


Jersey Post International Limited
Annual Report 2007

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DIRECTORS, OFFICERS AND ADVISORS

Directors of Jersey Post International Limited

Mike Liston OBE
Non-executive Chairman

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

Paul Jackson
Non-executive

Lord Gary Whipp
Non-executive

John Pinel
Chief Executive

Ian Ridgway, BSc, MBA, FCA
Finance Director

Andrew Starkey MILT, MIDM
Commercial Director

Company Secretary

Adrian Murphy, BBS, ACA
(Resigned 31 December 2007)

Liz Vince BA, CPFA, [CPD.cert]
(Appointed 1 January 2008)

Auditors

Deloitte & Touche LLP

PO Box 403
St. Helier
Jersey
JE4 8WA

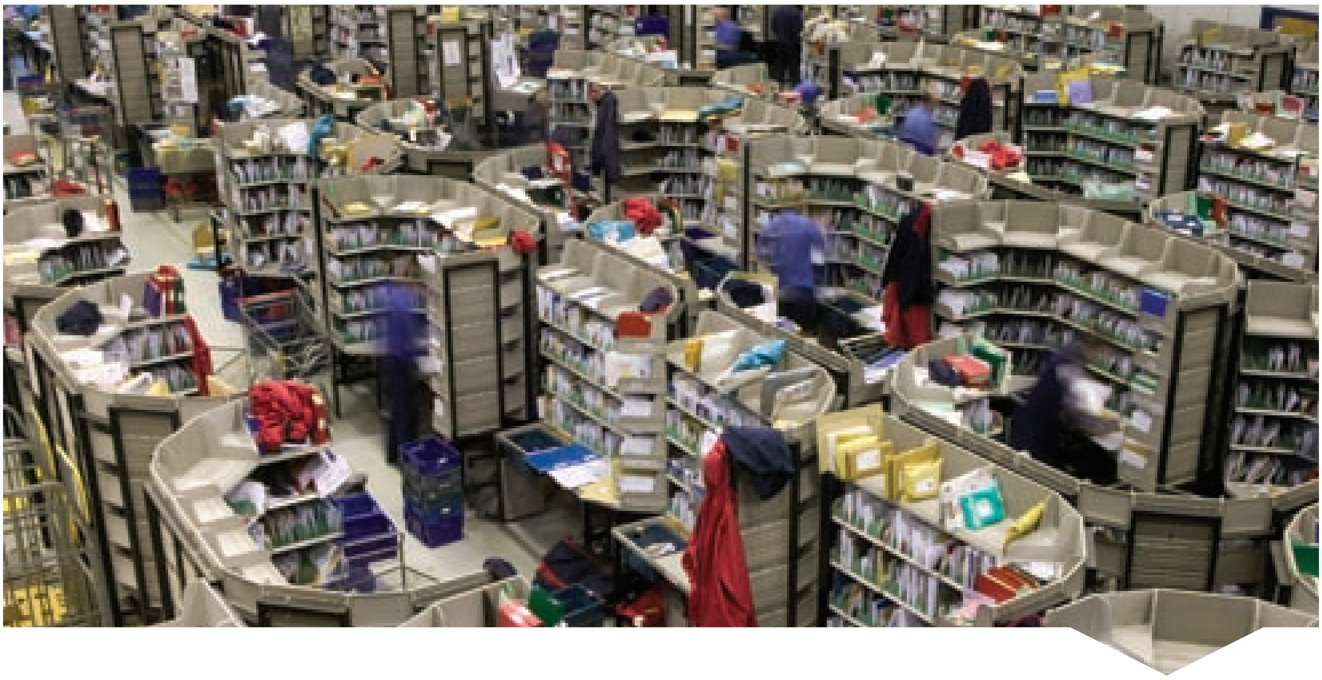
Pension Advisors

Hewitt, Bacon & Woodrow Limited
Actuaries and Consultants

Parkside House
Ashley Road
Epsom
Surrey
KT18 5BS

Registered Office

Postal Headquarters
La Rue Grellier
La Rue des Pres Trading Estate
St. Saviour
Jersey
JE2 7QS



THE NUMBER OF HOMES
AND BUSINESSES JERSEY POST
DELIVER TO

BOARD OF DIRECTORS

Mike Liston OBE

Non-executive Chairman, Mike Liston (56 years) has wide experience of the public and private sectors. He is currently Group Chief Executive of the LSE-listed utility, Jersey Electricity Company Limited and Chairman of AIM-listed, Renewable Energy Generation Limited which has businesses in Europe and North America. Mike is Chairman of the internet data centre operator, Foreshore.Net and is a member of the Audit Committee of Europe's largest engineering professional body The Institution of Engineering and Technology. He was the first Chairman of the Post Office Users' Committee established in 1997.

John Pinel

Chief Executive John Pinel (56 years) joined the organisation in 1995 following a 25 year career in the British Army.

John is a graduate of the Army Staff College and subsequently was an instructor at the Army Staff College and commanded a regular engineer regiment in Germany. In recent years much of his focus has been on change management, business diversification, the incorporation process and dealing with external issues such as Low Value Consignment Relief and the Royal Mail Commercial Agreement. In 2001 he passed the Diploma in Company Direction run by the Institute of Directors.

Clive Spears
ACIB MIS

Senior Independent Non-executive Vice-chairman, Clive Spears (54 years) is an Associate of the Chartered Institute of Bankers and a member of The Securities & Investment Institute. He currently runs his own local corporate services consultancy business, being on the board of a number of regulated offshore funds mainly covering the private equity, mezzanine debt and property fund markets.

Principal appointments are with the Nomura Bank Group and Nordic Capital Group.

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

Paul Jackson

Non-executive, Paul Jackson (65 years) is a well-known expert in the mail, express, airfreight and logistics industry, with extensive knowledge and experience of all aspects of the industry as a whole, and the postal world in particular.

He is the non-executive Chairman of Triangle Management Services Limited, which provides strategic consultancy, market research, mergers and acquisitions services, conferences and executive recruitment mainly in the mail, express and logistics sectors. Under Paul's direction the company has developed a pre-eminent position in the mail, express, logistics and global freight sectors.

Gary Whipp

Non-executive, Gary Whipp (45 years), originally from the Isle of Man, provides significant entrepreneurial and commercial expertise, particularly in sales and marketing.

Gary's first foray into the UK was Satellite Television. In 1989 his company was one of eight licensed by Rupert Murdoch's company, Sky Television, to market their products.

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

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

Ian Ridgway
BSc MBA FCA

Finance Director, Ian Ridgway (39 years) qualified as a chartered accountant with Coopers & Lybrand Deloitte. Immediately prior to joining Jersey Post, he was a partner in a Birmingham based Accountancy practice and a founding Director of its consultancy company. Ian joined Jersey Post in 1999.

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

Andrew Starkey
MILT, MIDM

Commercial Director, Andrew Starkey (49 years) joined Jersey Post in August 2007 assuming responsibility for the commercial functions of the organisation and three operational businesses.

Andrew's career spans 30 years in the UK Express Logistics and Mail sectors with broad experience of commercial, monopoly and regulatory organisations, including Royal Mail and Postcomm, in a range of senior roles. He is a member of the Institute of Direct Marketing and the Chartered Institute of Logistics and Transport where he chairs the UK Postal Services Forum.

