

Isle of Man Post Office

Report and financial statements

For the year ended 31 March 2018

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

Mrs J Edge MHK - Chairman
Miss C Bettison MHK - Vice Chairman (appointed on 25th April 2017 resigned on 17th April 2018)
Miss T August-Hanson MLC - Vice Chairman (appointed on 17th April 2018)
Mr J D Hollis
Mrs J O'Rourke
Mr C Mitchell

Chief Executive Officer

Mrs L Duckworth (Interim CEO ceased on 31st January 2018)
Mr S Kneen (appointed CEO on 1st February 2018)

Principal Bankers

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

Principal Advocates

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

Auditor

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

Isle of Man Post Office

Chairman's Statement

As Chairman of Isle of Man Post Office (IOMPO) I present the Report and Financial Statements for the year ended 31st March 2018.

It has been a busy year as the new Board, along with the Executive, have focussed on developing a five-year strategy for the Post Office in which to address a number of its key challenges.

The postal industry globally continues to be impacted by the increase in digital communications such as email, text messaging and social media and IOMPO continues to suffer the effects of the decline in its core markets. During the last ten years, Isle of Man letter mail has declined by 47% while footfall through local post offices continues to fall with transactions declining by 7% per year on average over the last three years. These declines are a reflection of changing customer habits with fewer people sending letters and more and more people opting for digital ways in which to transact their business, rather than traditional face to face over the counter methods.

However, these are not the only challenges currently facing the business. Introducing new services to help bridge the revenue gap of our core services takes time and we are at a crossroads with our pension scheme. Despite being fully funded, the actuaries have advised the need to significantly increase the business's contributions, which is neither affordable nor sustainable. Therefore the Board recognised that change was needed and is consulting with the Trustees, scheme members and the unions on how to address this challenge. This remains a key focus for the business in the new financial year.

We have also felt a negative effect on our commercial revenues, with the growth of the disruptive low cost 'gig economy' in parcels and our corporate printing and postage services reducing with the contraction of the financial sector, particularly in the banking industry, which has been compounded by some key customer work moving to other jurisdictions as part of group strategic decisions made off-island.

Regrettably these factors have had an impact on the business's finances and for the first time in the Post Office's history, we are reporting a loss this year. We will also be providing a dividend payment of £1.5m to the Isle of Man Government which is a draw down on our reserves. Positive discussions with Treasury have been held in recent months regarding the future dividend level which has subsequently been reduced to £500k for the next financial year. Future dividends will continue to have a negative impact on our reserves whilst we aim to turn the business back to profitability over the next five years.

Despite our challenges, we recognise that we need to continue to actively look for new service opportunities to grow our commercial revenues. We have never lost sight of the need to do this and we have with a number of hybrid mail and digital solutions in development, and proven solutions like our MiCard service that is ready to be expanded across the public and private sectors, as a way for residents to identify themselves and access services securely. Earlier this year we also recruited a UK sales person to generate new business from the UK.

Given the scale and immediacy of the challenges to overcome, in December the Board received Tynwald approval to put their Corporatisation aspirations 'on hold', in order to focus resources on developing a bold strategy to modernise the business; to make it fit for purpose for the future, protecting the long term future of its staff and providing public services and commercial services that would meet its regulatory requirements while returning the business to profitability. At the core of our strategy is our action from the Programme for Government to be "financially responsible while providing services that meet the needs of our community."

The strategy encompasses all areas of the business: Letters and Parcels, the Post Office Network, IMS Stamps and Coins and our support teams. The strategy is divided into three core strands; working together, protecting the core, and growing profitably and diversifying selectively. The five-year plan is intended to make IOMPO more reflective of the supply and demand nature of the industry in which it operates within.

The Board recognises the business's unique attributes and capabilities and is proud of its self-funding status and wish to protect this. We certainly don't wish to be subsidised by the taxpayer, putting further pressure on overall Government funding. We are very aware of our social and economic value to the Island. In 2016/17, we contributed £18m to the Manx economy and this we want to continue. We also realise there's potential for us to play a significant role in the future delivery of enhanced public services on the Island.

Chairman's Statement (continued)

We wish to continue providing services our customers want but realise these may need to be offered in different, more affordable ways going forward. A fundamental part of this change process is consulting with our valued customers and a public consultation will be launched to get the views of residents, businesses and organisations on our services and give them the opportunity to help shape decisions on the future delivery of letters and parcels and how we make the network of post offices more affordable. In parallel to the consultation we are exploring innovative solutions to help protect the services. The results of the consultation and our analysis of alternative solutions, will be used to inform the strategic choices that we will bring to Tynwald to review and approve in November. When this time comes, we may be calling on Tynwald Members to make some important decisions in the best interests of protecting the Island's Post Office.

This year there have been some noticeable business changes. We bid farewell to Clare Bettison MHK as our Vice Chairman and following the elections to the Legislative Council in March, we welcomed Tanya August-Hanson as her successor. We have also seen changes to our Executive structure with the appointment of Simon Kneen as Chief Executive, taking over from Lisa Duckworth who had undertaken the position in an interim role for 12 months. Lisa still remains on the Executive Team as Chief Operating Officer and on behalf of the Board, I wish to express our gratitude for all her hard work, commitment and contribution to the role during the difficult interim period. Meanwhile we saw the departure of Stephen Hadfield as our Finance Director and were pleased to welcome Martin Kneale as his replacement in April.

In conclusion, I'd like to take this opportunity to thank every staff member for the commitment and support they have provided to the business over the course of the last 12 months, particularly in light of the key personnel changes in both the Board and Executive Team. As we look ahead, the success of delivering the strategy will be in the hands of our valued team that make up Isle of Man Post Office, using their skills, knowledge and experience in their respective fields to lead the business into a sustainable future.



Julie Edge MHK
Chairman

Isle of Man Post Office

Chief Executive Officer's Report

As the Chairman has referred to, this has been a challenging trading year for the business as we report a loss of £1.2m. Turnover decreased by 6% from £29.2m to £27.4m due to the continued decline in our traditional markets, compounded by the loss of material contracts in our IMS division, which impacted not only on commercial revenues, but also postage revenue associated with these contracts. The loss of commercial revenue is due in part to the contraction of the local finance sector and the trend in key customer work moving to other jurisdictions as part of group strategic decisions made off-island. We also recognise that our pricing is uncompetitive due to high fixed costs, and the realisation that existing staff remuneration is largely out of line with the industry in which we operate in.

These multiple factors have brought a sense of urgency for the business to introduce a strong five-year strategy to address these challenges across its operation in an attempt to streamline processes and develop new ways of working through the use of technology across many of our services, while continuing to provide high levels of customer service. It also aims to identify and implement efficiencies and give the business renewed focus on how to continue to be financially responsible in the delivery of its services into the future. This does mean however, that some tough decisions may need to be taken as we move forward.

