

# **Isle of Man Post Office**

## **Report and Accounts**

**For the 52 weeks ended 27 March 2011**

# Isle of Man Post Office

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# Isle of Man Post Office

## Officers and Professional Advisers

### **Headquarters**

Spring Valley Industrial Estate  
Douglas  
Isle of Man  
IM2 1AA

### **Board Members**

Mr E A Crowe MLC – Chairman  
Mr C G Corkish MBE MHK – Vice Chairman  
Mr C D Pemberton  
Mr M Bathgate  
The Ven B Partington OBE

### **Chief Executive**

Mr M Kelly

### **Principal Bankers**

Isle of Man Bank  
2 Athol Street  
Douglas  
Isle of Man  
IM1 1JA

### **Principal Advocates**

HM Attorney General  
Attorney General's Chambers  
3<sup>rd</sup> Floor, St Mary's Court  
Douglas  
Isle of Man  
IM1 1EU

### **Auditors**

KPMG Audit LLC  
Heritage Court  
41 Athol Street  
Douglas  
Isle of Man  
IM99 1HN

# Isle of Man Post Office

## Chairman's Statement

I am pleased to present the Accounts of the Isle of Man Post Office for the 52 weeks ended 27<sup>th</sup> March 2011. Last year I explained that the results of the Isle of Man Post Office were achieved against the background of a continued difficult trading environment, both within the global mail market and within the broader economy. These wider economic factors did not abate during 2010/11 and hence the results shown in these statements demonstrate the importance of maintaining our current strategy of seeking new, diversified revenue streams.

It is now well established that the postal industry is in the middle of a period of significant change. The challenge faced by all postal administrators, worldwide, is to find ways to quickly adapt a business model which has developed over the past 300 years to meet the challenge of the internet age.

My Board and I strongly believe that these changes represent opportunities for the Isle of Man Post Office to pioneer new products and services which meet the changing requirements of our customers. Our size enables us to react quickly to market opportunities, a real strength in times such as these where both the pace and frequency of change is rapid.

To illustrate this, during the coming year the Isle of Man Post Office will launch "ePostbox", a revolutionary digital product developed with Swiss Post, giving customers a radical new way to receive their mail. It is important that we introduce digital communications products as our physical mail volumes continue to decline. The Board believes that it has found an ideal partner in Swiss Post to work with to develop this new digital postal service.

Swiss Post has extensive knowledge in the delivery of electronic mail and is widely recognised as one of the most innovative postal administrations in Europe. The partnership brings a significant amount of prestige to the Island and will ensure that the Isle of Man Post Office continues to position itself as innovative and forward-thinking.

The close working relationship with Swiss Post is a major step forward for Isle of Man Post Office. We share similar views on the long term vision and strategies required for the sustainability of the postal industry and both have recognised that national postal operators must fully embrace the new advances in technology, to keep up with the latest trends in digital communication.

Integrated Mailing Solutions was accredited to the ISO 9001:2008 Quality Management standard during the year, a further indicator that, after the accreditation to ISO/IEC 27001:2005 Information Security last year, the provision of an excellent, secure service to our customers is of paramount importance to us as we seek to broaden our revenue base.

During the course of 2010/11 a number of new service enhancements were introduced, including the installation of postal kiosks at a number of locations around the Island. This initiative is part of the broader strategy to find ways to make it easier for our customers to do business with us and it is extremely pleasing that the feedback from our customers has been almost universally positive.

The key message continues to be that the Post Office must continue to seek alternative revenue sources to secure its long term future. I am extremely grateful to the Chief Minister and to Tynwald for the clear support they have shown for this approach and I believe the strength of the financial results presented in these statements demonstrates that the business continues to develop in the right direction.

There are a number of challenges in the near future which will require careful consideration. The ability of the Post Office to react with sufficient flexibility to take advantage of market opportunities may be compromised if inflexible governance regimes are placed upon it. It is critical to the future success of the business that consideration is given to the commercial challenges faced by the Post Office when central policies are prepared and approved.

In a similar manner the Board believes that any future centralisation of functions by Government, which includes the Post Office carries risks to the ongoing development of the commercial culture with the business as well as endangering the flexibility of operation which will be required for the future. Any future proposal to include the Post Office in the further expansion of these initiatives should carefully consider these and other issues.

# Isle of Man Post Office

## Chairman's Statement (continued)

Our objective remains to provide excellent services at competitive prices and I would like to take this opportunity to thank all our customers once again for their continued and valued support.

It is also important that I express my gratitude to my fellow Board Members, the Chief Executive, Executive Directors, Management and Staff right across the whole of our business operations. These excellent results have been achieved through their continued hard work and I look forward to working with them to meet the challenges ahead.

-----  
E Alan Crowe MLC  
Chairman

# Isle of Man Post Office

## Chief Executive's Report

The results contained in this Report and Accounts are very encouraging and reflect the continuing efforts of the Isle of Man Post Office to seek new customers in new markets to offset the ongoing decline in traditional mail volumes. There remains much work to be done to successfully reposition the Post Office's business model for the future whilst moving through these difficult economic times. I would like to thank our many loyal customers for their continued support and assure them that we are constantly striving to find new and innovative ways to provide products and services which meet their needs.

The operating result for the year, at 7.7% of sales was marginally ahead of last year (7.3%). This enabled the business to return a net profit of just under £2.5M, 50% of which will be paid as a levy to Treasury to contribute to the general revenues of the Island.

In my commentary last year I explained that the postal service's element of the Post Office was facing significant changes, driven by both the market and changing technology. The decline in mail volumes posted on-Island continued during the 12 months to March 2011 and we have been finalising plans to make the consequential changes to our delivery and collection arrangements to improve network efficiency. As we move to implement these changes there will inevitably be variations to the time some customers receive their deliveries and I ask customers for their forbearance during this period of change.