DELIVERING MORE

CHAIRMAN'S STATEMENT

2007 was Jersey Post's first full trading year as a company. The past 12 months were amongst the most challenging, yet successful in Jersey Post's history. Immediately upon its incorporation on 1st July 2006 as a company wholly-owned by the States of Jersey, the enabling Postal Law liberalised a further 20% of the mail market. Simultaneously, the Jersey Competition Regulatory Authority (JCRA) and its consultants began an analysis of the Postal Market, launched an efficiency review of Jersey Post's operations and embarked on a comprehensive examination of its cost base, as part of a Postal Price Control regime which was implemented on 1st January 2008. Alongside the immediate challenges of increased competition and a new regulatory environment, the Board embarked on a radical restructuring of the business to address losses in two of Jersey Post's non-core businesses whose business plans were impacted by a new States policy to limit the nature and scale of the Island's expanding fulfilment industry. Regrettably, the re-structuring resulted in some 28 job losses at many levels of the Company including senior management. The executive team and their staff tackled these challenges with commitment and compassion. At the end of 2007 I am pleased to report favourable progress on these key issues.

The business re-structuring has eliminated trading losses in Jersey Post's non-core businesses; the JCRA's efficiency review confirmed Jersey Post as "an efficient Postal Operator" and the Company has been able to adapt to an onerous Price Control determination from the JCRA. This determination will reduce the cost in real terms, of price controlled products over a three year period. As a consequence, that part of our core business which is subject to price control is likely to remain loss-making. This year its losses of nearly £1m were absorbed by substantial growth in the profitability of our additional businesses in the competitive market, which led to a doubling of Group operating profit, to £4.5m with turnover up 7% at £54m. Looking ahead, we expect lower profits in the next and subsequent years as we absorb elements of further cost increases in the pipeline from Royal Mail, and as we lose business share not just as now to niche, low-cost competitors targeting specific sectors of our market, but possibly to global postal operators. Our survival will rest heavily on our ability to continue to modernise and innovate, through new business models, service offerings and technology. Our need to invest precludes the payment of a dividend at this stage of our business cycle. However, we consider it appropriate to repay early, the £3.2m outstanding balance of the £4.0m loan granted by the States of Jersey on incorporation, notwithstanding that this action will remove a potential obstacle enshrined within the Postal (Jersey) Law to the further opening of the postal market to competition.

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THE NUMBER OF DAYS
A WEEK JERSEY POST
OPERATE A DELIVERY SERVICE

COMPETITION

Approximately half of the market for mail sent from or delivered in the Island is open to our competitors, who are active principally in the "express services", parcels and bulk letter sectors of the mail business. Jersey Post's remaining monopoly is protected only in the traditional letters business which in Jersey, as elsewhere, is loss making under the financial burden of operating the network of Post Offices, collection and delivery points - acknowledged universally by governments, regulators and the postal industry, as a social obligation. Unlike in the UK and many other countries there is in Jersey no government funding to support this network, which relies instead on subsidies funded by Jersey Post's competitive success in other areas of the market, such as bulk mail and e-commerce services. Jersey Post has been a key partner in the growth of this market which is now similar in size to the traditional postal service which it subsidises.

The Board of Jersey Post recognises the benefits of competition in a postal service which supports an exceptionally wide scope of essential needs, ranging from those of a sophisticated financial services sector, to those in the community who rely on our local facilities for access to welfare and other social benefits. The importance to the economy and wider community of the revolution in e-commerce such as on-line shopping, is another reason to value a cost-effective, innovative postal service.

REGULATION

The efficiency review and Price Control Assessments were both major undertakings for all parties, involving many man-years of work by JCRA, its consultants and Jersey Post. We were pleased but not surprised by the outcome of the efficiency review - our postal prices are amongst the lowest in Europe and we generate sufficient margins to support growth and innovation in response to demand for our services. However, we found the Price Control particularly harsh in 2008 in the light of an 11% increase in Royal Mail's prices in that year. Notwithstanding those payments to Royal Mail which account for 40% of all Jersey Post's operating costs, we accepted a direction by JCRA which led us to freeze our postal rates for 2008 in the already loss-making, residual part of the postal market in which we retain a monopoly. Despite its recognition by JCRA as an efficiently run operation, that core business incurred a loss of £0.9m on turnover of £19.9m. However, it was readily supported by higher than expected growth in our other businesses.

Philosophically, the Board prefers the challenge of rational competition to the risks inevitably involved in attempting theoretically to simulate market behaviour in Regulatory Price Control mechanisms, as proxy for competition. However, there are risks of serious disruption to a small postal market like Jersey's if further new postal operators are licensed without full analysis of the impact. Among the unintended consequences seen in the UK of such typical competitor practices as "cherry picking", are the undermining of an incumbent's capacity to maintain unprofitable services such as the Post Office network.

We have, until recently, been extremely concerned by the absence of any obligation upon the JCRA to conduct Regulatory Impact Assessments before proposing any new regulatory action. Regulatory Authorities in virtually every modern economy are required to apply analytical effort "proportionate to the likely effects of any proposed regulatory action" in accordance with the recommendations of the Mandelkern Group on Better Regulation, which also asserted that "lack of staff resources and expertise and the paucity of good quality data is not sufficient argument for inadequate impact assessment". Done early and earnestly, stakeholder consultation can form a valuable part of such impact assessment and may in some cases obviate the need for JCRA's investment in impact analyses of the rigour commonly undertaken throughout OECD countries. We have been encouraged by recent agreement reached with the JCRA on mechanisms which could achieve this aim whilst preserving confidence and transparency among customers, investors and providers of postal services.

THE PAST 12 MONTHS WERE AMONGST THE MOST CHALLENGING, YET SUCCESSFUL IN JERSEY POST'S HISTORY.

WE MUST CONTINUE TO MODERNISE AND INNOVATE THROUGH NEW BUSINESS MODELS, SERVICE OFFERINGS AND TECHNOLOGY.

BUSINESS IMPROVEMENT AND DEVELOPMENT

An implicit and fundamental principle embedded in the JCRA's Price Control mechanism, is that Jersey Post will subsidise from its full portfolio of business activities, the "universal service obligation". That is, the provision of a network throughout Jersey for the collection and delivery of letters and readily accessible local post office facilities. We consider this to be a reasonable expectation from any undertaking such as Jersey Post, which is trusted with a dominant share of the local market it serves. Providing that the ongoing liberalisation of the postal market by the JCRA is conducted without major and sudden disruption, we are confident that we can avoid the crises seen elsewhere, for example in the UK, as the incumbent postal operator's financial capacity to subsidise loss-making but essential services is undermined by competition even with government funding. However, our willingness to continue to subsidise the local postal network from our international business, does not weaken the obligation we have to minimise the costs involved.

During 2007 we completed the introduction of a new commercial agreement under which fixed payments to the 19 sub-post offices in Jersey are replaced by commissions on the services they provide. Sub-post office outlets handle £5.7m of business each year across a wide range of services to the public, government, essential utilities and other public bodies and research has shown that the extra "footfall" they generate provides substantial additional business for those retailers with post office counters embedded in their stores.

Approximately one-third of all the sub-post offices in Jersey are based in retail stores and we believe that the policy of the States of Jersey's Economic Development Department to further promote competition into the supermarket sector offers further opportunities to modernise the post office network, including the main post office in Broad Street, St. Helier which alone represents 40% of the cost of the entire network. We have had very positive early feedback from users of the automated post and bill payment facilities we have trialled during the year as part of our modernisation programme and we propose to continue rolling out new technologies and services such as mobile post offices, as they become available.

Jersey Post has demonstrated impressive entrepreneurial flair over the years and my fellow directors share my determination that innovation will become the platform from which the Company can thrive under the pressure of increasing competition in its own markets and from which the Island's business community can gain competitive advantage through smart communications and logistics, in this digital age. Having facilitated from the outset, the establishment of a now thriving off-shore fulfilment industry in Jersey, Jersey Post has developed a sophisticated international offering of software solutions to create, convey and manage digital documents in electronic and physical form. Among its "Hybrid Mail" clients is a USA Corporation for whom Jersey Post creates and distributes communications electronically and physically throughout Europe.

