



Regulatory Authority Activities & Audited Financials

January 2013 - March 2014



**REGULATORY
AUTHORITY**
OF BERMUDA

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Telecommunications
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CHAIRMAN’S FORWARD

On the 28th January, 2013 The Regulatory Authority started with three part-time Commissioners, a Chief Executive Officer, an executive assistant seconded from the Bermuda Government and an empty office space.

This is the Regulatory Authority’s first Annual Report on Activities which covers our operations for the past 15 months. As you will read, we have met and sometimes exceeded the aggressive legislated deadlines imposed on the Regulatory Authority by the Electronic Communications Act 2011 and the Regulatory Authority Act 2011. We have also gained the trust and respect of the electronic communications carriers, the public, the Bermuda Government and industry stakeholders. To say that the telecommunications industry in Bermuda has undergone great changes in the Regulatory Authority’s first 15 months of operations is an understatement.

This report will explain the various measures taken, decisions made and outcomes achieved by the Regulatory Authority during this period. These measures will set the regulatory landscape and significantly influence the telecommunications industry markets of tomorrow and, consequently, the extent to which Bermuda will be able to participate in the Digital Economy going forward.

Introducing and sustaining competition in such markets is the goal and it is a tall order indeed. The basic model of a Government generally setting policies for an independent regulator to implement has emerged in the last 20 years all over the globe. Presently, in excess of 150 countries worldwide have an independent telecommunications regulator.

Although being slow to embrace this philosophy, Bermuda should rest assured that the model works very well. The Regulatory Authority of Bermuda is a positive example of a very successful independent regulatory body that has created a mutually respectful regulatory climate in Bermuda, in which the regulator, the industry, the public interest and Government can move forward together.

The Regulatory Authority is required to involve the public, carriers and stakeholders in such a way that they are afforded the opportunity to shape the decisions it makes. You would have read multiple consultations that have been undertaken by the Regulatory Authority (RA); note that the responses receive are taken very seriously. The input has been examined and understood and the RA believes that it has been able to balance its decisions and reasoning as a direct result of the input received.

Most of the burden of responding to our consultations has fallen on the Integrated Communication Operating License-holders (ICOL), and sometimes in the very limited time frames dictated by legislation and challenging paradigm shifts. The efforts made by these carriers to assist the Regulatory Authority with their expert input and acceptance of our decisions, has been appreciated.

Our Chief Executive, Philip Micallef, has perhaps accomplished the impossible. He has taken the considerable dysfunction that existed on the day he arrived from Malta and, with professionalism and pragmatism, solved many of Bermuda's telecommunications issues. He and the rest of the people at the Regulatory Authority (our Commissioners Carl Musson and Angela Berry, our past Commissioner John Cunningham and our employees of Beverley Evans, Lene Hypolite, Kyle Masters, Nakia Smith, Judith Welch, and Michael Wells) have created a pretty level playing field where the Regulatory Authority acts as the impartial arbiter. Our job is to encourage fair play and help us all to gain from a vibrant, successful industry, which we all use every day, to the betterment of Bermuda.

It has been an honour to participate in building the Regulatory Authority from inception and a privilege to serve with its Commissioners, Staff and Stakeholders to implement our strategies and direction.



Kent Stewart
Chairman.

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REGULATORY AUTHORITY ACTIVITIES

During its first 15 months, the activities of the Regulatory Authority (RA) centered on the following strategic objectives:

Institutional Capacity Building

Establishing itself as an efficient, effective and independent regulator by employing and training a qualified permanent staff; using appropriate information technology, adopting transparent administrative procedures, preparing reasonable expense and revenue budgets and imposing appropriate financial controls.

Completion of the transition from the Telecommunications Act 1986 regime

Completing the transition from the regulatory regime that existed under the Telecommunications Act 1986 (TA86) to the new regime created under the Regulatory Authority Act 2011 (RAA) and the Electronic Communications Act 2011 (ECA). The RA will continue to enforce specific TA86 provisions until they expire, making any needed revisions to pre-existing administrative determinations and authorizations and by resolving matters transferred from the Ministry and the Telecommunications Commission.

Promotion of Sustainable Competition

Promoting sustainable competition for the purpose of enhancing consumer welfare by implementing the new licensing framework contained in the ECA, eliminating artificial barriers to competition among Integrated Communications Operations Licence (ICOL) holders, requiring those with significant market power to implement effective ex ante remedies, enforcing prohibitions against anti-competitive conduct, resolving interconnection and access disputes between providers and enhancing the ability of users to switch providers.

Consumer Protection

Protecting the interests of Bermudian consumers by ensuring that all end-users have access to electronic communications networks and services, implementing requirements that ensure transparency, protecting consumers from unfair or abusive practices and resolving disputes between end users and service providers.

Efficient use of scarce resources

Ensuring that scarce resources, such as radio spectrum, are allocated and used efficiently by conducting investigations and, as necessary, requiring that inefficiently used resources be relinquished or shared.

Promoting Bermudian employment and Bermudian ownership

Adopting policies that promote the growth of the Bermudian economy in a manner that creates employment and ownership opportunities for the people of Bermuda.

The following main activities have been undertaken pursuant to the above objectives within the last fiscal year:

STAFFING AND ADMINISTRATIVE PROCEDURES

Staffing

Four members of the Bermuda Government, who were seconded to the RA during its infancy, were hired on a full-time base in September 2013. These members of staff included our Chief Technical Officer, Customer and Carrier Relations Officer, Licensing Clerk and the Business Manager. In addition to those four members of staff, the RA filled the positions of Market Analyst and Legal Advisor in September and October 2013 respectively. Including the Chief Executive, the RA's full time staff now is seven as of March 2014.

Website

The RA's official website has been updated on a regular basis with all the Decisions, Consultations, Orders and General Determinations made by the RA. The website has been upgraded to allow the public to submit complaints, consultation responses to be filed online, and to allow participation in online surveys. A facility for the online payment of licence fees has not yet been developed, but it is anticipated that that will happen soon, and that the site will be further improved by the addition of a new consumer page. This interactive page will give consumers tips and guidelines, inform them their rights and responsibilities, how to choose a service provider and things to look for before signing a contract.

Establishing Governance and Procedures

In February 2013, the RA established a Board Governance Policy, setting out terms of reference for the Board and clarifying the powers of the Board, in broad terms. This Governance Policy also set the audit requirements for the RA Board, and spelled out the Ethical Standards to which members of the Board are required to hold. This has been an important step in the RA's development. It has ensured that members of the Board can get on with their very important work in an orderly and transparent manner.

In July 2013 the RA consulted on a proposed Conflict of Interest and Gifts and Hospitality Policy. The policy is designed to ensure transparency on the part of the RA Board and its staff, who are required to declare all gifts over a certain value. There are restrictions on the receipt of other gifts and hospitality which could appear to cause a conflict of interest on the part of the RA. Only one carrier provided a substantive response to this consultation. The response from Link Bermuda Limited (which was said to be a joint response with Quantum Communications Limited), was broadly in support of the draft policy and suggested some minor changes to improve its application. The RA adopted these changes and has put this policy in place.

2014-15 Work Plan

The 2014-15 workplan was consulted upon and approved by the Minister. The primary focus of this work plan will be consumer protection. The RA's consumer protection work plan has begun with a consultation being issued on Consumer Contracts within the first quarter.

Completion of Transition from Telecommunications Act Regime

The RA carried out a survey of the various pieces of policy, regulation and legislation made under the Telecommunications Act. There are currently approximately 20 such instruments. Pursuant to its aim to ensure that the transition from the old Act is smooth, the RA commenced discussions with the Department of Telecommunications and the Attorney General's Chambers about how to eliminate or otherwise update these instruments in order to bring them in line with the two new Acts. The RA will continue to work on this transition on a gradual basis.

Resolution of Pre-Existing Matters

The outstanding matter of any note pending before the Telecommunications Commission at the time the ECA came into force was a complaint concerning the Local Access Charge levied by BTC against local carriers for overseas calls terminating on BTC's network. The RA board considered, in depth, the submissions made by Link BDA and TBI for an elimination of the Local Access Charge as well as the submissions made by BTC for its retention within the 2013 -14 budget year. The final decision was made at the start of the 2014 -15 fiscal year.

Promotion of Sustainable Competition

The majority of the activities carried out by the RA during this budget year were aimed at the promotion of these objectives.

1. Setting the Playing Field

The RA issued its interim administrative rules in January 2013 specifying various internal administrative procedures and guidelines. This established the framework for how disputes between providers, enforcement of the provisions of the ECA, RAA and related instruments would be handled.

In February 2013, the RA issued a consultation concerning its proposal to issue ICOLs together with the associated spectrum licences to electronic communications providers in Bermuda, replacing the old class licence regime created under the Telecommunications Act. The results of this consultation formed the basis for the making of a General Determination that would cause existing Public Telecommunication Service licences be replaced by Integrated Communication Operating Licences ("ICOLs") and ICOL holders who used spectrum to be given new 18-month spectrum licences.

Also in February, the RA issued a Market Review Consultation with the aim of (a) defining the various electronic communications markets in Bermuda; (b) considering whether any ICOL holders benefited from Significant Market Power (SMP) within those newly-defined markets; and (c) proposing certain ex ante remedies to be imposed upon market players found to have SMP within particular markets. A General Determination defining the markets was issued in April 2013, followed quickly by a General Determination for Obligations for providers with SMP. Bermuda Telephone Company (BTC) and Bermuda Cable Vision Limited (BCV) were found to have SMP in the markets of Broadband Access and Fixed Telephone lines (BTC) and Broadband Access and Pay Television (BCV). In the mobile market, Bermuda Digital Communications (CellOne) and Telecommunications (Bermuda West Indies) Ltd. (Digicel) were both found to have SMP.

Of the various *ex ante* obligations placed upon the SMP providers, the most significant and wide-reaching was that at the wholesale pricing level. After many months of consultations, comment and adjustments, BCV and BTC both published their Model Access and Interconnection Agreements, thereby allowing, for the first time in Bermuda's history, equal and mandated wholesale access to internet access, telephone and television services.

2. Increasing Competition

Cell phone Unlocking, Number Portability and Email Mobility were all the subject of consultations in the last year. The object of the RA in consulting on these matters has been to ensure, as far as possible, that limits on transfer of service placed on the general public are removed. Email Mobility is the only initiative of these three that has not been the subject of implementation by way of General Determination. Local Number Portability came into force on March of 2014 and Cell phone unlocking very shortly before.

3. Dispute Resolution

There were only two inter-operator disputes of any note this past year. Digicel complained that North Rock was unlawfully providing bundling services prior to the issuance of ICOLs. This complaint was resolved in April 2013 largely in favour of North Rock.

Later, in March 2014, Logic complained about Digicel's Free Internet for a Year offer. The RA also resolved this complaint, this time ruling that there was no unfair or predatory pricing in Digicel's offer.

The RA has not yet had to take any enforcement action against any ICOL holder or sector provider. This is a testament to the hard work of both the RA and, more importantly, all of the carriers, who, for this first year, have done well to adjust to the various changes to the industry in a short period of time.

Efficient Use of Scarce Resources

There have been two major advancements in the RA's drive toward ensuring the important resource of spectrum is efficiently managed by ICOL holders for the benefit of Bermudians. First, in October 2013, the RA issued a request for a Spectrum Use and Efficiency Assessment requiring current Spectrum Licence holders to carry out a self-assessment of the use of their current spectrum holdings. This efficiency study was carried out pursuant to section 78 of the ECA and was designed to allow the RA to gain a comprehensive assessment of the use (and in some cases underuse) of spectrum holdings by ICOL holders. Second, in January 2014, the RA issued a consultation concerning a proposed decision to migrate ICOL holder WOW, a local terrestrial broadcasting television company, out of the valuable 700 MHz band and into the less valuable 500 MHz. WOW helpfully agreed with this proposal.

The outcome of these two important steps (discussed in further detail in section 3 of this Annual Report) is that valuable spectrum as well as previously underused spectrum will now be vacated and ICOL holders will be encouraged (by way of policy measures) to use any spectrum they seek to have licensed to them in an efficient manner.

Consumer Protection

ICOL holders have been given obligations specific to Consumer Protection. The information required in service contracts as well as obligations concerning the addressing of complaints with customers, are both topics broadly covered by ICOL obligations.

In addition to issuing ICOL consumer protection obligations this year, the RA also sought to protect consumers by preventing the practice of SIM locking, which had been prevalent in the Bermuda market. In addition to having the added benefit of removing a barrier to Number Portability, mandating the unlocking of cellular phones on reasonable conditions ensures that Consumers are able to make full use of the handsets they have purchased.