Technology continues to have a great impact on the postal market. The established view is that technology will have (and already has had) a detrimental effect on postal markets as customers choose to use different forms of communication. The Isle of Man Post Office recognises, and has undoubtedly already suffered from, this change however we also see significant opportunity to take advantage of new technology to offer our customers new and exciting products.

During the year we introduced automated postal kiosks in various locations around the Island (both on and off Post Office premises) to make it easier for our customers to access our services. Customer reaction to this initiative has been extremely favourable and we will consider expanding this network as the need arises.

Our Isle of Man Stamps and Coins division continues to produce outstanding products which compete with the best in the world. The use of social media, such as Facebook and Twitter continued to grow over the year, opening new channels to different customers.

Our IMS division has seen significant investment to acquire assets and skills to become a leading Island provider of digital image capture and data processing. We have been successful in expanding our non-postal customer base into the United Kingdom and have won contracts with large well-known UK companies in the face of fierce competition from global companies. The ongoing decline of the domestic postal market means that, in order to protect our operations on-Island, it has become essential to find revenue streams from overseas customers.

The percentage of the Post Office's profits generated by or related to diversification into new technologies or new markets is rising every year. It is critical to the future of the Post Office that we are allowed to continue this trend. Our projections indicate that, in the coming years, the Island market alone will not be of sufficient size to support the Post Office into the future without significant price increases up to the levels of the other British Islands or by major service changes.

One of the key challenges facing the Post Office is to work with Government to recognise the incompatibility between the increasing drive for centralisation against the Post Office's requirements to maintain its ability to react in a nimble manner to changes in its marketplaces. It is the view of the Post Office that administration arrangements and policies which are designed for central Government may not necessarily be appropriate for the commercial marketplace in which the Post Office increasingly operates.

The Isle of Man Post Office was encouraged when its commercial nature was recognised in last year's restructuring of Government with the Department of Economic Development being nominated as its sponsoring Department, and I would like to thank the Department for the support it has given us in the past 12 months. The Post Office continues to believe that it has a key role to play in attracting new businesses to the Island and this role can only be enhanced by continuing to allow us sufficient freedom to develop new digital services to attract these businesses. A failure to do so, or the enforced imposition of inappropriate central policies, would represent a significant risk to the future development of the Post Office.

# Isle of Man Post Office

## Chief Executive's Report (continued)

The central policy of a freeze of public sector pay budgets has been supported in full by the business, but this has come at a cost to the relationship between the staff and the business. Taking this dispute to the point of industrial action damaged the Isle of Man Post Office. Our negotiations with the staff representative bodies have been tough but I believe the fact that strike action was avoided demonstrates that all parties recognise that the only consequence of strike action would be further damage to the business, and more importantly, our customers.

Moving forward, in 2011/12 the Isle of Man Post Office will be one of the first postal administrations in the world to introduce an option for its customers to have their physical mail delivered digitally to them. The product is called ePostbox and we have partnered with Swiss Post, one of the most forward thinking Posts in the World, to develop it for our customers. We believe it represents the first step in the transition towards the provision of postal services for the digital age. Such partnerships between Post Offices and industry specific suppliers will be essential if Isle of Man Post Office is to remain successful into the future.

The Isle of Man Post Office continues to meet the challenges it faces head on. We remain committed to finding new and innovative ways to change to meet the demands of our evolving market. The business could not achieve this without the hard work, dedication and loyalty of its staff and I would therefore like to take this opportunity to thank them for their contribution this year.

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Mike Kelly  
Chief Executive

# Isle of Man Post Office

## Statement of Internal Control

### **Introduction**

The Isle of Man Post Office is constituted as a Statutory Board of Tynwald under The Post Office Act 1993. This Report is made by the Isle of Man Post Office to Isle of Man Government Treasury in accordance with the requirements of the Isle of Man Government's Corporate Governance Principles and Code of Conduct ("the Code").

The Isle of Man Post Office's Strategic Plan for the five year period 2008-2013 was reviewed and updated in April 2010. It defines the Isle of Man Post Office's vision, mission and values, and acknowledges its major stakeholders. The Plan contains a strategy statement which includes five key strategies. These key strategies and their elements interrelate to create a cohesive and mutually supportive plan, structuring the business to enable it to meet the demands and challenges ahead.

### **Responsibilities of the Board and the Accounting Officer**

The Board controls the strategy and policy within the Isle of Man Post Office. It is the Board's responsibility to ensure that the work of the Accounting Officer and other senior officers supports the strategy and policy approved by the Board.

As Accounting Officer, the Chief Executive of Isle of Man Post Office is responsible for implementing and maintaining systems of Internal Control and Corporate Governance which:

- ensure compliance with legislation and other regulations;
- safeguard public money, ensure that it is properly accounted for and that it is used economically, efficiently and effectively; and
- support the achievement of the strategy and policies approved by the Board.

In discharging this responsibility, the Chief Executive works with senior officers to put in place arrangements for the governance of the Isle of Man Post Office's affairs and the stewardship of resources, in accordance with the Code.

### **Internal Control and Corporate Governance environment**

The system of Internal Control is based on ongoing processes designed to:

- identify the principal risks to the achievement of the organisation's strategic aims and objectives.
- identify the principal risks associated with the organisation's operational activities.
- consistently evaluate the nature and extent of the above risks and agree appropriate mitigating controls.
- provide assurance that key risks are being managed efficiently, effectively and economically and that existing controls are robust.
- ensure adherence throughout the organisation to Isle of Man Post Office policies and relevant legislation.

