

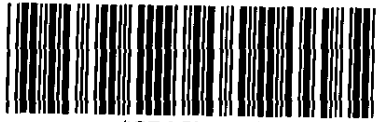
Post Office Management Services Limited

Registered Number 8459718 .

Post Office Management Services Limited

Report and Financial Statements

25 March 2018

THURSDAY		
		
*S7GCEVR5*		
SPE	11/10/2018	#201
COMPANIES HOUSE		
*A7H9QV74*		
A06	24/10/2018	#295
COMPANIES HOUSE		
*A7GCJNX6*		
A11	11/10/2018	#372
COMPANIES HOUSE		

# Post Office Management Services Limited

## Corporate information

### Directors

S D Ashton  
A H Bowe  
R J Clarkson  
S J Parr (appointed 20 July 2017)  
T A Franklin (appointed 20 March 2018)  
D A Torrance (appointed 20 March 2018)  
O Woodley (appointed 25 June 2018)

### Secretary

A Lyons (resigned 30 August 2017)  
J E MacLeod (appointed 31 August 2017)

### Principal activities

The company's principal activity is general and life insurance intermediation, principally in travel, motor, home and life insurance. Since 30 June 2015, the company has been authorised and regulated as an insurance intermediary by the Financial Conduct Authority. The company is a wholly owned subsidiary of Post Office Limited.

### Auditor

Ernst & Young LLP  
1 More London Place,  
London  
SE1 2AF

### Registered office

20 Finsbury Street,  
London  
EC2Y 9AQ

# Post Office Management Services Limited

## Strategic Report

The Directors present their strategic report for the 52 week period ended 25 March 2018.

## Business Review

The profit for the period after taxation is £1,429,000 (2017: £6,125,000).

The company was incorporated on 25 March 2013 and is a wholly owned subsidiary of Post Office Limited. The company was dormant until 17 December 2014 when it started trading. These financial statements have been prepared for the 52 week period from 27 March 2017 to 25 March 2018. The comparative period is the 52 week period ended 26 March 2017. The financial statements are prepared in accordance with FRS 101- *Reduced Disclosure Framework* and the company has taken advantage of the disclosure exemptions allowed under this standard.

The company's key financial performance indicators during the period were:

	Mar 2018 £000	Mar 2017 £000
Turnover	47,808	43,020
Operating profit (before exceptional items)	2,992	8,043
Profit for the year before tax	1,765	7,656
Net current assets	6,703	5,868
Shareholder's equity	58,788	57,359

Turnover consists of commission earned from sales and renewals of general insurance and life insurance products, principally travel, motor, home and life insurance products.

During the period, the company derived commission income from sales of Travel insurance, general insurance and life insurance products. Reported turnover increased 11% year on year due to improved performance in Travel and Protection products partially offset by declining Car revenues. On a normalised basis (adjusting for structural changes in internal Post Office capability) turnover increased 15% year on year. At the end of the previous period the company implemented an IT operating platform that enables it to develop, commission and administer new and existing insurance products. Travel insurance was the first product to be administered on this system. During the period the company has continued to develop the system's functionality.

Operating profit before exceptional items in the period of £2,992,000 was a £5,051,000 decrease in the profits compared to the prior year. This decrease was due to a significant increase in expenses as the company invests in its capability and expands its distribution foot print in line with its strategic objectives.

Net current assets at 25 March 2018 of £6,703,000 consists principally of cash offset by amounts due to Post Office Limited for commissions payable to it on insurance income, accrued income and expenditure in relation to normal trading of the business.

The company does not hold Client Money.

Shareholder's equity at 25 March 2018, consists of retained profits after tax generated in the period of £1,429,000 and £50,000,000 of ordinary share capital.

# Post Office Management Services Limited

## Strategic Report (continued)

### Principal risks and uncertainties

Post Office Management Services Limited has established a Risk Management Framework to identify, assess and mitigate the risks faced across all areas of the business. Supported by the Risk Management Policy and operating within the Risk Appetite set by the Board, the control environment provides the tools and processes to manage risk within the business.