A valuable spin-off from the e-commerce capabilities Jersey Post has developed for the Island's financial services and fulfilment industries is the integration of its processes and the quality of its partnerships, with international customs, revenue and tax authorities. With year-on-year growth of 40% in on-line retailing, Jersey Post is pivotal to the opening up of historically restricted access to this sector by Jersey-based customers and suppliers. We are investing in a number of initiatives which we believe will maximise for our customers and the wider economy, the benefits of explosive retail competition without the impact of a physical presence in Jersey.

OUR PEOPLE

Postal businesses the world over are facing the challenge of preserving valued traditional roles in the communities they serve, whilst surviving the threats of competition and e-mail substitution. Those which share a common understanding with their people about the appropriate response to these threats are able to turn them into opportunities which will secure their futures. Much of the model for modernisation which prompted strikes at the UK's Royal Mail this year has already evolved in Jersey Post over many years of co-operative work between staff, the Communication Workers Union and management. External forces will continue to put pressure on the goodwill and stability which we all value at Jersey Post but I am confident in our ability, flexibly to adapt to whatever the future brings.

Mike Liston
Chairman

THE PERCENTAGE OF
YEAR-ON-YEAR GROWTH
IN ON-LINE RETAILING

BUILDING TRUST

BUSINESS REVIEW

FINANCIAL PERFORMANCE

Jersey Post in 2007 had its most successful financial year ever achieving an operating profit of £4.5m (2006: £2.3m) generating an increase of 96% on 2006. The retained profit for the year ended 31 December 2007 was £5.0m (2006: £2.0m). This was primarily due to improved financial results across all major business areas, including:

- Successful restructuring of the business and business units, with considerable annual savings in administration costs.
- Conveyance efficiencies in J commerce.
- Growth and/or efficiencies across all business units.
- Fulfilment growth from existing and new customers, replacing volumes lost as a result of the February 2006 Economic Development Department ("EDD") policy (effective Feb 07).
- The early and timely closure of the pick and pack operations of Offshore Solutions Limited at a much lower cost than forecast.
- Pro-active management of cash balances leading to interest receivable in excess of £1m.
- Sustaining vacancies in operating units.

Cash balances were significantly reduced in 2007 as a result of payments to Royal Mail and part repayment of the £4m loan from the States of Jersey which is repayable over 5 years. However, due to the strong performance of the Group, the Directors agreed to fully repay the loan and accrued interest on 30 May 2008.

In 2007 Jersey Post spent £0.3m on capital expenditure, which compares to £1.0m in 2006. Capital expenditure was invested in mail process automation and information systems.

Turnover grew by 7% in 2007 to £53.8m. The increase is attributed to new business, most noticeably from our bulk packet export (fulfilment) customers, and price increases.

Overall operating expenditure increased by 5%, reflecting the increased business. Other contributory factors for the increased expenditure were the 1 May pay award of 4.5% and a significant increase in the average price paid to Royal Mail for the delivery of mail off Island. The impact of these increases in expenditure was successfully reduced by efficiencies in 2007.

In the Directors' view, there remains considerable uncertainty resulting from the liberalisation of the postal market within Jersey and consequently no dividends are proposed for the year allowing the Group to build up its reserves. Condition 2.12 of Jersey Post's Class II Postal Services licence requires the JCRA to determine whether the Directors shall declare or recommend a dividend, this permission has not been sought by the Directors.

UNIVERSAL SERVICE OBLIGATION

Jersey Post, as a condition of its Class II Public Postal Operators Licence, is required to fulfil its “Universal Service Obligation” (USO). These are a set of obligations which Jersey Post and the JCRA see as essential to the continued provision of quality public postal services on the Island.

The current obligations include all island collections and deliveries of mail on a daily basis, delivery of mail to destinations outside of the Island, appropriate access points to its network, and an affordable uniform tariff.

The continuing boom in property development in Jersey has increased the number of postal delivery points to be serviced daily. In the last 12 months this has resulted in 6 additional delivery rounds being introduced, without a proportionate increase in mail volumes delivered or the revenues generated.

In the context of access to the network there are currently 187 roadside posting boxes and 21 Sub Post Office outlets across the Island. When compared to industry standard European Union (EU) benchmarks for network access, Jersey Post provides above average access for its customers on the Island.

Collection and delivery services also operate six days a week, Monday through to Saturday, whereas in many EU member States collection and delivery services only operate five days a week, Monday through to Friday.

THE PRICE OF A STAMP

Jersey Post continues to strive to keep increases in postal prices to a minimum through innovation and efficiency drives.

VOLUME OF MAIL HANDLED

Jersey Post traditional business experienced a decline of 7% in line with the global trend of declining mail volumes as a result of changing customer and consumer habits and electronic substitution. However, Jersey Post maintained the amount of postal items it handled between 2006 and 2007, despite the impact of the February 2006 EDD policy which led to 12 of our fulfilment customers being given 12 months’ notice to leave the Island. By competing effectively the underlying growth of the remaining business shows a healthy positive trend as a direct result of growth in online retailing operating from the Island, replacing mail volumes lost as a result of the EDD policy. In addition Jersey Post, through the services provided by J promail (data management, printing and mailing house business) is facilitating growth in transactional type mailings posted from the Island to UK and International destinations.

Total mail volume handled for the full year, including parcels, express and bulk export, was 86 million items (2006: 86 million), of which 36.2 million items (2006: 37.8 million) were delivered locally, a decline of 4%. This includes items received from Royal Mail for delivery in Jersey (2007: 23m, 2006: 24m).

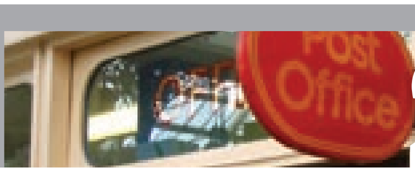
QUALITY OF SERVICE

End to end quality of service, from time of posting a letter to time of delivery, is an important measure for Jersey Post and its customers.

Targets are based on next working day delivery, and performance measured by an independent market research company, in association with Royal Mail, across five main routes:

- Local to Local, or “on Island”
- Jersey to UK
- UK to Jersey
- Jersey to Guernsey
- Guernsey to Jersey

In 2007 three out of five targets were fully met. The target for Jersey to UK was not met due to industrial action within Royal Mail in the UK and the target for Jersey to Guernsey was also not met in the absence of reliable statistical data. Jersey Post is currently working with the JCRA on improved targets as part of the ongoing process of continuous improvement in the quality of services provided to customers. Jersey Post anticipates these targets will be the subject of a public consultation exercise in 2008.



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THE TOTAL NUMBER OF RETAIL NETWORK OUTLETS THROUGHOUT THE ISLAND OFFERING FIRST CLASS ACCESS TO OUR SERVICES

CUSTOMER COMPLAINTS

Reducing the level of customer complaints has been another key focus for Jersey Post in its drive to improve customer experience.

The main measure for performance is a measure used by the UK Regulator - Postcomm, which is based on a target of no more than 20 complaints per 1000 delivery points.

During 2007, Jersey Post managed to achieve an excellent performance with an average of only 16 complaints per 1000 delivery points for the whole year.

In 2008 Jersey Post will continue to develop, in conjunction with the JCRA, quality of service measures for our regulated activities.