The business wants to retain its self-funding position but fundamental to achieving this is our ability to continue to generate commercial revenues from parcel growth, our Integrated Mailing Solutions division and our Stamps and Coins division, to sufficiently cover the loss making activities required under the Post Office Act.

Parcel volumes and revenues are a growth area, however such is the competitive nature of this sector that pricing power and profitability are declining. Fast and free delivery is a competitive differentiator for online retailers, and competition for the 'last mile' is fierce. We are aware that unlicensed businesses and 'lifestyle' couriers are operating distribution activities on the Island which may infringe the provisions of the Post Office Act. Notwithstanding this, there appears to be some recognition in the UK that the 'gig economy' employment practices may be legally unsustainable. We were unsuccessful with a recent 'all Island' delivery tender, and feedback suggests our pricing was uncompetitive. Such feedback is useful, and further underlines the need to restructure our Mails division.

Already great strides are being made to progress the strategy and along the journey we wish to be inclusive, bringing all of our key stakeholders along with us and seeking their support. We have met with many of these including staff, unions, Government, local authorities and other interested parties over the course of the last six months to explain the strategy and the reasons why we need to change. We have seconded employees, including union members, to work to participate in a number of projects so they can evaluate trends, identify efficiencies and seek opportunities to grow our services and customer base. This is a key enabler in helping to implement the main strands of the strategy and we plan to keep all our stakeholders up-to-date as and when progress is made.

We are embracing technology, seeking to use it to improve customer access to services and to enhance the effectiveness and efficiency of our core services. For example, in the Mails division, we are investing in further letter sorting automation and route optimisation tools that will reduce the resources required based on the current duties and volumes. This is part of our maintenance of machinery to continually improve efficiency. This year we have also implemented end to end online tracking for customers.

In the autumn we introduced a trial of six electric vehicles into our delivery fleet in an effort to reduce our carbon footprint and generate business savings and efficiencies. We continue to explore other means of carrying and delivering parcels as part of a review of our fleet as well as best utilising our key assets with the support of the unions. A demonstration of this is the partnership we have embarked upon to be the carrier of doorstep deliveries of ready-made meals to some local residents.

Another important part of our strategy is to consult with Isle of Man residents, in order to better understand how the public uses the Post Office and how our services might be improved. We are running a number of projects this year but a key one will be our public consultation. This is a fundamental strand of our Retail and Letters and Parcel divisions to understand customers' appetite for change and the introduction of new services. These views and opinions are very important to us so we can understand customers' preferences.

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Chief Executive Officer's Report (continued)


Notwithstanding our trading loss for the year of £1.2m, that was impacted by the cost of accruing a year's benefit for existing employees of £2.7m, our balance sheet value has increased from £6.3m to £14.8m. This mainly reflects an improvement in our pension deficit, which is now measured at £3.0m for accounting purposes. In 2017 the scheme deficit was £13.2m, and in 2016 it was £4.2m. These trends have a significant impact on our balance sheet value, but are due to factors largely outside the Board's control, such as increases in the value of the scheme's investments of £2.9m and changes in actuarial assumptions applied to the scheme's liabilities to past employees, resulting in an £8.9m improvement due largely to a change in the discount rate. The cost of maintaining the pension scheme in its current form is unsustainable, and the Board propose closing the scheme to new entrants, and giving existing members the opportunity to either increase their contributions to protect their benefits, or to accept a reduced level of benefits for no change in their contribution rate.

In line with Accounting Standards, it was necessary to have our operational buildings independently revalued as at 31 March 2018. Post Office Headquarters was revalued downwards by £718k, however as there remains a revaluation surplus over historic cost, this amount was recognised in reserves. This was not the case for our Barleyfields property, where a downward revaluation of £217k was required to be recognised in the Income Statement.

In the Spring we completed the sale of our former flagship post office property in Regent Street, Douglas for the sum of £1.05m with the loss of £245k on the prior year revalued amount being reflected in the Income Statement. Since the former crown post office was converted to a sub agency and relocated to Strand Street in August 2016, the building had been vacant for some time with IOMPO no longer having any future use for it.

This year much work has been undertaken in ensuring IOMPO is compliant with the General Data Protection Regulation and endeavouring to help our customers also comply. We also continue to complete a number of technical questionnaires and ongoing on-site assurance audits for customers to demonstrate we comply with their requirements and the number of these has increased as companies, particularly our UK clients, prepare for the introduction of GDPR in May.

With great professionalism, my colleagues throughout the business have remained resilient, committed and focussed on delivering our customers' needs in a challenging year. Our people continue to be our key asset and I would like to thank each of our staff for their continued contribution to our business in a rapidly changing postal world.



Simon Kneen
Chief Executive Officer

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").

Responsibilities of the Board and the Accounting Officer

The Board consists of a Chairman, a Vice Chairman, and three other Board members. The Board controls the strategy, policies, and key financial and operational matters within the Isle of Man Post Office, and it is the Board's responsibility to ensure that the work of the Accounting Officer and the other Executive Directors supports the strategy and policies approved by the Board. The other Executive Directors include the Finance Director and the Chief Operations Officer.

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

- ensure compliance with legislation and other regulations;
- safeguard 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 the other Executive Directors 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.

Corporate Governance

There are two key elements of the corporate governance framework: firstly, the workings of the Board, and its sub-committees; and secondly, the corporate governance environment itself. These are described below.

Board

The Chairman and other members of the Board are appointed by the Council of Ministers, subject to approval by the Court of Tynwald; the Chairman and Vice Chairman are either a Member of the House of Keys or a Member of the Legislative Council.

The Board has a schedule of powers reserved for its approval, which includes non-delegated and delegated powers to be exercised by the Board itself, members of the Board sub-committees and the Chief Executive. The Board of the Isle of Man Post Office has published this "Schedule of Reserved and Delegated Responsibilities" within its own corporate governance documentation to enable the day to day operations of the business.

There are generally 10 Board meetings a year with other meetings taking place as and when necessary, and the Chief Executive, Executive Directors and the Personal Assistant to the Chief Executive (acting as "Secretary to the Board") attend the Board meetings. The Board receives, and can request, reports from the Chief Executive, Executive Directors and Senior Managers on financial and operational matters, and the Secretary to the Board captures any actions and maintains minutes of proceedings on behalf of the Board that are approved at the next meeting.

Board sub-committees

Audit and Risk Committee ("ARC")

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

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Statement of Internal Control (continued)

Audit and Risk Committee (continued)

The ARC 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 ARC 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 the Isle of Man Post Office.

The ARC is responsible for reviewing the current top risks faced by the business and reporting them to the Board, and occasionally other Senior Managers are invited to attend meetings to assist the members in their deliberations.

Remuneration Committee

The Remuneration Committee is a sub-committee of the Board and consists of two members of the Isle of Man Post Office Board. The Committee makes recommendations to the Board on Executive Directors' (including Chief Executive's) pay and conditions. The Committee's remit was extended in April 2017 to cover pay and conditions for all employees not just the Chief Executive and Executive Directors.