The RA also issued guidelines on network outage reporting procedures in May 2013. These guidelines require ICOL holders to report all scheduled and unscheduled outages to the RA within a specific time frame. ICOL holders are also required to ensure that a report on unscheduled outages is made to the RA setting out the cause, effect, resolution and prevention of the outage. This reporting procedure is designed to put the RA in the best position to be able to handle complaints concerning outages in an efficient and informed manner. It also allows the RA to monitor the efficiency and reliability of an ICOL holder's network. Both of these goals allow for a better consumer experience.

Broadband and Mobile Surveys

In order to gauge consumer sentiment surrounding mobile and broadband service in Bermuda, the RA commissioned public surveys and published the results in September 2013 and December 2013 respectively. Consumer responses gave the RA a benchmark against which to measure the success of its work on behalf of consumers in coming years. It is the RA's goal to ensure that consumer satisfaction in and education about the telecommunications industry increases. The results of these surveys have already begun to form the basis of the RA's decisions for its next work plan, which has a heavy emphasis on consumer protection.

Promoting Bermudian Employment and Bermudian Ownership

It was envisaged by the 2013-14 workplan that the RA would issue a public consultation with the purpose of soliciting feedback about how the RA could assist in promoting Bermudian Employment and/or Ownership within the electronic communications sector. This consultation has not yet been issued. The ownership landscape in the electronic communications sector in Bermuda has not changed.

The RA also issued guidelines setting out Bermuda's availability as a Pilot Testing center for new Electronic Communications services and products.

INDUSTRY MARKET OVERVIEW

Overview

This section outlines changes in market indicators over the 2013 calendar year, which were provided by Bermuda telecommunications operators. The indicators provide relevant insight about the direction in which Bermuda's telecommunications sector is heading.

Overall, the market data collected by the RA indicated that there have been significant changes within the framework of the telecommunications sector: Within the first year of the RA, Bermuda saw increased competition within the Internet Service Provider (ISP) market, and a significant decline in prices.

New entrants in the ISP market led to a shift in the way the market is shared. The industry is also experiencing a shift from Fixed Telephone services to mobile services, and an increasing demand for both mobile and fixed broadband. Over-the-top alternatives to subscription television, as well as increased demand for home Internet at increasingly higher speeds, have played a role in the declining subscription rates in Pay TV.

Industry Snapshot

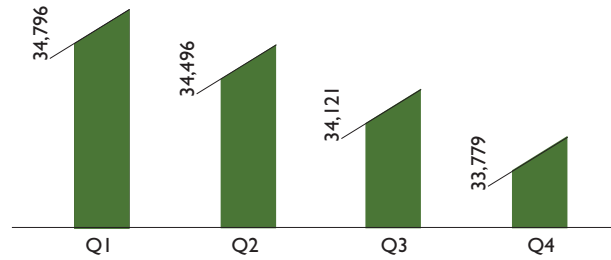
	Q1	Q2	Q3	Q4
Total Mobile Subscriptions	63,586	62,668	62,238	61,572
Total Fixed Telephone Subscriptions	34,796	34,496	34,121	33,779
Total Broadband Access Subscriptions	19,784	19,842	20,095	20,356
Total Pay TV Subscriptions	22,323	22,172	22,005	21,977

Fixed Telephony

Fixed Line Subscriptions

The fixed telephone sector experienced a constant decline over each quarter of 2013. The number of fixed telephone subscriptions at the end of the fourth quarter declined by 342 subscriptions from the previous quarter to 33,779 subscriptions.

Fixed Telephone Subscriptions at End of Quarter



The continual decline of fixed telephone subscriptions is likely due to mobile service replacing fixed telephone service, which the RA anticipates will continue to cause a decline in subscription rates in the coming year.

Fixed Telephone Market Shares

BTC and Quantum are the sole fixed telephone operators in the Bermuda telecommunications market¹ - Quantum operating only in Hamilton and primarily in the commercial market. However, the introduction of wholesale service to other telecommunications providers may bring new entrants into the market, causing a change in overall market share for 2014.

Price of a 1 Minute Local Call

The price of a 1 minute Local Call is \$0.20, and was unchanged in 2013. Recently, BTC introduced an unlimited voice plan, which may lead to a lower average price per minute for 2014.

Number of Outgoing Calls

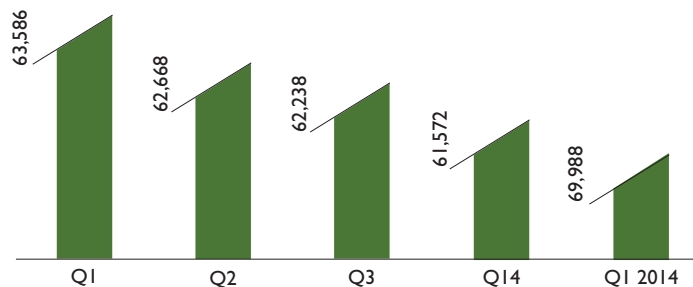
	Q1	Q2	Q3	Q4	Total
Total Mobile Subscriptions	9,876,687	10,417,183	10,438,593	9,925,918	40,658,381

The total number of local outgoing calls totaled 40 million in 2013, with the highest increase of 5% in both Q2 and Q3, increasing by about .5 million minutes in both quarters. This indicates that each fixed telephone subscriber made an estimated 1,200 calls in 2013.

Mobile Telephone

Mobile Subscriptions

Mobile Subscriptions at the end of Each Period



In the first quarter of 2014, the total mobile subscriptions amounted to 60,988.

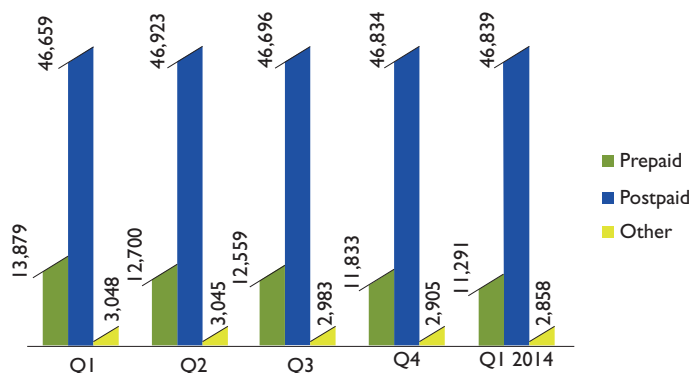
Total mobile subscription rates fell steadily by 2,598 subscriptions from Q1 2013 to Q1 2014, representing 4.3% of the total subscription base.

¹ The fixed telephone industry excludes those who do not use a traditional PSTN network

Mobile Subscriptions by Service Type

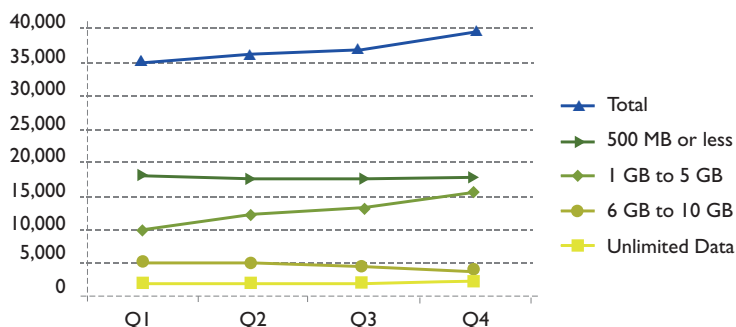
The prepaid subscriber base experienced a steep decline, a total fall of 19% from Q1 2013 to Q1 2014. Aside from the second quarter, postpaid subscriptions continued to rise, re-capturing some of the loss in prepaid subscribers. Service to other devices, like mobile broadband-capable tablets, continued to fall throughout the year, declining by 190 subscriptions, a drop of just over 6%. The larger decrease in prepaid mobile subscriptions coupled with Bermuda's high penetration rate might suggest that the reduction in mobile subscriptions is a result of individuals giving up a second handset.

Mobile Subscriptions by Service Type



Mobile Data Subscriptions

Mobile Data Subscriptions at End of Period



The mobile sector saw an overall increase in subscriptions in 2013.

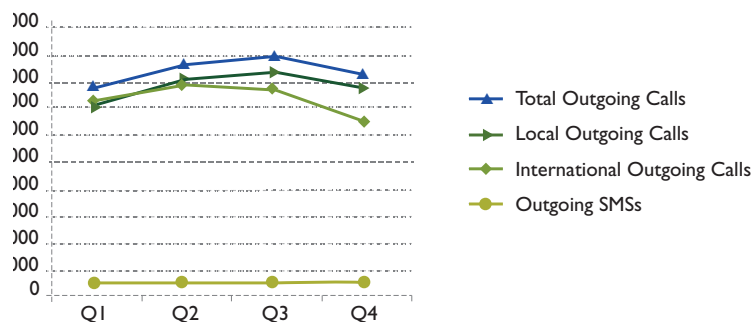
At Q4, the mobile market had increased by 4,505 data subscriptions from Q1, resulting in a subscriber base of 39,512 at the end of December 2013. The biggest increase in subscriptions comes from customers who are subscribed to the 1 GB to 5 GB service, which rose by 17% from Q3 to Q4, from 10,155 to 15,650 (a total of 5,495 subscriptions).

Subscriptions of 500 MB or less observed the largest decline, dropping 11% from Q3 to Q4, going from 5,038 to 3,804 subscriptions respectively. The loss of 1,234 subscriptions is the result of consumers increasing their data size per month, confirmed by the increase in the 1 GB to 5 GB subscription set.

Just under half of all data subscriptions (45%) are accounted for in the unlimited data category, which has remained stable throughout 2013.

Total Number of Outgoing Calls and SMSs

Number of Outgoing Call Volumes and SMSs



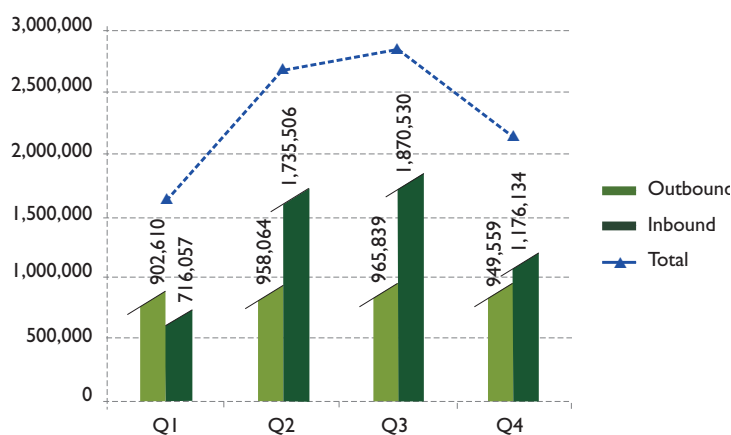
The mobile sector experienced a slight increase in outgoing calls and a significant decrease in text messages or SMSs in 2013. Both SMSs and Outgoing Calls followed a similar trend in 2013, rising in Q2 and falling in Q4. More significantly, the number of SMS messages appears to have declined at a slightly faster rate from Q3 to Q4, falling by 2.3 million (15%), while total Outgoing calls fell by 1.2 million (7%).

The decline in both Calls and SMSs from Q3 to Q4 is in line with the increased usage of other forms of communication such as Face Time and Skype as an alternative for voice, and Whatsapp, Facebook messenger, etc. for SMS. The increase in total mobile data subscriptions is also an indication of a change from traditional mobile voice and messaging services to more Internet-based platforms.

Overall, there were small changes in both the number of local and international mobile calls. Local mobile calls experienced a small increase of 3% from Q1 to Q4, resulting in a total of 15.7 million calls. International calls declined 6%, a reduction of 43,000 calls. This means that on average, each mobile subscriber made an estimated 1,064 local calls in 2013².

Roaming Activity

Roaming Activity (Minutes)



Roaming Activity experienced an annual growth of 0.5 million minutes, totaling 2.1 million minutes in Q4. International Inbound³ roaming rose by 1 million minutes from Q1 to Q2, an increase of 66%. The increase in Q2 and Q3 are likely due to the influx of tourists using foreign mobile providers in Bermuda during the summer months. Both mobile Carriers introduced reduced roaming plans within the last quarter of 2013, which appears to have had little effect so far on outbound⁴ roaming, which increased slightly by just over 55,000 minutes during this quarter. Overall, outbound roaming calls increased by a total of 0.9 million minutes in Q4 of 2013.

