Jersey Post Group

Jersey Post International Limited
Postal Headquarters
JERSEY
JE1 1AA

T +44 (0) 1534 616616
F +44 (0) 1534 871629
E customerservices@jerseypost.com

www.jerseypost.com

Jersey Post | express. | promail. | logistics. | **Together We Work.**

Jersey Post International Limited

Annual Report 2008

Jersey Post Group

Directors of Jersey Post International Limited

Mike Liston OBE
Non-Executive

Clive Spears ACIB, MIS
Non-Executive Vice-Chairman and Senior Independent Non-Executive

Paul Jackson
Non-Executive

Lord Gary Whipp
Managing Director of Jersey Post International Development Limited (Independent as at 31 December 2008; non-independent in 2009 as he assumed executive duties)

John Pinel
Chief Executive
(Resigned 26 February 2009)

Ian Ridgway, BSc, MBA, FCA
Finance Director

Andrew Starkey MILT, MIDM
Commercial Director
(Resigned 26 February 2009)

Ian Carr
Managing Director Postal Business
(Appointed 3 April 2009)

Julie Crabtree FCIPD, Msc, BA(Hons)
Director Human Resource Development
(Appointed 3 April 2009)

Company Secretary

Liz Vince BA, CPFA, CPD.cert

Auditors

Deloitte LLP
PO Box 403, St. Helier
Jersey JE4 8WA

Pension Advisors

Hewitt, Bacon & Woodrow Limited
Actuaries and Consultants
Parkside House, Ashley Road
Epsom, Surrey KT18 5BS

Bankers

HSBC Bank plc
PO Box 14, St Helier
Jersey JE4 8NJ

Contents

Board of Directors

Jersey Post International Limited


[1] Mike Liston


[2] Clive Spears


[3] Gary Whipp


[4] Paul Jackson


[5] Ian Ridgway


[6] Ian Carr


[7] Julie Crabtree

[1] Mike Liston OBE

Non-Executive Chairman, Mike Liston (57 years) has wide experience of the public and private sectors.

At the end of 2008, he stood down after 15 years as Chief Executive of the LSE-listed utility, Jersey Electricity, to concentrate on his non-executive roles, which include Chairman of AIM-listed, Renewable Energy Generation Limited, which has businesses in Europe and North America; Chairman of AIM-listed KSK Emerging India Fund, which develops energy infrastructure in India, and Director of Private Equity fund, Foresight European Solar.

Mike is Chairman of the Jersey Appointments Commission, which was established by government to ensure probity in public appointments.

He is also a member of the Audit Committee of Europe's largest engineering professional body, The Institution of Engineering and Technology. He was the first Chairman of the Post Office Users' Committee, established in 1997.

[2] Clive Spears ACIB, MIS

Senior Independent Non-Executive Vice-chairman, Clive Spears (55 years) is an Associate of the Chartered Institute of Bankers and a member of The Securities & Investment Institute. He currently runs his own local corporate services consultancy business, being on the board of a number of regulated offshore funds mainly covering the private equity, mezzanine debt and property fund markets.

Principal current appointments are with the Nomura Bank Group and Nordic Capital Group across a varied portfolio of financial service businesses.

He retired from the Royal Bank of Scotland in 2003 after 32 years service, of which 25 years were spent in Jersey, latterly as Deputy Director responsible for corporate and securities business. He is the immediate Past President of the Jersey Chamber of Commerce.

[3] Gary Whipp

Non-Executive, Gary Whipp (47 years), originally from the Isle of Man, provides significant entrepreneurial and commercial expertise, particularly in sales and marketing. Gary's first venture into the UK was satellite television. In 1989, his company was one of eight licensed by Rupert Murdoch's company, Sky Television, to market their products.

More recently, his companies have been involved in the Telecommunications sector. In 1997, he marketed Cable & Wireless Indirect Voice products to the business sector, later acquiring that business from Cable & Wireless, developing it for several years and then divesting it to Carphone Warehouse in 2005.

Gary and his family moved to Jersey in 2006. Gary was the former Chief Executive of Newtel Solutions. Newtel is a fully licensed Public Telecommunication Operator (PTO) in both Jersey and Guernsey.

[4] Paul Jackson

Non-Executive, Paul Jackson (66 years) is a well-known expert in the mail, express, airfreight and logistics industry, with extensive knowledge and experience of all aspects of the industry as a whole, and the postal world in particular.

He is the Non-Executive Chairman of Triangle Management Services Limited, which provides strategic consultancy, market research, mergers and acquisitions services, conferences and executive recruitment, mainly in the mail, express and logistics sectors.

Under Paul's direction, the company has developed a pre-eminent position in the mail, express, logistics and global freight sectors.

[5] Ian Ridgway BSc, MBA, FCA

Finance Director, Ian Ridgway (40 years) qualified as a Chartered Accountant with Coopers & Lybrand Deloitte. Immediately prior to joining Jersey Post in 1999, he was a partner in a Birmingham-based accountancy practice and a founding Director of its consultancy company.

At Jersey Post, Ian is responsible for Financial Control, Corporate Governance, Legal & Compliance, Regulation, and Business Systems. He was awarded a Masters Degree in Business Administration in 2003 and became a Fellow of the Institute of Chartered Accountants in England and Wales in 2005. He is also a Non-Executive Director of Jersey Opera House.

[6] Ian Carr

Managing Director (Postal Business), Ian Carr (52 years), joined Jersey Post in 1975 and held a number of management roles before being appointed Operations Director in 1999. Since then, he has successfully transformed the postal operations to provide quality and efficient postal services to the Island's residential and large business community, also developing and implementing new business concepts such as "pick and pack" fulfilment operations, and Jersey Post's entry into the Courier and Express market through the launch of "J Express".

Ian was appointed Managing Director of the Postal Business in April 2009, in which role he is responsible to the Board for the strategic, operational and financial performance of the Group's core activities.

[7] Julie Crabtree FCIPD, Msc, BA(Hons)

Human Resource Development Director, Julie Crabtree (44 years), joined Jersey Post in 2007 from a major Health Trust in the UK. She is a qualified HRD Practitioner who has experience of working in the private and public sectors, in unionised and non-unionised environments.

Julie is a Chartered Fellow of the Chartered Institute of Personnel and a licensed practitioner for a range of psychometric and development tools. She has a special interest in organisational development and, in particular, the management of change and manpower productivity.

"Much has changed in the global economic and political environment since my statement last year.

I am particularly conscious of the increased emphasis which company directors are expected to place strategic, public interest and reputational risks in their reports to shareholders. I seek here to give a balanced and forward-looking view of the key threats and opportunities facing Jersey Post"

Mike Liston
Chairman, Jersey Post Group

Challenges in a Changing Industry

Jersey Post became an incorporated company in 2006, not a moment too soon to equip it with the commercial freedom to respond to a revolution in the postal industry, not dissimilar to that of the telecommunications industry a decade earlier.

The key forces driving this revolution include explosive growth in Internet usage, which is reducing traditional mail volumes globally by more than 10% each year, together with the impact of increasingly onerous regulation, price control and liberalisation of postal markets.

All these forces exist in Jersey, and they put at risk Jersey Post's ability to fund its "local" services, free from dependence on government subsidy of the kind needed by the UK's Royal Mail and postal operators in other jurisdictions. Conversely though, these forces can be exploited for the benefit of all stakeholders if pragmatism rather than traditional ideologies is shown towards political, regulatory and, indeed, our own business agendas. This should be possible in Jersey, especially if all parties acknowledge lessons from these first 6 years of reform in the Island's telecoms market.

We accept the inevitability of regulation and competition, both of which in our experience are strong performance motivators. However, there is a need for debate here, as there has been elsewhere, on the extent to which the global financial crisis should, in the public interest, moderate the unquestioning pursuit of liberalisation ideologies which were taken for granted by many regulators during the recently subdued boom in globalisation.

The challenges we face are similar to those of postal operators across the globe:

- How to maintain an affordable service to all users whilst not discriminating against unprofitable ones, and in our case, whilst avoiding the need for government subsidy.
- How to cope with rapidly declining volumes of traditional mail, as technological substitution accelerates.
- How to convert high fixed-cost networks to flexible assets. In particular, how to provide more cost-effective access to postal services than simply via the traditional local post office.
- How to establish new sources of income.
- How to prepare the workforce for the realities of the new competitive marketplace.
- How to manage the risk of regulators with high levels of authority and low levels of responsibility.

Early Responses

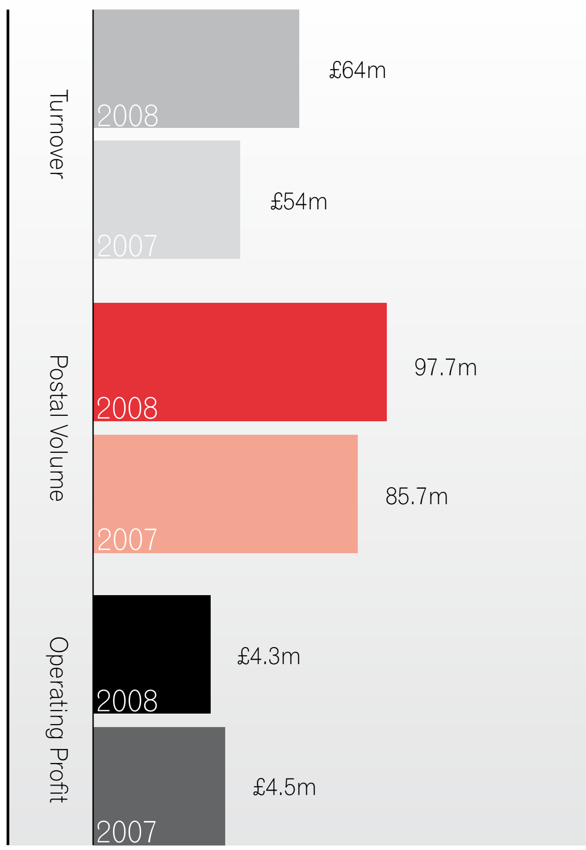
In its first year, the Board rationalised the company's activities, including the closure of its "Offshore Solutions" business, which although unprofitable had provided casual work for nearly 100 local people and served as an effective incubator for the now well-developed "whole-chain" fulfilment industry in Jersey. The Board also streamlined the company's overhead cost base in an initial restructuring of Executive and Central Services functions.