During the year ended 31 March 2018 the Committee met quarterly and has focused on the job evaluations activities across all employees.

Corporate Governance environment

Corporate Governance at the Isle of Man Post Office revolves around an effective environment of attitudes, behaviours and processes that aim to support the delivery of the long-term strategy, goals and objectives established by the Board.

A corporate governance framework has been developed which contains a number of documents detailing Board policies and operational procedures in relation to financial and operational management; internal control and risk management; organisational capability and capacity; people management and standards of conduct, and management of health, safety and the environment.

The management framework provides a structure for documenting policies, procedures, delegated duties, roles and responsibilities, activities, standards and guidelines. This is additional to divisional and department structures, authorities and organisational arrangements, activities, processes and records maintained within each service area, which when taken together with the framework, create the environment of good corporate governance, risk management and internal control.

Internal Control and Risk Management

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

Statement of Internal Control (continued)

Internal Control and Risk Management (continued)

The Isle of Man Post Office is committed to an effective risk management approach that protects business operations and stakeholders affected by its operations. The risk management process ensures consistency to the assessment, monitoring and reporting of risks, and the appetite to risk is set out in Board approved policies.

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 certain Board meetings. The identification, evaluation and management of risk is a line management responsibility, with Board guidance as appropriate.

The Chief Executive and Executive Directors identify, evaluate and monitor corporate and strategic risks, and monitor risks at an operational level via divisional and departmental managers. Each divisional and departmental manager has the appropriate delegated authority and resources to manage risks to a reasonable level. The Risk Manager meets quarterly with the divisional and departmental managers to update the risk registers. The risk management process is an important part of the internal control environment.

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, with any newly identified risks being brought to the Board's attention at the earliest opportunity. This summary includes: i) a heat map depicting the risks in pictorial format, and ii) a schedule of top risks that details 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.

Improvements made to the system of Internal Control during the year

In accordance with best practice, the systems of Internal Control across the Isle of Man Post Office are subject to continuous review and improvement. Some of the most significant improvements made to the Isle of Man Post Office management of risk over this year have been:

Statement of Internal Control (continued)

| Risk Management - Improvements Made During The Year (2017 – 2018) | |
|---|--|
| Improvement | Details of Improvement |
| New Forex software | Forex software was introduced to mitigate the risk of incorrect rates being applied, and to assist with the stock management of foreign currency around the sub post office network. |
| Government fuel supply | The Government fuel supply policy was assessed and it was concluded that it did not impact upon us. |
| Business Continuity Plan (BCP) | <ul style="list-style-type: none"> • A new BCP was introduced with respect to mitigating the impact of bad weather on our operations. • An improved template was introduced for quarterly business continuity testing. |
| Health and Safety | A separate risk register was introduced for Health and Safety risk management. |
| ISO 27001 Improvements | The 'continual improvement' requirements of ISO 27001 with respect to risk management remained ongoing, and are fully documented in the IMS risk register. |
| Risk management | The risk register across the organisation remained subject to continual review and challenge, and are updated for current risks and improved mitigation. Key additions to the risk registers in the year were with respect to forex procedures and controls and GDPR compliance. |
| Top Risk Schedule | An improved format of 'Top Risk Schedule' for reporting to Audit and Risk Committee was implemented. |
| Succession Planning - Finance / Compliance / Marketing | Staff have commenced training for relevant professional qualifications. |
| New management business performance templates | Templates were introduced to give management more detail on their performance. This increases understanding of costs will inform future decision making. |
| Quartile re-forecasting | Quarterly reforecasting was introduced (instead of half yearly), allowing management to re-assess their performance and projections to provide more meaningful management information. |
| Training | <ul style="list-style-type: none"> • Cross training program was introduced to ensure that knowledge of functions is shared to enable a broader support pool. • Cross organisation GDPR training in readiness for new regime. • Foreign exchange training following implementation of new software. |
| National Institute of Standards and Technology (NIST) | Standards being introduced to ensure awareness of current security status and create a roadmap for enhancements. |
| Antivirus - System Centre Endpoint Protection | New software was introduced to provide a more robust and easily supportable product. |
| GDPR | <p>A project team was established to work on the transition to the new General Data Protection Regulation (GDPR), to ensure the business is in an adequate state of readiness. The organisation introduced a number of key improvements, including:</p> <ul style="list-style-type: none"> • New releases to ICT systems/website to remove unnecessary information, anonymise data, store consent and enhance security • GDPR training across the business and for sub postmasters • Review of policies and creation of data breach and subject access procedures • Completion of privacy impact assessments for all services with formal review of associated risks <p>The Audit Advisory division of Treasury also undertook a GDPR Preparedness Self-Assessment Review.</p> |

Statement of Internal Control (continued)

Planned improvements to the system of Internal Control

Following the review of the effectiveness of the system of Internal Control and the governance structures currently in place, the following key improvements have been identified for implementation within the next financial year:

| Risk Management - Improvements Planned For The Forthcoming Year (2018 – 19) | |
|--|--|
| Improvement | Details of Improvement |
| Mails Strategy | Improvements to communication of change to staff. |
| Risk Register | Enhance the risk register to include the activities of the marketing department. |
| Staff training | <ul style="list-style-type: none"> • Review the skills matrix with follow up training where deficiencies are identified. • Further cross training of IMS staff to enable greater functionality from a multi-skilled workforce. |
| GDPR | <p>Continued implementation of GDPR processes and procedures:</p> <ul style="list-style-type: none"> • Privacy notices for all applicable products/services • Review and update commercial customer/supplier contracts • Manage increased number of commercial customer audits and questionnaires • Enhanced supplier management of ICT providers to reduce risks around sharing/security of data • Establish supplier audit programme with companies who handle IOMPO personal data. |
| Automated Invoice system | Introduce automated purchase invoice system to reduce manual input. |
| Click & Dispatch | Fully implement Click & Dispatch project to reduce manual input and increase accuracy. |
| Omindox Software | Appraise and consider implementation of software to process purchase invoices and scan copies from review to authorisation. |
| Infrastructure Review mitigation work streams | Upgrades to automated network security processes, Exchange server upgrade, and additional internet pipe. |
| Cross training programme | Continued program of cross training to ensure knowledge of functions are shared throughout the organisation to enable a broader support pool. |
| Staff Security Training | Training on social engineering and phishing. |
| Paessler Router Traffic Grapher (PRTG) | Introduce to enable more proactive monitoring of infrastructure. |
| System Centre Configuration Manager (SCCM) | Introduce to improve management and support of internal infrastructure. |
| Intrusion Prevention System (IPS)/ Intruder Detection System (IDS) Solutions | Introduce to enhance existing IPS/IDS implementation per NIST Review |
| Appoint a Senior Information Risk Owner (SIRO) | To lead and foster a culture that values, protects and uses information for the public good, and represent the Isle of Man Post Office on the Isle of Man Government Cyber Risk Advisory Board. |

Statement of Internal Control (continued)

Internal Audit

The Isle of Man Post Office contracts internal audit resource from the Internal Audit division of Treasury. The ARC are responsible for the approval of the planned audit programme whilst Internal Audit division are responsible for delivery of the programme. A service level agreement is in place to ensure effective delivery of the service.

