
STATES OF JERSEY



JERSEY TELECOM GROUP LTD.: ANNUAL REPORT AND FINANCIAL STATEMENTS AT 31ST DECEMBER 2012

**Presented to the States on 2nd July 2013
by the Minister for Treasury and Resources**

STATES GREFFE



Private and confidential

JT Group Limited

**Annual report and financial statements
31 December 2012**

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Business Review

JT Group Limited (the 'Group' or 'JT') continued to perform well in 2012, despite a continued tightening in its operating environment. The Group set a new record annual turnover at £119.7m, which was 11% higher than the previous high set in 2011 (£107.9m). Profit before tax remained at a similar level to 2011, and reflects the current business environment which remains challenging, extra depreciation charges arising from our investments and updated pension cost assumptions. Against the backdrop, JT progressed well with its main strategic objectives, growing its revenue from outside the Channel Islands, completing two important acquisitions, reshaping its customer billing platform, and significantly enhancing both its mobile and fixed networks.

Networks

JT's flagship Gigabit Isles project moved forward significantly in 2012, and it remains on target for the planned completion date of 2016. Two of the three main phases of the project (building the core network infrastructure, and laying fibre-optic cables past all Island premises) progressed well ahead of schedule. The third phase, actually connecting premises to the fibre network, ran more slowly than initially predicted, and JT undertook a comprehensive review of this phase of the project in order to increase its speed over the remaining four years to completion.

Following a two-year network improvement plan, in 2012 JT was able to switch off System 'X', the Island's first local and trunk digital telephone exchange, after 26 years in service. System 'X' has now been replaced by JT's leading-edge digital Next Generation Network (NGN) which is based on Internet Protocol (IP) technology and is providing Islanders with innovative fixed line services, as well as better broadband connections, with many now being able to access speeds of up to 20Mb/s.

Turning to the mobile network, in 2012 JT completed a £500,000 upgrade, and launched broadband speeds in selected areas of Jersey and Guernsey of up to 42Mb/s per second - three times faster than previously available - making it even quicker and easier to access the internet on a mobile device and improving the quality and speed of any downloads or online interactions.

Wholesale

Revenues in this area were 20% ahead of budget and 50% up on 2011 in this key area of development for JT.

In 2012 JT was able to launch the UK's first 'Freephone' Mobile Voice Short Code (MVSC) service across all mobile networks, which offers a mobile-friendly alternative to traditional Freephone numbers. Previously, using a mobile to call a traditional Freephone number, meant having to pay up to 40 pence per minute for the call.

In addition, JT announced a joint partnership with Stream Communications, a renowned M2M (machine to machine) mobile service provider, to launch the first service offering with a true pan-European reach, at an effective price point. JT has a wide-range of roaming agreements across the UK and Europe, so organisations looking to roll out complex M2M projects will only have to deal with one operator to access multiple European networks.

M2M is expected to be one of the most dynamic growth areas for mobile communications, with analysts predicting a 27% compound growth per annum to 2016.

Acquisitions

JT announced the acquisition of Corporate Communications Holdings Limited ('Worldstone'), a global provider of Managed Services including voice, data, network and contact-centre solutions. With a presence and partnerships in more than 110 countries worldwide, this acquisition opened up implementation, management and support facilities for JT customers in the UK and many other global locations across Europe, Asia and the US.

Secondly, one of the Group's companies, ekit.com Inc., added to its range of travel communications services with the acquisition of pre-paid mobile communications provider, Fonepool Inc. Fonepool Inc provides a streamlined method of purchasing mobile phone services for people moving to a new country. It also offers a selection of low cost prepaid SIM cards and mobile services for popular destinations around the world.

As well as building JT's revenues from outside the Channel Islands, this type of acquisition has developed the range of services which JT is able to offer its CI customers. For example in 2012, the earlier ekit.com Inc acquisition enabled JT to offer a new Travel SIM product to help local customers better manage their roaming charges when travelling abroad.

Business Review *(continued)*

People Development

One of JT's strategic priorities is to become a 'Sunday Times Top 100 Companies to Work For', and progress towards this goal continued in 2012 with the launch of a new Employee Forum (a global communications and consultation body) and more flexible working conditions such as career breaks, part-time options and home-working. JT remains absolutely committed to its aspiration to be one of the leading employers in the Channel Islands in terms of employment practices, training and development.