In this, its second full year as an incorporated company, Jersey Post achieved its best ever underlying performance, with turnover up 18.5% compared to 2007 at £64m, and postal volumes 14% higher at 97.7m items. Whilst this growth is a credit to our staff and our customers whose business success has driven volume growth, it masks many profound risks alongside some undoubted opportunities, which have implications for both government and regulators. One indicator of toughening trading conditions is that despite the substantial growth in turnover, operating profits fell by almost 5% as we absorbed rising costs rather than pass them on to customers. This trend is forecast to accelerate in 2009 and beyond.

A Funding Imperative

In common with those other incumbent postal operators, who like us still bear the obligation of providing a comprehensive service to everyone, everywhere in their territory, irrespective of economic viability, we face increasing losses in delivering that "Universal Service Obligation" (USO). The USO funding gap in other jurisdictions is often filled partly by government subsidies, for example in the UK where these subsidies are at the heart of controversy over privatisation and Post Office closures. Although Jersey Post receives no subsidies whatsoever, financial support for the USO in Jersey is prescribed in the postal price control regime operated by the Jersey Competition Regulatory Authority (JCRA). →

2008 Performance Overview



A Funding Imperative continued

This regime relies on income from Jersey Post's services to its business customers, to fill the funding gap for postal services enjoyed by the rest of the community – now running at more than £5m a year. Our anxiety with this prescription is that it fails to recognise the fragility of that income, especially from the fulfilment industry, which represents 60% of our revenues.

The fulfilment industry has matured in Jersey into one recognised for the social and economic benefits it brings through flexible employment opportunities for local people of all abilities. But it is under severe pressure itself, from falling price margins, changing consumer habits in the entertainment sector, and by pressure from the UK government to curtail the fulfilment industry in the offshore territories. Measures taken by Jersey's own government have already prompted the flight of some notable fulfilment businesses to other less politically sensitive jurisdictions.

Of particular concern is the contradiction between, on one hand, the JCRA's assumption that its subsidy model for the USO is sustainable, and on the other, its active campaign to attract new postal operators into the market. New entrants will inevitably "cherry pick" the more attractive segments of a market, and it is imperative that they should be required to pay their fair share of the cost of providing the USO, especially if, as foreign undertakings, they make no other contribution to the local economy. We can anticipate the instinctive appeal of such operators, especially to the larger fulfilment businesses, but experience elsewhere has shown that they struggle to manage the complexities of VAT and Customs procedures for goods exported to the UK and other European countries. We believe that the competitive threat they pose for us is a profound one which, although probably temporary in its use of predatory pricing, will reduce our profits by about 50%. Our fulfilment sector pricing policy for 2009 already features significantly reduced margins as a pre-emptive measure.

The more serious threat, however, is to the future of the fulfilment industry itself if unfettered licensing of off-Island postal operators undermines the high standards of procedural compliance on which Jersey's fulfilment industry relies for its continuing freedom to operate in the politically sensitive conditions that prevail here, and in the UK. We are concerned too by the scope for reputational damage impacting on the wider Financial Services industry, and indeed on the Island as a whole, at this time of increased international scrutiny of offshore financial centres.

Our biggest challenge in recent years has been to absorb as much as possible of the increased costs arising from Royal Mail's re-balancing of its tariffs for handling mail for other postal operators. These tariffs have increased by one-third during the past three years and payments to Royal Mail now account for half of Jersey Post's total operating costs. We believe that the most severe of Royal Mail's tariff increases are behind us, however, we are poised to exploit the emergence of postal competition in the UK, when it can provide the reliability and geographic coverage we need.

A Shared Responsibility for the Future of Postal Services

Although highlighting competition and regulation as amongst the biggest threats facing our business and the USO which it supports, we are not opposed to either. Approximately half of the postal market in Jersey is now open to competition, and the activities of the licensed private postal providers who operate in it are in everyone's best interests. However, our main concern remains that no clear strategy has yet been articulated for the postal sector in Jersey, which defines the appropriate roles of competition and price control in such a small market, in the context of needing to fund a substantial USO. This needs urgent attention by government and the JCRA.

In the absence of an overall strategy for the postal market, the importance of formal Regulatory Impact Assessments is at least as paramount here as it is in the rest of Europe - where such assessments are mandatory for Regulators as they exercise their considerable powers in matters such as the awarding of new postal operators' licences.

We have no wish to add to the cost burden of regulation, which already amounts to around £0.6m a year for Jersey Post, but the risk of unintended consequences is high in many of the JCRA's decisions and is worthy of attention.

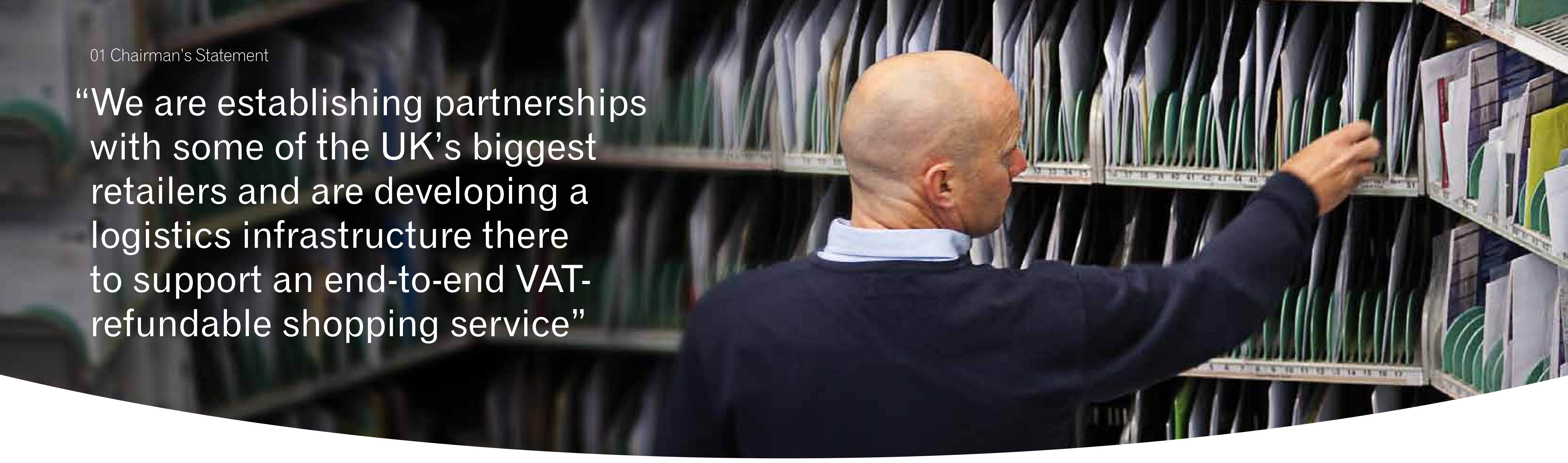
We have been recently encouraged by the willingness of the JCRA to debate these risks, and although we have not yet seen sufficient mitigating provisions in the terms of licences it has awarded to new postal operators, we welcome recent signs of pragmatism in some of the most potentially disruptive of its regulatory proposals and positions.

Opportunities and Prospects

In view of the threats outlined above, the Board's strategy is to embrace the reality of increasing competition, regulation, and therefore falling profits in the company's traditional postal business, but to drive diversification in its activities, with the overall aim of generating sufficient earnings from unregulated business to cover 120% of the subsidy needed to deliver the USO. This subsidy is expected to rise to more than £5m a year by 2010.

Following a fundamental review of the Group's prospects, we have embarked upon further diversification to turn the threat of e-commerce into opportunities. With a global market of more than 1.5 billion online shoppers now growing at 8% each year, this is one of the main planks of our plans to generate the majority of our profits from non-traditional sources within the next five years. →

"The Board's strategy is to embrace the reality of increasing competition, and drive diversification in its activities to turn the threat of e-commerce into opportunities"



Opportunities and Prospects continued

We are establishing partnerships with some of the UK's biggest retailers, and are developing a logistics infrastructure there to support an end-to-end VAT-refundable shopping service for local residents and traders that will overcome the current obstacles presented by the policy of most UK retailers not to deliver to the Channel Islands. We believe this will be of wider economic benefit too, in the fight by government to reduce inflation in Jersey.

Our plans to expand our activities in e-commerce present new risks that are quite different from those appropriate for our heavily regulated, core postal utility. As a consequence, we have established a new Enterprise business as a separate subsidiary company, free from the burden of structural costs associated with our core postal business, but still subject to the rigours of Jersey Post Group's Corporate Governance controls, applied directly by the Board. The speed with which we need to develop new sources of income will probably involve acquisitions alongside organic growth, and we are examining the potential to liquidate some of our property assets to help fund them. We also anticipate seeking shareholder consent to allocate some stock in the new enterprise company for equity swaps and employee share options, as cost-efficient tools in acquisitions and people performance programmes.

As part of this re-structuring of Jersey Post Group, the Board determined that some existing corporate functions were incompatible with the necessary development of two distinctly different and autonomous business cultures.

The roles of Group Chief Executive and Group Commercial Director both became redundant under the new structure, which came into being soon after the end of 2008. As a result, John Pinel and Andrew Starkey left the company under its standard voluntary redundancy terms, with John receiving, in addition, a modest loss-of-office settlement. I would like to pay particular tribute to John for his contribution to Jersey Post's success during his 14 years as Chief Executive.

Ian Carr becomes de-facto Senior Executive Director in the Jersey Post Group, having been appointed as Managing Director of its core, Postal Business. Ian has successfully headed postal operations at Jersey Post for many years and is well-equipped to assume the more strategic role. Gary Whipp, who joined the Board as a Non-Executive Director last year with an impressive record of entrepreneurial achievement in the UK's telecommunications industry, moves into an interim executive role to develop the embryonic enterprise business as its Managing Director.