In other areas of the business both J promail and our Post Office (retail) business retained their ISO9001 quality accreditations in 2007. Aware of the continued business need to demonstrate the integrity of our data security, Jersey Post launched an ISO27001 security project across the business, primarily focussing on J promail, in 2007, which will be completed in 2008.

JERSEY POST ACHIEVED AN EXCELLENT PERFORMANCE WITH AN AVERAGE OF ONLY 16 COMPLAINTS PER 1000 DELIVERY POINTS

FUTURE OPERATING ENVIRONMENT AND BUSINESS RISKS

Whilst we shape our future, we will continue to invest in our people to deliver the key themes of our strategy:

- To improve profitability through customer growth and retention.
- To secure our future growth and sustainability through diversification and innovation.
- To improve our competitive position in our postal markets.
- To develop our commitment to the Island community for high quality postal services.
- To work with our business customers to develop competitive services particularly for the finance and fulfilment sectors.
- To achieve the necessary organisational changes in a timely and efficient way, through partnership working.

In shaping our future, the following factors will have an important impact:

- The JCRA's strategic and tactical approach to regulating the postal sector in Jersey.
- Continued strength of the finance sector.
- Decline in the use of the Sub Post Office (retail) sector.
- Potential future changes to the Low Value Consignment Relief (i.e. EU relief allowing VAT not to be charged on imports costing less than 22 Euros into Europe or £18 into UK).

INVESTORS IN PEOPLE

During 2007 Jersey Post retained its "Investors in People" award, which recognises the management systems and processes in place throughout the organisation. In addition, the Group's training programme has allowed staff to undertake professional, vocational and business focused qualifications. Jersey Post's ongoing investment in its people is a key component in its continuing success. Finally and most importantly, I would like to take this opportunity to thank all our employees for their hard work and commitment.

John Pinel

John Pinel
Chief Executive

MAINTAINING COMMITMENT

STATEMENT OF CORPORATE GOVERNANCE

INTRODUCTION

Jersey Post International Limited has a Memorandum of Understanding with the Treasury & Resources Minister. This requires the Group to produce Financial Statements which include disclosures in accordance with the Combined Code of Corporate Governance issued by the Financial Reporting Council ("the Code"). The Directors are committed to maintaining a high standard of Corporate Governance in accordance with the principles laid down in the Code. The Board considers that it has complied with the provisions of the Code during the financial year ended 31 December 2007.

THE BOARD

The Board is chaired by Mike Liston who was appointed as Chairman on 12 June 2006. In addition to the Chairman there are three Non Executive Directors: Clive Spears and Paul Jackson, both appointed on 12 June 2006 and Gary Whipp, appointed on 24 August 2007. Clive Spears is the Senior Independent Non Executive Director. The Executive Directors as at 31 December 2007 were John Pinel (Chief Executive), Ian Ridgway (Finance Director) and Andrew Starkey (Commercial Director).

The main role of the Board is to:

i. set the overall strategy of the Group;

ii. approve the annual business plan, budget and annual report and accounts;

iii. monitor performance against plans;

iv. ensure the maintenance of a sound system of internal control and risk management;

v. oversee the activities of the Executive Directors;

vi. ensure obligations to the shareholder (the States of Jersey) are understood and met; and

vii. ensure compliance with the Postal Services (Jersey) Law 2004.

The Board has delegated the day to day operation of the activities of the Group to the Executive Directors. There is a clear division of responsibility between the Chairman and the Chief Executive which is set out in writing and has been approved by the Board.

6 THE NUMBER OF ADDITIONAL DELIVERY ROUNDS THAT WERE INTRODUCED IN 2007

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 is responsible for formulating strategy and for its delivery once agreed by the Board. He creates the framework of strategy, values, organisation and objectives which ensures the successful delivery of key targets, and allocates decision making and responsibilities to his senior managers accordingly.

The Board held seven scheduled meetings during the financial year ended 31 December 2007. 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.

	Number of meetings attended		
	Main Board	**Audit Committee**	**Remuneration Committee**
M Liston	7/7 (Chairman)	4/4	6/6
C Spears	7/7	4/4 (Chairman)	6/6
P Jackson	7/7	4/4	6/6 (Chairman)
G Whipp	2/2		
J Pinel	7/7		
I Ridgway	7/7		
A Starkey	2/2		

DIRECTOR INDEPENDENCE

The Board considers all Non Executive Directors to be independent in accordance with the criteria laid down in the Code.

PERFORMANCE EVALUATION

On 22 November 2007 the Board held a facilitated seminar during which the role, composition and performance of the Board and its Committees were reviewed.

The Chairman and the Non Executive Directors hold informal meetings without the Executive Directors being present. The performance of the Executive Directors has been assessed by the Chairman and Non Executive Directors.

AUDIT COMMITTEE

The Audit Committee is appointed by the Board from the Non Executive Directors. In 2007 the Audit Committee was chaired by Clive Spears with Mike Liston and Paul Jackson as members. The Chairman has 25 years of experience in the banking and financial services sector and 10 years relevant corporate governance experience. All Audit Committee members are expected to be financially literate. The external auditors (Deloitte & Touche LLP), the Chief Executive, the Finance Director and the Business Risk Assurance Manager also attend the meetings by invitation. During the financial year ended 31 December 2007 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 on-going training on at least an annual basis. On-going training can comprise of attendance at formal conferences or courses but more likely internal company seminars and briefings by the external auditors.

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 Combined Code and which are subject to annual review. The Audit Committee gains its assurance about the effectiveness of internal controls from both the external auditors and Business Risk Assurance Manager via the following specific responsibilities:

RESPONSIBILITIES RE EXTERNAL AUDIT

i. Recommend the appointment of the external auditors, the audit fee and any questions of resignation or dismissal of the external auditors. To make appropriate recommendations through the Board to the shareholder to consider at the AGM.

ii. Discuss with the external auditors each year, in advance of the audit commencing, the nature and scope of the work they propose to undertake and ensure co-ordination with Internal Audit.

iii. Discuss with the external auditor their quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements.

iv. Review the independence and objectivity of the external auditors, ensuring that key audit personnel are rotated at appropriate intervals.

v. Review the effectiveness of the audit process.

vi. Approve any non-audit engagement and associated fees of the external auditors and ensure the non-audit services will not impair the external auditors' independence or objectivity.

vii. Review the annual financial statements, based on information supplied by the Executive Directors and the external auditors, before submission to the Board, reviewing and challenging particularly:

- Critical accounting policies and practices and any changes in them.
- Decisions requiring a major element of judgment.
- The extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed.
- The clarity of disclosures.
- Significant adjustments resulting from the audit.
- The going concern assumption.
- Compliance with accounting standards.
- Compliance with legal, regulatory and Corporate Governance requirements.
- Reviewing the Statement of Corporate Governance prior to endorsement by the Board and the policies and process for identifying and assessing business risks and the management of those risks by the company.
- To consider other topics, as defined by the Board.

viii. Discuss any problems and/or reservations arising from interim and final audits and any matters the external auditor may wish to discuss, in the absence of the Executive where necessary.

ix. Review the external auditor's management letter of recommendation and management's response.

RESPONSIBILITIES RE INTERNAL AUDIT [1]

i. To receive and approve Internal Audit's Terms of Reference as set out in the Audit Charter.

ii. To receive and approve Internal Audit's annual Audit Plan and satisfy itself that Internal Audit is properly resourced and skilled to implement the plan.

iii. To receive progress reports detailing internal audits undertaken during the period under review, progress against the plan and any concerns that Internal Audit wishes to bring to the attention of the Audit Committee.

iv. To satisfy itself that where control weaknesses are identified by Internal Audit, appropriate remedial action is undertaken by management in a timely manner.

v. To consider management's response to any major internal audit recommendations.

vi. To commission Internal Audit to undertake specific assignments where deemed necessary by the Committee.

vii. To approve the appointment or dismissal of the Business Risk Assurance Manager.

viii. To review management's and the internal auditor's reports on the effectiveness of systems for internal financial control, financial reporting and risk management.