Customer Billing Changes

Through 2012 JT continued with its strategy to make its billing systems simpler for customers to use, such as by incentivising more convenient payment methods like online banking or Direct Debit, and improving the design of bills to make the information easier to analyse.

JT also announced a partnership with the leading payment service provider Payzone, which offers payment terminals located in hundreds of retail outlets across the Channel Islands.

Brand

Following a successful rebranding exercise in Guernsey, in 2012 JT began to trade as a single entity across the Channel Islands. One of the first opportunities opened up by having a single brand was to launch the first Channel Islands telephone directory, with Jersey numbers starting from one side, and those based in the Bailiwick of Guernsey starting from the other. As well as realising the obvious benefits of closer cooperation across the Channel Islands, having a single CI Directory offered new trading opportunities to businesses based in either Bailiwick or both.

In 2012 JT announced that for the next three years it will focus a global fundraising initiative towards supporting the developmental disorder, Autism. It is the first time the Group has not only extended its chosen charity activities from one year to three years, but is also linking all of its global offices to focus on one specific cause, with the Group joining together with leading Autism charities in Jersey, Guernsey, London, Melbourne and Boston.

Finally, in 2012, JT's Chief Executive Officer Graeme Millar was selected by the Jersey branch of the Institute of Directors as its Global Director of the Year, while the HR team won two of the five inaugural awards at the Chartered Institute of Professional Development.

Board of Directors

Non-Executive Directors

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.

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.

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.

Phil Male

Phil Male previously worked for Cable & Wireless, heading the Customer Services, Networks and Operations division, subsequently taking over corporate strategy and running the demerger process that separated out C&W Communications and C&W Worldwide. Phil has previously been the Chief Operating Officer at THUS plc for nine years, a business that he floated on the London Stock Exchange in 1999, at the age of 33.

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.

John Kent – Chief Financial Officer

John joined JT as CFO of the JT Group in February 2012. He is a highly commercial CFO who has spent the bulk of his career working for two large FTSE companies in the utilities sector, Vodafone and British Gas, in financial and commercial leadership roles. Prior to joining JT, John was the CFO for Vodafone Ireland, the €1 billion turnover Vodafone operating company based in Dublin.

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.

Attendance at meetings

Directors are generally provided with the papers for Board and committee meetings one week in advance. During 2012 there was full attendance at all Board and committee meetings.

Board Committees

Membership of the Board Committees varied during the year but as at 31st December 2012, the make-up was as follows:

Audit Committee	Remuneration Committee	Nomination Committee
John Stares (Chairman)	Colin Tucker (Chairman)	Colin Tucker (Chairman)
Phil Male	John Stares	John Stares
Colin Tucker	John Boothman	John Boothman
	Phil Male	Phil Male

Corporate Governance *(continued)*

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 on-going 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.

Executive Committee

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 executive committee, which is a committee chaired by the Chief Executive Officer and made up of senior executives. The executive committee 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.

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 2012.

There were no changes to the levels of remuneration paid to non-executive directors during 2012.

	Basic Salary / Fees 2012 £' 000	Bonuses 2012 £' 000	Total 2012 £' 000	Total 2011 £' 000
Executive Directors				
Graeme Millar	185	65	250	238
John Kent *	140	37	177	-
Geoff Weir	-	-	-	35
Non-Executive Directors				
John Boothman	40	-	40	40
John Stares	20	-	20	20
Colin Tucker	20	-	20	20
Phil Male	20	-	20	8
Dr Nigel Horne	-	-	-	13
Total	425	102	527	374

*John Kent was appointed 23 February 2012.

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

	2012 £' 000	2011 £' 000
Executive Directors		
Graeme Millar	20	24
John Kent	12	-
Geoff Weir	-	4

Report of the directors

Incorporation

JT Group Limited ("the company" or "the group") was incorporated in Jersey, Channel Islands on 22 October 2002.