² The estimated number of calls per subscriber was calculated by dividing the total number of calls by the average number of mobile prepaid and postpaid subscribers in 2013

³ Inbound Roaming includes the number of minutes originated and received by foreign subscribers roaming on carrier's network

⁴ Outbound Roaming includes the number of minutes originated and received by subscribers while roaming abroad



On-net/Off-net Volumes⁵

	The Number of On-Net/Off-Net Calls per Quarter				
	Q1	Q2	Q3	Q4	Total
On-Net	8,660,291	9,959,560	10,112,233	9,184,573	37,916,657
Off-Net	9,712,925	10,757,032	11,201,568	10,633,423	42,304,948

On-net call volumes, the total number of on-net and off-net calls per quarter, increased by 6% from Q1 to Q4, resulting in a total of just over 9 million calls at the end of 2013. Off-net call volumes increased by just under 1 million calls (9%), from 9.7 million in Q1 to 10.6 million in Q4, a total rise of 0.9 million calls.

Total Outgoing Voice Traffic (minutes)⁶

	Total Outgoing Voice Traffic (minutes)				
	Q1	Q2	Q3	Q4	Total
Total Outgoing Voice Traffic	51,898,511	59,864,861	57,436,668	54,894,504	224,094,543

Total Outgoing Voice Traffic increased by 6% over 2013, by slightly fewer than 3 million minutes. The highest increase was observed between Q1 and Q2, increasing 15%, by about 8 million minutes. This indicates that each mobile subscriber spent an estimated 3.6 million minutes on outgoing calls, a total of 2.5 days⁷.

Price of a Local Mobile Call and SMS

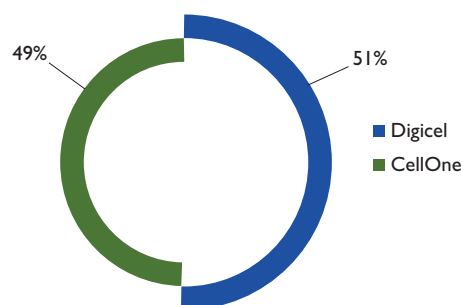
	The Number of On-Net/Off-Net Calls per Quarter				
	Q1	Q2	Q3	Q4	Total
Total Outgoing Voice Traffic	51,898,511	59,864,861	57,436,668	54,894,504	224,094,543

The price of a 1-minute local mobile call remained at \$0.26 throughout 2013. However, the price of an SMS rose in both quarters 2 and 3 to \$0.09 and \$0.10 respectively, before falling to \$0.09 in Q4⁸.

Market Share in the Mobile Sector

Total Subscription Market Share

Total Market Share at the End of Quarter 1, 2013



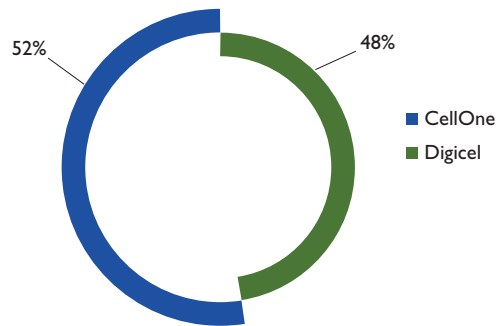
⁵ On-net volumes indicate the number of calls originating and terminating on the carrier's network, while Off-net volumes indicate the number of calls originating on the carrier's network and terminating on a different network (which can include both local and international fixed voice lines as well as mobile devices)

⁶ The total number of minutes that mobile subscribers spend on phone calls made from their mobile device

⁷ This was calculated by dividing the total number of outgoing minutes by the number of mobile subscribers at the end of Q4

⁸ However, this pattern is not reflective of the total number of SMSs sent in 2013.

Total Market Share at the End of Quarter 1, 2014



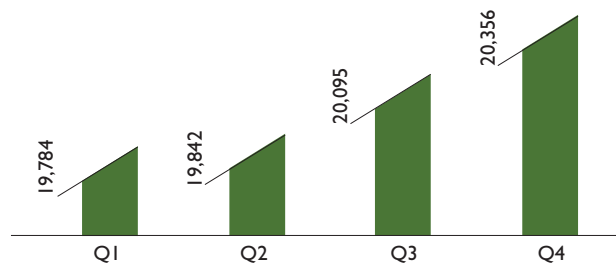
The total market share for mobile subscriptions remained relatively equal. CellOne gained a small portion of overall market share throughout 2013 and into 2014, increasing its subscriber base from 49% at the end of Q1 2013 to 52% in Q4. CellOne's rise accounts for the loss of market share experienced by Digicel, decreasing by 3% resulting in a 48% market share in Q4 2013.

Internet Subscriptions

Total Internet Subscriptions

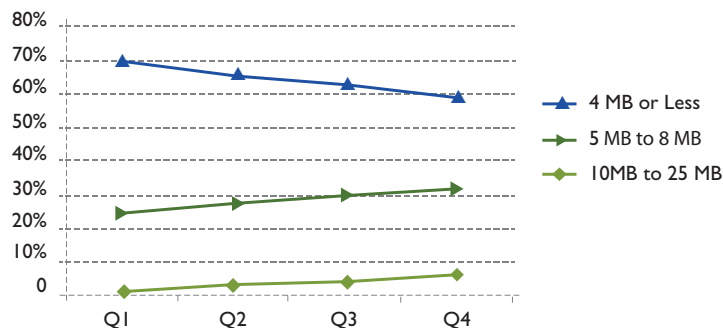
The number of Internet subscriptions totaled 20,356, an increase of just 572 subscriptions throughout 2013, equal to a 3% growth of subscriptions from Q1 to Q4. New entrants into the Internet market in Q2 and Q3, as well as a sector-wide reduction in prices, are likely to account for the increase in subscriptions in Q3 and Q4 of 2013.

Total Internet Subscription at End of Period



Market Share of Broadband Access Speed

Market Share of Broadband Access Speed



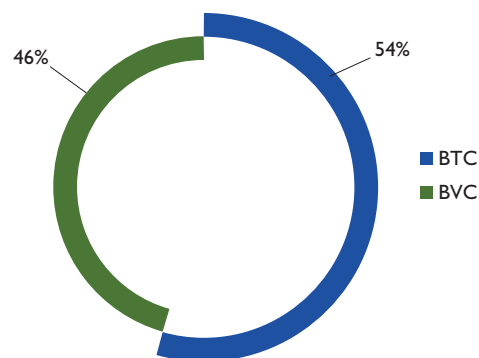
Although the net number of broadband access subscriptions increased by a relatively small number, the Internet sector experienced significant changes in subscriptions by speed throughout the past year. The market share of broadband access speeds of 4 MB or less continued to decline throughout the year. In Q1, speeds of 4 MB or less represented 72% of the total market share, with a total of 14,173 subscribers. In Q4, this same category represented 12,477 subscribers with 61% market share.

Broadband access subscriptions of 5 MB and higher experienced an increase over 2013. Speeds between 5 MB and 8 MB increased by a total of 1,560 subscribers (30%) and speeds between 10 MB and 25 MB increasing by 708 subscribers (115%).

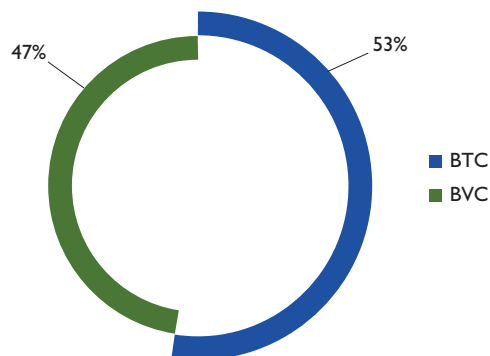
The trend of existing consumers moving to higher broadband access speeds is attributed to the fall of broadband access and broadband service prices over 2013. This trend is likely to continue into 2014.

Broadband Access Market Share by Carrier

Broadband Access Market Share by Carrier at the End of Quarter 1



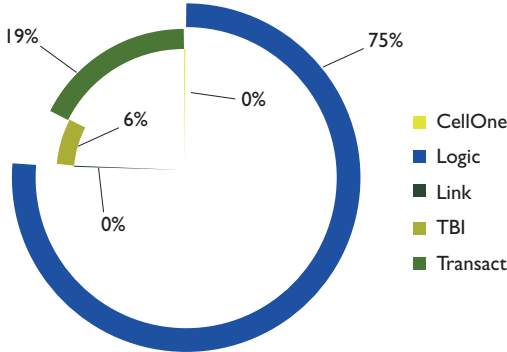
Broadband Access Market Share by Carrier at the End of Quarter 4



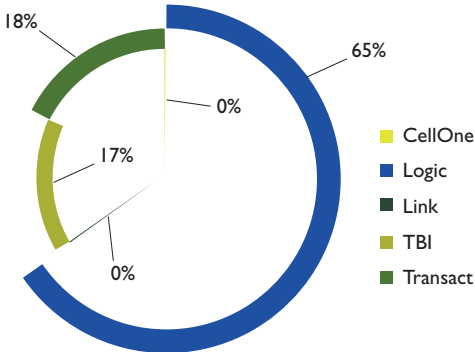
The market share for broadband Access remained relatively equal, with BTC holding a slight lead in market share for 2013, with 54% of total broadband access subscribers. Its 1% drop in market share in Q1 was captured by BVC in Q4.

Estimated Broadband Service Market Share by Carrier

Broadband Service Market Share by Carrier at the End of Quarter 1



Broadband Service Market Share by Carrier at the End of Quarter 4



Logic remained the lead broadband service provider throughout 2013, although its estimated market share has declined in every quarter. The offerings of new providers have proven to be competitive enough to capture 11% of market share from Q1 to Q4.

Neither CellOne nor Link BDA gained a significant percentage of the broadband service market share, due to their recent entry into the broadband service market.

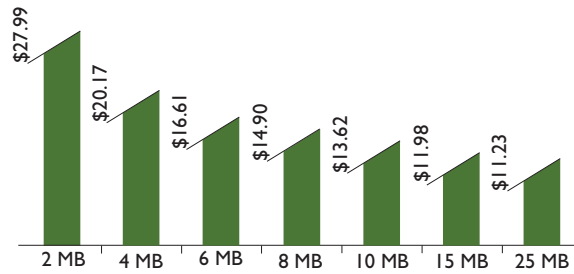
TBI experienced the most growth in the broadband service market share over the year, gaining a total of 11%, rising from 6% in Q1 to 17% in Q4.

Transact has experienced a small decline of 1% in market share, falling from 19% in Q1 to 18% in Q4.

The significant shifts in market share indicate that the broadband service sector is becoming increasingly competitive through the entry of new providers and the lower prices available for consumers.

Average Full Internet Price per MB⁹⁹

Average Price of Full Internet Service by MB

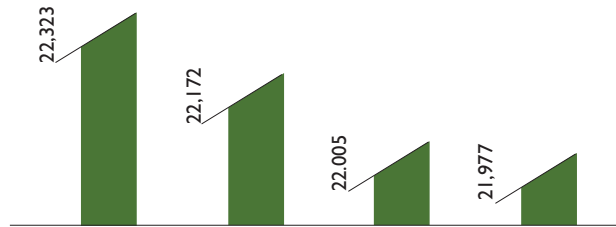


The average price of full internet service per MB of download speed is a useful measure of how the price of internet has developed over time. Going forward, the RA will use the Average price per MB in 2013 as a base point for measuring changes in internet prices in the future.

As would be assumed; the price of internet service per MB declines with higher speed subscriptions. The biggest decline occurs between 2 MB and 4 MB, a total of \$7.82 per MB. The smallest decrease appears between 15 MB and 25 MB, a decline of only \$0.75 per MB.

Subscription Pay TV

Total Pay TV Subscriptions at the End of Each Period

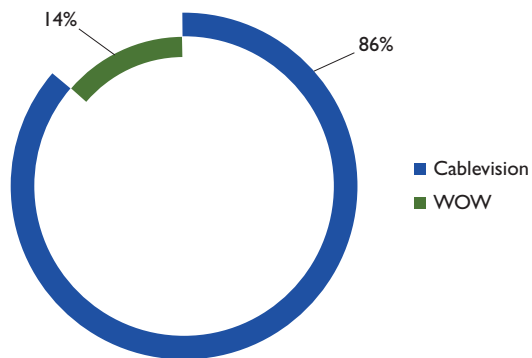


Total Pay TV subscriptions have declined in each quarter of 2013. The number of subscriptions fell by a total of 2%, from 22,323 in Q1 to 21,977 in Q4. Falling pay TV subscription rates coupled with an increasing subscription rate for higher broadband access speeds could be an indicator of a trend of substituting traditional pay TV services for over-the-top devices and applications such as Netflix, Apple TV, etc.