The Board has established an audit, risk and compliance committee that meets quarterly and which evaluates the management of key risks against the company's risk appetite. The principal risks and uncertainties facing the company are broadly grouped as financial, strategic, operational, and legal & regulatory.

#### Financial risk

*Underperformance in income:* The Company faces both opportunities and threats to income. The retail insurance markets that it operates in are competitive and cyclical, either of which factors can have a significant impact on income. Whilst these trends have been built into business planning, the company's cost base is not fully variable and as a result significant, sustained reductions in margins could adversely impact the company's commercial sustainability. These risks are mitigated by regular formal review of business performance.

#### Strategic risk

*Customer segmentation:* Customer needs are changing at a rapid pace. There is a risk that the company fails to successfully understand the needs of its chosen customer segments and that as a result it does not meet those needs in the design and distribution of products. The company mitigates this risk by performing customer research and regular review of customer feedback. Product governance is in place to ensure product design and changes are assessed to meet the needs of customers.

*Business plans:* The shareholder has its own objectives to achieve sustainability whilst delivering its public purpose. There is a risk that any further investment required from the shareholder by the company to enact its business plans is not agreed. This risk is mitigated by regular meetings with the shareholder's senior management and presentation of performance, plans and strategy to the shareholder's Directors.

#### Operational risk

*IT development programmes:* At the end of the previous period the company implemented an IT operating platform that enables it to develop, commission and administer new and existing insurance products. Post go-live a rolling programme of new functionality and enhancements was initiated. Failure of, or significant delay in implementation of this rolling programme would have adversely impacted the delivery of services to customers and the development of operational and financial processes. The company migrated these risks through governance frameworks, regular review and on-going project management activity and will continue to take this approach as the system is implemented across other business lines.

*Information security and data protection:* There is a risk that data protection breaches result in loss of data or loss of protection, potentially leading to significant reputational damage to the company and fines. To mitigate this, the company has in place an information and data control framework which reports any exceptions to the Directors.

#### Legal and regulatory risk

*Compliance with regulatory obligations:* The Company has obligations to meet certain financial, operational, control and oversight standards as a requirement of regulation by the Financial Conduct Authority. Failing to meet those obligations creates the risk of customer detriment, reputational damage, fines and, ultimately, suspension or removal of the company's authorisation to trade. These risks are mitigated by a robust compliance framework which reports regularly to the company's senior management, its audit, risk and compliance committee and its Directors for action.

*Customer Risk:* The Company acknowledges there is a risk inherent with operating in a retail environment, providing transactional services to customers. This risk is mitigated by ensuring needs based conversations and oversight of sales practices takes place in face to face channels.

*Appointed Representative:* The Company has responsibility for the regulated insurance sales activity of its Appointed Representative, Post Office Limited. This includes oversight of the Post Office Limited's physical distribution network of at least 11,500 branches. There is a risk that Post Office Limited is unable to deliver first-line oversight to the company's satisfaction, which if unresolved would lead to the company being required to withdraw the relevant product or products from the affected distribution channel. This risk is mitigated by the review and monitoring of regulated activity and receiving regular conduct risk reporting from the Appointed Representative.

By order of the board

S J Parr  
Chief Financial Officer  
20 September 2018

# Post Office Management Services Limited

## Directors' Report

### Directors of the company

The Directors who served at any point during the period and up to the date of report are shown below.

S D Ashton

A H Bowe

R J Clarkson

S J Parr (appointed 20 July 2017)

N L A Kennett (resigned 26 February 2018)

J E MacLeod (resigned 20 March 2018)

C C Stuart (resigned 20 July 2017)

T A Franklin (appointed 20 March 2018)

D A Torrance (appointed 20 March 2018)

O Woodley (appointed 25 June 2018)

### Dividends

The Directors do not recommend a dividend.

### Future developments

The company intends to continue operating in the area of general and life insurance intermediation, with a focus on continuing to meet customer needs and increasing operational efficiency.

### Going concern

The company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management and its exposures to price, credit, liquidity and cash flow risk are described in the Strategic Report on pages 3 to 4.