Group structure

During December 2011 the group was restructured. Prior to this restructure, JT Group Limited, as a holding company, maintained 100% ownership in the following companies:

Jersey Telecom Limited
Wave Telecom Limited
JTG (St Helier) Limited
JTG (St Saviour) Limited
JTG (Parishes) Limited
JTG (External) Limited
JTG (Mast) Limited
Wave Data Services Limited

On 22 December 2011 the assets and liabilities of the following companies were transferred into Jersey Telecom Limited:

JTG (St Helier) Limited
JTG (St Saviour) Limited
JTG (Parishes) Limited
JTG (External) Limited

On 28 December 2011 the assets and liabilities of Wave Data Services Limited were transferred into Wave Telecom Limited.

On 1 January 2011 Jersey Telecom UK Limited, which is 100% owned by JT Group Limited, acquired 100% of the share capital of eKit.com Inc.

The names of Jersey Telecom Limited and Wave Telecom Limited were changed to JT (Jersey) Limited and JT (Guernsey) Limited respectively, on 31 January 2012.

On 1 August 2012, JT Group Limited acquired 100% of the share capital of Corporate Communications Holdings Limited.

On 16 October 2012, Donate Mobile Limited was incorporated as a company. On 2 November 2012, a number of the assets and liabilities of Wyvols Limited were transferred into Donate Mobile Limited and 75.01% of the shares in Donate Mobile Limited were held by JT Group Limited from 2 November 2012.

Gigabit Fieldforce Limited was incorporated as a company, 100% directly owned by JT Group Limited, in February 2013, to provide labour for use in the Gigabit Jersey programme.

The States of Jersey Currency Fund issued 10m 2.5% preference shares to JT Group Limited at £1 each, for use in the financing of the Gigabit Jersey programme. The 10m shares were received in three tranches throughout 2012. As a result of this programme, there have been significant movements in the balances for stock, creditors and debtors for the year ended 31 December 2012.

Principal activities

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

Dividends

Dividends of £5,647,500 were paid during 2012 (2011: £6,100,000).

Report of the directors *(continued)*

Directors

The directors of the group who served during the year and subsequently are:

John C Boothman
John B Stares
Phil Male
Colin Tucker
Graeme Millar
John Kent (appointed 23 February 2012)

Directors and their interests

The directors of the group as at 31 December 2012 had no interests, beneficial or otherwise, in the shares of the group.

Auditor

Deloitte LLP has expressed its willingness to continue in office.

By order of the board



Daragh J McDermott
Company secretary

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and 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 group and of the profit of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 a going concern basis unless it is inappropriate to presume that the group 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 group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of JT Group Limited

We have audited the group financial statements (the 'financial statements') of JT Group Limited for the year ended 31 December 2012, which comprise the consolidated Profit and Loss Account, the consolidated Statement of Total Recognised Gains and Losses, the consolidated Reconciliation of Movements in Shareholder's Funds, the consolidated Balance Sheet, the consolidated Cash Flow Statement and the related notes 1 to 30. 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 consolidated 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 group'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 consolidated financial statements. In addition, we read all the financial and non-financial information in the report of the directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on consolidated financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2012 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 prepared in accordance with the requirements of 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 by the parent company, or proper returns for our audit have not been received from branches not visited by us; or
- the consolidated financial statements are not in agreement with the accounting records and returns; 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

Consolidated profit and loss account
for the year ended 31 December 2012

	2012	2011
	£'000	£'000
Continuing operations		
Turnover	119,661	107,879
Cost of sales	(41,934)	(25,922)
Gross profit	77,727	81,957
Other operating expenses	(60,786)	(64,871)
Operating profit	16,941	17,086
Interest receivable and similar income	1,143	23
Interest payable and similar charges	(3,161)	(2,214)
Profit on ordinary activities before taxation	14,923	14,895
Tax on profit on ordinary activities	(3,008)	(2,649)
Profit on ordinary activities after taxation	11,915	12,246
Equity minority interest	69	-
Profit for the financial year	11,984	12,246

All the items dealt with in arriving at profit for the financial year for 2012 and 2011 relate to continuing operations.

