2010

Jersey Post International Limited

Annual Report 2010

Jersey Post Group

Directors, Officers and Advisors

Mike Liston OBE
Non-Executive Chairman

Paul Jackson
Non-Executive

Chris Evans
Non-Executive

Donal Duff BAAF FCA AMCT
Non-Executive
(Appointed 1 January 2010)

Gary Whipp
Executive Director and
Managing Director of Jersey Post
International Development Limited
(Resigned 12 May 2010)

Ian Carr
Chief Executive Officer

Ian Ridgway BSc MBA FCA MICA
Finance Director

Julie Crabtree BA MSc FCIPD
Human Resource Development Director

Company Secretary

Liz Vince BA CPFA CPD.cert

Auditors

Deloitte LLP
PO Box 403
St Helier
JERSEY
JE4 8WA

Pension Advisors

Aon Hewitt Limited
Actuaries and Consultants
40 Queen Square
BRISTOL
BS1 4QP

Bankers

HSBC Bank plc
PO Box 14
St Helier
JERSEY
JE4 8NJ

Registered Office

Postal Headquarters
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La Rue des Pres Trading Estate
St Saviour
JERSEY
JE2 7QS

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Board of Directors

Mike Liston OBE

Non-Executive Chairman, Mike Liston, has wide experience of the public and private sectors. He stood down recently after 15 years as Chief Executive of Jersey Electricity plc to concentrate on his non-executive roles. His recent and current roles include Chairman of LSE-listed power infrastructure and renewable energy companies and funds. He also serves on the Boards of private equity firms and venture capital trusts. Mike is former Chairman of Foreshore Internet Data Centres.

Mike was founding Chairman of the Jersey Appointments Commission, which was established by government to ensure probity in public appointments. He served for many years on the governing council and audit committees of Europe's largest professional engineering body, The Institution of Engineering and Technology, and was the first Chairman of the Post Office Users' Committee, established in 1997.

Paul Jackson

Non-Executive, Paul Jackson, is a well-known expert in the mail, express, air freight 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.

Donal Duff BAAF FCA AMCT

Non-Executive, Donal Duff, qualified as a Chartered Accountant with Coopers & Lybrand in Ireland in 1991 and subsequently transferred to its Jersey office in 1993 to work on a wide range of audit and corporate finance assignments. In 1996, he joined Le Riche Group Limited, a listed company, as Group Financial Controller, where he performed a variety of roles until such time as it was acquired by C.I Traders Limited, an AIM-listed company, in 2002. Donal was Director of Finance and Company Secretary of this company (the largest private sector employer in the Channel Islands) until its acquisition by a private equity consortium in 2007, and he continued to work with the new owners until 2008. Donal is Chief Operating Officer of The Stanley Gibbons Group plc, an AIM-listed Jersey registered company.

Chris Evans

Non-Executive, Chris Evans, has worked in the information technology services sector for 26 years and has been involved in the formation and running of a number of IT businesses. He is currently the Chief Executive of Foreshore, an Internet services business, promoting Jersey-based e-commerce to a global customer base. Chris has served as a Non-Executive Director on a number of boards, most recently the Jersey Electricity Company, from which he retired in 2010 after 12 years. He understands how the disruptive nature of technology can be used to drive business change and diversification and has sat on a number of States of Jersey committees over the past 10 years, with the objective of finding new economic opportunities for the Island.

Ian Carr

Chief Executive Officer (Jersey Post Limited), Ian Carr, joined the organisation in 1975. He was appointed Operations Director in 1999, successfully transforming postal operations to provide high quality and efficient local postal services, whilst focusing on commercial strategy.

As a result of his significant experience in the postal sector, and the communication of a clear strategic vision for future commercial growth, Ian was appointed Managing Director of Postal Business for the Group in April 2009 and Chief Executive Officer, Jersey Post Limited in 2010.

Ian Ridgway BSc MBA FCA MICA

Finance Director, Ian Ridgway, 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, Regulation and Legal & Compliance. 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.

Julie Crabtree BA MSc FCIPD

Human Resource Development Director, Julie Crabtree, joined Jersey Post in 2007, having held a directorship in NHS UK. Julie is a qualified HRD practitioner who has experience of working in large private businesses as well as the public sector, in both unionised and non-unionised environments, with responsibility for developing policy and delivering change at strategic and operational levels.

Julie has a varied portfolio which includes governance and business performance, whilst her key role is to lead in Industrial Relations and drive change.

Since 2009, Julie has also served on the Jersey Advisory Conciliation Service Board as a Non-Executive Director.

All Change

Profits slid further in 2010 to effectively break-even, as letter volumes continued their global trend of decline.

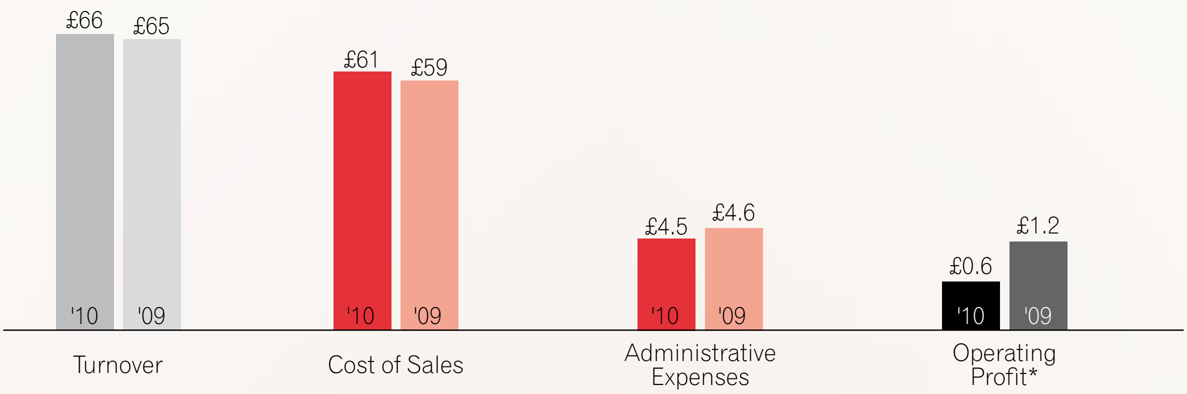
In response to increasing competitive pressure, both within and outside Jersey, we suffered reduced margins in our bulk mailing business by absorbing, as in previous years, much of the increased cost imposed by Royal Mail on overseas postal operators for whom it delivers in the UK.

At the beginning of 2010, your Board commenced a programme of radical change aimed at slashing Jersey Post's cost base, in response principally to the actions of the Jersey Competition Regulatory Authority (JCRA), which we consider to be profoundly threatening to the future financial position of the Group, and to its provision of a postal service to the public and businesses of Jersey.

Despite the global trend in declining mail volumes, the JCRA has embarked on a competition policy to open to all-comers the "fulfilment" postal market, on which it itself acknowledges Jersey Post depends to fund the large and increasing losses it incurs in meeting its licence-imposed obligation to provide six days per week deliveries and collections of mail, and convenient access to a large social amenity of 22 post offices across the island. In most other countries, this "Universal Service Obligation" (USO) is subsidised by public funds in recognition of its social importance but inherent economic unviability, in a world migrating rapidly to electronic forms of commerce and communication.