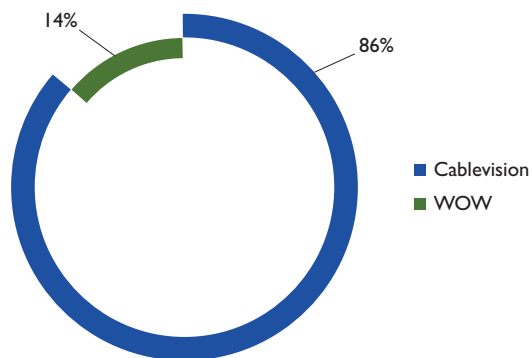
⁹⁹ Calculated by combining the average price of broadband access and broadband service price per Mb of download speed

Market Share by Carrier

Pay TV Market Share by Carrier at the End of Quarter 1



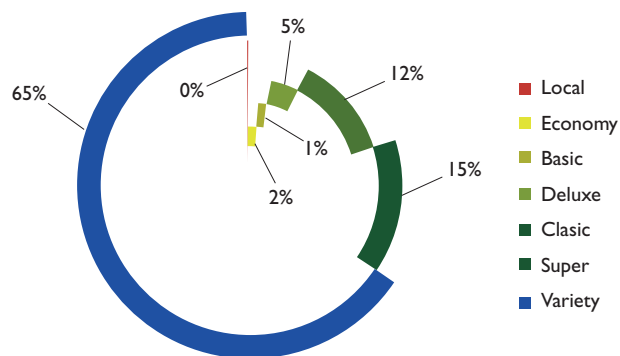
Pay TV Market Share by Carrier at the End of Quarter 4



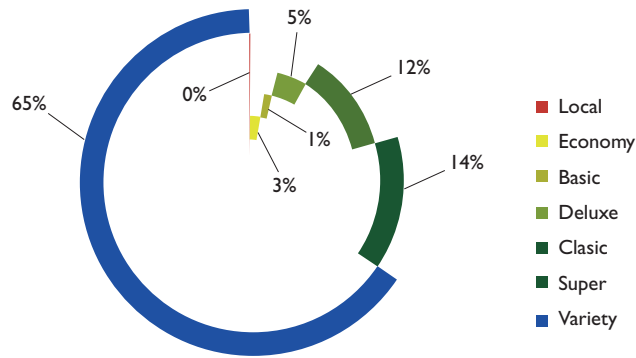
In terms of Market Share by Carrier, Both WOW's and Cablevision's Market Share remained unchanged over 2013. Cablevision remains the leader in the Pay TV industry, with 86% of total Pay TV subscriptions, while WOW accounted for the remaining 14%.

Market Share by Pay TV Tier

Market Share by TV Tier at the End of Quarter 1



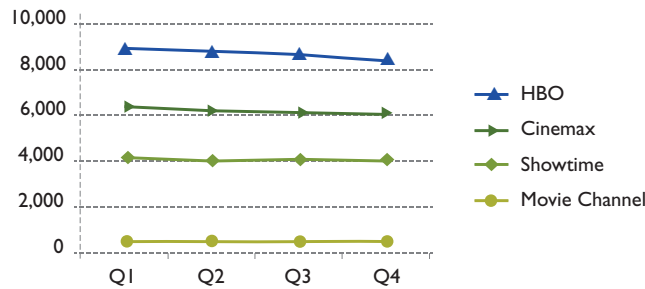
Market Share by TV Tier at the End of Quarter 4



The Pay TV industry also observed little movement between pay TV tiers in 2013. The variety tier remained the most popular, holding on to its market share of 65% over the year. The economy tier captured the 1% loss in the super tier. The local tier remained the smallest subscription base, with less than 1% of the total market share for Pay TV.

Total Subscribers to Add-On Channels

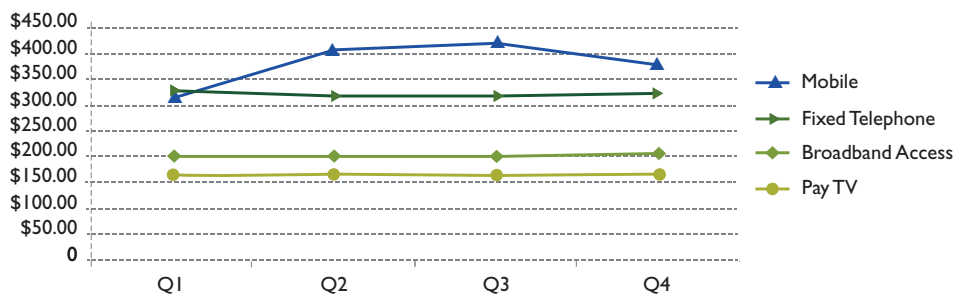
Number of Subscribers to Add-On Channels



The number of customers subscribing to add-on channels has also declined over 2013. HBO had the highest number of subscriptions in 2013; however, it experienced a 6% drop, totaling 564 in Q4. Cinemax and Showtime both saw falls in subscriptions of 5%, equal to 220 and 336 subscriptions respectively. The Movie Channel observed the biggest decline, of 8%. However this Channel has a small subscriber base anyway, of just 495 subscriptions in Q1, and 456 subscriptions in Q4.

Average Revenues per User by Service Type

Average Revenue per User (per Quarter)

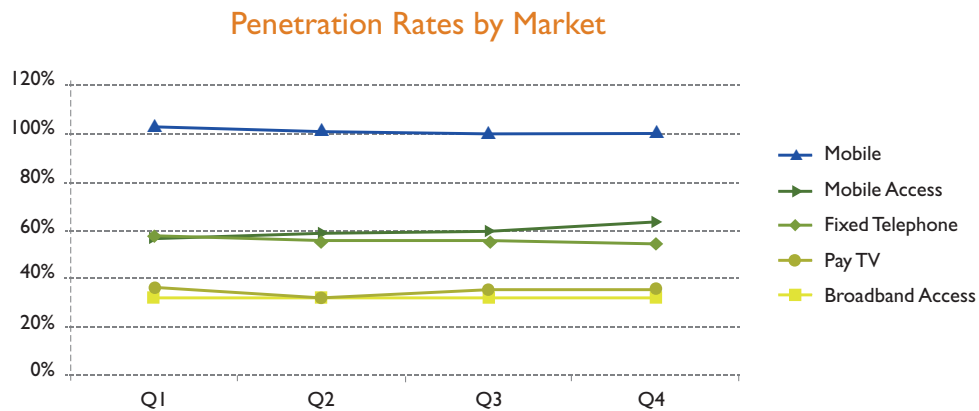


Aside from mobile service, the Average Revenue per User¹⁰ (ARPU) remained relatively equal throughout 2013. Mobile ARPU increased by \$64.67 per quarter over 2013, experiencing its highest increase in Q3, with a total increase in ARPU of \$107.35.

Broadband Access experienced a slight increase in ARPU from Q1 to Q4, a total of \$8.29 per quarter. Although the sector experienced substantial price decreases, which should have led to a decline in ARPU, the trend of customers moving to higher broadband speed subscriptions would have accounted for the increase in ARPU.

Fixed Telephone ARPU remained relatively unchanged, increasing only \$0.92 from Q1 to Q4. The ARPU for PayTV declined by \$1.23.

Penetration Rates by Market^{10, 11}



The penetration rate for the mobile industry declined from 103% to 99% from Q1 to Q4. A penetration rate of 103% in Q1 is accounted for by some consumers having more than one mobile device, and the decrease during 2013 is attributed to consumers giving up that second device.

Both the PayTV and Fixed telephone penetration rates declined by 1% over 2013, resulting in Q4 penetration rates of 35% and 55% respectively. The worldwide trend of replacing fixed voice service with mobile phones, accounts for the decline in penetration rates experienced by this market, while the use of over-the-top devices partly accounts for the drop in penetration rates in the PayTV market.

Mobile data penetration increased at the fastest over 2013, resulting in a rate of 64% in Q4, an increase of 7% from Q1's rate of 57%.

Broadband access increased by 1% from 32% penetration in Q1 to 33% penetration in Q4.

¹⁰ The Average Revenue per User is calculated by dividing the total revenues of service providers during each quarter by the number of subscribers at the end of each period.

¹¹ Broadband Service penetration rates are unavailable as Logic was unable to supply the RA with the relevant data.

The Year at a Glance

Telecommunications Economic Contribution (2012)	2.3%
Number of Fixed Telephone Subscriptions	33,779
Number of Mobile Subscriptions	61,572
Mobile Penetration Rate	99%
Number of Data Subscriptions	39,512
Total Number of Outgoing Mobile Calls	67,677,198
Total Number of Outgoing Mobile Minutes	224,094,543
Total Number of Outgoing SMSs	59,168,185
Total Number of Roaming Minutes	9,274,299
Total Number of Broadband Access Subscriptions	20,356
Total Number of Broadband Access Subscriptions for 1 MB to 4 MB*	12,477
Total Number of Broadband Access Subscriptions for 5 MB to 8 MB*	6,554
Total Number of Broadband Access Subscriptions for 10 MB to 25 MB*	1,325
Total Number of Broadband Service Subscriptions	21,389
Total Number of Pay TV Subscriptions	21,977

SPECTRUM

Interim Spectrum Licences

On April 29, 2013, the RA issued new ICOLs. Associated Spectrum Licences were issued as well, as interim licenses that expire on October 29, 2014. At the time of their expiry, the RA will either:

Decline to renew the spectrum licence or

Modify the spectrum licence to authorize the use of a reduced amount of spectrum, if the licence holder fails to demonstrate a reasonable need for some or all of the spectrum assigned to it, and the RA having concluded that such measures are necessary to ensure the efficient use of spectrum.

Spectrum Efficiency Investigation

On October 7, 2013, the RA released its consultation on Spectrum Efficiency and Usage Self-Assessments. This consultation is expected to be concluded by October 29, 2014. At that time, the RA will reissue spectrum licences either modified or unmodified with a licence duration of ten years.

700 MHz Migration Consultation

As part of its remit to manage spectrum in an efficient manner and keep Bermuda in line with the International Telecommunications Union (ITU) recommendation that the 700 MHz band be utilized for mobile services by 2015, the RA initiated a consultation on January 31, 2014 called "World on Wireless 700 MHz Spectrum Proposal".

The purpose of this Consultation Document was to explain, and seek public comment on, the proposal of WOW to migrate out of the 700 MHz spectrum band so that the Government may reallocate this spectrum for higher-value uses. In exchange for surrendering the 700 MHz spectrum band WOW requested that it be granted a new assignment in the 500 MHz spectrum band, and be compensated for its reasonably incurred migration costs.

The RA intends to issue a Migration Order, during the 2014/15 fiscal year, to allow the migration to begin.

Ministry of Education and Economic Development Spectrum Policy Consultation

With these spectrum changes well under way, the Minister responsible for telecommunications Dr. The Hon. E. Grant Gibbons, JP, MP, on February 3, 2014 wrote to the RA, giving approval to carry out a consultation on the Minister's behalf.

The consultation covered the following key topics:

- High Demand Spectrum
- Spectrum Allocation and Band Plans
- Spectrum Assignment
- Spectrum Fees

High Demand Spectrum

The Minister agreed with the RA's general approach and concluded that the High Demand Spectrum (HDS) approach should be implemented as a spectrum management policy going forward. As such, the Minister proposed that the Regulatory Authority be required to define, through a General Determination, a set of frequencies where the potential for demand to exceed supply and the need to ensure efficient spectrum assignments are the greatest. The defined HDS may then be subjected to more stringent spectrum management procedures with respect to assignments and fees.

Spectrum Assignment

The Minister responsible for Telecommunications and the RA addressed the spectrum assignment in Bermuda via the Ministry of Education and Economic Development Spectrum Policy Consultation. In the past, spectrum assignments were handled on a first come, first served basis.

It has been proposed that a new, hybrid selection assignment process for all HDS frequencies would best satisfy the Spectrum Management objectives reflected in the ECA. Well-defined weightings and criteria as proposed in the abovementioned consultation, would increase transparency of the spectrum assignment process and therefore encourage fair outcomes. The closing date for this consultation was April 17, 2014.

Spectrum Fees

It has been proposed that all spectrum assignments for HDS be charged a recurring fee. Spectrum is a finite resource for which there is positive demand, particularly in the HDS bands, in this consultation the Minister recommended that a positive price be established to encourage spectral efficiency and compensate the Government for Bermuda for the use of this scarce resource.