Consolidated statement of total recognised gains and losses
for the year ended 31 December 2012

	2012	2011
	£'000	£'000
Profit for the financial year	11,984	12,246
Currency translation difference	(171)	-
Actuarial gain on Public Employees Contributory Retirement Scheme Jersey Telecom sub-fund	1,994	(314)
Actuarial loss on Telecommunications Board Pension Scheme	(39)	(3)
Adjustment on deferred taxation on actuarial gain	(391)	63
Adjustment on pension obligations	(2,964)	-
Adjustment on deferred taxation on actuarial gain on adjustment on pension obligations	593	-
Prior year adjustment	(196)	-
Total recognised gains and losses since last annual report and financial statements	10,810	11,992


Consolidated reconciliation of movements in shareholder's funds
for the year ended 31 December 2012

	2012	2011
	£'000	£'000
Balance at 1 January 2012	66,101	60,040
Profit for the financial year	11,984	12,246
Equity minority interest	(69)	-
Currency translation difference	(171)	-
Actuarial gain	1,955	(317)
Adjustment on deferred taxation on actuarial gain	(391)	63
Adjustment on pension obligations	(2,964)	-
Adjustment on deferred taxation on actuarial gain on adjustment on pension obligations	593	-
Dividends on equity shares	(5,648)	(6,100)
Prior year adjustment	(196)	-
Net increase in shareholder's funds	5,093	5,892
Movement in translation reserve	(260)	169
Balance at 31 December 2012	70,934	66,101

Consolidated balance sheet
at 31 December 2012

	2012	2011
	£'000	£'000
Non-current assets		
Goodwill	36,227	20,750
Other intangible assets	386	243
Tangible assets	95,466	82,091
Investments	10	10
Deferred tax asset	2,553	2,387
Other assets	572	-
	135,214	105,481
Current assets		
Stocks	7,052	2,345
Debtors	36,676	17,629
Cash at bank and in hand	10,050	6,681
	53,778	26,655
Creditors: amounts falling due within one year		
Creditors	33,455	16,380
Current tax liabilities	1,776	2,495
Borrowings	-	1,750
Deferred revenue	9,206	5,017
	9,341	1,013
Total assets less current liabilities	144,555	106,494
Creditors: amounts falling due after more than one year		
Borrowings	51,000	7,027
Deferred tax liabilities	4,664	3,455
Long term provisions	7,957	9,911
Redeemable preference shares	10,000	20,000
	70,934	66,101
Net assets	70,934	66,101
Capital and reserves		
Share capital	20,000	20,000
Equity reserve	51,025	45,932
Translation reserve	(91)	169
	70,934	66,101
Shareholder's funds	70,934	66,101
Equity minority interests	69	-
	71,003	66,101
Total capital employed	71,003	66,101

The financial statements were approved by the board of directors on 23 May 2013 and were signed on its behalf on 04 June 2013:



G Millar
Chief Executive Officer



J Kent
Chief Financial Officer

Consolidated cash flow statement
for the year ended 31 December 2012

	2012	2011
	£'000	£'000
Profit for the financial year	11,984	17,086
Adjustments for:		
Depreciation	15,559	13,304
Amortisation	1,599	1,081
Loss on disposal of plant, property and equipment	32	72
Equity minority interest	(69)	-
Movement in deferred tax	1,043	-
Currency translation difference	(171)	-
Prior year adjustment	(196)	-
Increase in provisions	(2,761)	307
Operating cash flows before movements in working capital	27,020	31,850
Increase in stocks	(4,707)	(654)
Increase in debtors	(19,620)	(4,594)
Increase in creditors	17,952	5,953
Net cash inflow from operating activities	20,645	32,555
Taxation paid	(2,912)	(2,970)
Interest paid	(711)	(414)
Preference interest paid	(1,430)	(1,440)
Net cash outflow from return on investments and servicing of finance	(5,053)	(4,824)
Capital expenditure and financial investment		
Interest received	33	23
Purchases of plant, property and equipment	(21,353)	(19,254)
Purchases of intangibles	(347)	(243)
Acquisition of subsidiaries	(16,871)	(261)
Net cash outflow from capital expenditure and financial investment	(38,538)	(19,735)
Financing activities		
Dividends paid	(5,648)	(6,100)
Repayment of borrowings	(8,777)	(1,723)
Borrowings from M&G financing	51,000	-
Movement in preference shares	(10,000)	-
Net cash inflow/(outflow) from financing activities	26,575	(7,823)
Increase in cash	3,629	173
Cash at bank and in hand at beginning of the year	6,681	6,339
Effect of foreign exchange rate changes	(260)	169
Cash at bank and in hand at end of year	10,050	6,681