



**Annual Review of
JT Group Ltd**

31 December 2009

JT GROUP LIMITED

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OPERATING REVIEW

Despite tough trading conditions with ongoing uncertainty in the global economy and increased competitive activity in our markets, JT Group continued to grow revenues in 2009. Even though the Group delivered top line growth, profits continued to decline due to our cost base growing at a faster pace than revenues.

The core products of fixed and mobile continued to come under increased price and margin pressure. With the licensing of a fourth operator and the introduction of an MVNO during the year, we see no let up in the increasingly competitive landscape in our home markets. However, we continued to respond vigorously and have been successful in maintaining a strong market share in Jersey and growing in Guernsey. Our performance in the corporate sector remained strong with growth particularly in private circuits. Capacity in the Data Centre completed in 2008 at TEC, Five Oaks was successfully sold out during 2009, four years ahead of plan.

We also continued to diversify our revenue streams outside of the Channel Islands and have been successful in growing additional business lines. Areas of growth include our bulk text messaging service, which saw an increase in the volume of messages that were sent out - by some of the largest aggregators in the market over our network. However, management undertook a comprehensive review of the Global business over the year and the outcome was the decision to exit the GSM business on cruise ships under the Navitas brand. While we had been successful in securing new ships, our business model was under extreme pressure. Our competitors offered both onboard satellite connectivity and GSM services, meaning they could effectively subsidise the cost of GSM satellite uptime by having the ship owners pay for onboard satellite connectivity. Management determined that this line of business was no longer capable of achieving profitability and therefore decided to disband all maritime activities.

Even with the aforementioned growth in new products and services, management recognised early in the year, the need to implement greater discipline over the cost base. A headcount freeze and review of the Global business in the first half of the year resulted in annual savings of £2.6m. In Q3, and in response to some of the issues raised in the JCRA commissioned Regulaid report we benchmarked our operating base against similar sized operators. As a result the Board mandated that the organisation undertake a Business Transformation Programme to reshape the business so that it could continue to provide service excellence but as an efficient operator with the resources required to compete effectively in the future. The cost reduction element of the Programme required reducing our operating cost base by a further £7m per annum. Of the additional £7m, labour savings of £4m were to be targeted and non-labour savings of £3m. A one off provision of £6.5m was provided for in the 2009 accounts for the cost of restructuring the company.

The labour reduction element of the Programme required extensive negotiations with the GMB union and whilst headcount was reduced by 105 staff, the vast majority of these were made on a voluntary basis. Although, the labour cost reduction element of the Programme was perceived by all to be a difficult process, we believe that it was

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planned, implemented and managed well with care and consideration for all stakeholders. The new organisation structure was substantially completed Q1 2010.

The extent and speed of the changes in our workforce would not have been possible without the skill, dedication and professionalism of our employees. All of the business transition was achieved while still maintaining a focus on running the business, and for that we would like to thank all of the employees, both those that have left and those that remain to continue the journey.

On the 31st December we completed the acquisition of the Newtel Guernsey business. Newtel offered a range of products and services in Guernsey including a Data Centre with significant e-gaming clients. Guernsey is recognised as one of the most attractive e-gaming locations in the world due to the high level of regulation provided by the Alderney Gaming Commission. The acquisition of the Newtel Guernsey business gives us rapid entry to this growing market, a significant customer base and the ability to easily expand the facilities. The high data use required by e-gaming clients is also well served by our capacity from Guernsey in the Liberty cable.

The year also saw significant change in the Board. John Henwood, the Group's first Chairman following incorporation, stood down after completing two terms in line with recommended best practice in corporate governance. The Group is grateful for his contributions in delivering the company in such healthy condition through such turbulent times. After a thorough recruitment process, John Boothman has been instilled as the new Chairman.

After 36 years of service, of which 18 were spent leading the company, Bob Lawrence retired in January 2010. The Board would like to express their thanks for his dedication and devotion to the company throughout his career with Telecoms. Bob will be replaced by Graeme Millar, an internationally experienced telecommunications executive whose wealth of experience of growing companies in fiercely competitive markets will be hugely beneficial to the Group.