[1] *Internal Audit is provided by the Business Risk Assurance Manager*

THE AMOUNT OF MAIL JERSEY POST HANDLED IN 2007

At its meeting in November the Audit Committee reviewed and approved a fraud policy as well as a whistle blowing policy under which members of staff can raise any concerns they have, including possible financial improprieties. It is intended that the Committee will receive annual reports on any concerns which are raised and the action taken to address these. In the case of any serious issues of financial impropriety the Audit Committee would be briefed as soon as possible following the reporting of the concern and would review the action management was taking to investigate the issue.

The Audit Committee has acted in accordance with its terms of reference during the year. The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the Committee.

NOMINATION COMMITTEE

During 2007 appointments to the Board were dealt with by the Board. However, a Nomination Committee has now been established to deal with any future Board appointments. The Nomination Committee is chaired by Mike Liston with Clive Spears, Gary Whipp and John Pinel as members.

REMUNERATION COMMITTEE

In 2007 the Remuneration Committee was chaired by Paul Jackson with Mike Liston and Clive Spears as members. During the financial year ended 31 December 2007 the Remuneration Committee met six times. The Remuneration Committee has responsibility for setting remuneration for the Directors which is sufficient to attract, retain and motivate people of the quality required. No Director plays any role in the determination of his own remuneration. The Memorandum of Understanding with the Treasury and Resources Minister requires any changes to the level of remuneration paid to Non Executive Directors to be agreed, in advance, by the Minister. The Committee also monitors the levels of remuneration for senior management.

The remuneration of the Directors for the financial year ended 31 December 2007 is set out below:

	Salary/Fees £'000	Bonuses £'000	Benefit in Kind [2] £'000	2007 Total £'000	2006 Total £'000
Executive Directors					
J Pinel	157	38	20	215	187
I Ridgway	117	35	15	167	137
A Starkey [3]	39	17	5	61	n/a
Non Executives					
M Liston	35			35	35
C Spears	14			14	12
P Jackson	19			19	18
G Whipp [3]	5			5	n/a

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

[3] Remuneration payment relates to part of the year due to the appointment occurring during the year.

THE COMMITTEE IS RESPONSIBLE FOR REVIEWING THE STRATEGIC PROCESSES FOR RISK, CONTROL AND GOVERNANCE

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 avoid the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The key procedures which the Board has established to provide effective controls are:

RISK MANAGEMENT

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

BUSINESS RISK ASSURANCE

The Business Risk Assurance Manager co-ordinates and facilitates the risk management processes, compiles the risk reports for the Board and undertakes internal audits to provide 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. There are also specific matters reserved for decision by the Board. Senior managers from each area of the business have been required to complete a Statement of Internal Control for the financial year ended 31 December 2007 to confirm whether they have complied with the risk, legal, regulatory and financial policies and key processes of the Jersey Post Group. The Statement of Internal Control from each area of the business did not identify any significant control failures or areas of risk which were not already recorded on the Group's risk register.

HUMAN RESOURCES

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

THE BOARD IS RESPONSIBLE FOR ENSURING THAT THERE ARE EFFECTIVE SYSTEMS OF INTERNAL CONTROL IN PLACE

THE GROWTH IN TURNOVER ACHIEVED BY JERSEY POST IN 2007

A POSITIVE OUTLOOK

DIRECTORS' REPORT

The Board of Directors of Jersey Post International Limited ('JPIL') 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 2007.

PRINCIPAL ACTIVITY

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

RESULTS

Details of the results for the year are set out in the group consolidated profit and loss account on page 18. A review of the Group's business during the year and an indication of the likely future development of the business are provided in the Chairman's Statement and the Business Review on pages 4 to 9.

The Group has undertaken a fundamental review of its operations, in particular in relation to the pick and pack fulfilment operations carried out by Offshore Solutions Limited. The Board, having reviewed the future viability of these operations, closed the pick and pack operations on 4 April 2007.

SHAREHOLDINGS

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

DIVIDENDS

No dividends are proposed.

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. Regular meetings were held between Executive Board members, management and employees to allow a free flow of information and ideas. All employees of Jersey Post Limited benefited directly in the success of the Group through their bonus schemes.

DISABLED EMPLOYEES

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

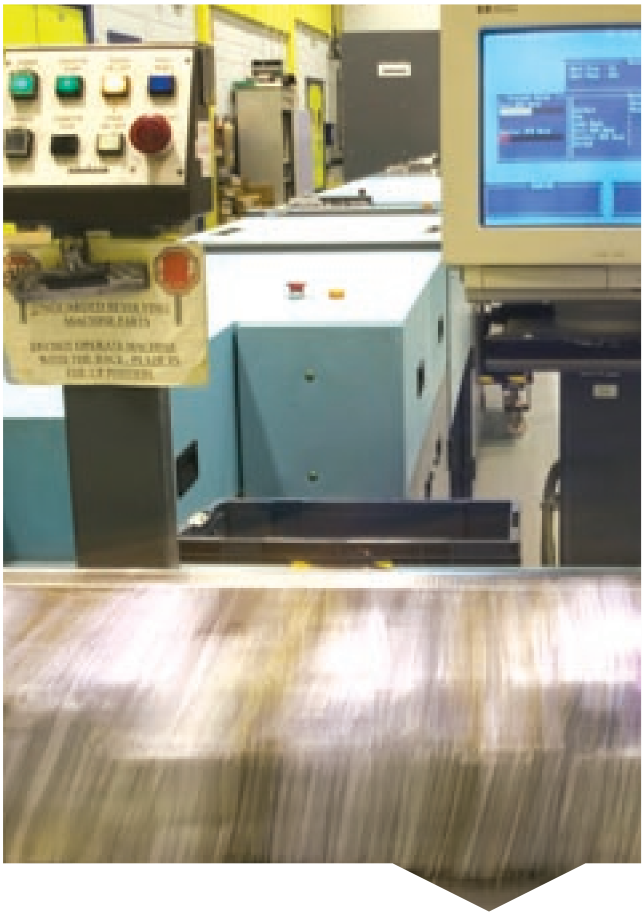
Where existing employees become disabled, it is the Group's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate.

BOARD REMUNERATION

Details of Directors' remuneration are set out in the Remuneration Committee Report on page 13.

GOING CONCERN

The Directors have made sufficient enquiries to satisfy themselves that they have a reasonable expectation that the Group will continue in operational existence for the foreseeable future and have therefore used the going concern basis in preparing the financial statements.



STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

ANNUAL GENERAL MEETING

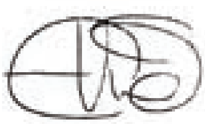
The AGM will be held at Postal Headquarters, La Rue Grellier, La Rue des Pres Trading Estate, St. Saviour, Jersey, JE2 7QS on the 19 June 2008.

AUDITORS

Deloitte & Touche LLP were appointed and acted as auditors for the year ended 31 December 2007.

A resolution to reappoint Deloitte & Touche LLP as auditors for the year ending 31 December 2008 will be proposed at the AGM on the 19 June 2008.

