



Isle of Man
Government

Reiltys Ellan Vannin



Quarterly Report on the Economy
to the
Council of Ministers
(for distribution)

February 11 2010

CONTENTS

| | Page |
|-----------------------------------|-------------|
| General Economy | 1 |
| Manufacturing | 3 |
| Financial Services | 5 |
| E-business | 7 |
| Space Commerce | 8 |
| Shipping | 9 |
| Aircraft Register | 10 |
| Construction | 11 |
| Film and Media | 12 |
| Tourism and Leisure | 12 |
| Agriculture | 14 |
| Fisheries | 15 |
| Forestry | 16 |
| Retailing | 16 |
| Appendices | 18 |
| A) Economic Indicators | |
| B) Revenue Account | |
| C) Capital Spending | |
| D) Government Personnel Programme | |

GENERAL ECONOMY

Government supports provided over the last couple of years have produced large, unsustainable global government deficits. Recently the scale of borrowings has led to questioning over continued investor appetite for further government bond issues. But making issues more attractive by raising interest rates would dampen economic recovery prospects.

Such supports have been at the centre of efforts at damage limitation, and all forecasted projections are for global growth from this year (of between 2-3%) led in particular by the economies of Brazil, Russia, India and China (the so-called BRIC economies, which together have generated half the world's growth over the last decade). Growth in China is widely forecasted to approach double figures in 2010. China is now the world's third largest economy, after the United States and Japan, and its demand for energy and raw materials has played a big part in pulling the global economy back towards growth.

The US economy grew at an annual pace of 2.2% in the third quarter 2009, less than the original estimate of 2.8%. The main factors behind the lower growth were that consumer spending was not as strong as originally thought, commercial construction was weaker and companies cut back on inventories.

Economic recovery is occurring at different paces across Europe. Germany stands at one end of the recovery process, with Spain and Ireland at the other. Unemployment in the Eurozone has continued to rise and hit 10% in November, the highest rate since 1998.

The IMF has estimated a contraction of global output of 1.1% for 2009 but forecasts a rebound of 3.1% for 2010. It also expects world trade levels to grow by 2% following a 12% contraction in 2009. OECD forecasts are more conservative. It projects economic growth amongst its members of 2% in 2010.

The UK has just emerged from its longest and deepest ever recession. HM Treasury forecasts expansion of 1¼% in 2010 and 3½% in 2011, somewhat more optimistic than the thoughts of, for instance, the OECD, who see growth of only 1.2% and 2.2% respectively.

In his Pre Budget Report the Chancellor outlined the UK Government's plans to reduce the burgeoning deficit of around £180billion. There have been warnings from both the IMF and OECD that the size of these deficits is not sustainable. Yet plans announced in the Pre Budget Report are weak in respect of reducing the deficits. Before the financial crisis took hold in 2007 the UK national debt stood at 44% of GDP but by November 2009 reached 60%. Credit referencing agencies have raised their concerns that the level of debt may be spiralling out of control, which will put the UK AAA credit rating under threat. If investors lose confidence in the government's ability to reduce its national debt then a rise in gilt yields could hamper the recovery by raising the cost of long term borrowing more generally. But a tighter fiscal policy in order to get the finances back under control would also have serious negative implications by reducing disposable income and investment expenditure.

The UK unemployment claimant count in November stood at 5%, about 1.63m people. Given the falls in output, unemployment has not risen as much as originally feared, reflecting a degree of labour market flexibility and workers accepting lower wage settlements.

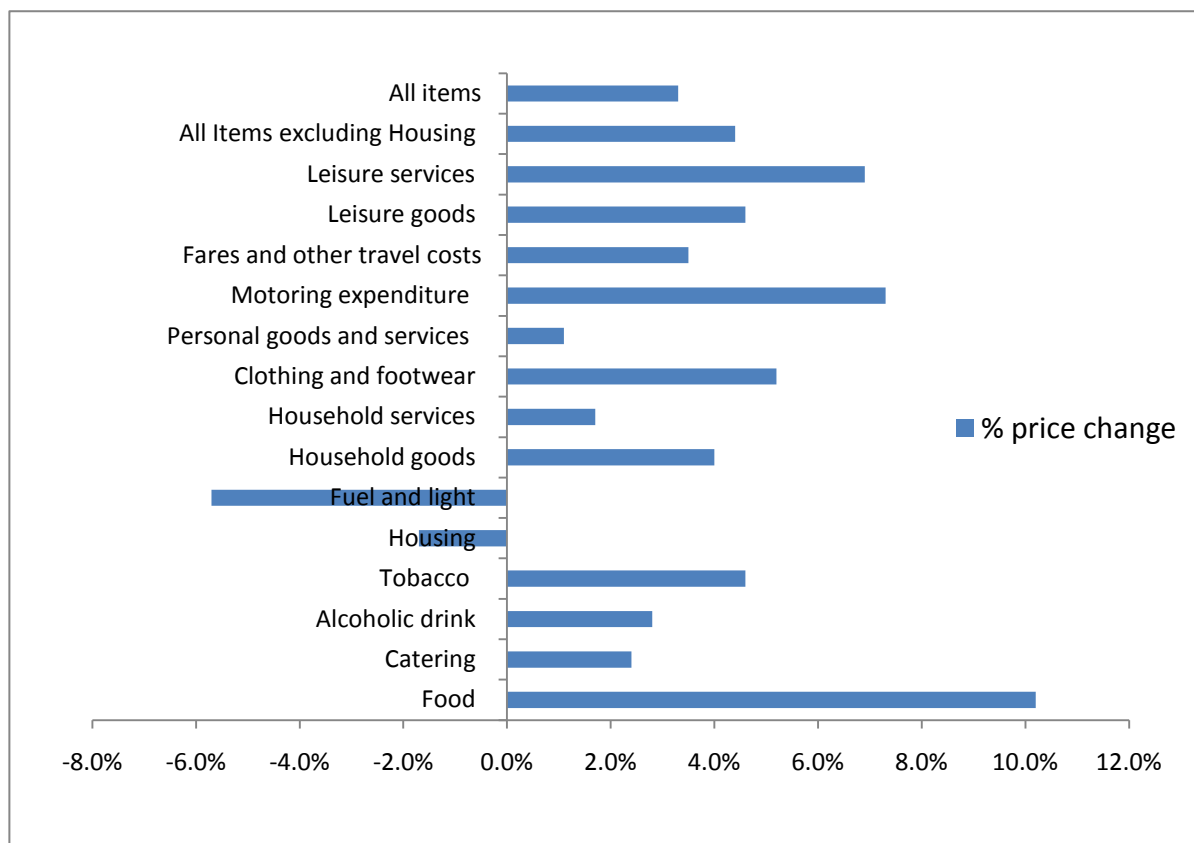
There will be some additional pain for households in 2010 as VAT goes back up to 17.5% and squeezes disposable incomes across the country, hitting consumer spending.

According to Nationwide, UK house prices rose by 5.9% in 2009, making some recovery from the 15% fall in 2008. The building society shares the consensus view that prices will rise, but only slowly, in 2010. Although the number of transactions has started to increase there is an expectation that demand for properties will fall next year as tax rises begin to bite. It is anticipated that lenders will make credit more easily available to households and businesses in 2010 as the economic outlook improves. Whether there will be much take up is another matter.

UK CPI inflation rose in December to 2.9% from 1.9% in November. That was the biggest monthly increase in the annual index since records began and exceeded most analyst expectations. The RPI also rose, to 2.4%, its highest level since November 2008. The jump in inflation was partly due to a number of factors which had served to depress prices over the last 12 months, including the reductions in interest rates and VAT and the fall in oil prices, now falling outside of the calculation. But it also reflected rising food and commodity prices. Commodity prices soared in 2009 and will continue to rise, though more slowly in 2010, as the recovery begins. Oil prices have doubled in the last 12 months to reach almost \$80 a barrel, feeding into prices at the pumps. As manufacturing around the world recovers industrial demand will pick up, pushing up the price of metals and other commodities.

The Island's inflation rate (see Appendix A, Table A4)) has shown an untimely series of increases in recent months, mirroring inflation trends in the UK and elsewhere. There are two factors at play here, one economic, the other arithmetical. The economic factor is that of food prices. The chart below shows that over the year food prices have gone up by 10.2% compared to a 3.3% increase in the cost of living overall. Countering this, 2009 saw decreases in housing and energy costs, both heavily weighted items in the calculation of the inflation rate. But, and this is where the arithmetic aspect of the calculation comes into play, the decreases in housing costs (principally mortgage repayments) and energy prices that started to come into effect over a year ago are now beginning to drop out of the calculation. Whilst food prices show signs of coming off their peak, the arithmetic effects of what was happening 12 months ago will continue for several months yet to push up the Island's annual inflation rate.

IOM RPI Inflation Mid-December 2009



The Isle of Man's labour market (see Appendix A, Table A1a)) has fared very well by international standards. Unemployment rose through the fourth quarter of 2008 and much of 2009 but has fallen significantly since its peak in August. The start of 2009 saw a great leap in the number of people unemployed. Fears that this was a prelude to a job shakeout comparable with that of the previous economic slowdown on the Island in the early 90s have, to date at least, proved unfounded. The year ended with unemployment at 878 (2.1%), up just 157 over the year. Some of the factors that were partly responsible for the increases at the start of the last year will doubtless however do the same this year, particularly seasonal lay-offs in retailing and construction.

The economy has continued to generate new jobs (see Appendix A, Table A1b)). Vacancies for the year reported to DTI's Job Centre totalled around 6,700 (see Appendix A, Table A1d)). While this is around a thousand less than in 2008, that was a record year. The 2009 total was in line with the average for the four preceding years, which were very positive years for the Island's economy. This would indicate that many of the job losses from businesses downsizing or closing have been offset by new or growing businesses.

The range of skills of the unemployed has changed over the last 18 months. Historically, few unemployed individuals had more qualifications than five GCSEs. More recently, there has been a greater availability of individuals with 'A' levels, degrees and some vocational qualifications, a function of the redundancies seen in sectors ranging from financial services to construction. In view of this, the Minister for Trade and Industry instructed a focused review and close oversight of work permit policy in 2009 and the DTI continues to monitor availability by sector and skill carefully.

The period that individuals remain unemployed for has increased over the last 18 months. This is typical when the overall level of unemployment rises and there is greater competition for job vacancies. The number unemployed for over a year has risen from around 90 to 132 over the course of 2009.

There has also been a marked rise in unemployment among young people (persons aged between 16 and 24) as recruitment needs decline, especially for those without proven skills and experience. That said, the number of apprentices has held up well. Also, the job skills training run by TLC and funded by the DTI has helped 100 NEETs (young people not in employment, education or training) to find and retain suitable employment. This illustrates that targeted measures can have a positive impact.

During 2009 the DTI has substantially increased its services available to assist those seeking work. The Job Centre internet site has been upgraded so that details of job vacancies can be accessed promptly across the Island. The Job Centre premises have been upgraded to include touchscreen terminals, computers and a training suite such that a much wider range and quantity of relevant training and support can be provided.

Work permit figures are consistent with the general analysis of the labour market (see Appendix A, Table A1f)). The overall number of work permits approved in 2009 fell by about 11% from 2008 and this continues a fall of about 4% seen in 2008 from 2007. In particular, new applications fell by a third. Renewals increased by a quarter as individuals become more wary of changing jobs. The falls were most marked in those areas where the DTI had tightened policy, notably construction, hospitality, retail and basic administrative jobs. Across these areas, data for December (see Appendix A, Table A1e)) showed 553 persons previously employed there now on the unemployment register, but with only 109 vacancies in those same sectors having been notified over the month.

The revised approach to work permit applications for unskilled posts is reflected also in national insurance information which shows the number issued to foreign nationals falling by almost half in 2009 (see Appendix A, Table A2).

The majority of jobs where permits are granted continue however to be for roles requiring little if any skills or qualifications. This includes many jobs in entertainment/catering, retail, tourism, cleaning, security and care homes.

