LIVING & WORKING WITH TECHNOLOGY

JT's Annual Review
2016/17

R.80/2017

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JT
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Thanks to all of our local customers that gave words and appeared in photos for this review.

Contents

CHAIRMAN'S FOREWORD

2016… a strong year

2016 was remarkable in many ways. Significant political, cultural and economic upheaval felt potentially confusing and disorientating at times and it is still not clear how major changes like Brexit will affect us all over the long-term. As we all come to grips with these changes on a personal and a business level, we at JT set ourselves the goal of quietly getting on with our jobs. We aimed to make sure that our customers can communicate with the minimum amount of fuss or expense, with reliability, during less certain times.

John Stares
Chairman

"Over 1.2 million JT SIMs worldwide"

A resilient network

In ways this means we try to see ourselves as a means to an end; an enabler for individuals to live their lives however they choose to, and as a partner to help businesses to grow and prosper. Occasionally, that seamless behind-the-scenes connectivity is challenged, such as last November when in an unprecedented event, three out of our four undersea cables linking the Channel Islands to the outside world were cut by a ship's anchor. We immediately informed our customers that there could be disruption to services at peak times. It was certainly a testing period, but the resilience built in our network proved to be a sound investment and any actual impact for customers was kept to a minimum.

I use that example to introduce our review of 2016, as for me, it encapsulates exactly what JT has been doing in serving the Islands for more than 120 years and keeping us connected – internally we describe this and our role as to be; always there, always on, always enabling.

Looking through our customers' eyes

It's also the reason why this Annual Review is a little different to those we have produced before. In this document, we have tried to look at 2016 not from JT's perspective, but through the eyes of our customers. Be it the schools accessing innovative learning resources through the network we provide to them; the grandparents connecting with families overseas thanks to the advanced fibre broadband, the millennials posting photos and videos on social media at an exponential rate; the professionals gaining access to emails and files on the move seamlessly; and the businesses that need to share data quickly, reliably and securely. JT is always here, always working, 24 hours a day, seven days a week, 365 days a year, behind the scenes, serving our community and keeping them connected. What we do is provide services. How our customers use them is what drives us forward.

"Always there, always on, always enabling".

Truly connected Islands

The digital economy is powering up at pace and JT is proud to see that large numbers of new and innovative enterprises, digital providers and connected workers are now able to live and work from the Channel Islands thanks to our superior connectivity. We see how our customers use our technology and this drives and inspires us to keep progressing and keep investing, ensuring that they have the services they need to stay ahead, both now and in the future.

A global reach

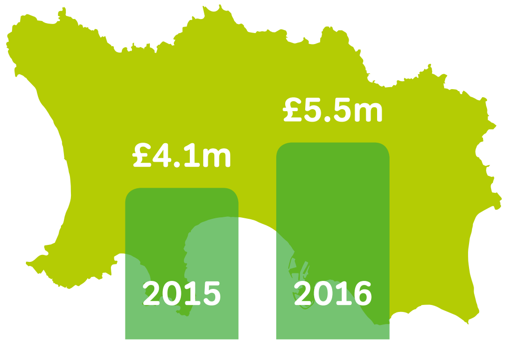
As well as our Channel Island customers, we also now serve an increasing number whom are based beyond our shores, in fact globally. There are now over 1.2 million JT SIM cards connecting devices from heart monitors in Canada to payment systems in East Africa. The 'Internet of Things' (IoT), which allows machines to inter-connect with minimal human involvement, is an exciting growth area for JT and one in which we are already flourishing: as the year closed, we launched the Channel Islands' first Long-Range (LoRa) network. This Annual Review helps demonstrate the relevance and importance of our off-island growth, both in generating new revenues and in bringing new technology to our Islands.

A strong year

Turning to our financial performance (the details follow later in the report), 2016 was a strong year with gross profit rising by 1% to 90.7m, mainly generated by JT's highly successful international machine-to-machine (M2M) business, enabling JT to deliver a substantial dividend back to our ultimate owners, the people of Jersey. The dividend paid to the States of Jersey increased from £4.1m to £5.5m. I would like to thank the team for their hard work in delivering this solid set of results for 2016, which means we have returned another healthy dividend to our shareholder.

JT's international growth is impressive but it in no way means that the company is less committed to our Channel Islands home. On the contrary, growing revenues internationally not only means that we can invest more in our local network, it also means that our shareholder has extra funds to invest in other essential infrastructure and services.

John Stares
Chairman, 12th May 2017



DIVIDEND PAID TO STATES OF JERSEY

CEO'S BUSINESS REVIEW

Graeme Millar
CEO

As we look back on another successful year for JT, it's worth reflecting on our role in the communities in which we operate. Our activities are wide-ranging and complex – however, collectively they all in some way 'enable', by helping our customers to achieve things more efficiently, more cheaply and more quickly. Essentially, that's what the digital revolution is all about, and JT aims to be at the heart of that by enabling our customers to engage with the world around them, however they choose to do so.

Trailblazers

In Jersey, one of the principle ways that Islanders can access digital services is via our fibre network – by the end of 2016 more than 70% of broadband customers were connected to this super-fast and reliable infrastructure. To put that in context, earlier this year I read an article in a national newspaper critical of the fact that just 2% of UK families have a fibre-optic connection directly to their home. By contrast our new fibre network puts Jersey in second place in the whole world in terms of the extent of its fibre connectivity.

JERSEY 2ND IN THE WORLD

Now over **84%** of broadband customers are directly connected to our super-fast fibre network

for percentage of households with a broadband connection connected to fibre

Facts and figures correct at the time of publication.

The end of an era

As we get close to completing our fibre network in Jersey, we also near the end of copper's significant contribution to telephony in the Island. Copper wires have reliably transported our voices, and latterly data, for over a century, but the sun is now setting on this dependable technology. Its replacement – fibre – offers greater bandwidth, speed, security and reliability. And a fibred future will provide even more opportunities for our customers to lead connected lives; in connected homes.

In Guernsey, we're also linking homes and businesses directly to our fibre network. In 2015, we completed a three-year project to connect 46 government buildings to our 50km fibre ring in the Island, and 120 sites to a MPLS Wide Area Network. In 2016, two residential schemes – Royal Terrace and One St Julian's Avenue – were among the first to connect to our network, delivering super-fast speeds of 50Mb, 100Mb and 1Gb fibre-broadband services. Over £11m has been spent locally in this ambitious project so far with the roll-out continuing today.

The end of copper wire-based telephone networks.

The connected home is becoming a reality.

Our connected lives

With every year, developments in technology – and in customer behaviour – confirm our decision to significantly invest in super-fast fibre connectivity. Today, each household in the Channel Islands has, on average 15+ devices connected to the Internet. Most are smartphones, computers and tablets but increasingly also electrical items; from fridges and sound systems to watches and games consoles, all now requiring a fast and reliable Internet connection.

To meet this growing demand, we recently doubled download speeds and significantly increased upload speeds for many of our fibre customers. When we first launched our Gigabit project, lots of people told me that we didn't need it; today, the most common complaint I hear is that we're not rolling out our fibre network quickly enough!

The Islands' fastest network

Alongside developing our fixed networks, 2016 was also a significant year for our award-winning 4G mobile networks. In the first half of the year, we invited all Islanders in Jersey, Guernsey and Alderney to test the speed of their mobile network (JT or otherwise) using Speedtest by Ookla, the world's most popular Internet performance testing service. The results showed that JT's 4G network was the fastest in all three islands, compared with other network speeds logged during the testing period. Our network superiority was further confirmed later in the year when independent testing by Ookla also proved beyond doubt that JT's average network speeds are the fastest in the Channel Islands, both for mobile and broadband. We're proud of this achievement.

As well as allowing our customers to think and act differently, these networks are also allowing JT to continually improve the way we meet our customers' needs.

Officially the Islands' FASTEST NETWORK Speedtest by Ookla verified

JT's Award-winning eGaming Cloud Platform.

New solutions

We all hear a lot about the cloud these days. During 2016 JT made significant progress in launching and developing a range of cloud-based services. All made possible by our advanced networks.

During 2016 we launched an innovative 'Cloud PBX' service for small and medium size businesses which essentially replaces the traditional office phone system.

We also launched cloud-based video conferencing solutions; now offering a real alternative to local travel frustrations.

Whilst further developing our eGaming services, again hosted in our cloud, we enabled local and global customers opportunities to grow and develop their services. In recognition of this JT's eGaming Cloud platform won 2 major UK awards during 2016.

International growth

That international success is a good example of the work done by JT's Wholesale division in 2016 to grow beyond our own shores, so that we can invest these revenues back into our home Islands. For example, JT SIM cards now power over 1.2 million devices, across the world.

That area of JT grew by 29% over the period. A particular focus for this team is the Internet of Things (IoT), which is not only an exciting, emerging global technology, but also allows JT to utilise the 600+ roaming agreements we have with other operators around the world.

Another way we deliver international growth is by pushing forward with one of our key strategic priorities, to become, '...the partner of choice for global telecoms innovation.' In 2016, we signed an agreement and invested in Danish company NeoConsult who specialise in IoT software that enables us to offer JT services globally. By combining JT's connectivity with their innovative NOMAD platform, complicated processes can now be easily automated, saving businesses significant amounts of time and money.

+1,200,000

devices connected by JT SIM cards worldwide

29%

growth of our wholesale business in 2016

Environmental monitors using LoRa network.

Internet of Things

Closer to home, the IoT is enabling JT to offer new communications technologies to its customers, which don't require an Internet or mobile connection. JT's new LoRa wide area network was recently installed and completed in Jersey making it the FIRST in the Channel Islands of its kind. It allows devices to share data securely using low frequency radio waves. The network will enable the development and use of devices such as environmental monitors, pollution sensors, 'smart' collars worn by livestock, and social care devices to support independent living.

We have worked closely with Digital Jersey to develop our IoT technology offering and are now actively seeking companies interested in the developments to come to Jersey and use our LoRa network as it is the first of its kind in the Channel Islands.

Round-up

JT is owned by the people of Jersey, and that really means something to us. For example, the issues we had a few years ago with our new billing system are very well documented – but what sometimes goes unnoticed is that we now get fewer queries from our customers about their bills than at any point since we have been measuring that statistic.

One of the main reasons we have been able to achieve this, is the feedback we received from customers about what they wanted to see – we listened carefully to those comments, and have now delivered a system and significant improvements which, we believe, is doing what our customers want it to.

But improvement is a continual process, and we know we can always do better, we have to keep moving forward. Our customers are also our owners, and so we will continue to listen to their views on what we need to do to get better – thankfully, they aren't shy in letting us know!

We work in an intensely competitive business, within a sector which is rushing forward at a dizzying pace. It's exciting and challenging in equal measures, and that means we won't always get everything right – but where we can do better, we will, and that's a commitment which my team fulfils every day.

Our work at home and abroad during 2016 enabled Channel Island businesses and residents to remain engaged, informed, competitive and, above all, connected. It was also a year of investment in our people and our systems, diversification, relationship-building and substantial development for JT. None of this would have been possible without the dedicated team here – which I'm very proud to be a part of.

Graeme D. Millar

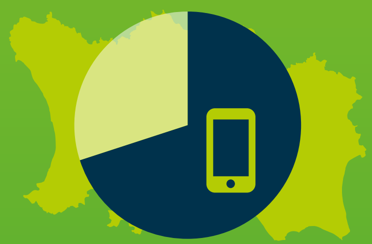
Graeme Millar
CEO, 12th May 2017

We continue to put customers at the centre of everything we do

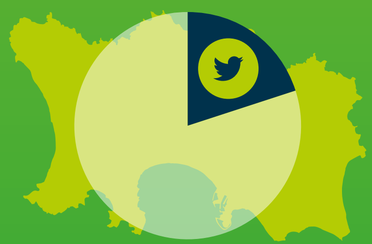
HOW YOU COMMUNICATED IN 2016

JT is proud to have put Jersey and the Channel Islands on the digital map and Jersey now sits second in the world when it comes to the percentage of households with fixed broadband connected to fibre.

9 out of 10
Islanders have access to the Internet.



70% access
the Internet via a smartphone.



20% of people
in Jersey now use Twitter

According to States statistics[1], nine out of ten Islanders have access to the Internet and of those that do, almost 70% of us access it via a smartphone, a 10% increase compared to 2013. Our use of social media is also on the rise – 20% of people in Jersey now use Twitter, for example.

Jersey is, of course, part of a global movement that won't stop and won't be slowing down. A recently published review of worldwide trends[2] found Internet penetration increased by 10% over 2016 to hit 3.8 billion, or 50% of the world's population. Global social media use increased by 21% in just ONE year, reaching 2.8 billion users globally, while mobile social media use increased by 30% to surpass 2.5 billion users globally, with 91% of social media users accessing it from their smartphones.

Of course those statistics translate into massive and growing volume for the Islands providers to carry and support. This is why it is pleasing when the industry and other professional bodies tell us JT's 4G networks are officially the fastest in both Islands, giving customers super-fast download and upload speeds on the move to do all this. And now we're ranked second for global fibre connectivity in official ranking tables; but that only matters to us when it enables our customers to connect faster and more reliably. So those are some of the facts/trends, what are the real stories behind this?

[1] States of Jersey Opinions and Lifestyle Survey 2016
[2] Hootsuite / We Are Social Digital in 2017

Here are four JT customers telling THEIR story; these are the people who we support, they are the reason we strive to better our network. This is what drives our people.

DOMESTIC FIBRE BROADBAND & LANDLINE

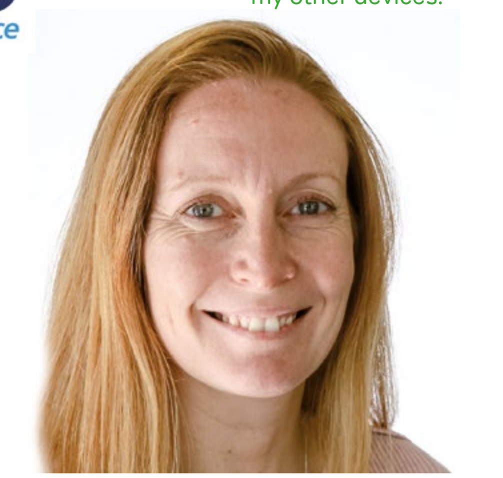
Dave Crocker, JT customer since 2000, is a keen photographer. Fibre broadband is essential for him to be able to edit and upload his photography.

"JT's super-fast fibre speeds and reliable connections means I can upload picture galleries seamlessly, whilst my family are all online at the same time."

PROFESSIONAL BROADBAND

Anna Philpot, a JT customer since 2010, is a Senior Consultant at C5 Alliance using JT's network both in the office and on the go.

"As an IT developer, I need to have access to high quality broadband at all times. At C5 Alliance, I rely on JT Broadband to access software in the cloud and to remote access clients' systems. When I can't access Wi-Fi on a client site, I can use my 4G handset as a hotspot for my other devices."



4G MOBILE SERVICES

Danielle Barnett, a mobile small business owner has been a customer of JT's since 2016.

"JT's super-fast 4G is actually faster than my office broadband, which makes working outside an easy choice!"

FIBRED SCHOOLS

Rory Steel, Assistant Headteacher at Beaulieu Convent School, has overseen the implementation of campus wide Wi-Fi and JT Fibre Broadband, both of which have transformed the way that teachers deliver content to their pupils.

Rachel Huelin, a pupil benefiting from these services, said:

"I love being able to work anywhere, any time. I've been able to take advantage of the weather when it's nice or find a quiet spot when I need to concentrate. It has really helped my studies."

THE CHANNEL ISLANDS' TOP 10 DIGITAL STATS OF 2016

See how vital being connected has become to Channel Islanders with this round-up of the ten biggest tech trends of last year.

The most downloaded programme in Jersey was:

THE GREAT BRITISH BAKE-OFF

The most read online newspaper was:

DAILY MAIL

The most searched for individual was:

DAVID BOWIE

The most popular app downloaded was:

SNAPCHAT

The Channel Islands' tech device of choice was the

iPHONE,

with more units per head than any other country.