> "I wish to thank our staff, who have demonstrated flexibility and pragmatism in adapting to the pressures of change"

Gary's engagement in this executive role is for a limited term not expected to exceed the two year "launch phase" of the new business, but in order to preserve the independence of the Board and to further strengthen its capabilities in e-commerce development, it is intended to recruit an additional Non-Executive Director from that sector. Strict compliance with best corporate governance practice means that we may recruit a fifth Non-Executive member to the Board, to provide a constitutional majority over the Executives and enhance its independent expertise in Human Resources, notwithstanding the recent appointment of Julie Crabtree as Human Resources Director.

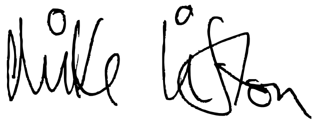
Reputation and Governance

The Board feels a strong sense of duty to match the delegated authority we have as directors of an incorporated company, with an equal measure of responsibility for the organisation's good conduct and performance.

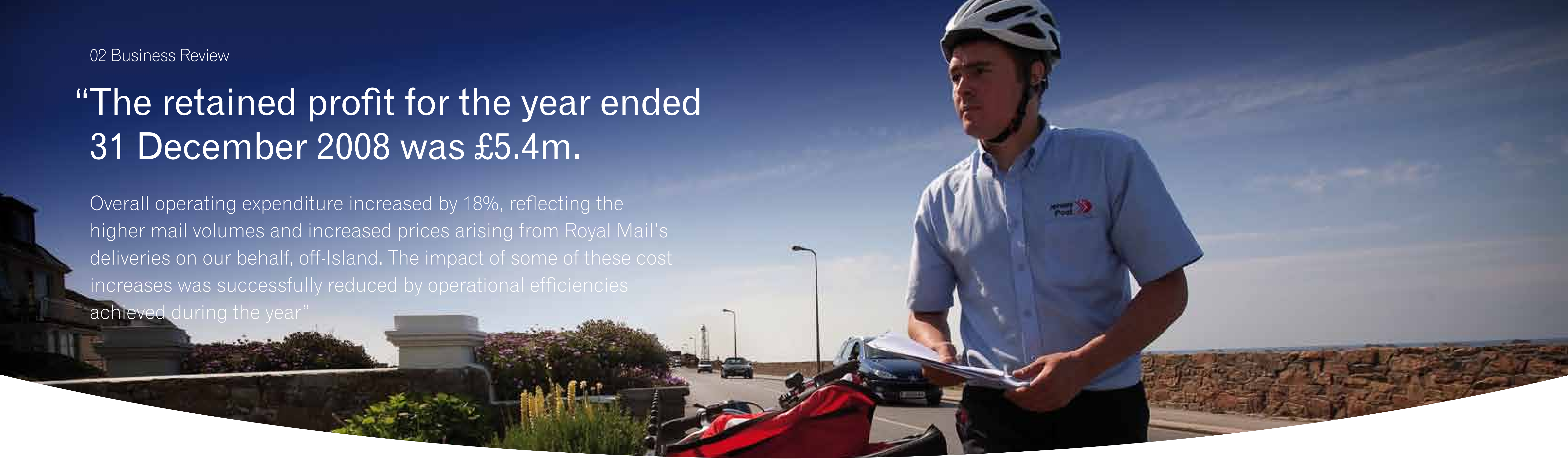
Beyond the standards which we are required to maintain under the Financial Reporting Council's Combined Code on Corporate Governance, we are explicitly regulated by the Jersey Competition Regulatory Authority, and, as the Channel Island's largest Money Services Bureau, we fall within the strict compliance regime of the Jersey Financial Services Commission, especially in respect of controls to prevent money laundering. We reinforced our Internal Audit and Risk Management function last year, which has proved very effective, especially in response to the raft of new standards emerging in the wake of governance failures in the global Banking sector.

The Board of Directors has been closely engaged with the business during its transition from government trading department to incorporated company, and I am most grateful to my non-executive colleagues in particular for their endeavours. I should like to add special thanks to the Chairman of our Audit Committee, Clive Spears, who has dedicated much energy to the role.

Above all, I wish to thank our staff, who have demonstrated flexibility and pragmatism in adapting to the pressures of external and internal change. Their long-term interests, like those of our other stakeholders, are well served by a robust, but professional, business partnership at both national and local levels with the Communication Workers Union, which should equip us collectively to face the challenges ahead.



Mike Liston
Chairman, Jersey Post Group



"The retained profit for the year ended 31 December 2008 was £5.4m.

Overall operating expenditure increased by 18%, reflecting the higher mail volumes and increased prices arising from Royal Mail's deliveries on our behalf, off-Island. The impact of some of these cost increases was successfully reduced by operational efficiencies achieved during the year"

Financial Performance

Jersey Post's operating profits in 2008 fell slightly to £4.3m (2007: £4.5m) despite a 16% increase in turnover, as margins were eroded by the company's decision to absorb, rather than pass on to customers, some of the increased costs from Royal Mail. The full impact on profits was reduced by the positive effects of:

- Successful restructuring of the business and business units, with considerable annual savings in administration costs.
- Conveyance efficiencies in J Logistics (turnover is disclosed within "Postal Services" in note 2).
- Growth and/or efficiencies across all business units.
- Volume growth from existing and new online retail customers.
- Pro-active management of cash balances leading to interest receivable of £1.3m.
- Sustained vacancies in operating units.

The retained profit for the year ended 31 December 2008 was £5.4m (2007: £5.0m). Cash balances were significantly reduced in 2008 as a result of payments to Royal Mail and full repayment of the outstanding £3.2m loan from the States of Jersey. Capital investment grew to £0.8m (2007: £0.3m) principally on mail process automation and information systems. Turnover grew by 16% in 2008 to £64m, due largely to new business, mostly in our bulk packet export (online retailing sector) activities. Stamp prices were frozen in 2008 and business postal rate rises minimised in response to toughening trading conditions for many of our customers. Overall operating expenditure increased by 18%, reflecting the higher mail volumes and increased prices arising from Royal Mail's deliveries on our behalf, off-Island. The impact of some of these cost increases was successfully reduced by operational efficiencies achieved during the year.

In the Directors' view, there remains considerable risk to earnings arising from the regulation and liberalisation of the postal market within Jersey. This, together with lower earnings expectations next year, and the need to invest in the further diversification of its businesses away from vulnerabilities in the fulfilment sector, leads the Board to prioritise the retention to reserves of at least two-thirds of profits. Accordingly, it recommends a dividend of 35.6 pence per share (2007 nil), absorbing £1.78m.

60% OF MAIL is delivered on bikes or on foot

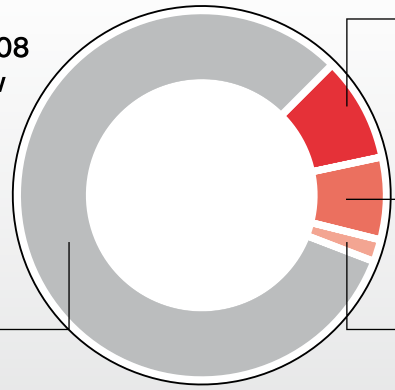
Universal Service Obligation

Jersey Post is the only postal operator on the Island that is required to fund and provide a set of "Universal Service Obligations" (USOs). These ensure Island-wide access to a wide range of services irrespective of their individual economic viability. The current obligations include collections and deliveries of mail on a daily basis, Monday to Saturday; delivery of mail to destinations outside of the Island; the provision of reasonable access to its network, and an affordable uniform tariff.

Jersey Post's network includes 187 roadside posting boxes and 22 sub-Post Office outlets across the Island, which represents, per-capita, above-average access when compared to European Union benchmarks. The Jersey Competition Regulatory Authority plans to review the USO in 2009.

Distribution of Group Turnover, 2008

"Turnover grew by 16% in 2008 to £64m, due largely to new business mostly in our bulk packet export (online retailing sector) activities"



9% Agency and Counter Services
£5.8m Turnover

7% J Promail Services
£4.7m Turnover

82% Postal Services
£51.8m Turnover

2% Philatelic Services
£1.3m Turnover

The Price of a Stamp

Even in a small jurisdiction such as Jersey, maintaining a quality postal network that connects customers with the UK and the rest of the world is a complex and labour-intensive business. However, stamp prices in Jersey continue to be amongst some of the most competitive in Europe and Jersey Post keeps a constant focus on reducing costs to ensure prices reflect good value, keeping necessary increases to a minimum. Public tariff stamp prices were frozen during 2008. →

"With continued strong growth in the fulfilment and online retailing sectors, volumes of bulk export packages sent from the Island during 2008 increased by 39% compared to the previous year"

Volumes of Mail Handled

Jersey Post's traditional Letters business within the Island experienced a volume decline again this year, which at 4.5% reflects the global trend as electronic media replace traditional methods of communication. However, with continued strong growth in the fulfilment and online retailing sectors, volumes of bulk export packages sent from the Island during 2008 increased by 39% compared to the previous year.

Mail volumes handled for export or import during the year, including letters, parcels, express and bulk export, totalled 97.7m items (2007: 85.8m), of which 33.6m were delivered locally. Pressure on Jersey Posts traditional letters business comes in many forms.

A number of other licensed Postal Operators have been introduced into the "physical" letter market on the Island, and some local mailing databases have migrated to the UK to exploit niche opportunities arising from a pricing anomaly. Technological substitution continues, as electronic alternatives emerge in transactional and general correspondence. Jersey Post's strategic response includes the development of e-commerce services, especially to facilitate online retailing.

A future challenge for Jersey Post and the States of Jersey is to ensure that liberalisation of the postal market in Jersey, and the speed of it, is balanced against the requirement to ensure that the postal services demanded by our customers can be adequately funded at affordable prices through efficient and cost-effective operations to deliver a quality Postal Service on the Island.

Quality of Service

Amongst the many quality-of-service measures employed by Postal Operators and regulators, "end-to-end" reliability and timeliness is of particular importance.