The pricing proposal was based on the Administered Incentive Pricing model. This model utilized a base price set by the Minister for the reference band. From this, all other bands listed as HDS, were weighted accordingly from more demand to less demand.

Numbering Addressing for Electronic Communications

The RA is charged with the management of all numbers allocated to it under the 441 area code in accordance with the ECA. On January 31, 2014, the RA issued its National Numbering Plan interim general determination. In accordance with the ECA, this determination set out the current number assignments to local ICOL holders.

Further development of the numbering plan will occur in the future as required by statute.

CONSUMER PROTECTION

The RA embarked on a Consumer Protection, Education and Awareness strategy as part of its 2014 work plan. Telecommunications services are essential to the welfare of all consumers. Competition and advances in technology have changed the way people communicate, work and learn, and consumers can now choose among a wide array of services to meet their needs. Basic telephone service is at the foundation of an ever-increasing market of new services and technologies. The Internet has also transformed the communications industry, offering quick access to information and communications services to consumers, especially those with broadband access to this technology. Smart phones and over-the-top applications, such as the voice-over- internet protocol, internet TV and mobile apps have further revolutionized the way a consumer uses these technologies. Data usage now far surpasses use by traditional voice and SMS messaging.

The promotion of consumer education and information is an important part of the Regulatory Authority's policies. The RA wishes to effectively educate consumers on prevention and protection from misleading or intrusive practices by telecommunications providers in contracts, fees and marketing. Additionally, the RA wishes to promote the interests of consumers, purchasers and other end users of telecommunication services in respect of the price, quality and variety of equipment supplied for the provision of service.

Liberalisation of the telecommunications market brought with it a variety of telecommunications services that differ in price and quality. The growth of the telecommunications industry is rapid and new telecommunications service and technology are emerging quickly. Consumers need to be able to obtain good information about these services in order to make informed choices and get the best value for money. Consumers should also understand both their rights and responsibilities when entering into an agreement to purchase telecommunications services. The use of plain, understandable language is a key factor for consumers to make the most of a competitive marketplace.

Although consumer protection is covered in Condition 14 of the ICOL, the RA determined that fierce marketing tactics by carriers and more complicated contracts born of rapidly-changing technology may be overwhelming for consumers. The Authority needs to make further determinations in areas so far unregulated.

The RA's mandate under Part 5 Section 26 of the ECA is to make general determinations:

- a) *Governing the commercial and marketing practices of ICOL holders and any other types of*

communications providers specified by the Authority to protect the rights of customers, subscribers, users and consumers, having due regard for the vulnerability of certain categories of consumers; and

b) Issuing or approving codes of practice relating to such practices.

Notwithstanding any other provisions that the RA may deem necessary, the RA recognizes the need to strike a balance between the rights and responsibilities of the consumer and in its efforts to regulate the telecommunications industry.

Residential Perceptions of Telecommunication Services

During 2013, the RA commissioned two surveys to capture customer perceptions amongst the Bermuda community on satisfaction with service levels and areas of concern with regard to mobile and broadband services. This public survey is the first of its kind carried out in Bermuda, defining the consumer opinion on telecommunication service providers.

Residential Mobile Survey

In November 2013 MindMaps conducted a Residential Internet Survey to benchmark mobile usage in Bermuda on behalf of the RA. The survey sampled 434 Bermuda residents aged 18 and over. The total sample was weighted to be representative of Bermuda's population by age, gender and education according to the 2010 population and housing census figures. The purpose of the survey was to benchmark device usage, market share, data usage, roaming costs, average monthly costs. In addition, it sought to measure customers' satisfaction, their likelihood to switch carriers, and general awareness of the Regulatory Authority.

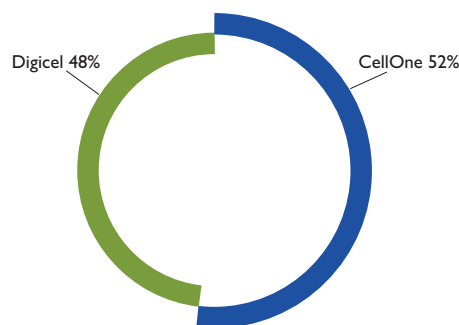
This survey revealed that 93% of residents own a mobile phone; in fact, there are 1.36 mobile phones per every adult resident in Bermuda. Of those who do not own a phone, 52% said the reason was that it was too expensive. Blackberry Smartphone was the most popular device used locally. Just over one in four people who do not have a mobile phone said they plan to get one by May 2014. The percentages clearly show that some individuals had more than one type of device.

BlackBerry Smartphone	Basic cell phone	iPhone	Tablet (such as an iPad)	Android Smartphone	USB modem	Other Smartphone
38%	33%	29%	29%	27%	18%	2%

November 2013

Mobile Market Share

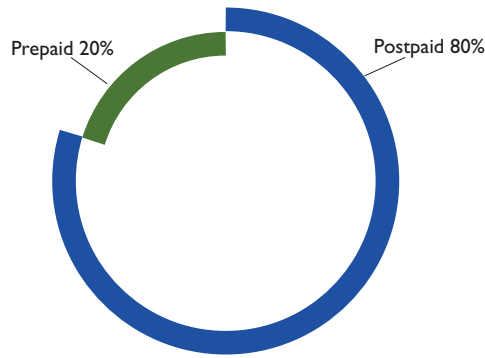
CellOne and Digicel have a relatively equal market share in the mobile market.



These numbers are based on a consumer survey. Industry numbers can be found in the Market Analysis.

November 2013

According to the survey, a vast majority (80%) of residents use postpaid services; of which a total of 18% have mobile service as part of a bundled offer. Digicel customers (20%) are slightly more likely than CellOne customers (15%) to have a bundled offer.



November 2013

Data Usage in Mobile Phones

Data usage on mobile phones is high and residents are moderately satisfied with their data speed. Residents are finding it easier to surf the Internet, as 70% have data on their mobile phone. Those that have data use it for Internet browsing (87%), e-mail (83%), instant messaging (72%) and social networking (67%). Just over half (55%) who do not have data on their phone, say it is not necessary. Most people (77%) are happy with the speed of their mobile data service on their mobile phone.

Mobile Monthly Expenditure & Price Perceptions

Just over half of residents (55%) spend between \$100 and \$199 per month on their mobile service. Mobile service is considered expensive in Bermuda although only 18% know the cost of a one minute mobile call. A 20% increase in cost would impact usage resulting in two-thirds of residents cutting back their use to reduce their monthly costs. Sixty one percent (61%) of residents think that data messaging is a good substitute for mobile calls, followed by text messaging (48%) and landline calls (44%).

Half of residents (50%) receive information regarding mobile service and pricing from customer care (in-store or by phone), followed by providers' websites (47%), advertisements (38%) and family and friends (35%). More than half of residents think it is not easy to understand and choose a specific mobile pricing plan.

The most important factors considered when selecting a mobile service provider are good customer service, value for money and call quality (97% top two responses, each). Satisfaction with the quality of mobile service is high, but cost is the primary issue that residents have with their mobile service. Residents are most satisfied with their mobile provider's call quality (90%), network reliability, technical support and customer service (86%, each). Being in a contract with termination fees (56%), not wanting to change their phone number (55%) and phone locked to the network (29%) are the primary reasons why residents think it is difficult to switch providers. Just 7% of residents are likely to switch providers in the next six months.

The majority of residents would be in favour of a new mobile service provider in Bermuda. They feel it would increase competition and lower prices (83%), force providers to provide better quality service (79%) and provide more choice in the market (78%).

International Roaming

Just over half of the residents surveyed (52%) travel overseas and incur roaming charges. Roaming is considered to be expensive for residents (90%) and users complain that the charges are difficult to understand. Therefore, they use alternative means to avoid roaming costs (local phone/SIM card, calling cards, Wi-Fi and calling applications).

As there are no current regulations regarding roaming charges, 77% of customers who travel overseas and incur roaming charges want the choice to have charges capped or receive an SMS text message to alert them to their current roaming changes.

The introduction of roaming plans by the mobile carriers has given customers a choice of paying a monthly cost to have a lower roaming rate as opposed to the premium rate. This initiative was carrier-driven with no interference from the

Regulator: Sixteen percent (16%) of residents who travel overseas stated that they are planning to subscribe to the new roaming plans.

Recognizing the need to educate the public about international roaming charges, the RA published a pamphlet giving overseas travelers tips on how to lower their roaming bill. Tips included: how to turn mobile data off, going through a travel check list, managing mobile network settings, using WIFI and various mobile apps. This pamphlet was made available in the Bermuda Post Office and on the RA website. Other locations included the Consumer Affairs website, a digital ad located in the Bermuda Post Office, in the offices of Immigration and the Transport Control Department and at the Airport.

Residential Broadband Survey

This residential broadband survey was conducted in September of 2013. The same methodology that was used to benchmark the residential mobile service was applied to this survey. The objectives of the survey were to benchmark internet usage and device ownership, internet access and Internet Service Providers market share, internet speeds and average monthly expenditure on internet. Additionally, questions were asked about customer satisfaction, important factors in selecting a provider; necessity and likelihood of switching carriers.

The survey revealed that 91% of residents surveyed had internet service in their homes. Some 27% of the customers without internet service said that they do not need it; while most residents have an internet-ready device in their home. The internet has become a necessity and not a luxury as just over half of residents (54%) feel they cannot live without the internet. Residents aged 35 to 44 (73%) and 45 to 54 years (79%) are most likely to feel they cannot live without the Internet.

Laptop computer	Tablet	Desktop computer	Net Book
82%	56%	54%	7%

November 2013

Broadband Market Share

The merger between Logic and North Rock resulted in a dominant force in the Internet market. The combined entity of Logic and North Rock has 75% of the Internet service market.

Market Share - Internet Service	Share
Logic/ North Rock	75%
Digicel/ Transact	15%
TBI	7%

September 2013

DSL and cable account for 80% of all Internet access.

Residential Broadband Cost & Pricing

Some 70% of residents have download speeds between 3MB and 8MB while only 5% have speeds higher than 15 MB. The majority of residents surveyed (71%) think that the cost of Internet access and service in Bermuda is too high and is a deterrent to upgrading their download speeds. The average monthly expenditure on Internet access and service is approximately \$121.93 a month. In terms of internet speed, 66% of residents are satisfied and are likely to upgrade their speed in the next six months. The reason given is to improve speed and overall service. Of Bermuda residents, 43% are cost sensitive and cite cost as their number one issue. Some 62% of customers would consider switching providers if the cost were lower. A majority of residents (68%) do not have a contract with their Internet Service Provider (ISP).

Bermuda residents receive information regarding Internet service and pricing from advertisements (57%), family or friends (46%), customer care (43%) and providers' websites (39%). Customers find having two providers to be annoying (35%) and it takes longer to resolve issues (15%). The top three attributes are best customer service, Bermudian ownership and

network reliability. Although speed and quality of service are important, customer service is also a key factor when deciding on a service provider. People are most satisfied with their Internet Service Provider's customer service (82%), technical support (79%), quality (78%) and reliability (77%).

Competition increases in the ISP market have resulted in 19% of customers switching in the last two years. Just over three quarters of residents (77%) do not think it is difficult to switch ISPs, while 11% of residents are likely to switch providers in the next six months. The reasons for switching are were unhappiness with speed/service of current provider and availability of lower rates.

Satisfaction with Internet Service Provider

Residents are moderately satisfied with their ISP, with the mean satisfaction score being 7.48 out of 10. TBI customers are the most satisfied. Lower prices (31%), better reliability and value (16%) and faster speeds (12%) are the most popular suggestions for improvement.

Satisfaction with Internet Service Provider - Mean Score			
Total	Digicel/ Transact	Logic/North Rock	TBI
7.48	6.36	7.63	8.72

September 2013

Residents are moderately willing to recommend their Internet Service Provider. The mean likely to recommend score is 7.27 out of 10 TBI customers are the most likely to recommend.

Satisfaction with Internet Service Provider - Mean Score			
Total	Digicel/ Transact	Logic/North Rock	TBI
7.48	6.36	7.63	8.72

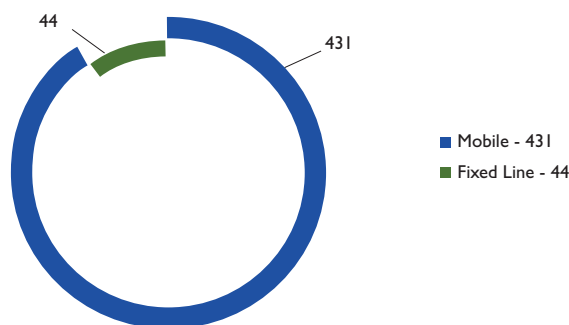
September 2013

Local Number Portability (LNP)

Understanding of the concept of number portability is not high and most residents are unlikely to switch providers when it is introduced. Just over one quarter of residents (28%) knew what number portability was. Top reasons to switch: For a better deal and service (45%), interesting option to have (43%), unhappy with current provider (5%). Top reasons not to switch: Happy with service (25%), not a factor in decision to switch (23%), won't switch/ not interested (23%).