After analysis of the financial resources available and cash flow projections for the company, the Directors have concluded that it is appropriate that the financial statements have been prepared on a going concern basis.

### Events since the balance sheet date

On 18 June 2018 the company issued 5,000,000 ordinary shares with a value of £1 each to Post Office Limited, its immediate parent company. This increased the share capital of the company from £50,000,100 to £55,000,100.

### Auditor

The external audit service for year ending 31 March 2019 was put out for tender and a decision to appoint PricewaterhouseCoopers LLP was made by the Board post year end.

### Directors' statement as to disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 2.

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the auditor is unaware and that each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

By order of the board



J E MacLeod

Secretary

Post Office Management Services Limited

(company number 8459718)

20 Finsbury Street

London

20 September 2018

# Post Office Management Services Limited

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors 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 company and of the profit or loss for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis, unless they consider that to be inappropriate.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Post Office Management Services Limited

## Independent auditor's report to the members of Post Office Management Services Limited

### Opinion

We have audited the financial statements of Post Office Management Services Limited for the 52 weeks ended 25 March 2018 which comprise the Income Statement, the Balance Sheet, the Statement of other comprehensive income, the Statement of changes in equity and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 25 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

# Post Office Management Services Limited

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company'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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

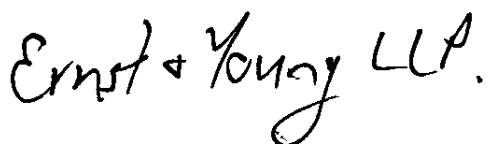
## Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed



Peter McIver (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

20 September 2018



## Post Office Management Services Limited

### Income statement

for the 52 week period ended 25 March 2018 and the 52 week period ended 26 March 2017

	Notes	<b>Mar 2018</b> <b>£000</b>	Mar 2017 £000
Turnover	2	47,808	43,020
Administrative expenses		(6,670)	(3,738)
Other operating expenses		(38,146)	(31,239)
Operating profit before exceptional items	3	2,992	8,043
Operating exceptional items	5	(876)	-
Operating profit		2,116	8,043
Interest receivable and similar income	8	27	26
Interest payable and similar cost	8	(378)	(413)
Profit on ordinary activities before taxation		1,765	7,656
Taxation expense	9	(336)	(1,531)
Profit for the financial period		1,429	6,125

## Post Office Management Services Limited

### Statement of other comprehensive income

for the 52 week period ended 25 March 2018 and the 52 week period ended 26 March 2017

	<b>Mar 2018</b>	Mar 2017
Notes	<b>£000</b>	£000
Profit for the financial period	1,429	6,125
Other comprehensive income not to be reclassified to profit or loss in future periods	-	-
Total comprehensive income for the period	1,429	6,125

All amounts are derived from continuing operations.

# Post Office Management Services Limited

Balance sheet  
at 25 March 2018 and 26 March 2017

	Notes	Mar 2018 £000	Mar 2017 £000
Non-current assets			
Intangible assets	10	53,052	52,196
Total non-current assets		53,052	52,196
Current assets			
Trade receivables		3,035	1,692
Amounts owed by group undertakings		4,682	-
Other debtors		208	151
Prepayments and accrued income	11	3,858	3,120
Deferred tax asset	9	7	4
Cash at bank and in hand	12	11,200	13,441
Total current assets		22,990	18,408
Total assets		76,042	70,604
Creditors: amounts falling due within one year			
Trade creditors		(1,648)	(782)
Amounts owed to group undertakings	13	(5,717)	(3,578)
Other creditors		(2,462)	(1,525)
Accruals		(5,500)	(5,869)
Provisions	14	(960)	(786)
Total amounts falling due within one year		(16,287)	(12,540)
Net current assets		6,703	5,868
Total assets less current liabilities		59,755	58,064
Creditors: amounts falling due after more than one year			
Amounts owed to group undertakings	13	(500)	(500)
Provisions	14	(467)	(205)
Total amounts falling due after more than one year		(967)	(705)
Net assets		58,788	57,359
Capital and reserves			
Share capital	16	50,000	50,000
Retained earnings		8,788	7,359
Total equity		58,788	57,359