In 2016 the average Islander spent

303 HRS

ON FACEBOOK

Our FitBit wearers took around

697,880,000

steps in 2016.

The most popular day for online shopping on the JT network was:

18TH DECEMBER

We use a whopping

+31,000,000 MB

of data a week on JT's 4G network. That's the equivalent of streaming Netflix for 30,000 hours a week!

15

that's the average number of devices per household in Jersey connected to the Internet.

AND JT HAVE PROUDLY POWERED ALL OF THIS

A DAY IN THE LIFE OF YOU

The Internet of Things and constant access to smart devices means technology touches more areas of our lives than we might think. It's amazing to see just how many parts of an average person's day could rely on our access to the Internet.

6.30AM

Woken by my trusty Smartphone alarm, giving me plenty of time to sort that hair out.

7AM

Weather app says sunny. Now where did I leave my shades?

8AM

Early morning Bieber sing-a-long thanks to Spotify and phone to car connectivity.

9AM

Sweet! Work research project done at superfast speed thanks to fibre broadband. Now time to update my LinkedIn profile. Tick.

12.30PM

WhatsApp the gang, meet at Oyster Box for lunch, Snapchat our salads #foodenvy #healthygirls #hiddenfromshot chocbrownies

5PM

Late leaving work. Thankfully with my Nest app I can put the lights on ready for when my girlfriend gets home.

6PM

YESSSSS! Fitbit tells me 14,567 steps taken = equivalent of climbing the Eiffel Tower, twice. Best not share yesterday's couch day!

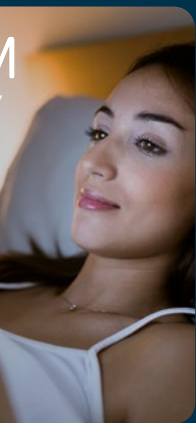
I was awesome today!

7PM

Google brings up a cracker of a fish pie recipe for dinner. Think I'll Skype the kids in Melbourne and share it.

8PM

Mountain of popcorn, yay. Downloaded 4K version of Kung Fu Panda double yay! #Kungfoodeating



10.30PM

Smart Home security set. Snuggling in for the night.

2016

WHAT WE LEFT BEHIND AND WHAT WE'RE LOOKING FORWARD TO

With Brexit and a surprise win for Donald Trump, 2016 may be remembered more for political rather than technological change; however we still saw the first reusable rocket land back on its platform, the Amazon Echo launching in Europe, and drones became affordable ... and ubiquitous. We read much about driverless cars and a lot about Siri and her clones. So here's our top 6 movers and shakers in the tech world and how JT is working to make tomorrow's tech today's reality in the Channel Islands.

Bye bye copper

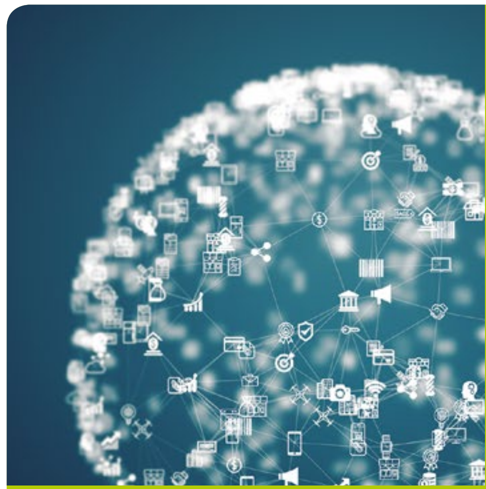
As new technologies arrive, so old ones are left behind. In 2016, we continued to replace the miles of underground copper wires, which have reliably carried our voices for over a century, with fibre-optic cables. It also means that the digital transmission of voice, video, data and other network services over the copper-based circuits of our public switched telephone network is also coming to an end. The ISDN standard will soon be phased out in Jersey and our accumulated knowledge and experience in achieving this is already being extended to our UK business, which is years behind Jersey in this respect.

Desk phones out : Apps in

We are also seeing traditional on-site private branch exchanges being replaced by cloud-based services, particularly in the SME sector. Up to now, businesses have usually hosted their own telephone exchange and had an agreement with a service provider, such as JT, who would dispatch an engineer to make changes and fix problems. The introduction of fibre, however, brings with it new possibilities, particularly services hosted and managed in the cloud. In 2016, JT launched its own Cloud PBX system to offer an affordable and efficient alternative to the bulky on-site exchange.

Paper out : eBills in

In 2017, we also updated the way that our customers receive and pay bills, to make sure that billing reflects changing behaviour. The majority of JT customers now pay their bills via Direct Debit and customers are increasingly opting to save paper and sign up to receiving their bill online or via email. This is straight forward, cost-effective and environmentally friendly.
As numbers choosing this free option have grown, the cost of sending paper bills to a diminishing minority has increased, so - following most telecoms providers and utilities in the British Isles – JT has introduced a small charge for all new customers or those changing services for paper bills and non Direct Debit payments.



World Wide Web out : Internet of Things in

Gartner Group are predicting that by 2020 there will be 50 billion things connected to the Internet! JT has over 600 roaming agreements, which allow our customers to access other networks. We are a global operator but a relatively small one, which means these agreements can provide us 'spare' capacity. Utilising this capacity we are able to facilitate the Internet of Things (IoT) which is essentially devices talking to each other using various connectivity types - e.g. cellular. IoT is an exploding market but only JT's solution based on 'Open Roaming Connectivity' allows customers to always have connectivity wherever they are. A real-life example is Wiltshire-based Tarrant Refrigeration, which develops and deploys remote wireless sensors for cooling tanks and vats in the dairy industry. These sensors use JT SIMs to transmit mission-critical data related to the temperature, volume and chemical health of the contents of the vat to a cloud-based application that is accessible by Tarrant's customers.

The real-time data transmission is important in complying with the regulatory requirements associated with dairy production. Tarrant currently uses this technology in New Zealand and the UK, and it is scheduled to launch in the USA this year. The firm's Managing Director, Andy Tarrant, says: "The JT solution is a vital component of our offering. In addition to their SIM management platform, JT offers global connectivity which simplifies our business development and distribution strategy."

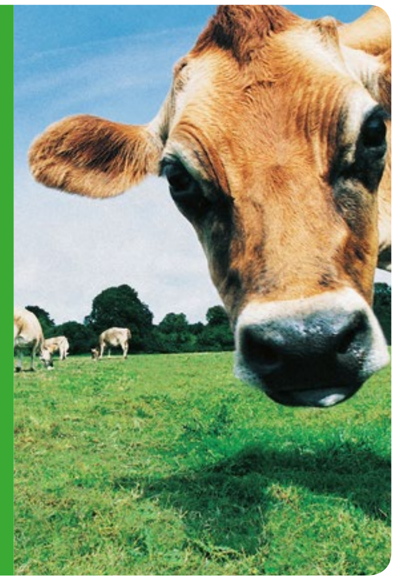
IoT is exploding. With over 1.2 million JT SIM cards connecting devices worldwide, from heart monitors in Canada to payment systems in West Africa, JT are a global leader.

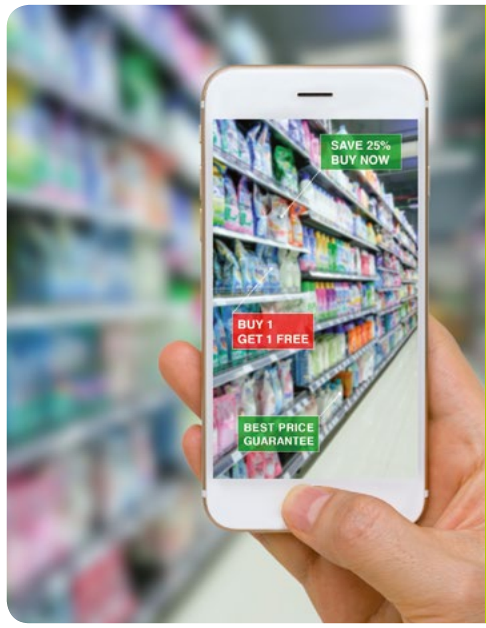
Jersey Royals to smart cows: How LoRa will change the world

DIGITAL JERSEY

Early in 2017, JT launched the FIRST LoRa (Long-Range) network in the Channel Islands, in partnership with Digital Jersey. This is a low frequency Wide Area Network, which carries very low amounts of data but it is particularly useful for things like smart agriculture. Take cows, for example. You can put a SIM collar around a cow, which will be connected back to JT or the farmer. From that, you can tell whether the cow is in oestrus or not, where the cow is, whether it's grazing or sitting down. WOW just think of the possibilities this 'e-cow' will give us in making production more efficient.

Jersey and Guernsey are already famous for their cows but it would be great if we became famous for our technological innovation too. Utilising Digital Jersey's network of contacts and marketing expertise, we also expect that Jersey's LoRa network will be used by other operators to test their own IoT technology. Meaning that Islander's will be among the first people in the world to experience – and benefit from - the next generation of Internet technology.





AI / AR / VR / VC : If you can shorten it, you'll be hearing about it.

Augmented reality reached global prominence in 2016 when Pokémon Go was launched with much fanfare – we even saw our beaches littered with blank expressions from gripped Pokémon hunters. AR, a sibling to virtual reality, is technology that overlays images or information onto the real world through a camera lens or a headset. Many technology leaders, including Apple CEO Tim Cook, see huge potential for AR, predicting that many of us will eventually have AR experiences on a daily basis. It is anticipated that AR will be primarily mobile and have a significant impact on marketing. Retail AR marketing is already happening and can involve anything from virtually trying on clothes, to seeing what furniture looks like in your home before you buy it. It can even be as simple as a consumer walking down an aisle with their phone and scanning products to learn more about them. Ditto VC; video conferencing has been a nice-to-have feature for most businesses, but not essential. However with the significant developments in video equipment, a day's meeting can now be held seamlessly over real-time video, both from the office and remotely. JT is actively saving businesses time and money.

WHERE WE ARE AND WHO WE LOOK AFTER

In 2016, JT continued to grow outside of the Channel Islands by expanding our business reach and portfolio and growing our international customer base. By working with our existing, world-leading, global partners and providers, and our new strategic partnerships in niche and innovative services, we have both the scope and reach to deliver truly world-class solutions across the globe.

During 2016 we were proud to see these achievements recognised by being awarded a number of leading industry awards. And more importantly through feedback and positive testimonials from our customers. This effort and progress on our international growth all has one purpose; to allow JT to reinvest back in our Islands, our home. Both in providing our people with employment, but also providing the opportunity to deliver world-class infrastructure like our 4G network and the Gigabit Islands project now nearing completion.

m-HEALTH

Sandy Schwenger, CEO: "The main attraction for us in contracting with JT was the personal service on offer. Typically, global telecommunications firms are very large companies, and so it can be more difficult to build a strong relationship with someone who will always be available to look after you. In our business, that sort of personal care is essential."

TELCO CLOUD FORUM AWARDS

JT picked up the 'Best Go-to-Market Cloud Strategy Award' in the inaugural Telco Cloud Forum Awards in May. Proving the strength of the JT Cloud against other big players in the field.

NEOCONSULT

2016 new partnership

NeoConsult is at the leading edge of developing telecommunications software systems and provides us with a wealth of expertise in our growing IoT business.

WORLD COMMUNICATION AWARD

JT were short-listed, against global telecommunication giants, in what is the world's largest communications awards. Our IoT proposition was highly regarded and recognised as one of the best in the business.

ENERGOUS

2016 new partnership

Energous Corporation is a forward-thinking global innovator enabling wireless charging for electrical devices world-wide.

OOKLA

JT's mobile and broadband network was recognised by Ookla as the fastest in the Channel Islands.

Officially the Islands' FASTEST NETWORK Speedtest by Ookla verified

TANGO NETWORKS

2016 new partnership

Tango Networks and JT are working in conjunction to launch JT Mobile Bridge – a forward-thinking mobile communication solution to help large multinational enterprises with full policy control across their mobile estate.

RESOLUTION IT

Olly Duquemin, MD: "The move to JT for our business mobile contract has enabled us to better manage our mobile costs. We have been really impressed with the speed, reliability and coverage of JT's network which is enabling our team to stay connected and conduct their work from wherever they are."

KARL TAYLOR PHOTOGRAPHY

Karl Taylor, MD: "Right from the start JT's customer service was exceptional. They kept us in the loop of what would be required, how it would be installed and it was all done in a quick time scale. Our new live educational platform has opened up a completely new revenue stream that will allow us to grow, and that wouldn't have been possible without JT."

KRAFT HEINZ

Francesco Tinto, Global CIO: "We were very attracted to the truly unique and industry-leading solutions that JT offers and it was evident that their approach to tailor solutions to meet our business needs would enable us to achieve our objective of consolidating our systems and improving connectivity for our staff."

M2M

JT M2M are working with partners to provide African Enterprises connectivity across a whole range of devices.

Our long-standing global partners:

MITEL, dimension data, Hewlett Packard Enterprise, AVAYA, CISCO, radware

HOW WE GOT INVOLVED

SUPPORTING OUR COMMUNITIES

In 2016 we raised over £25,000 for our chosen charities, Friends of SCBU in Jersey and PPBF in Guernsey. We also worked with local primary schools to recycle 8,312 telephone directories, collected over 50 boxes for the homeless at Christmas, proudly sponsored National Coding Week for the third year, helped Autism Jersey raise £15,000 from their charity golf day, welcomed celebrities to Herm for the Lord's Taverners annual Summer Celebrity Cricket weekend and sponsored IoD seminars in both Jersey and Guernsey.

The Lord's Taverners annual Summer Celebrity Cricket weekend, held on Herm, raises funds for worthy sporting projects in the local community.

JT employees adding items to the collection box for the homeless, with over 50 boxes being delivered across the Islands to local shelters in time for Christmas.

The JT sponsored Autism Jersey Charity Golf Day, held at La Moye Golf Club, raised £15,000 for the charity.

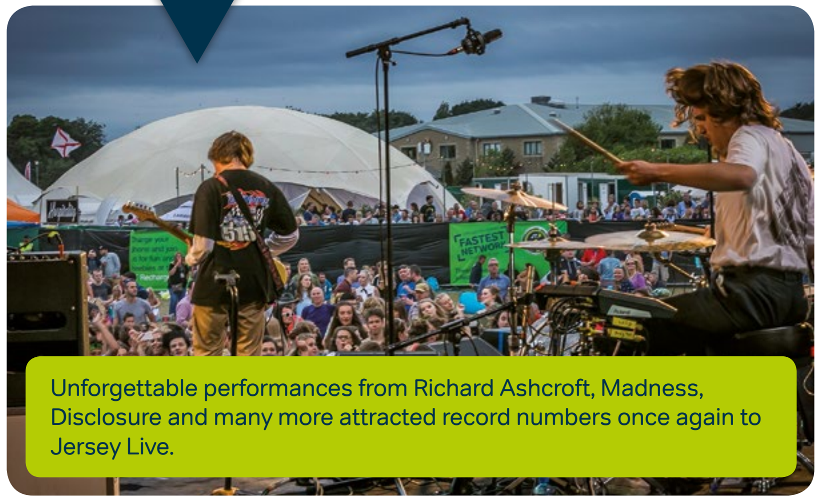
Pupils from St Luke's who, with the support from parents, teachers and others in the community, collected 2,250 directories, the most collected this year by any school.

Friends of SCBU and staff from Jersey's General Hospital with the state-of-art portable heart rate monitor to be used in antenatal to monitor the fetal heart rate, which was bought with the funds raised by JT.

JERSEY LIVE
JT
2016

"We would like to express a MASSIVE thanks to all of the people and companies that have been involved from the start and have shown great support in helping Jersey Live become the Island's signature music festival over the past 13 years."

Warren Le Sueur



Unforgettable performances from Richard Ashcroft, Madness, Disclosure and many more attracted record numbers once again to Jersey Live.