The system of Internal Control is designed to manage rather than eliminate the risk of failure to achieve the organisation's policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness.

### **Isle of Man Post Office Corporate Governance and Risk Management Framework**

The Isle of Man Post Office has introduced a system of Corporate Governance and Risk Management which is designed to enable it to assess its performance in these areas and determine, where appropriate, relevant actions to improve the control environment.

The Board of the Isle of Man Post Office has published a schedule of delegated authority to enable the day to day operation of the business.

The Board has also published a statement of powers which it has reserved solely to itself.

The Isle of Man Post Office has established risk registers at operational and strategic levels; issues arising out of these registers form part of the standing agenda at operational and Board meetings.

# Isle of Man Post Office

## Statement of Internal Control (continued)

The management of the organisation's most significant current and emerging risks is subject to Board oversight. A high-level summary of the current top risks faced by the business is presented quarterly to the Board. This summary includes details of the risks, the existing mitigation or controls, and any proposed improvement actions, together with assigned responsibilities and expected implementation dates. The current status (Red-Amber-Green) is evaluated for each key risk.

A formal Assurance Framework for the business was established following a co-ordinated assessment of all forms of assurance available to the Board and its Audit & Risk Committee. This framework was revised and updated in February 2011. The Assurance Framework continues to provide a systematic mechanism to ensure the adequacy and operation of existing key controls and systems to manage the Isle of Man Post Office's major risks.

The Isle of Man Post Office's Internal Audit Plan is an integral part of the above framework, providing appropriately focused supplementary or independent assurance. Audit needs are determined according to the strength, independence and criticality of each of the current assurances.

### **Board Meetings**

The Board Members are non-executive and their appointment is approved by Tynwald.

The Board meets regularly and consists of a Chairman and four other Board Members. Board meetings are also attended by the Chief Executive and Executive Directors. The Board receives reports from the Isle of Man Post Office Executives on operational matters and ensures that the work of the Accounting Officer and other senior Executives supports the strategy and policy approved by the Board.

A detailed, consolidated report is submitted quarterly to the Board by each Business Unit Manager / Department Head.

### **Audit and Risk Committee**

The Audit & Risk Committee is a Committee of the Board and consists of two members of the Isle of Man Post Office Board which meets quarterly. The meetings are also normally attended by the Chief Executive, the Finance Director, the Risk and Systems Manager and a representative from Isle of Man Government Internal Audit. A representative from the external auditors also attends meetings as appropriate.

The Audit & Risk Committee ensures that the business maintains a systematic approach to Risk Management. It reports to the Board on issues concerning Corporate Governance, risk, internal control, financial reports and associated information issued by the Isle of Man Post Office. It is also the principal point of contact for the external auditors.

The Audit & Risk Committee is active in embedding Risk Management practices through regular comprehensive reviews of each individual department's approach to risk management. These reviews have helped to develop a wider understanding of the nature and criticality of risks affecting Isle of Man Post Office's range of activities, and provide opportunities to assess the practicality and effectiveness of existing controls and practices, and to identify improvements.

The Audit & Risk Committee is responsible for reviewing the current top risks faced by the business and reporting them to the Board.

The Audit & Risk Committee conducts a self review of its performance every two years.

### **Remuneration Committee**

The Remuneration Committee is a Committee of the Board and consists of two members of the Isle of Man Post Office Board which meets at least once per year. The Committee makes recommendations to the Board on Executive Directors' (including Chief Executive's) pay and conditions, acts as the appellate body in respect of Executive Directors' performance appraisal and reviews any other remuneration strategy as required by the Board.

# Isle of Man Post Office

## Statement of Internal Control (continued)

### **Properties Committee**

The Properties Committee is a Committee of the Board and is chaired by a member of the Board. It meets as required, under agreed Terms of Reference, and reviews the Business' strategy for the maintenance, development and acquisition or sale of its properties.

### **Isle of Man Post Office Internal Audit**

The Isle of Man Post Office maintains its own internal audit resource. The head of internal audit is charged with oversight of the risk management process within the organisation and reports directly to the Chief Executive, whilst maintaining a right of communication direct to the Chairmen of the Board and of the Audit & Risk Committee.

Audit activities include an agreed programme of internal auditing of Integrated Mailing Solutions' ongoing compliance to ISO 9001:2008 and ISO 27001:2005 standards.

The internal audit division of Treasury supplements the internal audit function - providing information, support and guidance as required, and performs audits of risk management systems within the Isle of Man Post Office as required.

### **Monthly Management Review Meetings**

The Chief Executive and the Executive Directors meet with managers on a monthly basis to formally review their Business Unit and departmental financial and operational performance.

### **Review of Internal Control and Corporate Governance Environment**

The effectiveness of the Isle of Man Post Office's internal control and Corporate Governance arrangements is continuously assessed by the work of management and the Audit & Risk Committee. In addition, the Risk and Systems Manager works with management to assess compliance with the code of corporate governance, review items on the risk registers and to ensure action is being taken against outstanding issues.

Each year, business unit and departmental managers complete an assessment of their compliance with the Code of Corporate Governance and agree actions for the forthcoming period.

Further evidence as to the effectiveness of internal controls and Corporate Governance arrangements is provided by reports issued during the year by Isle of Man Post Office internal audit, Treasury internal audit, external audit and other external reviews. These reports are also reviewed by the Audit & Risk Committee.

The management and Board have identified one key risk (red status) for which, to date, it has been unable to develop mitigation strategies. This is the ongoing question of the appropriateness and application/enforcement of central Government information systems (ICT) policies which the Post Office has found to be incompatible with the successful delivery of its strategic objective for commercial diversification.

