which cause the revenues to be earned or costs to be incurred or the assets to be acquired or liabilities to be incurred. Where it is not possible to allocate revenues, costs, assets and liabilities in accordance with the preceding sentence, the allocation is such as to present fairly the revenues, costs, assets and liabilities accounted for in the RFR for each market as a whole.
- **Objectivity:** The allocation is objective and not intended to benefit any service or market.
- **Consistency:** There should be consistency of treatment from year to year. Where there are material changes to allocation methods, the parts of the previous year’s RFR affected by the changes shall be restated with appropriate explanatory notes.
- **Transparency:** This Explanatory Note should provide a transparent description of the methods used in the preparation of the RFR.

Products and Markets

The table below sets out how each of the internal and external products included in the cost model are mapped to Markets.

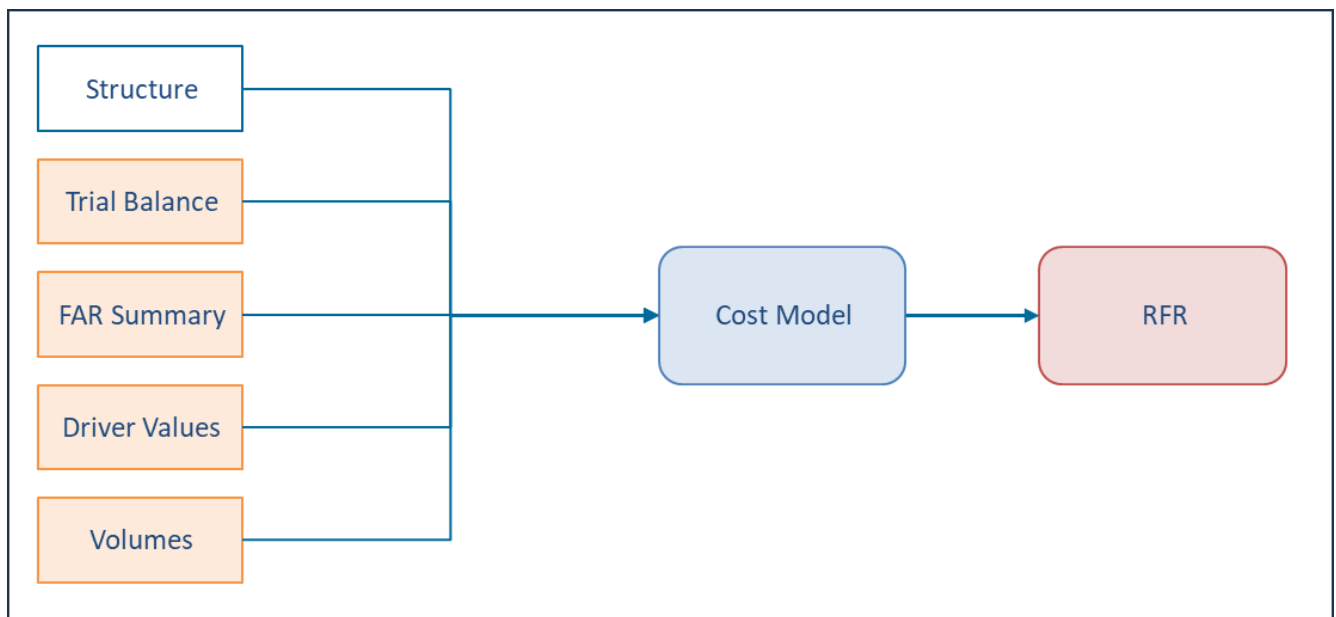
Market	Products
WVA	IWH-P67-INSTALL - Internal WHL Line Rental – Installation IWH-P67-RENTAL - Internal WHL Line Rental - Rental WHL-P67-INSTALL - Wholesale Line Telephony - Installation WHL-P67-RENTAL - Wholesale Line Telephony - Rental
WBB	IWH-P61-INSTALL - Internal WHL Broadband – Installation IWH-P61-RENTAL - Internal WHL Broadband - Rental WHL-P61-INSTALL - Wholesale Broadband - Installation WHL-P61-RENTAL - Wholesale Broadband Rental
WLL	IWH-P70-INSTALL - Internal WHL LL On-Island – Installation IWH-P70-RENTAL - Internal WHL LL On-Island - Rental WHL-P70-INSTALL - Wholesale LL On-Island - Installation WHL-P70-RENTAL - Wholesale LL On-Island - Rental
WVI	IWH-P67-VOICE - Internal WHL Line Rental - Voice WHL-P35-VOICE - Mobile Call Termination and Transit WHL-P67-VOICE - Wholesale Line Telephony – Voice WHL-P63-VOICE - Fixed Call Termination and Transit WHL-P14-VOICE - Fixed Interconnect Voice Links