JT proudly supported the Cobo Bay Balcony Gigs once again in 2016, providing free music events throughout the entire summer.

JT extended its commitment to bringing live music events to Guernsey by supporting The Gathering, a three-day festival showcasing local musicians.

THANK YOU FOR THE MUSIC

JT was proud to provide Islanders with a full Summer of Music in 2016, consisting of 42 live music events spanning the entire summer, including over 1,500 free tickets given to our customers.

OUR PEOPLE, THEIR CUSTOMERS

We now employ over 600 people around the world, with a shared goal; to support our customers' needs to the very best of our ability. Some of our people and their customers best explain what this means and what 'delighting our customers' really means to them.

"Being a small business owner I need a reliable broadband connection, which works seamlessly which is why I choose JT. I don't have an in house IT team so that reliability is key for my business's success."

Jay Biswajit is the owner of Eyecare Opticians and has been a JT customer for nine years.

Jarrod Guilliou

Jarrod Guilliou is based in our Guernsey shop and is a Senior Sales Advisor. He works daily being the face of JT and works with our customers, making sure their wants and needs are fulfilled, and their questions are answered.

"Working with local businesses like Jay's is rewarding because I can see the real difference that JT makes to his business and his own personal connectivity needs"

THE RETAIL STORE EXPERT

THE STAFF ENGAGEMENT CHAMPION

Christophe Chateau

Christophe Chateau is JT's Head of Staff Engagement, he works energetically to help encourage the whole company's fundraising efforts each year in support of our chosen charity.

"Every year I am bowled over by the massive efforts of JT people to support our partner charities. Striving to make a positive difference is part of JT's culture and this extends to the enthusiasm my colleagues show in their energy for fundraising."

"JT's fantastic contribution will help make our plans a reality."

Andy and Jo Priaulx, founders of the Priaulx Premature Baby Foundation (PPBF)

"Jersey has one of the fastest fibre networks in the world which is certainly something worth shouting about as a business."

Alex Belcher, Managing Director of No 3 Forum. A JT customer for 3 years.

Paul Sharkey

Paul Sharkey, is one of our Account Managers who works with a variety of small and medium sized businesses in Jersey.

"JT is a forward thinking, dynamic company with a tradition for providing great customer service. Having been with JT for ten years now, I believe we make a difference to our customers by providing expert advice and delivering true value."

THE BUSINESS ACCOUNT MANAGER

THE BILLING EXPERT

Monzoor Ullah

Monzoor started life at JT working within our retail team. It is this experience that has given him the passion for exceptional customer service. He has now progressed to become a billing specialist working to improve the billing process for our customers.

"We strive to listen to our customers to be able to make their billing as clear and informative as possible. It's great to be a part of the team that makes positive changes, with the customer in mind. We've introduced multiple billing and Direct Debit dates and new ways of managing bills such as the FREE JT My Account App, meaning that customers can be in control and keep track of their usage and spend".

"The JT app has made keeping on top of my bill simple, it's clear to use and helps me keep track of my usage."

James Linder, a user of the JT My Account App and customer of JT's since he moved back to Jersey, 2 years ago.

PERFORMANCE REVIEW

How are we doing?

Revenue is obtained through providing telecommunication services to consumer, enterprise and wholesale customers: fixed access charges and network usage, mobile airtime usage, messaging and data services, interconnection and roaming revenue, broadband rentals and usage, private circuit rentals, equipment and M2M sales and maintenance, support and managed services of hardware and software.

As planned, we have generated more margin from our wholesale off-island M2M business, offsetting declines in local fixed and low margin wholesale off-island voice business. This has led to a rise in **gross profit** by 1% to £90.7m, with a 3% fall in revenue due to the reduction in off-island voice business.

Headline results

JT Group Limited	2015 £'m	2016 £'m
Revenue	191.6	185.0
Gross profit	90.1	90.7
Operating profit	10.2*	11.7
Profit on ordinary activities after taxation	3.6*	6.0

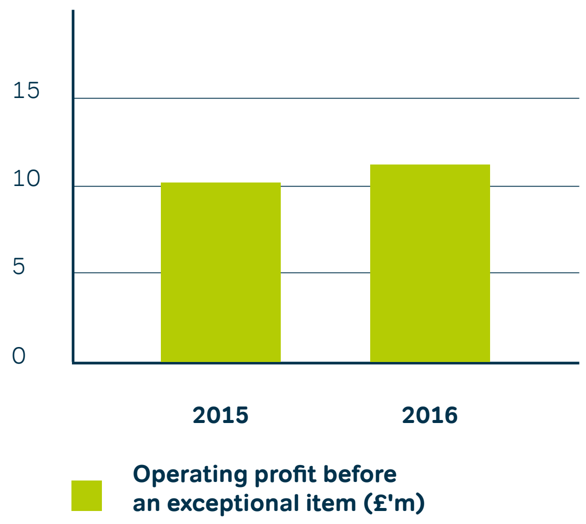
* Results adjusted to exclude an exceptional item explained in note 1

Operating profit before an exceptional item (note 1) was £11.7m (2015 £10.2m). This increase was mainly due to improved margin, a reduction in bad debt and depreciation charges offset by negative foreign exchange losses following the Brexit referendum.

Profit on ordinary activities after taxation was £6.0m. This is an increase versus 2015 after adjusting for an exceptional item (note 1).

Note 1: 2015 operating profit includes an exceptional item, which was the result of the change to the arrangements of the Public Employees Contributory Retirement Scheme ("PECRS") whereby the group's pension assets and liabilities were transferred out of the sub-fund to the main scheme, administered by the States of Jersey, with effect from 1 October 2015. From this date the scheme has been accounted for as a defined contribution scheme. The accounting impact of this change was a net increase to 2015 profit on ordinary activities before taxation of £10.9m, with associated deferred tax of £2.1m.

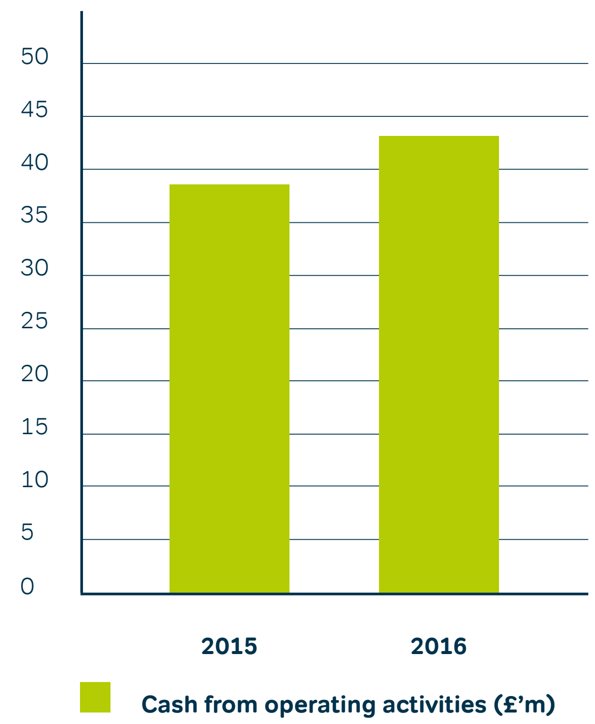
Operating profit before an exceptional item



Net cash flow from operating activities increased by 11% to £43.3m

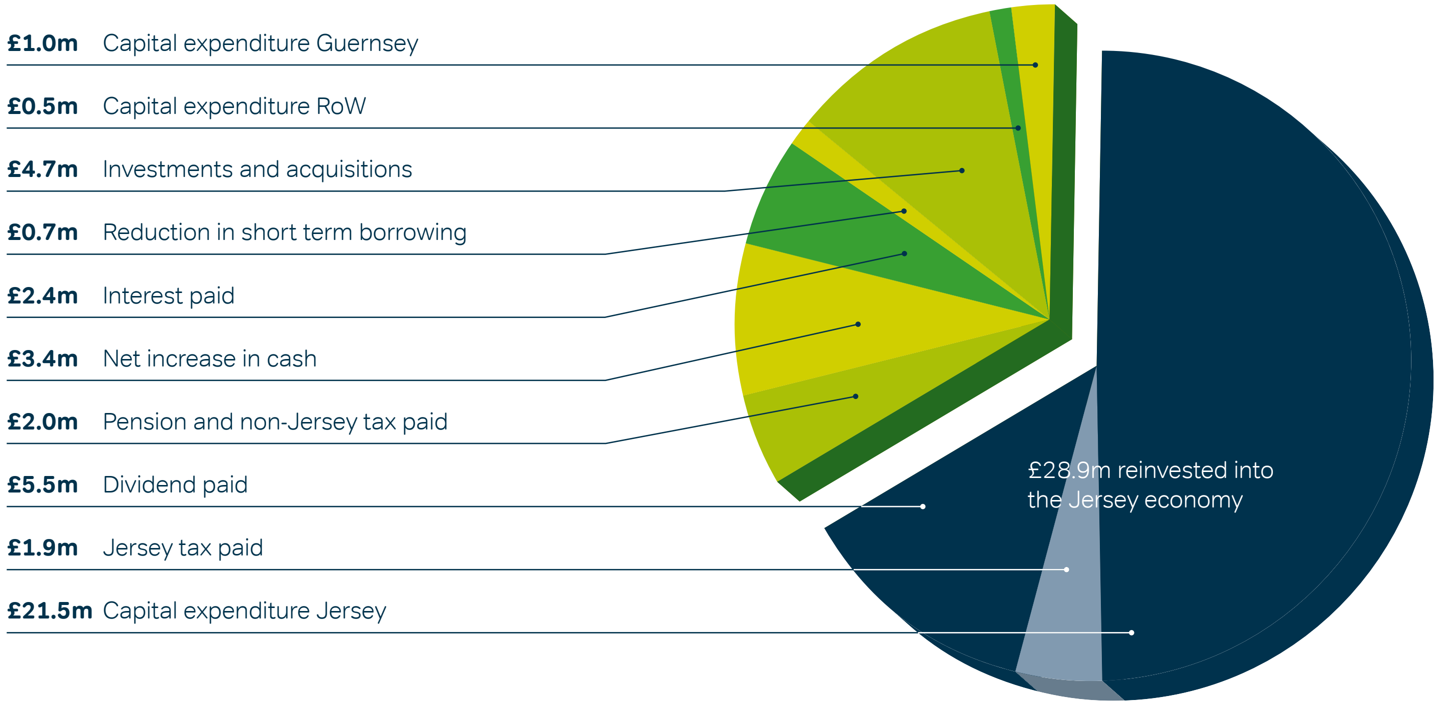
- £22.8m (2015: £24.0m) was used on capital expenditure, equivalent to 12.3% (2015: 12.5%) of revenue. This includes expenditure on Gigabit Jersey and JT's purchase of its No. 1 The Forum office building.
- £4.7m (2015: nil) was used towards the investment in shares in Energous Limited, a US listed company specialising in wire-free charging, and a 20% shareholding in Nomad IP ApS and Neoconsult ApS, a Danish based software development company.
- £7.6m (2015: £6.1 m) was paid to States of Jersey as corporate tax, preference interest and dividends. The current year dividend payment of £5.5m (2015: £4.1m) included a special dividend.
- £0.7m (2015: £3.6m) was used to repay short term borrowings, leaving £14.8m (2015: £10.8m) in cash at bank at year end, £4.0m up year on year.

Cash from operating activities

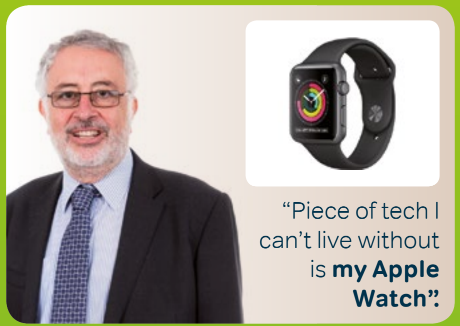


"JT's global success fuels valuable return for Jersey shareholder"

Cash flow



BOARD OF DIRECTORS



JOHN STARES
Chairman

John Stares joined JT in 2008 as a Non-Executive Director. Before 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 during his 15-year tenure as a partner held a wide variety of leadership roles in Accenture's Canadian, European and Global consulting businesses. John is also a Non-Executive Director of INPP and the main Guernsey entities of Terra Firma. Since moving to Guernsey he has also completed a 10-year term as the Managing Director of Guernsey Enterprise Agency and 5/6-year terms as a Non-Executive Consultant to the Ogier Group and a Non-Executive Director of Jersey Electricity and Aurigny Airlines. John is Deputy Chairman of Governors of More House School, a Trustee of NPC and a former President of Rotary Guernesiais. He is a graduate of Imperial College London, a Fellow of the Institute of Chartered Accountants of England & Wales and a Member of the Worshipful Company of Management Consultants.

SEAN COLLINS
Chairman of Audit and Risk Committee

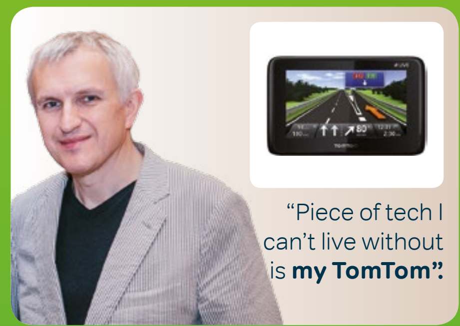
A chartered accountant and a graduate in Classics from Cambridge University, Sean was formerly a senior audit and advisory partner at KPMG, where he had worked since 1972. From 2009 to 2012, Mr Collins was Head of Markets, Asia Pacific, responsible for the firm's business development in the Asia Pacific region. He also led the Global Communications and Media practice for over a decade. Mr Collins has deep and extensive experience of corporate governance, financial reporting and other corporate disciplines, gained during many years as lead partner for a large number of major international clients. He was the Senior Independent Non-Executive Director and Chairman of the Audit Committee of Millennium & Copthorne Hotels Plc until December 2014. Other appointments include member of the Conduct Committee and Case Management Committee of the Financial Reporting Council, Council Member of the Royal Society for Asian Affairs, Governor and Chairman of More House School in Surrey, England. Sean is also a Crown Representative at the Cabinet Office, overseeing the provision of telecommunication services by major suppliers to UK Government.

KEVIN KEEN
Chairman of Remuneration Committee

Kevin Keen has held a wide range of board level positions in Jersey businesses during a career spanning over 40 years. Since 2003 Kevin has specialised in advising or leading local organisations during periods of change. He is currently Non-Executive Chairman of Visit Jersey and is Non-Executive Director of a number of other Jersey based companies. Kevin is a Chartered Director, Fellow of the Association of Chartered Certified Accountants and the Chartered Institute of Management Accountants and holds an MBA from the University of Stirling. He is also a past president of the Jersey Chamber of Commerce.

COLIN TUCKER
Senior Independent Director

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.



GRAEME MILLAR
Chief Executive Officer

Graeme was appointed JT CEO in January 2010. A Cambridge science graduate with a postgraduate engineering qualification, Graeme has over 25 years of telecoms experience. Graeme has worked in countries as diverse as the USA, Russia, Hungary and the Netherlands for companies such as Vodafone and Motorola. 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. In addition to his role at JT, Graeme is also a Non-Executive Director of Wellington Partners Management Limited and is a Fellow of the Institute of Directors.

PHIL MALE
Chairman of Nomination Committee

After obtaining a computer science degree at Imperial College, Phil Male was a founding director of Computer Newspaper Services and became involved in the start-up of Demon Internet (one of the world's first commercial Internet Service Providers), ultimately becoming the Technical Director with responsibility for all operational and development activity. The company was acquired by Scottish Telecom in 1998 and Phil was one of the three founding directors that floated the combined business on the London Stock Exchange as THUS Plc in 1999. Phil became Chief Operating Officer in 2002, and when THUS was acquired by Cable & Wireless Worldwide in 2008, Phil became Group Operations Director, then Chief Strategy Officer and served on the Executive Board, leading the demerger and listing of Cable & Wireless Worldwide Plc in 2010. Phil left Cable & Wireless in 2010 and today serves as a Non-Executive Director on a number of boards, actively investing in new technology businesses, and works in an advisory capacity with a number of institutions in the City.