Measuring the length of time it takes from the posting of a letter to its actual delivery, this standard independently monitors the achievement of next-working-day delivery for first class or fully-paid letters, across five main services:

- Local to Local, or "on Island"
- Jersey to UK
- UK to Jersey
- Jersey to Guernsey
- Guernsey to Jersey

In 2008, four out of the five targets set in agreement with JCRA were either met or exceeded, with an average 96% of local letters being delivered next day. Service performance between Jersey and Guernsey suffered from flight connection problems impacting upon mail routing onward through Guernsey to Alderney.

A solution implemented jointly between Jersey Post and Guernsey Post resolved the problem during the second half of the year.

Jersey Post's Quality of Service was the subject of a public consultation by the JCRA during 2008, which was well received by the public and resulted in new targets being set for 2009.

Customer Service

Our initiatives to improve customer service extend beyond physical delivery performance, to include ease of customer access to our products and services.

During 2008, four automated "Post and Pay" kiosks were introduced into various locations across the postal network. Providing "self-service" posting facilities for parcels and letters, and bill payment services for certain utilities, the kiosks have proved very popular with customers.

Service delivery measures also include the number of complaints received, daily queue times and customer satisfaction exit polls at the main post office in St Helier. In 2008, the level of customer complaints recorded was 15 per 1000 delivery points on the Island against a target, set by the JCRA, of no more than 20.

At the main post office, queuing times were an average of 4.4 minutes against a maximum queue time target of 4.5 minutes, and customer satisfaction was measured at 90% against a target of 85%.

Service quality across the whole network of 22 sub-Post Offices is measured through an independent "Mystery Shopper" survey and the 2008 achievement of 84% was a good improvement on the previous year's result of 79%, although marginally below the target of 85%. Jersey Post retained its ISO9001 Quality Assurance accreditations for J Promail, Retail and Customer Services.

As a large corporate business and an important part of Island life, Jersey Post has a vital role to play in protecting the environment for future generations. In recognising that role, during 2008 Jersey Post developed and launched its first Environmental Policy. The policy, primarily aimed at reducing its carbon footprint, and minimising its impact on the environment, will also deliver business efficiency improvements.

The implementation of the policy has enabled Jersey Post to progress further its plans to attain "ECO-ACTIVE" Business status, the States of Jersey initiative on business and the environment, in 2009. →

4.4 MINUTES average main Post Office queuing time

96% LETTERS delivered next day on average

"A major management challenge for 2008 was to respond to the external environment whilst continuing to put our people at the heart of business decision making"

Future Market Opportunities and Challenges

Key drivers shaping the future for our business include:

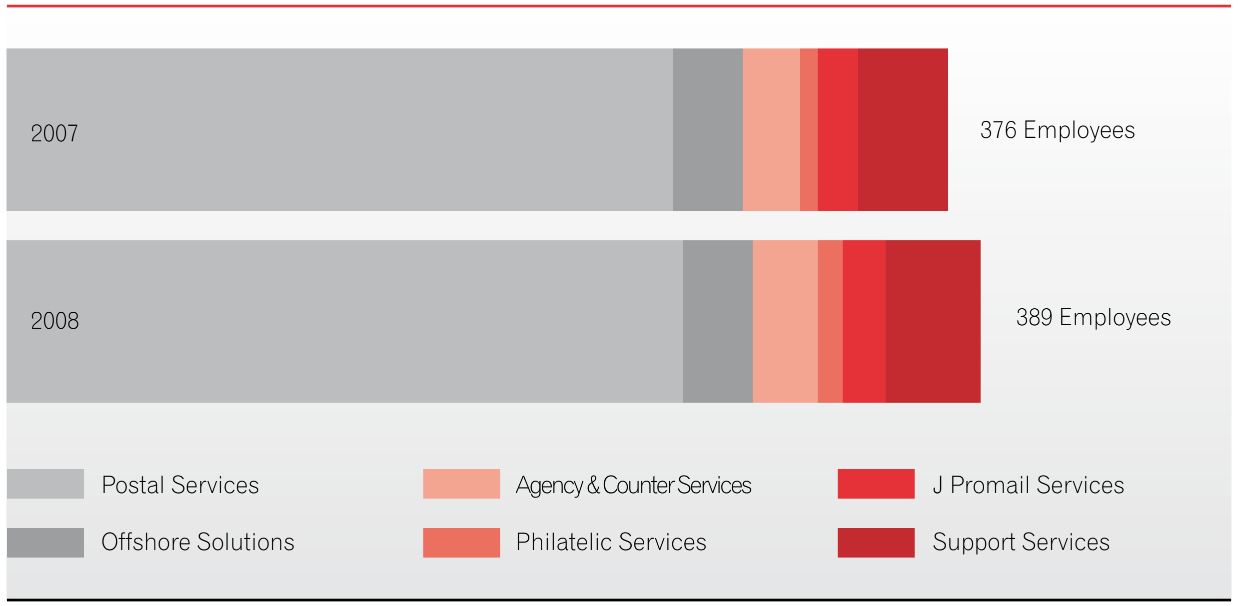
- New technologies changing the way customers communicate, do business and shop. These are driving a steep decline in traditional letter volumes, but a significant increase in packages as the online shopping revolution continues to boom.
- The evolving regulatory regime in the postal sector in Jersey continues to put conflicting pressures on the business. A very comprehensive Universal Service Obligation demands a labour-intensive, costly postal network, but at the same time opening up the postal market to competition threatens the volumes and therefore efficient utilisation of that network.
- Pressure by the UK Treasury on the Jersey Government to control the growth of local online retailers trading through the post. The risk of unilateral withdrawal of the Low Value Consignment Relief (LVCR) could dramatically impact on future mail volumes from this sector, which plays a vital role in Jersey Post's ability to continue subsidising the USO.
- The deepening global financial recession will undoubtedly impact on future mail volumes as businesses fail, consolidate, economise or adopt new communications technologies.
- Conversely, these pressures present opportunities. As businesses diversify and generate new business, Jersey Post will play a key role supporting them, providing innovative solutions such as its digital print, database and document management expertise.

Jersey Post's future strategic plans include:

- The delivery of customer growth and retention through value, choice and quality across the full range of its services.
- Securing future business sustainability through diversification and expansion into new markets and territories.
- Developing our social commitment to the Island community as its principal Postal Operator.
- Forming strategic alliances with major business customers who are core to the future of the Island's economy.
- Realigning our business, its products and services, to exploit new communications technology.
- To provide an exciting future for our people who are at the very heart of our business.

> "Jersey Post's future strategic plans include developing our social commitment to the Island community as its principal Postal Operator"

Number of Employees at the Year-End



Investors in People

A major management challenge for 2008 was to respond to the external environment whilst continuing to put our people at the heart of business decision making. This has been achieved through successful partnership, working with CWU, and by increasing capacity and capability throughout the business. As a result, a number of changes have taken place including: modification of our business structure, developing and implementing a reward structure that is designed to reflect the diverse markets in which we operate; policy and practice to improve performance and talent management, and expanding learning and development opportunities for people at all levels in the business. 2008 has proved to be an exciting and challenging year, however, 2009 holds another set of challenges for us all to work through to ensure our continued success. ■

"The Board held eight scheduled meetings during the financial year ending 31 December 2008.

In May 2008, the Chairman circulated a Board evaluation questionnaire to all Board members and Executive Directors for completion. The results of this questionnaire were summarised by the Chairman in a written report that was reviewed by the Board at its meeting on 21 August 2008"

Introduction

Jersey Post International Limited has a Memorandum of Understanding with the Treasury & Resources Minister.

This requires the Group to produce Financial Statements that include disclosures in accordance with the Combined Code of Corporate Governance issued by the Financial Reporting Council ("the Code").

The Directors are committed to maintaining a high standard of Corporate Governance in accordance with the principles laid down in the Code. The Board considers that it has complied with the relevant provisions of the Code during the financial year ended 31 December 2008, except for instances of non-compliance declared as part of this report.

The Board

The Board is chaired by Mike Liston, who was appointed as Chairman on 12 June 2006. In addition to the Chairman, there are three Non-Executive Directors: Clive Spears appointed on 12 June 2006, Gary Whipp appointed on 24 August 2007 and Paul Jackson originally appointed on 12 June 2006 and reappointed for a further three-year term at the company's AGM held on 19 June 2008.

Clive Spears is the Senior Independent Non-Executive Director. The Executive Directors as at 31 December 2008 were John Pinel (Chief Executive) (resigned 26 February 2009), Ian Ridgway (Finance Director) and Andrew Starkey (Commercial Director) (resigned 26 February 2009).

The main role of the Board is to:

- Set the overall strategy of the Group;
- Approve the annual business plan, budget and annual report and accounts;
- Monitor performance against plans;
- Ensure the maintenance of a sound system of internal control and risk management;
- Ensure compliance with Anti Money Laundering Orders and other regulations issued by the JFSC;
- Oversee the activities of the Executive Directors;
- Ensure obligations to the shareholder (the States of Jersey) are understood and met; and
- Ensure compliance with the Postal Services (Jersey) Law 2004.

The Board has delegated the day-to-day operation of the activities of the Group to the Executive Directors. There is a clear division of responsibility between the Chairman and the Chief Executive, which is set out in writing as well as a Schedule of Matters reserved for the Board. Both documents are reviewed by the Board annually and updated if necessary. The last review was carried out at the Board's meeting on 12 November 2008.

The Chairman is responsible for leadership of the Board and monitoring its effectiveness. This includes effective communication with the shareholders, ensuring their views and interests are considered when making key decisions. He also facilitates the contribution of the Non-Executive Directors and promotes a constructive relationship between Executive and Non-Executive Directors. The Chief Executive is responsible for formulating strategy and/or its delivery once agreed by the Board. He creates the framework of strategy, values, organisation and objectives to ensure the successful delivery of key targets, and allocates decision making and responsibilities to his senior managers accordingly.

The Board held eight scheduled meetings during the financial year ending 31 December 2008. Agendas and supporting papers are circulated to Board members one week in advance of the meeting date. Records of meetings and the decisions of the Board are maintained by the Company Secretary and are approved by the Board at the following meeting.