### **Report on Internal Control and Corporate Governance Environment**

Attention is drawn to the fact that systems of Internal Control and Corporate Governance are designed to manage rather than eliminate the risk of failure to achieve objectives. As previously stated, they can therefore only provide reasonable and not absolute assurance. Accordingly, reasonable assurance is given that the Isle of Man Post Office's internal control and Corporate Governance arrangements are adequate and operated effectively during the period ended 27 March 2011.

### **Progress on Corporate Governance Implementation**

The Audit Plan is structured against an agreed Assurance Framework designed to provide enhanced assurance over the effectiveness of the controls and processes used to ensure the organisation's Strategic Plan objectives are progressed and achieved.

The Corporate Governance Self-Review Questionnaires (SRQ's) completed by Isle of Man Post Office's departments or Business Units have retained last year's improved format to assess compliance with the requirements of the Code. The completed questionnaires were reviewed by the Executive Directors together with the managers to ensure responses and evaluations were of a consistent standard, and to further discuss any identified problems or proposed improvements.

# Isle of Man Post Office

## Statement of Internal Control (continued)

Progress has been made against the Corporate Governance provisions that were evaluated last year as requiring further evidence to support compliance with the Code. This has been facilitated by the continued use of Improvement Schedules to address any identified areas of weakness in compliance.

The business's commitment to Quality Management was demonstrated through the Integrated Mailing Solutions (IMS)'s achievement of ISO 9001:2008 Quality Management Systems accreditation in January-February 2011. IMS also successfully completed its latest ISO-IEC 27001:2005 Information Security review.

Several policies have been approved, updated and/or disseminated during 2010-2011. These include Isle of Man Post Office Maternity Rights Policy, Flexible Working Hours (Flexitime) Policy, and the Process for Retirement and Retention policy, which forms part of Isle of Man Post Office's terms and conditions of employment.

A new Competency Framework for staff has been agreed. All appraisers have received one to one coaching in preparation for its introduction in March 2011.

Signed: \_\_\_\_\_

M Kelly  
Chief Executive

# Isle of Man Post Office

## Statement of responsibilities of the Board

The Isle of Man Post Office is constituted under the Post Office Act 1993 as a Statutory Board of Tynwald. The Chairman and Chief Executive are responsible for preparing their Statement and Report, respectively. The Board is responsible for approving the Chairman's Statement and the Chief Executive's Report and in preparing the accounts, in accordance with applicable law and regulations.

The Audit Act 2006 requires the Board to prepare accounts for each financial year, which meet the requirements of the Accounts and Audit Regulations 2007 to 2008, made under the Audit Act 2006. The regulations require the Board to prepare the accounts in accordance with UK Accounting Standards.

The accounts are required by law to give a true and fair view of the financial affairs of the Isle of Man Post Office for that period.

In preparing these accounts, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Isle of Man Post Office will continue in operation.

The Board is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial affairs of the Isle of Man Post Office and to enable them to ensure that the accounts comply with the Accounts and Audit Regulations 2007 to 2008, made under the Audit Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Isle of Man Post Office and to prevent and detect fraud and other irregularities.

## **Report of the Independent Auditors, KPMG Audit LLC, to the Isle of Man Post Office**

We have audited the financial statements of the Isle of Man Post Office for the 52 weeks ended 27 March 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the note of Historical Cost Profits and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards

This report is made solely to the Isle of Man Post Office, as a body, in accordance with Section 4 of the Audit Act 2006. Our audit work has been undertaken so that we might state to the Isle of Man Post Office 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 Isle of Man Post Office, for our audit work, for this report, or for the opinions we have formed.

### *Respective responsibilities of Isle of Man Post Office and Auditor*

As explained more fully in the Responsibilities Statement set out on page 10, the Board are responsible for the preparation of financial statements that 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 (APB'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 Isle of Man Post Office's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements.

### *Opinion on the financial statements*

In our opinion the financial statements:

- give a true and fair view of the state of the Isle of Man Post Office's affairs as at 27 March 2011 and of its profit for the period then ended;
- have been properly prepared in accordance with UK Accounting Standards; and
- have been properly prepared in accordance with the Accounts and Audit Regulations 2007 to 2008 made under the Audit Act 2006.

**KPMG Audit LLC**  
*Chartered Accountants*  
Heritage Court  
41 Athol Street  
Douglas  
Isle of Man IM99 1HN

# Isle of Man Post Office

## Profit and loss account

for the 52 weeks ended 27 March 2011

	<i>Notes</i>	<b>52 weeks ended 27 March 2011</b>	52 weeks ended 28 March 2010
		£	£
<b>Total income</b>	<i>1(b)</i>	<b>26,750,759</b>	25,563,695
<b>Cost of sales</b>	<i>1(c)</i>	<b>(18,868,612)</b>	(18,407,428)
<b>Gross profit</b>		<b>7,882,147</b>	7,156,267
<b>Other operating expenditure</b>	<i>1(c)</i>	<b>(5,830,313)</b>	(5,299,420)
<b>Operating profit</b>		<b>2,051,834</b>	1,856,847
Interest income		<b>437,956</b>	(147,511)
<b>Total profit for the period</b>	<i>2</i>	<b>2,489,790</b>	1,709,336
Unappropriated profit brought forward		-	-
<b>Profit available for appropriation</b>		<b>2,489,790</b>	1,709,336
Contribution to Isle of Man Government Treasury	<i>7</i>	<b>(1,244,895)</b>	(3,354,668)
<b>(Loss) / profit after contribution</b>		<b>1,244,895</b>	(1,645,332)
Transfer from / (to) reserves		<b>(1,244,895)</b>	1,645,332
<b>Unappropriated profit carried forward</b>		<b>-</b>	-

The notes on pages 16 to 25 form part of these financial statements.