MERIEL LENFESTEY
Non-Executive Director

Meriel joined JT's Group Board as a Non-Executive Director in 2016. She has experience driving and enabling a shift to customer centricity with forward looking companies across a wide range of business sectors. After receiving her MA in Computer Related Design from the Royal College of Art, spells working at Microsoft in the US and the BBC in London, in 1997 she founded a London-based User Experience Company and grew it to become the UK market leader and globally highly respected. Her work has included tactical and strategic engagements with clients embracing digital transformation across many sectors including Financial Services, Consumer Electronics & Software, Telecoms, Media, Retail, Transport and Public Sector. She is also a Non-Executive Director for several companies including Aurigny locally. She holds voluntary roles with the Institute of Directors and Startup Guernsey.

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 a major part 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. John has a Mathematics degree from Cambridge.

CORPORATE GOVERNANCE

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

The Company adheres to the principles of good corporate governance and best practice set out in the UK Corporate Governance Code 2014 ('the Code') and, in particular, has in place a sound system of internal controls to safeguard its shareholder's investment and its assets.

Directors and the Board

The Board

The Board comprises eight Directors, two of whom are Executive and six of whom are Non-Executive Directors.

The Board has a schedule of regular meetings, normally between six and eight per year, with any additional meetings convened as and when required.

The Board is collectively responsible for the long term success of the Company. This is achieved by setting the overall operating strategy, approving detailed business plans and overseeing delivery of objectives by continually monitoring performance against those plans. The Board establishes the culture, standards and values of the Company. The Board oversees the management of risk, monitors financial performance and reporting and ensures that appropriate and effective succession planning and remuneration policies are in place.

Whilst maintaining oversight at regular meetings of the Board, the day to day operation of the Company has been delegated to the Executive Directors. The Board is supplied with a sufficient level of regular, detailed and timely management information to allow it to discharge its functions efficiently.

Meetings and Committee membership –

During the year, the Board formally met six times. Details of attendance at Board meetings are as follows:

Number of Board meetings in 2016	6
Sean Collins	6
Kevin Keen	6
John Kent	6
Meriel Lenfestey	6
Phil Male	6
Graeme Millar	6
John Stares	6
Colin Tucker	4

Director independence

The Board considers all of the Non-Executive Directors to be independent in character and judgement. In determining independence, the Board considers the specific circumstances of each Director. The Board has concluded that Sean Collins, Kevin Keen, Meriel Lenfestey, Phil Male and Colin Tucker shall be deemed independent, with Colin Tucker adopting the role of Senior Independent Director.

John Stares, as Chairman of the Company, was considered independent on appointment and, in accordance with the Code, is not subject to the independence test thereafter.

Performance evaluation

In order to ensure that the Board continues to operate effectively, the Board and its Committees carry out an assessment of performance across key areas. The results of the performance assessments and appraisals are fed back to the Board as a whole (as appropriate) and action taken accordingly.

Other significant commitments

Under the terms of engagement for each Non-Executive Director, an indication of required hours is agreed that should enable the Non-Executive Directors to discharge their duties to the Company. The level of commitment to the Company has not been impinged by other significant commitments for any of the Non-Executive Directors.

Reappointment

The Executive Directors are not subject to retirement by rotation but they are subject to periods of notice related to the termination of employment, as are other members of the company's Senior Management.

The Company has adopted a policy of requiring Non-Executive Directors to seek re-election after having served a three year term. Non-Executive Directors who have served on the Board for nine years or more are required to retire from the Board and seek re-election on an annual basis.

Directors appointed to fill a casual vacancy must seek formal appointment by the shareholders at the next Annual General Meeting.

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 & 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.

Internal Controls

The Board is responsible for ensuring that there are effective systems of internal control in place to reduce the risk of misstatement or loss and to ensure that business objectives are met. These systems are designed to manage and mitigate (rather than to eliminate) the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has developed and adopted corporate and operational risk registers detailing and risk grading the significant risks faced by the Company. Alongside the register is a process through which the significant risks faced by the business are identified and evaluated on a regular basis and the controls operating over those risks are assessed to ensure that they are adequate.

The process of risk assessment and reviewing the effectiveness of the systems of internal control is regularly reviewed by the Audit Committee, accords with Turnbull guidance and has been in place for the whole of the year, up to and including the date on which the financial statements were approved.

Controls adopted by the Board (or its Committees) to ensure the effectiveness of the systems of internal control include the following:

- The review of the corporate and operational risk and control registers maintained and updated by the Company and of the status of any actions arising from their regular review.
- The receipt of confirmation from Senior Management of the proper operation of controls throughout the period of the review.
- The review and approval during the year of the schedule of matters specifically reserved for its attention.
- The review of reports received from the Audit Committee concerning the findings of the external auditors on the financial statements of the Company and the systems of internal control.

Audit Committee

The Audit Committee currently comprises Sean Collins (Chairman), Phil Male and Kevin Keen. The auditors, Deloitte LLP, and the Executive Directors may also attend the meetings by invitation.

There were four formal meetings of the Audit Committee during 2016, with full attendance at each of those meetings.

The terms of reference of the Audit Committee require it to meet at least twice per annum. Additional meetings may be called where deemed necessary. The Committee is charged by the Board with the following main responsibilities:

- To monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance.
- To provide advice, when requested by the Board, on whether the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for the shareholder to assess performance, the business model and strategy.
- Ensure that arrangements are in place for the proportionate and independent investigation of concerns raised confidentially by whistle-blowers about possible improprieties in matters of financial reporting or any other matters.
- To review and monitor the adequacy, operation and effectiveness of the Company's internal financial and other controls and make recommendations for improvement where necessary.
- To oversee the external audit process and manage the relationship with the external auditors.
- To make recommendations to the Board as to the re-election and remuneration of the auditors at the Annual General Meetings based upon its assessment of the performance of the auditors and giving due regard to their continued independence and any other regulatory or professional requirements.

Review of Financial Statements

To enable the Committee to discharge its responsibilities effectively in respect of the financial statements, a number of processes are in place.

The Committee is briefed by the Chief Financial Officer in advance of the year-end on the significant issues pertaining to the financial statements and how they will be dealt with. These issues are generally focused on the areas of subjectivity in the financial statements (income recognition, pension scheme valuation assumptions and asset valuations), changes in accounting or disclosure requirements and the accounting or disclosure implications of one off events occurring in the year. Where necessary, the Committee considers evidence and independent third party advice on the key matters for consideration. At the year end, the Committee reviews the financial statements and related announcements and considers them in the context of the significant issues identified, the suitability of any key assumptions and the extent that they have been disclosed. The whole process is completed in consultation with the auditors, whose view is sought by the Committee. The Committee also consider, based on their knowledge of the business and issues arising, whether they can advise the Board that the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, the business model and strategy.

Auditor appointment and additional services

The performance and effectiveness of the external auditors is monitored continually and formally considered by the Audit Committee before a recommendation is made to the Board regarding their reappointment. Length of service of the incumbent audit firm, effectiveness of the audit process, the independence and objectivity of the team, the depth and breadth of the audit approach, the level of fees and the quality of the service provided are all taken into account.

The current auditor is Deloitte LLP and following a competitive tender for audit services for the year ending 31 December 2017, the Audit Committee's recommendation that the Board appoint KPMG LLP as the Company's auditors was approved.

The Audit Committee considers the impact of the provision of any non-audit services by the external auditor on the objectivity and independence of the audit. The consideration has regard to the nature of the non-audit work, size of the fee relative to any audit, any potential involvement of the audit team in the work and the longer term effect of the non-audit services on the relationship with the audit firm, including an assessment of their continuing objectivity and independence.

Remuneration Committee

The Remuneration Committee currently comprises Kevin Keen (Chairman), Sean Collins, Meriel Lenfestey, Phil Male, John Stares and Colin Tucker. The Executive Directors, Graeme Millar and John Kent, may also attend the meeting by invitation.

No director is allowed to be party to discussions regarding, or play any role in, the determination of their own remuneration.

There were two formal meetings of the Remuneration Committee during 2016, with full attendance at each of those meetings.

The terms of reference of the Remuneration Committee allow it to meet as and when necessary to:

- Review and determine the level of remuneration of Executive Directors.
- Review and determine the level of remuneration of the Senior Management Team.
- Review periodically the terms and conditions of employment of the Executive Directors and Senior Management Team.
- Make recommendations to the Board on the Company's overall framework of salaried staff remuneration and costs.
- Review and make recommendations to the Board concerning the remuneration of the Chairman.

Nomination Committee

The Nomination Committee currently comprises Phil Male (Chairman), Sean Collins, Kevin Keen, Meriel Lenfestey, John Stares and Colin Tucker. The Executive Directors, Graeme Millar and John Kent, may also attend the meeting by invitation.

There was one formal meeting of the Nomination Committee during 2016, with full attendance at that meeting.

The Committee is primarily responsible for the selection and appointment of the Company's Executive and Non-Executive Directors, as and when required.

The other duties of the Committee include:

- Making recommendations to the Board as to the re-election of Directors under the 'retirement by rotation' provisions in the Company's Articles of Association whilst giving due regard to their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required.
- Reviewing and making recommendations to the Board as to the succession planning for Executive and Non-Executive Directors.
- Regularly reviewing the structure, size and composition, including the balance of skills and attributes required of the Board, compared to its current position and making recommendations to the Board with regard to any changes.
- Keeping under review the leadership needs of the organisation, both Executive and Non-Executive, including succession plans, with a view to ensuring the continued ability of the organisation to operate effectively.

When selecting candidates for potential appointment as a Non-Executive Director, the Committee evaluates the needs of the Company and identifies the necessary skills and experience required by candidates for consideration. The Nomination Committee makes recommendations to the Board taking into account the performance of the candidates at interview, their skills and experience and their ability to meet the specific needs of the Company. Consideration is given to the use of external recruitment consultants and open advertising in the recruitment process. However, this is weighed against the cost of doing so and the specialist needs of the Company as a Jersey-based telecom provider.

It is the policy of the Board to populate itself with Directors who have a diverse range of skills, attributes and backgrounds so that collectively, the Board is appropriately resourced to discharge its duties effectively and meet the changing needs of the business. A wide range of factors are considered in determining the appropriate composition of the Board including but not limited to technical expertise, local market knowledge and experience, independence, length of service on the Board and diversity.

DIRECTORS' REPORT

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

Principal activities
The principal activity of the company and its subsidiaries (the "group") is the supply of telecommunication services and equipment.

The principal place of business is Jersey, Channel Islands.

Results
The results are set out on pages 33 to 38.

The group made an operating profit of £11.7m (2015: £10.2m before an exceptional item*). This increase is mainly due to a decrease in bad debts and depreciation charges totalling £3.9m. Revenue has decreased to £185.0m (2015: £191.6m). At the year end the group's net assets were £92.4m (2015: £90.6m).

The 2015 final and 2016 interim dividends of £3.1m were paid during 2016 (2015: £1.7m). A special dividend of £2.4m (2015: £2.4m) was also paid.

The directors have approved the payment of a final dividend for 2016 of £1.2m (2015: final dividend for 2015 of £1.0m).

Going concern
The group's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposures to price, credit, liquidity and cash flow risk are described in note 3 of the consolidated financial statements.

The group has considerable financial resources together with long-term contracts with customers and suppliers. As a consequence, the directors believe that the group is well placed to manage its business risks successfully in the current operating environment.

Management have prepared a budget for 2017, projecting cash flows and results for the year based on the strategies being followed by the group and have concluded that there is a reasonable expectation that the company and the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and the consolidated financial statements.

***Exceptional item - Pension scheme reorganisation**
During 2015 a change to the arrangements under the Public Employees Contributory Retirement Scheme ("PECRS") was agreed with the States of Jersey. The group's pension assets and liabilities were transferred out of the sub-fund into the main scheme, administered by the States of Jersey, with effect from 1 October 2015. As the group was no longer able to identify its share of the underlying position and performance of the plan with sufficient reliability to measure its share of assets and liabilities of the scheme, the change in the arrangement constituted a "change in accounting estimate". The impact of the change resulted in a write down of the deficit held at the date of change to nil, resulting in a net increase to profit on ordinary activities before taxation of £10.94m. This was presented as a pension scheme reorganisation within the consolidated income statement.

Directors
The Executive and Non-Executive Directors of the group who served during the year and subsequently are:

Non-Executive
John Stares
Phil Male
Colin Tucker
Sean Collins
Kevin Keen
Meriel Lenfestey (appointed 3 March 2016)
Executive
Graeme Millar
John Kent

Directors' interests
The directors of the group had no interests, beneficial or otherwise, in the shares of the group.

Insurance of directors and officers
The group maintains an insurance policy on behalf of all directors and officers of the group against liability arising from neglect, breach of duty and breach of trust in relation to their activities as directors and officers of the group.

Independent auditor
During the year the company undertook an audit tender exercise. Following the tender the directors determined to appoint KPMG LLP as auditors for the year ending 31 December 2017 and a proposal for their appointment will be made at the following AGM.

By order of the board

Daragh J McDermott
Company Secretary
12th May 2017

FINANCIAL SUMMARY

The financial summary presents the main highlights from the 2016 financial statements the group has prepared under accounting standards currently applicable in the United Kingdom and in accordance with Jersey company law. A copy of the detailed audited consolidated financial statements may be obtained via **www.jtglobal.com**

The group financial statements consolidate the financial statements of the company and its subsidiary and associate undertakings as at 31 December each year. The results of subsidiary or associate undertakings acquired or disposed of during the year are consolidated for the periods from or to the date on which control passed.