During the year we have undertaken several difficult but necessary decisions in order to reshape our business and as a result the organisation has experienced an unprecedented level of change. Nonetheless, we believe these changes that have not only strengthened the overall health and position of the business, but also the organisation as a whole. The completion of the changes made to our labour cost base and organisational structure were the first phase of the Transformation Programme. In the forthcoming year requiring additional consolidation as we make further inroads to reduce our cost base through non labour savings and improving operational efficiencies. We believe the continued implementation of the overall Programme will mean the business is ideally placed to compete and drive increased growth across a number of diverse business lines in 2010.

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BOARD OF DIRECTORS

CHAIRMAN

John Boothman

John Boothman retired in 2002 as Managing Director of Deutsche Bank International Limited, a post to which he was appointed in 1993. John is non-executive chairman of Aztec Group Limited and holds several other non-executive directorships in the finance industry.

VICE CHAIRMAN

Nigel Horne

Dr Nigel Horne has spent many years in the telecommunications and information technology manufacturing and service industries. His early career was with GEC, which he left as managing director of the information systems division, and then STC and ICL plc where he was a main board director. He was IT Partner in KPMG, and then chairman of Alcatel UK Limited for eight years. Nigel has been a founder and director of many companies in high technology and venture capital, as well as an advisor to major UK bodies including National Air Traffic Services Limited and the Department of Social Security. Among his professional qualifications Nigel is a Fellow of the Royal Academy of Engineering, the Royal Society of Arts, and of the Institution of Engineering and Technology.

NON EXECUTIVE DIRECTORS

David Le Quesne

David Le Quesne is an Advocate of the Royal Court and Chairman of the Jersey law firm of Viberts. David was called to the Bar in the United Kingdom in 1976 and sworn in as an Advocate of the Royal Court of Jersey in 1980. He specialises in litigation and private client work.

He is the Chairman of the Jersey Employment Tribunal, a qualified mediator and holds an IoD Diploma in Company Direction. David was a member of the Review Panel on the Machinery of Government.

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John Stares

John Stares is the Managing Director of Guernsey Enterprise Agency and a non-Executive Director/Advisor to three other Channel Island CI-headquartered groups of companies. He is a Fellow of the Institute of Chartered Accountants of England and Wales, a Member of the Worshipful Company of Management Consultants and a member and former President of Rotary Guernesians. Prior to moving to Guernsey in 2001, John was with Accenture for 23 years. During that period, he worked as a strategic, financial, change and IT consultant with major clients in most industry sectors and held a wide variety of leadership roles in Accenture's Canadian, European & Global consulting businesses.

EXECUTIVE DIRECTORS

Bob Lawrence – Chief Executive Officer

Bob Lawrence joined Jersey Telecom as an apprentice in 1973 and qualified as a senior telecommunications engineer, working in transmission and radio systems. In 1983 Bob was promoted to manager of the Customer Installation department, then in 1987 he was appointed as Sales and Installation Director, before taking over as Chief Officer to the States of Jersey Telecommunications Board in 1991. In 2003 Bob was appointed as Managing Director of the newly incorporated Jersey Telecom Ltd and stepped down from the position of Chief Executive Officer on 18th January 2010.

Geoff Weir – Chief Financial Officer

Geoff joined Jersey Telecom in September 2008, having spent most of his career in telecommunications working in Ireland, the UK and throughout Europe. Starting his career in retail management, Geoff moved into telecommunications during the deregulation of the markets and has since held several positions in Swiftcall/KDDi, Tiscali and Interoute where he was not only responsible for finance, but also for strategic and commercial decision making. His career has enabled him to gain extensive experience in change management and mergers & acquisitions.

Geoff Weir is a Fellow of the Association of Certified Chartered Accountants and holds a BA with Honours in Business and Finance, together with a first class MBA.