Director Independence

The Board considered that all the Non-Executive Directors were independent during the financial year ending 31 December 2008, in accordance with the criteria laid down in the Code.

Number of Meetings Attended

	Main Board	Audit Committee	Remuneration Committee	Nominations Committee
M Liston	8/8 (Chairman)	3/3	3/3	1/1 (Chairman)
C Spears	8/8	3/3 (Chairman)	2/3	1/1
P Jackson	8/8	–	–	–
G Whipp	7/8	–	3/3 (Chairman)	–
J Pinel	8/8	–	–	0/1
I Ridgway	7/8	–	–	–
A Starkey	8/8	–	–	–

"The Audit Committee is responsible for reviewing the strategic processes for risk, control and governance throughout the Group"

Performance Evaluation

In May 2008, the Chairman circulated a Board evaluation questionnaire to all Board members and Executive Directors for completion. The results of this questionnaire were summarised by the Chairman in a written report that was reviewed by the Board at its meeting on 21 August 2008.

The Chairman and the Non-Executive Directors hold informal meetings without the Executive Directors being present. The performance of the Executive Directors is assessed by the Remuneration Committee. During 2008, the Non-Executive Directors did not meet without the Chairman present to appraise his performance, as this was addressed via the questionnaire considered by the full Board at its meeting on 21 August 2008.

Audit Committee

The Audit Committee is appointed by the Board from the Non-Executive Directors. In 2008, the Audit Committee was chaired by Clive Spears with Mike Liston as a member.[1] The Chairman has 25 years of experience in the banking and financial services sector and 10 years relevant corporate governance experience. Mike Liston is a member of the Audit Committee of the Institution of Engineering & Technology.

The external auditors (Deloitte LLP), the Group Finance Director and the Business Risk Assurance Manager also attend the meetings by invitation. During the financial year ending 31 December 2008, the Audit Committee met three times. The Audit Committee's agenda is linked to events in the company's financial calendar. The agenda for each Audit Committee meeting is agreed with the Chairman at least four weeks prior to the meeting.

New Audit Committee members are provided with induction training and all Committee members receive ongoing training on at least an annual basis. Ongoing training can comprise of attendance at formal conferences or courses but more likely internal company seminars and briefings by the external auditors. The Audit Committee reviewed its performance via a self-assessment questionnaire, which was discussed at its meeting on 24 October 2008. In addition, the Committee has an Action Plan that records the tasks it needs to complete during the year, including those to ensure compliance with the Code. Progress against the Action Plan is reviewed at each Committee meeting.

The Committee is charged by the Board with responsibility for reviewing the strategic processes for risk, control and governance throughout the Group. The Audit Committee has terms of reference[2] that include all matters indicated by the Combined Code and which are subject to annual review. The Audit Committee gains its assurance about the effectiveness of internal controls from both the external auditors and Business Risk Assurance Manager via the following specific responsibilities:

[1] The Board keeps the membership of the Committee under review and would increase this to three if a further Non-Executive Director is appointed to the Board, in order to be fully compliant with the Code.

Responsibilities re External Audit

- Recommend the appointment of the external auditors, the audit fee and any questions of resignation or dismissal of the external auditors. To make appropriate recommendations through the Board to the shareholders to consider at the AGM.
- Discuss with the external auditors each year, in advance of the audit commencing, the nature and scope of the work they propose to undertake and ensure co-ordination with internal audit.
- Discuss with the external auditor their quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements.
- Review the independence and objectivity of the external auditors, ensuring that key audit personnel are rotated at appropriate intervals.
- Review the effectiveness of the audit process.
- Approve any non-audit engagement and associated fees of the external auditors and ensure the non-audit services will not impair the external auditors' independence or objectivity.
- Review the annual financial statements, based on information supplied by the Executive Directors and the external auditors, before submission to the Board, reviewing and challenging particularly:
  - >> Critical accounting policies and practices and any changes in them.
  - >> Decisions requiring a major element of judgment.
  - >> The extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed.
  - >> The clarity of disclosures.
  - >> Significant adjustments resulting from the audit.
  - >> The going concern assumption.
  - >> Compliance with accounting standards.
  - >> Compliance with legal, regulatory and Corporate Governance requirements.
  - >> Reviewing the Statement of Corporate Governance prior to endorsement by the Board and the policies and process for identifying and assessing business risks and the management of those risks by the company.
  - >> To consider other topics, as defined by the Board.
- Discuss any problems and/or reservations arising from interim and final audits and any matters the external auditor may wish to discuss, in the absence of the Executive, where necessary.
- Review the external auditors' management letter of recommendation and management's response. →

[2] These will be included on the Jersey Post website during 2009 following a re-launch of the site.

Responsibilities re Internal Audit[3]

- To receive and approve Internal Audit's Terms of Reference as set out in the Audit Charter.
- To receive and approve Internal Audit's annual Audit Plan and satisfy itself that Internal Audit is properly resourced and skilled to implement the plan.
- To receive progress reports detailing internal audits undertaken during the period under review, progress against the plan and any concerns that Internal Audit wishes to bring to the attention of the Audit Committee.
- To satisfy itself that where control weaknesses are identified by Internal Audit, appropriate remedial action is undertaken by management in a timely manner.
- To consider management's response to any major internal audit recommendations.
- To commission Internal Audit to undertake specific assignments where deemed necessary by the Committee.
- To approve the appointment or dismissal of the Business Risk Assurance Manager.
- To review management's and the internal auditors' reports on the effectiveness of systems for internal control, financial reporting and risk management.

The Audit Committee undertakes an annual review of the Group's risk management policy and in particular the financial thresholds used to evaluate the impact of risks to ensure these remain appropriate.

The Audit Committee also reviews the company's procedures for handling reports from whistleblowers. The Committee will receive annual reports on any concerns which are raised and the action taken to address these.

In the case of any serious issues of financial impropriety, the Audit Committee will be briefed as soon as possible following the reporting of the concern and will review the action management is taking to investigate the issue. The Audit Committee has acted in accordance with its terms of reference during the year. The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the Committee.

Nomination Committee

The Nomination Committee[4] is chaired by Mike Liston with Clive Spears and John Pinel (resigned 26 February 2009) as members.

Remuneration Committee

In 2008, the Remuneration Committee was chaired by Gary Whipp with Mike Liston and Clive Spears as members. During the financial year ending 31 December 2008, the Remuneration Committee met three times. The Remuneration Committee has responsibility for setting remuneration for the Directors that is sufficient to attract, retain and motivate people of the quality required. No Director plays any role in the determination of his own remuneration. The Memorandum of Understanding with the Treasury and Resources Minister requires any changes to the level of remuneration paid to Non-Executive Directors to be agreed, in advance, by the Minister. The Committee also monitors the levels of remuneration for senior management.

The Committee has an Action Plan that records the tasks it needs to complete during the year, including those to ensure compliance with the Code. Progress against the Action Plan is reviewed at each Committee meeting.

The Committee's terms of reference[5] are reviewed annually. The remuneration of the Directors for the financial year ending 31 December 2008 is set out below:

Directors' Remuneration 2008

	Salary/Fees £'000	Bonuses £'000	Benefit in Kind[6] £'000	2008 Total £'000	2007 Total £'000
			Executive Directors		
J Pinel	164	–	21	185	214
I Ridgway	123	15	16	154	166
A Starkey	99	–	13	112	61
			Non-Executives		
M Liston	36	–	–	36	35
C Spears	20	–	–	20	14
P Jackson	23	–	–	23	19
G Whipp[7]	15	–	–	15	5

[3] Internal Audit is provided by the Business Risk Assurance Manager.
[4] The Terms of Reference for the Nomination Committee will be included on the Jersey Post website during 2009 following a re-launch of the site.
[5] As for note 4.

[6] The only benefit in kind received by the Executive Directors was the contribution payable into the PECRS pension scheme and health insurance.
[7] The 2007 remuneration payment relates to part of the year due to the appointment occurring during the year.

"The Group endeavours to ensure that its employees are able to carry out their duties in a competent and professional manner through its commitment to staff training and development"

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 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 key procedures which the Board has established to provide assurance that effective controls are in place are:

Risk Management

The Group has a Risk Register that details and assesses all the significant risks facing the Group. Risk reports are submitted to each meeting of the Board. Management is responsible for identifying the key risks to achieving their business objectives and ensuring that there are adequate controls in place to manage these in line with the risk appetite set by the Board and contained in the company's Risk Management Policy.

The Risk Management Policy is subject to annual review to ensure that the Group's risk management processes are in line with best practice.

Business Risk Assurance

The Business Risk Assurance Manager co-ordinates and facilitates the risk management processes, compiles the risk reports for the Board and undertakes internal audits to provide independent assurance to the Board via the Audit Committee that risk is being adequately managed.

22 SUB-POST OFFICE OUTLETS

Board Reports

Key strategic decisions are taken at Board meetings following due debate and with the benefit of Board papers circulated in advance. The risks associated with decisions are a primary consideration in the information presented and discussed by the Board. The Board discusses and approves the Group's strategic direction, plans, objectives, annual budgets and financial forecasts.

Management Structure

Responsibility for operating the systems of internal control is delegated to management. There is an Accountability Framework that documents the responsibilities of Senior Managers, Executive Directors and the Board in relation to financial, legal and risk matters.

Human Resources

The Group endeavours to ensure that its employees are able to carry out their duties in a competent and professional manner through its commitment to staff training and development. ■

Jersey Post Group - In The Community

Acknowledging our responsibility to the community and the environment in which we operate, with particular emphasis on families, youth, education and development.

Charitable Support
- Jersey Cancer Relief
- General Hospital's Special Baby Care Unit (SCBU)
- Children in Need
- Mencap South Coast Walk
- RNLI - St Helier Lifeboat
- Anthony Nolan Trust
- Itex Walk
- Jersey Hospice Care

Sponsorship
- Rock in the Park
- Sark to Jersey Rowing Race
- Portuguese Food Fair
- Standard Chartered Marathon
- Jersey School of Motoring
- Island Games
- Young Enterprise

Environment
- Four van delivery rounds converted to cycle routes
- 60% of all mail delivered on bikes or on foot
- Fleet vehicles run on biodiesel

Our support is not just monetary or people-led, we also provide our services and professional expertise to generate publicity for a cause.