The Board considers that all results derive from continuing activities.

# Isle of Man Post Office

## Statement of total recognised gains and losses for the 52 weeks ended 27 March 2011

	<b>52 weeks ended 27 March 2011</b>	52 weeks ended 28 March 2010
	£	£
Profit / (loss) after contribution	<b>1,244,895</b>	(1,645,332)
Actuarial gain / (loss) on pension scheme	<b>3,772,106</b>	(3,432,781)
Revaluation of property	-	162,948
<b>Total recognised gains and losses for the period</b>	<b><u>5,017,001</u></b>	<b><u>(4,915,165)</u></b>

## Note of historical cost profits and losses for the 52 weeks ended 27 March 2011

	<b>52 weeks ended 27 March 2011</b>	52 weeks ended 28 March 2010
	£	£
Reported profit available for appropriation	<b>2,489,790</b>	1,709,336
Difference between historical cost depreciation charge and the actual depreciation charge for the period calculated on the revalued amount	<b>85,857</b>	74,736
Historical cost profit available for appropriation	<b><u>2,575,647</u></b>	<b><u>1,784,072</u></b>
<b>Historical cost profit / (loss) for the period retained after contribution to the Isle of Man Government Treasury</b>	<b><u>1,330,752</u></b>	<b><u>(1,570,596)</u></b>

The notes on pages 16 to 25 form part of these financial statements.

# Isle of Man Post Office

## Balance sheet as at 27 March 2011

	Notes	£	2011 £	£	2010 £
<b>Non-current assets</b>					
Fixed assets	1(d), 3		<b>8,711,374</b>		9,122,168
Investments	4		<b>40</b>		40
			<u>8,711,414</u>		<u>9,122,208</u>
<b>Current assets</b>					
Stocks	1(f)	<b>135,630</b>		120,562	
Debtors	5	<b>4,039,663</b>		3,800,134	
Amounts due from Isle of Man Government	7	<b>133,166</b>		245,033	
Short term deposit		<b>3,550,757</b>		3,024,983	
Cash at bank and in hand		<b>8,687,098</b>		9,447,600	
		<u>16,546,314</u>		<u>16,638,312</u>	
<b>Creditors: amounts falling due within one year</b>					
Other creditors	6	<b>2,916,410</b>		2,996,757	
Amounts due to Isle of Man Government	7	<b>2,914,142</b>		4,580,921	
		<u>5,830,552</u>		<u>7,577,678</u>	
<b>Net current assets</b>			<b>10,715,762</b>		9,060,634
<b>Pension scheme liability</b>	9		<b>(144,332)</b>		(3,916,999)
<b>Net assets</b>			<b>19,282,844</b>		14,265,843
<b>Represented by:</b>					
Reserves	1(i), 8		<b>19,282,844</b>		14,265,843

The notes on pages 16 to 25 form part of the financial statements.

These financial statements were approved by the Board on their behalf by:

and were signed on

Chairman

Chief Executive

Finance Director

# Isle of Man Post Office

## Cash flow statement

for the 52 weeks ended 27 March 2011

	<i>Notes</i>	<b>52 weeks ended 27 March 2011</b>	52 weeks ended 28 March 2010
		£	£
<b>Net cash flow from operating activities</b>	<i>11</i>	<b>3,508,455</b>	(899,189)
<b>Returns on investments and servicing of finance</b>			
Interest received		<b>62,177</b>	93,870
Contribution to IOM Government		<b>(3,354,668)</b>	(998,545)
<b>Net cash flow from returns on investments and servicing of finance</b>		<b>(3,292,491)</b>	(904,675)
<b>Capital expenditure</b>			
Payments to acquire fixed assets		<b>(480,718)</b>	(1,565,904)
Receipts from sales of fixed assets		<b>30,025</b>	11,543
<b>Net cash flow from capital expenditure</b>		<b>(450,693)</b>	(1,554,361)
<b>(Decrease) in cash</b>	<i>12</i>	<b>(234,728)</b>	(3,358,225)

The notes on pages 16 to 25 form part of this cash flow statement.

# Isle of Man Post Office

## Notes

(forming part of the financial statements for the 52 weeks ended 27 March 2011)

### 1 Accounting policies

#### a) Basis of accounting

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments as at the balance sheet date and the revaluation of land and buildings as at 27 March 2011, and in accordance with United Kingdom accounting standards as modified by the Audit Directions 2008. They have been prepared in accordance with the Accounts and Audit Regulations 2007 to 2008, made under the Audit Act 2006. They have also been prepared in accordance with the Isle of Man Statement of Recommended Practice 2007 on accounting for entities subject to the Audit Act 2006 (“the SORP”), to the extent applicable to the Post Office.

#### b) Income

Income is the value of services provided and goods sold excluding VAT.

#### c) Expenses

Expenses are accounted for on an accruals basis. The general policy is that no provision is made for any charges which may be incurred in respect of stamps sold, but unused at the balance sheet date. However where specific circumstances allow the amount and type of stamps to be clearly identified and an estimate of the likely liability to be made, then a provision is made in accordance with FRS12.

#### d) Tangible fixed assets

Tangible fixed assets are stated at their net realisable value. For land and buildings, net realisable value is determined by qualified independent professional valuers every 5 years, with an interim valuation in year 3. Assets with short economic lives, such as motor vehicles, office equipment and machines, are included at historical cost less depreciation as an estimate for net realisable value.