Internal Products are those which are transfer charged to other Markets.

Cost Model Overview

JT's RFR are prepared using a cost model which uses data from the company's financial and operational systems to calculate revenues and costs for the specified markets. The overall design of the cost model is set out in Figure 1 below.

Figure 1: Cost Model Overview



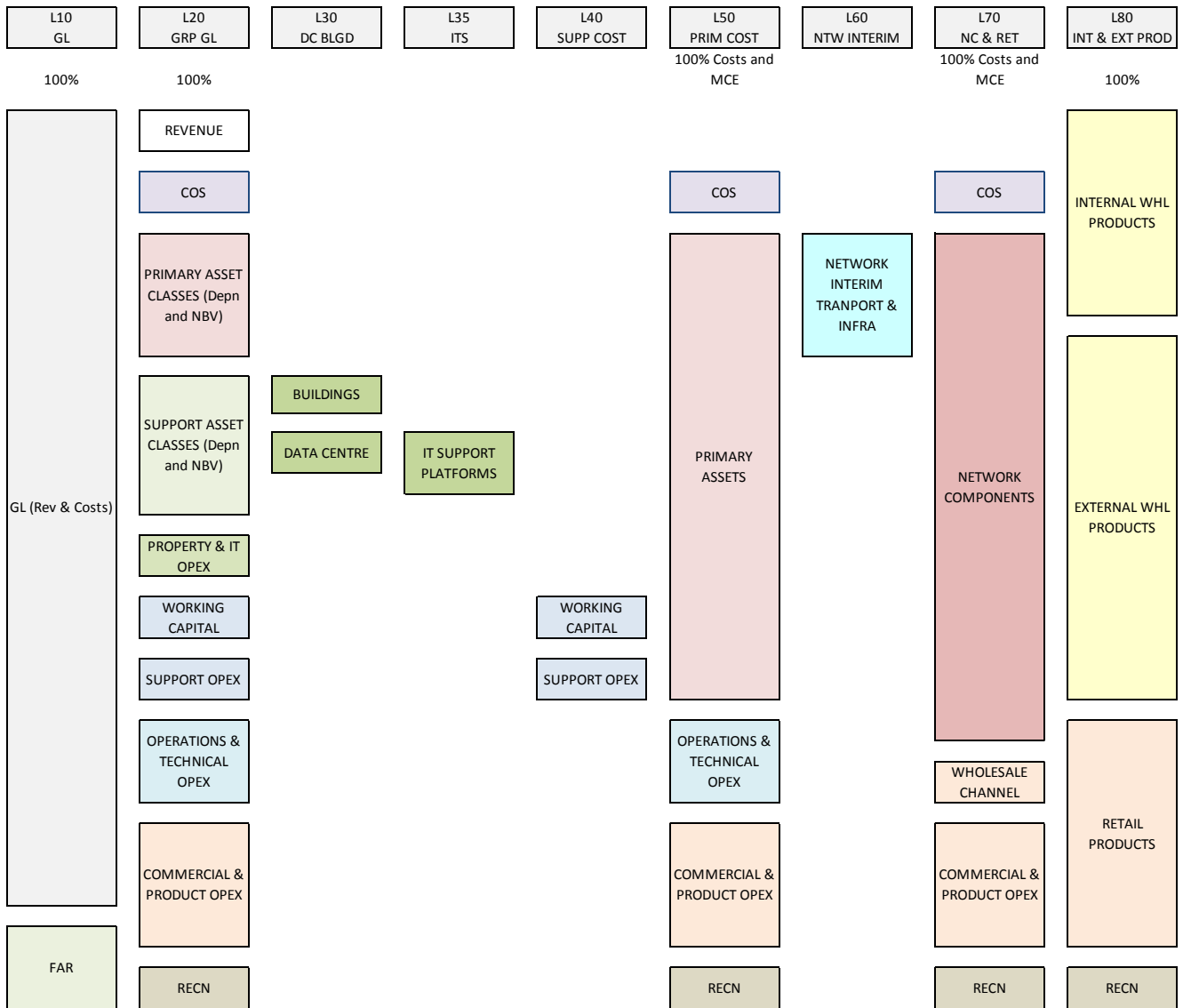
The inputs to the cost model are:

- **Structure:** A list of all objects (GL pools, FAR classes, activities, components, products etc.) together with how they are attributed or allocated in the cost model.
- **Trial Balance:** JT's entire Trial Balance is brought into the model.
- **FAR Summary:** JT's Fixed Asset Register (FAR) is brought into the model by asset class in order to support production of the RFR.
- **Driver Values:** Where costs which are allocated to more than one cost category (activity, component, service etc.), Drivers are used to allocate costs. These are input to the cost model using standardised Driver templates.
- **Volumes:** Service volumes are sourced from JT's billing systems, summarised by service and then input into the cost model. They are used to drive network component costs to products, to calculate transfer charges and to calculate unit costs.

Cost Model Design

The cost model follows the usual layered approach in cost allocation models – revenues, costs and capital employed balances from the general ledger are entered at the first layer (L10) and cascade through various activities and categories to final products at the final layer (L80). The objects allocated within each layer of the cost model are shown in Figure 2 below.

Figure 2: Cost Model Layers



The following sections describe the high-level contents of each layer and the basis for their onward attribution (costs are attributed directly to an object) or allocation (where costs are allocated to multiple cost categories using a driver).

Layer 10 - GL (General Ledger)

Revenue, cost and capital employed balances revenues are entered at this level from the GL and FAR.. All objects are grouped into homogenous objects in Layer 20 – Grouped GL.

Layer 20 - GRP GL (Grouped GL)

This layer aggregates GL objects for the purposes of onward attribution and allocation. The majority of objects are attributed to objects in subsequent layers; however, buildings and electricity costs are allocated between different building types in L30 – Data Centre and Buildings.

Layer 30 - DC BLDG (Data Centre and Buildings)

This layer is used to allocate office buildings to support and primary cost centres, and to allocate Data Centre objects between internally hosted applications and external customers.

Layer 35 - ITS (IT Support)

This layer is used to allocate IT support platforms (ERP platform, Enterprise Applications, End-user etc.) to objects in L40 – Support Costs and L50 – Primary Costs.

Layer 40 - SUPP COST (Support Costs)

This layer is used to allocate Working Capital (a grouping of Inventory, Debtors, Cash at Bank, Short-term creditors) and Support Cost Centres (General Management and Corporate Products) and Support Cost Centres (General Management and Corporate Products) to Primary Cost Centres and Assets in L50 – Primary Costs.

Layer 50 - PRM COST (Primary Costs)

This layer contains Primary Cost Centres (Commercial, Product, Operations, Technology), Cost of Sales, Primary Assets (Network Buildings, Fixed and Mobile Access, CPE, Outside Plant, Site Infrastructure, Switching and Control Platforms, Transport), Primary IT Platforms (CRM, Contact Centre) and Excluded (Excluded Accounts) objects. Each object contains its own directly attributed costs from L20 plus allocated support costs. Objects in this layer are allocated to network interim objects in L60, network components and retail objects in L70 - Network Components and Retail Costs.

Layer 60 - NTW INTERIM (Network Interim)

This layer contains fibre Infrastructure (FTTX, Access Fibre, Core Fibre) and site infrastructure (Fixed Site, Mobile Site) which are allocated to network components.

Layer 70 - NC & RET (Network Components and Retail Costs)

This layer contains Network Components (Installations, CPE, Access, Core, IT Platforms, Wholesale Channel), Cost of Sales, Retail Costs (Product and Commercial costs) and Excluded (Excluded Accounts). It represents 100% of costs and capital employed. Network Components are in general allocated to Products based on subscriber numbers or route-factored volumes.

