Annual Report of
JT Group Ltd

31 December 2010

JT GROUP LIMITED

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JT GROUP LIMITED

OPERATING REVIEW

2010 was a year of continued development for the JT Group, which saw us building on the transformation initiatives undertaken in 2009, and begin to implement a new five-year strategy.

As the accounts contained in this document show, the financial year ending 31st December 2010 resulted in Group turnover approaching £100m (£96.2m), which was the highest in its long history – a very significant milestone, especially in the context of tough competition in our core domestic markets, and a profit before tax of £11.7m.

The framework for our future expansion was set with the publication of a new five-year strategy, covering the period to 2016. That strategy sets out how we plan to grow the business, create new opportunities for employees, and continue to be a valuable asset for the States of Jersey. It is being implemented by a new senior management team, led by Group CEO Graeme Millar, and its objectives are threefold:

- to provide customers with world-class internet, mobile and fixed line services;
- to help secure the Island's prosperity from a knowledge-based economy; and
- to deliver an excellent and sustainable financial performance.

In order to be in the right position to achieve this, we first had to successfully complete the business transformation programme which began in 2009. This initiative resulted in a reduction in the Group's operating cost base of £7m a year, increased efficiencies and a new commercial approach.

That programme laid the foundations for a significant change in direction, which began in 2010 with the integration of Newtel Guernsey, following its acquisition at the end of the previous year. This move greatly strengthened our position in Guernsey: the first full year performance for the new business was ahead of plan, and prospects for 2011 are encouraging.

One of the key elements of that transaction was the acquisition of Newtel's data hosting centre in St Peter Port. Allied to the expansion of the existing Five Oaks data centre, and the construction of a new data centre at Rue des Pres, JT is now the largest provider of data hosting services in the Channel Islands with 700 racks, and has invested more than £15m in this activity alone. We can now drive forward these facilities to the benefit of the Islands' economies as a whole, and their telecommunications infrastructure in particular. This follows completion of the £8m Project Liberty, which is a submarine fibre-optic cable linking the Islands to the UK, and which provides the required bandwidth as well as adding resilience to the network that was already in place.

The quality of these external telecommunications links was demonstrated by a new partnership deal with British Telecom to deliver the Digital TV signal to the Channel Islands for the next twelve years. The signal will be carried by cables such as Liberty, before being broadcast via the Fremont Point transmitter. JT was selected to deliver Digital TV to the Channel Islands because of the capacity, speed and resilience of its network, something of which we are extremely proud.

It is that infrastructure which saw perhaps our most high profile strategic initiative in 2010, the launch of Gigabit Isles – a commitment to make the world's fastest broadband speeds widely available to JT customers over the next five years. JT commenced trials of Gigabit (1024 Mb) speed broadband, with the installation of fibre-optic cabling at the new residential development at Castle Quay on the St. Helier Waterfront. This brought the highest residential broadband speeds in the western world to Jersey, with plans to launch the first trial in Guernsey also being well advanced by the end of the year.

Similarly, 2010 saw major developments in the installation of a £11m digital Next Generation Network for Jersey, which has opened up new services and quicker broadband speeds for many JT customers. By the end of 2010, 25% of households were able to achieve between 15Mb and 20Mb speeds, including coastal areas in St John and St Martin which previously had slower connections. Those speeds are approaching the limits of what can be achieved with copper cabling, and to go further, investment will need to be made to extend the existing fibre network. By the end of the year, the NGN project was on schedule, with 50% completed. In terms of core network technology, this ongoing investment will put Jersey between ten and fifteen years ahead of the UK by 2012.

Those fixed network developments were reflected in the mobile broadband market as well, with 14.4Mb speeds being made widely available. This has proved useful for customers needing to access data while on the move, as well as for those living in areas which have not yet been part of the rolling program to upgrade the fixed broadband network.

As well as establishing the foundation for the network developments described above, the business transformation program also laid the basis for JT's development outside of the Island, both through selective acquisitions and strategic partnerships with other firms such as BT and Telstra. 2010 saw the first major step in this area, with the acquisition of a company called ekit.com, Inc. Ekit will enable the Group to triple its sales revenue from outside the Island, and make a significant contribution to our overall growth. Ekit employs around 40 staff spread across offices in London, Boston and Melbourne, and uses advanced technology to substantially reduce mobile roaming charges for its 150,000 customers around the world – something we will soon be making available to local customers.

One of the other benefits of the ekit acquisition is the opportunities it offers for JT staff development. This echoes three other major initiatives launched in 2010: the new JT apprenticeship scheme, the JT student bursary and the JT graduate program. They will support JT in its four key areas of Technical Services, Business Services, Commercial and Customer Solutions. We have a highly skilled workforce, but continued investment in their talents will be vital to the achievement of our ambitious goals.

The markets in which we operate in the Channel Islands remain challenging, but the steps we have taken to reposition the Group will enable us to respond to those challenges with vigour. Meanwhile, the opportunities across our business – both at home and abroad – are both visible and achievable. We look forward to the future with confidence.