The Isle of Man Post Office Risk Manager works closely with the Internal Audit division and is responsible for reporting the audit findings to the ARC and for ensuring any follow up actions are executed. The Risk manager is also charged with oversight of the business's risk management processes.

The Internal Audit Plan is structured against an agreed Assurance Framework (see below) that is 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.

Assurance Framework

As part of the continuous assessment process, the Isle of Man Post Office has developed an annual review procedure that involves Executive Directors and Senior Managers completing self-assessment questionnaires on Internal Control, Risk management and Corporate Governance arrangements within the business.

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 and Risk Committee. This framework continues to be revised and updated. The Assurance Framework is designed to 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.

In undertaking their review, managers have given specific consideration to each of the following operating risks within their business unit:

- Business Continuity
- Performance Management
- Financial Management and Compliance
- Procurement
- Information Management
- Value for Money
- Human Resources
- Change Management
- Health & Safety
- Environment
- Corporate Governance

The Executive Directors submit an assurance certificate to the Chief Executive on the adequacy of the control environment for the areas of the business for which they are responsible. The Chief Executive reviews the results of these assessments with the Internal Auditor, before being presented to the ARC.

Statement of Internal Control (continued)

External Assurances of Effectiveness

Further independent assurance is gained from a number of external reviews as below:

| Division | Name of Review Organisation | Review Undertaken | Date Completed |
|----------|--|----------------------------|---------------------------------------|
| IMS | LRQA | ISO 27001:2013 | February 2018 |
| IMS | QA ISO | ISO 27001:2013 | 12 monthly audits throughout the year |
| IMS | QA ISO | ISO 9001:2015 | 12 monthly audits throughout the year |
| IMS | Group 5 Training | Compliance to BS10008:2014 | August 2017 |
| IMS | Self-certification | PCI:DSS level 2 | December 2017 |
| All | Commercial clients performed 24 audits | Assurance Audits | Various 2017-2018 |

The business's commitment to Quality and Security Management was demonstrated through the Integrated Mailing Solutions (IMS's) retaining ISO-IEC 27001:2013 Information Security and transition from ISO 9001:2008 Quality Management Systems accreditation to the latest ISO9001:2015. IMS undertakes PCI-DSS self-accreditation in relation to the management of data for online credit and debit card payments.

Monthly Management Review Meetings

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

Report on 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 the Chief Executive, Executive Directors, Senior Management and the Audit and Risk Committee. In addition, the Risk Manager worked with management to assess compliance with the code of corporate governance, reviewed items on the risk registers and ensured action was being taken against outstanding issues.

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 31st March 2018.



Simon Kneen
Chief Executive Officer

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 Officer are responsible for preparing their Statement and Report, respectively. The Board is responsible for approving the Chairman's Statement and the Chief Executive Officer's Report, the Statement of Internal Control and preparing the financial statements, in accordance with applicable law and regulations.

The Audit Act 2006 requires the Board to prepare financial statements for each financial year, which meet the requirements of the Accounts and Audit Regulations 2018, made under the Audit Act 2006. The regulations require the Board to prepare the financial statements in accordance with UK Accounting Standards including FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland, as applicable to an Isle of Man entity.

The Board must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Entity and of the profit or loss of the Entity for that period. In preparing these financial statements, the Board are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

The Board are responsible for keeping adequate accounting records that are sufficient to show and explain the Entity's transactions and disclose with reasonable accuracy at any time the financial position of the Entity and enable them to ensure that the financial statements comply with the Accounts and Audit Regulations 2018 made under the Audit Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Entity and to prevent and detect fraud and other irregularities.

The Board are responsible for the maintenance and integrity of the corporate and financial information included on the Entity's website.

Isle of Man Post Office

Independent Auditor's Report to the Isle of Man Post Office

Opinion

We have audited the financial statements of Isle of Man Post Office ("the Entity") for the year ended 31 March 2018 which comprise the Income Statement, Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Entity's affairs as at 31 March 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, as applicable to an Isle of Man entity; and
- have been properly prepared in accordance with the requirements of the applicable law and UK Accounting Standards as applicable to an Isle of Man entity, as modified by the Accounts and Audit Regulations 2018.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Entity in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The Board are responsible for the other information presented with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

The Board's responsibilities

As explained more fully in their statement set out on page 14, the Board are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the Isle of Man Post Office (continued)

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities.

This report is made solely to the Entity's members, as a body, in accordance with the Accounts and Audit Regulations 2018, made under the Audit Act 2006. Our audit work has been undertaken so that we might state to the Entity's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Entity and the Entity's members as a body, for our audit work, for this report, or for the opinions we have formed.

KPMG Audit LLC

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

14 September 2018

Isle of Man Post Office

Income Statement

for the year ended 31 March 2018

| | Note | Year ended 31 March 2018 £ | Year ended 31 March 2017 £ |
|--------------------------------------|---------|----------------------------------|----------------------------------|
| Turnover | 1(b), 2 | 27,412,473 | 29,206,286 |
| Cost of sales | 1(c) | (21,503,324) | (21,188,603) |
| Gross profit | | 5,909,149 | 8,017,683 |
| Other operating expenditure | 1(c) | (6,828,737) | (6,609,341) |
| Operating (loss)/profit | | (919,588) | 1,408,342 |
| Interest receivable | | 21,073 | 18,867 |
| Interest payable and similar charges | | (320,293) | (125,660) |
| (Loss)/Profit for the year | 3 | (1,218,808) | 1,301,549 |

The notes on pages 22 to 34 form part of these financial statements.

The Board considers that all results derive from continuing activities.

Isle of Man Post Office

Statement of Comprehensive Income

for the year ended 31 March 2018

| | Note | Year ended 31 March 2018 £ | Year ended 31 March 2017 £ |
|--|------|----------------------------------|----------------------------------|
| (Loss)/Profit for the year | 3 | (1,218,808) | 1,301,549 |
| Other comprehensive income | | | |
| Remeasurement of the net defined pension benefit liability | 9 | 11,888,623 | (8,308,287) |
| Revaluation of freehold land & buildings | 4 | (718,265) | - |
| Total other comprehensive income/(loss) for the year | | 11,170,358 | (8,308,287) |
| Total comprehensive income/(loss) for the year | | 9,951,550 | (7,006,738) |

The notes on pages 22 to 34 form part of these financial statements.