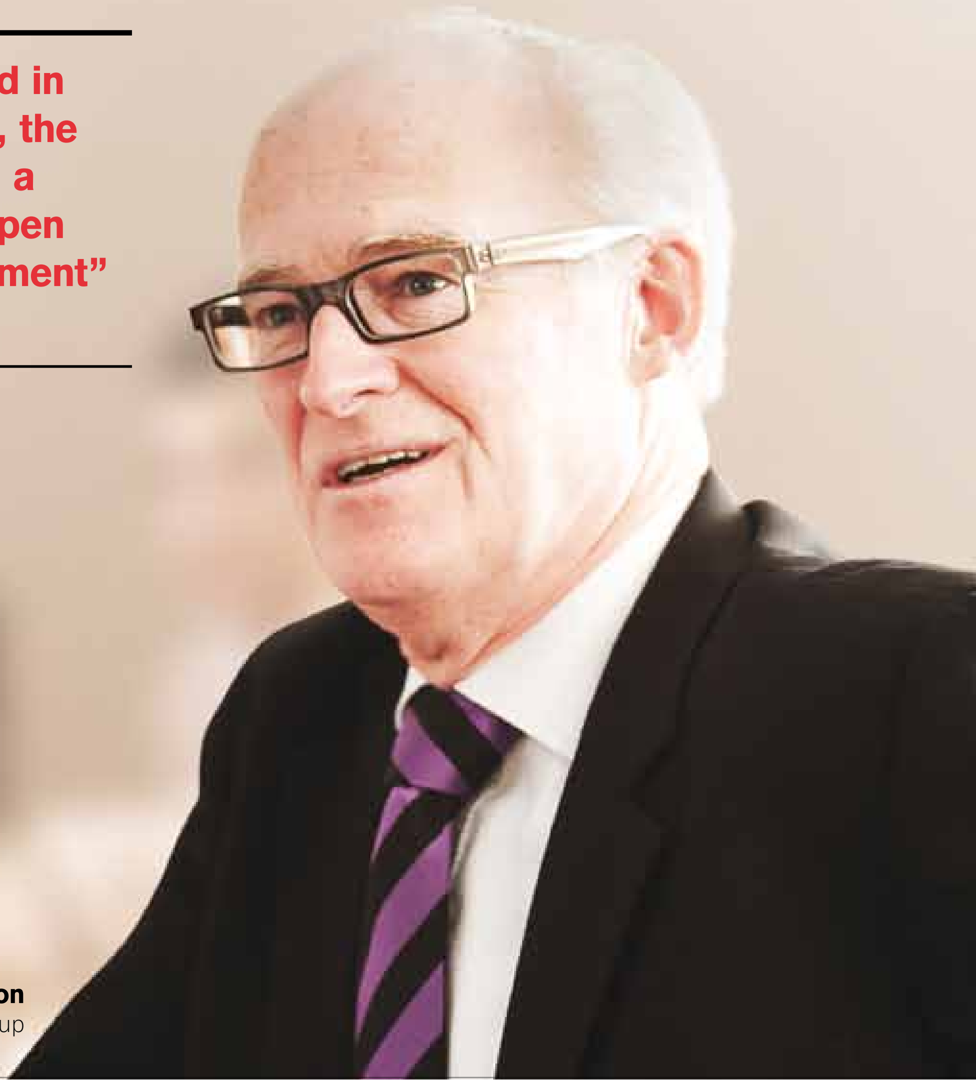
Your Board fully recognises the benefits normally provided by competition, and Jersey Post has been highly successful in competing with postal utilities in other jurisdictions, for example Switzerland, who are seeking to emulate its success in establishing a logistics service found attractive by the fulfilment industry. Therefore, Jersey Post did not appeal against the JCRA's decision in 2010 to licence two new postal operators, Citipost UK and Hub Europe to operate in the "Bulk mail packages" (mostly fulfilment mailings) market. It did, however, object to the JCRA's failure to conduct a formative Regulatory Impact Assessment – a mandatory requirement throughout Europe – to guard against unintended consequences of regulators' decisions. →

2010 Performance Overview



£1 = £1,000,000
** Before exceptional costs*

"Despite the global trend in declining mail volumes, the JCRA has embarked on a competition policy to open to all-comers the "fulfilment" postal market."



Mike Liston
Chairman, Jersey Post Group

Unintended Consequences

When, later in the year, the JCRA announced its intention to further open the fulfilment market by licensing two of the largest postal operators in the world, TNT and DHL, we appealed to the relevant Ministries of the States of Jersey.

This appeal was in order to oblige the JCRA to conduct an impact assessment on the wider social and economic impacts on Jersey's public and its businesses. This, because of the high risk that Jersey Post would be unable and unwilling to sustain the multi-£M losses it incurs in providing the USO whilst also trying to compete with global operators who do not share this burden.

It is your Board's contention that contrary to the normal effects of competition, where benefits accrue to the majority (the customers), to the detriment of the few (the competing suppliers), the JCRA's proposals would instead benefit the few (the foreign postal operators and a handful of local fulfilment companies), to the detriment of the majority (the businesses and public of Jersey whose postal service risks collapse when "cherry-picking" of fulfilment mailings chokes off the principal source of income currently funding the USO). This risk is heightened by the extreme concentration which is unique to Jersey's fulfilment market – more than 75% of fulfilment mailings are generated by just two companies. This makes it highly probable that new entrants using short-term predatory pricing can instantly win virtually all the market. Such immediate market disruption would be in profound contrast to the normally incremental loss of market share by incumbent postal operators - which regulators normally rely upon to mitigate the risk to public services when opening utility markets. We consider the "big-bang" approach by the JCRA to be reckless.

In addition to the inherent risks to the public postal service in Jersey presented by the market's small size, its declining letter volumes and the threat of further, disproportionate competition, it faces a deliberate intention by the British government to curtail the only part of it which is not loss-making. HM government plans to seek derogations from the European Commission, or impose lower de minimus thresholds, to curtail imports into the UK of certain goods under the Low Value Consignment Relief (LVCR) scheme which currently simplifies the collection of VAT for HM Treasury. Jersey Post has always been a trusted party by HM Revenue and Customs and typically collects for it £5m per annum from the fulfilment industry. By contrast with other jurisdictions, this industry has been subject to restraining policies imposed by Jersey's government which have motivated Jersey Post, together with its fulfilment customers, to diversify products and territories more widely into countries which have a more progressive attitude to e-commerce

"We consider the "big-bang" approach by the JCRA to be reckless."

involving low value goods. As a consequence, we continue to prepare for a progressive reduction in the next few years in the contribution that bulk mailings into the UK make towards our funding of the Island's postal service. This assumes the JCRA does not proceed with its more radical licensing proposals in the now undermined fulfilment market and thus avoids the immediate and draconian impacts on the public which this aspect of its competition policy threatens.

Unavoidable Impacts

Your Board had already commenced a four-year cost-cutting and USO rationalisation programme when the JCRA's announcement in 2010 of more radical liberalisation forced us to halve the implementation time of our £5m per annum savings mission.

With a revised implementation date, the £5million savings target will now be complete by the end of 2011. This accelerated pace of change is not without risks of backlash from customers and staff as we reduce service levels and impose redundancies and changes to employment terms and conditions. We announced early in the year redundancies and pay cuts which affected 171 staff, some 41% of our workforce, mostly at management and supervisory grades. We completed a fundamental review of corporate activities, productivity and business processes, which led us to streamline or outsource many of our functions including IT now being migrated to India, and legal and facilities management now outsourced to the private sector.

"As in other aspects of change to the USO, the pace with which we transform the shape of the post office network will depend on the JCRA's postal liberalisation actions."

As an important initial step in reducing the scope of the loss-making USO, we secured the JCRA's approval to reduce mail collections and deliveries from six, down to five days per week. As identified in a public consultation by the States of Jersey's Economic Development Dept, the elimination of this service on Saturdays is the least inconvenient option for the public and this will be implemented in Spring 2011. We have given notice that if necessitated by the loss of one or both of our largest fulfilment customers to the proposed new postal operators, the further reduction of USO losses which were running recently at £5m per annum, will require a further reduction of service to three days per week.

We made progress in the year towards our aim to optimise the way our customers access our products and services. We installed more automated postage facilities in our St Helier, Broad St Post Office and as part of our plans to further increase postal services access through the major food retailers, we transferred our Central Market Post Office services to a nearby Channel Islands Co-Operative store. One of the newly licensed postal operators intends to establish an outlet in the Central Market and has been offered a range of our products to complement their own. As in other aspects of change to the USO, the pace with which we transform the shape of the post office network will depend on the JCRA's postal liberalisation actions.

Cost reduction forms only one aspect of our strategy for a sustainable public postal service and business model. We have resumed our search for business development opportunities which we hope will turn from threat to opportunity; the ongoing revolution in e-commerce and digital communication. Our "Ship2me" online shopping and package forwarding service has been enhanced during the year, and we are soon expecting to join the personalised on-demand greetings and gifts market, which is growing fast.

The Policy Vacuum

The catastrophic potential of regulatory proposals made in the past year has highlighted the inherent risks to public services when an entirely independent, arguably unaccountable Regulator is authorised to operate in the absence of government policy.

We have been dismayed not only by the JCRA's failure to analyse the social and economic impact of its postal liberalisation mission, but also by the absence of any government strategy or policy framework for the postal service in Jersey. We welcome therefore, the intention by the Economic Development Minister to ensure a comprehensive analysis of the sector takes place before any further radical regulatory actions are taken.

The issues we have had to confront during the year have also exposed various anomalies in the Postal Law and the Memorandum of Understanding which framed the relationship between the States of Jersey and the company, when Jersey Post was incorporated in 2006. We welcome therefore, the recent initiative taken by the Treasury and Resources Minister to review the relationships between the stakeholders of the utility companies in Jersey, as part of a wider Governance review.

"We have been dismayed not only by the JCRA's failure to analyse the social and economic impacts of its postal liberalisation mission, but also by the absence of any government strategy or policy framework for the postal service in Jersey."

The Directors recognise the legitimate expectations of its shareholder for value, amongst the many objectives set for the company. We are committed to the generation of superior returns on investments for the States of Jersey and, subject to sustainable market conditions, we expect to resume the payment of dividends when earnings recover from this year's hiatus.