In December 2009 Tynwald unanimously approved the Work Permit Exemptions Order which removed the need for a work permit for a number of specific employments, principally relating to temporary and intermittent workers who do not affect full-time employment and hence have little if any impact on Isle of Man Workers. There were around 4,000 such permits granted in 2009, so this change will substantially reduce the administrative burden on employers while at the same time allowing the DTI to enhance scrutiny of the remaining applications to help ensure the interests of Isle of Man Workers are protected.

The requirement for a skilled, flexible workforce will remain a key factor towards the continued growth, diversification and ultimately, the success of our Island. The Government remains committed to addressing these issues in a proactive manner. The DTI has several new measures planned for 2010 which will help. The long-term unemployed will be assisted with a new work placement programme, designed to give them workplace experience to boost their self-confidence and aid them to get back into work. The Job Centre will provide many of the services provided in Douglas in Ramsey, Peel and the South on a monthly basis. The successful NEETs programme will continue and be expanded. Apprentice programmes will also continue to be developed and enhanced.

MANUFACTURING

2009 Overview

The manufacturing sector is broadly split into three different sub-sectors namely:

- Engineering with a particular focus on aerospace (principally civil aircraft)
- Food and drink including premium local foods such as cheese, seafood, meats, ice cream and beer, much of it for export to the UK and beyond
- General Manufacturing, which is a broad grouping ranging from laser optics to industrial diamonds to watch makers.

The global downturn has affected each of these sub-sectors differently in 2009. Overall, most businesses have held up well and been able to retain their workforce, thanks mainly to improved trading conditions towards the end of the year.

The *engineering/aerospace* sector experienced little effect on its order books in the first half of the year. The confidence in the sector was however shaken as local businesses tried to assess how the global recession might eventually filter through to the hi-tech, aerospace and defence sector order books. Delays to a number of major aircraft programmes and the collapse of several airlines provided the evidence for a level of caution, as did reports of potential cutbacks in defence spending by UK and other governments. As the year unfolded there was a significant re-organisation of customer order schedules which caused widespread disruption and in the last quarter they eventually saw the cancellation of some orders.

In the main local businesses had planned for this and responded strongly. Through diversification, re-organisation and aggressive sales drives the year ended with the engineering/aerospace sector in relatively good health. Another positive factor was the first flights of the Boeing 787 dreamliner and Airbus A400M Military Transporter. These programmes will provide significant work for many of the local aerospace cluster businesses for the next 25 years.

The DTI has continued to promote the work of the IOM Aerospace Cluster (IOMAC) and the formal arrangement with the North West Aerospace Alliance (NWAA). This is a vital arrangement that is helping the sector modernise for the future and giving it direct links to the industry's leading companies such as Rolls Royce, BAe Systems and Airbus.

The *food and drink* sector saw a fall in demand for what is predominantly a premium product in the market, against a backdrop of increased competition from cheaper and discounted products. To combat this challenge the sector accelerated its focus on producing products with a wider global appeal and marketing them more aggressively. For example, by the final quarter of the year Isle of Man Creameries had achieved new listings in 160 Tesco stores throughout the UK.

The large majority of products in the *general manufacturing* sector are for the consumer market and so producers again suffered from a drop in spending early in the year. The situation has improved: the last quarter of 2009 showed a strong pick-up in confidence, apparent from an increase in order books. Global markets such as Turkey, China, and Western Europe counterbalanced the negative impact of the Russian economy and a flat UK demand.

At Strix, the most significant business in this sub-sector, tough measures were introduced at the end of 2008 to hold salary costs and reduce bonuses. This paid dividends as the company was able to maintain its workforce and by the end of 2009 profitability and sales had returned close to forecast levels. Another positive example is CVI Technical Optics where shipments for December were the highest on record.

Outlook

In *aerospace*, the leading businesses and the DTI worked together to forecast potential future growth and to plan how to achieve this potential. The analysis shows the sector has the potential to double revenues over the next five years, creating 130 new skilled jobs and generating millions of pounds more for the economy and in taxes. To achieve this the businesses need to continue to modernise and change working practices. Only by doing this will they be able to align themselves to the industry primes (notably Rolls Royce and BAe Systems) who dictate the allocation of work within their supply chains. The work of the IOM Aerospace Cluster is therefore very significant in driving the strategy for the future which includes the closer involvement of Government in creating an environment for the sector to succeed.

To help in this, the arrangement with the NWAA has been extended for a further 12 months. This will facilitate the continuation of some important initiatives this year, further strengthening the Cluster's capability as a group to win collaborative work packages as well as position them as a major element of the global aerospace supply chain. The very existence of a strong, cohesive cluster has also led to some excellent inward investment leads from UK aerospace and hi-tech firms.

The IOMAC intends to exhibit at this year's Farnborough International Airshow for the first time to showcase their collective capability and to promote the Isle of Man as an inward investment prospect.

In *food and drink*, export markets (most importantly the UK) are expected to return to pre-recession levels this year, with commodity prices remaining high providing a good basis for profitability across the sector.

In *general manufacturing*, businesses are forecasting an overall 5-6% increase in demand on 2009 levels with consumer confidence up but with corporate customers concerned about tying up too much cash flow in working capital. For example, at Strix there is strong demand for their new technologies which will counteract the low-end price sensitive surge they saw in 2009. They are re-investing in resources in 2010, confident of growth.

One area offering significant potential for growth is the clean-tech sector, which is the term used to refer to a wide range of businesses engaged in manufacturing or services to aid businesses and consumers reduce energy consumption and costs. The Island has enjoyed some valuable successes in winning some AIM listings to date. The DTI will be targeting this sector much more intensely in 2010, including attending some major industry trade shows to promote the Island as a base for such businesses.

FINANCIAL SERVICES

2009 Overview

Internationally, *banking* had a tumultuous year in 2009 and this translated into uncertainty over strategy in most banks. Banks also saw a loss of consumer confidence and funds were re-distributed. In the UK RBSI, HBoS and Lloyds TSB were affected seriously by this and are now in UK Government ownership. The result has been some redundancies and sale of non-core activities. This is in addition to a distinct lack of appetite for lending.

The global banking sector has staged something of a comeback following a couple of years of turmoil. Activity amongst banks that had investment banking units has been strong, with resulting high profits (and bonuses, giving rise to public outrage). The global banking industry is still not out of the woods, however. The impact of the financial market meltdown is now embedded in the 'real' economy and this presents a new danger for banks. They cannot lend in the way they did before and they must repair their balance sheets, meaning that there is a risk of a cycle of contraction followed by lending losses followed by further contraction. In a sense this could be the more difficult part of the downturn cycle as we see asset disposals and potential unemployment. This can potentially damage banks more than the market meltdown.

The Isle of Man banking industry has in the past quarter so far been able to demonstrate a position of relative strength against this backdrop, including a respectable amount of stability in its deposit base when compared with peer jurisdictions.

The Island's banks primarily hold deposits. They are strong and people have been saving in uncertain times. FSC statistics for deposits have been holding up well. This could be because the Island's client profile is largely that of affluent or wealthy individuals and while they may have lost some money on markets they are still comparatively wealthy. Such private business is always less exciting but more consistent than corporate work.

The market for *funds* in the quarter to end of December 2009 has continued to be downbeat and this reflects the global environment. Institutional investor capital allocation has remained largely in the safe haven of cash and bonds pending a future major recovery in international markets. The FSC figures to end June 2009 showed assets under management and administration had fallen to \$34 billion, down from the all time high of \$59 billion recorded one year earlier. The figure to end September 2009 showed a static position at \$34 billion. It remains to be seen if this represents the bottom of the cycle.

As one indicator for the *fiduciary industry*, company incorporations numbering 646 during the past quarter show that activity was up on the same quarter last year by 19% although the overall number for the year was down 17% (see Appendix A, Table B5). Employment and business levels have remained stable. The company incorporation trends in the Isle of Man over the past few years almost mirror those of the Channel Isles and other competitors, pointing to depressed market conditions. Importantly, in the Isle of Man there has been evidence of some CSPs investing in new business streams and models which are less dependent on traditional private client structures and thus diversifying their business mix.

Uncertainty precipitated by the international media around proposed changes in the Channel Isles to their tax regimes has had a dampening effect on some of the introducers of new fiduciary business to the Crown Dependencies and it is therefore appropriate that the industry and Government have been able to reassure clients that the Isle of Man will be determining on its own terms if and when any change in the basis of its company taxation might be appropriate.

While detailed figures are not available, it seems that business levels for *life insurance* companies are starting to rise again, albeit not to the levels of previous years. This has largely been a result of the reduction in single premiums, a consequence of inheritance tax planning business from the UK as well as the overall economic situation.

Those companies with exposure to international business seem to be continuing to fare better, particularly with regular premium business, and some companies that currently do not sell overseas in any great quantity are now actively looking to move into these markets, with the Middle East and Far East being favoured areas for expansion.

The favoured route of entry into overseas markets among the life industry continues to be through regulated entity status rather than 'grey' market business.

The IOM's strategy for developing the *captive insurance* industry is now underway and activity levels are increasing although business levels remain fairly constant – in line with global trends. The number of new captive formations is now roughly on a par with those captives being closed, meaning statistically business levels remain static overall.

The global insurance market continues to remain 'soft', with low and reducing premiums, and this has had a dampening effect on formation of new captives as the potential cost savings of forming a captive are diminished. A change to a 'hard' market in the future could alter this and lead to a rise in formations and the Isle of Man should be well placed to take advantage of this.

On individual *pensions*, the opportunity for QROPS has been grasped but the advantage has fallen to Guernsey by virtue of a tax advantage, although other domiciles are also moving forward with this.

The increase in IOM based companies operating QROPS schemes through subsidiaries in other jurisdictions has continued. This is due to the perceived advantage of zero tax being charged on non-residents elsewhere compared to the tax levied on IOM based pensions.

Outlook

IOM is still well placed as an insurance domicile and the reputation of the IOM as a well regulated and internationally responsible jurisdiction is growing and should bear fruit in the coming months.

The *life insurance* industry continues to be affected by global investment trends but remains strong. Further diversification into non-UK markets should strengthen its dominance as a global centre for offshore life insurance.

The *captive* industry remains static, in line with global trends, but the new strategy will put IOM in a positive position to take advantage of a future hard market in insurance premiums. More domiciles are now enacting *captive* legislation, meaning there are more domiciles chasing fewer captives. The potential impact of the EU Solvency II Directive on captives has not yet been calculated as there are still some clarifications awaited.

There is an opportunity to market the Isle of Man as the "domicile of choice" for International *Employee Benefits*. Initial feedback from industry is very positive and this is an area which is being prepared as an opportunity for growth. A working group is currently being formed with representatives from the life, pensions, banking, CSP, legal and actuarial sectors. This is a potential area for growth for IOM and an area where local companies are putting resource into expansion.

The *reinsurance* market is another area where the Island may have an opportunity to grow in the longer term. Initial research suggests that this could be achieved subject to more detailed study work and a resourced action plan in the longer term. Success in this area could help increase the IOM's footprint as a major insurance destination, while also bringing high levels of investment and ancillary business to the Island

The general view is that market conditions for *funds* may stay depressed for some time to come. In respect of the Isle of Man there are some bright spots, with a number of new firms seeking and receiving regulatory approval/licensing from the FSC. The funds industry in the Island continues to be a viable sector despite a very difficult international marketplace in 2008 and clearly the hope is the present economic environment will improve in the medium to long term to enable its further development.

Island *banks* have been concerned that a future depositors compensation scheme should not affect long term profitability, while membership of SEPA (Single Europe Payment Area) and completion of legislation in order to integrate the IOM in this project is very important to the industry, especially the clearers. Work is underway to progress this quickly. Meanwhile, continuation of competitive tax policies is seen to be important looking ahead. As they are vital tax payers banks are hoping for a "steady as she goes" approach that will enable them to continue to justify and consolidate their presence on the Island.

The banks are increasingly keen on initiatives that drive further business opportunity towards them, such as exploring Asian markets, maintaining a competitive stance and attracting new businesses along with wealthy individuals.