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BOARD OF DIRECTORS AT 31 DECEMBER 2010

CHAIRMAN

John Boothman

John Boothman retired in 2002 as Managing Director of Deutsche Bank International Limited. John is non-executive chairman of Aztec Group Limited and a director of the Jersey International Business School. He holds several other 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 and of the Institution of Engineering and Technology.

NON EXECUTIVE DIRECTORS

John Stares

John Stares is the Managing Director of Guernsey Enterprise Agency and a non-Executive Director/Advisor to a number of 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 Guernesiais. 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.

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Colin Tucker

Dr. Colin Tucker trained as an Electrical Engineer at UMIST achieving a BSc , MSc and ultimately a PhD. He has spent over 25 years in the telecommunications industry in a number of senior roles. The last two positions were as main board director and COO of Orange plc and Managing Director and Deputy Chairman of 3. Colin has also served as a non-executive director for Sarantel, TTP, Morse, and Monitise and as Chairman of UIQ Technologies. In addition to his industrial experience Colin has acted as Industrial Professor at Loughborough University and continues to assist in the academic world with management and mentoring of spin-out companies coming from Edinburgh University.

EXECUTIVE DIRECTORS

Graeme Millar – Chief Executive Officer

A graduate in Natural Sciences with a postgraduate engineering qualification, both from the University of Cambridge, Graeme has 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.

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.

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REPORT OF THE DIRECTORS

INCORPORATION

JT Group Limited was incorporated in Jersey, Channel Islands on 22nd October 2002.

GROUP STRUCTURE

JT Group Limited ("Jersey Telecom Group" or "the Company") is a holding company that maintains a 100% ownership in the following companies:
Jersey Telecom Limited ("Jersey Telecom")
Wave Telecom Limited ("Wave Telecom")
JTG (St Helier) Limited
JTG (St Saviour) Limited
JTG (Parishes) Limited
JTG (External) Limited
JTG (Mast) Limited
Wave Date Services Limited

PRINCIPAL ACTIVITIES

The principal activity of the Company and its subsidiaries is the supply of communications services and equipment.

DIVIDENDS

Dividends of £4,500,000 have been paid during 2010 (2009: £6,425,000).

DIRECTORS

The Directors of the Company who served during the year are:

John C Boothman – Chairman
Dr Nigel W Horne
John B Stares
Geoff Weir
Graeme Millar
Colin Tucker
Robert P Lawrence
David F Le Quesne

DIRECTORS AND THEIR INTERESTS

The Directors of the Company at 31st December 2010 had no interests, beneficial or otherwise, in the shares of the Company.

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 all the 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.

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.

During the year, in ensuring an appropriate policy of rotation to the non-executive directors, David Le Quesne stepped down on 30th September 2010 and Colin Tucker was appointed on 1st November 2010.

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ATTENDANCE AT MEETINGS

Directors are generally provided with the papers for Board and Committee meetings one week in advance and, as can be seen from the following table, during the year under consideration, there was full attendance at all Board and Committee meetings.

Attendance Record				
Meeting	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
	8 meetings	3 meetings	1 meetings	2 meetings
John Boothman	8 / 8	-	1 / 1	2 / 2
Nigel Horne	8 / 8	3 / 3	1 / 1	2 / 2
John Stares	8 / 8	3 / 3	1 / 1	2 / 2
David Le Quesne	4 / 4	2 / 2	1 / 1	1 / 1
Colin Tucker	1/1	1/1	-	-
Graeme Millar	8 / 8	-	-	-
Geoff Weir	8 / 8	-	-	-

BOARD COMMITTEES

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)
Nigel Horne	John Boothman	John Boothman
Colin Tucker	John Stares	John Stares
	Colin Tucker	Colin Tucker

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 Chief Financial Officer, the Chairman of the Company’s Risk Working Group and the external auditors, Deloitte. Furthermore, 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

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

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 weekly 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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STATEMENTS OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Bonuses paid relate to performance during 2010, with the exception of Robert Lawrence, which related to performance during 2009.

There were no changes to the levels of remuneration paid to Non-Executive Directors during 2010.

	Basic Salary/Fees £	Bonuses £	Benefits in Kind £	Total 2010 £	Total 2009 £
Executive Directors					
Graeme Millar	162,347	50,100	-	212,447	-
Geoff Weir	125,000	23,575	-	148,575	131,771
Robert Lawrence	55,093	31,994	-	87,087	233,956
Non-Executive Directors					
John Boothman*	40,000	-	-	40,000	30,000
Dr Nigel Horne	25,000	-	-	25,000	25,000
John Stares	20,000	-	-	20,000	20,000
David Le Quesne	15,000	-	-	15,000	20,000
Colin Tucker	3,333	-	-	3,333	-
John Henwood	-	-	-	-	20,000
Total	**395,463**	**85,264**	**-**	**551,442**	**480,727**

* John Boothman was appointed Chairman on 1st July 2009.