I am hopeful that the turbulence of the past year will soon give way to a more stable environment in which Jersey Post, its customers and staff, can respond fully to the opportunities and threats presented by normal competitive market behaviours, free from the additional risks arising from regulatory experimentation. There is no doubt that Jersey Post must continue to embrace rapid change in an increasingly competitive world - but change for the public good, not just for ideology. In that case, I remain confident in the continued support of our people and our political leaders, whose commitment is more vital than ever on our journey. ■

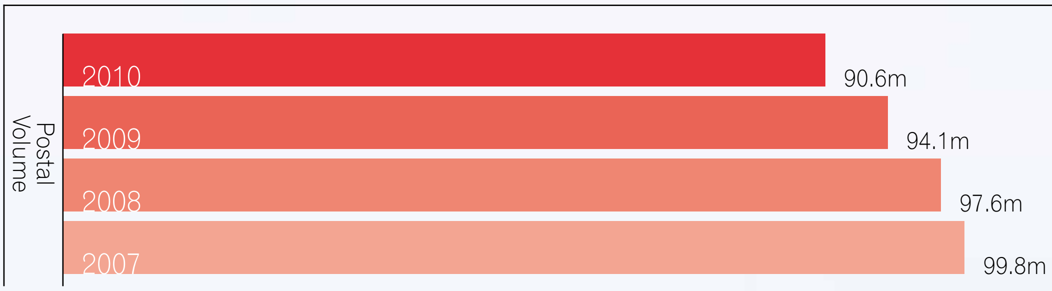
Mike Liston OBE
Chairman
6 May 2011

Together We Work.

A Leaner and Stronger Organisation

2010 represented the dawn of a new era for Jersey Post and presented significant new challenges for the business.

Volume of Mail Overview



However, with the appropriate response to those challenges we have emerged from 2010 as a much leaner and stronger organisation, well-equipped for the future and the further challenges that it will inevitably bring.

Our traditional business experienced radical change during 2010. We have built on and reshaped our business relationships with our staff and their trade union, the Communication Workers Union (CWU), our suppliers and, more importantly, our customers. We have pushed hard at the boundaries that are now shaping postal businesses around the globe, in areas such as pension reform and reducing the scope of the Universal Service Obligation (USO).

Our bulk export (fulfilment) business has experienced unprecedented threats, with negative growth trends for the first year ever and ill-conceived regulatory decisions to not only liberalise the entire market, but also license significant global postal operators into what is a highly concentrated and therefore unstable market.

2010 has also seen the start of a new age for Jersey Post as our planned long-term strategic change and corporate development has commenced in earnest.

Declining mail volumes combined with rising Royal Mail charges and reduced margins in response to competition pressures led to a third consecutive year of falling profits. The Group's operating profit before exceptional items fell to £0.6m – down from £1.2m in 2009 and £4.3m in 2008.

We recognise the financial pressures among our customers and remain committed to preserving our established position with our stamp prices amongst the lowest in Europe.

The last twelve months have seen our "Ship2me" online shopping forwarding service go from strength to strength. We introduced Size-based Pricing during the year in-line with the tariff structures widely used by our delivery partners in other jurisdictions. Our new, bespoke premium products, as well as the new prepayment card for foreign currency, which complements our cash foreign exchange business, have been well received by customers. ➔

Performance Summary

Despite very difficult trading conditions in the year, turnover increased to £65.7m (2009: £65.0m), however, the operating profit before exceptional items fell to £0.6m (2009: £1.2m).

- Exceptional costs in the year have been:
  - > The Group invested £2.6m in its business transformation plan.
  - > An exceptional pension credit of £1.9m arose, associated with the accounting valuation of the Jersey Post ring-fenced portion of the Jersey Public Employees Contributory Retirement Scheme and the redundancy programme.
- A cash dividend of £500k was paid during the year.
- In view of harsh trading conditions and the potentially devastating impact of the Jersey Competition Regulatory Authority's (JCRA) further liberalisation intentions, a final dividend is not proposed.
- The Directors do not feel sufficiently confident about future profit streams to recognise an available deferred tax asset of £1.5m.
- Group cash balances are held with major banks and amounted to £11.7m (2010: £23.7m). At the year-end, £4.2m (2009: £14.7) was owed to Royal Mail and a further £5.0m has been identified to meet potential pension commitments.
- The cash outflows of £12.0m in 2010 reflect increased payments to local and overseas suppliers.
- £0.6m was invested in plant and equipment.
- No external financing was required in 2010.
- Traditional mail declined to 37m items (2009: 39m items).
- Bulk export (fulfilment) mail declined to 47m items (2009: 48m items).
- The number of delivery points increased to 43,585 (2009: 39,007 delivery points).
- No days were lost to industrial action.
- Postal licence fees of £310,000 (2009: £150,000) were paid to the JCRA. We have lobbied for a more equitable distribution of the JCRA's increasing costs than exists with our competitors, who pay only £1,000.

Radical Change in our Traditional Business

Since 2006, the number of households we deliver to has increased by 10% and postal volumes have decreased by 29%.

This situation has created unsustainable pressure on our turnover and expenditure. Put simply, we are now delivering less mail to more households.

These challenges are not unique to Jersey Post, which is among the many global postal businesses responding with efficiency drives, cost cutting and service rationalisation.

Jersey Post funds the loss-making USO from earnings in the high volume fulfilment sector. However, these high volumes are derived mostly by just two large companies and thus highly exposed to predatory pricing by global postal operators poised to be licensed by the JCRA. The risks surrounding this sector were further compounded by the UK Government's recent changes to the Low Value Consignment Relief (LVCR) scheme on fulfilment packages sent to the UK. Jersey Post's continuing ability to avoid the dependence on government grants or subsidies, which prevails in the postal sectors in the UK, USA and other jurisdictions, relies heavily on the fulfilment sector.

Despite some price rises, local stamp prices remain amongst the most competitive in Europe and are significantly below the price control revenue cap imposed by the JCRA, reflecting the competitive forces from other postal operators and alternative technologies we face in our market in Jersey.

At the end of 2010, the Group moved from a devolved business unit accountability structure to a centralised accountability structure, to further sharpen our Group-wide efficiency programme and product performance.

"Jersey Post's continuing ability to avoid the dependence on government grants of subsidies, which prevails in the postal sectors in the UK, USA and other jurisdictions, relies heavily on the fulfilment sector."

Our Staff and the CWU

Jersey Post has undertaken a dramatic reshaping of its workforce, cutting base pay and radically reducing staffing levels.

The impact on our staff has been significant. In January, we announced 94 redundancies amongst postal worker grades. This allowed us to introduce a new postal operative grade at a more market-competitive salary that better-reflected the skills required. In June, a further 77 jobs in administration and management grades were also made redundant.

Jersey Post could not afford to match the generous terms of public sector redundancy packages. We negotiated terms with the trade union which more reflected those of the private sector. This resulted in further managing the cost of the significant redundancy programme. Whist the programme affected 41% of our workforce, when completed by the end of 2011 it will have actually reduced the workforce by almost 25% compared with previous levels, leading to more established market comparable rates and roles for operational staff. Total restructure costs for 2010 amounted to £2.6m.

During the extremely difficult time of voluntary redundancies and transfers, we had tremendous co-operation from our dedicated staff. Not surprisingly, the changes needed to our 'long-time' working practices have had a huge impact on employees. I would like to thank them and the CWU personally for their patience and acceptance of what can only be extremely difficult and unsettling circumstances for them and their families.

The success of this programme is testimony to the partnership model we have built up with the CWU over many years. This model relies on openness and trust rather than old-fashioned adversarial stances. This positive and constructive way of working together has assisted the speed of change required to sustain the organisation as a long-term, viable postal service with the intention of not becoming a burden to the Shareholder (The States of Jersey) and taxpayers.

Our Suppliers

We have been proud of our policy of using local suppliers wherever possible for services across our business.

However, in some important areas we have been unable to benefit from innovation and cost efficiencies arising from increased globalisation and technological advances. In 2010, this led to our decision to outsource our IT application support and development to Syntel, a global specialist IT outsourcing partner based in India.

The transition to outsource our IT support was completed by the end of 2010. The planned £1m application development programme, which underpins the business transformation plan, is due for completion by the end of 2011 and will deliver improved efficiency, enhanced customer interfaces, and management information.

Our Customers

Customers have already benefited from recent changes. For local mail, we introduced a discounted standard postal rate and a priority rate, which provides next-day delivery.

When, introducing Size-based Pricing in-line with common postal tariffs among our off-Island postal operator partners, we strove to balance the impact on different customer groups whilst also providing choice through a new two-tier pricing model such that, in-effect, overall, prices were frozen in 2010.

To realign postal services to falling demand and maintain competitive postal prices, plans to reduce normal daily deliveries and collections from six days per week to five, will be implemented in 2011.