Consolidated income statement for the year ended 31 December 2016	**2016** **£'000**	**2015** **£'000**
Revenue	184,968	191,647
Cost of sales	(94,275)	(101,583)
Gross profit	**90,693**	**90,064**
Operating expenses	(79,008)	(79,860)
Operating profit before an exceptional item	**11,685**	**10,204**
Exceptional item - Pension scheme reorganisation	-	10,937
Operating profit after an exceptional item	**11,685**	**21,141**
Share of results of associated undertakings	(2)	-
Loss on financial assets at fair value through profit or loss	(8)	-
Profit before interest and taxation	**11,675**	**21,141**
Finance income and similar income	9	16
Finance costs and similar charges	(2,636)	(3,113)
Profit on ordinary activities before taxation	**9,048**	**18,044**
Tax on profit on ordinary activities	(3,020)	(5,648)
Profit on ordinary activities after taxation	**6,028**	**12,396**

Consolidated statement of comprehensive income for the year ended 31 December 2016	**2016** **£'000**	**2015** **£'000**
Profit for the financial year	6,028	12,396
Currency translation difference	768	528
Loss on cash flow hedge instrument	(171)	-
Remeasurements of net defined benefit obligation	(42)	151
Total tax on components of other comprehensive income	8	(30)
Other comprehensive income for the year, net of tax	**563**	**649**
Total comprehensive income for the year	**6,591**	**13,045**
Profit for the year attributable to		
– Owners of the parent	6,028	12,396
– Non-controlling interest	-	-
	6,028	**12,396**
Total comprehensive income attributable to		
– Owners of the parent	6,591	13,045
– Non-controlling interest	-	-
	6,591	**13,045**

FINANCIAL SUMMARY

Consolidated statement of financial position
At 31 December 2016

	2016 £'000	2015 £'000
Fixed assets		
Intangible assets and goodwill	26,645	25,201
Tangible assets	109,224	108,977
Associated undertaking	728	-
Other investments	3,999	-
Deferred tax asset	1,769	1,672
	142,365	**135,850**
Current assets		
Inventories	6,433	8,536
Receivables due within one year	36,333	36,753
Receivables due after one year	2,519	949
Cash at bank and in hand	14,786	10,756
	60,071	**56,994**
Payables: amounts falling due within one year	**(38,169)**	**(31,319)**
Net current assets	**21,902**	**25,675**
Total assets less current liabilities	**164,267**	**161,525**
Payables: amounts falling due after more than one year	(51,000)	(51,000)
Deferred tax liability	(8,169)	(7,442)
Provision for other liabilities	(1,849)	(1,678)
Post-employment benefits	(803)	(773)
2.5% Redeemable preference shares	(10,000)	(10,000)
Total non-current liabilities	**(71,821)**	**(70,893)**
Net assets	**92,446**	**90,632**
Capital and reserves		
Called-up share capital	20,000	20,000
Currency translation reserve	297	(422)
Hedging reserve	(171)	-
Equity reserve	72,320	71,054
Equity attributable to owners of the parent	**92,446**	**90,632**

Consolidated statement of changes in equity
for the year ended 31 December 2016

	Called up share capital £'000	Equity reserve £'000	Hedging reserve £'000	Currency translation reserve £'000
Balance at 1 January 2015	**20,000**	**62,119**	**-**	**(389)**
Profit for the year	-	12,396	-	-
Other comprehensive income for the year	-	649	-	-
Total comprehensive income for the year	-	13,045	-	-
Currency retranslation on foreign operations	-	-	-	(33)
Dividends	-	(4,110)	-	-
	-	8,935	-	(33)
Balance as at 31 December 2015	**20,000**	**71,054**	**-**	**(422)**
Balance at 1 January 2016	**20,000**	**71,054**	**-**	**(422)**
Profit for the year	-	6,028	-	-
Other comprehensive income for the year	-	734	(171)	-
Total comprehensive income for the year	-	6,762	(171)	-
Currency retranslation on foreign operations	-	-	-	719
Dividends	-	(5,496)	-	-
	-	1,266	(171)	719
Balance as at 31 December 2016	**20,000**	**72,320**	**(171)**	**297**

FINANCIAL SUMMARY

Consolidated cash flow statement
for the year ended 31 December 2016

	2016 £'000	2015 £'000
Profit for the financial year	6,028	12,396
Adjustment for:		
Tax on profit on ordinary activities	3,020	5,648
Finance income and similar income	(9)	(16)
Finance costs and similar charges	2,636	3,113
Operating profit	**11,675**	**21,141**
Amortisation of goodwill and intangible assets	6,323	4,858
Depreciation of tangible assets	15,104	18,193
Share of loss and goodwill amortisation in associate	24	-
Loss on disposal of tangible assets	244	153
Provision for bad debts and bad debt write off	519	1,360
Inventory impairment	133	86
Profit on sale of investments	-	(57)
Gain on pension scheme reorganisation	-	(10,937)
Currency translation difference	205	631
Operating cash flow before movement in working capital	**34,227**	**35,428**
Net charge / (utilisation) for provisions	171	(279)
Decrease in inventories	1,970	3,851
(Increase) / Decrease in receivables	(1,669)	1,700
Increase / (Decrease) in payables	8,576	(1,705)
Cash flow generated from operating activities	**43,275**	**38,995**
Taxation paid	**(2,311)**	**(2,129)**
Pension contributions	**(1,619)**	**(633)**
Net cash flow generated from operating activities	**39,345**	**36,233**
Cash flow from investing activities		
Purchase of intangible assets	(3,674)	(145)
Purchase of tangible assets	(19,149)	(23,936)
Purchase of associate	(652)	-
Purchase of equity investment	(4,007)	-
Finance income and similar income	9	16
Return on investments	-	46
Net cash used in investing activities	**(27,473)**	**(24,019)**

Consolidated cash flow statement (continued)
for the year ended 31 December 2016

	2016 £'000	2015 £'000
Cash flow from financing activities		
Dividends paid	(5,496)	(4,110)
Borrowings	(665)	(3,642)
Interest paid	(2,200)	(2,214)
Preference dividend paid	(200)	(200)
Net cash used in financing activities	**(8,561)**	**(10,166)**
Net increase in cash and cash equivalents	**3,311**	**2,048**
Cash at bank and in hand at beginning of the year	10,756	8,741
Effect of foreign exchange rate changes	719	(33)
Cash at bank and in hand at end of year	**14,786**	**10,756**

NOTES TO THE FINANCIAL SUMMARY

The consolidated financial statements are prepared under the historical cost convention and in accordance with Jersey company law and accounting standards currently applicable in the United Kingdom.

The ultimate controlling party of JT Group Limited is the States of Jersey.

Transition to FRS 102

The date of transition to FRS 102 was 1 January 2014, effective 1 January 2015.

Jersey taxation

The tax charge included in the consolidated financial statements is based on a rate of 20%.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the time of the statement of financial position, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the statement of financial position date. Deferred tax is measured on a non-discounted basis.

Deferred tax assets are recognised to the extent that they are regarded as recoverable and that on the basis of available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Tangible assets

Tangible assets are stated at cost net of depreciation and any impairment. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use.

Buildings include freehold and leasehold retail outlets and offices.

The cost of network equipment includes all cable, ducting and transmission equipment extending from the main switching systems to the customers' premises.

Capital work in progress comprises capital projects which are under construction. Once completed, projects are capitalised as separately identifiable assets and depreciated over their estimated useful economic lives.

The costs of tangible assets, less estimated residual value, are written off over their estimated useful economic lives on a straight-line basis as follows:

Freehold buildings	50 years
Leasehold buildings	the term of the lease
Motor vehicles	7 years
Equipment fixtures and fittings:	
Network infrastructure	3-25 years
Other*	5-10 years

*This includes freehold and leasehold fixtures and fittings.

Intangible assets (excluding goodwill)

Intangible assets (excluding goodwill) are stated at cost less accumulated amortisation and accumulated impairment losses. These intangible assets consist of internally and externally developed assets. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives as follows:

Websites and website development	3–5 years
Software, software development and software applications	3–5 years
Software licences	the term of the licence

Business combinations and goodwill

Business combinations are accounted for by applying the purchase method.

The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination.

Goodwill is amortised on a straight line basis over its expected useful life which varies from 5 to 10 years.

Associates

Investments in associates are accounted for using the equity method. Investments in associates are initially recognised at the transaction price (including transaction costs) and are subsequently adjusted to reflect the group's share of the profit or loss and other comprehensive income of the associate. Goodwill arising on the acquisition of associates is accounted for in accordance with the policy set out above.

Financial assets - Investments

Investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price.

Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publically traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Inventories

Inventories are valued at the lower of cost and net realisable value, and accounted for on a weighted average cost basis. Inventories of finished goods includes an amount of £3.3m (2015: £4.5m) held to be used in capital work in progress on tangible fixed assets.

Other provisions for liabilities and charges

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events. Asset retirement obligations and dilapidations are recognised as provisions as a result of the legal obligation for decommissioning costs on mobile site and property leases. These provisions are recognised through the statement of financial position.

Pension and employee benefits

For defined benefit plans, the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of the staff costs. Past service costs are recognised immediately in the income statement.

The company has two defined benefit schemes – the Public Employees Contributory Retirement Scheme ("PECRS") and the Telecommunications Board Pension Scheme ("TBPS").

On 1 October 2015, JT (Jersey) Limited's pension assets and liabilities were moved out of the PECRS sub-fund and into the main scheme, administered by States of Jersey. This is considered to be a multi-employer (benefit) plan as defined by FRS 102.

Under the revised Terms of Admission there is insufficient information available to use defined benefit accounting and, with effect from 1 October 2015, JT (Jersey) Limited has accounted for the scheme as if it was a defined contribution scheme.

This change resulted in the release of the defined benefit liability, held by the group on the statement of financial position from its previous accounting basis, down to nil as at 31 December 2015.

The deficit in the defined benefit plan for TBPS, being the difference between the value of the scheme assets and the present value of the scheme liabilities, is recognised in the statement of financial position.

215 employees of the company are members of PECRS. This has been closed to new joiners since 2011. TBPS has 3 members.

The company also offers employees the JT Group Limited Pension Plan, which is a defined contribution scheme.

Share capital, dividends and redeemable preference shares

The States of Jersey have been issued with 20m ordinary shares at £1 each, authorised and fully paid up. The shares carry a voting right of one vote for each share held.

Dividends of £5.5m (2015: £4.1m) were paid during 2016 to the States of Jersey.

In 2012, JT Group Limited issued 10m 2.5% preference shares at £1 each to the States of Jersey Currency Fund, with interest payable twice yearly.

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JT Group Limited

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www.jtglobal.com

Facts and figures correct at time of publication. June 2017.

PRIVATE AND CONFIDENTIAL

Annual Report and Audited Consolidated Financial Statements 31 December 2016

JT Group Limited

JOIN TOGETHER

Contents

Directors' Report

The directors present their report and audited financial statements.

Incorporation

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

Principal activities

The principal activity of the company and its subsidiaries (the "group") is the supply of telecommunication services and equipment.

The principal place of business is Jersey, Channel Islands.

Results

The results are set out on page 4 to 5.

The group made an operating profit of £11.7m (2015: £10.2m before an exceptional item*). This increase is mainly due to a decrease in bad debts and depreciation charges totalling £3.9m. Revenue has decreased to £185.0m (2015: £191.6m). At the year end the group's net assets were £92.4m (2015: £90.6m).

The 2015 final and 2016 interim dividends of £3.1m were paid during 2016 (2015: £1.7m). A special dividend of £2.4m (2015: £2.4m) was also paid. Further details are included in note 9.

The directors have approved the payment of a final dividend for 2016 of £1.2m (2015: final dividend for 2015 of £1.0m).

Going concern

The group's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposures to price, credit, liquidity and cash flow risk are described in note 3 to these consolidated financial statements.

The group has considerable financial resources together with long-term contracts with customers and suppliers. As a consequence, the directors believe that the group is well placed to manage its business risks successfully in the current operating environment.

Management have prepared a budget for 2017, projecting cash flows and results for the year based on the strategies being followed by the group and have concluded that there is a reasonable expectation that the company and the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and the consolidated financial statements.

***Exceptional item - Pension scheme reorganisation**

During 2015 a change to the arrangements under the Public Employees Contributory Retirement Scheme ("PECRS") was agreed with the States of Jersey. The group's pension assets and liabilities were transferred out of the sub-fund into the main scheme, administered by the States of Jersey, with effect from 1 October 2015. As the group was no longer able to identify its share of the underlying position and performance of the plan with sufficient reliability to measure its share of assets and liabilities of the scheme, the change in the arrangement constituted a "change in accounting estimate". The impact of the change resulted in a write down of the deficit held at the date of change to nil, resulting in a net increase to profit on ordinary activities before taxation of £10.94m. This was presented as a pension scheme reorganisation within the consolidated income statement.

Directors

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

Non-executive

John Stares
Phil Male
Colin Tucker
Sean Collins
Kevin Keen
Meriel Lenfestey (appointed 3 March 2016)

Executive

Graeme Millar
John Kent

Directors' interests

The directors of the group had no interests, beneficial or otherwise, in the shares of the group.

Insurance of directors and officers

The group maintains an insurance policy on behalf of all directors and officers of the group against liability arising from neglect, breach of duty and breach of trust in relation to their activities as directors and officers of the group.

Independent auditor

During the year the company undertook an audit tender exercise. Following the tender the directors determined to appoint KPMG LLP as auditors for the year ending 31 December 2017 and a proposal for their appointment will be made at the following AGM.

By order of the board

Daragh J McDermott

Company Secretary
Date: 12 May 2017

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), including FRS 102 "The Financial Reporting Standards applicable in the UK and Republic of Ireland". 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included in the group's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

We have audited the consolidated financial statements of JT Group Limited for the year ended 31 December 2016, which comprise the consolidated Income Statement, the consolidated Statement of Comprehensive Income, the consolidated Statement of Financial Position, the consolidated Statement of Changes in Equity, the consolidated Cash Flow Statement and the related notes 1 to 29. 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), including FRS 102 "The Financial Reporting Standards applicable in the UK and Republic of Ireland".

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 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 financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our 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 31 December 2016 and of the group's 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 by the parent company; or
- the 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.

Andrew Isham FCA
for and on behalf of Deloitte LLP
Chartered Accountants
St Helier
Jersey

19 May 2017

Consolidated Income Statement

for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Continuing operations			
Revenue		184,968	191,647
Cost of sales		(94,275)	(101,583)
Gross profit		**90,693**	**90,064**
Operating expenses		(79,008)	(79,860)
Operating profit before an exceptional item		**11,685**	**10,204**
Exceptional item - Pension scheme reorganisation	22	–	10,937
Operating profit after an exceptional item		**11,685**	**21,141**
Share of results of associated undertakings	23	(2)	–
Loss on financial assets at fair value through profit or loss	18	(8)	–
Profit before interest and taxation		**11,675**	**21,141**
Finance income and similar income	6	9	16
Finance costs and similar charges	7	(2,636)	(3,113)
Profit on ordinary activities before taxation		**9,048**	**18,044**
Tax on profit on ordinary activities	8	(3,020)	(5,648)
Profit on ordinary activities after taxation		**6,028**	**12,396**

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Profit for the financial year		6,028	12,396
Currency translation difference		768	528
Loss on cash flow hedge instrument	19	(171)	–
Remeasurement of net defined benefit obligations	22	(42)	151
Total tax on components of other comprehensive income		8	(30)
Other comprehensive income for the year, net of tax		**563**	**649**
Total comprehensive income for the year		**6,591**	**13,045**
Profits for the year attributable to			
– Owners of the parent		6,028	12,396
– Non-controlling interest		–	–
		6,028	**12,396**
Total comprehensive income attributable to			
– Owners of the parent		6,591	13,045
– Non-controlling interest		–	–
		6,591	**13,045**

Consolidated Statement of Financial Position

at 31 December 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Intangible assets and goodwill	10	26,645	25,201
Tangible assets	11	109,224	108,977
Associated undertaking	23	728	–
Other investments	18	3,999	–
Deferred tax asset	8(c)	1,769	1,672
		142,365	**135,850**
Current assets			
Inventories	12	6,433	8,536
Receivables due within one year	13	36,333	36,753
Receivables due after one year	13	2,519	949
Cash at bank and in hand		14,786	10,756
		60,071	**56,994**
Payables: amounts falling due within one year	14	(38,169)	(31,319)
Net current assets		**21,902**	**25,675**
Total assets less current liabilities		**164,267**	**161,525**
Payables: amounts falling due after more than one year	15	(51,000)	(51,000)
Deferred tax liability	8(c)	(8,169)	(7,442)
Provisions for other liabilities	17	(1,849)	(1,678)
Post-employment benefits	22	(803)	(773)
2.5% Redeemable preference shares	16	(10,000)	(10,000)
Total non-current liabilities		**(71,821)**	**(70,893)**
Net assets		**92,446**	**90,632**
Capital and reserves			
Called up Share capital	21	20,000	20,000
Currency translation reserve		297	(422)
Hedging reserve		(171)	–
Equity reserve		72,320	71,054
Equity attributable to owners of the parent		**92,446**	**90,632**

The consolidated financial statements were approved by the board of directors on the 8th of May 2017 and were signed on its behalf by:

G Millar
Chief Executive Officer
on 12 May 2017

J Kent
Chief Financial Officer
on 12 May 2017

Consolidated Statement of Changes in Equity

at 31 December 2016

	Note	Called up share capital £'000	Equity reserve £'000	Hedging reserve £'000	Currency translation reserve £'000
Balance at 1 January 2015		**20,000**	**62,119**	**–**	**(389)**
Profit for the year		–	12,396	–	–
Other comprehensive income for the year		–	649	–	–
Total comprehensive income for the year		–	13,045	–	–
Currency retranslation on foreign operations		–	–	–	(33)
Dividends	9	–	(4,110)	–	–
		–	8,935	–	(33)
Balance as at 31 December 2015		**20,000**	**71,054**	**–**	**(422)**
Balance at 1 January 2016		20,000	71,054	–	(422)
Profit for the year		–	6,028	–	–
Other comprehensive income for the year		–	734	(171)	–
Total comprehensive income for the year		–	6,762	(171)	–
Currency retranslation on foreign operations		–	–	–	719
Dividends	9	–	(5,496)	–	–
		–	1,266	(171)	719
Balance as at 31 December 2016		**20,000**	**72,320**	**(171)**	**297**