Layer 80 – INT & EXT PROD (Internal & External Products)

This layer contains Internal Wholesale Products, External Wholesale Products and Retail Products, each of which is mapped to a market. Internal Products are those which are transfer charged to Retail Products (for example JSY-Internal WHL LL On-Island - Rental - 10Mbps represents the wholesale cost of delivering the product. It is “sold” to JSY-Retail LL On-Island - Rental - 10Mbps, whose costs in L80 represent only the retail costs of the product).

Allocation Methodologies

This section sets out the key drivers used to allocate costs in each layer.

L20 Drivers

Driver Code	Description
ID_Intangible WIP Analysis	This driver allocates Intangible Assets – Other to primary assets, based on an analysis of the account.
ID_AUC JSY Analysis ID_AUC GSY Analysis	These drivers allocate Assets Under Construction to primary assets, based on an analysis of the accounts.
ID_PropertyRatesAnalysis	This driver allocates various property related costs (rates, insurance, repairs and maintenance) between building types (e.g. Offices, Exchange buildings, Data Centres). Rates are recorded by individual site. Insurance is a lump sum and is apportioned on the same basis as rates. Repairs and maintenance are variable and are apportioned on the same basis as rates. Each site is mapped to building types (for example West Exchange is mapped to Exchanges). Where a site has multiple uses, such as Offices and Exchanges, these are further split by area occupied.
ID_PropertyRentalAnalysis	This driver allocates annual rental costs between building types (e.g. Offices, Exchange buildings, Data Centres). The rentals are recorded by individual site. Each site is mapped to building types. Where a site has multiple uses, such as Offices and Exchanges, these are further split by area occupied.
ID_BuildingServiceChargeAnalysis	This driver allocates service charges (cleaning, etc) between building types (e.g. Offices, Exchange buildings, Data Centres). Service charges are recorded by individual sites. Each site is mapped to building types. Where a site has multiple uses, such as Offices and Exchanges, these are further split by area occupied.
ID_BuildingLeases	This driver allocates capitalised building lease costs between building types. It is based on an analysis of annual lease costs by site.
ID_BuildingArea	This driver allocates buildings between building types based on the area per building (weighted average). For all SDRs and HUBs, an average building area is estimated.
ID_ITNetworkSWAnalysis	This driver allocates IT costs to support and primary IT platforms. It is based on an analysis of annual spend per software package. Packages are mapped to platforms. The costs of virtual SaaS-based IT platforms are further split based on usage.
ID_ElectricityPerSiteCosts	This driver allocates electricity costs between building types (e.g. Offices, Exchange buildings, Data Centres). It is based on an analysis of electricity costs incurred per building type. Where a building has multiple uses, such as Offices and Exchanges, these are further split based on building area.
ID_LicenseFeeAdjustment	This driver adjusts the license fee into the actual annual license fee and minor differences (due to prior year provisions etc.)

L30 Drivers

Driver Code	Description
ID_FTE	The number of full-time equivalent staff per Department (includes trainees, contractors etc.).
ID_DataCentreRackSpace	This driver allocates data centre passive costs (e.g. building costs between external customers and internal virtual infrastructure) based on the number of racks per application hosted within the data centres.
ID_DC_PlatformInstancesPerSite	This driver allocates internal virtual infrastructure (e.g. hardware, data storage and hosting software license costs) to different support and primary applications based on the number of instances hosted for each application within the data centres.
FD_NBV, GBV Total	These drivers allocate minor values such as borrowing costs (on assets) between asset classes
ID_AverageUsageTariff*ID_NetworkVolumes ID_AverageUsageTariff*ID_Subscribers ID_Subscribers	These drivers allocate revenues between more detailed products (for example, mobile postpaid revenues are allocated between voice, SMS and data)

L35 and L40 Drivers

Driver Code	Description
ID_Pay Costs	Pay costs per Department. This driver is used to allocate various support costs, such as the ERP Platform.
FD_Opex & Capex	Opex per Department and Capex per asset class (in year asset additions). This driver is used to allocate various support costs, such as Working Capital.