The disruptive scale and pace of change that Jersey Post has been compelled to implement in 2010 had a temporary impact on operational quality. For the first time since its incorporation, the company fell below the delivery reliability levels set by the JCRA. The impact was limited to between 1% and 5% deterioration in the timeliness of deliveries, however, new Quality Assurance measures in 2011 have improved this performance.

As part of our plans to ensure our customers can access our services in the most convenient and efficient manner, our IT development plan will allow customers to access a number of our services online, in their homes and businesses by the end of 2011.

In 2010, as part of our review of the costs and benefits for customers of arrangements for accessing our services, we closed the Central Market post office transferring its offering to a major retailer nearby. We are planning for further changes to the retail network in 2011, including ongoing automation.

The table below shows the independently measured next-day delivery quality of service.

	Actual 2007	Actual 2008	Actual 2009	Actual 2010	JCRA Target 2010
Locally posted mail					
Delivered locally	94%	96%	97%	92%	95%
Delivered in Guernsey	76%	81%	84%	81%	84%
Delivered in the UK	74%	85%	80%	80%	82%
Mail posted outside Jersey					
Mail posted outside Jersey (excluding Guernsey) delivered in Jersey	78%	77%	86%	81%	82%
Mail posted in Guernsey delivered in Jersey	89%	86%	86%	79%	84%

Pushing the Boundaries

Postal businesses globally are contesting legacy constraints of large pension deficits, outdated USOs, and obsolete regulatory frameworks.

In 2010, Jersey Post introduced a new defined contribution pension scheme and subsequently closed the defined benefit pension scheme to new entrants to help address future funding issues.

Jersey Post's successful lobbying in 2010 for a five-day delivery and collection USO is an example of its determination to agree a sustainable USO with its stakeholders. Jersey Post is working hard to influence regulatory change within Jersey.

A Deteriorating Regulatory Framework - JCRA Surprise Announcement

Over the past few years, we have been working with the JCRA towards opening the fulfilment market to other competitors.

We were surprised when the JCRA announced in March it would move quickly to open up, virtually overnight, the fragile and currently only profitable part of Jersey Post's market - the fulfilment sector. This announcement failed to follow basic regulatory standards for best practice which call for impact assessments before taking substantial decisions, and it ignored the findings of other recent authoritative studies into the postal sector, such as the Hooper review. This review found that the liberalisation of the UK postal market had only helped big business, at the cost of small business and consumers of postal services generally. Furthermore, the JCRA announced its intention to licence significant global competitors which included TNT (part of the Dutch Post Office) and Hi-Speed Freight (trading as Deutsche Post Global Mail). The reckless pace of opening the fulfilment market and licensing competition by the JCRA, risks the future funding of the USO and the continued viability of Jersey Post itself.

We firmly believe that the JCRA's intention to licence TNT and DHL ignores the recent years' declines in mail volumes, and, most crucially, fails to recognise the catastrophic consequences for the public of disproportionate competition in a small and highly concentrated postal market such as Jersey.

Curtailment of our Business Diversification Initiatives

We have long recognised the fragility of the public postal service's dependence for survival on postal income from the Island's fulfilment sector.

In 2010, we embarked on a business diversification programme and a risk-assessed cost-cutting regime in the USO, when the JCRA's announcement of more radical liberalisation forced us to temporarily suspend all new business development in order to focus on managing the higher risks of an accelerated and bigger cost-cutting effort. This aims to reduce our fixed cost base by 20% before the end of 2011. Regrettably, a programme of redundancies and pay cuts has impacted more than 41% of our staff, and a reduction to five-day postal services per week will be the least of the measures needed if postal liberalisation proceeds to the extent intended by the JCRA.

Unprecedented Threats to our Bulk Export (Fulfilment) Business

For the first time this decade, volumes of bulk fulfilment mailings from the Island went into decline.

In 2010, notwithstanding the requirement to fund the USO, we remained competitive and retained all our major customers despite aggressive product offerings from newly licensed competitors.

We continue to enforce and promote the use of Her Majesty's Customs and Revenue (HMRC), VAT compliance and prepayment scheme ensuring Jersey's fulfilment sector remains transparent and well-regulated. Alternatives to this scheme promoted by our competitors, such as the Low Value Bulk Import scheme (LVBI) into the UK, lack both the transparency and compliance controls for postal imports into the UK which can only serve to heighten the UK Government's concern about VAT exploitation.

The online retail and fulfilment sector on this island is heavily reliant on the preservation of the Low Value Consignment Relief (LVCR) scheme, which allows mail order and online retail goods valued at under £18 to be imported into the UK, VAT-free. Action by the UK Government will see the allowance reduce to £15 in November 2011, with the possibility that the allowance will be abolished in the medium term.

	2007	2008	2009	2010
Year-on-year percentage increase/decrease in fulfilment volume	11%	38%	5%	(2%)

The Future

The Island's postal industry will continue to face change in the years to come and Jersey Post will evolve to seize the opportunities that a consumer led, information technology market place will provide.

We seek to establish a common agenda to research, to learn and adapt our products and services in order to meet the needs of our existing and future customers in our home and overseas territories. In particular, to align the objectives of our government, the regulator, our staff and the people of Jersey, and to retain the benefit to our community of an indigenous, publicly owned postal utility, fit to support the Island's prosperity in a fast-changing world. ■

Ian Carr
Chief Executive Officer
6 May 2011


NO PARKING
POSTAL
EMPLOYEES
ONLY

Statement of Corporate Governance

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

The Memorandum requires the Group to produce financial statements which include disclosures in accordance with the Corporate Governance Code issued by the Financial Reporting Council ("the Code"). This requirement does not require the Group to apply other standards relevant to listed entities. 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 all appropriate provisions of the Code during the financial year ended 31 December 2010. →

The Board

The Board is chaired by Mike Liston, who was appointed as Chairman on 12 June 2006 and re-appointed for a further three year term at the Company's AGM held on 25 June 2009.

The other Non-Executive Directors are:

Paul Jackson, who was originally appointed on 12 June 2006 and re-appointed for a further three-year term at the company's AGM held on 12 May 2010.

Chris Evans was appointed on 25 June 2009.

Donal Duff was appointed at the Board meeting on 27 November 2009 with his appointment commencing on 1 January 2010.

Gary Whipp resigned from the Board as a Non-Executive Director on 12 May 2010.

Non-Executive Directors are appointed to the Board on the recommendation of the Nomination Committee.

The Board has not elected one of the Non-Executive Directors to be the Senior Independent Non-Executive Director. The shareholder has immediate access to the Chairman, and in his absence, the Chief Executive Officer, and therefore the appointment of a Senior Independent Non-Executive Director is not considered an immediate priority by the Board. This matter will be kept under review, but we note that this is a requirement of Provision A4.1 of the Code.

The Executive Directors as at 31 December 2010 were:

Ian Carr - Chief Executive Officer was appointed to the Board on 6 April 2009.

Julie Crabtree - Human Resource Development Director was appointed to the Board 6 April 2009.

Ian Ridgway - Finance Director was appointed to the Board on 16 December 2005.

In accordance with Principle B7.1 of the Code, Executive Directors will be considered for re-appointment at the AGM on 24 June 2011.

In accordance with the Company's Articles of Association, one Non-Executive Director is required to retire by rotation each year. The Articles state that the director to retire by rotation shall be he who has been the longest in office since their last appointment or re-appointment. Of the existing four Non-Executive Directors, Mike Liston and Chris Evans have been the longest in office since their last appointment. Chris Evans has agreed to retire by rotation and stand for re-election at the AGM on 24 June 2011. The Board considered this matter at its meeting on 6 May 2011 and agreed to recommend the re-appointment of Chris Evans to the shareholder at the AGM.

The main role of the Board is to:

- Set the overall strategy of the Group;
- Approve the annual business plan, budget, annual report and financial statements;
- Monitor performance against plans;
- Ensure the maintenance of a sound system of internal control and risk management;
- 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.

Note: Information in this report is based on the full statutory annual report and financial statements

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 Officer 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 24 September 2010.

The Chairman is responsible for leadership of the Board and monitoring its effectiveness. He ensures effective communication with the shareholder and that the shareholder's 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 Officer is responsible for formulating strategy and for its delivery once agreed by the Board. The Chief Executive Officer, together with the other Executive Directors, creates the framework of strategy, values, organisation and objectives which ensures the successful delivery of key targets, and allocates decision making and responsibilities to senior managers accordingly.

The Board held six formal, minuted meetings during the financial year ended 31 December 2010. In addition, an informal Strategic Review workshop was held on 9 July 2010 at which the draft financial forecast for the next three years was discussed as well as the Group's Business Transformation Plan. 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.

The Company also has a Nomination Committee which meets when required to consider appointments to the Board. As there have been no Board appointments considered in 2010, the Nomination Committee has not formally met. The members of the Nomination Committee are Mike Liston, Chris Evans and Donal Duff.