"Jersey Post adopts a working partnership approach with the Communication Workers Union who are involved in all major policies, changes and initiatives."

During the year, the policy of providing employees with information about the Group was continued using a variety of media.

Introduction

The Board of Directors of Jersey Post International Limited (JPIL) presents its report on the affairs of JPIL and its sub-sidiaries ('the Group'), together with the audited consolidated financial statements for the year ended 31 December 2008.

Principal Activity

The principal activity of the Group is that of providing postal services to the Island of Jersey.

Results

Details of the results for the year are set out in the Group consolidated profit and loss account on page 28.

A review of the Group's business during the year and an indication of the likely future development of the business are provided in the Chairman's Statement and the Business Review on pages 4 to 15.

Shareholdings

The 5 million £1 ordinary shares of JPIL are fully paid up and 100% owned by the States of Jersey.

Dividends

A dividend of 35.6p per ordinary share issued will be recommended (2007:nil).

Employee Involvement

During the year, the policy of providing employees with information about the Group was continued using a variety of media through which employees were encouraged to present their suggestions and views on the Group's performance. This included a staff survey.

Jersey Post adopts a partnership working approach with the Communication Workers Union who are consulted and involved in all major policies, changes and initiatives.

All employees of Jersey Post Limited benefited directly in the success of the Group through their bonus schemes.

Disabled Employees

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the Group's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate.

Board Remuneration

Details of Directors' remuneration are set out in the Remuneration Committee Report on page 21.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable law & regulations.

Company Law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company as at the end of the period and of the profit or loss of the company for the 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; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Statement of Directors' Responsibilities

The AGM will be held at Broad Street Post Office, St Helier on the 25 June 2009.

Auditors

Deloitte LLP were appointed and acted as auditors for the year ended 31 December 2008. A resolution to reappoint Deloitte LLP as auditors for the year ending 31 December 2009 will be proposed at the AGM on the 25 June 2009.

This statement was approved by the Board of Directors of Jersey Post International Limited on 29 May 2009 and was signed on their behalf by:

Liz Vince BA, CPFA, CPD.cert
Company Secretary

"In our opinion, the financial statements give a true and fair view of the state of the Group's and parent company's affairs and of the Group's profit for the year then ended"

Independent Auditors' Report to the Shareholder of Jersey Post International Limited

We have audited the Group financial statements (the "financial statements") of Jersey Post International Limited for the year ended 31 December 2008 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated reconciliation of movements in shareholders' funds, the consolidated balance sheet, the consolidated cash flow statement, and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's member in accordance with Article 110 of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to it in an auditors' 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, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report and consider whether it is not consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Business Review, the Statement of Corporate Governance and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements.

It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.

In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- The financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and parent company's affairs as at 31 December 2008 and of the Group's profit for the year then ended; and

- The financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991.

"The basis of our audit opinion includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements"

Deloitte LLP

Deloitte LLP
Chartered Accountants
St. Helier, Jersey

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Consolidated Profit and Loss Account

Year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Turnover	2	**63,753**	53,814
Cost of sales		**(54,292)**	(44,483)
Gross profit		**9,461**	9,331
Administrative expenses		**(5,124)**	(4,849)
Operating profit	3	**4,337**	4,482
Exceptional items	3	**–**	(120)
Interest receivable	5	**1,251**	1,066
Finance income	6	**375**	250
Profit before taxation		**5,963**	5,678
Taxation	7	**(523)**	(662)
Retained profit for the year		**5,440**	5,016

The basis of preparation of these financial statements is set out on page 30, and the notes on pages 31-45 form part of these financial statements.

The above results are derived from continuing activities.

Consolidated Statement of Total Recognised Gains and Losses

Year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Retained profit for the year		**5,440**	5,016
Actuarial loss in respect of the pension schemes		**(4,703)**	(12)
Reduction in pension surplus due to amendment to FRS 17	1	**(50)**	–
Movement in deferred tax	7	**951**	2
Total recognised gains and losses for the year		**1,638**	5,006

The basis of preparation of these financial statements is set out on page 30, and the notes on pages 31-45 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Tangible assets	8	**8,702**	8,948
Current assets			
Pension surplus	14	**–**	579
Deferred tax	7	**1,688**	1,845
Stock	9	**192**	161
Debtors	10	**11,393**	9,499
Cash at bank and in hand		**13,099**	17,591
		26,372	29,675
Creditors			
Amounts falling due within one year	11	**(11,109)**	(17,269)
Net current assets		**15,263**	12,406
Total assets less current liabilities		**23,965**	21,354
Pension deficit	14	**(3,373)**	–
Loan from States of Jersey	12	**–**	(2,400)
Net assets		**20,592**	18,954
Represented by:			
Ordinary share capital	15	**5,000**	5,000
Profit and loss account reserve		**15,592**	13,954
Shareholders' funds	19	**20,592**	18,954

The financial statements were approved by the Board of Directors of Jersey Post International Limited on 29 May 2009 and were signed on their behalf by:

Ian Carr
Managing Director
(Postal Business)

Ian Ridgway
Finance Director

The basis of preparation of these financial statements is set out on page 30, and the notes on pages 31-45 form part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Net cash outflow from operating activities	24	**(1,640)**	(7,424)
Returns on investments and servicing of finance			
Interest payable		**(82)**	(242)
Interest received		**1,251**	1,048
Net cash inflow from returns on investments and servicing of finance		**1,169**	806
Capital expenditure			
Net purchase of tangible fixed assets		**(815)**	(259)
Net cash outflow from capital expenditure		**(815)**	(259)
Net cash outflow before management of liquid resources and financing		**(1,286)**	(6,877)
Management of liquid resources		**13,723**	6,353
Financing – Repayment of loan from States of Jersey		**(3,200)**	(800)
Increase (decrease) in cash in the year	24	**9,237**	(1,324)
Decrease in cash as per the balance sheet		**9,231**	(1,314)
(Increase)/decrease in overdraft as per the balance sheet		**6**	(10)
Cash movement		**9,237**	(1,324)

The basis of preparation of these financial statements is set out on page 30, and the notes on pages 31-45 form part of these financial statements.

Notes to the Financial Statements

1. Accounting policies

1.1 Basis of preparation
The financial statements are prepared in accordance with generally accepted accounting practice in the United Kingdom ("UK GAAP"). The financial statements are prepared under the historical cost convention.

1.2 Going concern
On the 15th June a dividend of 35.6p (2007: nil) per ordinary share will be recommended. In addition, the Directors have produced forecasts for the next 12 months which has satisfied them that the Group will continue to be profitable for the foreseeable future and be able to meet its liabilities as they fall due. Accordingly the Directors have adopted the going concern basis in preparing the financial statements.

1.3 Basis of consolidation
The consolidated financial statements include Jersey Post International Limited and its subsidiaries ("the Group"). Intra-group sales and profits are eliminated on consolidation and all sales and profit figures relate to external transactions only.

1.4 Tangible fixed assets
On a continuing use basis within the business, tangible fixed assets are stated at cost less depreciation.

In accordance with the Postal Services (Transfer) (Jersey) Regulations 2006, which regulated the transfer of the assets, liabilities and rights of Jersey Post to Jersey Post International Limited as detailed in the Directors' Report, at 30 June 2006, the freehold land and buildings were re-valued on an existing use basis prior to their purchase by the Group.

The cost of all other tangible fixed assets is their purchase cost, together with any incidental costs on acquisition. Tangible fixed assets with a cost of less than £500 are not capitalised.

Depreciation is calculated so as to write off the cost of tangible fixed assets on a straight-line basis over the expected useful economic lives of the assets concerned. Tangible fixed assets are not depreciated until they are available for use.

The lives assigned to major categories of tangible fixed assets are:

Land	Not depreciated
Freehold buildings	15 – 30 years
Computer hardware and software	1 – 5 years
Plant, vehicles and equipment	3 – 10 years
Improvements to leasehold property	Remaining length of the lease

The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

1.5 Stocks
Stocks are stated at the lower of cost and net realisable value. Provision is made where necessary for obsolete, slow-moving and defective stocks.

1.6 Foreign currencies
Transactions in foreign currencies are translated into sterling at the exchange rate ruling when the transaction was entered into. Monetary assets and liabilities expressed in foreign currencies are translated to sterling at the exchange rates ruling at the balance sheet date. Foreign currency gains and losses are taken to the profit and loss account. All foreign currency transactions were entered into in accordance with the Groups Foreign Exchange policy.

1.7 Turnover
Turnover represents the invoiced value of goods and services supplied less post office boxes and business reply licences invoiced in advance and unexpended credit on franking meters. The sale of stamps is based on the cash received and no account is made for stamps in circulation.

1.8 Taxation
Current 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 balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet 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 balance sheet 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.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, 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. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

1.9 Pension costs
Prior to incorporation the Group operated two defined benefit schemes, the Jersey Post Office Pension Fund (JPOPF), a closed occupational scheme, and the Public Employees Contributory Retirement Scheme (PECRS), an open multi-employer scheme, both of which required contributions to be made to separately administered funds. Upon incorporation, the States of Jersey retained responsibility for the fully funded JPOPF. For the purpose of the Group, JPOPF is treated as a defined contribution scheme.

Operating profit is charged with the cost of providing pension benefits earned during the period. The expected return on pension scheme assets less the interest on pension scheme liabilities is shown as a finance cost within the profit and loss account.

Actuarial gains and losses arising in the period from the difference between the actual and expected returns on pension scheme assets, experience gains and losses on pension scheme liabilities and the effects of changes in demographics and financial assumptions are included in the Consolidated statement of total recognised gains and losses ("STRGL").

The ASB published an Amendment to Financial Reporting Standard (FRS) 17 'Retirement Benefits' on 7 December 2006. This followed the Exposure Draft that was issued in May 2006. The amendment is effective for accounting periods beginning on or after 6 April 2007. The amendment requires that the fair value of assets will comprise the bid value quoted securities, rather than the mid-market value. This is also in line with the established practice under IAS 19 "Employee Benefits". The change in accounting policy arising from the amendment has not been treated as a prior period adjustment, as in the opinion of the Directors the effect is not material.