L50 Drivers

Driver Code	Description
ID_Exchange_PlatformInstancesPerSite	This driver allocates exchange related building costs to different primary applications, based on the number of instances hosted for each application.
ID_FibreNetworkPortion	This driver allocates fibre assets (e.g. fibre cable) and duct (manholes, poles, joint boxes) between core and access fibre. The allocation is based on an engineering estimate of the total length of core and access fibre in the JT network.
ID_NoOfSites	This driver allocates network site power, security and passive infrastructure costs between mobile and remote fixed access sites. The driver is based on the number of mobile and fixed access sites. The average infrastructure cost per mobile site is more expensive than a remote fixed site. A weighting is therefore applied to the mobile site figure.
ID_WorkforceManagementStatistics	This driver allocates Engineering Operations costs for all relevant engineering field services. The driver is based on the total time logged for different tickets sourced from the workforce management system (Worx). The ticket type is mapped to the

Driver Code	Description
	corresponding network component by the Network Operations team manager.
ID_ServiceOperationsInteractions	This driver allocates Service Centre and Quality of Experience costs between retail (consumer, enterprise and international) interactions and technical interactions, such as faults (which are allocated to network and engineering operations). It represents the number of tickets recorded through service centres and digital channels by type (not time-weighted).
ID_FARGBRouterDepnAnalysis	This driver allocates CPEFixed-GBRouters between CPE Broadband and In-building cabling based on depreciation post and pre August 2018 (prior to this date a router subsidy was provided to all OLOs).
ID_NtwDevCoreNetworkSWAnalysis, ID_NtwDevNtwInfraSWAnalysis	These drivers allocate Support & Maintenance costs between network components based on detailed account analyses.
ID_NtwTechCentreResourceTime, ID_NtwOperCentreResourceTime	These drivers allocate Technical Network Centre and Network Operations Centre costs. They represent management estimates of time spent (number of FTEs) on each network component.
ID_SolutionDesignResourceTime	This driver allocates Technology:Solutions & Service Design costs. It represents a management estimate of time spent (percentage) on each network component.
ID_NtwDevCoreNtwResourceTime, ID_NtwDevIPNtwResourceTime, ID_NtwDevNtwInfraResourceTime, ID_NtwDevSiteReliabilityResourceTime	These drivers allocate Network Development costs. They represent management estimates of time spent (number of FTEs) on each network component.

L60 Drivers

Driver Code	Description
ID_MobileSiteSharingVolumes	This driver allocates mobile site infrastructure costs between internal JT RAN-related mobile services (e.g. data, voice, etc) and the mast site sharing service. It is based on the number of shared versus dedicated owned sites. It assumes costs on a shared site are equally apportioned between JT and the OLO.
ID_IPCoreBandwidth	This driver allocates IP Core and transmission assets between Virtual IP Core networks. It measures the average peak traffic of Fixed voice, Mobile voice, Fixed broadband and Mobile broadband traffic transported across the IP Core network. The traffic is measured at the egress points of the IP Core network. Voice figures are based on the number of concurrent calls which are multiplied by 100 Kbps (average bandwidth per call). The figures are combined with the total Leased line bandwidth to allocate IP Network core to relevant service groups (mobile and fixed calls, mobile and fixed broadband and leased lines).
ID_AveFibreLength FD_NoOfFTTx FD_NoOfFibres	This driver represents the average length of backhaul for Mobile RAN and Fixed remote sites, and FTTX. The backhaul length of both FTTX and Fixed Access fibre links is multiplied by the number of FTTX (FD_NoOfFTTx) and access Fibre links (FD_NoOfFibres) to split FTTX or Active fibre costs between Mobile RAN and Remote Fixed Infrastructure network components. The length is based on an engineering estimate of the average fibre length of backhaul.