E-BUSINESS

2009 Overview

A considerable amount of work has been undertaken during the year to develop a new e-business sub-sector, namely e-music. High level talks have taken place during the year with the world's record labels, rights societies, content providers, internet service providers and many others in order to showcase a solution to illegal music downloads. Negotiations to finalise the agreement of all interested parties are at an advanced stage of negotiation and it is hoped that a public announcement can be made early in 2010.

Work has also been undertaken in conjunction with the Department of Trade and Industry to completely overhaul and upgrade the Island's Intellectual Property legislation, in part to create commercial advantage and opportunity. It is hoped to introduce new legislation to give effect to the changes during 2010.

The Island's e-gaming sector continued to enjoy double-digit growth during 2009. While the global economic conditions have reduced the speed of growth within the sector, the businesses on the Isle of Man have continued to perform well.

The year started with 11 licence holders and ended with 21 (including two businesses that left the Island during the year). It is estimated that the growth in 2009 has created an additional 100 jobs, bringing the total directly employed in the industry to around 550.

In addition to an improvement in the level of funding start up businesses, the Isle of Man is now managing to attract existing businesses from other jurisdictions. Furthermore, growth is coming from not just Europe; the two existing Asian businesses based on the Island have had a very successful year and a third Asian company has also been licensed.

Additional business within the sector which does not require licensing has also increased. For example Allied Irish Bank is now taking e-gaming business. They have been successful in attracting Manx and Alderney based e-gaming banking business.

A new gaming software business has opened on the Island and a number of Corporate Service Providers and law firms have entered the e-gaming sector. This follows signals from the USA that it is moving closer to e-gaming becoming recognised and legal at federal level. The implementation of the Unlawful Internet Gambling Enforcement Act has been suspended for six months and a number of states are actively lobbying to begin licensing e-gaming as it offers a valuable new source of tax revenues. This is increasing confidence amongst the legal profession that businesses can operate in and support e-gaming.

In Europe there is also a change to the landscape with a number of European Court of Justice rulings clearly demonstrating that each country does have the right to licence operators offering games to its citizens. This effectively overrides the cross border trading that Malta and Gibraltar have profited from by being inside the EU. While not a fully recognised position, the majority of operators are aware that they will have to licence country by country. The IOM Government is working with the relevant European governments to ensure its high regulatory standards are recognised in order to protect market access.

Competition from other jurisdictions has remained fierce. For example, Alderney do not now require companies to have any presence on Alderney or Guernsey.

In summary, the high-quality regulatory standards of the Isle of Man combined with the changing position in Europe lowering the benefit of being in Malta has led to an overall increase in interest in the Isle of Man as a competitive e-gaming jurisdiction.

Outlook

A further review of the Island's e-business benefits was commissioned from Charteris during the year. Their report is currently awaited and will have a major bearing on future Government policy in relation to e-business development. This will be the fourth review carried out by Charteris since 1999.

There have been two very useful and informative studies initiated by the Communications Commission during the year. One study carried out by PWC was "The Provision of Broadband and Private Circuits in the Isle of Man" and the other by Perspective Associates to examine the system of communications regulation and how this could be modified going forward. Both reports will help to support the provision of a modern competitive environment for the Island's e-business sector going forward.

The forecast for the year ahead is for continued strong growth from the established e-gaming businesses based on the Island. For example, the Football World Cup this year is expected to deliver strong trading for the sports betting companies.

There is also a strong pipeline of new companies preparing licence applications. There are four businesses approved by the Gambling Supervision Commission who are in the process of taking up the licence and three more applications going through the process. Around 20 businesses are considering applying.

DTI will continue to promote the Island at key industry events worldwide, including the International Gaming Expo in London in January, the Asian Gaming Conference in Macau in February, the European Internet Gaming Conference in Copenhagen in September and the e-Gaming Revue in London in November. All of these events have historically produced good direct discussions with companies that have resulted in licence applications.

Additionally, the focus will be on three areas in the coming year. Firstly, following the allocation of funding from the Marketing Initiatives Fund, direct action will be taken to increase activity and contact with Asian companies and to start contact with companies in the growing markets of South America. These regions may become very important to the Island with the changes occurring in Europe.

Secondly, the growing reputation of the Isle of Man is allowing contact with larger companies and it is intended to make presentations directly to the Boards of these companies where intelligence and the needs of the company show the Island can genuinely offer an advantage.

Thirdly, ongoing changes to regulations to allow a number of activities of international companies to be based on the Island offer the opportunity for parts of larger businesses to come to the Island while they remain licensed with the core activity of striking a bet in their present jurisdiction. The DTI is in discussions with several companies which, if successful, will bring significant investment.

The move to take parts of businesses peripheral, non-licensable activities and support businesses again reduces the Island's dependence on the decisions of other countries.

The Treasury, the Gambling Supervision Commission and DTI will work closely together during the year ahead to ensure the promotion and regulation of the e-gaming sector are closely aligned. This is important as there are a number of challenges to the growth of the sector, some as significant as the introduction by the UK Government of its 'white list'. It is important that the Commission formalise the right relationships with other countries in order that the Isle of Man retains the ability to maintain growth.

The challenges ahead in the UK and Europe need a lot of attention and emphasise the importance of the Isle of Man finding new global operators and business to business companies rather than just operators. Additionally, the next twelve months should see the US start to open up to business and the Isle of Man needs to find partners to work with to ensure local companies can access the market without having to move there.

SPACE COMMERCE

2009 Overview

Last year was one of the best years to date in terms of space commerce development on the Island. According to an independent KPMG cost benefit analysis, space commerce was estimated to contribute £5.1 million direct exchequer benefit during 2009 and with income to space related operating companies estimated at £89.5m during the same period.

The Isle of Man is now home to a wide selection of space related companies and their subsidiaries, including:

- SES
- Inmarsat

- Telesat
- Avanti
- Telesat
- ViaSat
- Excalibur Almaz
- G-3 Communications of Hong Kong
- Space Data Association
- Odyssey Moon – the first formal applicant for the \$30 million Google Lunar X-Prize

August saw Nicole Stott, the wife of Chris Stott, the Island's Honorary representative to the Space Industry, launch on the Space Shuttle (STS-128) and then spend three months on the International Space Station.

September saw Excalibur Almaz bring one of their spacecraft to the Island. The spacecraft is one of four former Soviet spacecraft owned by the company which eventually are to be fully refurbished for full orbital space tourism. During its stay on the Isle of Man the spacecraft was accommodated by King Williams College and was visited by almost 500 members of the public and over 1,600 school children.

November saw the finance module of the International Space University's Space MBA being held at the International Institute of Space Commerce, located at the International Business School. This event brought 22 individuals actively involved in the global space industry to the Isle of Man for a period of three weeks and provided an opportunity to promote a very positive image of the Isle of Man and the advantages that its growing space industry can offer.

December saw main Board approval to the establishment of two new subsidiaries of household name operators (they have yet to publicly announce their decisions). The month also saw the groundbreaking announcement by global satellite operators SES, Intelsat and Inmarsat that they had founded the Space Data Association Ltd. This is a non-profit company established in the Isle of Man that is the first satellite operator-led association dedicated to sharing critical operational data in support of satellite operations, improving flight safety and preserving the space environment.

Outlook

Nicole Stott has been chosen to fly on the last ever space shuttle flight, currently scheduled for August 2010.

SHIPPING

2009 Overview

The table below shows the shipping register performance over 2009. It does not account for the number of vessels which leave the register as part of the normal day-to-day activity of a commercial register. The table shows increased activity in the majority of vessel types, in particular, commercial ships, where significant tonnage has been added to the register (over 10% in 2009).

| | 31st Dec 2008 | 31st Dec 2009 | Nett Change |
|---|---------------------------------|---------------------------------|--------------------|
| Merchant Ships | 318 | 339 | 21 |
| Commercial Yachts | 70 | 87 | 17 |
| Demise chartered ships (in) | 59 | 59 | -- |
| <i>sub-total - surveyed fleet</i> | 447 | 485 | 38 |
| Pleasure yachts (over 24m length) | 365 (49) | 371(49) | 6 |
| Fishing vessels | 73 | 72 | (1) |
| Small Ships | 110 | 119 | 9 |
| <i>Fleet Total</i> | 995 | 1047 | 52 |
| <i>Total Gross Registered Tonnes</i> | 9.73 m | 10.76 m | 1.03 m |

Last year saw a high level of activity in terms of ship registry transactions (re-mortgaging, de-registrations, registrations, name changes, and registry transfers) reflecting a continuing level of shipping business through the local maritime sector. During the year a total of 110 vessels have been added to the register, of which 42 were merchant ships, 21 commercial yachts, and 47 pleasure yachts. To service these additions:

- 37 new ownership companies have been set up in the Isle of Man
- 110 mortgages have been arranged through Isle of Man advocates, at least two of which have been entirely financed locally.
- 68 vessels have contracted Representative Persons on the Isle of Man

In addition, a number of established local corporate service providers have added yacht management to their portfolio of services.

Outlook

In global terms shipping is still experiencing something of a crisis. This is largely due to excessive ordering of new ships of all types in the years to 2008 without regard to the huge growth in demand for shipping services that would be needed to employ all these vessels, a demand which does not exist today due to the global recession. In terms of Isle of Man Ship Registry activity, the register is an attractive option as owners and managers look to cut costs in order to keep ships operating. Ships still need to be registered, whether in lay-up or in operation, and the Isle of Man Ship Registry teams are working with owners to provide them with cost effective solutions.

The combination of high quality reputation, high quality of customer service, and low cost becomes an increasingly more attractive option in the current economic situation. The Ship Registry currently has an order book of 42 vessels under construction (32 merchant ships and 10 commercial yachts) and 8 existing ships scheduled for registration in 2010.

The targeted marketing in the Far East, particularly aimed at owners in Japan (which control approximately 15% of the world's fleet by deadweight) and operators in Singapore, is starting to produce results. The introduction of an Agent in Tokyo to act on behalf of the Isle of Man Ship Registry in early 2010, and the upkeep of the marketing effort in this area, should produce consistent results of new registry activity from Japan and increased business activity for the shipping sector on the Island.

Commercial Yacht activity, at the larger end of the market, remains relatively unaffected by the global downturn and we expect to see registrations continue as the public/private partnership in this sector continues to market the Isle of Man as a place for effective solutions for superyacht business.

AIRCRAFT REGISTER

2009 Overview

The Isle of Man Aircraft Registry, for private and corporate aircraft, has now been operating for two and a half years. By the end of 2009 it had registered 200 aircraft, the majority of which are modern business jets operated by successful international organisations. Despite the global financial problems there is no sign of a slowdown in applications and at the current rate of growth the third year total will probably exceed 100 new registrations, showing that growth is not only continuing but is accelerating.

The Government's objective in establishing the register was to provide a new business opportunity for the financial and professional services sectors. For example, it has been estimated that income from aircraft registration business for corporate service providers is in the region of £1m per annum whilst banks have provided significant loans.

The success of the register is reflected in the extra business these organisations have attracted, not only in employment and servicing Isle of Man registered aircraft but in structures for other aircraft that cannot be registered in the Island. For example, the IOM Aircraft Registry cannot register aircraft for commercial air transport, but the positive publicity attracted has brought further aviation work to the Island. Companies who have registered aircraft in their company name include Bombardier, TNT Airways, Iceland Foods and Specsavers.

In 2009 the Aircraft Registry identified a new aviation opportunity for the Island by registering commercial airliners when they are between leases or repossessed by banks or leasing companies. When they are not being operated commercially by an airline they are 'private' aircraft and can be registered in the Island. The advantage is that the IOM Aircraft Registry can quickly and efficiently provide a 'holding register' for these expensive assets while the banks or leasing companies find new owners or lessees.

Outlook

Following the register's success in attracting new business to the Island, the Channel Islands are now interested in establishing a similar aircraft register. At current rates of growth the IOM expects to be the global leader in offshore corporate registrations in early 2010 and it is difficult to see what the Channel Islands could offer to compete with its high service and value combined with the impressive expertise and cooperation developed by the relevant CSPs, lawyers, banks and other local service providers.