Graeme Millar – Chief Executive Officer (designate)

A graduate in Natural Sciences with a postgraduate engineering qualification, both from the University of Cambridge, Graeme has nearly two decades of telecoms experience. He has gradually moved from technical and operational roles during over 6 years with Motorola through to senior sales, marketing and commercial positions during almost 11 years at Vodafone, culminating in his appointment as a director of Vodafone Netherlands. Immediately prior to taking up his role at JT Group, Graeme was the Chief Commercial Officer Russia for MTS, Russia's largest mobile telephone operator with over 70 million subscribers.

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Corporate Governance

The Board is committed to ensuring that high standards of corporate governance are maintained by the Company.

The Board confirms that the Company has, throughout the period under review, complied with the provisions recommended by the Combined Code on Corporate Governance of the Financial Reporting Council (“the Code”).

The Company applies the Principles of the Code through its own behaviour, by monitoring corporate governance best practice and by adopting appropriate recommendations of relevant bodies including the Institute of Chartered Secretaries and Administrators (ICSA) and the Institute of Chartered Accounts of England and Wales.

THE BOARD

The Board comprises Executive and Non-Executive Directors with the all Non-Executive Directors adjudged as being independent, with the exception of the Chairman for whom the test of independence is not considered appropriate under the terms of the Combined Code. Nevertheless, were the test to be applied, the Chairman would be considered independent.

All Directors are collectively responsible for the success of the Company. However, Executive Directors have direct responsibility for business operations, whereas the Non-Executive Directors have a responsibility to bring independent objective judgement to bear on Board decisions. Key matters such as approval of the Company’s objectives and commercial strategies, budgets and risk management strategy are reserved for the Board and these are set out in a formal statement of the Board’s role.

To help maintain a strong executive presence on the Board, in addition to the Executive Directors attending, members of the Management Board routinely attend Board meetings.

John B Stares is the Senior Independent Director.

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The Executive Directors are not subject to retirement by rotation but they are subject to periods of notice of termination of employment as are the other members of the Company's senior management.

The only change that took place to the composition of the Board during the period under review was the retirement of John P Henwood on 30th June 2009.

Attendance at meetings

Directors are generally provided with the papers for Board and Committee one week in advance and, as can be seen from the following table, non-attendance at these meetings is rare.

Attendance Record				
Meeting	Board	Audit Committee	Remuneration Committee	Nomination Committee
	8 meetings	3 meetings	2 meetings	4 meetings
John Henwood	4 / 4	-	1 / 1	-
Nigel Horne	7 / 8	2 / 3	2 / 2	4 / 4
John Boothman	8 / 8	1 / 1	2 / 2	3 / 3
David Le Quesne	8 / 8	2 / 2	2 / 2	3 / 4
John Stares	8 / 8	3 / 3	2 / 2	4 / 4
Bob Lawrence	8 / 8	-	-	-
Geoff Weir	8 / 8	-	-	-

Membership of the Board committees varied during the year but as at 31st December 2010, the make-up was as follows:

Audit Committee	Remuneration Committee	Nomination Committee
John Stares (Chairman)	Nigel Horne (Chairman)	Nigel Horne (Chairman)
David Le Quesne	John Boothman	John Boothman
Nigel Horne	David Le Quesne	David Le Quesne
	John Stares	John Stares

Performance evaluation

The Board completed a full evaluation of the effectiveness of the Board, its Chairman and its Committees during the year, and the results were summarised and then considered by the Board.

The Board concluded that it was operating in an effective manner but identified some areas where improvements could be made, such as the issue of strategic planning and how it should best be handled, Board composition and succession planning, and the importance of ensuring an appropriate level of Board scrutiny and challenge. All actions arising further to the evaluation of performance are currently being addressed.

BOARD COMMITTEES

Audit Committee

The Audit Committee has responsibility for the effectiveness of the Company's internal controls which are designed to manage rather than eliminate the risk of failure to achieve the strategic objectives. The Audit Committee's terms of reference comply with the Combined Code.