Depreciation is not provided on freehold land, but is provided on other assets based on cost or revalued amounts in equal annual instalments over the estimated useful lives of the assets. The estimated useful lives are as follows:

#### Buildings

- Freehold (based on the estimated useful remaining life) 10 to 40 years
- Leasehold over period of lease

#### Motor vehicles

5 years

#### Office equipment and machines

- Letter boxes 5 to 30 years
- Other postal equipment 5 to 10 years
- Office furniture and equipment 5 to 10 years
- Office machines 5 to 10 years
- Safes in sub-offices 20 years
- Computers 3 years

# Isle of Man Post Office

## Notes (continued)

(forming part of the financial statements for the 52 weeks ended 27 March 2011)

### 1 Accounting policies (continued)

#### e) *Investment in associates*

Investment in associates comprise investees where the Post Office has significant influence over that investee's operations. Significant influence is presumed to occur when the Post Office invests in more than 20% of the issued share capital of an investee, in the absence of other circumstances. Except where otherwise explained in these statements, the Post Office's share of profits or losses of associates is included in the profit and loss account and its interest in their net assets is included in the balance sheet.

#### f) *Stocks*

Commemorative stamp costs are fully written off in the year of issue. Other stock is stated at the lower of cost and net realisable value.

#### g) *Operating leases*

Operating lease payments are charged directly to the profit and loss account on a straight line basis over the term of the lease.

#### h) *Foreign exchange*

Transactions in foreign currencies are translated at the rate of exchange ruling when the transaction occurs. Monetary assets and liabilities in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Differences on exchange are taken to the profit and loss account.

#### i) *Reserves*

The reserves are managed by agreement of Treasury under Section 6(1) of the Post Office Act 1993.

#### j) *Pension costs*

The Isle of Man Post Office operates a defined benefit pension scheme. In accordance with Financial Reporting Standard 17 "Retirement benefits" (as revised), the full service cost for the period, adjusted for any changes to the scheme, is charged to the profit and loss account. A charge equal to the expected increase in the present value of the scheme liabilities as a result of the scheme liabilities being one year closer to settlement and a credit reflecting the long-term expected return on assets based on the market value of the scheme assets at the beginning of the period, is included in the profit and loss account.

The balance sheet records as an asset or liability (as appropriate) the difference between the market value of the scheme assets and the present value of the accrued scheme liabilities, net of deferred tax. Accrued scheme liabilities are determined using the projected unit method. The difference between the expected return on assets and that actually achieved in the period is recognised in the statement of total recognised gains and losses.

# Isle of Man Post Office

## Notes (continued)

(forming part of the financial statements for the 52 weeks ended 27 March 2011)

### 2 Total profit for the period

Total profit for the period is arrived at after charging / (crediting):

	52 weeks ended 27 March 2011 £	52 weeks ended 28 March 2010 £
Auditors' remuneration	9,020	6,538
Depreciation	955,162	918,499
Impairment charge on fixed assets	-	17,990
Pension costs (note 9)	829,041	862,567
Irrecoverable VAT	229,431	284,009
(Gain) / loss on disposal of fixed assets	(9,384)	23,136
Rentals payable under operating leases	<u>109,757</u>	<u>110,170</u>

### 3 Fixed assets

	Land £	Buildings £	Motor Vehicles £	Office equipment & machines £	Total £
<i>Cost or valuation</i>					
At 28 March 2010	2,235,000	6,512,560	1,204,647	5,869,829	15,822,036
Additions	-	17,096	259,726	288,188	565,010
Disposals	-	-	(247,001)	(7,032)	(254,033)
Revaluation	-	-	-	-	-
<b>At 27 March 2011</b>	<u><b>2,235,000</b></u>	<u><b>6,529,656</b></u>	<u><b>1,217,372</b></u>	<u><b>6,150,985</b></u>	<u><b>16,133,013</b></u>
<i>Accumulated depreciation</i>					
At 28 March 2010	50,000	1,291,845	626,561	4,731,462	6,699,868
Charge for the period	-	224,238	243,670	487,254	955,162
Disposal	-	-	(226,359)	(7,032)	(233,391)
Revaluation	-	-	-	-	-
<b>At 27 March 2011</b>	<u><b>50,000</b></u>	<u><b>1,516,083</b></u>	<u><b>643,872</b></u>	<u><b>5,211,684</b></u>	<u><b>7,421,639</b></u>
<i>Net book value</i>					
<b>At 27 March 2011</b>	<u><b>2,185,000</b></u>	<u><b>5,013,573</b></u>	<u><b>573,500</b></u>	<u><b>939,301</b></u>	<u><b>8,711,374</b></u>
At 28 March 2010	<u>2,185,000</u>	<u>5,220,715</u>	<u>578,086</u>	<u>1,138,367</u>	<u>9,122,168</u>

# Isle of Man Post Office

## Notes (continued)

(forming part of the financial statements for the 52 weeks ended 27 March 2011)

### 3 Fixed Assets (continued)

The freehold land and properties at Spring Valley Industrial Estate and at Regent Street were revalued on 28 March 2010, by qualified independent professional valuers working for the Government Valuers Office, in accordance with Royal Institute of Chartered Surveyors Appraisal and Valuation Standards. The properties were valued on the basis of existing use value. The surpluses that arose were credited to the Fixed Asset Reserve. The impairment in value was charged to the Fixed Asset Reserve where it reflected the reversal of a previous revaluation gain. Where no such gain existed, further impairment losses were charged to the profit and loss account. Depreciation is being charged based upon the revalued amounts and revised estimated useful economic life of the buildings.