From March to May 2014 a total of 475 portings have taken place since inception of LNP. Fixed line portability started the beginning of April and accounts for the smaller number of portings.

Mobile Ports - 431 Fixed Line Ports - 44



Consumer Complaints

Since its inception, the RA has established a simple and standard way to receive, acknowledge, and investigate complaints. A customer complaint form was created to obtain the most essential information to help facilitate the efficiency in processing complaints with a designated officer to handle and monitor complaints. Complaints guidelines, policies and procedures accompany the form so that customers are aware that before the RA can intervene on their behalf, they must follow the RA's procedure. Frequently Asked Questions have also been created to answer questions that consumers may have while making a complaint.

Complaints vary from broadband quality of service to spam SMS messages and can range from the Internet Service Providers to Subscription TV services. Although the RA has not received many complaints (due to lack of awareness of the procedure, they have been consistent in nature.

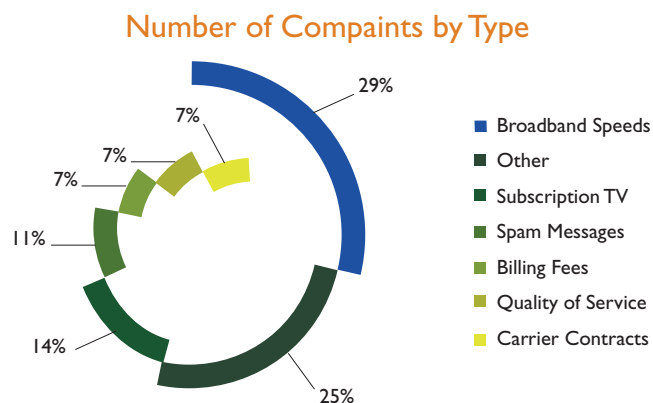
From April 1 2013 to April 30, 2014 the RA received 28 complaints.

Complaints to date

- Carrier Contracts – length of period for contacts and customer release from contract for Quality of Service issues
- Quality of service from telecommunications providers – local and customer service, service calls to the home & length of time for a response from carrier
- Terms and conditions of promotional services
- Misleading marketing for voice and data prepaid top ups
- Spam SMS messaging from carrier for company messages and promotions and promotions of other businesses
- Voice broadcasting to customer voice mails without any call-back numbers
- Slow internet speeds
- Fees for paper billing & online, ATM and telephone banking payment penalty fees, even when paid on the due date
- Cable channels being blacked out, bad or lost channel signal

By Complaint - RA

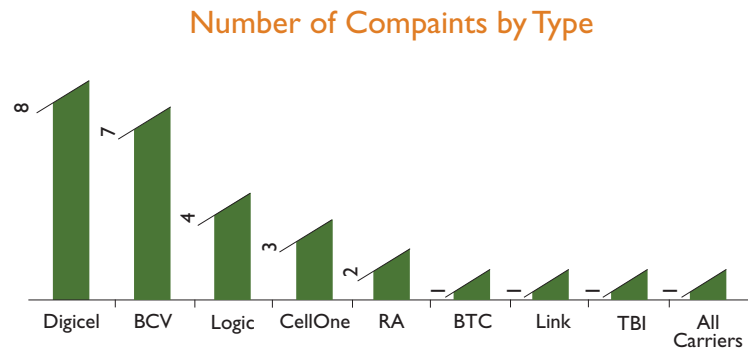
Broadband Speeds	8
*Other Telecom Related	7
Subscription TV	4
Spam Messages	3
Billing Fees	2
Quality of Service	2
Carrier Contracts	2
Total	28



* Other Telecom related complaints – government fees, sim card reuse, hacked PBX systems, late fees, data charges, cancellation policies, International long distance charges

Complaints By Carrier - RA

Digicel	8
BCV	7
Logic	4
CellOne	3
RA	2
BTC	1
Link	1
TBI	1
All Other Carriers	1
Total	28



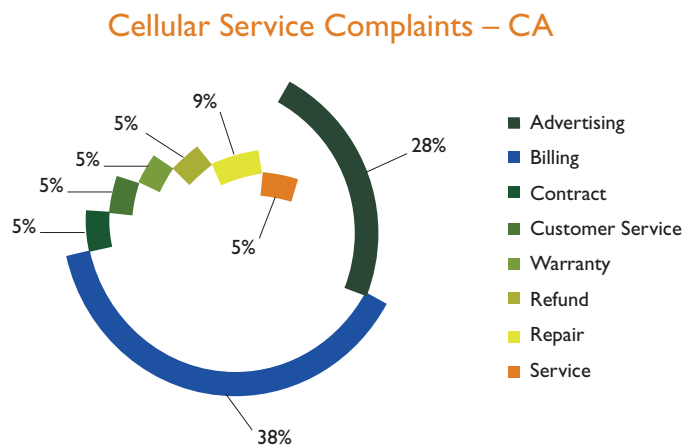
Consumer Affairs Telecommunications Complaints – 2013-14

A number of telecommunication complaints were fielded by the Consumer Affairs office (CA) of the Bermuda Government. This may be due to lack of awareness of the RA and its complaints procedure by consumers.

For the year 2013, a total of 40 Telecommunications complaints were received by CA.

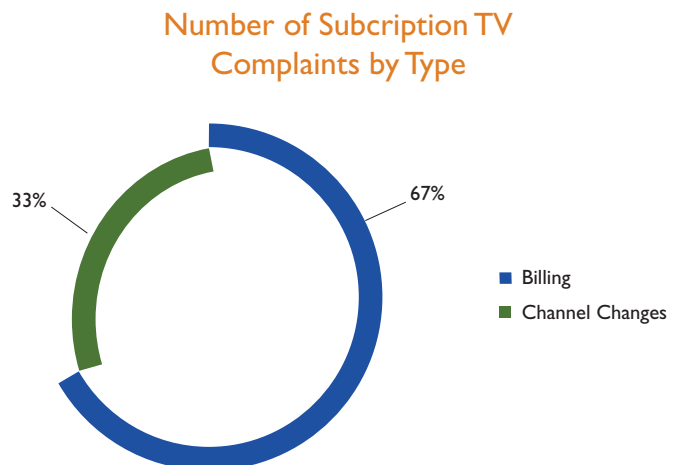
Cellular Service Providers - CA

Contract	8
Billing	6
Service	2
Customer Service	1
Warranty	1
Refund	1
Repair	1
Advertising	1



Subscription TV:

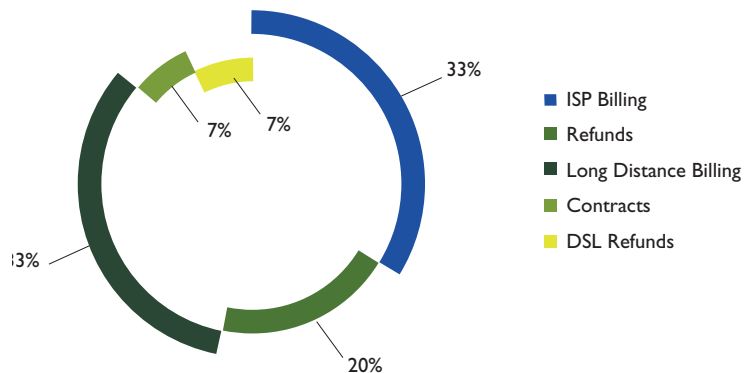
Billing	4
Channel Changes	2



Internet & Long Distant Carriers:

ISP Billing	5
Refunds	3
Long Distance Billing	5
Contracts	1
DSL Refund	1

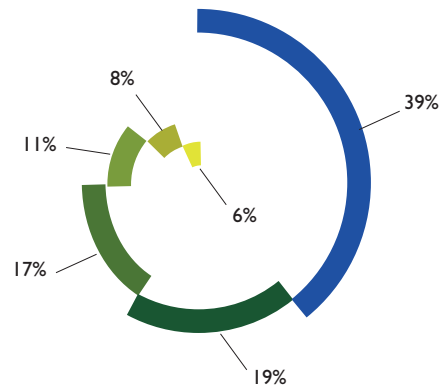
Internet and Long Distance Complaints by Category



Complaints by Carrier - CA

CellOne	14
Digicel	7
Logic	6
BTC	4
Link Bermuda	3
TBI	2

Complaints by Carrier – CA



These complaints from consumers have formed the basis of consultations that will be conducted by the RA. The purpose of these consultations is to solicit public feedback for the provision of Electronic Communications services (specifically fixed telephone, mobile cellular phone, internet, long distance, broadband services and pay television) to the Bermuda public. This series of consultations will ultimately form a comprehensive **Consumer Rights Code of Practice** that provides a stable and clear basis for the manner in which Service Providers engage in consumer and marketing practices.

Consumer Awareness

According to the MindMaps Residential Broadband Survey, overall awareness of the Regulatory Authority was not high. Just over a quarter of residents (27%) were aware of the RA. Of these residents, some feel that the purpose of the RA should be to regulate and ensure the legality of telecom providers (29%) and protect consumers by ensuring the best services and rates (28%). From 2013 to present, the RA has produced various education initiatives in forms of newspaper ads, fact sheets, pamphlets and radio interviews. In attempts to increase its awareness, the RA has engaged a marketing firm to help increase the visibility and to further highlight the RA's purpose. As new consultations are initiated, a combination of marketing tactics will be used to encourage increased involvement by the public. Print media, radio interviews, social media, online survey, newsletter, lunch and learns and town hall meetings form the bases of the outreach plan.

Consumer Education

In an age of rapidly-advancing technology, consumer education takes on an even more important role than in the past. The proliferation of new markets, products, and services through the Internet and other technology, creates the potential for gaps in consumer knowledge and understanding, and thus for marketplace abuse of unwary consumers. Also, the ever-

increasing amount of marketing directed at young people and children make the start of consumer education at an early age critical. Knowledgeable consumers can participate more fully and effectively in the marketplace. The more consumers know about their rights and responsibilities as well as about the goods and services they buy, the better they are able to protect themselves and make sound purchasing decisions.

The RA collaborates with Consumer Affairs, the Chamber of Commerce and various carriers to help educate the consumer. The collaboration will focus on quality of service from carriers, how to measure compensation for no provisions of service, including information from lowering their International roaming charges to knowing the difference between an Internet service provider and access provider. These collaborations help foster relationships between regulators, the Government and carriers to better serve the public.

CORPORATE DEVELOPMENTS AND INITIATIVES

The following are the main corporate and ongoing activities undertaken by the RA

Human Resource Management

The RA strongly believes in providing opportunities for Bermudians to develop their skills and abilities in the telecommunications regulatory sector. We are proud to report that all employees with the exception of the Chief Executive Officer are Bermudian. Four of the current employees are former employees of the Government of Bermuda and have worked in various areas within Government, including the Department of Telecommunications. The RA also employs young Bermudian talent for its Legal Advisor and Market Analyst posts. The RA will continue to review its needs in the area of human resources.

Performance Management/Training and Development

The RA is committed to training its employees and has provided both internal and overseas training opportunities to ensure that performance and organizational goals are in alignment. The RA will continue to work with local and overseas human resource specialists to develop training programs that are targeted to meet the objectives set out in its Work Plans.

Information Management

The RA has taken a paperless approach to the planning and effective management of information within the RA. The current information management systems and processes support the changing needs of the RA using web-based technologies and workflow support tools, ensuring that the technology infrastructure is secure and reliable. Information Management initiatives included launch of website social media and improvements in document management.

New consumer website

The RA will launch its new consumer website in September 2014 which will cater specifically to the needs and protection of the consumer. The site will provide helpful information on consumer rights and responsibilities, online consumer consultations, how to contact and lodge a complaint to the RA, how to port a phone number and general FAQ's.

Policies and Procedures

The RA continually reviews its policies and procedures related to all aspects of operational and financial administration to ensure that it is operating efficiently and remaining effective and transparent.