The Board considers that all results derive from continuing activities.

Isle of Man Post Office

Statement of Financial Position

as at 31 March 2018

| | Note | 31 March 2018 £ | 31 March 2017 £ |
|---|---------|-----------------------|-----------------------|
| Non-current assets | | | |
| Fixed assets | 1(d), 4 | 6,505,635 | 9,400,579 |
| Investments | 1(e), 5 | 40 | 40 |
| | | <u>6,505,675</u> | <u>9,400,619</u> |
| Current assets | | | |
| Stocks | 1(g) | 139,039 | 155,121 |
| Trade and other debtors | 6 | 3,701,305 | 4,400,138 |
| Amounts due from Isle of Man Government | 8 | 9,850 | 12,033 |
| Short term cash deposit | | 2,009,673 | 2,002,002 |
| Cash at bank and in hand | | 11,080,008 | 8,275,926 |
| | | <u>16,939,875</u> | <u>14,845,220</u> |
| Creditors: amounts falling due within one year | | | |
| Trade and other creditors | 7 | (2,442,721) | (2,324,777) |
| Amounts due to Isle of Man Government | 8 | (3,223,866) | (2,420,880) |
| | | <u>(5,666,587)</u> | <u>(4,745,657)</u> |
| Net current assets | | 11,273,288 | 10,099,563 |
| Pension scheme liability | 9 | (3,016,339) | (13,189,108) |
| Net assets | | 14,762,624 | 6,311,074 |
| Represented by: | | | |
| Reserves | 1(k) | 14,762,624 | 6,311,074 |

The notes on pages 22 to 34 form part of these financial statements.

These financial statements were approved by the Board on 16 August 2018 and were signed on their behalf by:



Chairman



Chief Executive Officer



Finance Director

Isle of Man Post Office

Statement of Changes in Equity

for the year ended 31 March 2018

| | Note | Year ended 31 March 2018 | | Year ended 31 March 2017 | |
|---|------|---------------------------------|-------------------|---------------------------------|-------------------|
| | | Profit and loss reserve £ | Total equity £ | Profit and loss reserve £ | Total equity £ |
| Balance at start of year | | 6,311,074 | 6,311,074 | 14,817,812 | 14,817,812 |
| Total comprehensive income for the year | | | | | |
| (Loss)/Profit for the year | | (1,218,808) | (1,218,808) | 1,301,549 | 1,301,549 |
| Other comprehensive income/(loss) for the year | 9 | 11,888,623 | 11,888,623 | (8,308,287) | (8,308,287) |
| Loss on property revaluation | 4 | (718,265) | (718,265) | | |
| Total comprehensive income/(loss) for the year | | 9,951,550 | 9,951,550 | (7,006,738) | (7,006,738) |
| Levy payable to Isle of Man Government Treasury | | (1,500,000) | (1,500,000) | (1,500,000) | (1,500,000) |
| Total contributions by and distributions to owners | | (1,500,000) | (1,500,000) | (1,500,000) | (1,500,000) |
| Balance at end of year | | 14,762,624 | 14,762,624 | 6,311,074 | 6,311,074 |
| The Profit & Loss Reserve is analysed as follows * : | | | | | |
| Property revaluation surplus | | 1,799,358 | 1,799,358 | 3,796,426 | 3,796,426 |
| Defined benefit pension scheme deficit | | (3,016,339) | (3,016,339) | (13,189,108) | (13,189,108) |
| Retained profit | | 15,979,605 | 15,979,605 | 15,703,756 | 15,703,756 |
| Total Reserves | | 14,762,624 | 14,762,624 | 6,311,074 | 6,311,074 |

* In the prior year the Profit & Loss Reserve was analysed by distributable and non-distributable reserves. To provide improved clarity regarding the impact of pension scheme movements on the reserve, the above analysis is reported (and prior year restated).

The notes on pages 22 to 34 form part of these financial statements.

Isle of Man Post Office

Statement of Cash Flows

for the year ended 31 March 2018

| | Note | Year ended 31 March 2018 £ | Year ended 31 March 2017 £ |
|--|------|----------------------------------|----------------------------------|
| Net cash flow from operating activities | 11 | 3,434,826 | 2,504,418 |
| Cash flows from investing activities | | | |
| Payments to acquire fixed assets | | (246,720) | (1,048,522) |
| Receipts from sales of fixed assets | | 1,102,574 | - |
| Net cash flow from investing activities | | 855,854 | (1,048,522) |
| Cash flows from financing activities | | | |
| Interest received | | 21,073 | 18,867 |
| Levy to Isle of Man Government | | (1,500,000) | (1,714,629) |
| Net cash used in financing activities | | (1,478,927) | (1,695,762) |
| Net increase in cash and cash equivalents | | 2,811,753 | (239,866) |
| Cash and cash equivalents at start of year | | 10,277,928 | 10,517,794 |
| Cash and cash equivalents at end of year | | 13,089,681 | 10,277,928 |

The notes on pages 22 to 34 form part of these financial statements.

Isle of Man Post Office

Notes

(forming part of the financial statements for year ended 31 March 2018)

I Accounting policies

a) Basis of accounting

These financial statements have been prepared in accordance with UK Accounting Standards including Financial Reporting Standard 102: the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as applicable to an Isle of Man entity. The presentation currency of these financial statements is Sterling. They have been prepared in accordance with the Accounts and Audit Regulations 2018 made under the Audit Act 2006.

These financial statements have been prepared under the historical cost convention, with the exception of land and buildings and investment property, which are measured at fair value.

The Board has prepared these financial statements on a going concern basis.

b) Turnover

Turnover has been accounted for on an accruals basis net of discounts and has been recorded in the Statement of Comprehensive Income. Turnover is the value of services provided and goods sold excluding VAT.

Foreign currency sales are included in revenue based on the transaction values of monies exchanged at advertised rates, net of any promotional discounts, on the date of the transactions.

Stage of completion of rendering of services

Amounts earned and not invoiced are included within accrued income, in line with time based costs as and when services are provided, forming the basis of the stage of completion.

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 statement of financial position 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 FRS102.

d) Tangible fixed assets

Tangible fixed assets (except Land and Buildings) are stated at cost less accumulated depreciation and accumulated impairment losses. Land and Buildings are stated at fair value less any subsequent accumulated depreciation and impairment losses.

Land & buildings are independently valued every 5 years. The board value the portfolio every 3 years at the midpoint of the external valuation cycle. The last independent valuation was carried out on 30th March 2018.

The fair value was assessed by a qualified valuer on the basis of the comparison and investment methods of valuation using notional rents where applicable, in accordance with RICS Valuation – Global Standards 2017 (the Red Book).

Gains on revaluation are recognised in Other Comprehensive Income and accumulated in the profit and loss reserve. However, any increase is recognised in the Income Statement to the extent that it reverses a revaluation decrease previously recognised in the Income Statement.