The financial statements on pages 9 to 21 were approved by the Board of Directors on 20 September 2018 and signed on its behalf by:



Managing Director



Chief Financial Officer

## Post Office Management Services Limited

Statement of changes in equity  
for the 52 week period ended 25 March 2018 and the 52 week period ended 26 March 2017

	Notes	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 27 March 2017		50,000	-	7,359	57,359
Total Comprehensive income for the period		-	-	1,429	1,429
<b>At 25 March 2018</b>		50,000	-	8,788	58,788

	Notes	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 28 March 2016		50,000	-	1,234	51,234
Total Comprehensive income for the period		-	-	6,125	6,125
<b>At 26 March 2017</b>		50,000	-	7,359	57,359

# Post Office Management Services Limited

## Notes to the financial statements

### 1. Accounting Policies

#### Financial period

The current financial period ended on the last Sunday in March and for this reason these financial statements are made up to the 52 weeks ended 25 March 2018 (2017: 52 weeks ended 26 March 2017).

#### Basis of preparation

The financial statements of Post Office Management Services Limited (the "company") for the period ended 25 March 2018 were authorised for issue by the Board of Directors on 20 September 2018 and the Balance Sheet was signed on the Board's behalf by R J Clarkson and S J Parr. Post Office Management Services Limited is incorporated and domiciled in England and Wales. Post Office Management Services Limited is a private company limited by shares.

The financial statements on pages 9 to 21 have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. Where applicable, the company has followed the accounting policies of the Post Office Limited Group. Unless otherwise stated in the accounting policies below, the financial statements have been prepared under the historic cost accounting convention.

The company has used a true and fair view override in respect of the non-amortisation of goodwill. The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis over a period chosen by the Directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised. *Consequently, the company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment.* The company is therefore invoking a "true and fair view override" to overcome the prohibition on the non-amortisation of goodwill in the Companies Act.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except where otherwise indicated.

The company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) The requirements of IFRS 7 Financial Instruments: Disclosures
- (b) The requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated
- (c) The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 118(e) of IAS 38 intangible Assets
- (d) The requirements of IAS 7 Statement of Cash Flows
- (e) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- (f) The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements
- (g) The requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures
- (h) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- (i) The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

#### Going concern

The company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management and its exposures to price, credit, liquidity and cash flow risk are described in the Strategic Report on pages 3 to 4.

After analysis of the financial resources available and cash flow projections for the company, the Directors have concluded that it is appropriate that the financial statements have been prepared on a going concern basis.

## Post Office Management Services Limited

### **Critical accounting estimates and judgements in applying accounting policies**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

#### *Provisions*

The Company has recognised provisions where a present legal or constructive obligation exists as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. The cancellation clawback provision relates to the repayment of commission received in the event of the cancellation of insurance policies.

#### *Operating exceptional items*

Operating exceptional items (disclosed in note 5) are items of expenditure arising from the operations of the business which, due to the nature of the events giving rise to them, require separate presentation on the face of the income statement to allow a better understanding of financial performance in the year, in comparison to prior years. Items classified within here will be material either because of size or nature and will be non-recurring. This separate reporting of exceptional items helps to provide a better picture of the company's underlying performance.

#### *Development costs*

Development costs are capitalised in accordance with the accounting policy given below. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 25 March 2018, the carrying amount of capitalised software development costs was £9,152,000 (2017: £8,296,000).

### **Intangible assets**

Intangible assets acquired separately or generated internally are initially recognised at cost and are reviewed for impairment. An impairment loss is recognised in the income statement for the amount by which the carrying value of the asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Amortisation of intangible assets with finite lives is charged annually to the income statement on a straight-line basis as follows.

Software	3 years
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The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The Company considers the need to impair assets on the basis of whether or not indicators of impairment exists. The Company is profit making and cash flow positive, and is forecast to continue to be so in its 5 year plan. Hence there are no indicators that would lead the Company to impair these intangible assets and the Company will amortise them over a period of 3 years.