CONSTRUCTION

2009 Overview

The construction industry continued to shrink through 2009 such that it is approximately 15% smaller in terms of real national income than at its peak in 2003. The industry continues to report that levels of activity are low, with few signs of improvement.

At the initiative of the Minister for Trade and Industry, high-level meetings have been held regularly through 2009 with relevant Ministers and industry representatives. Industry representatives have recently made a presentation to Council of Ministers in which they explained the significance of the industry both in terms of its own contribution to the economy as an employer and creator of wealth and also as an essential provider of parts of the infrastructure necessary for a successful and sustainable economy.

There is particular concern within the industry that it is currently more reliant than ever on the Government capital programme. There is currently little private investment within construction and it is estimated that Government is responsible for 70% of construction expenditure. The Government capital programme for the first three quarters of the current financial year has only achieved a spend of 63% of that budgeted (see Appendix C). The obvious concern is that the shortfall between budgeted expenditure and actual expenditure translates into shortages of work and the consequential reduction in demand for construction services and resources.

The construction industry was the sector with the largest number of unemployed people (241) registered in December 2009 (see Appendix A, Table 1e). This amounts to 7½% of the 3,000 direct employees in the construction industry, or over ½% of the Island's total working population.

The volume of building materials used is regarded as an indicator of the level of construction activity. Certain key materials are entirely imported into the Island and may thus give a fair indication of demand and hence construction activity. Volumes of imported construction materials have been substantially lower during the past year than for comparable dates during earlier years. These data support the conclusion that the sector continues to shrink.

Treasury's Capital Projects Coordinator has confirmed after his quarterly meeting with construction industry representatives that the mood is one of pessimism in the light of the perceived contraction in the Government's capital programme. The labour employed by the major contractors is reducing significantly, it is said by more than is being reflected in the unemployment statistics. The developers maintain that there is demand in the housing market but they are unable to satisfy it because of a lack of land with suitable planning designation. Their view is that since the planning process does not take into consideration financial issues it is effectively restricting development that would directly benefit the economy of the Island.

Outlook

The outlook for construction in 2010 remains poor. Industry professionals such as architects typically are at the front of the chain of significant new construction developments, and their order books are short. Therefore it is unlikely that there will be any material upturn in the sector for the next year or so.

The construction sector has been a valuable source of employment opportunities for young people, taking on large numbers of apprentices and trainees. The number of apprentices has held up well to date, but the DTI is concerned that a prolonged decline in the sector's fortunes could result in falls in apprentice and trainee numbers at a time when opportunities for young people are likely to remain scarce relative to the growth period to 2008.

The Department is working with the Isle of Man Employers Federation to implement an Approved Construction Contractors Scheme which would replace the current List of Approved Contractors. The new scheme is designed to improve the construction industries image by adding a strong quality assurance element for consumers and encouraging the industry to promote its own members to clients. The new scheme will be operated by the Employers Federation with effect from the 1st April 2010.

FILM AND MEDIA

2009 Overview

As with other film financiers in the UK, US and beyond, Isle of Man Film and CinemaNX (the Isle of Man Government's private sector investment partners) have been cautious with the types of projects undertaken in 2009. This is due to the fact that the changes to the UK tax relief system in 2007, combined with the credit crunch, have had a lasting effect on the availability of finance. As a result films have been more difficult to sell to distributors, pre-sales have become scarce and the value of completed films has dropped significantly.

In light of these difficult economic conditions Isle of Man Film/CinemaNX focussed on producing a small number of low-budget, high quality productions which are proving to be sound commercial investments. A good example is *The Disappearance of Alice Creed* which was produced on a budget of approximately £800,000 with a view to recouping investment through predominantly UK sales but went on to sell in all other territories.

In total during 2009 three Isle of Man productions were made (*Chico and Rita*, *Disappearance of Alice Creed* and *Me and Orson Welles*). It is estimated that the three projects generated for the Isle of Man economy some 2,620 bed nights, 66 local jobs during the productions and an estimated local spend of £1.5m for the year. The local production of animated feature film *Chico and Rita* trained nine locals, making them highly employable as animators/colourists. *The Disappearance of Alice Creed* also saw the highest ever number of IOM freelancers occupying senior technical roles. These included Production Manager, Construction Manager, 2nd Assistant Director, Art Director, Wardrobe Supervisor, Location Manager and Unit Manager.

At the 2009 Cannes Film Festival CinemaNX announced a partnership deal with Vue Cinemas (Vue), the UK's third largest cinema chain. The deal guarantees theatrical screening of at least three Isle of Man film productions across the UK over the next year. Vue currently has 62 sites with 607 screens in the UK and is expected to build a number of 3D screens over the next year. In return, both CinemaNX and Vue share the revenue across territories and platforms, including DVD and pay per view. This unique arrangement gives Manx-made films a guaranteed point of sale, as the distributors now have a vested interest in making sure IOM product is successful.

In November 2009 a commercial deal was made with Warner Bros Entertainment UK for them to become a theatrical distribution partner for *Me and Orson Welles*, whilst Tesco have been given year-long retail rights and will stock the film in their UK stores from April 2010.

Outlook

The year ahead for film making in the Isle of Man is likely to be relatively quiet and, as in 2009, the size of potential production budgets is likely to remain at the smaller end (around £1m range). The aim for 2010 is to achieve a target of four feature film, drama and/or animation projects.

Production on *Chico and Rita* is expected to end in March 2010, in time for the film to be considered by the Cannes 2010 Jury. Magic Light Studios are quietly confident of critical acclaim for the film, which is to be released as a Spanish language film initially but may be translated for the other markets.

Longer term plans to develop a 3D feature film about the TT races are currently being progressed by CinemaNX.

TOURISM AND LEISURE

2009 Overview

The passenger survey fourth quarter report shows an overall decline of 6.7% in visitor numbers (see Appendix A, Tables A5-7). Whilst the falls in numbers staying in paid accommodation (PVPAs) and visiting friends or relatives

(VFRs) are relatively small, business visitors showed a decline of 12.1% (although it should be noted that business visitors for the year are 8.1% up).

The fourth quarter breakdown is as follows:

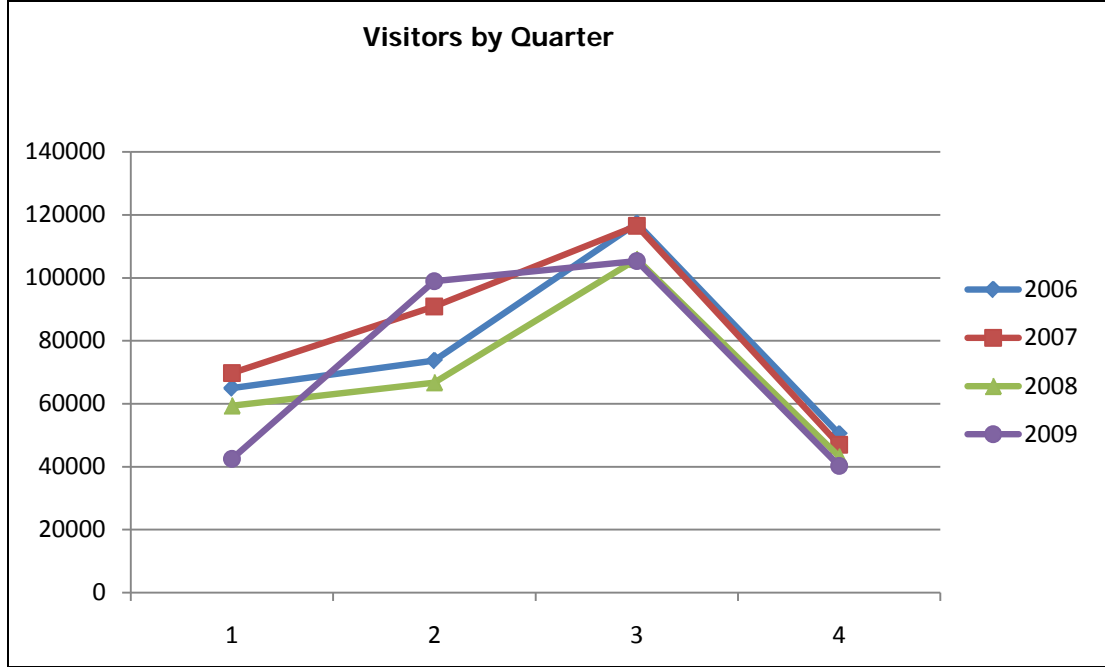
| | <u>Oct-Dec 09</u> | <u>Oct-Dec 08</u> | <u>% Change</u> |
|---------------------------------|-------------------|-------------------|-----------------|
| Leisure Visitors (PVPA) | 6,545 | 6,796 | -3.7 |
| Visit Friends & Relatives (VFR) | 15,806 | 15,934 | -0.8 |
| Business Visitors (BV) | 17,641 | 20,078 | -12.1 |
| Day Visitors (DV) | 298 | 364 | -18.1 |
| | ----- | ----- | ----- |
| Total | 40,290 | 43,172 | -6.7 |

Full year figures are as follows:

| | <u>Jan-Dec 09</u> | <u>Jan-Dec 08</u> | <u>% Change</u> |
|--------------|-------------------|-------------------|-----------------|
| PVPA's | 102,618 | 96,929 | +5.9 |
| VFR's | 102,638 | 103,814 | -1.1 |
| BV's | 78,549 | 72,674 | +8.1 |
| DV'S | 3,319 | 1,786 | +85.8 |
| | ----- | ----- | ----- |
| Total | 287,124 | 275,203 | +4.3 |

The cumulative total for the year is very encouraging in a very difficult trading year; there is no doubt that the TV advertising campaign assisted greatly in encouraging visitors to the Island.

The chart below shows that the increase in total visitor numbers in 2009 was essentially due to a very strong performance over the April to June period.



Cruise visits were down on 2008, from 8,573 to 5,855. Conference visitors were unchanged in number but produced a 20% increase in bednights.

2009 saw an 8% increase in unique internet visits for visitisleofman.com, and there was an 11% increase in EAV (equivalent advertising value) of media coverage of the Island.

The current advertising campaign has encountered difficulties as the company the DTL used (Smarter Communications) went into administration in December. The Department is in contact with the Attorney General's Chambers with regard to the renegotiation of the contract.

Outlook

2010 will be a difficult year. Notwithstanding the loss of the reciprocal health agreement, many UK holiday makers will be focusing on a main holiday in the sun. The end of year figures recently received from Economic Affairs are encouraging considering the challenging year just experienced and already a number of accommodation providers are stating that they are pleased with the number of bookings they have already received for the 2010 season. More cruise ships are planned for 2010 and whilst the number of conferences is likely to be down, they will be bringing perhaps double the numbers.

It has been reported that whilst the first two weeks in January are normally good for customers making enquiries and booking holidays, due to the adverse weather bookings in general are quiet. It is intended that the first burst of TV advertising will commence in early February. A number of exhibitions are being attended in the early part of the year with Ireland (North and South) being identified as a good opportunity to increase visitor numbers to the Island this year.

AGRICULTURE

2009 Overview

During 2009 farming managed to avoid the worst effects of the downturn in the broader economy. However, as reduced consumer spending puts pressure on retailers to put a check on food price inflation, processors are increasingly finding their margins squeezed between the inability to increase prices and the necessity to pay a sufficient price to farmers to ensure continuity of supply.

A weak pound has been good for the dairy and red meat sectors as this has reduced the competitiveness of imports and made exports more attractive. The red meat sector has broadly managed to retain the significant increases in prices achieved during 2008. The red meat sector has benefited from a price pledge from Isle of Man Meats to pay 95% of UK prices. For the dairy sector prices have been lower than in 2008. However, the currency position has shielded the sector from the worst effects of the global drop in commodity prices. Falls in fertiliser and fuel prices have also assisted farmers.

The Promar Report into the Manx dairy sector recognised the Creamery as a well managed organisation, supported its marketing strategy, and encouraged it to take a more bold approach. Laxey Glen Mills is also considering its response to a report by the Scottish Agricultural College in to the milling wheat sector on the Island.