Losses arising on revaluation are recognised in Other Comprehensive Income to the extent of any previously recognised revaluation increase accumulated in equity in respect of that asset. Any excess is recognised in the Income Statement.

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for the year ended 31 March 2018)

I Accounting policies (continued)

d) *Tangible fixed assets (continued)*

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the Post Office assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases and accounted for in tangible fixed assets. All other leases are classified as operating leases.

The Post Office assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives are as follows:

| | |
|---|----------------------|
| Land | No Depreciation |
| Buildings: | |
| - Freehold (based on the estimated useful remaining life) | 10-40 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 |

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Post Office expects to consume an asset's future economic benefits.

e) *Investment in associates*

The measurement basis for investment in associates is cost. The Post Office's share of profits or losses of associates that would ordinarily be included in the Statement of Comprehensive Income and its interest in the net of any associate is not material.

f) *Basic financial instruments*

Trade and other debtors:

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument. Doubtful debt provisions are raised on long outstanding debts or in the event recoverability is otherwise doubtful, and measured at management's best estimate of the recoverable amount.

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for the year ended 31 March 2018)

I Accounting policies (continued)

f) Basic financial instruments (continued)

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

g) 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.

h) Operating leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in the statement of comprehensive income over the term of the lease as an integral part of the total lease expense.

i) Research and Development expenditure

Expenditure on research activities is recognised in the Income Statement as an expense as incurred

Expenditure on development activities may be capitalised if the product or process is technically and commercially feasible and the Post Office intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if it can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve design for, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the Income Statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

j) Foreign exchange

Transactions in foreign currencies are translated to the Business's functional currency at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are retranslated to the functional currency at the foreign exchange rate ruling at that date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the Income Statement.

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for the year ended 31 March 2018)

I Accounting policies (continued)

k) Reserves

Reserves comprise the Profit & Loss Reserve only, which includes all items of 'Comprehensive Income' net of levies paid and payable to Isle of Man Government Treasury (reserves are managed by agreement of Treasury under Section 6(1) of the Post Office Act 1993). Reserves include unrealised gains and losses in respect of property and pension scheme revaluations which are taken into account in the determination of any levies paid and payable. In the prior year the Profit & Loss Reserve was analysed by distributable and non-distributable reserves, with non-distributable reserves comprising the property revaluation surplus. To provide improved clarity regarding the impact of pension scheme movements on the reserve, the analysis in the Statement of Changes in Equity has been expanded to show the defined benefit pension scheme deficit separately from retained profit. Prior year figures have been adjusted to present them on a comparable basis to the current year.

l) Pension costs

The Isle of Man Post Office operates a defined benefit pension scheme. A defined benefit scheme is a post-employment benefit plan other than a defined contribution plan. The Post Office's net obligation in respect of its defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted.

The Post Office determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the Statement of Financial Position date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Post Office's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The Post Office recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan. Changes in the net defined benefit liability arising from employee service rendered during the period and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in the profit or loss as a component of operating profit. Net interest on net defined benefit liability is recognised in interest payable. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to Other Comprehensive Income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Re-measurement of net defined benefit liability'.

m) Heritage assets

Heritage assets are not recorded at value in the Statement of Financial Position, unless the Board believes that there is sufficient ongoing business benefit accruing to justify the cost of revaluing the assets.

n) Provisions for liabilities

Provisions are recognised when Isle of Man Post Office has a material present obligation (legal or constructive) as a result of a past event, it is probable that the Post Office will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

The Post Office recognises a provision for annual leave accrued by employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 12 months. The provision is measured at the salary cost payable for the period of absence.

Notes (continued)

(forming part of the financial statements for year ended 31 March 2018)

1 Accounting policies (continued)

o) Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant accounting estimates relate to the pension liability, whereby external specialists are used to determine the most appropriate estimate (see note 9).

The accounting policies set out in this note, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

2 Turnover

| | Year ended 31 March 2018 £ | Year ended 31 March 2017 £ |
|------------------------------|----------------------------------|----------------------------------|
| Mails | 18,831,655 | 20,303,148 |
| Retail Counters * | 6,269,300 | 5,901,279 |
| Stamps & Coins | 1,290,908 | 1,409,935 |
| Integrated Mailing Solutions | 1,020,610 | 1,591,924 |
| | <hr/> 27,412,473 <hr/> | <hr/> 29,206,286 <hr/> |

* Retail Counters turnover includes gross foreign exchange sales of £4,763,321 (2017: £4,308,236).

3 Total (loss)/profit for the year

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

| | Year ended 31 March 2018 £ | Year ended 31 March 2017 £ |
|---|----------------------------------|----------------------------------|
| Auditor's remuneration | 14,673 | 12,900 |
| Depreciation (note 4) | 906,264 | 901,517 |
| Pension - current service cost (note 9) | 2,350,674 | 1,505,112 |
| Pension - interest on scheme liabilities (note 9) | 320,293 | 125,660 |
| Irrecoverable VAT | 341,717 | 351,844 |
| Rentals payable under operating leases (note 10) | 127,653 | 119,000 |
| Community support payments | 384,705 | 386,286 |
| Foreign exchange currency purchases | 4,505,216 | 4,047,286 |
| Loss on disposal of investment property (note 4) | 245,000 | - |
| Loss on revaluation of freehold land & buildings (note 4) | 217,192 | - |
| | <hr/> | <hr/> |

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for year ended 31 March 2018)

4 Fixed assets

| | Land & Buildings | Investment Property | Motor Vehicles | Office Equipment & Machines | Total |
|----------------------------------|---------------------|------------------------|-------------------|-----------------------------------|--------------------|
| | £ | £ | £ | £ | £ |
| Cost or valuation: | | | | | |
| At 31 March 2017 | 6,584,270 | 1,295,000 | 1,853,529 | 6,911,210 | 16,644,009 |
| Additions | - | - | 121,550 | 125,170 | 246,720 |
| Disposals | (20,394) | (1,295,000) | (413,131) | (711,558) | (2,440,083) |
| Revaluation | (1,385,000) | - | - | - | (1,385,000) |
| At 31 March 2018 | 5,178,876 | - | 1,561,948 | 6,324,822 | 13,065,646 |
| Accumulated depreciation: | | | | | |
| At 31 March 2017 | (731,264) | - | (1,074,537) | (5,437,629) | (7,243,430) |
| Charge for the year | (257,425) | - | (286,449) | (362,390) | (906,264) |
| Disposals | 18,430 | - | 410,153 | 711,558 | 1,140,141 |
| Revaluation | 449,542 | - | - | - | 449,542 |
| At 31 March 2018 | (520,717) | - | (950,833) | (5,088,461) | (6,560,011) |
| Net book value: | | | | | |
| At 31 March 2018 | 4,658,159 | - | 611,115 | 1,236,361 | 6,505,635 |
| At 31 March 2017 | 5,853,006 | 1,295,000 | 778,992 | 1,473,581 | 9,400,579 |

The freehold land and buildings were revalued to fair value on the 30 March 2018, by a qualified professional valuer from Chrystals Estate Agents and Valuers, in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Global Standards. Post Office Headquarters was revalued downwards by £718k, however as there remains a revaluation surplus over historic cost, this amount was recognised in the Statement of Other Comprehensive Income. This was not the case for the Barleyfields property, where a downward revaluation of £217k was recognised in the Income Statement.