Until 12 May 2010, the Company had an Investment Committee which met from time to time to consider new business ventures. The members of the Investment Committee were Mike Liston (Chairman), Paul Jackson, Donal Duff and Ian Carr. As a result of the decline in postal volumes, combined with the threats from the JCRA's proposals to quickly liberalise all of the profitable fulfilment postal market, the Board decided at its meeting on 12 May 2010 that the ability of the Group to finance new enterprise ventures was severely compromised and that further development work to identify new opportunities should be suspended. As a result of this, the Investment Committee was disbanded. Prior to this, the Investment Committee had held one meeting during 2010, on 5 February 2010, which was attended by all four Committee members.

Number of Meetings Attended

	Main Board	Audit Committee	Remuneration Committee
	6 meetings	4 meetings	4 meetings
M Liston	6/6 (Chairman)	4/4	4/4
P Jackson	4/6*	–	–
C Evans	6/6	–	4/4 (Chairman)
D Duff	6/6	4/4 (Chairman)	4/4
G Whipp (resigned 12.05.10)	3/3	–	–
I Carr	6/6	–	–
I Ridgway	6/6	–	–
J Crabtree	6/6	–	–

* Mr Jackson is resident in the UK and was unable to attend the meeting on 20 April 2010 due to the volcanic ash cloud grounding all flights. Mr Jackson was also unable to attend the meeting held on 26 November 2010 as he was overseas.

Director Independence, Performance Evaluation and Training

The Board considered that all the Non-Executive Directors were independent during the financial year ended 31 December 2010.

Performance Evaluation The Board did not consider it either necessary or cost-effective to undertake an externally facilitated review of its performance. Instead, in December 2010, on behalf of the Chairman, the Company Secretary circulated a Board evaluation questionnaire to all Board members for completion. The results of this questionnaire were summarised in a written report which was reviewed by the Board at its meeting held on 4 March 2011.

The Chairman and the Non-Executive Directors hold informal meetings without the Executive Directors being present. The performance of the Executive Directors is reviewed by the Remuneration Committee.

During 2010, the Non-Executive Directors did not meet without the Chairman present to appraise his performance, as this was addressed via the Board self-assessment questionnaire. The Chairman is directly accountable to the Treasury and Resources Minister.

Director Training All Directors are asked to review if they have any specific training requirements as part of the Board's annual self-assessment questionnaire. The Chairman would discuss any training and development requirements with individual Directors. Specific training for Audit and Remuneration Committee members is considered annually. Training and development requirements of the Executive Directors are addressed via their annual Performance and Development Plans.

Audit Committee

The Audit Committee is appointed by the Board from the Non-Executive Directors.

From 1 January 2010, the Audit Committee has been chaired by Donal Duff with Mike Liston as a member[1]. Donal Duff is a qualified Chartered Accountant.

The external auditors (Deloitte LLP), the Finance Director, the Head of Business Risk Assurance & Governance (who is also the Company Secretary) and, on occasion, the Chief Executive Officer attend the meetings by invitation. During the financial year ended 31 December 2010, the Audit Committee met four 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 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 28 January 2011. In addition, the Committee has an action plan which 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 which include all matters indicated by the Code and which

[1] The Code allows for smaller companies to have Audit Committees comprising two members. The Board continues to keep the membership of the Audit Committee under review and may appoint a third member if a fifth Non-Executive Director is appointed to the Board.

are subject to annual review. The terms of reference were reviewed and updated by the Committee at its meeting on 23 September 2010 and approved by the Board at its meeting on 26 November 2010. The Audit Committee gains its assurance about the effectiveness of internal controls from both the external auditors and the Head of Business Risk Assurance & Governance via the following specific responsibilities:

Financial Reporting The Committee monitors the integrity of the financial statements of the Company, including its annual and half-yearly reports and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain.

The Committee reviews and challenges where necessary:

- The consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Group;
- The methods used to account for significant or unusual transactions where different approaches are possible;
- Whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- The clarity of disclosure in the company's financial reports and the context in which statements are made; and
- All material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to audit and risk management).

Internal Controls and Risk Management Systems Committee

- Keeps under review the effectiveness of the Group's internal controls and risk management systems;
- Reviews and approves the statements to be included in the annual report concerning internal controls and risk management; and
- 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.

Whistleblowing and Fraud Committee

- Reviews the Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;
- Ensures that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action; and
- Reviews the Group's procedures for detecting fraud.

Internal Audit Committee[2]

- Monitors and reviews the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system;
- Approves the appointment or dismissal of the Head of Business Risk Assurance & Governance;
- Considers and approves the remit of the Internal Audit function and ensures it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with relevant professional standards. The Committee also ensures the function has adequate standing and is free from management or other restrictions;
- Reviews and approves the annual Internal Audit plan;
- Receives 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;
- Reviews and monitors management's responsiveness to the findings and recommendations of Internal Audit; and
- Meets with the Head of Business Risk Assurance & Governance at least once a year, without management being present, to discuss the Internal Audit remit and any issues arising from the internal audits carried out. In addition, the Head of Business Risk Assurance & Governance shall be given the right of direct access to the Chairman of the Board and to the Committee. →

[2] Internal Audit is provided by the Head of Business Risk Assurance & Governance

External Audit Committee

- Considers and makes recommendations to the Board, to be put to the shareholder for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditors. The Committee oversees the selection process for new auditors, and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- Makes recommendations annually to the Board on the external audit fee;
- Oversees the relationship with the external auditors including (but not limited to):
  - > Ensuring that the level of fees is appropriate to enable an adequate audit to be conducted;
  - > Approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - > Assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
  - > Satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business);
  - > Monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
  - > Assessing annually their qualifications, expertise and resources and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
  - > Seeking to ensure co-ordination with the activities of the internal audit function; and
  - > Considering the risk of the withdrawal of the Company's present auditor from the market.
- Meets regularly with the external auditor, including once at the planning stage before the audit, and once after the audit at the reporting stage. The Committee also meets the external auditor at least once a year, without management being present, to discuss their remit and issues arising from the audit;
- Reviews and approves the annual audit plan and ensures that it is consistent with the scope of the audit engagement;
- Reviews the findings of the audit with the external auditor. This includes but is not limited to the following:
  - > A discussion of any major issues which arose during the audit;
  - > Any accounting and audit judgements; and
  - > The levels of errors identified during the audit
- Reviews the effectiveness of the audit;
- Reviews any representation letter requested by the external auditor before it is signed by management;
- Reviews the management letter and management's response to the auditor's findings and recommendations;
- Develops and implements a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

Nomination Committee The Nomination Committee is chaired by Mike Liston. The other members are Paul Jackson, Chris Evans and Donal Duff. The Nomination Committee has not formally met during 2010 as no appointments to the Board have been considered.

The terms of reference of the Nomination Committee are approved by the Board and reviewed annually. The last review was undertaken at the Board's meeting on 5 February 2010. The Nomination Committee has not carried out a performance evaluation for 2010, as this was not considered necessary. The performance evaluation questionnaire for the Board addressed issues of Board skills, experience and future requirements.

Remuneration Committee In 2010, the Remuneration Committee was chaired by Chris Evans with Mike Liston and Donal Duff as members. During the financial year ended 31 December 2010, the Remuneration Committee met four times. The Remuneration Committee has responsibility for setting remuneration for the Executive Directors of the Company which is sufficient to attract, retain and motivate people of the quality required. No Director plays any role in the determination of his/her 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, including the Company Secretary.

The Committee has an action plan which 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 are reviewed annually. The last review was undertaken at the Committee's meeting on 4 February 2010. The Remuneration Committee undertook a self-assessment exercise via the use of a questionnaire which was reviewed at its meeting on 4 February 2011.

The remuneration of the Directors for the JPIL Group of companies for the financial year ended 31 December 2010 is set out below:

Salaried Directors' Remuneration 2010

	Salary/Fees £'000	Bonuses[3] £'000	Benefit in Kind[4] £'000	2010 Total £'000	2009 Total £'000
	Executive Directors				
Ian Carr	149	–	25	174	179
Ian Ridgway	128	–	22	150	162
Julie Crabtree	123	–	20	143	165
TOTAL	**400**	**–**	**67**	**467**	**506**
	Non-Executives				
Mike Liston	40	–	–	40	40
Paul Jackson	20	–	–	20	21
Chris Evans	15	–	–	15	6
Donal Duff (from 01.01.10)	20	–	–	20	–
TOTAL	**95**	**–**	**–**	**95**	**67**

During 2010, Gary Whipp received consultancy fees which are disclosed in note 18 to the financial statements.

[3] The Executive Directors have business performance objectives linked to the success of the two-year business transformation plan. Bonus payments will be considered at the end of 2011.