### 4 Investment in associates

As part of the acquisition of property at Barleyfields, Isle of Man Business Park, the Post Office acquired 40 shares of Isle of Man Business Park (No4) Management Company Limited, a company incorporated in the Isle of Man, representing 40% of the issued capital of the company. The principal activity of the company is the management of the shared element of the property acquired. The Board has taken the decision not to include the Post Office's share of profits or losses of associates or its interest in their net assets in these accounts, as in its view the results would be immaterial.

### 5 Debtors

	2011 £	2010 £
Trade debtors	1,167,522	990,921
Other debtors	1,716,699	1,727,567
Prepayments and accrued income	1,155,442	1,081,646
	<u>4,039,663</u>	<u>3,800,134</u>

### 6 Other creditors

	2011 £	2010 £
Trade creditors and accruals	2,124,173	2,222,986
Agency creditors	529,862	540,455
VAT	80,163	47,510
Philatelic subscriber balances	182,212	185,806
	<u>2,916,410</u>	<u>2,996,757</u>

# Isle of Man Post Office

## Notes (continued)

(forming part of the financial statements for the 52 weeks ended 27 March 2011)

### 7 Amounts due from and amounts due to Isle of Man Government

	2011 £	2010 £
<i>Due from Isle of Man Government comprises:</i>		
Treasurer of the Isle of Man	<u>133,166</u>	<u>245,033</u>
<i>Due to Isle of Man Government comprises:</i>		
Agency creditors	1,669,247	1,226,253
Contribution to Treasury	<u>1,244,895</u>	<u>3,354,668</u>
	<u><b>2,914,142</b></u>	<u><b>4,580,921</b></u>

### 8 Reserves

	Fixed asset reserve £	Revenue and general reserve £	Development reserve £	Total £
Balance brought forward	9,122,169	1,000,000	4,143,674	14,265,843
Revaluation of property	-	-	-	-
Transfer from profit and loss account	(410,795)	-	1,655,690	1,244,895
Actuarial gain on pension scheme	-	-	3,772,106	3,772,106
	<u>-</u>	<u>-</u>	<u>3,772,106</u>	<u>3,772,106</u>
<b>Balance carried forward</b>	<u><b>8,711,375</b></u>	<u><b>1,000,000</b></u>	<u><b>9,571,470</b></u>	<u><b>19,282,844</b></u>

#### *Revenue and general reserve*

The reserve was established for the purpose of providing working capital for the funding of the day to day activities of the Isle of Man Post Office.

#### *Development reserve*

The reserve was established to help finance major capital expenditure.

#### *Fixed asset reserve*

Each year a transfer is made to / from the fixed asset reserve to ensure that its value equals the net book value of fixed assets at the period end.

# Isle of Man Post Office

## Notes (continued)

(forming part of the financial statements for the 52 weeks ended 27 March 2011)

### 9 Pension scheme

The Isle of Man Post Office operates a funded defined benefit pension scheme, The Isle of Man Post Office Superannuation Scheme (“the scheme”), providing benefits based on final pensionable pay. Contributions to the scheme are determined by a firm of independent Actuaries employed by the Trustees.

The actuarial assumptions used to calculate scheme liabilities under FRS 17 are as follows:

	<b>2011</b>	2010
Discount rate	<b>5.56%</b>	5.66%
Salary increase rate*	<b>4.01%, 4.51%, 5.01%</b>	4.26%
Rate of revaluation in deferment	<b>2.61%</b>	3.76%
Pension increase rate	<b>2.61%</b>	3.76%
Expected return on scheme assets	<b>6.44%</b>	6.97%
RPI Price inflation rate	<b>3.51%</b>	3.76%
CPI Price inflation rate	<b>2.61%</b>	-

\*4.01% pa for the first five years (from 2012), increasing to 4.51% pa for the next five years, followed by 5.01% pa thereafter.

Assumptions regarding life expectancy of members are based on published statistics and mortality tables. The life expectancies at age 60 utilised in the actuarial assumptions are as follows:

	Men	Women
Current pensioners	26.28	28.96
Future pensioners now aged 40	28.40	30.94

The expected return on scheme assets is determined as the best estimate of returns expected over the period from dividends, interest and capital gains, taking into account the expected returns for individual asset categories.

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

#### Amounts recognised in the balance sheet

The fair value of the scheme’s assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Scheme’s liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were as follows:

	<b>2011</b>	2010
	<b>£’000</b>	£’000
Equities	<b>34,557</b>	33,912
Property	<b>2,806</b>	1,439
Bonds	<b>14,995</b>	13,520
Other	<b>104</b>	498
Fair value of scheme assets	<b>52,462</b>	49,369
Present value of funded liabilities	<b>(52,606)</b>	(53,286)
Net pension liability	<b>(144)</b>	(3,917)

The scheme does not invest in the sponsor’s own financial instruments, including property or other assets owned by the sponsor.

# Isle of Man Post Office

## Notes (continued)

(forming part of the financial statements for the 52 weeks ended 27 March 2011)