The investment property was disposed off in the year for consideration of £1,050,000 with the loss on disposal over carrying value being charged to the Income Statement.

The net book value of land and buildings is detailed below:

| | Year ended 31 March 2018 £ | Year ended 31 March 2017 £ |
|---------------------|----------------------------------|----------------------------------|
| Land | 1,115,000 | 1,375,000 |
| Freehold Buildings | 3,350,000 | 4,177,150 |
| Leasehold Buildings | 193,159 | 300,856 |
| | 4,658,159 | 5,853,006 |

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for year ended 31 March 2018)

5 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 (No 4) 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.

6 Trade and other debtors

| | Year ended 31 March 2018 £ | Year ended 31 March 2017 £ |
|-----------------------------------|----------------------------------|----------------------------------|
| Trade debtors (gross) | 1,151,123 | 1,207,974 |
| Less provision for doubtful debts | (15,231) | (7,261) |
| Trade debtors (net) | 1,135,892 | 1,200,713 |
| Other debtors | 2,041,271 | 2,335,908 |
| Prepayments and accrued income | 524,142 | 863,517 |
| | <u>3,701,305</u> | <u>4,400,138</u> |

7 Trade and other creditors

| | Year ended 31 March 2018 £ | Year ended 31 March 2017 £ |
|--------------------------------|----------------------------------|----------------------------------|
| Trade creditors and accruals | 1,771,702 | 1,800,568 |
| Agency creditors | 267,487 | 265,120 |
| VAT | 310,611 | 85,214 |
| Philatelic subscriber balances | 92,921 | 173,875 |
| | <u>2,442,721</u> | <u>2,324,777</u> |

8 Amounts due from and amounts due to Isle of Man Government (excluding trade debtors and creditors)

| | Year ended 31 March 2018 £ | Year ended 31 March 2017 £ |
|---|----------------------------------|----------------------------------|
| <i>Due from Isle of Man Government comprises:</i> | | |
| Treasury department | <u>9,850</u> | <u>12,033</u> |
| <i>Due to Isle of Man Government comprises:</i> | | |
| Agency creditors | <u>1,723,866</u> | <u>920,880</u> |
| Treasury department | <u>1,500,000</u> | <u>1,500,000</u> |
| | <u>3,223,866</u> | <u>2,420,880</u> |

All balances are interest free, unsecured and payable/repayable on demand.

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for year ended 31 March 2018)

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 FRS102 are as follows:

| | Year ended 31 March 2018 | Year ended 31 March 2017 |
|----------------------------------|-----------------------------|-----------------------------|
| | % | % |
| Discount rate | 2.60% | 2.55% |
| Salary increase rate | 2.20%, 2.70%* | 3.30%, 3.80%** |
| Rate of revaluation in deferment | 2.20% | 2.30% |
| Expected return on scheme assets | 2.65% | 2.55% |
| Pension increase rate | 2.00% | 2.05% |
| RPI Price inflation rate | 3.20% | 3.30% |
| CPI Price inflation rate | 2.20% | 2.30% |

*2.20% p.a. for the next 4 years, 2.70% p.a. thereafter.

**3.30% p.a. for the next 5 years, 3.80% p.a. thereafter

Assumptions regarding life expectancy of members are based on published statistics and mortality tables. The life expectancies at age 65 utilised in the actuarial assumptions are as follows:

| | MALE | | FEMALE | |
|-------------------------------|------------------|------------------|------------------|------------------|
| | 31 March 2018 | 31 March 2017 | 31 March 2018 | 31 March 2017 |
| Current pensioners aged 65 | 22.0 | 24.7 | 23.8 | 26.8 |
| Future pensioners now aged 45 | 23.1 | 26.1 | 25.1 | 28.3 |

The expected return on scheme assets is 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.

The most recent full actuarial valuation is 31 March 2014 which confirmed an employer funding rate of 12.3% of pensionable salaries. The subsequent valuation to 31 March 2017, which remains in draft, proposes an employer funding rate of 21%. This funding rate remains under discussion between the Trustees and the Board. For the year ended 31 March 2018 the business continued to pay employer contributions at 12.3% (£955k). The current service cost charged to the profit and loss account for FRS 102 purposes (which uses different assumptions to those used for actuarial funding purposes) is £2,351k which equates to 30% of pensionable salaries.

Notes (continued)

(forming part of the financial statements for year ended 31 March 2018)

9 Pension scheme (continued)

Amounts recognised in the Statement of Financial Position

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:

| | Year ended 31 March 2018 £'000 | Year ended 31 March 2017 £'000 |
|-------------------------------------|--------------------------------------|--------------------------------------|
| Equities | 49,417 | 49,084 |
| Property | 14,693 | 13,173 |
| Bonds | 15,805 | 15,710 |
| Other* | 6,762 | 4,468 |
| Fair value of scheme assets | 86,677 | 82,435 |
| Present value of funded liabilities | (89,693) | (95,624) |
| Net defined benefit liability | (3,016) | (13,189) |

* "Other" assets at 31 March 2018 comprised Diversified Growth Funds of £6,417,291 (£3,950,014 at 31 March 2017) and cash and net current assets of £345,451 (£518,201 at 31 March 2017)

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

The main factors impacting the scheme deficit were as follows:

- The assumptions used to measure the liabilities have changed, which, in conjunction with other Scheme experience, has resulted in a c£9 million improvement in the funded status.
- Contributions paid were c£1.4 million lower than the value of benefits earned during the year.
- Scheme assets were c£2.9 million higher than the income on assets due to investment performance.
- The interest on the Scheme deficit was c£320,000 over the year.

Overall, these were the major factors contributing to the decrease the deficit by c£10,173,000 over the year.