Consolidated Cash Flow Statement

for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Profit for the financial year		6,028	12,396
Adjustment for:			
Tax on profit on ordinary activities		3,020	5,648
Finance income and similar income		(9)	(16)
Finance costs and similar charges		2,636	3,113
Operating profit		**11,675**	**21,141**
Amortisation of goodwill and intangible assets	10	6,323	4,858
Depreciation of tangible assets	11	15,104	18,193
Share of loss and goodwill amortisation in associate	23	24	–
Loss on disposal of tangible assets		244	153
Provision for bad debts and bad debt write off		519	1,360
Inventory impairment		133	86
Profit on sale of investments		–	(57)
Gain on pension scheme reorganisation		–	(10,937)
Currency translation difference		205	631
Operating cash flow before movement in working capital		**34,227**	**35,428**
Net charge/(utilisation) for provisions		171	(279)
Decrease in inventories		1,970	3,851
(Increase)/Decrease in receivables		(1,669)	1,700
Increase/(Decrease) in payables		8,576	(1,705)
Cash flow generated from operating activities		**43,275**	**38,995**
Taxation paid		**(2,311)**	**(2,129)**
Pension contributions		**(1,619)**	**(633)**
Net cash flow generated from operating activities		**39,345**	**36,233**
Cash flow from investing activities			
Purchases of intangible assets	10	(3,674)	(145)
Purchase of tangible assets	11	(19,149)	(23,936)
Purchase of associate		(652)	–
Purchase of equity investment	18	(4,007)	–
Finance income and similar income	6	9	16
Return on investments		–	46
Net cash used in investing activities		**(27,473)**	**(24,019)**
Cash flow from financing activities			
Dividends paid	9	(5,496)	(4,110)
Borrowings		(665)	(3,642)
Interest paid		(2,200)	(2,214)
Preference dividend paid		(200)	(200)
Net cash used in financing activities		**(8,561)**	**(10,166)**
Net increase in cash and cash equivalents		**3,311**	**2,048**
Cash at bank and in hand at beginning of the year		10,756	8,741
Effect of foreign exchange rate changes		719	(33)
Cash at bank and in hand at end of year		**14,786**	**10,756**

Notes to the Consolidated Financial Statements

1. General information

JT Group Limited (the "company") and its subsidiaries (together the "group") has its principal operations in Jersey. The group also has operations in UK, Australia and USA. The principal activity of the company and its subsidiaries is the supply of telecommunication services and equipment.

The company was incorporated in Jersey, Channel Islands on 22 October 2002 and the address of its registered office is No 1 The Forum, Grenville Street, St Helier, Jersey, Channel Islands, JE4 8P.

2. Statement of compliance

The group financial statements of JT Group Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, ''The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland'' (''FRS 102'') and also in compliance with the Companies (Jersey) Law 1991.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

(a) Basis of preparation

These consolidated financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

Under Article 105 (11) of the Companies (Jersey) Law 1991 the directors of a holding company need not prepare separate accounts (i.e. company only accounts) if consolidated accounts for the company are prepared, unless required to do so by the members of the company by ordinary resolution. The members of the company have not passed a resolution requiring separate accounts and, in the directors' opinion, the company meets the definition of a holding company. As permitted by the law, the directors have elected not to prepare separate accounts.

(b) Going concern

The group's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposures to price, credit, liquidity and cash flow risk are described in the notes to these financial statements.

The group has considerable financial resources together with long-term contracts with customers and suppliers. As a consequence, the directors believe that the group is well placed to manage its business risks successfully in the current operating environment.

Management have prepared a budget for 2017, projecting cash flows and results for the year based on the strategies being followed by the group and have concluded that there is a reasonable expectation that the company and the group has adequate resources to continue in operational existence for the foreseeable future and to meet its obligations as they fall due. Accordingly, they continue to adopt the going concern basis in preparing the annual report and the consolidated financial statements.

(c) Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings together with the group's share of the results of associates made up to 31 December each year. Any subsidiary undertakings or associates sold or acquired during the year are included up to, or from, the dates of change of control or change of significant influence respectively. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities.

Entities, other than subsidiary undertakings or joint ventures, in which the group has a participating interest and over whose operating and financial policies the group exercises a significant influence are treated as associates. In the group financial statements, associates are accounted for using the equity method.

Notes to the Consolidated Financial Statements (continued)

3. Summary of significant accounting policies (continued)

(c) Basis of consolidation (continued)

Business combinations are accounted for under the purchase method. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by the subsidiaries in line with those used by the group. All intra-group balances, income and expenses are eliminated on consolidation.

(d) Foreign currencies

i. Functional and presentation currency

The group financial statements are presented in pound sterling ("GBP") and rounded to thousands. The company's functional and presentation currency is also GBP. Foreign operations are included in accordance to the policies set out below.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate and non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

iii. Translation

The trading results of group undertakings are translated into sterling at the average exchange rates for the year. The assets and liabilities of overseas undertakings, including goodwill and fair value adjustments arising on acquisition, are translated at the exchange rates ruling at the year end. Exchange adjustments arising from the retranslation of opening net investments and from the translation of the profits or losses at average rates are recognised in 'Other comprehensive income' and accumulated in the currency translation reserve in the statement of changes in equity.

(e) Revenue

Revenue comprises the value of network usage revenues, subscription fees, roaming income, equipment sales, directory income and income from maintenance and support services. Revenue is stated net of sales taxes and trade discounts.

The group derives revenues from:

- Fixed monthly access charges and network usage (including revenues from incoming and outgoing traffic). Call revenues are recognised at the time the call is made over the network, whilst rentals are recognised evenly over the period to which the charges relate.
- Mobile telecommunications services earned from usage of the mobile network by the group's customers, subscription fees and interconnect revenue. Post-paid customers are billed in arrears based on usage and usage revenue is recognised when the service is rendered. Revenue for prepaid customers is recorded as deferred revenue prior to commencement of services and is recognised as the prepaid services are rendered.
- Broadband rentals and usage charges. Rentals are recognised evenly over the period to which the charge relates, whilst usage charges are recognised when the service is rendered.
- Private circuit rentals, which are recognised evenly over the period to which the charge relates.
- Inbound roaming revenue, earned from other mobile operators whose customers roam onto the group's network, and outbound roaming revenue earned from certain customers roaming outside their domestic covering area, are recognised based upon usage and are included in mobile service revenue.
- Subscription fees, which are recognised evenly throughout the periods to which they relate.
- Retail equipment sales, which are recognised at the point of sale.
- Corporate equipment sales, net of rebates, discounts and similar commissions, which are recognised at the point of sale. Connection fees are recognised upon delivery to the customer or activation by the customer, as appropriate.
- The provision of other services, including maintenance and support service contracts, which are recognised evenly over the periods in which the service is provided to the customer.
- Bundled products, which are allocated between the separate elements and the appropriate recognition policy applied to each element as described above.

Notes to the Consolidated Financial Statements (continued)

3. Summary of significant accounting policies (continued)

(e) Revenue (continued)

- Significant long term contracts. Where the outcome of the contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the statement of financial position date.

(f) Taxation

Current tax, including income tax in Jersey and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the statement of financial position date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the statement of financial position date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

When the amount that can be deducted for tax for an asset (other than goodwill) that is recognised in a business combination is less (more) than the value at which it is recognised, a deferred tax liability (asset) is recognised for the additional tax that will be paid (avoided) in respect of that difference. Similarly, a deferred tax asset (liability) is recognised for the additional tax that will be avoided (paid) because of a difference between the value at which a liability is recognised and the amount that will be assessed for tax. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax liabilities are recognised for timing differences arising from investments in subsidiaries and associates, except where the group is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date that are expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(g) Business combinations and goodwill

Business combinations are accounted for by applying the purchase method.

The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination. Where control is achieved in stages the cost is the consideration at the date of each transaction.

Notes to the Consolidated Financial Statements (continued)

3. Summary of significant accounting policies (continued)

(g) Business combinations and goodwill (continued)

Contingent consideration is initially recognised at estimated amount where the consideration is probable and can be measured reliably. Where (i) the contingent consideration is not considered probable or cannot be reliably measured but subsequently becomes probable and measureable or (ii) contingent consideration previously measured is adjusted, the amounts are recognised as an adjustment to the cost of the business combination.

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Where the fair value of contingent liabilities cannot be reliably measured they are disclosed on the same basis as other contingent liabilities.

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values to the group's interest in the identifiable net assets, liabilities and contingent liabilities acquired. On acquisition, goodwill is allocated to cash-generating units ('CGU's') that are expected to benefit from the combination.

Goodwill is amortised on a straight line basis over its expected useful life which is assessed by each asset and varies from 5 to 10 years. Where the group is unable to make a reliable estimate of useful life, goodwill is amortised over a period not exceeding 5 years. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the income statement. Reversals of impairment are recognised when the reasons for the impairment no longer apply.

(h) Tangible assets

Tangible assets are stated at cost net of depreciation and any impairment. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use. Assets held under finance leases are stated at the net present value of the minimum lease payments due at the inception of the lease.

i. Buildings

Buildings include freehold and leasehold retail outlets and offices. Buildings are stated at cost less accumulated depreciation and accumulated impairment losses

ii. Network equipment, fixtures and fittings and motor vehicles

Network equipment, fixtures and fittings and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of network equipment includes all cable, ducting and transmission equipment extending from the main switching systems to the customers' premises.

iii. Capital work in progress

Capital work in progress comprises capital projects which are under construction. Accrued and expended project labour and material costs are accounted for as capital work in progress. Internal labour costs that were necessary and arising directly from construction or acquisition of the asset are capitalised as part of the project or asset to which they relate. Once completed, projects are capitalised as separately identifiable assets and depreciated over their estimated useful economic lives.

iv. Depreciation and residual values

The costs of tangible assets, less estimated residual value, are written off over their estimated useful economic lives on a straight-line basis as follows:

Freehold buildings	–	50 years
Leasehold buildings	–	the term of the lease
Motor vehicles	–	7 years
Equipment fixtures and fittings:		
Network infrastructure	–	3-25 years
Other*	–	5-10 years

**This includes freehold and leasehold fixtures and fittings.*

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively. Repairs, maintenance and minor inspection costs are expensed as incurred.

Notes to the Consolidated Financial Statements (continued)

3. Summary of significant accounting policies (continued)

(i) Intangible assets (excluding goodwill)

Intangible assets (excluding goodwill) are stated at cost less accumulated amortisation and accumulated impairment losses. These intangible assets consist of internally and externally developed assets. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives as follows:

Websites and website development	-	3–5 years
Software, software development and software applications	-	3–5 years
Software licences	-	the term of the licence

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

The costs of materials, licenses, consultants, payroll and payroll-related costs for employees incurred in developing internal software are capitalised as intangible assets once technological feasibility is attained and the costs incurred are in connection with upgrades and enhancements to internally-developed software that result in additional functionality.

Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances. The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

Costs associated with maintaining computer software are recognised as an expense as incurred. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(j) Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each statement of financial position date. If there is objective evidence of impairment, an impairment loss is recognised in the income statement as described below.

i. Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. If it is not possible to estimate the recoverable amount of the individual asset the group estimates the recoverable amount of the cash-generating units (“CGUs”) to which the asset belongs.

The recoverable amount of goodwill is derived from measurement of the present value of the future cash flows of the CGUs of which the goodwill is a part. Any impairment loss in respect of a CGU is allocated first to the goodwill attached to that CGU, and then to other assets within that CGU on a pro-rata basis.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. Where a reversal of impairment occurs in respect of aCGU, the reversal is applied first to the assets (other than goodwill) of the CGU on a pro-rata basis and then to any goodwill allocated to that CGU.

Notes to the Consolidated Financial Statements (continued)

3. Summary of significant accounting policies (continued)

(j) Impairment of assets (continued)

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

ii. Financial assets

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

(k) Finance and operating leases

At inception the group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

i. Finance leased assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined the group's incremental borrowing rate is used. Incremental direct costs, incurred in negotiating and arranging the lease, are included in the cost of the asset.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

ii. Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

iii. Lease incentives

Incentives received to enter into a finance lease reduce the fair value of the asset and are included in the calculation of present value of minimum lease payments.

Incentives received to enter into an operating lease are credited to the income statement, to reduce the lease expense, on a straight-line basis over the period of the lease.

The group has taken advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS 102 (1 January 2014) and continues to credit such lease incentives to the income statement over the period to the first review date on which the rent is adjusted to market rates.

(l) Inventories

Inventories are valued at the lower of cost and net realisable value, and accounted for on a weighted average cost basis. Cost includes the purchase price, including taxes and duties, transport and handling directly attributable to bringing the inventory to its present location and condition. Inventories are recognised as an expense in the period in which the related revenue is recognised.

Provisions are made for obsolete, slow moving or defective items where appropriate.

Notes to the Consolidated Financial Statements (continued)

3. Summary of significant accounting policies (continued)

(m) Provisions and contingencies

i. Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Onerous lease provisions are measured at the lower of cost to fulfil or exit the contract.Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

Asset retirement obligations and dilapidations are recognised as provisions as a result of the legal obligation for decommissioning costs on mobile site and property leases. These provisions are recognised through the statement of financial position.

ii. Contingencies

Contingent liabilities are not recognised, except those acquired in a business combination. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the group's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

(n) Employee benefits

For defined benefit plans, the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of the staff costs. Past service costs are recognised immediately in the income statement.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This net interest cost on the defined liability is charged to the income statement within finance costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

Defined benefit schemes are funded, with the assets of the schemes held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The resulting defined benefit asset or liability, net of the related deferred tax, is presented within long term provisions in the statement of financial position.

For defined contribution schemes the amount charged to the income statement in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments on the statement of financial position.

Treatment of PECRS from 1 October 2015

On 1 October 2015, JT (Jersey) Limited's pension assets and liabilities were moved out of the sub-fund and into the main scheme, administered by States of Jersey. This is considered to be a multi-employer (benefit) plan as defined by FRS 102.

Under the revised Terms of Admission there is insufficient information available to use defined benefit accounting and, with effect from 1 October 2015, JT (Jersey) Limited has accounted for the scheme as if it was a defined contribution scheme. However, the scheme continues to be a defined benefit scheme.

Notes to the Consolidated Financial Statements (continued)

3. Summary of significant accounting policies (continued)

(n) Employee benefits (continued)

Pension scheme reorganisation

Treatment of PECRS on 1 October 2015

The transaction, which resulted in the transfer of the pension assets and liabilities into the main scheme and a resulting change in accounting of the scheme from a defined benefit to defined contribution scheme, is considered a change in accounting estimate on 1 October 2015. This resulted in release of the defined benefit liability the group held on the consolidated statement of financial position from its previous accounting basis down to nil as at 31 December 2015.

This was presented as a pension scheme reorganisation within the consolidated income statement.

(o) Financial instruments

Financial assets and financial liabilities are recognised when the group becomes party to the contractual provision of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

i. Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price.

Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publically traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

ii. Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements (continued)

3. Summary of significant accounting policies (continued)

(o) Financial instruments (continued)

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in derivatives' fair values are recognised in the income statement in finance costs or finance income as appropriate, unless they are included in a hedging arrangement. Timing of release into income statement depends on the hedge arrangement.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

iii. Hedging arrangement

The group applies hedge accounting for transactions entered into to manage the cash flow exposures of some transactions denominated in foreign currency. Forward exchange contracts are held to manage the foreign exchange rate exposures and are designated as cash flow hedges of foreign exchange transactions.

