2154540

POST OFFICE COUNTERS LTD

ACCOUNTS

For the 52 weeks ended 26 March 1995

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Post Office Counters Ltd
Registered in England
Number 2154540

DIRECTORS' REPORT

The directors have pleasure in presenting their report and audited accounts of the company for the 52 weeks ended 26 March 1995.

1. Results and Dividend

Profit after taxation for the 52 weeks was £23m, based on a turnover of £1,118m. The directors propose a dividend of £27m in respect of the year. The movements in reserves are given on page 21 of the accounts (Note 14).

2. Activities

Post Office Counters Ltd (POCL) provides a nationwide retail service as the leading supplier of benefits distribution, postal services, banking and bill payment facilities. Operating through some 19,750 main, franchise and agency post offices, it meets the needs of customers in the community on behalf of its public and private sector clients.

3. Review of the Business and Future Developments

During the year the Government announced its intention to allow POCL to undertake a widened range of business opportunities. The company established itself as the largest retailer of National Lottery tickets, successfully entered the bureau de change market, and launched a travel insurance service in partnership with Commercial Union.

A joint project was launched with the Benefits Agency, to bring automation of benefit payments to post offices. Detailed negotiations were undertaken, leading to the issue of a statement of service requirement shortly after the year end. It is the intention that the project will be financed under the Goverment's Private Finance Initiative.

These developments together amount to a significant breakthrough and place the company on a much sounder footing to meet future competition, through the application of technology and the generation of new business. They build on POCL's key advantages of an unrivalled network of post offices offering personal service, and a reputation for integrity.

The directors are committed to the principles of continuous improvement in the satisfaction of customers' and clients' requirements. During the year all business units submitted to a quality self-assessment process using the methodologies of the European Foundation for Quality Management. This aided the consolidation of the major reorganisation of June 1993.

4. **Directors**

The following have served as directors of POCL during the 52 weeks ended 26 March 1995:

Mr A J Roberts CBE	(Chairman)
Mr R T B Dykes	(Managing Director)
Mr R C Close	
Mr J Evans	(Appointed 7 March 1995)
Mr M A Flanagan	(Resigned 28 February 1995)
Mr B Noble	(Resigned 24 May 1994)
Mr R I Peaple	
Mr T E Spratt CBE	(Resigned 30 September 1994)
Mr R M Tabor	
Mr D J Taylor	
Mr R H Wheelhouse	

The directors thank Mr B Noble, Mr T E Spratt CBE and Mr M A Flanagan for their years of service.

No director had a beneficial interest in the share capital of the company at 26 March 1995.

Miss M Macdonald CBE resigned as company secretary on 18 November 1994, and the directors thank her for her years of service.

The directors and officers of the company have been insured against liability in relation to the company.

5. **Staff**

Under an agreement between the company and the Post Office, the Post Office provides staff engaged in the business of the company. The company meets the full costs of their employment. The following information is provided about these staff even though they are not employees of the company:-

a. The average number of staff employed during the year was 12,831 and their aggregate cost of employment for the year was £242m.

b. Disabled staff. It is POCL's policy to provide full and fair consideration to every application for employment from disabled persons. Where existing members of staff become disabled, efforts are made to ensure that employment continues.

c. Staff involvement. Information on a wide range of the company's activities is supplied to staff through:-

- the Post Office newspaper, "The Courier"
- the "Talking Shop" internal briefing system
- regular consultation with unions representing the staff
- regular staff training sessions.

6. **Charitable Donations**

During the year the company made charitable donations amounting to £3,691 (1994 £9,326).

7. **Auditors**

A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the Board.

D.P. Savill

David Savill
Secretary

23 May 1995

DIRECTORS' STATEMENT OF RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs and result of the company.

In preparing those accounts the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless that is inappropriate.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

The directors confirm that the accounts also comply with the other requirements above.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the company, and which enable them to ensure that the accounts comply with company law. The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS

to the members of Post Office Counters Ltd

We have audited the accounts on pages 8 to 23, which have been prepared under the alternative accounting rules and on the basis of the accounting policies set out on pages 8 to 10.