Pension scheme liabilities are measured using the projected unit credit method, discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Recoverable pension scheme surpluses and pension scheme deficits are recognised in the balance sheet.

As stated in note 14, the latest FRS 17 update valuation of the PECRS scheme was carried out at 31 December 2007 and has been used for the 31 December 2008 financial statements.

1.10 Operating leases
Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

1.11 Research and development
Expenditure on research and development is written off in the period in which it is incurred.

1.12 Related Parties
The Group has taken advantage of the exemption in Financial Reporting Standard 8 'Related Party Disclosures' from disclosing transactions with related parties that are members of the Group.

2. Turnover

Classes of turnover may be analysed as follows:

	2008 £'000	2007 £'000
Postal services	**51,826**	41,328
Offshore Solutions	**–**	925
Agency and counter services	**5,841**	5,703
Philatelic services	**1,339**	1,277
J Promail services	**4,747**	4,581
	63,753	53,814

The Group's customers are primarily based in Jersey. However, being a postal administration, the Group distributes worldwide.

The information currently available to report the net assets of each business class as a reportable segment is limited, as each business operates as a division of the Group and therefore in certain instances there is no reasonable basis to allocate the Group net assets to each business.

On 4 April 2007, the "pick and pack" operations of Offshore Solutions Limited closed.

	2008 £'000	2007 £'000
Turnover	**–**	925
Operating loss	**–**	(140)

3. Operating profit for the year

		2008 £'000	2007 £'000
Operating profit for the year is stated after charging the following:			
Regulatory fees paid to the JCRA		**170**	300
Operating lease rentals	– land and buildings	**190**	225
	– others	**185**	120
Depreciation		**1,066**	1,338
Auditors' remuneration	– audit	**55**	55
	– non-audit	**16**	19

There were no exceptional items in 2008. Exceptional items of £120k in 2007 consist of amounts provided for in relation to the closure of the "pick and pack" operations of Offshore Solutions Limited and redundancy costs associated with business restructuring.

4. Employees costs and numbers employed

	2008 £'000	2007 £'000
Wages and salaries	**14,451**	14,269
Social security costs	**810**	785
Employer pension costs	**1,297**	1,214
	16,558	16,268

	No.	No.
The number of employees at the year end were as follows;		
Postal services	**270**	266
Offshore Solutions Limited	**28**	28
Agency and counter services	**26**	23
Philatelic services	**10**	7
J Promail services	**17**	16
Support services	**38**	36
	389	376

5. Interest receivable

	2008 £'000	2007 £'000
Bank interest receivable	**1,251**	1,066

6. Net finance income

	2008 £'000	2007 £'000
Expected return on pension scheme assets	**2,279**	2,028
Interest on pension liabilities	**(1,822)**	(1,518)
	457	510
Loan note interest payable	**(82)**	(260)
Net finance income	**375**	250

7. Taxation

	2008 £'000	2007 £'000
Jersey income tax at 20%		
Current charge	404	264
Charges in respect of prior year	–	–
Total current tax charge for the year	404	264
Deferred taxation		
Charge for the year taken to profit and loss	201	181
(Credited)/charged to the profit and loss in respect of prior periods	(82)	217
Total charge to profit and loss	**523**	**662**
Credit for the year taken to the STRGL	(951)	(2)
Total (credit)/charge for the year	(428)	660

The differences between the total current tax shown above and the amount calculated by applying the standard rate of Jersey corporation tax to the profit before tax is as follows:

	2008 £'000	2007 £'000
Profit on ordinary activities before taxation	**5,963**	**5,678**
Tax on profit on ordinary activities at 20%	1,193	1,135
Factors affecting tax charge for the year		
Tax losses brought forward	–	(24)
Non-qualifying depreciation	48	48
Fixed asset timing differences	134	73
Permanent differences arising from non-deductible exceptional items	–	8
Timing differences on pensions	(535)	(539)
Effect of transition year rules	(436)	(437)
Total current income tax for the year	**404**	**264**

7. Taxation continued

Deferred taxation

	2008 £'000	2007 £'000
Total deferred tax balance at 1 January	**1,700**	2,096
Charged to profit and loss	**(201)**	(181)
Credited to the STRGL	**951**	2
Credit/(charge) to the profit and loss in respect of prior periods	**82**	(217)
Total deferred tax balance at 31 December	**2,532**	1,700
The deferred tax balance at 31 December consists of the following:		
Accelerated capital allowances	**260**	130
Special pension contribution	**1,429**	1,715
Deferred tax asset per the balance sheet	**1,689**	1,845
Deferred tax asset/(liability) netted against pension surplus/deficit (note 14)	**843**	(145)
Total deferred tax as above	**2,532**	1,700

A deferred tax asset has been recognised on the basis of the latest budget and forecasts show that the Group expects to have taxable profits going forwards.

The basis of assessment of trading income to Jersey tax is changing from a prior year basis to a current basis from 2009. The trading profits shown in these accounts are subject to transitional provisions under the Income Tax (Amendment No. 28) (Jersey) Law 2007.

The profits chargeable to tax for the Year of Assessment 2008 will be the average of the adjusted profits for the 2007 and 2008 accounting periods.

Previously, the Company accrued for current tax based on the taxable profit (or loss) for that accounting period notwithstanding that tax was charged to the Company on a prior year basis. The accounting impact of the transition to an actual basis is that only half of the year's profits for the 2007 and 2008 year-ends will suffer tax at 20%.

To recognise the impact of the transition, the Company is no longer accruing current tax on a prior year basis and, for the 2007 and 2008 year ends, is providing for tax at 10% on the taxable profits arising in those years. With effect from the 2009 year-end, the Company will make full provision for tax, based on the tax rate applicable to the Company, on its current year taxable profits.

8. Tangible fixed assets

	Freehold land & buildings £'000	Improvements to leasehold property £'000	Plant vehicles & equipment £'000	Assets under construction £'000	Total £'000
Cost					
At 1 January 2008	7,735	524	8,521	–	16,780
Disposals	–	–	(76)	–	(76)
Additions	–	4	657	166	827
At 31 December 2008	**7,735**	**528**	**9,102**	**166**	**17,531**
Depreciation					
At 1 January 2008	359	402	7,071	–	7,832
Disposals	–	–	(69)	–	(69)
Charge for the year	239	51	776	–	1,066
At 31 December 2008	**598**	**453**	**7,778**	**–**	**8,829**
Net book value					
At 31 December 2008	**7,137**	**75**	**1,324**	**166**	**8,702**
At 31 December 2007	7,376	122	1,450	–	8,948

Assets under construction relate to the development of a website in relation to Ship2Me Limited (a subsidiary of JPID Limited). At 31 December 2008, this website was still being developed.

9. Stock

	£'000	2008 £'000	£'000	2007 £'000
Stamps and philatelic products	**90**		83	
Payments on account	**36**		21	
	126		104	
Post office (retail)		**29**		26
Paper		**37**		31
		192		161

10. Debtors: amounts falling due within one year

	2008 £'000	2008 £'000	2007 £'000	2007 £'000
	£'000	£'000	£'000	£'000
Trade debtors	**9,647**		7,972	
Provision for bad debts	**–**		(62)	
	9,647		7,910	
Other debtors	**2**		2	
Agency debtors	**1,160**		997	
Prepayments and accrued income		**584**		590
		11,393		9,499

A specific bad debt provision was created in 2007 as a result of the trade cessation of UGD (Jersey) Limited and UGDJ Limited.

Provisions

	2008 £'000	2007 £'000
Provision for bad and doubtful debts		
As at 1 January	**62**	–
Provided for in year	**–**	62
Provisions utilised	**(62)**	–
As at 31 December	**–**	62

Agency debtors include an amount of £922k (2007: £838K) in respect of VAT due to HMRC as a result of customer postings above the 'de minimis' level. This relief allows VAT not to be charged on imports costing less than £18 into the UK and 22 Euros into the rest of Europe. The customers refund these amounts in full and are recorded within agency creditors.

11. Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Trade creditors	**1,404**	1,623
Accruals and other creditors	**7,337**	12,906
Agency creditors	**1,356**	1,387
Bank overdraft	**5**	11
Loan from States of Jersey (note 12)	**–**	800
Taxation	**667**	264
Deferred income	**340**	278
	11,109	17,269

Included within accruals is the net amount due to Royal Mail for the delivery of mail on and off the Island. Deferred income relates to prepaid post office boxes, business reply licences and unexpended credit on franking meters.

12. Loan from the States of Jersey

On 1 July 2006, the Treasurer of the States of Jersey issued 5 Loan Notes of £800k each to JPIL.

The Loan Notes carried an entitlement to half-yearly interest payable on the thirtieth day of June and the thirty-first day of December in each calendar year in arrears at a rate per centum per annum, calculated on a daily basis, equal to the Bank of England Base Rate on each day in the previous half-year with the addition of one per cent.

On the 13 May 2008, the Board of Directors agreed that the outstanding Loan Notes issued to the States of Jersey of £3,200k be repaid in full. These were subsequently repaid on 30 May 2008.

13. Operating lease commitments

	Land and buildings		Others		Total	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000
The Group						
Non-cancellable annual commitments in respect of operating leases which expire:						
Less than one year	**–**	234	**69**	104	**69**	338
Between two and five years	**110**	110	**19**	137	**129**	247
After five years	**82**	143	**–**	–	**468**	143

14. Pension costs

The Group had one defined benefit pension scheme at 31 December 2008, which is open to employees of Jersey Post – Public Employees Contributory Retirement Scheme (PECRS). Prior to incorporation, Jersey Post had a second defined pension scheme (JPOPF). The responsibility for JPOPF remains with the States of Jersey as from 30 June 2006. Contributions by the Group to the JPOPF scheme for the year ended 31 December 2008 were £13k (2007: £16k).