LIST OF CONSULTATIONS AND OUTPUTS

Consultation	Date Issued	Output	Date Issued
Work Plan and Budget 2013-14	January 2013	Ministerial Approval	March 2013
COL Exemption and Class Licenses	February 2013	General Determination	April 2013
ICOL and Spectrum Licenses	February 2013	ICOL Consolidated Spectrum Assignments	May 2013
Market Review part A and B	February 2013	General Determinations	April 2013
Local Number Portability	March 2013	General Determination	August 2013 ¹²
Obligations for Operators with Significant Market Power	May 2013	General Determination	August 2013
COL: Exemption for Passive Infrastructure Providers	June 2013	General Determination	August 2013
Cellphone Unlocking	August 2013	General Determination	February 2014
Email Mobility	August 2013	General Determination	Completed
QuoVadis Services Limited COL	October 2013	Licence Granted	November 2013
Work Plan and Budget 2014-15	October 2013	Ministerial Approval	February 2014
Spectrum Investigation	October 2013	General Determination	Not Yet Published
Market Data Collection	October 2013	General Determination	Completed
WOW 700MHZ Spectrum Migration Proposal	January 2014	General Determination	Ongoing

12. Determination was made in August 2013 but was published in the official Gazette in February 2014

WORKPLAN CHECK LIST – 2013 - 14

Strategic Priority	Activity	Complete	Incomplete	Comments
Capacity Building				
	Staffing	X		
	Website Upgrade		X	Consumer website under development for delivery 2014-15 year
	Administrative Rules		X	Interim Rules issued. Determination expected 2014-15 year.
	Financial Controls	X		
	Work Plan 2014-15	X		Transition from TA 1986
	Pre-Existing Matters	X		
	Revision of Regulations under TA 1986		X	Stage 1 to be commenced during 2014-15 year. Outline for work set out.
Sustainable Competition				
	ICOL Conversion	X		
	SMP Determination	X		
	Imposition Remedies	X		
	Fee Investigation	X		
	Class Licensing and Exemptions	X		
	Local Number	X		

Strategic Priority	Activity	Complete	Incomplete	Comments
Sustainable Competition <i>(continued)</i>				
	Portability			
	Dispute Resolution	X		Ongoing work
Consumer Protection				
	Universal Service		X	Discussions at Policy Level with Minister expected to take place 2014-15
	Class Licences and Exemptions		X	
	Dispute Resolution	X		Ongoing work
Efficient Use of Scarce Resources				
	Spectrum Investigation	X		
Promoting Bermudian Employment and Ownership				
				Ongoing work

PERFORMANCE AGAINST BUDGET

(Expressed in Bermuda dollars)

DESCRIPTION	ACTUAL 2013-2014	BUDGET 2013-2014	VARIANCE \$	VARIANCE %
OPERATING BUDGET				
TOTAL REVENUES	3,755,558	3,600,000	155,558	4%
EXPENSES				
General administration:				
Salaries, employee benefits and commissioners' honoraria	1,081,773	1,827,800	(746,027)	-41%
Rent and utilities	206,701	228,240	(21,539)	-9%
Office services	89,672	76,600	13,072	17%
Communication and meetings	61,763	62,500	(737)	-1%
Advertising and public relations	47,849	123,100	(75,251)	-61%
IT expenditure	26,021	14,000	12,021	86%
Casual labor	25,100	54,000	(28,900)	-54%
Bank charges	21,073	-	21,073	100%
Miscellaneous	17,000	169,660	(152,660)	-90%
	1,576,952	2,555,900	(978,948)	-38%
Professional services:				
Technical consultancy	1,274,850	1,200,000	74,850	6%
Non-technical consultancy	195,264	107,000	88,264	82%
Start-up costs	42,230	35,000	7,230	21%
Accounting fees	29,875	18,000	11,875	66%
Audit fees	21,667	24,000	(2,333)	-10%
	1,563,886	1,384,000	160,781	12%
Amortization of tangible capital assets	6,744	-	6,744	100%
TOTAL EXPENSES	3,147,582	3,939,900	(811,423)	-21%
SURPLUS / (DEFICIT)	607,976	(339,900)	966,981	-284%
CAPITAL BUDGET				
Furniture and Fittings	59,814	64,200	(4,386)	-7%
Office Equipment and Supplies	10,789	83,600	(72,811)	-87%
IT Equipment	18,278	110,300	(92,022)	-83%
Spectrum Equipment	-	95,000	(95,000)	-100%
TOTAL	88,881	353,100	(264,219)	-75%
NET SURPLUS / (DEFICIT)	519,095	(693,000)	1,231,200	-178%

Notes

The approved operating and capital budgets for the 14 month period, January 28, 2013 to March 31, 2014, were \$3.9 million and \$353,100 respectively.

During this period, actual revenues of \$3.7 million exceeded projected revenues by \$155,558 (4%). The actual operating and capital expenditure for the period were less than the budgeted allocation by \$811,423 (21%) and \$264,219 (75%) respectively. Due to the Authority being in a startup phase and the lack of historical information available, at the time the budget was being prepared, it was difficult to more accurately predict the expected expenditure and revenue in the Authority's first period of operations.

The majority of the variances were as a result of salaries and employee benefits being significantly below budget to the amount of \$746,026 (41%). This was due to the full complement of new hires not occurring as early as anticipated. The majority of staff members commenced employment with the Authority in September 2013. In addition, advertising and public relations were below budget by \$75,251 (61%) as a result of change in Workplan priorities. The Chief Executive received a gross salary of \$220,825 during the 14 month period from January 28, 2013 to March 31, 2014. In addition, he was granted a housing allowance of \$8,048.

During the 14 month period from January 28, 2013 to March 31, 2014, each Commissioner committed the equivalent of at least 3 full working days per week of their time in order to discharge their responsibilities. The total amount of honoraria paid to the Commissioners was \$348,231.

The capital budget was underutilized by \$264,219 (75%) due to the deferment of IT and Spectrum expenditure and adoption of lower cost solutions.

Management's Responsibility for the Financial Statements

These financial statements have been prepared by management, which is responsible for the reliability, integrity and objectivity of the information provided. The preparation of financial statements necessarily involves using management's best estimates and judgements, where appropriate.

Management is responsible for maintaining a comprehensive system of accounting records, internal controls, policies and management practices, designed to provide reasonable assurance that transactions are properly authorized and in compliance with legislation, assets are safeguarded, and reliable financial information is available on a timely basis.

The Regulatory Authority's Board of Commissioners is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Board of Commissioners meets periodically with management to discuss matters relating to financial reporting, internal control and audits. The Board of Commissioners also reviews the financial statements before their approval. The financial statements have been approved by the Board of Commissioners and have been examined by the Office of the Auditor General.

The accompanying Independent Auditor's Report is presented herein.



Carl Musson
Chairman



Kyle Masters
Interim Chief Executive

November 10, 2015



Office of the Auditor General

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INDEPENDENT AUDITOR'S REPORT

To the Minister of Economic Development

Report on the Financial Statements

I have audited the accompanying financial statements of the Regulatory Authority, which comprise the statement of financial position as at March 31, 2014, and the statements of operations and accumulated surplus, change in net financial assets and cash flows for the period from January 28, 2013 (Commencement of Operations) to March 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with public sector accounting standards generally accepted in Bermuda and Canada, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Regulatory Authority as at March 31, 2014, and the results of its operations, changes in its net financial assets and its cash flows for the period from January 28, 2013 (Commencement of Operations) to March 31, 2014 in accordance with public sector accounting standards generally accepted in Bermuda and Canada.

Report on Other Legal and Regulatory Requirements

As required by Section 46 of the Regulatory Authority Act 2011, I also report that, in my opinion, the financial statements shows fairly the financial transactions and the state of affairs of the Authority, proper accounting and other records have been kept, including records of all assets of the Authority, and the receipts, expenditure and investment of moneys and the acquisition and disposal of assets by the Authority during the financial year, were in accordance with the provisions of the Act.



Hamilton, Bermuda
November 10, 2015

Heather A. Jacobs Matthews, JP, FCPA, FCA, CFE
Auditor General

REGULATORY AUTHORITY

STATEMENT OF FINANCIAL POSITION

As at March 31, 2014

(Expressed in Bermuda dollars)

	2014 \$
FINANCIAL ASSETS	
Cash	902,709
Accounts receivable	3,206,716
Due from the Government of Bermuda (Note 8)	13,140
	<u>4,122,565</u>
LIABILITIES	
Accounts payable and accrued liabilities	231,558
Due to the Government of Bermuda (Note 8)	2,384,481
Distribution payable to the Consolidated Fund of the Government of Bermuda (Notes 4 and 8)	303,988
	<u>2,920,027</u>
NET FINANCIAL ASSETS	<u>1,202,538</u>
NON-FINANCIAL ASSETS	
Tangible capital assets (Note 3)	82,137
Prepaid expenses	19,313
	<u>101,450</u>
ACCUMULATED SURPLUS (Note 4)	<u>1,303,988</u>
CONTRACTUAL OBLIGATIONS (Note 7)	

REGULATORY AUTHORITY

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

For the period from January 28, 2013 (Commencement of Operations) to March 31, 2014
(Expressed in Bermuda dollars)

	2014	2014
	Budget (Note 10)	Actual
	\$	\$
REVENUES		
Fees from Integrated Communications Operating Licences	3,600,000	3,755,381
Interest	-	177
	<u>3,600,000</u>	<u>3,755,558</u>
EXPENSES (Note 5)		
General administration	2,555,900	1,576,952
Professional services	1,384,000	1,563,886
Amortization of tangible capital assets	-	6,744
	<u>3,939,900</u>	<u>3,147,582</u>
SURPLUS (DEFICIT) FOR THE PERIOD	<u>(339,900)</u>	607,976
ACCUMULATED SURPLUS, BEGINNING OF PERIOD		
Add: Paid-up capital (Note 4)		1,000,000
Less: Distribution to the Consolidated Fund of the Government of Bermuda (Note 4)		<u>(303,988)</u>
ACCUMULATED SURPLUS, END OF PERIOD		<u>1,303,988</u>

REGULATORY AUTHORITY

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

For the period from January 28, 2013 (Commencement of Operations) to March 31, 2014
(Expressed in Bermuda dollars)

	2014 \$
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	<u> </u>
Surplus for the period	607,976
Acquisition of tangible capital assets (Note 3)	(88,881)
Amortization of tangible capital assets (Note 3)	6,744
Change in prepaid expenses	(19,313)
Paid-up capital	1,000,000
Distribution to the Consolidated Fund of the Government of Bermuda	<u>(303,988)</u>
Changes in net financial assets	<u>1,202,538</u>
NET FINANCIAL ASSETS, END OF PERIOD	<u>1,202,538</u>

REGULATORY AUTHORITY

STATEMENT OF CASH FLOWS

For the period from January 28, 2013 (Commencement of Operations) to March 31, 2014
(Expressed in Bermuda dollars)

	2014 \$
CASH FLOWS FROM OPERATING ACTIVITIES	
Surplus	607,976
Adjustment for items not affecting cash:	
Amortization of tangible capital assets	6,744
	<u>614,720</u>
Changes in non-cash working capital:	
Increase in accounts receivable	(3,206,716)
Increase in due from the Government of Bermuda	(13,140)
Increase in prepaid expenses	(19,313)
Increase in accounts payable and accrued liabilities	231,558
Increase in due to the Government of Bermuda	2,384,481
	<u>(8,410)</u>
Cash flows used in operating activities	<u>(8,410)</u>
CASH FLOWS USED IN CAPITAL ACTIVITY	
Acquisition of tangible capital assets	<u>(88,881)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Paid-up capital	<u>1,000,000</u>
NET INCREASE IN CASH	902,709
CASH, BEGINNING OF PERIOD	<u>-</u>
CASH, END OF PERIOD	<u>902,709</u>

REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

1. AUTHORITY AND PURPOSE

The Regulatory Authority (the "Authority") was established under the Regulatory Authority Act 2011 (the "Act").

The Authority commenced operations on January 28, 2013 and currently operates as a telecommunications regulator under the Electronic Communications Act 2011.

The principal functions of the Authority, in relation to any industry sector that it regulates, are:

- to promote and preserve competition;
- to promote the interests of the residents and consumers of Bermuda;
- to promote the development of the Bermudian economy, Bermudian employment and Bermudian ownership;
- to promote innovation; and
- to fulfil any additional functions specified by sectoral legislation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with public sector accounting standards generally accepted in Bermuda and Canada as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. For financial reporting purposes, the Authority is classified as an "other government organization" and has adopted accounting policies appropriate for this classification. The policies considered particularly significant are set out below:

(a) Revenue recognition

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

The Authority derives its revenue from Integrated Communication Operating Licenses ("ICOLs") which are based on actual returns received and an accrued estimate relating to carriers which are required by the Act to file returns and remit the related ICOL fees. This estimate has been made by management using information available to the Authority.