The Countryside Care Scheme was implemented in 2009 with all payments being made on time. Farm inspections started in late summer to check compliance with the codes of good agricultural and environmental practice required under the Scheme.

Outlook

Recent spikes in food prices and a higher awareness of the potential impacts of global warming have resulted in agriculture moving up the British political agenda, with much debate ongoing - though little action - on food security. The previous view, that food is a commodity that can be traded globally and it is not important where it is produced, is changing. DEFRA however are still keen to point out that food security does not mean self sufficiency and we should not expect to see a return to production subsidies. A more likely outcome will be research into new crops, the food chain and technical efficiency.

With a review of the Common Agricultural Policy (CAP) due in 2013, we can expect to see increased positioning and lobbying from EU member states on how the CAP should look after this date. With a General Election in the UK imminent there appears little difference between party positions on agriculture. Therefore regardless of who wins there is unlikely to be any significant change in UK domestic agriculture policy or its approach to the CAP.

2010 is a year which has long been anticipated by Manx agriculture as the year after which protection of the red meat market expires. The majority of DAFF's actions in the last five years have been to prepare the industry to be in the best position to deal with the new economic conditions thereafter. However, the Department is in the advanced stages of preparing an application for an extension to the derogation and believes it has a strong case.

This needs to be considered in the context that structures such as the derogation no longer fit well in the expanded European Union which seeks to establish free trade between member states. IOM Meats will be the subject of close scrutiny this year, both from its farmer owners and DAFF, to ensure it is in the best possible position to trade without a derogation should that be necessary.

During 2010 the Department will be looking at the marketing legislation applying to Manx agriculture with a view to making recommendations for amendments.

With reductions of production support, which have formerly been of great significance, returns for farmers will become more sensitive to global supply and demand. However, with no indication of a significant increase in the value of the pound, it is to be hoped the red meat sector will maintain its current prices. For the dairy sector, with a reduction in global supply, many analysts are indicating an increase in farm gates prices during 2010.

FISHERIES

2009 Overview

The December Fisheries Council, which sets European quotas and effort ceilings for the forthcoming year, was relatively uncontroversial, although, as ever, both industry and politicians referred to it as 'the hardest one yet'. The UK successfully fought off a bid to reduce the Irish Sea Nephrops quota, of intense interest to the Northern Irish fleet, and the reductions in 'Days at Sea' for the trawl fleet were not as bad as had originally been feared. Perhaps tellingly, the greatest criticisms of the Council were from environmental NGOs (non-Government Organisations) rather than the fishing industry.

In spite of a growing international reputation for the constructive conservation and management of the Manx scallop fishery, the start of the scallop season on November 1st was a text book example of fisheries management at its very worst. The restrictions of the current Fisheries Management Agreement with the UK meant that DAFF were unable to prevent, or even mitigate, problems that were correctly anticipated. Pre-season surveys of fishing grounds for DAFF had confirmed what was already an open secret within the industry, with very large quantities of a single year class of scallops being found on the Targets, a fishing ground that starts just outside the 3 mile limit. The same survey had correctly indicated that elsewhere catch rates would generally be poor, particularly on the east coast grounds.

With the larger class of nomadic scallop vessel now banned from Welsh waters, November 1st saw an unprecedented interest in the Manx fishing grounds, with more than 70 vessels on the grounds, concentrated on a single fishing ground. Initial catch rates were extremely high, with the larger vessels grossing £30,000-£50,000 for a single trip. As could be expected, this put significant pressure on prices and processing capacity, with prices starting at £8/kg compared to £8.80 in 2009, and £10.50 in 2007. To make matters worse, a run of bad weather meant that many scallops were damaged during capture, with very low survival rates of undersized scallops. Significant quantities of scallops were killed on the seabed by dredges bouncing up and down, which, when caught later, contaminated catches.

Perhaps of even greater concern was that the Manx fleet, of relatively small size and less able to cope with the weather, felt obliged to fish due to the activities of larger visiting vessels, putting lives at significant risk.

It is estimated that only 20% of scallops caught within the Territorial Sea during the first month were landed into the Isle of Man for processing, with the vast majority being landed into the UK, for consignment elsewhere. Many vessels found it hard to sell catches at all, such was the market over-saturation.

DAFF had anticipated these problems and had sought before the start of the season to limit the size and power of vessels entering the fishery, in a way similar to that introduced by the Northern Irish and Welsh Ministers in their respective waters. Unfortunately, the Scottish Administration refused requests from the Isle of Man to agree to this, in spite of support for the Manx position from the other UK Administrations. The problems this has created underline the inequity of the current Fisheries Management Agreement, where the Isle of Man Government, uniquely, requires the unanimous consent of the four UK Administrations if it is to bring in any conservation regulations between 3 and 12 miles.

Catch rates on the east coast of the Isle of Man were so poor in November that the Manx Fish Producers Organisation approached DAFF to ask for an emergency closure of Ramsey Bay in order to prevent further overfishing. This bed has been closed to all scalloping until November 1st 2010, and DAFF intends in the intervening period to work up constructive conservation and management measures in the area to ensure that it is not overfished again.

Outlook

IOM Government officials are meeting with their UK counterparts in mid-January to continue negotiations on the content of a revised Fisheries Management Agreement. Severe problems in the scallop fishery indicate just how important it is to the Isle of Man, from both a conservation and economic viewpoint, to ensure that these negotiations allow more responsible management of Manx fisheries in future years.

FORESTRY

2009 Overview

This time last year DAFF's Forestry Division advised that an amended business case had been submitted for the production of woodchip to heat suitable Government buildings. Investigations had shown this home produced fuel to be an almost carbon neutral fuel that would not be subject to price fluctuations or import issues. The business case was approved and the wood-chipping equipment, the chip store building and a containerised District Heating boiler plant have been acquired and installed. As a result almost all of the buildings on the St. John's site are heated by home grown woodchip and those that aren't yet have connections prepared. The system is operating extremely well with virtually no waste ash and the woodchip drying naturally to the optimum 20% moisture content for burning.

Construction is on target for the extension to the Sawmill cutting shed which will accommodate the replacement cutting equipment, although the recent cold snap has held back work to clad the building. Sawmill sales are slightly up on last year and are on target for the year end income.

Again this time last year, the Forestry Division reported that work had commenced on the replacement workshop and stores building for those which had been demolished having reached the end of their useful life and to facilitate construction of the new Headquarters building. The workshop and stores is now complete and operational and has satisfied a number of concerns over suitability and safety. Once the Department's staff relocate fully to St. John's the Department looks forward to seeing increased efficiencies from these centralised stores.

Outlook

Sulby Claddagh has continued to be a major problem but it is hoped that the work put in to the recent public consultation and the responses back are helping to clarify a way forward. The Department will be bringing forward a number of proposals during 2010/11. Upland management works continue on the hills during the heath burning season to maintain the integrity and future of the internationally important heather cover that the Island enjoys.

The use of sustainable and available wood fuel for the St. John's district heating system and the highly efficient new headquarters building will continue to help counter increased costs, ensure sustainability and deliver reliability of supply.

There has been a slight increase in income from events across the Forestry Division's property estate which shows that the improved facilities and management are starting to attract more customers. This is an area that will continue to develop and should begin to form a more reliable, though small, income stream.

RETAILING

2009 Overview

Last year was a challenging one for many retailers. Indeed the Island witnessed the closure of a number of retailers, both UK brands and locally-owned businesses. The year started badly with one of the worst reported Christmas periods for over a decade in 2008. However reports from some retailers indicate that the vital pre-Xmas period in 2009 saw a welcome improvement in consumer confidence and sales.

With the British high street in turmoil and consumer confidence at a low, it was more important than ever to try to ensure that the Island's independent retail sector had support to help them survive and grow and so provide a varied shopping experience for residents, visitors and inward investment interests.

One of the main reasons for the loss of business to Isle of Man retailers is the increasing competition from the internet. This was confirmed through an independent retail consultancy scheme run by the DTI working with Douglas Development Partnership in 2007/8 and a further scheme run by the DTI aimed at Ramsey in 2008/9. This fact was also alluded to in the DTI's all Island retail study conducted in 2008/9.

To help combat this issue the DTI launched an Independent Retail e-commerce Project in March 2009 aimed at assisting independent retailers to build and run their own high performing on-line websites. The project provides the software platform, project management, marketing and specialist retail consultancy to enable even the most inexperienced in computers to build a website which can add sales to their existing bricks and mortar shop and also provide the platform for entrepreneurs to start new businesses using the online retail only model.

In September 2009 the DTI launched www.shopiom.com, an online retail directory to connect all the scheme participants to a single website which promoted the diverse range of high quality retailers in the Isle of Man and helped to market them to a global audience. Initial interest in the project was excellent and at the year end 30 retailers had already managed to successfully build their own website and begin trading, with encouraging results. Many participating retailers have reported that the website has helped to generate thousands of pounds in off-Island sales as well as more local sales. One retailer reported that their website had paid for itself in the first three days of trading with off-Island orders which they would never have otherwise won. The scheme has also stimulated 10 new start-up businesses who have built their new venture around their website. The power of the software available to them enables good search engine rankings and makes them easy to find through the use of keywords. The scheme also involves around 15 local service providers who support the retailers with assistance for marketing, website enhancements, photography etc.

Government's Town and Village Regeneration Scheme was established in 2009 to help improve the appearance of the Island's leading town centres and so help attract consumers to spend and retailers to invest. The first payments from this scheme have now been made.

Outlook

2010 is likely to be another tough year, although not as severe as 2009.

A further 30 retailers have signed up to the e-commerce scheme and are in the process of building a website in order to start trading online. The DTI will be actively promoting the scheme (which continues under its current contract until March 2011) in 2010 and aim to sign up further retailers during the year.

The Regeneration Committee, led by the Chief Minister, will consider further applications for funding of schemes which can be expected to deliver improvements to many of the Island's town centres.

ECONOMIC INDICATORS**A. GENERAL****1. Labour Market****a) Unemployment**

| | 2007 | | | 2008 | | | 2009 | | |
|-----------|-------|---------|-------|-------|---------|-------|-------|---------|-------|
| | Males | Females | Total | Males | Females | Total | Males | Females | Total |
| March | 345 | 207 | 552 | 364 | 168 | 532 | 656 | 291 | 947 |
| June | 364 | 230 | 594 | 351 | 168 | 519 | 647 | 275 | 922 |
| September | 373 | 220 | 593 | 423 | 182 | 605 | 635 | 266 | 901 |
| December | 387 | 184 | 571 | 522 | 199 | 721 | 630 | 248 | 878 |

b) Employment

| | Number of Employers | Number of Employment Records | Number of Persons in Employment |
|----------------|------------------------|------------------------------------|---------------------------------------|
| Quarter 4 2004 | 3,651 | 50,803 | 44,137 |
| Quarter 1 2005 | 3,687 | 50,653 | 43,912 |
| Quarter 2 2005 | 3,730 | 50,568 | 44,094 |
| Quarter 3 2005 | 3,710 | 50,965 | 44,220 |
| Quarter 4 2005 | 3,723 | 50,894 | 44,247 |
| Quarter 1 2006 | 3,740 | 50,612 | 44,076 |
| Quarter 2 2006 | 3,777 | 51,309 | 44,588 |
| Quarter 3 2006 | 3,775 | 51,683 | 44,740 |
| Quarter 4 2006 | 3,812 | 51,828 | 44,730 |
| Quarter 1 2007 | 3,851 | 51,740 | 44,751 |
| Quarter 2 2007 | 3,899 | 52,150 | 44,812 |
| Quarter 3 2007 | 3,907 | 53,001 | 45,389 |
| Quarter 4 2007 | 3,928 | 53,347 | 45,689 |
| Quarter 1 2008 | 3,937 | 53,053 | 45,544 |
| Quarter 2 2008 | 3,953 | 53,677 | 45,968 |
| Quarter 3 2008 | 3,964 | 53,998 | 46,198 |
| Quarter 4 2008 | 3,979 | 53,853 | 46,232 |
| Quarter 1 2009 | 3,986 | 52,704 | 45,676 |
| Quarter 2 2009 | 4,003 | 53,586 | 46,192 |
| Quarter 3 2009 | 3,998 | 54,210 | 46,720 |
| Quarter 4 2009 | 4,026 | 54,103 | 46,617 |