### 9 Pension scheme (continued)

	2011	2010
	£'000	£'000
<b>Changes in present value of the funded liabilities</b>		
At beginning of period	53,286	37,029
Current service cost	1,199	940
Employee contributions	423	423
Interest cost	3,049	2,492
Actuarial (gains) / losses	(3,443)	14,239
Past service cost	-	(334)
Benefits paid	(1,908)	(1,503)
	<u>52,606</u>	<u>53,286</u>
<b>Changes in fair value of the scheme assets</b>		
At beginning of period	49,369	36,575
Expected return on assets	3,419	2,236
Sponsor contributions	830	832
Employee contributions	423	423
Actuarial losses	329	10,806
Benefits paid	(1,908)	(1,503)
	<u>52,462</u>	<u>49,369</u>
<b>Amounts recognised in the profit and loss account</b>		
Current service cost	1,199	940
Interest on scheme liabilities	3,049	2,492
Expected return on scheme assets	(3,419)	(2,236)
Past service cost	-	(334)
	<u>829</u>	<u>862</u>
Total expense	829	862
Actual return on scheme assets	3,748	13,042
<b>Effect of FRS17 on profit</b>		
Total income as reported	26,751	25,564
Total expenditure as reported	(24,699)	(23,707)
Less FRS17 charge	369	(226)
	<u>(24,330)</u>	<u>(23,933)</u>
Restated expenditure pre FRS17	(24,330)	(23,933)
Restated operating profit pre FRS17	2,421	1,631
Interest earned	438	(148)
Less FRS17 adjustment	(370)	257
	<u>68</u>	<u>109</u>
Restated interest income pre FRS17	68	109
<b>Restated profit available for appropriation pre FRS17</b>	<u><u>2,489</u></u>	<u><u>1,740</u></u>

# Isle of Man Post Office

## Notes (continued)

(forming part of the financial statements for the 52 weeks ended 27 March 2011)

### 9 Pension scheme (continued)

The sponsor's best estimate of contributions to be paid in respect of the Scheme during the financial year ending 27 March 2012 is £1,278,000 (including £437,000 of member contributions).

<b>Amounts recognised in the statement of total recognised gains and losses</b>	<b>2011 £'000</b>	2010 £'000
Actual return less expected return on scheme assets	329	10,806
Experience gains and losses arising on scheme liabilities	392	808
Change in assumptions underlying present value of scheme liabilities	3,051	(15,047)
	<u>3,772</u>	<u>(3,433)</u>
Net actuarial (losses) / gains recognised in the period	<u>3,772</u>	<u>(3,433)</u>
<b>Cumulative net actuarial gains/(losses) recognised in the statement of total recognised gains and losses</b>		
At beginning of period	1,611	5,044
Actuarial (loss) / gain on pension scheme	3,772	(3,433)
	<u>5,383</u>	<u>1,611</u>
At end of period	<u>5,383</u>	<u>1,611</u>

Cumulative net actuarial gains/(losses) have been determined as the amounts recognised in the statement of total recognised gains and losses since the period ended 31 March 2004, based on FRS17 applicable during those years. The revised FRS17 has been applied for periods ended on or after 29 March 2009.

<b>Historical information</b>	<b>2011 £'000</b>	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Present value of scheme liabilities	(52,606)	(53,286)	(37,029)	(45,540)	(44,246)
Fair value of scheme assets	52,462	49,369	36,575	44,679	43,654
	<u>(144)</u>	<u>(3,917)</u>	<u>(454)</u>	<u>(861)</u>	<u>(592)</u>
Net scheme deficit	<u>(144)</u>	<u>(3,917)</u>	<u>(454)</u>	<u>(861)</u>	<u>(592)</u>
Experience adjustments on scheme liabilities	392	808	(425)	719	506
Experience adjustments on scheme assets	329	10,806	(10,954)	(2,036)	(137)

As required by the revised FRS 17, historical information for 2007 and 2008 has been restated.

# Isle of Man Post Office

## Notes (continued)

(forming part of the financial statements for the 52 weeks ended 27 March 2011)

### 10 Capital commitments

- a) Capital commitments at the end of the financial period for which no provision has been made, are as follows:

	<b>2011</b>	2010
	£	£
Authorised but not yet contracted for	-	271,000

- b) Annual commitments under non-cancellable operating leases are as follows:

	<b>2011</b>		2010	
	<b>Land and Buildings</b>	<b>Other</b>	Land and Buildings	Other
	£	£	£	£
Operating leases which expire:				
Within one year	9,167	10,938	-	13,354
In the second to fifth years inclusive	49,420	-	49,420	-
Over five years	50,000	-	57,500	-
	<u>108,587</u>	<u>10,938</u>	<u>106,920</u>	<u>13,354</u>

### 11 Reconciliation of operating profit to net cash flow from operating activities

	<b>52 weeks ended</b>	52 weeks ended
	<b>27 March 2011</b>	28 March 2010
	£	£
Operating profit	2,051,835	1,856,847
Depreciation charges	955,162	918,499
Impairment charge on revaluation	-	17,990
Loss on sale of tangible fixed assets	(9,384)	23,136
Defined benefit scheme - current service cost in excess of contributions / (deficit)	369,003	(225,983)
(Increase) / Decrease in stocks	(15,068)	8,085
Increase in debtors	(233,315)	(490,001)
Increase / (Decrease) in amounts owed to Isle of Man Government	554,861	(3,442,145)
(Decrease) / Increase in creditors	(164,638)	434,383
<b>Net cash flow from operating activities</b>	<u><b>3,508,455</b></u>	<u><b>(899,189)</b></u>

# Isle of Man Post Office

## Notes (continued)

(forming part of the financial statements for the 52 weeks ended 27 March 2011)

### 12 Analysis of changes in cash (representing net funds)

	As at 27 March 2011 £	Cash flows £	As at 28 March 2010 £
Cash at bank and in hand	8,687,098	(760,502)	9,447,600
Short term deposit	3,550,757	525,774	3,024,983
	<u>12,237,855</u>	<u>(234,728)</u>	<u>12,472,583</u>

### 13 Salaries

Remuneration of members, officers (including non-corporate sub-postmasters) and employees of the Post Office are payable within the following bands:

	2011 Number	2010 Number
£50,000 - £74,999	8	7
£75,000 - £99,999	2	5
£100,000 - £124,999	1	-

### 14 Related party transactions

There were no related party transactions requiring disclosure in the accounts.