[4] The benefit in kind received by the Executive Directors comprises the contribution payable into the PECRS pension scheme and health insurance.

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 Board has conducted a review of the effectiveness of the Group's system of internal control in 2010 via the following key procedures:

- Risk Management
  The Group has a risk register which details and assesses all the significant risks facing the Group. 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 Group's Risk Management Policy which is reviewed annually. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, and this is facilitated by the Head of Business Risk Assurance & Governance working with the Executive Directors. This process of continual review has been in place for the duration of 2010 and the period up to the date of the approval of the annual report and accounts. These significant, strategic risks are reported to each formal meeting of the Board, and the Board reviews the action which is being taken to manage these risks.

- Business Risk Assurance
  The Head of Business Risk Assurance & Governance 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.

- 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 and directed and overseen by the Executive Directors who hold regular (at least monthly) Executive Management Team meetings.

- 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. ■


RYBURN AVE
VICTORIA COURT
ALBERT ROAD
BAGOT ROAD

Directors' Report

The Board of Directors of Jersey Post International Limited ('JPIL' or 'the Company') present their report on the affairs of JPIL and its subsidiaries ('the Group'). Together with the audited, consolidated financial statements for the year ended 31 December 2010.

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

Going Concern The Directors have produced forecasts for the next twelve months following the date of signing of these financial statements which have satisfied them that the Group will continue to be a going concern and be able to meet its liabilities as they fall due. In making this assessment, the Directors have considered the impact of the JCRA's regulatory decision on the 24 November 2010, which announced their intention to issue a licence to TNT, and their intention on 16 December 2010 to issue licenses to Hi Speed Freight (trading as DHL Global Mail). The Directors believe this will not have a material impact on the Group's ability to continue as a going concern over the coming year, however, it could have a significant impact in future years.

The Directors are also mindful of Article 8(2)(e) of the Postal Services (Jersey) Law 2004 which states "in so far as it is consistent with paragraph (1), the Economic Development Minister and the Authority [JCRA] shall each have a duty in performing its functions under the Law, to have regard to the need to ensure that persons engaged in commercial activities connected with postal services in Jersey have sufficient financial and other resources to conduct those activities". Accordingly, the Directors have adopted the going concern basis in preparing the financial statements.

Results Details of the results for the year are set out in the Group consolidated profit and loss account on page 32. 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 04-17.

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

Dividends No dividend will be recommended at the AGM (2009: 10p per share).

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

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 25.

Statement of Directors' Responsibilities
The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company Law requires the Directors to prepare financial statements for each financial year. 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 year, and of the profit or loss of the Company for the year. 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.

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

Annual General Meeting The AGM will be held at Postal Headquarters, Rue des Pres Trading Estate, St Saviour on the 24 June 2011.

Auditors Deloitte LLP were appointed and acted as auditors for the year ended 31 December 2010.

A resolution to re-appoint Deloitte LLP as auditors for the year ending 31 December 2011 will be proposed at the AGM on the 24 June 2011.

This statement was approved by the Board of Directors of Jersey Post International Limited on 6 May 2011 and was signed on their behalf by:

Liz Vince **BA, CPFA, CPD.cert**
Company Secretary

Independent Auditors' Report

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 2010, which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

Scope of the audit of the financial statements An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- The reasonableness of significant accounting estimates made by the Directors;
- The overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements In our opinion, the financial statements:

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

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

- Proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements are not in agreement with the accounting records and returns; or
- We have not received all the information and explanations we require for our audit.

Andrew Isham BA FCA
For and on behalf of

Deloitte LLP
Chartered Accountants
St Helier, Jersey
6 May 2011

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.

Together We Work.

Consolidated Profit and Loss Account

Year Ended 31 December 2010

	Note	2010 £'000	2009 £'000
Turnover		**65,648**	64,930
Cost of sales		**(60,583)**	(59,222)
Gross profit		**5,065**	5,708
Administrative expenses		**(4,470)**	(4,524)
Operating profit before exceptional costs	2	**595**	1,184
Operating Exceptional Costs	4		
• Restructure costs		**(2,601)**	(254)
• Pension adjustment		**1,906**	–
Operating (loss)/profit		**(100)**	930
Interest receivable	5	**119**	187
Finance income/(expense)	6	**92**	(166)
Profit before taxation		**111**	951
Taxation	7	**–**	(720)
Profit after taxation		**111**	231

The basis of preparation of these financial statements is set out on page 30, and the notes on pages 35-50 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 2010

	Note	2010 £'000	2009 £'000
Profit for the year		**111**	231
Actuarial gain in respect of the pension scheme	13	**400**	421
Deferred tax asset de-recognised	7	**–**	(1,468)
Total recognised gains and losses for the year		**511**	(816)

The basis of preparation of these financial statements is set out on page 30, and the notes on pages 35-50 form part of these financial statements.

Consolidated Balance Sheet

Year Ended 31 December 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Tangible assets	8	**8,395**	8,958
Current assets			
Stock	9	**182**	260
Debtors – due within one year	10	**9,131**	9,069
Cash at bank and in hand		**11,670**	23,719
		20,983	33,048
Creditors			
Amounts falling due within one year	11	**(9,599)**	(19,953)
Net current assets		**11,384**	13,095
Total assets less current liabilities		**19,779**	22,053
Pension Deficit	13	**(1,772)**	(4,057)
Net assets		**18,007**	17,996
Represented by:			
Ordinary share capital	15	**5,000**	5,000
Profit and loss account reserve		**13,007**	12,996
Shareholder's funds	19	**18,007**	17,996

The financial statements were approved by the Board of Directors of Jersey Post International Limited on 6 May 2011 and were signed on their behalf by:

Ian Carr
Chief Executive Officer

Ian Ridgway
Finance Director

The basis of preparation of these financial statements is set out on page 30, and the notes on pages 35-50 form part of these financial statements.

Consolidated Cash Flow Statement

Year Ended 31 December 2010

	Note	2010 £'000	2009 £'000
Net cash (outflow)/inflow from operating activities	23	**(11,077)**	13,856
Returns on investments and servicing of finance			
Interest received		**149**	187
Net cash inflow from returns on investments and servicing of finance		**149**	187
Taxation		**–**	(334)
Capital expenditure			
Net purchase of tangible fixed assets		**(621)**	(1,304)
Net cash outflow from capital expenditure		**(624)**	(1,304)
Net cash (outflow)/inflow before management of liquid resources and financing		**(11,549)**	12,405
Management of liquid resources		**–**	–
Financing			
Dividends paid		**(500)**	(1,780)
(Decrease)/increase in cash in the year	23	**(12,049)**	10,625
(Decrease)/increase in cash as per the balance sheet		**(12,049)**	10,620
Decrease in overdraft as per the balance sheet		**–**	5
Cash movement		**(12,049)**	10,625

The basis of preparation of these Financial Statements is set out on page 30, and the notes on pages 35-50 form part of these Financial Statements.

Notes to the Financial Statements

1. Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and preceding year.

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 UK GAAP using the historical cost convention. Our Memorandum of Understanding with the Treasury and Resources Minister does not require us to adopt all UK Listing Rules. In particular, the Group implements and maintains a sound system of internal controls to safeguard the Shareholders investment and assets.

1.2 Going Concern

The Directors have produced forecasts for the next twelve months following the date of signing of these financial statements which have satisfied them that the Group will continue to be a going concern and be able to meet its liabilities as they fall due. In making this assessment the Directors' have considered the impact of the JCRA's regulatory decision on the 24 November 2010, which announced their intention to issue a licence to TNT, and their intention on 16 December 2010 to issue licenses to Hi Speed Freight (trading as DHL Global Mail). The Directors believe this will not have a material impact on the Group's ability to continue as a going concern over the coming year, however, it could have a significant impact in future years.

The Directors are also mindful of Article 8(2)(e) of the Postal Services (Jersey) Law 2004 which states "in so far as it is consistent with paragraph (1), the Economic Development Minister and the Authority [JCRA] shall each have a duty in performing its functions under the Law, to have regard to the need to ensure that persons engaged in commercial activities connected with postal services in Jersey have sufficient financial and other resources to conduct those activities". 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") drawn up to 31 December each year. 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 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.

Notes to the Financial Statements (continued)

1.4 Tangible Fixed Assets (continued)

Website development costs are capitalised when they meet the criteria set out in UITF 29 "Website Development Costs" and are capitalised along with the computer hardware and software with which they are associated.

1.5 Stocks

Stocks are stated at the lower of cost and net realisable value. Provisions are 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 Group's 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, unexpended credit on franking meters and prepayments on mobile telephones. The sale of stamps is based on the cash received and no provision is made for services to be provided in respect of stamps in circulation as the Directors consider this to be immaterial.

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

The Group operates both defined benefit and defined contribution schemes.