Respective responsibilities of directors and auditors

As described on page 6, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company at 26 March 1995 and of its profit for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
CHARTERED ACCOUNTANTS
REGISTERED AUDITOR
LONDON

23 May 1995

ACCOUNTING POLICIES

The accounts of POCL, a wholly owned subsidiary undertaking of the Post Office, have been prepared in accordance with the following accounting policies:

A. Accounting Convention

The accounts have been prepared under the alternative accounting rules as set out in the Companies Act 1985 and reflect the effect of changing prices where material and appropriate.

B. Basis of Preparation

The accounts have been prepared in accordance with applicable accounting standards and the requirements of the Companies Act 1985.

C. Inter-business Trading

POCL provides services to other subsidiary undertakings and divisions of the Post Office and makes use of their services. Charges are negotiated on a commercial basis.

D. Turnover

Turnover comprises the value of services provided, excluding VAT.

E. Tangible Fixed Assets

(i) Tangible fixed assets are stated at valuation, determined as follows:-

Freehold land and buildings and long leasehold properties are stated at their open market values for existing use, together with the separate identification of specialised adaptation costs where justified by surveyors' evaluations.

Motor vehicles and fixtures and equipment are stated at their depreciated replacement costs by reference to actual costs of the assets concerned or to appropriate cost indices.

(ii) Depreciation of tangible fixed assets is provided on a straight line basis by reference to valuation or replacement cost as appropriate, and to the remaining useful economic lives of assets and their estimated residual values.

The lives assigned to major categories of tangible fixed assets are:-

Buildings:	freehold	-	up to 60 years
	leasehold	-	the period of the lease, 60 years or the valuer's estimate of the remaining useful life
Motor vehicles		-	3 years
Fixtures and equipment:			
Office machines		-	4-12 years
Computers		-	4-7 years
Other		-	5-20 years

F. Leased Assets

All significant leases are operating leases. Annual rentals are charged on a straight line basis over the lease term.

G. Stores and Retail Stocks

Stores and retail stocks are shown at the lower of cost and net realisable value.

H. Deferred Taxation

Deferred taxation is provided at expected tax rates on differences arising from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the accounts, where reasonable probability exists that such taxation will crystallise in the foreseeable future.

I. Pensions

Staff working for POCL are employed by the Post Office and seconded to the company. Membership of the Post Office Staff Superannuation Scheme or the Post Office Pension Scheme is open to most permanent employees of the Post Office. Both schemes are 'defined benefit' schemes, and members are contracted out of the earnings related part of the state pension scheme. Full actuarial details of the schemes are given in the Post Office report and accounts.

J. Research and Development

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

K. Foreign Currencies

Transactions in foreign currencies entered into during the year are translated at the rate ruling at the date of the transaction.

Monetary assets and liabilities held in foreign currencies at the balance sheet date are translated into sterling using year-end exchange rates. All differences are taken to the profit and loss account.

PROFIT AND LOSS ACCOUNT

For the 52 weeks ended 26 March 1995

	Notes	1995 £m	1994 £m
Turnover	2	1,118	1,089
Staff costs	3	(242)	(252)
Depreciation and other amounts written off tangible fixed assets		(24)	(22)
Other operating charges		(822)	(781)
Total operating costs		(1,088)	(1,055)
Operating profit	5	30	34
Restructuring provision	12	-	(9)
Profit on ordinary activities before taxation		30	25
Taxation	7	(7)	(13)
Profit for the financial year		23	12
Dividends	8	(27)	(15)
Loss for the year		(4)	(3)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the 52 weeks ended 26 March 1995

	1995 £m	1994 £m
Profit for the financial year	23	12
Net unrealised deficit on revaluation of tangible fixed assets for the year	(1)	(7)
Total recognised gains for the year	22	5

STATEMENT OF HISTORICAL COST PROFITS AND LOSSES

For the 52 weeks ended 26 March 1995

	1995 £m	1994 £m
Profit on ordinary activities before taxation	30	25
Realisation of tangible fixed asset revaluation gains	4	2
Depreciation charge less historical cost depreciation	1	1
Historical cost profit on ordinary activities before taxation	35	28
Historical cost profit for the year retained after taxation and dividends	1	-