The Public Employees Contributory Retirement Scheme (PECRS) is a multi-employer defined benefit scheme operated by the States of Jersey, funded in accordance with the recommendations of an actuary, which provides benefits based on final pensionable pay. The pension fund is open to new members. The assets of the fund are held separately from those of the States of Jersey.

Salaries and emoluments include pension contributions of £1,297k for the year ended 31 December 2008 (2007: £1,214k) for staff who are members of PECRS. There are no unpaid contributions outstanding at the year end (31 December 2007: £nil). The current employer contribution rate is 11.38% of members' salaries.

The latest full actuarial valuation of PECRS was carried out by the PECRS's independent actuary as at 31 December 2007. The valuation of PECRS has been updated by the actuary to 31 December 2008 in accordance with FRS17.

a) The major assumptions used by the actuary for this purpose were:

	Year ended 2008 % p.a.	**Year ended 2007 % p.a.**	**Year ended 2006 % p.a.**	**Year ended 2005 % p.a.**	**Year ended 2004 % p.a.**
Discount rate	**6.0**	5.8	5.1	4.7	5.3
Rate of increase in salaries	**4.4**	4.7	4.0	3.9	4.9
Rate of increase of pensions in payment	**3.1**	3.4	3.1	2.9	3.4
Inflation assumption	**3.1**	3.4	3.1	2.9	2.9

14. Pension costs continued

b) On the FRS17 basis, the assets and liabilities of the scheme attributable to the employees of the Group who are active members of PECRS were:

	At 31 Dec 2008 Long-term expected rate of return*	**At 31 Dec 2008 £'000**	**At 31 Dec 2007 Long-term expected rate of return***	**At 31 Dec 2007 £'000**	**At 31 Dec 2006 Long-term expected rate of return***	**At 31 Dec 2006 £'000**	**At 31 Dec 2005 Long-term expected rate of return***	**At 31 Dec 2005 £'000**	**At 31 Dec 2004 Long-term expected rate of return***	**At 31 Dec 2004 £'000**
Fixed-income bonds	**3.8%**	**–**	4.7%	–	4.7%	–	4.3%	1,222	4.9%	1,011
Equities	**7.6%**	**17,673**	7.6%	30,717	7.6%	24,403	7.6%	13,182	7.6%	9,828
Index-linked gilts	**3.6%**	**–**	4.3%	–	4.3%	–	3.9%	1,885	4.4%	1,468
Property	**6.6%**	**483**	6.6%	395	6.6%	–	6.6%	–	6.6%	–
Corporate bonds	**5.5%**	**7,822**	4.7%	–	–	–	–	–	–	–
Other	**2.5%**	**856**	5.9%	267	5.2%	6,178	4.6%	216	4.8%	161
Total fair value of assets		**26,834**		31,379		30,581		16,505		12,468
Present value of scheme liabilities		**(31,050)**		(30,655)		(29,681)		(33,361)		(30,479)
(Deficit)/surplus		**(4,216)**		724		900		(16,856)		(18,011)
Deferred tax asset/(liability)		**843**		(145)		(180)		–		–
Net surplus/(deficit)		**(3,373)**		579		720		(16,856)		(18,011)

*JPIL employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the scheme.

c) Analysis of amount charged to profit and loss account

	2008 £'000	**2007 £'000**
Service cost	**1,904**	1,869
Total operating charge	**1,904**	1,869
Analysis of the amount (credited)/charged to net finance income:		
Expected return on assets	**(2,279)**	(2,028)
Interest on liabilities	**1,822**	1,518
Net return	**(457)**	(510)
Net charge to the profit and loss account	**1,447**	1,359

14. Pension costs continued

d) Analysis of amount recognised in the STRGL

	2008 £'000	2007 £'000
Difference between actual and expected return on pension scheme assets	**(7,649)**	(694)
Experience gains arising on the scheme liabilities	**562**	(326)
Effect of changes in assumptions underlying the present value of scheme liabilities	**2,384**	1,008
Total losses recognised in the Statement of Total Recognised Gains and Losses	**(4,703)**	(12)

e) Movement in the scheme's (deficit)/surplus during the year

	2008 £'000	2007 £'000
Surplus in the scheme at 1 January	**724**	900
Current service cost	**(1,904)**	(1,869)
Contributions – normal	**1,260**	1,195
– special	**–**	–
Other finance income	**457**	510
Actuarial loss	**(4,703)**	(12)
Movement in pension surplus due to change in accounting policy	**(50)**	–
(Deficit)/surplus in the scheme at 31 December	**(4,216)**	724
Deferred tax asset/(liability) (note 7)	**843**	(145)
(Deficit)/surplus in the scheme at 31 December net of deferred tax	**(3,373)**	579

f) History of experience gains and losses

	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Difference between expected and actual return on scheme assets:					
– amount	**(7,649)**	(694)	(445)	1,801	361
– percentage of scheme assets	**2.9%**	2.2%	1.5%	10.9%	2.9%
Experience gains/(losses) on scheme liabilities:					
– amount	**562**	(326)	3,602	99	58
– percentage of the present value of the scheme liabilities	**1.8%**	1.1%	12.1%	0.3%	0.2%
Total (losses)/gains recognised in statement of total recognised gains and losses:					
– amount	**(4,703)**	(12%)	5,907	2,394	(2,021)
– percentage of the present value of the scheme liabilities	**15.1%**	0.0%	19.9%	7.2%	6.6%

Notes to the Financial Statements continued

15. Ordinary share capital

	2008 £'000	2007 £'000
Authorised, issued and allotted		
5 million £1 ordinary shares	**5,000**	5,000

No shares were issued during the year ended 31 December 2008.

16. Commitments and contingent liabilities

As at 31 December 2007 there were commitments totalling £38k (31 December 2007: £71k) in relation to consultancy services.

17. Ultimate and immediate controlling party

The ultimate controlling party is the States of Jersey.

18. Related party transactions

The Group provides multi-channel services to a number of different departments of the States of Jersey. Sales of £1m were made to departments in 2008 (because of system restrictions, comparative information is not available but will be going forward). As at 31 December 2008, the amount owing to the States of Jersey was £563k (this amount includes the amount owed to the Social Security Fund) and the amount owed from the States of Jersey was £179k (31 December 2007: £1,129k and £167k respectively). All services provided by The Group to the States of Jersey are provided on an arms length basis.

19. Consolidated Reconciliation of the Movements in Shareholders' Funds

	Note	2008 £'000	2007 £'000
Shareholders' funds at 1 January		**18,954**	13,948
Profit attributable to the shareholder		**5,440**	5,016
Movement in deferred tax	7	**951**	2
Reduction in pension surplus due to amendment to FRS 17	1	**(50)**	–
Actuarial loss in respect of the pension schemes		**(4,703)**	(12)
Shareholders' funds at 31 December		**20,592**	18,954

20. Company balance sheet and results

The assets, liabilities and equity of Jersey Post International Limited as at 31 December 2008 comprised:

	2008 £'000	2007 £'000
Investment in Jersey Post Ltd	**9,671**	12,871
Bank	**3,000**	–
Cash loan to Jersey Post International Development Ltd	**7,000**	–
Loan from States of Jersey	**–**	(3,200)
Net assets	**19,671**	9,671
Share capital	**5,000**	5,000
Distributable reserves	**14,671**	4,671
Shareholders' funds	**19,671**	9,671

The turnover for the Company during the year was Nil (2007:Nil), taxation was Nil (2007:Nil) and profit after tax was £82k (2007: Loss £260k). During the year Jersey Post International Limited received a dividend of £10m from Jersey Post Limited.

The loan to Jersey Post International Development Limited is non-interest bearing and is repayable on demand.

21. Subsidiary undertakings

JPIL is the majority owner of the equity share capital, either through itself or through its subsidiary undertakings, of the following companies:

Name	Nature of Business
Jersey Post Limited	Postal Operator
Offshore Solutions Limited	Mail Consolidation & Logistics Services
Jersey Post (Broad Street) Limited	Property Holdings
Jersey Post (Rue des Pres) Limited	Property Holdings
Jersey Post (Parishes) Limited	Lease Holdings
Jersey Post International Development Limited	E-Commerce Logistics
Ship2Me Limited	E-Commerce Logistics

22. Board Remuneration and fees

Details of remuneration paid to Directors and related party transactions therewith are disclosed in the Remuneration Committee Report on page 20 and 21.

23. Post balance sheet events

On the 15th June a dividend of 35.6p (2007: nil) per ordinary share issued will be recommended.

24. Notes to cash flow

a) Reconciliation of operating profit to net cash outflow from operating activities

	2008 £'000	2007 £'000
Operating profit	**4,337**	4,482
FRS17 operating charge less normal contributions paid	**644**	674
Add depreciation charge	**1,066**	1,338
(Increase) in stock	**(31)**	79
(Increase)/decrease in debtors	**(1,894)**	(1,430)
(Decrease) in creditors due within one year	**(5,757)**	(12,447)
Net cash flows from discontinued activities and re-organisational costs	**–**	(120)
Profit on disposal of fixed assets	**(5)**	–
Net cash outflow from operating activities	**(1,640)**	(7,424)

b) Analysis of changes in net funds

	1 Jan 2008 £'000	Cash flow £'000	31 Dec 2008 £'000
Cash	3,656	9,231	12,887
Overdraft	(11)	6	(5)
	3,645	9,237	12,882
Debt due within one year	(800)	800	–
Debt due after one year	(2,400)	(2,400)	–
Short-term deposits*	13,935	(13,723)	212
	14,380	(1,286)	13,094

*Short-term deposits are included within cash at bank and in hand in the balance sheet.

Monies held on seven day and month deposit meet the definition within FRS1 "Cash flow statements" of liquid resources and are disclosed above as short-term deposits.

c) Reconciliation of net cash flow to movement in net funds

	2008 £'000	2007 £'000
Increase/(decrease) in cash in the year	**9,237**	(1,324)
Cash outflow from liquid resources	**(13,723)**	(6,353)
Decrease in debt	**3,200**	800
Change in net funds	**(1,286)**	(6,877)
Net funds at 1 January	**14,380**	21,257
Net funds at 31 December	**13,094**	14,380