### **Goodwill**

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is recognised at cost less any accumulated impairment losses. Goodwill is tested for impairment annually as well as when there are any indicators of impairment.

## Post Office Management Services Limited

### Turnover

The Company's Turnover comprises the value of services provided from the principle activities in providing insurance intermediary services through its network of Post Office branches across the UK, online and contact centre channels. Turnover comprises commissions received from provision of the intermediary services excluding taxes.

Turnover is also earned from profit share arrangements with a number of commercial partners. Where the value of the profit share cannot be reliably measured, and neither is it guaranteed, the revenue is recognised in the period when the profit share is confirmed.

### Taxation

The charge for current income tax is based on the results for the year as adjusted for items which are not taxed or are disallowed. It is calculated using tax rates in legislation that has been enacted or substantively enacted by the balance sheet date.

Deferred income tax assets and liabilities are recognised for all taxable and deductible temporary differences and unused tax assets and losses except:

- initial recognition of goodwill
- the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss
- taxable temporary differences associated with investments in subsidiaries and interest in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which they can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the tax asset is realised or the liability is settled, based on tax rates that have been substantively enacted at the balance sheet date. *Deferred tax balances are not discounted.*

Current and deferred tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly to equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. Further details on deferred tax can be found in note 9 to the financial statements.

### Pensions and other post-retirement benefits

Post Office Limited operates a defined contribution pension scheme, for which employees of Post Office Management Services Limited are eligible. Contributions are charged to operating profit, as part of staff costs, in the period to which the contributions relate.

### Provisions

The company has recognised provisions where a present legal or constructive obligation exists as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are detailed in note 14. Due to the nature of provisions the future amount settled may be different from the amount that has been provided.

### Trade creditors

Trade creditors are obligations to pay invoices received from suppliers for goods and services that have been acquired in the ordinary course of business.

### Other creditors

Other creditors includes obligations to pay third parties, for whom the company acts as agent, the balance of Insurance premium tax and Net premium fees that have been received on their behalf.

## Post Office Management Services Limited

### Financial instruments

The classification of financial instruments included on the balance sheet is set out below:

#### *Financial assets*

Financial assets are classified into the following categories: at fair value through the income statement, loans and receivables, and available for sale as appropriate based on the purpose for which they were required. Financial liabilities are classified as either fair value through the income statement or as financial liabilities measured at amortised cost.

#### *Financial liabilities – interest-bearing loans and borrowings*

All loans and borrowings are classified as financial liabilities measured at amortised cost.

#### *Derecognition of financial instruments*

A financial asset or liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

## 2. Turnover

Turnover recognised in the income statement represents commission earned in the UK only from the rendering of insurance intermediary services.

## 3. Operating profit before exceptional items

Operating profit before exceptional items is stated after charging:

	Mar 2018 £000	Mar 2017 £000
Amortisation of intangible assets	2,378	178

Amortisation expense is included within Administrative expenses line of the Income Statement.

## 4. Auditor's remuneration

The company paid the following amounts to its auditor in respect of the audit of the financial statements and for other services provided to the company.

	Mar 2018 £000	Mar 2017 £000
Audit of the financial statements	82	60
Audit related assurance services	-	45

## 5. Operating exceptional items

	Mar 2018 £000	Mar 2017 £000
Implementation costs	876	-
Total operating exceptional items	876	-

Implementation costs include consultancy, legal and system related expenses to ensure that the company could commence with the implementation of a new operating model for Home Insurance product.