c) Self employment - ITIP 'A' Cases (self-employed) and 'C' cases (employed and self-employed)

| | 2006 | 2007 | 2008 | 2009 |
|-----------|-------|-------|-------|-------|
| Quarter 1 | 6,886 | 6,963 | 7,067 | 7,178 |
| Quarter 2 | 7,056 | 6,997 | 7,044 | 7,229 |
| Quarter 3 | 7,041 | 7,002 | 7,032 | 7,222 |
| Quarter 4 | 7,179 | 7,020 | 7,083 | 7,293 |

d) **Job Vacancies**

Vacancies notified during the Quarter:

| | 2007 | | | 2008 | | | 2009 | | |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | F/T | P/T | Total | F/T | P/T | Total | F/T | P/T | Total |
| Quarter 1 | 1,626 | 496 | 2,122 | 1,467 | 618 | 2,085 | 1,153 | 538 | 1,691 |
| Quarter 2 | 1,645 | 490 | 2,135 | 1,701 | 603 | 2,304 | 1,311 | 590 | 1,901 |
| Quarter 3 | 1,428 | 493 | 1,921 | 1,371 | 585 | 1,956 | 1,103 | 648 | 1,751 |
| Quarter 4 | 996 | 403 | 1,399 | 927 | 426 | 1,353 | 927 | 426 | 1,353 |
| Total | 5,695 | 1,882 | 7,577 | 5,466 | 2,232 | 7,698 | 4,494 | 2,202 | 6,696 |

e) **Unemployment and vacancies notified – December 2009**

| Occupation | No. of Unemployed | No. of vacancies notified during the month | No. of vacancies remaining at end of the month |
|---------------------------------------|-------------------|--|--|
| Farmwork | 11 | 0 | 0 |
| Engineering – skilled | 11 | 6 | 3 |
| Factory Work – unskilled | 13 | 1 | 0 |
| Construction – trades/skilled | 147 | 13 | 0 |
| Construction – unskilled | 94 | 0 | 0 |
| Banking and Insurance –administration | 25 | 19 | 8 |
| Finance and Accounting – professional | 28 | 8 | 2 |
| Health and personal care | 17 | 14 | 10 |
| Education/teaching | 10 | 3 | 2 |
| Other professions | 20 | 3 | 1 |
| Management and Consulting | 16 | 10 | 1 |
| ICT | 24 | 11 | 5 |
| Rest of administrative/clerical | 83 | 27 | 10 |
| Drivers | 26 | 8 | 4 |
| Hospitality | 103 | 47 | 27 |
| Domestics and Office Services | 26 | 17 | 4 |
| Retailing/Sales/Buying | 106 | 22 | 4 |
| Other/not classified | 118 | 9 | 3 |
| Total | 878 | 218 | 84 |

f) **Work Permits**

i) **New Work Permits Issued**

| | 2006 | 2007 | 2008 | 2009 |
|--------------|--------------|--------------|--------------|---------------|
| Quarter 1 | 1,193 | 1,587 | 1,505 | 1,028* |
| Quarter 2 | 1,619 | 1,795 | 1,633 | 1,125* |
| Quarter 3 | 1,553 | 1,688 | 1,696 | 1,168* |
| Quarter 4 | 1,688 | 1,409 | 1,471 | 935* |
| Total | 6,053 | 6,479 | 6,305 | 4,256* |

ii) **Renewals**

| | 2006 | 2007 | 2008 | 2009 |
|--------------|--------------|--------------|--------------|---------------|
| Quarter 1 | 957 | 805 | 820 | 1,291* |
| Quarter 2 | 811 | 1,027 | 871 | 1,239* |
| Quarter 3 | 968 | 1,108 | 881 | 1,283* |
| Quarter 4 | 950 | 912 | 1,277 | 1,101* |
| Total | 3,676 | 3,852 | 3,849 | 4,914* |

iii) Employed Permits

| | 2006 | 2007 | 2008 | 2009 |
|--------------|--------------|--------------|--------------|---------------|
| Quarter 1 | 2,032 | 2,251 | 2,178 | 2,178* |
| Quarter 2 | 2,292 | 2,693 | 2,366 | 2,208* |
| Quarter 3 | 2,373 | 2,651 | 2,440 | 2,305* |
| Quarter 4 | 2,509 | 2,191 | 2,620 | 1,898* |
| Total | 9,206 | 9,786 | 9,604 | 8,589* |

iv) Self-employed Permits

| | | | | |
|--------------|------------|------------|------------|-------------|
| Quarter 1 | 118 | 141 | 147 | 141* |
| Quarter 2 | 138 | 134 | 138 | 156* |
| Quarter 3 | 138 | 145 | 137 | 146* |
| Quarter 4 | 129 | 130 | 128 | 138* |
| Total | 523 | 550 | 550 | 581* |

v) Indefinite Permits

| | | | | |
|--------------|------------|------------|-----------|------------|
| Quarter 1 | 41 | 27 | 14 | 5* |
| Quarter 2 | 56 | 45 | 15 | 3* |
| Quarter 3 | 68 | 37 | 14 | 4* |
| Quarter 4 | 45 | 15 | 11 | 2* |
| Total | 210 | 124 | 55 | 14* |

vi) Temporary Permits

| | | | | |
|--------------|--------------|---------------|---------------|---------------|
| Quarter 1 | 2,109 | 2,365 | 2,311 | 2,314* |
| Quarter 2 | 2,374 | 2,782 | 2,489 | 2,361* |
| Quarter 3 | 2,443 | 2,764 | 2,566 | 2,447* |
| Quarter 4 | 2,593 | 2,277 | 2,737 | 2,034* |
| Total | 9,519 | 10,188 | 10,103 | 9,156* |

* Provisional

2. National Insurance**Number issued to foreign nationals**

| | 2006 | 2007 | 2008 | 2009 |
|--------------|-------------|-------------|-------------|-------------|
| Quarter 1 | 180 | 172 | 178 | 92 |
| Quarter 2 | 230 | 217 | 177 | 113 |
| Quarter 3 | 274 | 277 | 264 | 120 |
| Quarter 4 | 193 | 167 | 127 | 77 |
| Total | 877 | 833 | 746 | 402 |

3. Child Benefit**Net transfers, children and adults**

| | 2006 | 2007 | 2008 | 2009 |
|--------------|-------------|-------------|-------------|-------------|
| Quarter 1 | 84 | 142 | 91 | 96 |
| Quarter 2 | -19 | 88 | 4 | 25 |
| Quarter 3 | 81 | 17 | 79 | 29 |
| Quarter 4 | 195 | 241 | 143 | 164 |
| Total | 341 | 488 | 317 | 314 |

4. Inflation

| | 2006 | 2007 | 2008 | 2009 |
|-----------|------|------|------|--------|
| March | 3.0% | 3.8% | 4.3% | 0.5% |
| June | 2.9% | 4.4% | 6.3% | - 0.9% |
| September | 3.3% | 3.9% | 6.5% | 0.1% |
| December | 3.1% | 4.0% | 2.8% | 3.3% |

5. Passenger Arrivals

| | 2006 | 2007 | 2008 | 2009 |
|--------------|----------------|----------------|----------------|-----------------|
| Quarter 1 | 117,978 | 118,887 | 130,234 | 112,442* |
| Quarter 2 | 200,487 | 215,492 | 198,339 | 201,538* |
| Quarter 3 | 220,985 | 230,688 | 227,258 | 220,648* |
| Quarter 4 | 143,461 | 145,413 | 136,006 | 133,326* |
| Total | 682,911 | 710,480 | 691,837 | 667,954* |

* Provisional

6. Business Visitors

| | 2006 | 2007 | 2008 | 2009 |
|--------------|---------------|---------------|---------------|----------------|
| Quarter 1 | 19,379 | 20,756 | 15,411 | 18,294* |
| Quarter 2 | 18,959 | 18,705 | 18,097 | 21,047* |
| Quarter 3 | 23,813 | 17,923 | 19,088 | 21,567* |
| Quarter 4 | 20,125 | 15,563 | 20,078 | 17,641* |
| Total | 82,276 | 72,947 | 72,674 | 78,549* |

* Provisional

7. Non-Business Visitors

| | 2006 | 2007 | 2008 | 2009 |
|--------------|----------------|----------------|----------------|-----------------|
| Quarter 1 | 25,974 | 24,678 | 27,535 | 24,224* |
| Quarter 2 | 74,446 | 96,541 | 65,068 | 77,935* |
| Quarter 3 | 93,545 | 98,589 | 86,832 | 83,767* |
| Quarter 4 | 30,349 | 31,382 | 23,094 | 22,649* |
| Total | 224,314 | 251,190 | 202,529 | 208,575* |

* Provisional

8. VAT Registrations

Number of Companies on Live Register

| | 2006 | 2007 | 2008 | 2009 |
|-----------|-------|--------|--------|-------|
| March | 7,515 | 10,924 | 10,319 | 7,318 |
| June | 7,597 | 12,204 | 8,161 | 7,436 |
| September | 7,751 | 10,851 | 7,878 | 7,381 |
| December | 7,839 | 10,365 | 7,425 | 7,304 |

9. **Postal Traffic (Index of Volumes: 1st Quarter 2005 = 100)**

a) **Letter Mail**

i) **Inward**

| | 2006 | 2007 | 2008 | 2009 |
|-----------|------|------|------|------|
| Quarter 1 | 102 | 111 | 110 | 100 |
| Quarter 2 | 99 | 103 | 105 | 98 |
| Quarter 3 | 98 | 107 | 106 | 108 |
| Quarter 4 | 118 | 122 | 115 | 139 |

ii) **Posted (IOM Delivery)**

| | | | | |
|-----------|-----|----|----|----|
| Quarter 1 | 91 | 89 | 80 | 78 |
| Quarter 2 | 88 | 92 | 85 | 81 |
| Quarter 3 | 85 | 84 | 81 | 79 |
| Quarter 4 | 107 | 95 | 93 | 92 |

iii) **Posted (UK & International Delivery)**

| | | | | |
|-----------|-----|-----|-----|----|
| Quarter 1 | 99 | 95 | 81 | 84 |
| Quarter 2 | 93 | 85 | 85 | 76 |
| Quarter 3 | 91 | 80 | 83 | 70 |
| Quarter 4 | 105 | 100 | 100 | 93 |

b) **Parcel Mail**

i) **Inward**

| | | | | |
|-----------|-----|-----|-----|-----|
| Quarter 1 | 180 | 192 | 131 | 135 |
| Quarter 2 | 151 | 167 | 131 | 131 |
| Quarter 3 | 182 | 153 | 135 | 145 |
| Quarter 4 | 257 | 190 | 188 | 192 |

ii) **Posted**

| | | | | |
|-----------|-----|-----|-----|----|
| Quarter 1 | 129 | 100 | 71 | 71 |
| Quarter 2 | 129 | 114 | 100 | 85 |
| Quarter 3 | 114 | 100 | 71 | 85 |
| Quarter 4 | 143 | 143 | 100 | 85 |

10. **Electricity Consumption (Thousand Units)**

i) **Domestic**

| | 2006 | 2007 | 2008 | 2009 |
|--------------|----------------|----------------|----------------|----------------|
| Quarter 1 | 49,330 | 50,114 | 50,371 | 53,069 |
| Quarter 2 | 40,256 | 36,518 | 40,660 | 40,762 |
| Quarter 3 | 33,036 | 34,015 | 34,459 | 33,176 |
| Quarter 4 | 36,245 | 39,233 | 40,170 | 40,632 |
| Total | 158,867 | 159,880 | 165,600 | 167,639 |

ii) Non-Domestic

| | 2006 | 2007 | 2008 | 2009 |
|--------------|----------------|----------------|----------------|----------------|
| Quarter 1 | 56,468 | 56,572 | 58,745 | 57,983 |
| Quarter 2 | 55,092 | 56,854 | 56,387 | 53,585 |
| Quarter 3 | 52,928 | 52,852 | 53,251 | 51,780 |
| Quarter 4 | 55,835 | 56,580 | 57,810 | 56,444 |
| Total | 220,323 | 222,858 | 226,193 | 219,792 |

iii) Total

| | | | | |
|--------------|----------------|----------------|----------------|----------------|
| Quarter 1 | 105,798 | 106,686 | 109,116 | 111,052 |
| Quarter 2 | 95,348 | 93,372 | 97,047 | 94,347 |
| Quarter 3 | 85,964 | 86,867 | 87,710 | 84,956 |
| Quarter 4 | 92,080 | 95,813 | 97,980 | 97,076 |
| Total | 379,190 | 382,738 | 391,853 | 387,431 |