BALANCE SHEET

At 26 March 1995

	Notes	1995 £m	1994 £m
Tangible fixed assets	9	241	246
Current assets			
Debtors	10	107	149
Intra Group balances		467	548
Cash at bank and in hand		697	764
		1,271	1,461
Current liabilities			
Creditors - amounts falling due within one year	11	(1,191)	(1,396)
Intra Group balances		(58)	(39)
		(1,249)	(1,435)
Net current assets		22	26
Total assets less current liabilities		263	272
Provisions for liabilities and charges	12	(22)	(26)
		241	246
Capital and reserves			
Called up share capital	13	-	-
Revaluation reserve	14	67	73
Profit and loss account	14	174	173
		241	246

Approved by the Board on 23 May 1995.

John Roberts

JOHN ROBERTS

Richard Dykes

RICHARD DYKES

CASH FLOW STATEMENT

For the 52 weeks ended 26 March 1995

	Notes	1995 £m	1994 £m
Operating activities			
Cash received from customers		1,157	1,111
Cash paid to suppliers		(371)	(376)
Cash paid to and on behalf of employees		(247)	(237)
Cash paid to subpostmasters, franchisees and other agents		(472)	(456)
Client cash flow		(175)	302
Other net cash payments	15	(8)	(5)
Net cash (outflow)/inflow from operating activities	16	(116)	339
Returns on investment and servicing of finance			
Dividend paid to parent undertaking		(15)	-
Taxation			
Corporation tax paid		(8)	(9)
Investing activities			
Purchase of tangible fixed assets		(21)	(26)
Disposal of tangible fixed assets		7	4
Repayment of loan from parent undertaking		-	32
Repayment of long-term loan		-	(32)
VAT recovered on capital expenditure		1	1
Net cash outflow from investing activities		(13)	(21)
Net cash (outflow)/inflow		(152)	309
Net (decrease)/increase in cash and cash equivalents	17	(152)	309

NOTES TO THE ACCOUNTS

For the 52 weeks ended 26 March 1995

1. Basis of Preparation

The accounts have been prepared in accordance with the accounting policies set out on pages 8 to 10.

2. Turnover

Turnover, all from continuing operations, comprises the value of services provided, excluding VAT.

POCL has one principal area of activity, that of the provision of a nationwide retail counter service. It operates wholly within the United Kingdom.

3. Staff Costs and Employee Information

	1995 £m	1994 £m
Wages and salaries	221	230
Social security costs	17	18
Pension charge (see note 19)	4	4
	242	252

Average staff numbers were:	1995	1994
Business headquarters	1,435	1,349
Regional offices	11,396	12,630
Total (including part-time employees)	12,831	13,979
Subpostmasters	18,910	18,985

Staff numbers are calculated on a full-time equivalent basis, which is a change from previous years, where part-time employees were counted as half. Figures for 1994 have been restated.

4. Directors' Emoluments

Directors' aggregate emoluments, including pension contributions, were £570,474 (1994 £535,472), and compensation for loss of office was £30,000 (1994 £nil). In both years there were no fees and the company paid no pensions to former directors.

Emoluments of directors, excluding pension contributions, were:

	1995 Number	1994 Number
£0 to £5,000	4	3
£5,001 to £10,000	1	1
£30,001 to £35,000	-	1
£60,001 to £65,000	-	2
£80,001 to £85,000	-	1
£85,001 to £90,000	4	2
£90,001 to £95,000	1	-
£110,001 to £115,000	-	1
£115,001 to £120,000	1	-

The emoluments of the Chairman were £nil (1994 £nil). Those of the highest paid director were £115,794 (1993 £110,986). The emoluments of directors who were also Board Members of the Post Office are disclosed in the Post Office report and accounts.

On appointment as a director on 7 March 1995, Mr J Evans had been granted an interest free loan by the company of £19,077. The amount outstanding at the year-end was £18,076.