## Post Office Management Services Limited

### 6. Staff costs and numbers

	<b>Mar 2018 £000</b>	Mar 2017 £000
Wages and salaries	3,334	2,766
Social security costs	456	427
Other pension costs	186	134
<b>Total staff costs</b>	<b>3,976</b>	<b>3,327</b>

	Period end employees		Average employees	
	<b>Mar 2018</b>	Mar 2017	<b>Mar 2018</b>	Mar 2017
<b>Total employees</b>	<b>46</b>	<b>41</b>	<b>44</b>	<b>36</b>

### 7. Directors' emoluments

The Directors received the following emoluments:

	<b>Mar 2018 £000</b>	Mar 2017 £000
Emoluments, excluding pension contributions	612	471
Contributions to pension schemes	8	-

The highest paid Director received the following emoluments:

	<b>Mar 2018 £000</b>	Mar 2017 £000
Emoluments, excluding pension contributions	373	371
Company contributions to pension schemes	-	-

Emoluments are paid by the company in respect of four Directors. Since the remaining directors provide services to the company as well as Post Office Limited, the parent company, it is not possible to prorate their remuneration to the company. The total amount of remuneration paid in year ended 25 March 2018 to the remaining directors is £1,121,000 (2017: £1,024,000), which also includes remuneration for the services provided to parent company.

### 8. Interest receivable and interest payable

	<b>Mar 2018 £000</b>	Mar 2017 £000
Interest receivable	27	26
Interest Payable and charges:		
Bank charges	(355)	(390)
Interest payable on loans	(23)	(23)
<b>Total</b>	<b>(351)</b>	<b>(387)</b>

# Post Office Management Services Limited

## 9. Taxation

### (a) Taxation gains recognised in the period

	<b>Mar 2018 £000</b>	Mar 2017 £000
Corporation tax charge for year	339	1,532
Current tax	339	1,532
Deferred tax credit relating to the origin and reversal of temporary differences	(3)	(1)
Income tax charge reported in the income statement	336	1,531

### (b) Factors affecting current tax charge on profit on ordinary activities

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are explained below:

	<b>Mar 2018 £000</b>	Mar 2017 £000
Profit on ordinary activities before tax	1,765	7,656
Profit on ordinary activities multiplied by the standard rate of corporation tax the UK of 19% (2017: 20%)	336	1,532
Non-deductible expenses	-	-
Provision deductible when incurred	-	(1)
Income tax charge reported in the income statement	336	1,531

### (c) Deferred tax

Deferred tax assets relate to the following:

	Balance sheet		Income statement	
	<b>Mar 2018 £000</b>	Mar 2017 £000	<b>Mar 2018 £000</b>	Mar 2017 £000
Pensions temporary differences	7	4	3	1
Total deferred tax asset	7	4	-	-
Income statement	-	-	3	1

### (d) Factors that may affect future tax charges

The main rate of corporation tax was reduced to 19% with effect from 01 April 2017. The rate will reduce further to 17% from 01 April 2020. This rate reduction was substantively enacted on 06 September 2016, therefore deferred tax has been recognised at 17%.

## Post Office Management Services Limited

### 10. Intangible assets

	Software	Goodwill	Total
	£000	£000	£000
Cost			
At 26 March 2017	8,508	43,900	52,408
Additions	3,234	-	3,234
Disposals	-	-	-
<b>At 25 March 2018</b>	<b>11,742</b>	<b>43,900</b>	<b>55,642</b>
Amortisation and impairment			
At 26 March 2017	212	-	212
Amortisation and impairment (see note 3)	2,378	-	2,378
Disposals	-	-	-
<b>At 25 March 2018</b>	<b>2,590</b>	<b>-</b>	<b>2,590</b>
Net book value			
<b>At 25 March 2018</b>	<b>9,152</b>	<b>43,900</b>	<b>53,052</b>
<b>At 26 March 2017</b>	<b>8,296</b>	<b>43,900</b>	<b>52,196</b>

Goodwill relates to the acquisition from Post Office Limited of its former insurance contractual arrangement with the Bank of Ireland.

The company performed a goodwill impairment test taking into account the latest view of income projections, timing and certainty of benefits. Based on the analysis of all the relevant factors, there is no foreseeable limit to the period over which goodwill is expected to generate net cash inflows for the entity.