Changes in present value of the funded liabilities:

| | Year ended 31 March 2018 £'000 | Year ended 31 March 2017 £'000 |
|----------------------------|--------------------------------------|--------------------------------------|
| At beginning of period | 95,624 | 73,726 |
| Current service cost | 2,351 | 1,505 |
| Employee contributions | 487 | 472 |
| Interest cost | 2,412 | 2,574 |
| Actuarial gains and losses | (8,960) | 19,957 |
| Benefits paid | (2,221) | (2,610) |
| At end of period | 89,693 | 95,624 |

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for year ended 31 March 2018)

9 Pension scheme (continued)

Changes in fair value of the scheme assets:

| | Year ended 31 March 2018 | Year ended 31 March 2017 |
|----------------------------|-----------------------------|-----------------------------|
| | £'000 | £'000 |
| At beginning of period | 82,435 | 69,550 |
| Expected return on assets | 2,092 | 2,448 |
| Employer contributions | 955 | 926 |
| Employee contributions | 487 | 472 |
| Actuarial gains and losses | 2,929 | 11,649 |
| Benefits paid | (2,221) | (2,610) |
| At end of period | <u>86,677</u> | <u>82,435</u> |

Amounts recognised in the profit for the year

| | Year ended 31 March 2018 | Year ended 31 March 2017 |
|--|-----------------------------|-----------------------------|
| | £'000 | £'000 |
| Current service cost | 2,351 | 1,505 |
| Interest on scheme liabilities | 320 | 126 |
| Total expense recognised in income statement | <u>2,671</u> | <u>1,631</u> |

Amounts recognised in other comprehensive income (OCI)

| | Year ended 31 March 2018 | Year ended 31 March 2017 |
|--|-----------------------------|-----------------------------|
| | £'000 | £'000 |
| Actual return less expected return on assets | 2,929 | 11,649 |
| Experience gains and losses on liabilities | 345 | (196) |
| Changes in assumptions | 8,615 | (19,761) |
| Total gains/(losses) recognised in OCI | <u>11,889</u> | <u>(8,308)</u> |

Actual return on scheme assets

| | Year ended 31 March 2018 | Year ended 31 March 2017 |
|-------------------------|-----------------------------|-----------------------------|
| | £'000 | £'000 |
| Actual return on assets | <u>5,021</u> | <u>14,097</u> |

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for year ended 31 March 2018)

10 Capital and lease commitments

a) There was £471,025 (including VAT) of approved and contracted capital commitments as at 31 March 2018 (2017: nil).

b) Future commitments under non-cancellable operating leases as lessee (all relating to Land and Buildings) are as follows:

| | Year ended 31 March 2018 | Year ended 31 March 2017 |
|--|-----------------------------|-----------------------------|
| | £ | £ |
| Total payable: | | |
| Within one year | 124,355 | 106,125 |
| In the second to fifth years inclusive | 473,630 | 127,708 |
| Over five years | - | - |
| | <u>597,985</u> | <u>233,833</u> |

c) The operating lease expense for the year (all relating to Land and Buildings) was as follows:

| | Year ended 31 March 2018 | Year ended 31 March 2017 |
|-------|-----------------------------|-----------------------------|
| | £ | £ |
| Total | <u>127,653</u> | <u>119,000</u> |

d) Future receivables under non-cancellable operating leases as lessor (all relating to Land and Buildings) are as follows:

| | Year ended 31 March 2018 | Year ended 31 March 2017 |
|--|-----------------------------|-----------------------------|
| | £ | £ |
| Total receivable: | | |
| Within one year | 17,437 | 16,954 |
| In the second to fifth years inclusive | 76,531 | 15,984 |
| Over five years | - | - |
| | <u>93,968</u> | <u>32,938</u> |

e) The operating lease income for the year (all relating to Land and Buildings) was as follows:

| | Year ended 31 March 2018 | Year ended 31 March 2017 |
|-------|-----------------------------|-----------------------------|
| | £ | £ |
| Total | <u>16,954</u> | <u>40,500</u> |

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for year ended 31 March 2018)

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

| | Year ended 31 March 2018 £ | Year ended 31 March 2017 £ |
|--|----------------------------------|----------------------------------|
| Operating (loss)/profit | (919,588) | 1,408,342 |
| Depreciation charges | 906,265 | 901,517 |
| Loss on revaluation | 217,192 | 226,672 |
| Net loss on sale of tangible fixed assets | 197,367 | 1,715 |
| Defined benefit scheme-current service cost in excess of contributions * | 1,395,561 | 578,844 |
| Decrease/(increase) in stocks | 16,082 | (3,507) |
| Decrease/(increase) in debtors | 698,834 | (578,135) |
| Increase in amounts owed to Isle of Man Government | 805,169 | 680,391 |
| Increase/(decrease) in creditors | 117,944 | (711,421) |
| Net cash flow from operating activities | <u>3,434,826</u> | <u>2,504,418</u> |

* Current Service cost £2,351k less £955k contributions paid in the year

12 Salaries

Remuneration of members, officers and employees of the Post Office is payable within the following bands:

| | Year ended 31 March 2018 Number | Year ended 31 March 2017 Number |
|---------------------|---------------------------------------|---------------------------------------|
| £50,000 - £74,999 | 10 | 9 |
| £75,000 - £99,999 | 2 | 3 |
| £100,000 - £124,999 | - | 1 |

13 Related party transactions

The Isle of Man Post Office is required to disclose material transactions with related parties, that is bodies or individuals that have the potential to control or influence it, or to be controlled or influenced by the same. Disclosure of these transactions allows the readers to assess the extent to which the Post Office might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with it.

The Board considers that the main related parties are the Isle of Man Post Office Superannuation Scheme ("the Scheme"), Members of the Board and Senior Management of the Isle of Man Post Office. In accordance with FRS102 Section 33 as the Isle of Man Post Office is wholly owned by the Isle of Man Government and is included in the consolidated Government accounts, transactions between the Isle of Man Post Office and its beneficial owner, the Isle of Man Government are not disclosed in this note (non trade debtor and creditor balances at 31 March 2018 are disclosed in note 8).

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for year ended 31 March 2018)

13 Related party transactions (continued)

Remuneration of key management personnel (Remuneration includes contributions to the defined benefit pension scheme and employers National insurance payments) in the year was:

| | Year ended 31 March 2018 £ | Year ended 31 March 2017 £ |
|---------------------------------------|----------------------------------|----------------------------------|
| Board Members and Executive Directors | 382,520 | 461,585 |

14 Contingent liabilities

The Isle of Man Post Office may have contingent liabilities to pay recharges for policy excesses in respect of insurance arranged on its behalf by the Department of Treasury. These policy excesses may be up to £150,000 although, to the best of its knowledge as at the date of this report, the Board believes that should a recharge be made, the total of these liabilities would be significantly below this figure.

15 Heritage assets

The Isle of Man Post Office owns a number of heritage assets that are not included in the statement of financial position at 31 March 2018. The assets comprise:-

- 1) A collection of paintings, representing the original artwork for stamps produced during the 1970s and 1980s.
- 2) A memorial World War 1 plaque designed by Archibald Knox
- 3) A memorial World War 2 plaque

These assets were purchased historically. It is the view of the Board that the costs incurred to reliably value these assets on an on-going basis, even if such values could be obtained, would be disproportionate to any additional benefits derived by the Post Office and users of the accounts.

16 Post balance sheet events

The Board are not aware of any material post balance sheet events requiring disclosure in the financial statements.