11. Housing**(i) Total number of residential property sales over the 12 months to December (£)**

| | 2006 | 2007 | 2008 | 2009 |
|-----------------|-------|-------|-------|------|
| Houses only | 1,477 | 1,666 | 1,158 | 717* |
| Flat/apartments | | 352 | 326 | 148* |

(ii) Average residential property price over the 12 months to December (£):

| | | | | |
|-----------------|---------|---------|---------|----------|
| Houses only | 237,776 | 269,850 | 287,427 | 276,444* |
| Flat/apartments | | 170,656 | 153,770 | 161,396* |

* Provisional

12. Planning applications approved

| | 2006 | 2007 | 2008 | 2009 |
|--------------|--------------|--------------|--------------|--------------|
| Quarter 1 | 342 | 432 | 422 | 440 |
| Quarter 2 | 491 | 595 | 533 | 427 |
| Quarter 3 | 557 | 531 | 592 | 509 |
| Quarter 4 | 458 | 511 | 481 | 398 |
| Total | 1,848 | 2,069 | 2,028 | 1,334 |

B. FINANCIAL AND RELATED SERVICES

1. Banking

(a) Number of Licenses

| | 2009 | | | |
|---|-------|-------|-------|-------|
| | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 |
| Deposit Taking | 39 | 39 | 38 | 37 |
| Investment Business | 82 | 80 | 79 | 78 |
| Services to Collective Investment Schemes | 59 | 60 | 64 | 68 |
| Corporate Services | 204 | 206 | 209 | 208 |
| Trust Services | 132 | 132 | 131 | 130 |
| Money Transmission Services | 0 | 0 | 1 | 1 |

(b) Deposit Base (£ Billions)

| | Total Bank Deposits | Sterling | Non-Sterling |
|------------------|---------------------|----------|--------------|
| March 2005 | 33.08 | 24.31 | 8.77 |
| June 2005 | 33.89 | 24.78 | 9.11 |
| September 2005 | 35.50 | 26.06 | 9.44 |
| December 2005 | 37.48 | 26.78 | 10.70 |
| March 2006 | 39.39 | 27.54 | 11.85 |
| June 2006 | 40.46 | 29.20 | 11.26 |
| September 2006 | 40.41 | 28.56 | 11.85 |
| September 2006 * | 51.32 | 36.08 | 15.24 |
| December 2006 * | 54.45 | 38.05 | 16.40 |
| March 2007 * | 57.42 | 40.14 | 17.28 |
| June 2007 * | 61.02 | 41.71 | 19.31 |
| September 2007 * | 62.25 | 42.56 | 19.69 |
| December 2007 * | 63.36 | 42.24 | 21.12 |
| March 2008 * | 65.59 | 43.36 | 22.23 |
| June 2008* | 66.26 | 43.90 | 22.36 |
| September 2008 * | 66.26 | 43.13 | 23.13 |
| December 2008* | 69.96 | 43.71 | 26.25 |
| March 2009 * | 66.95 | 43.26 | 23.69 |
| June 2009* | 63.46 | 42.65 | 20.81 |
| September 2009* | 63.34 | 41.58 | 21.76 |

* Including deposits held with overseas branches of Isle of Man incorporated banks

2. Insurance

(a) Number of Insurance Companies

| | 2007 | | | 2008 | | | 2009 | | |
|-----------|------|---------|-------|------|---------|-------|------|---------|-------|
| | Life | Captive | Total | Life | Captive | Total | Life | Captive | Total |
| March | 17 | 127 | 177 | 17 | 121 | 169 | 17 | 117 | 165 |
| June | 17 | 124 | 176 | 17 | 122 | 171 | 17 | 116 | 165 |
| September | 17 | 123 | 173 | 17 | 121 | 169 | 17 | 111 | 161 |
| December | 17 | 122 | 172 | 17 | 118 | 166 | 17 | 112 | 162 |

(b) Life and non-Life Premiums (£ billions)

| | 2005 | 2006 | 2007 | 2008 |
|-------------|------|------|------|------|
| 31 December | 8.1 | 10.6 | 9.9 | 9.3 |

3. Funds under Management**(i) Authorised and International Collective Investment Schemes only (including Experienced Investor and Professional Investor Funds) (£ billions)**

| | 2006 | 2007 | 2008 | 2009 |
|-----------|------|------|------|------|
| March | 8.1 | 8.3 | 9.4 | 6.0 |
| June | 8.2 | 9.1 | 9.2 | 3.3 |
| September | 8.4 | 9.1 | 9.2 | 3.6 |
| December | 8.4 | 9.2 | 7.1 | 3.4 |

(ii) All Schemes (\$ billions)

| | | | | |
|-----------|------|------|------|------|
| March | 28.9 | 44.5 | 53.8 | 33.3 |
| June | 32.2 | 50.1 | 57.7 | 34.4 |
| September | 36.2 | 53.3 | 52.2 | 34.4 |
| December | 41.9 | 53.2 | 43.0 | 33.9 |

Note The funds also included under (ii) are: Overseas, Exempt International Funds, Close Ended funds under the inward outsourcing arrangements. Specialist funds were introduced in December 2007 and Qualifying and Legacy EIF were introduced in March 2008.

(iii) Life and Captive Insurance (£ billions)

| | | | | |
|-------------|------|------|------|------|
| 31 December | 31.0 | 37.4 | 42.9 | 42.7 |
|-------------|------|------|------|------|

4. Ship Registration**i) Number of Merchant (non-Demise) Ships Registered**

| | 2006 | 2007 | 2008 | 2009 |
|-----------|------|------|------|------|
| Quarter 1 | 326 | 319 | 300 | 324 |
| Quarter 2 | 324 | 318 | 305 | 327 |
| Quarter 3 | 325 | 310 | 314 | 331 |
| Quarter 4 | 316 | 302 | 318 | 339 |

ii) Gross Registered Tonnage

| | | | | |
|-----------|-----------|-----------|-----------|-----------|
| Quarter 1 | 7,492,876 | 7,719,168 | 7,737,095 | 8,490,584 |
| Quarter 2 | 7,620,695 | 7,759,394 | 7,840,735 | 8,700,255 |
| Quarter 3 | 7,669,105 | 7,743,134 | 8,232,474 | 8,825,265 |
| Quarter 4 | 7,602,886 | 7,807,528 | 8,393,392 | 9,426,244 |

5. Company Registration

i) New Companies Formed

| | 2007 | | | 2008 | | | 2009 | | |
|--------------|--------------|------------|--------------|--------------|------------|--------------|--------------|------------|------------|
| | (a) | (b) | (c) | (a) | (b) | (c) | (a) | (b) | (c) |
| Quarter 1 | 694 | 177 | 291 | 425 | 85 | 335 | 302 | 41 | 167 |
| Quarter 2 | 813 | 71 | 331 | 441 | 48 | 310 | 349 | 79 | 233 |
| Quarter 3 | 749 | 250 | 263 | 392 | 86 | 268 | 340 | 53 | 218 |
| Quarter 4 | 574 | 130 | 339 | 248 | 70 | 223 | 294 | 126 | 226 |
| Total | 2,830 | 628 | 1,224 | 1,506 | 289 | 1,136 | 1,285 | 299 | 844 |

- (a) refers to formations under the 1931 Act
(b) refers to conversions to 2006 Act companies
(c) refers to new 2006 Act companies

ii) Companies removed

| | 2006 | 2007 | 2008 | 2009 |
|--------------|--------------|--------------|--------------|--------------|
| Quarter 1 | 1,509 | 732 | 2,265 | 1,670 |
| Quarter 2 | 685 | 619 | 658 | 637 |
| Quarter 3 | 769 | 1,024 | 667 | 552 |
| Quarter 4 | 506 | 927 | 755 | 574 |
| Total | 3,469 | 3,302 | 4,345 | 3,433 |

* includes conversions to 2006 Act incorporation

iii) Total Companies on Register

| | 2006 | | 2007 | | 2008 | | 2009 | |
|-----------|--------|-----|--------|-------|--------|-------|--------|-------|
| | (a) | (b) | (a) | (b) | (a) | (b) | (a) | (b) |
| Quarter 1 | 30,268 | 0 | 30,832 | 721 | 28,567 | 2,510 | 26,209 | 3,563 |
| Quarter 2 | 30,490 | 0 | 31,026 | 1,123 | 28,350 | 2,848 | 24,553 | 3,820 |
| Quarter 3 | 30,574 | 0 | 30,751 | 1,634 | 28,075 | 3,171 | 25,709 | 4,050 |
| Quarter 4 | 30,843 | 254 | 30,398 | 2,098 | 27,568 | 3,415 | 25,429 | 4,330 |

- (a) refers to incorporations under the 1931 Act
(b) refers to incorporations under the 2006 Act

REVENUE ACCOUNT REPORT**1st April to 31st December 2009**

| | Actual 2008-09 £'000 | Actual to 31 Dec 08 £'000 | % of Actual | Estimate 2009-10 £'000 | Estimate inc. Supp. Votes 31 Dec 09 £'000 | Actual to 31 Dec 09 £'000 | % of Estimate |
|-----------------------|----------------------------|---------------------------------|----------------|------------------------------|--|---------------------------------|------------------|
| Income | | | | | | | |
| Customs and Excise | 408,470 | 328,089 | 80% | 398,580 | 398,580 | 329,001 | 83 |
| Income Tax | 184,487 | 122,655 | 66% | 160,500 | 160,500 | 126,909 | 79 |
| Other Treasury Income | 5,771 | 1,022 | 18% | 13,250 | 13,250 | 1,759 | 13 |
| Total Income | 598,728 | 451,766 | 75% | 572,330 | 572,330 | 457,669 | 80 |
| Expenditure | | | | | | | |
| Net Voted Services | 572,369 | 379,401 | 66% | 572,109 | 572,109 | 397,894 | 70 |
| Surplus | 26,359 | 72,365 | 275% | 221 | 221 | 59,775 | 27,048 |
| Less: | | | | | | | |
| Transfers to Reserves | 30,000 | 19,000 | 63% | - | - | - | - |
| Add: | | | | | | | |
| Balance b/f 1st April | 45,400 | 45,400 | 100% | 29,380 | 29,380 | 41,759 | 142 |
| Balance c/f | 41,759 | 98,765 | | 29,601 | 29,601 | 101,534 | |

SUMMARY

1. Compared with the same period last year income at £457.7 million is £5.9 million (1%) up, whilst Departments' net payments at £397.9 million are £18.5 million (5%) up.
2. Customs income is £0.9 million (0.3%) up on last year's position. The Customs Estimate for the year will not be attained for 2009-10 due to the economic downturn in the United Kingdom, which has reduced the probable size of the VAT pool to be shared between the United Kingdom and Isle of Man compared with earlier estimates (current estimated out-turn £373 million, a shortfall of £26 million).
3. Income Tax receipts are £4.3 million (4%) up on last year's position. It is currently anticipated that the Income Tax Estimate for the year will be attained (current estimated out-turn £174 million).
4. There is uncertainty as to whether the 'Other Treasury Income' Vote of £13.3 million will be attained as (i) this is dependent on the returns from external investments of the Reserve Fund and (ii) the level of interest income on Government cash deposits has been reduced by funds advanced to the Depositors' Compensation Scheme.
5. At this, the third quarter stage of the year, taking normal seasonal patterns into account and assuming year-on-year accruals are unchanged; there are no Departments with the exception of the DHSS that are anticipated to overspend their revenue vote. The DHSS has incurred increased costs in respect of winter flu outbreaks and benefit provision and will be seeking a supplementary revenue Vote of £8.5 million. Departments have been advised to accommodate the cost of any pay awards within existing Votes.
6. No transfers to Reserves were included within the Budget presented to Tynwald in February 2009 (Page 1 of the Pink Book) due to the very low projected surplus for the year. The cost of Government's contribution to the Depositors' Compensation Scheme in respect of Kaupthing Singer & Friedlander is being met from Reserves.
7. The actual balance brought forward at the 1 April 2009 of £41.8 million was £12.4 million higher than the "Probable" shown in the Pink Book in February 2009, as a result of income being £11.3 million higher and expenditure being £1.1 million lower than "Probable".