L70 Drivers

Driver Code	Description
ID_Volumes	<p>Volume drivers are used to allocate the majority of network components to products. The following volume metrics are included within the drivers:</p> <p>ID_BilledVolumes: Billed product volumes as per the reported Unit of Measure (UoM)</p> <p>ID_Subscribers: Number of subscribers per product (where relevant)</p> <p>ID_BroadbandCPESubs: Number of broadband subscribers</p> <p>ID_Installations: Number of installations for installation-related products</p> <p>ID_NetworkVolumes: Network Volumes for usage-based products e.g. bandwidth for leased line products</p> <p>ID_ChargeableEvents: Number of chargeable events per product. The figure is used to allocate event-based network components (e.g. HLR or STP).</p>
Route factors and conversion factors	<p>These are multiplied by ID_Volumes drivers to allocate network components:</p> <ul style="list-style-type: none"> - Route factors: A factor which represents the average usage of a network component for specific product routes/paths through the network. Multiple paths/routes can exist for a single product. - Conversion factors: A conversion factor is required if the Unit of measure (UoM) of the network component is different than the product UoM.
ID_VoiceOutPayments	<p>This driver allocates voice outpayments between wholesale and retail, based on an analysis of the relevant account.</p>
TC (Transfer Charge)	<p>This driver allocates Fixed Interconnect - Voice Usage Costs (cost of sales) to internal wholesale rental products based on the transfer charge to retail (i.e. a proxy for revenue)</p>
FD_Revenue JSY Consumer FD_Revenue JSY Enterprise FD_Revenue JSY International FD_Revenue Consumer FD_Revenue Enterprise FD_Revenue	<p>Revenue drivers are used to allocate the majority of retail costs to retail products.</p>

Transfer Charges

Transfer charges from Internal Wholesale to retail and other markets are based on tariff times volume. The table below sets out the basis of each set of transfer charges:

Market Name	Transfer Charge Basis
Wholesale voice access INSTALLATION	Wholesale Line Rental Agreement - Average of Connection charge without engineer visit and with engineer visit. Mix based on engineering assumption.
Wholesale voice access RENTAL	Wholesale Line Rental Agreement - Wholesale tariff.
Wholesale BB access INSTALLATION	Wholesale Broadband Agreement – Wholesale tariff.-
Wholesale BB access RENTAL	Wholesale Broadband Agreement - Wholesale tariff (annualised average).
Wholesale on-island LL INSTALLATION	Wholesale Private Circuit Agreement - Tariff is speed and technology dependent (Ethernet Fibre Link; Ethernet Private Line; Fibre Channel), so a weighted average is used, based on actual retail usage.
Wholesale on-island LL RENTAL	Wholesale Private Circuit Agreement - Tariff is speed and technology dependent (Ethernet Fibre Link; Ethernet Private Line; Fibre Channel), so a weighted average is used, based on actual retail usage.
Wholesale voice interconnect	Reference Interconnect Offer rates - A blended average is calculated (based on volumes for on-net (fixed to fixed) and off-net (fixed to OLO, mobile, international). The rates used for on-net are effectively origination plus termination; for off-net calls the origination tariff is used.

RFR Preparation

Revenues, costs, assets and liabilities in the cost model are categorised for reporting in the RFR using Regulatory Financial Report Line (RFRL) classifications which are attached to GL and FAR lines at layer 10. These are carried through the model to L80, such that the total revenue, cost and capital employed of each product can be analysed by the RFRL dimension. Each product is mapped to a market in L80.


By adding Transfer Charges and summing products by market, the RFR are produced.

Directors Statement

JT has been directed under Conditions 33.1 and 34.2 of its Telecommunications Licence (“the Licence”) to maintain accounting records for each of the markets and/or product groupings currently constituting a specified activity for the purposes of Conditions 33.1 and 34.2 of the Licence. The regulatory financial report for the year ended 31st December 2023 has been prepared in accordance with the framework set out in the Final Notice (JCRA 24/27) dated 29th May 2024.

I confirm that the regulatory financial reports for the year ended 31st December 2023 have been reconciled to the JT (Jersey) Limited Statutory Accounts and to the best of my knowledge have been prepared in accordance with the Final Notice (JCRA 24/27) dated 29th May 2024.

Signed for and on behalf of the Board of JT (Jersey) Limited on 25th October 2024.

DocuSigned by:

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Helene Narcy
Chief Financial Officer