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

	2010 £	2009 £
Graeme Millar	22,923	-
Geoff Weir	17,650	15,109
Robert Lawrence	2,401	21,198

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Independent Auditor's Report to the Members of the JT Group Limited

We have audited the financial statements of JT Group Limited for the year ended 31st December 2010, which comprise of the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated Reconciliation of Movements in Shareholders' Funds, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. If we become aware of any apparent material misstatements or inconsistency we consider the implications for our audit report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31st December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Gregory Branch, BSc, FCA
for and on behalf of Deloitte LLP
Chartered Accountants
St.Helier
Jersey

10 June 2011

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Consolidated Profit & Loss Account for the year ended 31 December 2010

	2010 £	2009 £
Turnover	96,172,755	92,415,888
Costs		
Operating expenses	(66,109,705)	(66,679,532)
Company restructure	-	(6,500,000)
Depreciation	(15,722,778)	(11,846,547)
Amortisation	(443,224)	-
Operating profit	13,897,048	7,389,809
Interest receivable and similar income	40,292	66,465
Interest payable and similar charges	(2,282,010)	(1,800,000)
Profit on ordinary activities before taxation	11,655,330	5,656,274
Taxation	(2,942,326)	(1,688,553)
Profit on ordinary activities after taxation	8,713,004	3,967,721

All the items dealt with in arriving at the operating profit for 2010 and 2009 relate to continuing operations.

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Consolidated Statement of Total Recognised Gains & Losses for the year ended 31 December 2010

	2010 £	2009 £
Profit on ordinary activities after taxation	8,713,004	3,967,721
Actuarial gain / (loss) on 'Public Employees Contributory Retirement Scheme' sub fund	6,370,000	(12,127,000)
Actuarial gain / (loss) on 'Telecommunications Board Pension Scheme'	15,000	(111,000)
Adjustment on deferred taxation on actuarial (gain) / loss	(1,278,000)	2,462,400
Total gains and losses recognised since last annual report	**13,820,004**	**(5,807,879)**

Consolidated Reconciliation of Movements in Shareholders' Funds for the year ended 31 December 2010

	2010 £	2009 £
Profit on ordinary activities after taxation	8,713,004	3,967,721
Dividends	(4,500,000)	(6,425,000)
Actuarial gain / (loss)	6,385,000	(12,238,000)
Adjustment on deferred taxation on actuarial (gain) / loss	(1,278,000)	2,462,400
Net decrease in shareholder funds	**9,320,004**	**(12,232,879)**
Opening shareholder funds	50,719,757	62,952,636
Closing shareholder funds	60,039,761	50,719,757

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Consolidated Balance Sheet as at 31 December 2010

	2010 £	2009 £
Fixed assets		
Goodwill	8,421,259	-
Tangible assets	76,128,714	77,111,273
Investments	10,000	10,000
Other assets	12,460,000	12,545,103
	97,019,973	89,666,376
Current assets		
Stocks	1,691,611	1,919,807
Debtors	14,721,973	13,405,281
Deferred tax asset	986,877	999,936
Cash at bank and in hand	6,338,582	11,404,232
	23,739,043	27,729,256
Creditors: amounts falling due within one year	(19,716,740)	(19,102,518)
Net current assets	4,022,303	8,626,738
Total assets less current liabilities	101,042,276	98,293,114
Creditors: amounts falling due after more than one year	(28,750,000)	(30,500,000)
Provision for liabilities and charges		
Pension deficit	(9,350,400)	(14,456,800)
Deferred taxation	(2,902,115)	(2,616,557)
Net assets	**60,039,761**	**50,719,757**
Capital and reserves		
Called up share capital - equity	20,000,000	20,000,000
Reserves - equity	40,039,761	30,719,757
Total shareholder funds	**60,039,761**	**50,719,757**

The financial statements were approved by the Board of Directors on 5 May 2011 and were signed on its behalf by:

G Millar
Chief Executive Officer

S Hobbs
Chief Finance Officer

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Consolidated Cash Flow Statement for the year ended 31 December 2010

	2010 £	2009 £
Net cash inflow from operating activities	26,329,077	24,288,947
Returns on investments and servicing of finance		
Interest received	40,292	66,465
Interest paid	(482,010)	-
Cash acquired from Ex-Newtel companies	1,020,060	-
Preference dividend interest	(1,440,000)	(1,440,000)
Net cash outflow from return on investments and servicing of finance	(861,658)	(1,373,535)
Taxation	(1,735,906)	(2,538,073)
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(12,318,363)	(10,445,559)
Investment costs	(12,000,000)	(12,545,103)
Receipts from sale of tangible fixed assets	21,200	16,450
Net cash outflow from capital expenditure and financial investment	(24,297,163)	(22,974,212)
Equity dividends paid	(4,500,000)	(6,425,000)
Financing		
Receipt of long-term loan	-	10,500,000
(Decrease) / Increase in net cash	(5,065,650)	1,478,127

Reconciliation of net cash flow to movement in net debt

(Decrease) / Increase in net cash	(5,065,650)	1,478,127
Cash decrease from loan	-	(10,500,000)
Change in net debt due to cash flows	(5,065,650)	(9,021,873)
Net debt at 1 January	(19,095,768)	(10,073,895)
Net debt at 31 December	(24,161,418)	(19,095,768)

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