### 11. Prepayments and accrued income

	Mar 2018 £000	Mar 2017 £000
Accrued income	3,734	2,999
Prepayments	124	121
<b>Total prepayments and accrued income</b>	<b>3,858</b>	<b>3,120</b>

### 12. Cash at bank and in hand

	Mar 2018 £000	Mar 2017 £000
Cash at bank	8,235	11,229
Fiduciary cash balances held on behalf of insurance third parties	2,965	2,212
<b>Total cash at bank and in hand</b>	<b>11,200</b>	<b>13,441</b>

The fiduciary cash balances held on behalf of insurance third parties are held in trust and cannot be called upon should the company become insolvent.

## Post Office Management Services Limited

### 13. Amounts owed to group undertakings

	Mar 2018 £000	Mar 2017 £000
Amounts owed to parent company falling due within one year	5,717	3,578
Amounts owed to parent company falling due after more than one year	500	500
<b>Total amounts owed to group undertakings</b>	<b>6,217</b>	<b>4,078</b>

Amounts owed to Post Office Limited (POL) falling due within one year include commissions paid to POL on sale and renewal of Insurance products sold through POL's distribution channels and charges paid to POL for services provided by POL to the Company as per the Master Services Agreement.

Amounts owed to POL falling due after more than one year represent an interest bearing, subordinated loan. Interest is payable at 4%+Bank of England Base rate. The Company utilises the subordinated loan amount to comply with FCA's Capital Resource Requirements. Subordinated loan ranks below other loans with regards to claims on the company's assets or earnings. There is no specific repayment date in the loan agreement. The Company has agreed with POL not to repay the loan in the next 12 months.

### 14. Provisions

	Total £000
At 26 March 2017	991
Charged in operating costs	2,229
Utilisation	(1,793)
<b>At 25 March 2018</b>	<b>1,427</b>
<b>Disclosed as:</b>	
<b>Current</b>	960
<b>Non – current</b>	467
	<b>1,427</b>

The provision relates to the repayment of commission received in the event of the cancellation of insurance policies and repayment of higher commission received for direct mail activity. It is expected that the costs will be incurred during the exercise period up to March 2022.

### 15. Pensions

Post Office Limited operates a Defined Contribution pension scheme called Post Office Pension Plan for which employees of the company are eligible. The charge in the income statement for the defined contribution scheme was £186,000 (2017: £134,000) during the year.

## Post Office Management Services Limited

### 16. Called up share capital

	Mar 2018 Shares	Mar 2017 Shares	Mar 2018 £	Mar 2017 £
Authorised				
Ordinary shares of £1 each	50,000,000	50,000,000	50,000,000	50,000,000
Ordinary shares of £100 each	1	1	100	100
Total			50,000,100	50,000,100
Allotted and issued and fully paid				
Ordinary shares of £1 each	50,000,000	50,000,000	50,000,000	50,000,000
Allotted and issued				
Ordinary shares of £100 each	1	1	100	100
Total			50,000,100	50,000,100

### 17. Commitments

The Capital commitments contracted for but not provided in the financial statements amount to £nil (2017: nil).

### 18. Immediate and ultimate parent company

Post Office Limited own 100% of the share capital in the Company. The Post Office Limited was a wholly owned subsidiary of Postal Services Holding Company Limited until it entered voluntary liquidation in June 2017 and the shares in Post Office Limited were distributed to the Secretary of State for Business, Energy and Industrial Strategy (BEIS).

BEIS holds a special share in Post Office Limited and the rights attached to that special share are enshrined within Post Office Limited Articles of Association. BEIS, through UK Government Investments Limited (UKGI), has no day to day involvement in the operations of Post Office Limited or in the management of its branch network and staff. As such, at 25 March 2018, the Directors regarded Post Office Limited as the immediate and ultimate parent company.

The largest group to consolidate the results of the company is Post Office Limited, a company registered in the United Kingdom. Post Office Limited financial statements can be obtained from Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

### 19. Post balance sheet events

On 18 June 2018 the Company issued 5,000,000 ordinary shares with a value of £1 each to Post Office Limited, its immediate parent company. This increased the share capital of the Company from £50,000,100 to £55,000,100.