This statement was approved by the Board of Directors of Jersey Post International Limited on 30 May 2008 and was signed on their behalf by:



Liz Vince BA, CPFA, [CPD.cert]
Company Secretary

THE AVERAGE AMOUNT OF MILES A POSTAL WORKER WILL WALK EACH YEAR

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 2007 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated reconciliation of movements in shareholder's funds, the consolidated and company balance sheets, the consolidated cash flow statement, and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Article 110 of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Business Review, the Statement of Corporate Governance and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and parent company's affairs as at 31 December 2007 and of the Group's profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Deloitte - Touche LLP

Deloitte & Touche LLP
Chartered Accountants
St. Helier, Jersey

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Turnover	2	**53,814**	50,514
Cost of sales		**(44,483)**	(42,240)
Gross profit		**9,331**	8,274
Administrative expenses		**(4,849)**	(6,005)
Operating profit	3	**4,482**	2,269
Exceptional items	3	**(120)**	(824)
Interest receivable	5	**1,066**	904
Finance income/(costs)	6	**250**	(133)
Profit before taxation		**5,678**	2,216
Taxation	7	**(662)**	(186)
Retained profit for the year		**5,016**	2,030

The basis of preparation of these financial statements is set out on page 23, and the notes on pages 23 - 35 form part of these financial statements.

THE NUMBER OF DAYS A WEEK WE OPERATE A COLLECTION SERVICE

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Retained profit for the year		**5,016**	2,030
Gain on revaluation of freehold land and buildings		**-**	1,891
Actuarial (loss)/gain in respect of the pension schemes		**(12)**	5,907
Movement in deferred tax	7	**2**	2,282
Total recognised gains and losses for the year		**5,006**	12,110

The basis of preparation of these financial statements is set out on page 23, and the notes on pages 23 - 35 form part of these financial statements.

CONSOLIDATED RECONCILIATION OF THE MOVEMENTS IN SHAREHOLDER'S FUNDS

Year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Shareholder's/stakeholder's funds at 1 January		**13,948**	1,121
Impact of Incorporation			
Actuarial movements and impact of Incorporation on pension schemes	1	**-**	4,660
Difference in the valuation of net assets held pre-incorporation and acquired on incorporation	1	**-**	1,964
Profit attributable to the shareholder/stakeholder		**5,016**	2,030
Movement in deferred tax	7	**2**	2,282
Revaluation gain		**-**	1,891
Actuarial loss		**(12)**	-
Shareholder's funds at 31 December		**18,954**	13,948

The basis of preparation of these financial statements is set out on page 23, and the notes on pages 23 - 35 form part of these financial statements.

THE AMOUNT OF BUSINESS THAT JERSEY POST SUB-POST OFFICES HANDLE EACH YEAR

CONSOLIDATED BALANCE SHEET

as at 31 December 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Tangible assets	8	**8,948**	10,027
Current assets			
Pension surplus	14	**579**	720
Deferred tax	7	**1,845**	2,276
Stock	9	**161**	240
Debtors	10	**9,499**	8,069
Cash at bank and in hand		**17,591**	25,258
		29,675	36,563
Creditors			
Amounts falling due within one year	11	**(17,269)**	(29,442)
Net current assets		**12,406**	7,121
Total assets less current liabilities		**21,354**	17,148
Loan from States of Jersey	12	**(2,400)**	(3,200)
Net assets		**18,954**	13,948
Represented by:			
Ordinary share capital	15	**5,000**	5,000
Profit and loss account reserve		**13,954**	8,948
Shareholder's funds		**18,954**	13,948

The financial statements were approved by the Board of Directors of Jersey Post International Limited on 30 May 2008 and were signed on their behalf by:

John Pinel

John Pinel
Chief Executive

I Ridgway

Ian Ridgway
Finance Director

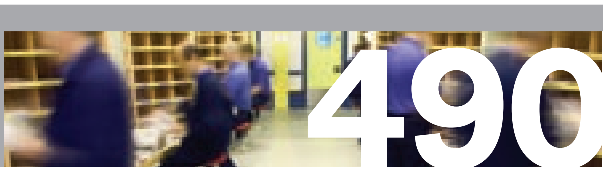
The basis of preparation of these financial statements is set out on page 23, and the notes on pages 23 - 35 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Net cash (outflow)/inflow from operating activities	22	**(7,424)**	4,073
Returns on investments and servicing of finance			
Interest payable		**(242)**	(116)
Interest received		**1,048**	904
Net cash inflow from returns on investments and servicing of finance		**806**	788
Capital expenditure			
Purchase of tangible fixed assets		**(259)**	(973)
Net cash outflow from capital expenditure		**(259)**	(973)
Net cash (outflow)/inflow before management of liquid resources and financing		**(6,877)**	3,888
Management of liquid resources		**6,353**	(8,095
Financing – Loan from States of Jersey		**(800)**	4,000
Decrease in cash in the period	22	**(1,324)**	(207)
Decrease in cash as per the balance sheet		**(1,314)**	(253)
(Increase)/decrease in overdraft as per the balance sheet		**(10)**	46
Cash movement		**(1,324)**	(207)

The basis of preparation of these Financial Statements is set out on page 23, and the notes on pages 23 - 35 form part of these Financial Statements.



THE NUMBER OF
JERSEY POST EMPLOYEES
AT CHRISTMAS

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

1.1 Basis of preparation

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

1.2 Basis of preparation of comparative figures

Legally, assets and liabilities arising from the activities undertaken and services provided by Jersey Post were, until 1 July 2006, vested in the States of Jersey. Although the legal form of Jersey Post changed on incorporation its principal activities of providing postal services to the community substantially remain unchanged.

Comparative figures for 2006 are based on the combined audited figures of two entities:

- Jersey Post Group (a trading department of the Economic Development Department until 1 July 2006) for the 6 month period to 30 June 2006; and
- Jersey Post International Limited for the 6 month period to 31 December 2006.

The Postal Services (Transfer) (Jersey) Regulations 2006 provided the legal mechanism for the Transfer of Assets, Liabilities and business of Jersey Post to Jersey Post International Limited. This transfer met the criteria of a merger as defined by Financial Reporting Standard 6 'Acquisitions and Mergers'. Under these regulations:-

- Jersey Post International Limited was provided with the balance on Jersey Post's Trading Fund held by the Treasurer of the States which was used to purchase the net assets of Jersey Post, with the surplus being retained by Jersey Post International Limited.
- The fixed assets were transferred at the value previously recorded in Jersey Post's separate financial statements prepared under UK GAAP, which is the deemed cost to the Group.
- At 30 June 2006 the States of Jersey financial statements did not include pension liabilities calculated in accordance with Financial Reporting Standard 17 'Retirement Benefits' ("FRS 17"), consequently these liabilities were added back when calculating the opening reserves of the Group.
- Actuarial pension liabilities attributable to Jersey Post for the deficit on the Public Employee Contributory Retirement Scheme and the Jersey Post Office Pension Scheme were calculated by the schemes' actuaries and then crystallised upon incorporation and so have been deducted from the opening reserves of the Group.
- 4,999,998 £1 ordinary shares were issued as fully paid up by Jersey Post International Limited to the States of Jersey upon incorporation.

1.3 Basis of consolidation

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

1.4 Tangible fixed assets

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

In accordance with the Postal Services (Transfer) (Jersey) Regulations 2006 which regulated the transfer of the assets, liabilities and rights of Jersey Post to Jersey Post International Limited as detailed in the Directors' Report, at 30 June 2006, the freehold land and buildings were revalued 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)

1.5 Stocks

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

1.6 Foreign currencies

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

1.7 Turnover

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

1.8 Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

1.9 Pension costs

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

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

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

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

As stated in note 14, the latest FRS 17 update valuation of the PECRS scheme was carried out at 31 December 2007.