5. Operating Profit

Operating profit is stated after (crediting)/charging:

	1995 £m	1994 £m
Income from intra Group services:		
Royal Mail	(222)	(221)
Parcelforce	(24)	(22)
Licence and franchise fees	(9)	(7)
Net interest receivable (see note 6)	(20)	(22)
Subpostmasters costs	475	448
Lease charges on land and buildings	19	18
Intra Group charges:		
Royal Mail	53	51
Parcelforce	1	1
Post Office Group services	47	48

Auditors' remuneration amounted to £136,000 (1994 £135,000) for audit services. Remuneration for non-audit services amounted to £271,000 (1994 £257,000). Expenditure on research and development amounted to £190,000 (1994 £277,000).

6. Net Interest Receivable

	1995 £m	1994 £m
Interest receivable	22	27
Interest payable on loans repayable within five years	(2)	(5)
	20	22

Of the interest receivable, £21m (1994 £26m) was from other group undertakings. No interest was payable to other group undertakings.

7. Taxation

	1995 £m	1994 £m
Corporation tax at 33% on the profit for the year	11	9
Deferred taxation (released)/charged	(4)	5
Adjustments relating to prior years:		
Corporation tax	-	(1)
	7	13

Deferred taxation not provided for the year amounts to a charge of £3m (1994 release of £4m) in respect of accelerated capital allowances and other timing differences.

The overall tax charge is calculated by reference to the historical cost profit for the year of £35m (1994 £28m).

8. Dividends

In support of capital employed targets, any funds surplus to working capital requirements which exist in a Post Office Group business at the end of the financial year are remitted to the parent undertaking. A final dividend of £27m (1994 £15m) is proposed.

9. Tangible Fixed Assets

(i)

	Land and buildings					
	Freehold £m	Long lease £m	Short lease £m	Motor vehicles £m	Fixtures & equipment £m	Total £m
Valuation						
At 28 March 1994	114	13	91	8	138	364
Revaluation	(7)	(1)	4	-	3	(1)
Acquisitions	1	-	8	2	16	27
Disposals	(5)	(1)	(3)	(1)	(7)	(17)
At 26 March 1995	103	11	100	9	150	373
Accumulated depreciation						
At 28 March 1994	-	-	42	2	74	118
Revaluation	(4)	-	2	-	2	-
Charge for the year	5	-	4	1	14	24
Disposals	-	-	(2)	(1)	(7)	(10)
At 26 March 1995	1	-	46	2	83	132
Net book amount						
At 28 March 1994	114	13	49	6	64	246
At 26 March 1995	102	11	54	7	67	241

(ii) In accordance with accounting policy note E, a programme of property valuations has been undertaken, providing for an annual revaluation of high value properties and a complete revaluation of the remaining properties over a period of five years. Balance sheet values reflect the results of specific property valuations performed within the year, covering the majority by value of the company's properties. Properties have been revalued by qualified surveyors in accordance with the Statements of Asset Valuation Practice and Guidance Notes prepared by the Royal Institution of Chartered Surveyors.

(iii) Included within the depreciation charge for the year is an amount of £1m (1994 £nil) comprising permanent diminutions in value in respect of land and buildings.

(iv) Of the total amount of land and buildings, £34m (1994 £37m) represents land not subject to depreciation.

(v) The historical net book amounts of the fixed assets are:

	1995 £m	1994 £m
Land and buildings	101	102
Motor vehicles	7	7
Fixtures and equipment	66	64
	174	173

10. Debtors

	1995 £m	1994 £m
Receivable beyond one year		
Pension contributions prepaid	3	2
Other debtors	1	2
	4	4
Receivable within one year		
Trade debtors	80	130
Prepayments and accrued income	14	8
Stores and retail stocks	9	7
	107	149

11. Creditors - Amounts Falling Due Within One Year

	1995 £m	1994 £m
Client service balances	979	1,154
Creditors and accruals	182	220
Corporation tax	12	9
Other taxation and social security	18	13
	1,191	1,396

12. Provisions for Liabilities and Charges

	At 28 March 1994 £m	Charged for the year £m	Released in the year £m	Utilised in the year £m	At 26 March 1995 £m
Restructuring	7	-	-	(5)	2
Deferred taxation	2	-	(4)	-	(2)
Counter network changes	13	11	(3)	(10)	11
Reimbursement to nominee subpostmasters	4	-	-	-	4
Restructuring of product delivery costs	-	4	-	-	4
Business identity	-	3	-	-	3
	26	18	(7)	(15)	22