Changes in the fair values of derivatives designated as cash flow hedges, and which are effective, are recognised directly in equity. Any ineffectiveness in the hedging relationship (being the excess of the cumulative change in fair value of the hedging instrument since inception of the hedge over the cumulative change in the fair value of the hedged item since inception of the hedge) is recognised in the income statement.

The gain or loss recognised in other comprehensive income is reclassified to the income statement when the hedge relationship ends. Hedge accounting is discontinued when the hedging instrument expires, no longer meets the hedging criteria, the hedged debt instrument is derecognised or the hedging instrument is terminated.

(p) Associates

Investments in associates are accounted for using the equity method. Investments in associates are initially recognised at the transaction price (including transaction costs) and are subsequently adjusted to reflect the group's share of the profit or loss and other comprehensive income of the associate. Goodwill arising on the acquisition of associates is accounted for in accordance with the policy set out above.

(q) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

(r) Cost of sales

Cost of sales are accounted for on an accruals basis.

(s) Other operating expenses

Operating expenses are accounted for on an accruals basis.

(t) Finance income and similar income

Finance income and similar income is accounted for on an accruals basis.

(u) Finance costs and similar charges

Finance costs and similar charges are accounted for on an accruals basis.

(v) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(w) Distributions to equity holders

Dividends and other distributions to the group's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the shareholders. These amounts are recognised in the statement of changes in equity.

(x) Related party transactions

The group discloses transactions with related parties which are not wholly owned within the same group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the group financial statements.

Notes to the Consolidated Financial Statements (continued)

4. Critical accounting estimates and key judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Key accounting estimates and assumptions

The preparation of financial statements in conformity with FRS 102 requires the use of accounting estimates and assumptions. It also requires management to exercise judgement in the process of applying the group's accounting policies. We continually evaluate our estimates, assumptions and judgements based on available information and experience. The areas involving a higher degree of judgment or complexity are explained below.

i. Intangible assets and goodwill

The group considers whether intangible assets and goodwill are impaired. Where an indication of impairment is identified the estimation of recoverable value requires estimation of the recoverable value of the cash generating units ("CGUs") to which the goodwill is attributed and the selection of appropriate discount rates in order to calculate the net present value of those cash flows.

Estimating the useful life of goodwill requires the exercise of judgement. Factors such as a change in the business, length of customer contracts, technological advancement and changes in market prices can indicate that the useful life has changed since the most recent reporting date.

The carrying value of goodwill is disclosed in note 10.

ii. Useful lives of tangible assets

The annual depreciation and amortisation charges for tangible assets are sensitive to the estimated lives allocated to each type of asset. Lives are assessed annually and changed when necessary to reflect expected impact from changes in technology, network investment plans (e.g. Gigabit programme) and physical condition of the assets.

The carrying value of tangible assets are disclosed in note 11. The useful lives applied to the principal categories are disclosed on page 11.

iii. Provisions

Provision is made for asset retirement obligations, dilapidations, contingencies and other debt related provisions. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements. In addition, the timing of the cash flows and the discount rates used to establish net present value of the obligations require management's judgement.

Provision for doubtful debts – the group provides services to consumer and business customers, mainly on credit terms. Certain debts due to the group will not be recovered through default of a small number of customers. Estimates based on historical experience are used in determining the level of debts we believe will not be collected. The value of the provision for doubtful debts is offset against trade receivables due within one year on the statement of financial position.

Asset retirement obligations - as disclosed in note 17 the group's provisions principally arise from asset retirement obligations as a result of the legal obligation for decommissioning costs on mobile site and property leases.

In respect of claims and litigation the group provides for anticipated costs where the outflow of resources is considered probable and a reasonable estimate can be made on the likely outcome. The ultimate liability may vary from the amounts provided and will be dependent upon the eventual outcome of any settlement.

The carrying value of provisions is disclosed in note 17.

iv. Defined benefit pension schemes

TBPS

The group has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and inflation. The assumptions reflect historical experience and current trends.

Further details are contained in note 22.

Notes to the Consolidated Financial Statements (continued)

4. Critical accounting estimates and key judgements (continued)

(a) Key accounting estimates and assumptions (continued)

v. Current and deferred income tax

The actual tax we pay on our profits is determined according to complex tax laws and regulations. Where the effect of these laws is unclear, we use estimates in determining the liability for the tax to be paid on our past profits which we recognise in our financial statements. We believe the estimates, assumptions and judgements are reasonable but this can involve complex issues which may take a number of years to resolve. The final determination of prior year liabilities could be different from the estimates reflected in the financial statements and may result in the recognition of an additional tax expense or tax credit in the income statement.

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. The group uses management's expectations of future revenue growth, operating costs and profit margins to determine the extent to which future taxable profits will be generated against which to consume the deferred tax assets.

The value of the group's income tax assets and liabilities is disclosed on the statement of financial position. The carrying value of the group's deferred tax assets and liabilities is disclosed in note 8.

vi. Inventory provision and impairment

Provisions are made for inventory impairment. This provision requires management's best estimate based on the assessment of various factors relating to the inventory on hand at the reporting date and historical experience.

The value of the inventory impairment is offset against the inventory balance on the statement of financial position.

vii. Contingent and deferred consideration

The group has entered into acquisitions with deferred consideration, including amounts which are contingent on future events, where future payments are dependent upon the provision of future services or retention of specific individuals. They are considered to be future costs and are not accounted for as part of the cost of an acquisition. In the current year the directors have assessed the purchase of the interest in the associate for capital and future cost elements.

(b) Key judgements

i. Long term contracts

Where the outcome of long term contracts can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the statement of financial position date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Estimation of the contract stage of completion requires management judgement.

5. Operating profit

	Note	2016 £'000	2015 £'000
Operating profit is stated after charging:			
Wages and salaries		31,311	31,887
Social security costs		1,705	1,756
Total staff costs		**33,016**	**33,643**
Amounts capitalised		(2,249)	(2,680)
Staff costs charged to consolidated income statement		**30,767**	**30, 963**
Loss on disposals of tangible assets		244	153
Operating leases charge for the year – land and buildings		1,866	1,531
Depreciation	11	15,104	18,193
Amortisation of intangible assets and goodwill	10	6,323	4,858
Provision for and write off of bad debts		519	1,360
Cost of inventory recognised as an expense		10,431	12,028
Impairment of inventory		133	86
Charged provisions/(released unused)		171	(281)

Notes to the Consolidated Financial Statements (continued)

6. Finance income and similar income

	2016 £'000	2015 £'000
Finance income and other similar income	9	16

7. Finance costs and similar charges

	2016 £'000	2015 £'000
2.5% preference dividends	250	250
Interest on bank loan and other short term borrowings	163	349
Interest on private placement	2,142	2,142
Net finance costs from pension schemes	28	265
Other interest payable	53	107
	2,636	**3,113**

Refer to note 16 for details of the above financing activities

8. Tax

(a) Analysis of tax charge in the year

	2016 £'000	2015 £'000
Current tax		
Current tax	2,007	2,088
Adjustment in respect of prior periods	105	185
Total current tax	**2,112**	**2,273**
Deferred tax		
Timing differences	1,088	3,208
Adjustment in respect of prior periods	(180)	167
Total deferred tax	**908**	**3,375**
Total tax on profit on ordinary activities	**3,020**	**5,648**

(b) Factors affecting the tax charge

The tax charged for the period is different than the standard rate of income tax. The differences are explained below:

	2016 £'000	2015 £'000
Profit on ordinary activities before taxation	9,048	18,044
Profit on ordinary activities multiplied by standard rate of income tax of 20%	**1,810**	**3,609**
Effects of:		
Profits on sale of investments	–	(11)
Expenses not deductible for tax purposes	237	321
Non-qualifying depreciation	365	317
Subject to tax at 0%	748	1,251
Losses not recognised/(utilised)	14	(224)
Reduction of deferred tax asset recoverable	(110)	–
Prior year adjustment	(75)	352
Effects of changes in tax rates	(1)	–
Other tax adjustments	32	33
	3,020	**5,648**

Notes to the Consolidated Financial Statements (continued)

8. Tax (continued)

(c) Provisions for liabilities and charges – deferred taxation

	2016 £'000	2015 £'000
Recognised deferred tax asset		
Accelerated capital allowances	(8,468)	(7,533)
Losses	1,293	1,976
Defined benefit pension deficit	161	155
Other	614	(368)
Total deferred tax liability provided	**(6,400)**	**(5,770)**
Deferred tax asset	1,769	1,672
Deferred tax liability	(8,169)	(7,442)
Net deferred tax liability provided	**(6,400)**	**(5,770)**

9. Dividends on equity shares

The amounts recognised as distributions to equity holders in the year are:

	2016 £'000	2015 £'000
Equity		
Final dividend for the previous year end of 4.78p (2015: 2.61p) per ordinary share	956	522
Interim dividend for the current year of 10.70p (2015: 5.94p) per ordinary share	2,140	1,188
Special dividend for the current year of 12.00p (2015: 12.00p) per ordinary share	2,400	2,400
	5,496	**4,110**

The group's redeemable preference shares are included in the statement of financial position as a liability and accordingly the dividends payable on them are included in finance costs and similar charges.

A final dividend of £1.2m (5.97p per share) (2015: £0.96m (4.78p per share)) has been approved for payment post year end.

Notes to the Consolidated Financial Statements (continued)

10. Intangible assets and goodwill

	Goodwill £'000	Software and Software Development Costs £'000	Websites & Websites Development Cost £'000	Total £'000
Cost				
At 1 January 2016	39,189	917	114	40,220
Reclassification from tangible assets*	–	18,025	–	18,025
Additions	–	3,663	11	3,674
Foreign currency translation adjustment	496	259	28	783
At 31 December 2016	**39,685**	**22,864**	**153**	**62,702**
Amortisation				
At 1 January 2016	(14,117)	(812)	(90)	(15,019)
Reclassification from tangible assets*	–	(14,494)	–	(14,494)
Charge for the year	(4,651)	(1,655)	(17)	(6,323)
Foreign currency translation adjustment	–	(208)	(13)	(221)
At 31 December 2016	**(18,768)**	**(17,169)**	**(120)**	**(36,057)**
Net book value				
At 31 December 2015	25,072	105	24	25,201
At 31 December 2016	**20,917**	**5,695**	**33**	**26,645**

The remaining useful economic lives for the goodwill held for Newtel and Corporate Communications Holdings Limited, acquired in 2010 and 2012 respectively, are both 7 years at the statement of financial position date. Management considers the remaining lives to be appropriate for these entities as they operate in sustainable markets with customers on long term contracts.

*During the year some intangible assets were reclassified from tangible assets, mainly software licences, which were previously capitalised with tangible assets.

Notes to the Consolidated Financial Statements (continued)

11. Tangible assets

	Buildings £'000	Network plant and equipment £'000	Motor vehicles £'000	Capital work in progress £'000	Total £'000
Cost					
At 1 January 2016	33,350	223,910	1,324	140	258,724
Reclassification to intangible assets*	–	(18,025)	–	–	(18,025)
Additions	4,834	137	–	14,178	19,149
Disposals	–	(7,027)	(3)	–	(7,030)
Transfer from capital work in progress	466	11,665	306	(12,437)	–
Foreign currency translation adjustment	5	335	–	–	340
At 31 December 2016	**38,655**	**210,995**	**1,627**	**1,881**	**253,158**
Depreciation					
At 1 January 2016	(18,700)	(130,399)	(648)	–	(149,747)
Reclassification to intangible assets*	–	14,494	–	–	14,494
Charge for the year	(2,051)	(12,911)	(142)	–	(15,104)
Disposals	–	6,783	3	–	6,786
Foreign currency translation adjustment	–	(365)	2	–	(363)
At 31 December 2016	**(20,751)**	**(122,398)**	**(785)**	–	**(143,934)**
Net book value					
At 31 December 2015	14,650	93,511	676	140	108,977
At 31 December 2016	**17,904**	**88,597**	**842**	**1,881**	**109,224**

* During the year some intangible assets were reclassified from tangible assets, mainly software licences, which were previously capitalised with tangible assets.

12. Inventories

	2016 £'000	2015 £'000
Finished products	6,566	8,622
Impairment	(133)	(86)
	6,433	**8,536**

Inventories of finished products include £3.3m (2015: £4.5m), to be used in capital work in progress on tangible assets.

13. Receivables

	2016 £'000	2015 £'000
Trade receivables (net of provision for bad debts)	30,925	30,987
Prepayments and accrued income	5,408	5,766
	36,333	**36,753**

Notes to the Consolidated Financial Statements (continued)

13. Receivables (continued)

Receivables due after one year

	2016 £'000	2015 £'000
Trade receivables	2,519	949

Provision for bad debts

	2016 £'000	2015 £'000
At 1 January	1,779	1,415
Charge to the consolidated income statement	260	364
At 31 December	**2,039**	**1,779**

14. Payables: amounts falling due within one year

	2016 £'000	2015 £'000
Banks borrowings	–	665
Trade payables	13,990	8,702
Corporation tax	1,442	1,693
Deferred revenue	11,094	10,781
Other payables and accruals	11,472	9,478
Forward exchange contract liability (note 19)	171	–
	38,169	**31,319**

15. Payables: amounts falling due after more than one year

	2016 £'000	2015 £'000
Amounts falling due between one and five years		
Private placement	31,000	31,000
	31,000	**31,000**
Amounts falling due after more than five years		
Private placement	20,000	20,000
Total payables falling due after more than one year	**51,000**	**51,000**

16. Loans and other borrowings

	2016 £'000	2015 £'000
USD borrowings	–	665
Private placement	51,000	51,000
2.5% redeemable preference shares	10,000	10,000
	61,000	**61,665**

Notes to the Consolidated Financial Statements (continued)

16. Loans and other borrowings (continued)

As at 31 December 2016, there was no amount owing for the Revolving Credit Facility ("RCF") held by JT Group Limited (2015: £nil). The RCF provides for an overdraft facility of £15m. The facility is interest-bearing with a term of 3 years, which was extended for a further 1 year in December 2015 to terminate on 31 January 2017. The balance is repayable on demand and classified as a current liability. In March 2017 an amended and restated agreement was signed which provides an overdraft facility of £5m with a termination date of 31 January 2020.

An interest-bearing loan of USD2m, repayable over 24 months, was provided to the group in 2013. The loan was fully repaid in 2016.

JT Group Limited received £51m under a private placement facility during 2012. £31m has a term of 7 years and £20m has a term of 10 years. The first tranche accrues interest at a rate of 3.86% per annum, the second of 4.48%.

The 2.5% redeemable preference shares were issued in three tranches during 2012. Interest accrues at 2.5% per annum. The amount is repayable on demand.

Contingent liabilities

The group had the following facility with HSBC existing at the reporting date:

The group secured an import line facility from HSBC comprising of standby letters of credit with a limit of USD1m or its GBP equivalent. Through the facility, the group can make drawings of up to USD1m and at any time, the group can repay any drawn amounts on the facility together with interest and any charges owing and advise the bank that the facilities are no longer required. The bank may also at any time withdraw the facility and/or demand repayment of all sums owing to it.

As at the reporting date, no amount had been drawn from the facility (2015: £nil).

17. Other provisions for liabilities and charges

	2016 £'000	**2015 £'000**
At 1 January	1,678	2,238
Movement in the consolidated the income statement	171	(560)
At 31 December	**1,849**	**1,678**

The closing balance of provisions is made up of amounts for asset retirement obligations of £1.5m (2015: £1.4m), annual leave of £0.2m (2015: £0.2m) and other provisions for legal and long term service of £0.1m (2015: £0.1m). The asset retirement obligations have varying settlement dates depending on the lease agreements.

18. Other investments

	2016 £'000	**2015 £'000**
At 1 January	–	–
Addition	4,007	–
Movement in fair value and currency	(8)	–
At 31 December	**3,999**	–

On 29 December 2016, the group purchased 292,056 shares in Energous Corporation, a US based NASDAQ listed technology company. Fair value for this investment is based on quoted market prices in an active market, the NASDAQ exchange. In addition to the purchase of shares the group has entered into a collaboration arrangement with Energous to seek to grow the group's future enterprise revenues.