Defined Benefit

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 year. 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 year 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").

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.

Notes to the Financial Statements (continued)

1.9 Pension Costs (continued)

Defined Contribution

Both the Group and employees pay contributions into an independently administered fund. The cost of providing these benefits, recognised in the profit and loss account, comprises the amount of contributions payable to the scheme in respect of the year.

1.10 Operating Leases

Rentals receivable and 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 on the basis that all subsidiaries are wholly owned.

2. Operating Profit for the Year

	2010 £'000	2009 £'000
Operating profit for the year is stated after charging the following:		
Regulatory fees paid to the JCRA	**310**	150
Operating lease rentals – land and buildings	**223**	223
– others	**42**	86
Depreciation	**1,156**	1,081
Auditors' remuneration – audit	**63**	63
– non-audit	**26**	40

Operating lease rentals in relation to land and buildings are shown net. Existing leased property is sub-let on similar terms to the head lease resulting in the income offsetting the expense.

3. Employees Costs

	2010 £'000	2009 £'000
Wages and salaries	**13,877**	14,254
Social security costs	**812**	826
Employer pension costs	**1,628**	1,541
	16,317	16,621

Operating lease rentals in relation to land and buildings are shown net. Existing leased property is sub-let on similar terms to the head lease resulting in the income offsetting the expense.

Notes to the Financial Statements (continued)

4. Operating Exceptional Costs

Operating exceptional costs relate to:

Restructure Costs – as a result of a significant reorganisation and restructure, as further described in the Business Review, the Group incurred exceptional large non-recurring redundancy costs of £2m (2009: £0.3m) and transitional costs of £0.6m (2009: £Nil), and

Pension Adjustments – as a result of changes made to the benefits accruing under the PECRS pension scheme and the redundancy programme. A net credit has resulted from this exercise comprising of adjustments to past service costs (£1,266k) and settlement costs (£640k) which can be found in note 13 (c).

5. Interest Receivable

	2010 £'000	2009 £'000
Bank interest receivable	**119**	187

6. Net Finance Income/(Expense)

	2010 £'000	2009 £'000
Expected return on pension scheme assets	**2,058**	1,731
Interest on pension liabilities	**(1,966)**	(1,897)
	–	–
Net finance income/(expense)	**92**	(166)

Notes to the Financial Statements (continued)

7. Taxation

	2010 £'000	2009 £'000
Jersey income tax		
Current charge	–	–
(Credit)/Charge in respect of prior year	–	(343)
Total current tax (credit)/charge for the year	–	(343)
Deferred taxation		
Charge for the year taken to profit and loss	–	762
Charged/(credited) to the profit and loss in respect of prior periods	–	301
Total charge to profit and loss	–	**720**
Charge/(credit) for the year taken to the STRGL	–	1,468
Total tax charge/(credit) for the year	–	2,188

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:

	2010 £'000	2009 £'000
Profit on ordinary activities before taxation	**111**	**951**
Tax on profit on ordinary activities at 20%	**22**	190
Factors affecting tax charge for the year		
Rate differences	**354**	324
Non-qualifying depreciation	**163**	162
Fixed asset timing differences	**(156)**	(169)
Timing differences on pensions	**(949)**	(520)
Expenses not deductible for tax purposes	–	12
Adjustments in respect of prior years	–	(343)
Losses not utilised in the year	**566**	1
Total current income tax charge/(credit) for the year	–	(343)

Notes to the Financial Statements (continued)

7. Taxation (continued)

Deferred Taxation

	2010 £'000	2009 £'000
Total deferred tax balance at 1 January	–	2,532
Charged to profit and loss	–	(762)
(Charge)/credit to the STRGL	–	(1,468)
(Charge)/credit to the profit and loss in respect of prior periods	–	(302)
Total deferred tax balance at 31 December	–	–

Jersey Post Limited is subject to Jersey income tax at the rate of 20% (2009: 20%). All other companies in the Group are subject to Jersey income tax at the standard rate of 0% (2009: 0%).

A net deferred tax asset has not been recognised in respect of timing differences relating to taxable losses carried forward, the defined benefit pension scheme and fixed asset timing differences as there is considerable uncertainty over the profitability of Jersey Post Limited for the next three years, following the JCRA's announcement on 24 November 2010 and 16 December 2010 of their intention to issue licenses to TNT and Hi Speed Freight respectively. The estimated value of the net deferred tax asset not recognised, measured at the standard rate of 20%, is £1,524,000 (2009: £1,457,000).

Notes to the Financial Statements (continued)

8. Tangible Fixed Assets

	Freehold land & buildings £'000	Improvements to leasehold property £'000	Plant vehicles & equipment £'000	Total £'000
Cost				
At 1 January 2010	7,735	719	10,261	18,715
Additions	–	–	593	593
At 31 December 2010	**7,735**	**719**	**10,854**	**19,308**
Depreciation				
At 1 January 2010	837	498	8,422	9,757
Charge for the year	286	75	795	1,156
At 31 December 2010	**1,123**	**573**	**9,217**	**10,913**
Net book value				
At 31 December 2010	**6,612**	**146**	**1,637**	**8,395**
At 31 December 2009	6,898	221	1,839	8,958

9. Stock

	2010 £'000	2009 £'000
Stamps and philatelic products	**108**	165
Post Office (Retail)	**18**	25
Paper	**33**	40
Mobile phones and accessories	**23**	30
	182	260

Notes to the Financial Statements (continued)

10. Debtors: Amounts Falling Due Within One Year

	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Trade debtors	**8,248**		8,050	
Provision for bad and doubtful debts	**(71)**	**8,177**	–	8,050
Other debtors		**86**		13
Taxation		**10**		10
Agency debtors		**314**		281
Prepayments and accrued income		**544**		715
		9,131		9,069

A specific bad debt provision has been created as a result of the trade cessation of Corebits Services Limited.

Provisions

	2010 £'000	2009 £'000
Provision for bad and doubtful debts		
As at 1 January	**–**	–
Provided for in year	**71**	–
Provisions utilised	**–**	–
As at 31 December	**71**	–

11. Creditors: Amounts Falling Due Within One Year

	2010 £'000	2009 £'000
Trade creditors	**172**	2,107
Accruals and other creditors	**8,741**	17,220
Agency creditors	**326**	337
Deferred income	**360**	289
	9,599	19,953

Included within accruals is the net amount due to Royal Mail of £4,214,100 (2009: £14,717,000) 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.

Notes to the Financial Statements (continued)

12. Operating Lease Commitments

	Land and Buildings		Others		Total	
	2010 £'000	**2009 £'000**	**2010 £'000**	**2009 £'000**	**2010 £'000**	**2009 £'000**
The Group						
Non-cancellable annual commitments in respect of operating leases which expire:						
Less than one year	**116**	–	**–**	2	**116**	2
Between two and five years	**82**	198	**–**	–	**82**	198
After five years	**409**	390	**–**	–	**409**	390

The Group has an existing annual lease commitment of £409k in relation to a leased property. It further sublets this property for a rental income which offsets this expense.

13. Pension Costs – Defined Benefit

The Group had one defined benefit pension scheme at 31 December 2010, which is open to employees of Jersey Post - Public Employees Contributory Retirement Scheme (PECRS)('the scheme'). 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 2010 were £Nil (2009: £5k).

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 £1,501k for the year ended 31 December 2010 (2009: £1,445k) for staff who are members of PECRS. There are no unpaid contributions outstanding at the year end (31 December 2009: £nil). The current employer contribution rate is 15.35% 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 2010 in accordance with FRS17.