The full potential amounts of deferred taxation and the amounts provided in the accounts are:

	Full potential taxation		Provided in accounts	
	1995 £m	1994 £m	1995 £m	1994 £m
Accelerated capital allowances	17	20	3	9
Other timing differences	(6)	(8)	(5)	(7)
	11	12	(2)	2

The Board considers that there is no potential tax liability in respect of the surplus on the revaluation of fixed assets. No provision is made for corporation tax on chargeable gains on the disposal of assets, in view of the expected roll-over relief available.

13. Called Up Share Capital

The authorised, allotted, called up and fully paid share capital is 50,000 ordinary £1 shares, beneficially owned by the Post Office.

14. Reserves

	Revaluation reserve £m	Profit and loss account £m	Total £m
At 28 March 1994	73	173	246
Net revaluation of tangible fixed assets	(1)	-	(1)
Loss for the year	-	(4)	(4)
Reserve transfers			
Realised fixed asset revaluation gains	(4)	4	-
Depreciation charge less historical cost depreciation	(1)	1	-
At 26 March 1995	67	174	241

15. Other Net Cash Payments

	1995 £m	1994 £m
VAT paid to Customs and Excise	(28)	(26)
Interest received	21	24
Interest paid	(1)	(3)
	(8)	(5)

16. Reconciliation of Operating Profit to Net Cash (Outflow)/Inflow from Operating Activities

	1995 £m	1994 £m
Operating profit	30	34
Depreciation charge	24	22
Changes in operating assets and liabilities		
Debtors	41	(81)
Creditors	(39)	79
Provisions	-	(16)
Client service balances	(175)	302
Net intra Group balances	3	(1)
Net cash (outflow)/inflow from operating activities	(116)	339

17. Changes in Cash and Cash Equivalents

	1995 £m	1994 £m	Change in year £m	Change in previous year £m
Cash at bank and in hand	697	764	(67)	206
Parent undertaking current account	449	529	(80)	98
Net cash held for fellow subsidiary and parent undertakings	(15)	(10)	(5)	5
	1,131	1,283	(152)	309

18. Commitments

	1995 £m	1994 £m
(i) Capital commitments		
Contracted for but not provided in the accounts	4	4
Authorised but not yet contracted for	-	1

(ii) Operating lease obligations

The company is committed to the following payments on operating leases for land and buildings during the next twelve months:

	1995 £m	1994 £m
For leases which expire		
Within one year	1	1
Between two and five years	2	2
Beyond five years	23	23
	26	26

19. Pensions

The Post Office operates two principal defined benefit pension schemes, namely the Post Office Staff Superannuation Scheme (POSSS) and the Post Office Pension Scheme (POPS). The assets of the schemes are held in separate trustee administered funds.

The total pension charge was £4m (1994 £4m). The pension charge relating to the schemes is assessed in accordance with the advice of an independent qualified actuary. The latest actuarial assessments of the schemes were carried out as at 31 March 1994 for POSSS and 31 March 1992 for POPS, with a further valuation of POPS as at 31 March 1995 currently underway. Full details of the schemes are provided in the Post Office report and accounts.

20. Ultimate Parent Undertaking

The company is a subsidiary undertaking of the Post Office and its results form part of the Post Office Group accounts. Copies of the Post Office report and accounts can be obtained from 148 Old Street, London, EC1V 9HQ.

To: Mr Roberts

cc: David Savill

From: Scott Childes

19 May 1995

POCL REPORT & ACCOUNTS

At the meeting on Tuesday Roger Tabor, who is in Australia, will be represented by Keith Falconer. As you may recall from last year the meeting is basically a technical procedure and should not take more than 10 minutes during which time the Committee will want to be satisfied that the Accounts, Letter of Representation and dividend proposal are in order.

If the Committee is content with the Accounts and Letter of Representation you can follow the instructions detailed in para 6 of the associated paper.

Thanks

Scott

Room 529
148 Old Street
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