In order to fulfil its terms of reference, the Audit Committee receives and reviews presentations and reports from the CFO, the Chairman of the Company's Risk Working Group and the external auditors, Deloitte. Further, the Audit Committee monitors the database of risks maintained by the Risk Working Group and assesses the acceptability of the impact and likelihood ratings that are applied to each risk.

Remuneration Committee

The Remuneration Committee makes recommendations to the Board regarding the remuneration of Executive Directors and senior management and considers the ongoing appropriateness and relevance of the remuneration policy.

The Remuneration Committee's terms of reference comply with the Combined Code and in order to fulfil these, it receives and reviews presentations and reports, primarily from the Company's HR Director but also from independent external agencies.

Nomination Committee

At the year end, the Nomination Committee comprised Nigel Horne (Chairman), David Le Quesne (Alternate Chairman), John Boothman and John Stares, but for the substantive part of the year under review, the membership was made up of all of the Non-Executive Directors.

The Nomination Committee makes recommendations to the Board regarding the appointment of Executive and Non-Executive Directors and other senior appointments within the organisation. The Committee's terms of reference comply with the Combined Code.

During the course of 2009, the principle work of the Nomination Committee related to the appointment of a Chairman, following the decision of John Henwood to step down at the end of his term of office.

Management Board

Responsibility for implementation of the strategies agreed by the Board and the consideration of matters relevant to the operational management of the business is delegated to the Management Board, which is a committee chaired by the Chief Executive Officer and made up of senior executives. The Management Board normally meets throughout the year on a fortnightly basis.

RELATIONS WITH THE SHAREHOLDER

While the Company is wholly owned by the States of Jersey, under the terms of Article 32(6) of the Telecommunications (Jersey) Law 2002, the Minister for Treasury and Resources is charged as its representative in matters related to its shareholding in the Company. Limitations on the powers of the Minister, which relate principally to share ownership matters, are set out in that same article.

In order to ensure an appropriate accountability framework, a Memorandum of Understanding exists between the Company and the Minister and that Memorandum of Understanding recognises the obligation that the Directors have in regard to operating at all times in the best interests of the Company.

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Report of the Remuneration Committee

The structure of remuneration is simple with no equity participation by the Directors. Salaries are established by reference to those prevailing in the market generally for Executive and Non-Executive Directors of comparable status, responsibility and skills in comparable industries. The Committee uses executive remuneration surveys prepared by independent consultancy firms to assist in establishing market levels.

	Basic Salary/Fees £	Bonuses £	Benefits in Kind £	Total 2009 £	Total 2008 £
Executive Directors					
Robert Lawrence	163,956	70,000**	-	233,956	175,500
Geoff Weir	116,507	15,264	-	131,771	31,130
Philip Ainsworth		--	-	-	110,767
Non Executive Directors					
John Boothman*	30,000	-	-	30,000	19,500
John Henwood*	20,000	-	-	20,000	40,000
Dr Nigel Horne	25,000	-	-	25,000	23,250
David Le Quesne	20,000	-	-	20,000	19,500
John Stares	20,000	-	-	20,000	5,000
Total	395,463	85,264	-	480,727	424,647

* John Boothman replaced John Henwood as Chairman on 1st July 2009

** Details of this retention bonus were disclosed in the prior financial year

Company pension contributions were made in respect of Executive Directors as follows:

	2009 £	2008 £
Robert Lawrence	21,198	18,318
Geoff Weir	15,109	3,816
Philip Ainsworth	-	6,067

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Consolidated Profit & Loss Account for the year ended 31 December 2009

	2009 £	2008 £
Turnover	92,415,888	91,098,173
Costs		
Operating expenses	(66,679,532)	(67,879,471)
Company restructure	(6,500,000)	-
Depreciation	(11,846,547)	(11,106,030)
	<hr/>	<hr/>
Operating profit	7,389,809	12,112,672
Interest receivable and similar income	66,465	708,747
Interest payable and similar charges	(1,800,000)	(1,800,000)
	<hr/>	<hr/>
Profit on ordinary activities before taxation	5,656,274	11,021,419
Taxation	(1,688,553)	(675,685)
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Profit on ordinary activities after taxation	3,967,721	10,345,734
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All the items dealt with in arriving at the operating profit for 2009 and 2008 relate to continuing operations.