1.10 Operating leases

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

1.11 Research and development

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

1.12 Related Parties

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

THE INCREASE IN OPERATING PROFIT ACHIEVED BY JERSEY POST IN 2007

2. Turnover

Classes of turnover may be analysed as follows:

	2007 £'000	2006 £'000
Postal Services	**41,328**	36,961
Offshore Solutions	**925**	3,082
Agency and counter services	**5,703**	5,426
Philatelic services	**1,277**	1,479
J promail services	**4,581**	3,566
	53,814	50,514

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

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

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

	£'000	£'000
Turnover	**925**	3,082
Operating loss	**(140)**	(758)

3. Operating profit for the year

	2007 £'000	2006 £'000
Operating profit for the year is stated after charging the following:		
Regulatory fees paid to the JCRA	**300**	250
Operating lease rentals - land and buildings	**225**	556
- others	**120**	171
Depreciation	**1,338**	1,439
Auditors' remuneration - audit	**55**	95
- non-audit	**19**	36

Exceptional items of £120k (2006: £824k) consist of amounts provided for in relation to the closure of the "pick and pack" operations of Offshore Solutions Limited and redundancy costs associated with business restructuring.

4. Employees costs and numbers employed

	2007 £'000	2006 £'000
Wages and salaries	**14,269**	15,215
Social security costs	**785**	862
Employer pension costs	**1,214**	1,694
	16,268	17,771

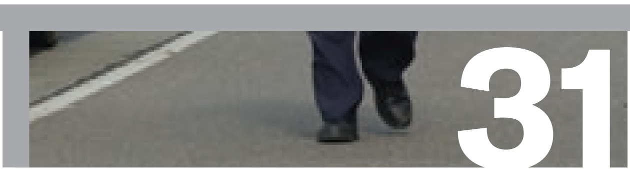
	No.	No.
The number of employees at the year end were as follows;		
Postal Services	**266**	256
Offshore Solutions Limited	**28**	93
Agency and counter services	**23**	20
Philatelic services	**7**	10
J promail services	**16**	13
Support services	**36**	64
	376	456

5. Interest receivable

	2007 £'000	2006 £'000
Bank interest receivable	**1,066**	904

6. Finance income/(costs)

	2007 £'000	2006 £'000
Expected return on pension scheme assets	**2,028**	1,573
Interest on pension liabilities	**(1,518)**	(1,590)
	510	(17)
Loan note interest payable	**(260)**	(116)
Net finance income/(costs)	**250**	(133)



THE EQUIVALENT NUMBER OF
ITEX WALKS A POSTAL WORKER
WILL WALK EACH YEAR

7. Taxation

	2007 £'000	2006 £'000
Jersey income tax at 20%		
Current charge	**264**	-
Charges in respect of prior period	**-**	-
Total current tax charge for the year	**264**	-
Deferred taxation		
Charge for the year taken to profit and loss	**181**	104
Charge in respect of prior period taken to profit and loss	**217**	82
Total charge to profit and loss	**662**	186
Credit for the year taken to the STRGL	**(2)**	(2,282)
Total charge/(credit) for the year	**660**	(2,096)
The current income tax charge in the profit and loss account is as follows:		
Profit on ordinary activities before taxation	**5,678**	1,043
Tax on profit on ordinary activities at 20%	**1,135**	209

Factors affecting tax charge for the period

	2007 £'000	2006 £'000
Tax losses brought forward	**(24)**	(228)
Tax losses not utilised in the year/period	**-**	24
Non-qualifying depreciation	**48**	24
Fixed asset timing differences	**73**	140
Short term timing differences	**-**	1
Permanent differences arising from non-deductible exceptional items	**8**	74
Timing differences on pensions	**(539)**	(244)
Effect of transition year rules	**(437)**	-
Total current tax for the year/period	**264**	-

Deferred taxation

	2007 £'000	2006 £'000
Total deferred tax balance at 1 January	**2,096**	-
Charged to profit and loss	**(181)**	(104)
Credited to the STRGL	**2**	2,282
Charge to the profit and loss in respect of prior periods	**(217)**	(82)
Total deferred tax balance at 31 December	**1,700**	2,096
The deferred tax balance at 31 December consists of the following:		
Accelerated capital allowances	**130**	58
Special pension contribution	**1,715**	2,218
Deferred tax asset per the balance sheet	**1,845**	2,276
Deferred tax liability netted against pension surplus (note 14)	**(145)**	(180)
Total deferred tax as above	**1,700**	2,096

A deferred tax asset has been recognised on the basis of the latest budget, forecast and JCRA price control shows that the Group expects to have taxable profits going forward.

The comparative tax figures for 2006 relate to the audited 6 month period end to 31 December 2006 due to the fact that prior to this Jersey Post was part of the Economic Development Department and not subject to income tax.

8. Tangible fixed assets

	Freehold land & buildings £'000	Improvements to leasehold property £'000	Plant vehicles & equipment £'000	Total £'000
Cost				
At 1 January 2007	7,735	524	8,347	16,606
Disposals	-	-	(85)	(85)
Additions	-	-	259	259
At 31 December 2007	7,735	524	8,521	16,780
Depreciation				
At 1 January 2007	120	361	6,098	6,579
Disposals	-	-	(85)	(85)
Charge for the year	239	41	1,058	1,338
At 31 December 2007	359	402	7,071	7,832
Net book value				
At 31 December 2007	7,376	122	1,450	8,948
At 31 December 2006	7,615	163	2,249	10,027

JERSEY POST IS IN THE
TOP 7% OF PRIVATE SECTOR
EMPLOYERS WITHIN THE ISLAND

9. Stock

	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Stamps and philatelic products	**83**		70	
Payments on account	**21**	**104**	80	150
Post Office (Retail)		**26**		34
Paper		**31**		16
Fulfilment packaging		**-**		40
		161		240

Fulfilment packaging was written off or sold during the year following the closure of the "pick and pack" operations of Offshore Solutions Limited on 4 April 2007.

10. Debtors: amounts falling due within one year

	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Trade debtors	**7,972**		5,896	
Provision for bad debts	**(62)**	**7,910**	-	5,896
Other debtors		**2**		84
Agency debtors		**997**		1,587
Prepayments and accrued income		**590**		502
		9,499		8,069

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

Provisions

	2007 £'000	2006 £'000
Provision for bad and doubtful debts		
As at 1 January	**-**	-
Provided for in year	**62**	-
Provisions utilised	**-**	-
As at 31 December	**62**	-

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Trade creditors	**1,623**	1,999
Accruals and other creditors	**12,906**	24,392
Agency creditors	**1,387**	1,884
Bank overdraft	**11**	1
Loan from States of Jersey (Note 12)	**800**	800
Taxation	**264**	-
Deferred income	**278**	366
	17,269	29,442

Included within accruals is the net amount due to Royal Mail under the Commercial Agreement.

Deferred income relates to prepaid post office boxes, business reply licences, and unexpended credit on franking meters.

12. Loan from the States of Jersey

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

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

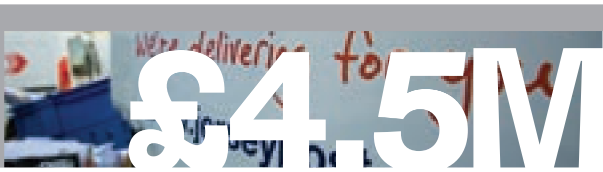
The Loan Notes are unsecured and will be redeemed by JPIL at par on 31st December 2008 / 2009 / 2010 / 2011 together with accrued interest to that date and will be redeemed by JPIL before that date and twelve months after receipt of notice from the Treasurer requiring redemption, which notice shall only expire on 31 December in any year.