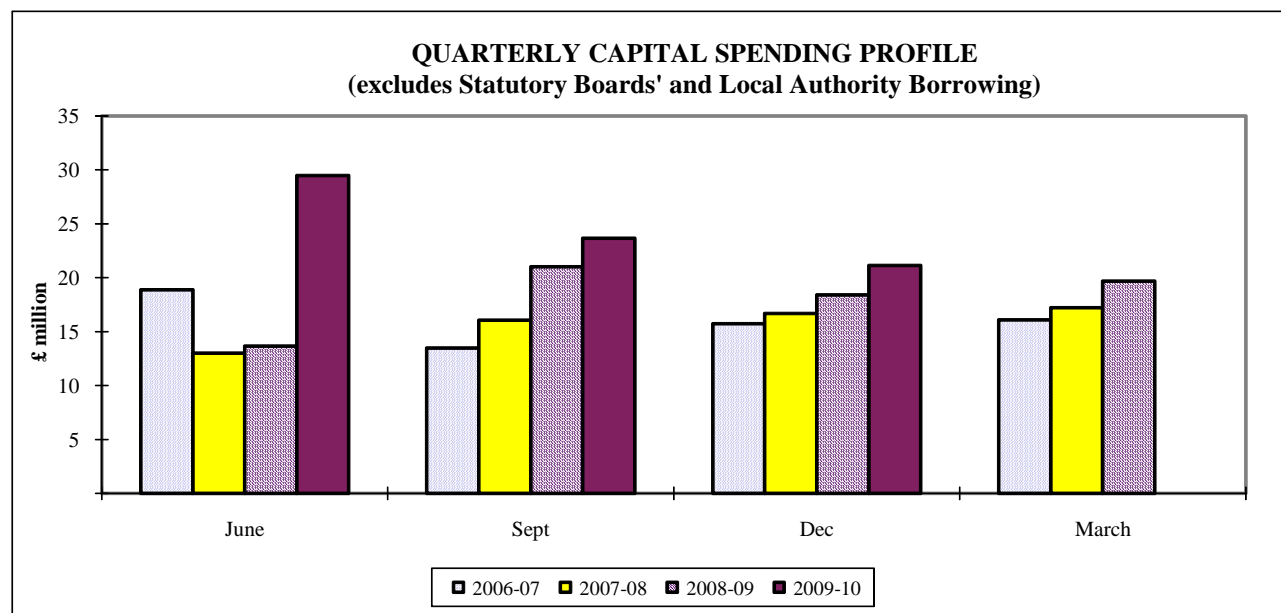
CAPITAL SPENDING**1st April 2009 to 31st December 2009**

Government Departments' capital spending for the period 1st April 2009 to 31st December 2009 was £74.3 million against a full year revised estimate of £118.1 million (62.9%).

Spending over the same period in the previous year was £53.1 million (40% of revised budget).

| FINANCIAL POSITION | | | | | | | |
|----------------------------|----------------------------|----------------------------|------------------------------------|---|--|--------------------------------------|--------------------------------------|
| | 1 April to 31 December | | | Forecast for Year | | | |
| | Actual 2008-09 £'000 | Actual 2009-10 £'000 | 2009-10 as % of 2008-09 % | Revised * Estimate 2009-10 £'000 | Treasury Forecast 2009-10 £'000 | Forecast Under- spend £'000 | Forecast as % of Estimate % |
| Government Total | 53,107 | 74,279 | 139.9% | 118,126 | 98,200 | 19,926 | 83.1% |
| Statutory Boards' Spending | 9,313 | 7,319 | 78.6% | 17,189 | 12,863 | 4,326 | 74.8% |

* Revised Estimate 2009-10 refers to original 2009-10 Budget plus supplementary votes approved by Tynwald.



Capital Spending

1 April 2009 to 31 December 2009

(includes Statutory Boards' spending rather than borrowing)

| | 2009-10 Original Estimate | 2009-10 Revised Estimate | Actual Spending 1-Apr to 31-Dec | Actual Spending against Revised Estimate |
|--------------------------------------|---------------------------------|--------------------------------|---|--|
| | £ | £ | £ | (%) |
| Agriculture, Fisheries and Forestry | 6,261,750 | 6,261,750 | 5,409,397 | 86.39 |
| Education | 13,358,196 | 13,358,196 | 3,296,050 | 24.67 |
| Health and Social Security | 12,021,708 | 12,021,708 | 5,990,545 | 49.83 |
| Home Affairs | 1,866,000 | 1,866,000 | 949,769 | 50.90 |
| Local Government and the Environment | 17,861,458 | 19,481,458 | 10,156,324 | 52.13 |
| Manx National Heritage | 1,984,887 | 1,984,887 | 1,095,422 | 55.19 |
| Tourism and Leisure | 8,328,043 | 8,328,043 | 4,951,755 | 59.46 |
| Trade and Industry | 2,679,531 | 2,679,531 | 116,186 | 4.34 |
| Transport | 50,269,909 | 50,269,909 | 35,961,902 | 71.54 |
| Treasury | 50,000 | 50,000 | 733 | 1.47 |
| Executive Government | 1,675,000 | 1,675,000 | 6,349,173 | 379.06 |
| | 116,356,482 | 117,976,482 | 74,277,255 | 62.96 |
| Expenses of the Legislature | 150,000 | 150,000 | 1,798 | 1.20 |
| Government Total | 116,506,482 | 118,126,482 | 74,279,053 | 62.88 |
| Statutory Boards' Spending | | | | |
| Manx Electricity Authority | 8,291,000 | 8,291,000 | 4,311,000 | 52.00 |
| Post Office | 2,671,625 | 2,671,625 | 1,116,273 | 41.78 |
| Water Authority | 6,226,000 | 6,226,000 | 1,891,894 | 30.39 |
| | 133,695,107 | 135,315,107 | 81,598,220 | 60.30 |

| Spending analysed by type of scheme for the period 1 April to 31 December compared to same period last year | Government Total | | | Actual spend by Statutory Boards 2009-10 | Total 2009-10 |
|--|-------------------|-------------------|-----------------------------------|---|-------------------|
| | 2008-09 | 2009-10 | 2009-10 as % of Revised Budget | | |
| | £ | £ | % | £ | £ |
| Building / Construction | 19,871,748 | 27,126,260 | 48.16 | | 27,126,260 |
| Engineering | 27,927,358 | 33,440,092 | 69.76 | 6,202,894 | 39,642,986 |
| Plant / Equipment | 1,085,920 | 2,999,953 | 51.23 | 1,116,273 | 4,116,226 |
| Land Acquisition | 1,798,324 | 6,349,173 | 379.06 | | 6,349,173 |
| Loan Schemes | 1,418,284 | 916,186 | 61.08 | | 916,186 |
| Other | 1,005,687 | 3,447,390 | 71.32 | | 3,447,390 |
| Total | 53,107,321 | 74,279,053 | 62.88 | 7,319,167 | 81,598,220 |

GOVERNMENT PERSONNEL PROGRAMME

1. As at 31 December 2009 the overall establishment under the Personnel Control Mechanism (PCM) as recorded on the personnel database is 7877.61, of which 7665.64 are permanent posts and 211.97 are ring fenced posts. The fte of groups outside the PCM is 393.95, giving a total of 8271.56.

| | FTE end Qtr 4 08/9 | FTE end Qtr 1 09/10 | FTE end Qtr 2 09/10 | FTE end Qtr 3 09/10 | FTE Variance Qtr 2 – Qtr 3 | FTE increase /decrease (%) |
|--|-----------------------|------------------------|---------------------------|------------------------|-------------------------------|----------------------------------|
| Permanent posts | 7613.56 | 7615.14 | 7600.77 | 7665.64 | 64.87 | 0.8 |
| Ring Fenced posts | 210.18 | 209.18 | 211.50 | 211.97 | 0.47 | 0.2 |
| Limited Term Appointments | 198.16 | 204.92 | 223.05 | 212.16 | -10.89 | -4.9 |
| Natural Discharge Agreements | 13.80 | 13.30 | 13.30 | 12.30 | -1.0 | -7.5 |
| Disability Employment Scheme | 31.31 | 35.31 | 38.81 | 41.37 | 2.56 | 6.6 |
| Trading Statutory Boards (excluding MEA and IOM Post) | 127.12 | 127.12 | 128.12 | 128.12 | - | - |
| Total | 8194.13 | 8204.97 | 8215.55 | 8271.56 | 56.01 | 0.7 |

| Departmental FTE reported in Quarterly PCM Report to CoMin | | | | | | |
|--|----------------|---------------|---------------|-------------|--------------|----------------|
| Quarter Ending 31 December 2009 | | | | | | |
| Department | Permanent | Ring Fenced | LTA | NDA | DES | Total |
| Attorney Generals Chambers | 29.5 | 1 | 6.54 | | | 37.04 |
| Chief Secretaries Office | 36 | 1 | 8 | | 1.5 | 46.50 |
| Chief Secretaries Office (Government House) | 10 | | | | | 10.00 |
| Communications Commission | 2.68 | | | | | 2.68 |
| Coroners & Lockmen | 1 | | | | | 1.00 |
| Department of Agriculture, Fisheries & Forestry | 133.25 | | 6 | 2.7 | 0.6 | 142.55 |
| Department of Education | 1672.58 | 136.03 | 102.49 | | | 1911.10 |
| Department of Health & Social Security | 2770.15 | 52.47 | 17.98 | | 24.82 | 2865.42 |
| Department of Home Affairs | 836.28 | 15.17 | 6 | 1 | 8.5 | 866.95 |
| Department of Local Government & the Environment | 172.16 | | 8.22 | | 1 | 181.38 |
| Department of Tourism & Leisure | 509.18 | 1 | 10.59 | | 0.27 | 521.04 |
| Department of Trade & Industry | 99.5 | | 3 | | 3 | 105.50 |
| Department of Transport | 715.13 | | 5.84 | | | 720.97 |
| Financial Supervision Commission | 70.5 | | 2 | | | 72.50 |
| General Registry | 80.18 | 1.8 | 7.5 | | | 89.48 |
| Industrial Relations Service | 2.6 | | | | | 2.60 |
| Insurance & Pensions Authority | 15 | | | | | 15.00 |
| Manx National Heritage | 75.15 | 2 | 1 | | | 78.15 |
| Office of Fair Trading | 18.04 | | | | | 18.04 |
| Office of the Clerk of Tynwald | 26 | | 0.5 | | | 26.50 |
| Office of the Data Protection Supervisor | 2.5 | | 1.5 | | | 4.00 |
| Personnel Office | 35.46 | 1 | 12.5 | | 0.68 | 49.64 |
| Road Traffic Licensing Committee | 2 | 0.5 | | | | 2.50 |
| The Treasury | 348.8 | | 12.5 | 8.6 | 1 | 370.90 |
| War Pensions Welfare Office | 2 | | | | | 2.00 |
| Sub-Total | 7665.64 | 211.97 | 212.16 | 12.3 | 41.37 | 8143.44 |
| Isle of Man Water Authority | 128.12 | | | | | 128.12 |
| Total | 7793.76 | 211.97 | 212.16 | 12.3 | 41.37 | 8271.56 |