Notes to the Consolidated Financial Statements (continued)

19. Derivatives instruments

	2016 £'000	2015 £'000
At 1 January	–	–
Movement in fair value	(171)	–
At 31 December	**(171)**	–

On 12 June 2016, the group entered into a forward exchange contract with HSBC Bank Plc with a nominal value of USD850,000 expiring on 12 May 2017, to hedge against currency risk on a USD denominated debtor. The contract was designated as a cash flow hedge instrument. The derivatives' fair value and amount recognised in other comprehensive income for the year is disclosed above. No amount was recognised and/or reclassified to the income statement. Cash flows on this derivative and their impact on the profit or loss are expected in May 2017.

20. Financial instruments

	Note	2016 £'000	2015 £'000
Financial assets at fair value through profit and loss			
- Equity investment	18	3,999	–
		3,999	–
Financial liabilities at fair value through profit and loss			
- Derivative financial instruments	19	(171)	–
		(171)	–
Financial liabilities measured at amortised cost			
- Equity investment	16	(51,000)	(51,000)
- USD Loan and short term overdraft facilities	16	–	(665)
- Trade payables	14	(13,990)	(8,702)
- Other payables and accruals	14	(24,179)	(21,952)
		(89,169)	**(82,319)**

Financial instruments risk disclosures

The group acquired the financial instrument held at fair value through profit or loss on 29 December 2016 and due to the proximity of the purchase date to the year end, the recognised amounts closely approximates the transaction price and no further risk disclosures were considered material for the assessment of the financial instrument, financial position and profit or loss. The purchase of Energous is disclosed in note 18.

Equity price sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risk at the end of the reporting period.

If equity prices had been 20% higher/lower:

- Profit for the year ended 31 December 2016 would increase/decrease by £0.8m as a result of the change in fair value of the equity investment.

Notes to the Consolidated Financial Statements (continued)

21. Share capital and reserves

	2016 £'000	2015 £'000
Authorised, issued and fully paid up		
Ordinary shares at £1 each – equity	20,000	20,000

Ordinary shares carry a voting right of one vote for each share held.

The equity reserve represents cumulative comprehensive income, including unrealised gains or losses on foreign exchange, net of equity dividends paid and other adjustments on post-employment benefit schemes.

The translation reserve arises on consolidation, where the consolidation of subsidiaries with a functional currency that is not GBP results in a difference that is recognised through other comprehensive income

22. Post-employment benefits

	2016 £'000	2015 £'000
Post-employment benefits	803	773

Most employees of JT (Jersey) Limited are members of the Public Employees Contributory Retirement Scheme ("PECRS"). A small number are members of the Telecommunications Board Pension Scheme ("TBPS") and the JT Group Limited Pension Plan.

JT Group Limited Pension Plan

The JT Group Limited Pension Plan is a defined contribution scheme administered by Alexander Forbes. The employer currently pays contributions at 10% of members' salary. Regular employer contributions to the pension plan in 2017 are expected to be £0.7m (2016: £0.6m).

PECRS

The PECRS is a defined benefit pension plan, providing retirement benefits based on final salary.

Amendment to the Terms of Admission effective from 1 October 2015.

JT (Jersey) Limited participates in the PECRS as an Admitted Body under a Terms of Admission Document which sets out how the contributions to and assets of the company's notional Sub-Fund are to be determined.

With effect from 1 October 2015 the Terms of Admission were amended to remove the requirement for the Scheme's Actuary to monitor a ring-fenced Sub-Fund for the purpose of setting JT (Jersey) Limited's contributions to the Scheme. Under the amended terms JT (Jersey) Limited's contributions will increase over a period to 2020 in accordance with a fixed schedule. Thereafter contribution rates will be set in accordance with Jersey Law insofar as it applies to Admitted Bodies in the Scheme. Under the revised Terms of Admission there is insufficient information available to use defined benefit accounting and, with effect from 1 October 2015, JT (Jersey) Limited has accounted for the Scheme as if it was a defined contribution scheme.

The change in accounting necessitated a release of the net liability on 30 September 2015 of £10.94m, into the income statement as a pension scheme reorganisation. The associated deferred tax on the pension liability was £2.19m.

Employer contributions made to the pension plan were £0.9m (2015: £0.9m).

Notes to the Consolidated Financial Statements (continued)

22. Post-employment benefits (continued)

PECRS (continued)

The following notes related to the movements for the period relating to the comparative period in the PECRS scheme:

Analysis of income statement charge

	Year ended 31 December 2016 £'000	Period ended 30 September 2015 £'000
Current service cost*	–	1,924
Past service cost	–	–
Net finance costs	–	237
Expense recognised in income statement	–	2,161

* Allowance for administration expenses included in 2016 current service cost: £nil (2015: £0.05m)

Actual return on scheme assets

	Year ended 31 December 2016 £'000	Period ended 30 September 2015 £'000
Interest on the scheme assets	–	1,085
Actuarial loss on scheme assets	–	(248)
Actual return on scheme assets	–	837

Analysis of amounts recognised in other comprehensive income ("OCI")

	Year ended 31 December 2016 £'000	Period ended 30 September 2015 £'000
Total actuarial gains	–	121
Total gain in OCI	–	121

History of experience gains and losses

	Year ended 31 December 2016 £'000	Period ended 30 September 2015 £'000
Experience losses on scheme assets	–	(248)
Experience gains on scheme liabilities*	–	633
	–	385

* This item consists of (losses) / gains in respect of liability experience only, and excludes any change in liabilities in respect of changes to the actuarial assumptions used. This history can be built up over time and need not be constructed retrospectively (and once complete will show the current period and previous four periods).

Notes to the Consolidated Financial Statements (continued)

22. Post-employment benefits (continued)

Telecommunications Board Pension Scheme (TBPS)

The TBPS is an unfunded scheme under which a defined benefit pension is payable to current pensioners.

The FRS 102 disclosure of the TBPS has been based on a valuation of the liabilities of the scheme as at 31 December 2016 and 31 December 2015 using the membership data at the accounting date. The present values of the defined benefit obligation and the related current service cost were measured using the projected unit method. Employer contributions in 2017 are expected to be £0.04m (2016: £0.04m) to provide for the payment of benefits to pensioners.

Actuarial gains and losses have been recognised in the period in which they occur, (but outside the income statement), through other comprehensive income (“OCI”).

The principal assumptions used by the independent qualified actuaries to calculate the liabilities under FRS 102 are set out below:

Main financial assumptions

	31 December 2016 (% p.a.)	31 December 2015 (% p.a.)	31 December 2014 (% p.a.)
Jersey price inflation	3.25	3.00	3.00
Rate of increase to pensions	3.25	3.00	3.00
Discount rate for scheme liabilities	2.60	3.70	3.45

The demographic assumptions used by the independent qualified actuaries for TBPS were:

Post retirement mortality assumptions

	31 December 2016	31 December 2015	31 December 2014
Males			
Base table	Standard SAPS 2 “All Lives” tables (S2PMA)	Standard SAPS 2 “All Lives” tables (S2PMA)	Standard SAPS 2 “All Lives” tables (S2PMA)
Rating to above base table * (years)	0	0	0
Scaling to above base table rates	100%	100%	100%
Improvements to base table	CMI 2013 with a long term rate of improvement of 1.5% p.a.	CMI 2013 with a long term rate of improvement of 1.5% p.a.	CMI 2013 with a long term rate of improvement of 1.5% p.a.
Assumed Retirement Age (ARA)	75	75	75
Future lifetime from ARA (currently aged ARA)	13.9	13.8	13.7

*A rating of x years means that members of the scheme are assumed to follow the mortality pattern of the base table for an individual x years older than them. The ratings shown apply to normal health retirements.

Notes to the Consolidated Financial Statements (continued)

22. Post-employment benefits (continued)

TBPS (continued)

Split of assets

	Value at 31 December 2016 £'000	Value at 31 December 2015 £'000	Value at 31 December 2014 £'000
Cash	4	6	8
Total	4	6	8

Note: Values are shown at bid value.

Reconciliation of funded status to statement of financial position

	Value at 31 December 2016 £'000	Value at 31 December 2015 £'000	Value at 31 December 2014 £'000
Fair value of scheme assets	4	6	8
Present value of scheme liabilities	(807)	(779)	(823)
Liability recognised on the consolidated statement of financial position	(803)	(773)	(815)

Analysis of income statement charge

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Net finance cost	28	28
Expense recognised in the consolidated income statement	28	28

Changes to the present value of the scheme liabilities during the year

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Opening defined benefit obligation	779	823
Current service cost	–	–
Interest on the scheme liabilities	28	28
Contributions by scheme participants	–	–
Actuarial (gains) / losses on scheme liabilities*	42	(30)
Net benefits paid out	(42)	(42)
Past service cost	–	–
Net increase in liabilities from disposals / acquisitions	–	–
Curtailments	–	–
Settlements	–	–
Closing defined benefit obligation	807	779

*includes changes to the actuarial assumptions.

Notes to the Consolidated Financial Statements (continued)

22. Post-employment benefits (continued)

TBPS (continued)

Changes to the fair value of scheme assets during the year

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Opening fair value of scheme assets	6	8
Interest on the scheme assets	–	–
Actuarial gains / (losses) on scheme assets	–	–
Contributions by the employer	40	40
Contributions by scheme participants	–	–
Net benefits paid out	(42)	(42)
Net increase in assets from disposals / acquisitions	–	–
Settlements	–	–
Closing fair value of scheme assets	4	6

Actual return on scheme assets

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Interest on the scheme assets	–	–
Actuarial gain / (loss) on scheme assets	–	–
Actual return on scheme assets	–	–

Analysis of amounts recognised in other comprehensive income ("OCI")

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Total actuarial (losses) / gains	(42)	30
Actual return on scheme assets	(42)	30

History of experience gains and losses

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Experience gains / (losses) on scheme assets	–	–
Experience gains / (losses) on scheme liabilities*	79	7
	79	7

*This item consists of gains / (losses) in respect of liability experience only, and excludes any change in liabilities in respect of changes to the actuarial assumptions used. This history can be built up over time and need not be constructed retrospectively (and once complete will show the current period and previous four periods).

Notes to the Consolidated Financial Statements (continued)

22. Post-employment benefits (continued)

TBPS (continued)

Summary

Reconciliation of pension to statement of financial position

	2016 £'000	**2015 £'000**
Opening balance	(773)	(10,305)
Loss recognised through the income statement:		
- PECRS	–	(1,568)
- TBPS	12	12
Actuarial (loss)/gain recognised in OCI:		
- PECRS	–	121
- TBPS	(42)	30
	(803)	(11,710)
Pension scheme reorganisation	–	10,937
Closing balance	**(803)**	**(773)**

23. Associated undertaking

The carrying value of the group's investment in an associate was as follows:

	Share of net assets £'000	**Goodwill £'000**	**Total £'000**
At 01 January	–	–	–
Proportionate share of net identifiable assets on acquisition	166	–	166
Goodwill on acquisition	–	586	586
Purchase consideration			752
Share of loss	(2)	–	(2)
Amortisation of goodwill	–	(22)	(22)
As 31 December	**164**	**564**	**728**

In October 2016, the group acquired a 20% equity interest in NeoConsult ApS and Nomad IP ApS, unlisted Denmark based IT and software services companies. The total purchase consideration, including transaction costs was £752,349. The unamortised portion of the goodwill is included in the investment in associate undertaking's carrying amount.

24. Ultimate and immediate controlling party

The ultimate controlling party of JT Group Limited is the States of Jersey.

Notes to the Consolidated Financial Statements (continued)

25. Related party transactions

Under the terms of FRS 102, section 33 "Related Party Disclosures" the States of Jersey is considered to be a related party of the group. All commercial transactions between the parties are undertaken in the normal course of business.

The following transactions and balances relating to the States of Jersey departments are reflected in the financial statements.

	2016 £'000	2015 £'000
Transactions		
Revenue	3,880	3,762
Operating expenses	589	483
Preference shares interest	250	250
Equity dividends paid	5,496	4,110
Balances		
Trade receivables	647	625
Trade payables	2	7
Preference shares payable	10,000	10,000

Key management includes the directors and members of senior management. The compensation paid or payable to key management for employee services is shown below:

	2016 £'000	2015 £'000
Salaries and other short term benefits	2,132	2,116
Post-employment benefits	87	61
Actual return on scheme assets	**2,219**	**2,177**

26. Directors' emoluments

	Basic Salary/Fees 2016 £' 000	Bonuses 2016 £' 000	Total 2016 £' 000	Total 2015 £' 000
Executive Directors				
Graeme Millar	224	122	346	351
John Kent	189	71	260	256
Non-Executive Directors				
John Stares	40	–	40	40
Colin Tucker	25	–	25	25
Phil Male	25	–	25	25
Sean Collins	25	–	25	25
Kevin Keen	25	–	25	25
Meriel Lenfestey	23	–	23	–
Total	**576**	**193**	**769**	**747**

During the year the company made pension contributions of £20k (2015: £15k) in respect of Mr. Millar.

Notes to the Consolidated Financial Statements (continued)

27. Capital and other commitments

	2016 £'000	2015 £'000
Capital expenditure committed and contracted	1,572	2,556
Operating expenses	-	2,171
	1,572	**4,727**

The group has the following future minimum lease payments under non-cancellable operating leases for each of the following periods.

	2016 £'000	2015 £'000
Expiry date		
Not later than one year	2,271	2,209
Later than one year and not later than five years	7,429	8,178
Later than five years	8,076	9,321
	17,776	**19,708**

28. Principal subsidiary and associate undertakings

JT Group Limited has investments in the following subsidiaries, which principally affected the profits and net assets of the group.

Subsidiary undertaking	Place of incorporation	Trading/Non-trading	Principal activity
JT (Jersey) Limited (100% directly owned)	Jersey, Channel Islands	Trading	Provision of telecommunication services
JT (Guernsey) Limited (100% directly owned)	Guernsey, Channel Islands	Trading	Provision of telecommunication services
Jersey Telecom UK Limited (100% directly owned)	United Kingdom	Non-trading	Holding company for eKit.com Inc
eKit.com Inc (100% indirectly owned through Jersey Telecom UK Limited)	United States	Trading	Low cost roaming solutions to business and other travellers
eKit.com Pty Ltd (100% indirectly owned through eKit.com Inc)	Australia	Trading	Low cost roaming solutions to business and other travellers
eKit.com UK Ltd (100% indirectly owned through eKit.com Inc)	United Kingdom	Trading	Low cost roaming solutions to business and other travellers

Notes to the Consolidated Financial Statements (continued)

28. Principal subsidiary and associate undertakings (continued)

Subsidiary undertaking	Place of incorporation	Trading/Non-trading	Principal activity
Communications (Holdings) Ltd (100% directly owned)	United Kingdom	Non-trading	Holding company for Corporate Communications (Holdings) Ltd group subsidiaries
Worldstone Group Ltd (100% indirectly owned through Corporate Communications (Holdings) Ltd)	United Kingdom	Trading	Provision of communications consultancy and outsourcing services
JT (Global) Limited (formerly Corporate Communications (Europe) Ltd) (100% indirectly owned through Corporate Communications (Holdings) Ltd)	United Kingdom	Trading	Provision of communications consultancy and outsourcing service
Worldstone, Inc. (100% indirectly owned through Corporate Communications (Holdings) Ltd)	United States	Trading	Provision of communications consultancy and outsourcing services
NeoConsult ApS and Nomad IP ApS (20% indirectly owned through Jersey Telecom (UK) Limited)	Denmark	Trading	Development, consultancy, education, production, sales and investment in IT-services and products

29. Subsequent events

A final dividend for the year was approved for recommendation to the shareholders, note 9.

There have been no other subsequent events that require any adjustment or further disclosure since the statement of financial position date.

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