JPIL may at any time redeem these Loan Notes at par together with accrued interest to the date of redemption.

As outlined in note 23 this loan was fully repaid after the balance sheet date.

13. Operating lease commitments

	Land and Buildings		Others		Total	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000
The Group						
Annual commitments in respect of operating leases which expire:						
Less than one year	**234**	-	**104**	19	**338**	19
Between two and five years	**110**	348	**137**	218	**247**	566
After five years	**143**	199	**-**	-	**143**	199



THE OPERATING PROFIT
JERSEY POST ACHIEVED
DURING 2007

14. Pension costs

The Group had one defined benefit pension scheme at 31 December 2007, which is open to employees of Jersey Post - Public Employees Contributory Retirement Scheme (PECRS). Prior to incorporation Jersey Post had a second defined pension scheme (JPOPF). The responsibility for JPOPF remains with the States of Jersey as from 30 June 2006. Contributions by the Group to the JPOPF scheme for the year ended 31 December 2007 were £16k (2006: £39k).

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 £1,214k for the year ended 31 December 2007 (2006: £1,694k) for staff who are members of PECRS. There are no unpaid contributions outstanding at the year end (31 December 2006: £nil). The current employer contribution rate is 11.38% of members' salaries.

The latest full actuarial valuation of PECRS was carried out by the PECRS's independent actuary as at 31 December 2004. The valuation of PECRS has been updated by the actuary to 31 December 2007 in accordance with FRS17. The next full actuarial valuation of PECRS will be carried out as at 31 December 2007.

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

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

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 2007		**At 31 December 2006**		**At 31 December 2005**		**At 31 December 2004**	
	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	**4.7%**	**-**	4.7%	-	4.3%	1,222	4.9%	1,011
Equities	**7.6%**	**30,717**	7.6%	24,403	7.6%	13,182	7.6%	9,828
Index – linked gilts	**4.3%**	**-**	4.3%	-	3.9%	1,885	4.4%	1,468
Property	**6.6%**	**395**	6.6%	-	6.6%	-	6.6%	-
Cash / other	**5.9%**	**267**	5.2%	6,178	4.6%	216	4.8%	161
Total fair value of assets		**31,379**		30,581		16,505		12,468
Present value of scheme liabilities		**(30,655)**		(29,681)		(33,361)		(30,479)
Surplus/(deficit)		**724**		900		(16,856)		(18,011)
Deferred tax		**(145)**		(180)		-		-
Net Surplus/(deficit)		**579**		720		(16,856)		(18,011)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

c) Analysis of amount charged to profit and loss account

	2007 £'000	2006 £'000
Service cost	**1,869**	2,134
Total operating charge	**1,869**	2,134
Analysis of the amount (credited)/charged to other finance income/(costs):		
Expected return on assets	**(2,028)**	(1,573)
Interest on liabilities	**1,518**	1,590
Net return	**(510)**	17
Net charge to the profit and loss account	**1,359**	2,151

d) Analysis of amount recognised in the STRGL

	2007 £'000	2006 £'000
Difference between actual and expected return on pension scheme assets	**(694)**	(445)
Experience gains arising on the scheme liabilities	**(326)**	3,602
Effect of changes in assumptions underlying the present value of scheme liabilities	**1,008**	2,750
Total gains and losses recognised in the Statement of Total Recognised Gains and Losses	**(12)**	5,907

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

	2007 £'000	2006 £'000
Surplus/(deficit) in the scheme at 1 January	**900**	(16,856)
Current service cost	**(1,869)**	(2,134)
Contributions - Normal	**1,195**	1,667
- Special	**-**	12,333
Other finance income/(costs)	**510**	(17)
Actuarial gain	**(12)**	5,907
Surplus in the scheme at 31 December	**724**	900

THE NUMBER OF ROADSIDE POST BOXES AROUND THE ISLAND

f) History of experience gains and losses

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

15. Ordinary share capital

	2007 £'000	2006 £'000
Authorised, issued and allotted		
5 million £1 ordinary shares	**5,000**	5,000

No shares were issued during the year ended 31 December 2007.

16. Commitments and contingent liabilities

As at 31 December 2007 there were commitments totalling £71k (31 December 2006: £NIL).

17. Ultimate and immediate controlling party

Until 30 June 2006, Jersey Post was a trading department of the Economic Development Department and the immediate and ultimate controlling party was therefore the States of Jersey. On 1 July 2006, the assets, liabilities and business of Jersey Post Office (a trading department of the Economic Development Department) were transferred to Jersey Post International Limited, a limited company incorporated in Jersey. The ultimate controlling party remains the States of Jersey.

18. Related party transactions

The Group provides multi-channel services to a number of different departments of the States of Jersey. Because of the level of transactions and the number of departments involved it is not practical to determine the amount of transactions during the year. As at 31 December 2007, the amount owing to the States of Jersey was £1,129k (this amount includes the amount owed to the Social Security Fund) and the amount owed from the States of Jersey was £167k (31 December 2006: £837k and £81k respectively). All services provided by The Group to the States of Jersey are provided on an arms length basis.

19. Company balance sheet

The assets, liabilities and equity of JPIL as at 31 December 2007 comprised:

	2007 £'000	2006 £'000
Investment in subsidiary	**12,871**	13,671
Loan from States of Jersey	**(3,200)**	(4,000)
Net assets	**9,671**	9,671
Share capital	**5,000**	5,000
Distributable reserves	**4,671**	4,671
Shareholder's/stakeholder's funds	**9,671**	9,671

20. Subsidiary undertakings

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

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

21. Board Remuneration and fees

Details of remuneration paid to Directors and related party transactions therewith are disclosed in the Remuneration Committee Report on page 13.

22. Notes to cash flow

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

	2007 £'000	2006 £'000
Operating profit	**4,482**	2,269
Lump sum payment to PECRS	**-**	(12,333)
FRS17 operating charge less normal contributions paid	**674**	221
Add depreciation charge	**1,338**	1,439
Decrease/(increase) in stock	**79**	(63)
(Increase)/decrease in debtors	**(1,430)**	(737)
Increase in creditors due within one year	**(12,447)**	12,897
Net cash flows from discontinued activities and reorganisational costs	**(120)**	-
Loss on disposal of fixed assets	**-**	380
Net cash (outflow)/inflow from operating activities	**(7,424)**	4,073

THE NUMBER OF ITEMS JERSEY POST DELIVERED LOCALLY IN 2007

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b) Analysis of changes in net funds

	1 January 2007 £'000	Cash Flow £'000	31 December 2007 £'000
Cash	4,970	(1,314)	3,656
Overdraft	(1)	(10)	(11)
	4,969	(1,324)	3,645
Debt due within one year	(800)	-	(800)
Debt due after one year	(3,200)	800	(2,400)
Short-term deposits*	20,288	(6,353)	13,935
	21,257	(6,877)	14,380

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

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

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

	2007 £'000	2006 £'000
Decrease in cash in the year	**(1,324)**	(207)
Cash outflow/(inflow) from liquid resources	**(6,353)**	8,095
Decrease/(increase) in debt	**800**	(4,000)
Change in net funds	**(6,877)**	(3,888)
Net funds at 1 January	**21,257**	17,369
Net funds at 31 December	**14,380**	21,257

23. Post Balance Sheet Event

On the 13 May 2008 the Board of Directors agreed that the outstanding loan to the States of Jersey, £3,200k as at 31 December 2007, be repaid in full. This was subsequently repaid on 30 May 2008.

NOTES

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