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

	Year Ended 2010 % p.a.	**Year Ended 2009 % p.a.**	**Year Ended 2008 % p.a.**	**Year Ended 2007 % p.a.**	**Year Ended 2006 % p.a.**
Discount rate	**5.2**	5.6	6.0	5.8	5.1
Rate of increase in salaries	**3.9**	3.9	4.4	4.7	4.0
Rate of increase of pensions in payment	**3.5**	3.9	3.1	3.4	3.1
Inflation assumption	**3.8**	3.9	3.1	3.4	3.1

Notes to the Financial Statements (continued)

13. Pension Costs – Defined Benefit (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 December 2010		At 31 December 2009		At 31 December 2008		At 31 December 2007		At 31 December 2006	
	Long-term expected rate of return*	£'000	Long-term expected rate of return*	£'000	Long-term expected rate of return	£'000	Long-term expected rate of return	£'000	Long-term expected rate of return	£'000
Fixed–income bonds	**4.2%**	**–**	4.5%	–	3.8%	–	4.7%	–	4.7%	–
Equities	**8.0%**	**23,814**	8.3%	22,025	7.6%	17,673	7.6%	30,717	7.6%	24,403
Index–linked gilts	**4.0%**	**–**	4.3%	–	3.6%	–	4.3%	–	4.3%	–
Property	**7.5%**	**–**	8.8%	311	6.6%	483	6.6%	395	6.6%	–
Corporate Bonds	**5.0%**	**6,668**	5.5%	7,678	5.5%	7,822	4.7%	–	–	–
Other	**1.4%**	**417**	0.7%	2,857	2.5%	856	5.9%	267	5.2%	6,178
Total fair value of assets		**30,899**		32,871		26,834		31,379		30,581
Present value of scheme liabilities		**(32,671)**		(36,928)		(31,050)		(30,655)		(29,681)
(Deficit)/surplus		**(1,772)**		(4,057)		(4,216)		724		900
Deferred tax asset/(liability)		**–**		–		843		(145)		(180)
Net (deficit)/surplus		**(1,772)**		(4,057)		(3,373)		579		720

* 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 return 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

	2010 £'000	2009 £'000
Service cost	**1,615**	1,541
Total operating charge	**1,615**	1,541
Analysis of the amount (credited)/charged to net finance income:		
Expected return on assets	**(2,058)**	(1,731)
Interest on liabilities	**1,966**	1,897
Net return	**(92)**	166
Past service cost	**(1,266)**	–
Settlement cost	**(640)**	–
Net charge to the profit and loss account	**(383)**	1,707

Notes to the Financial Statements (continued)

13. Pension Costs – Defined Benefit (continued)

d) Analysis of Amount Recognised in the STRGL

	2010 £'000	2009 £'000
Difference between actual and expected return on pension scheme assets	**(890)**	3,232
Experience gains arising on the scheme liabilities	**3,638**	1,829
Effect of changes in assumptions underlying the present value of scheme liabilities	**(2,348)**	(4,640)
Total gains recognised in the Statement of Total Recognised Gains and Losses	**400**	421

e) Movement in the Scheme's Deficit during the Year

	2010 £'000	2009 £'000
(Deficit)/surplus in the scheme at 1 January	**(4,057)**	(4,216)
Current service cost	**(1,615)**	(1,541)
Contributions – Normal	**1,501**	1,445
Other finance income/(expenses)	**92**	(166)
Actuarial gain	**401**	421
Past service cost	**1,266**	–
Settlement cost	**640**	–
	–	–
(Deficit) in the scheme at 31 December	**(1,772)**	(4,057)
Deferred tax asset (note 7)	**–**	–
(Deficit) in the scheme at 31 December net of deferred tax	**(1,772)**	(4,057)

Notes to the Financial Statements (continued)

13. Pension Costs – Defined Benefit (continued)

f) History of Experience Gains and Losses

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Difference between expected and actual return on scheme assets:					
– amount	**890**	3,232	(7,649)	(694)	(445)
– percentage of scheme assets	**2.9%**	9.8%	2.9%	2.2%	1.5%
Experience gains/(losses) on scheme liabilities:					
– amount	**3,638**	1,829	562	(326)	3,602
– percentage of the present value of the scheme liabilities	**1.1%**	4.9%	1.8%	1.1%	12.1%
Total (losses)/gains recognised in statement of total recognised gains and losses					
– amount	**401**	421	(4,703)	(12)	5,907
– percentage of the present value of the scheme liabilities	**0.1%**	1.1%	15.1%	0.0%	19.9%

14. Pensions – Defined Contribution

The pension cost represents contributions payable by the Group to a new defined contribution scheme established during the year and amounted to £13k (2009: £Nil). Contributions totalling £3k (2009: £Nil) were payable to the scheme at 31 December 2010 and are included within "accruals and other creditors".

15. Ordinary Share Capital

	2010 £'000	2009 £'000
Authorised, issued, allotted and fully paid		
5 million £1 ordinary shares	**5,000**	5,000

No shares were issued during the year ended 31 December 2010.

16. Commitments and Contingent Liabilities

As at 31 December 2010 there were no commitments (31 December 2009: £334k).

Notes to the Financial Statements (continued)

17. Ultimate and Immediate Controlling Party

The ultimate and immediate controlling party is the States of Jersey, which owns 100% of the ordinary share capital.

18. Related Party Transactions

The Group provides multi-channel services to a number of different departments of the States of Jersey. Sales of £990,000 were made to departments in 2010 (2009: £1,150,000). As at 31 December 2010, the amount owing to the States of Jersey was £190,000, and the amount owed from the States of Jersey was £182,000 (31 December 2009: £823,000 and £303,000 respectively). All services provided by the Group to the States of Jersey are provided on an arm's length basis.

Gary Whipp was an Executive Director up to 12 May 2010 and received consultancy fees of £109,000 (2009: £177,000).

The following transactions have taken place on an arm's length basis with the below companies connected with Directors of JPIL:

Director	Relationship	Interest	Purchases	Sales	Balance @ 31/12/10	
			£'000	£'000	Creditor £'000	Debtor £'000
Mike Liston	Director	Jersey Electricity plc	145 (2009: £140k)	145 (2009: £151K)	- (2009: £13k)	3 (2008: £3k)
Chris Evans	Director	Jersey Electricity plc	145 (2009: £68k)	145 (2009: £80k)	- (2009: £13k)	3 (2009: £4k)
		Foreshore Limited	69 (2009: £42k)	2 (2009: £1k)	- (2009: £Nil)	1 (2009: £Nil)
Paul Jackson	Director	Triangle Management Services	16 (2009: £50k)	- (2009: £Nil)	- (2009: £Nil)	- (2009: £Nil)
Donal Duff	Director	Benham (Jersey) Limited	–	13	–	1
		The Stanley Gibbons Group plc	3	–	–	–
Ian Ridgway	Director	Jersey Opera House	1	10 (2009: £22k)	–	–
Julie Crabtree	Director	Jersey Advisory & Conciliation Service	1	1	–	–

Notes to the Financial Statements (continued)

19. Consolidated Reconciliation of the Movements in Shareholder's Funds

	Note	2010 £'000	2009 £'000
Shareholder's funds at 1 January		**17,996**	20,592
Profit attributable to the shareholder		**111**	231
Dividend paid		**(500)**	(1,780)
Movement in deferred tax	7	**–**	(1,468)
Actuarial gain in respect of the pension schemes	13	**400**	421
Shareholder's funds at 31 December		**18,007**	17,996

20. Subsidiary Undertakings

JPIL is the 100% 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	Business Development
Ship2me Limited	E-commerce Logistics
Postfone Limited	Telecommunications
CI Courier Limited	Courier

In accordance with Article 105(11) of the Companies (Jersey) Law 1991, the Company is no longer required to prepare separate company-only accounts as consolidated accounts have been prepared.

21. Board Remuneration and Fees

Details of remuneration paid to Directors and related party transactions therewith are disclosed in the Remuneration Committee Report on pages 25 and in note 18.

22. Post Balance Sheet Events

On the 4 March 2011, the Board agreed to close down Postfone Limited. Fixed Assets with a valuation of £15,329 have been written off during 2011.

Notes to the Financial Statements (continued)

23. Notes to the Cash Flow Statement

a) Reconciliation of Operating Loss to Net Cash (Outflow)/Inflow from Operating Activities

	2010 £'000	2009 £'000
Operating (loss)/profit	**(100)**	930
FRS17 operating charge less normal contributions paid	**(1,795)**	96
Add depreciation charge	**1,156**	1,081
Decrease/(increase) in stock	**78**	(68)
(Increase)/decrease in debtors	**(62)**	1,724
(Decrease)/increase in creditors due within one year	**(10,354)**	10,126
Profit on disposal of fixed assets	**–**	(33)
Net cash (outflow)/inflow from operating activities	**(11,077)**	13,856

b) Analysis of Changes in Net Funds

	1 January 2010 £'000	Cash Flow £'000	31 Dec 2010 £'000
Cash	4,156	(1,482)	2,674
Debt due within one year	–	–	–
Debt due after one year	–	–	–
Short-term deposits*	19,563	(10,567)	8,996
	23,719	(12,049)	11,670

*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.

Notes to the Financial Statements (continued)

23. Notes to the Cash Flow Statement (continued)

c) Reconciliation of Net Cash Flow to Movement in Net Funds

	2010 £'000	2009 £'000
(Decrease) in cash in the year	**(1,482)**	(8,726)
Cash (outflow)/inflow from liquid resources	**(10,567)**	19,351
Decrease in debt	**–**	–
Change in net funds	**(12,049)**	10,625
Net funds at 1 January	**23,719**	13,094
Net funds at 31 December	**11,670**	23,719

24. Contingent Liability

The valuation of Jersey Post Limited's "ring fenced fund" within the Public Employers Contributory Retirement Scheme (PECRS) is subject to a tri-annual valuation. The last valuation performed at 31 December 2007 showed a surplus of £2.6m. The next formal valuation, performed at 31 December 2010, will be published during 2011. This may result in additional employer contribution costs.

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