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Consolidated Statement of Total Recognised Gains & Losses for the year ended 31 December 2009

	2009 £	2008 £
Profit on ordinary activities after taxation	3,967,721	10,345,734
Actuarial loss on 'Public Employees Contributory Retirement Scheme' sub fund	(12,127,000)	(7,680,000)
Actuarial (loss) / gain on 'Telecommunications Board Pension Scheme'	(111,000)	96,000
Adjustment on deferred taxation on actuarial loss	2,462,400	1,502,000
Total gains and losses recognised since last annual report	(5,807,879)	4,263,734

Consolidated Reconciliation of Movements in Shareholder's Funds for the year ended 31 December 2009

	2009 £	2008 £
Profit on ordinary activities after taxation	3,967,721	10,345,734
Dividends	(6,425,000)	(6,710,000)
Actuarial loss	(12,238,000)	(7,584,000)
Adjustment on deferred taxation on actuarial loss	2,462,400	1,502,000
Net decrease in shareholder funds	(12,232,879)	(2,446,266)
Opening shareholder funds	62,952,636	65,398,902
Closing shareholder funds	50,719,757	62,952,636

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Consolidated Balance Sheet as at 31 December 2009

	2009 £	2008 £
Fixed assets		
Tangible assets	77,111,273	79,174,220
Investments	10,000	10,000
Other investments	12,545,103	-
	<u>89,666,376</u>	<u>79,184,220</u>
Current assets		
Stocks	1,919,807	2,228,015
Debtors	13,405,281	14,331,425
Deferred tax asset	999,936	1,349,069
Cash at bank and in hand	11,404,232	9,926,105
	<u>27,729,256</u>	<u>27,834,614</u>
Creditors: amounts falling due within one year	(19,102,518)	(17,112,150)
	<u>8,626,738</u>	<u>10,722,464</u>
Net current assets		
Total assets less current liabilities	98,293,114	89,906,684
Creditors: amounts falling due after more than one year	(30,500,000)	(20,000,000)
Provision for liabilities and charges		
Pension deficit	(14,456,800)	(4,680,400)
Deferred taxation	(2,616,557)	(2,273,648)
	<u>50,719,757</u>	<u>62,952,636</u>
Net assets		
Capital and reserves		
Called up share capital - equity	20,000,000	20,000,000
Reserves - equity	30,719,757	42,952,636
	<u>50,719,757</u>	<u>62,952,636</u>
Total shareholder funds		
	<u>50,719,757</u>	<u>62,952,636</u>

The financial statements were approved by the Board of Directors on 28th April 2010 and were signed on its behalf by:

G Millar
Chief Executive Officer

G Weir
Chief Finance Officer

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Consolidated Cash Flow Statement for the year ended 31 December 2009

	2009 £	2008 £
Net cash inflow from operating activities	24,288,947	25,117,716
Returns on investments and servicing of finance		
Interest received	66,465	708,747
Preference dividend interest	(1,440,000)	(1,440,000)
Net cash outflow from return on investments and servicing of finance	(1,373,535)	(731,253)
Taxation	(2,538,073)	(3,158,394)
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(10,445,559)	(20,284,375)
Investment costs	(12,545,103)	-
Receipts from sale of tangible fixed assets	16,450	33,765
Net cash outflow from capital expenditure and financial investment	(22,974,212)	(20,250,610)
Equity dividends paid	(6,425,000)	(6,710,000)
Financing		
Receipt of long term loan	10,500,000	-
Increase / (decrease) in net cash	1,478,127	(5,732,541)
Reconciliation of net cash flow to movement in net debt		
Increase / (decrease) in net cash	1,478,127	(5,732,541)
Cash increase from loan	(10,500,000)	-
Change in net debt due to cash flows	(9,021,873)	(5,732,541)
Net debt at 1 January	(10,073,895)	(4,341,354)
Net debt at 31 December	(19,095,768)	(10,073,895)