Fees collected on behalf of the Government of Bermuda (the "Government") for Class licenses are not recognized as revenue, but rather recorded as amounts due to Government.

(b) Expenses

Expenses are recognized when, and to the extent that, the goods or services have been received. They are measured at the fair value of the consideration paid or payable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Cash

Cash includes all cash on deposit with financial institutions that can be withdrawn without prior notice or penalty.

(d) Tangible capital assets and amortization

Tangible capital assets are recorded at cost less accumulated amortization. The cost of a tangible capital asset consists of its purchase price and costs directly attributable to making the asset ready for its intended use.

Amortization is computed using the straight-line method over the estimated useful lives of the tangible capital assets as follows:

Office equipment	5 years
Computers and software	3 years
Furniture and fittings	10 years

The estimated useful life of an asset is the period over which the Authority expects to obtain economic benefits or service potential from the asset. This is specific to the Authority and may be shorter than the physical life of the asset itself. Estimated useful lives and residual values are reviewed each year end, with the effect of any changes recognized on a prospective basis.

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Authority's ability to provide services, or when the value of the future economic benefits associated with the tangible capital assets is less than their net book value. The net write-down is accounted for as an expense in the statement of operations and accumulated surplus.

(e) Leases

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Lease incentives are recognized as a reduction of rentals on a straight-line basis over the lease term.

(f) Funds and reserves

Certain amounts, as stipulated in the Act, are set aside from the accumulated surplus for future operating and capital purposes. Transfers to/from funds and reserves are an adjustment to the respective fund when approved.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Foreign currencies

The Authority's functional and presentation currency is the Bermuda dollar.

Transactions denominated in foreign currencies are translated into Bermuda dollars at the prevailing exchange rates on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the period-end date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the statement of operations and accumulated surplus.

(h) Financial instruments

The Authority's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, amounts due from/to the Government of Bermuda and distribution payable to the Consolidated Fund. These financial instruments are measured at cost or amortized cost.

(i) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current period and are not intended for sale in the normal course of operations.

(j) Measurement uncertainty

These financial statements are prepared in accordance with public sector accounting standards generally accepted in Bermuda and Canada. These standards require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

(k) Remeasurement gains and losses

The Authority has no transactions that would result in remeasurement gains and losses therefore no statement of remeasurement gains and losses has been prepared.

REGULATORY AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 MARCH 31, 2014

3. TANGIBLE CAPITAL ASSETS

	Furniture and fittings	Office equipment	Computers and software	Total
	\$	\$	\$	\$
Opening cost	-	-	-	-
Additions	59,814	10,789	18,278	88,881
Closing cost	59,814	10,789	18,278	88,881
Opening accumulated amortization	-	-	-	-
Amortization	612	2,000	4,132	6,744
Closing accumulated amortization	612	2,000	4,132	6,744
Net book value	59,202	8,789	14,146	82,137

4. ACCUMULATED SURPLUS

Funds and reserves: Pursuant to Section 41 of the Act, in any year in which the Authority realizes a net surplus, the Authority, after recouping any net losses brought forward from prior years (subject to the approval of all Ministers responsible for regulated industry sectors), shall transfer any remaining surplus in the following manner:

- a) 50% shall be transferred to the Consolidated Fund;
- b) 25% shall be transferred to paid-up capital of the Authority; and
- c) 25% shall be transferred to the Reserve Fund.

The paid-up capital together with the Reserve Fund is not to exceed the Authority's authorized capital of \$3.5 million. Any excess surplus must be paid to the Consolidated Fund.

Changes in operating, capital and reserves balances during the period were as follows:

	Operating Fund	Paid-up capital	Reserve Fund	Total
	\$	\$	\$	\$
ACCUMULATED SURPLUS, BEGINNING OF PERIOD	-	-	-	-
Surplus for the period	607,976	-	-	607,976
Paid-up capital	-	1,000,000	-	1,000,000
Intra-fund transfers	(303,988)	151,994	151,994	-
Distribution to the Consolidated Fund	(303,988)	-	-	(303,988)
ACCUMULATED SURPLUS, END OF PERIOD	-	1,151,994	151,994	1,303,988

REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

4. ACCUMULATED SURPLUS (continued)

In accordance with Section 111 of the Act, the Government committed to make an initial payment of \$2 million as paid-up capital, which was to be used for purposes prescribed under the Act. In 2013 the Government paid the Authority \$1 million towards the paid-up capital. The \$1 million was paid with the intent that the Authority would have funding until collecting sufficient revenues to cover operating expenses as per section 111 (b)(ii) of the Act. However, since the Authority achieved operational independence within the period, the Government deems it not necessary to provide further funding.

5. EXPENSES BY OBJECT

The following is a summary of expenses by object:

	2014
	\$
General administration	
Salaries, employee benefits and commissioners' honoraria (Note 6)	1,081,773
Rent and utilities	206,701
Office services	89,672
Communication and meetings	61,763
Advertising and public relations	47,849
IT expenditure	26,021
Casual labor	25,100
Bank charges	21,073
Miscellaneous	17,000
	<u>1,576,952</u>
Professional services	
Technical consultancy	1,274,850
Non technical consultancy	195,264
Start-up costs	42,230
Accounting fees	29,875
Audit fees	21,667
	<u>1,563,886</u>
Amortization of tangible capital assets (Note 3)	6,744
	<u>3,147,582</u>

REGULATORY AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 MARCH 31, 2014

6. SALARIES, EMPLOYEE BENEFITS AND COMMISSIONERS' HONORARIA

This account consists of:

	2014
	\$
Salaries, bonuses and commissioners' honoraria	931,710
Payroll tax	77,334
Health insurance	29,914
Pension costs	27,001
Housing Allowance	8,048
Social insurance costs	7,766
Total	1,081,773

Employee benefits include the following:

(a) Pension Plans

Employees of the Authority are enrolled in two different pension schemes:

i) Defined contribution plan

The Authority has a defined contribution plan administered by Colonial Pension Services Ltd. (the "Plan") for the majority of its eligible employees. A defined contribution plan is a post-employment benefit plan under which the Authority pays fixed contributions. The Authority has no legal or constructive obligations to pay further contributions. Employee contributions to the Plan are 5% of gross salary matched by the Authority. The Authority's contributions are recognized as employee benefit expenses when they are due and totaled \$15,620 during the period.

ii) Defined benefit plan

The Authority contributes to the Public Service Superannuation Fund (the "Fund"), which is a defined benefit plan, administered by the Government and covers the remainder of the Authority's eligible employees, all of whom were previous employees of the Government. Contributions of 8% of gross salary are required from both the employee and the Authority, and have been included in salaries and employee benefits. As part of the agreement to transfer this employee group to the Authority, the Authority is not required to make contributions to the Fund with respect to the quantified actuarial deficiencies. As a result, the current period contributions to the Fund represent the total liability of the Authority. The Authority's contributions to the Fund during the period were \$11,381.

6. SALARIES, EMPLOYEE BENEFITS AND COMMISSIONERS' HONORARIA (continued)

(b) Health insurance

The Authority offers a standard group medical plan for a majority of employees and their qualified dependents. The remainder of employees, all of whom were previous employees of the Government, are covered by the Government Employment Health Insurance scheme ("GEHI"). The cost of health insurance is matched equally with employees.

(c) Compensated absences

Compensated absences include maternity leave, sick leave and vacation days. All of these benefits are unfunded. In addition, a housing allowance is paid to the Chief Executive.

Maternity leave does not accumulate or vest and therefore an expense and liability is only recognized when extended leave is applied for and approved. There were no maternity leave benefits applied for or approved during the current period and therefore, no liability has been accrued in the accounts.

Sick leave accumulates but does not vest, and like maternity leave, a liability is recorded only when extended leave is applied for and approved. There was no extended sick leave applied for or approved during the current period and therefore, no liability has been accrued in the accounts.

Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as at March 31, 2014 is \$6,188 and is included in accounts payable and accrued liabilities.

(d) Commissioners' Honoraria

The Authority has three Commissioners. In accordance with the provisions of the Act, each Commissioner is selected by a Selection Committee that consists of the Minister responsible for justice, as Chairman; the Minister responsible for labor; the Opposition Leader or his or her designate; and the Minister responsible for the electronic communications sector. The responsibilities of the Commissioners are quite broad and diverse. Amongst other things, they are responsible for the strategic direction and governance of the Authority and for providing general direction to its Chief Executive. They are also responsible for making legally binding determinations, adjudication decisions and orders that may be required to effect the Authority's regulatory functions.

During the 14 month period from January 28, 2013 to March 31, 2014, each Commissioner committed the equivalent of at least 3 full working days per week of their time in order to discharge their responsibilities. The total amount of honoraria paid to the Commissioners was \$348,231.

REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

7. CONTRACTUAL OBLIGATIONS

Effective December 24, 2012, the Authority entered into a five-year lease for office space and service charge at a cost of \$481,163 and \$160,387 respectively. Rent-free periods negotiated as part of the lease term have been amortized over the life of the lease on a pro-rated basis. The rent and service charge expense recognized during the period to March 31, 2014 is \$120,291 and \$40,097 respectively.

As at March 31, 2014, the total remaining obligation under the lease is \$494,528. The future minimum lease payments in the ensuing fiscal years are as follows:

2014/15	\$ 121,182
2015/16	\$ 130,092
2016/17	\$ 139,003
2017/18	\$ 104,251

8. RELATED PARTY TRANSACTIONS

The Authority is related to all Government ministries, departments, agencies and quasi-autonomous non-governmental organizations under the common control of the Government. Also, the Authority is related to organizations that the Government jointly controls or significantly influences.

The Authority enters into transactions with these entities in the normal course of business and such transactions are measured at the exchange amount which is the amount of consideration established and agreed by the related parties.

Transactions with related parties during the period included:

	Revenues	Expenses	Receivables	Payables
	\$	\$	\$	\$
Payroll tax	-	77,334	-	33,667
Authorized and paid-up capital	1,000,000	-	-	-
Social insurance	-	7,766	-	2,245
ICOLs and handset fees	-	8,798,820	-	2,317,499
Class licenses	-	238,216	13,140	31,070
Distribution to Consolidated Fund	-	-	-	303,988
	<u>1,000,000</u>	<u>9,122,136</u>	<u>13,140</u>	<u>2,688,469</u>

9. FINANCIAL RISK MANAGEMENT

In the normal course of operations, the Authority is exposed to a number of risks that can affect its operating performance. These include: credit risk, liquidity risk and market risk associated with its financial instruments. The Board of Commissioners has overall responsibility for the establishment and oversight of the Authority's risk management framework. The Authority's risk management program seeks to minimize potential adverse effects on the Authority's financial performance through a combination of sound business practices.

a) Credit risk

Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations to the Authority. Such risks arise primarily from certain assets held consisting of cash and accounts receivable. It is management's opinion that the Authority is not exposed to significant credit risk associated with cash as they are placed with highly rated financial institutions. The Authority is exposed to credit risk in the event of non-performance by licensed carriers. This risk is mitigated because 99% of accounts receivable are current; therefore, management does not consider it to be impaired.

b) Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they become due. The Authority manages liquidity risk by continually monitoring actual and forecasted cash flows from operations to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they become due.

c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk and interest rate risk.

i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. It is management's opinion that the Authority is not exposed to significant currency risk, as amounts held and transactions settled in foreign currency are insignificant.

ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Authority's exposure to interest rate risk is limited to interest earned on its cash. It is management's opinion that the Authority is not exposed to significant interest rate risk.

REGULATORY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

10. BUDGET

The operating and capital budget for the period from January 28, 2013 to March 31, 2013 was approved by the Minister of Finance on January 28, 2013.

The operating and capital budget for the period from April 1, 2013 to March 31, 2014 was approved by the Minister of Finance on March 28, 2013.

11. COMPARATIVE FIGURES

The Authority commenced operations on January 28, 2013 and the current period figures relate to a period of fourteen months. As such, there are no comparative figures.

12. SUBSEQUENT EVENTS

On January 13, 2015, Bermuda Digital Communications Limited (“CellOne”) lodged an appeal in the Supreme Court against the Authority's Final Order and Decision dated December 23, 2014 made pursuant to the Electronic Communications Act 2011, in respect of CellOne's spectrum holdings. On July 14, 2015, the appeal was settled on terms that CellOne discontinue its appeal and reimburse the Authority legal costs incurred (“the settlement sum”). CellOne paid the settlement sum on or about July 17, 2015.



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