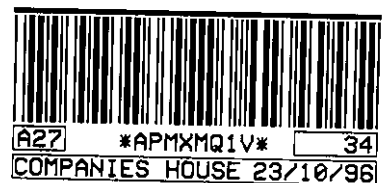


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POST OFFICE COUNTERS LTD

ACCOUNTS

For the 53 weeks ended 31 March 1996



POST OFFICE COUNTERS LTD

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Post Office Counters Ltd
Registered in England
Number 2154540

POST OFFICE COUNTERS LTD

DIRECTORS' REPORT

The directors have pleasure in presenting their report and audited accounts of the company for the 53 weeks ended 31 March 1996.

1. Results and dividend

The profit after taxation for the 53 weeks was £18m, based on a turnover of £1,195m. The directors propose a dividend of £35m in respect of the year. The movements in reserves are given on page 24 of the accounts (Note 15).

2. Activities

Post Office Counters Ltd (POCL) is in business to run the United Kingdom's largest retail chain - the nationwide network of post offices.

As part of The Post Office Group, it offers this unique combination:

- a wide range of retail services and products;
- excellent personal service to customers; and
- unmatched presence in local communities.

Its aim is to raise both the quality of its service and the value it adds to the community to new standards so as to establish itself as a recognised benchmark of excellence.

3. Review of the business and future developments

The introduction of new products led to an overall business growth of 4.1% in the volume of transactions while unit costs (excluding the costs of developing automation) continued to improve, with a reduction of 3.4% in real terms on 1994-95. 'Instants' scratchcards were added to the National Lottery sales, maintaining POCL's position as the largest retailer of the National Lottery. Littlewoods pools and scratchcards products have also been introduced. A successful entry, in partnership with General Accident and Sun Alliance, was made into insurance retailing with general insurance products now added to the travel insurance offer. The bureau de change service is now fully established and continues to grow. Contracts have been won to continue issuing vehicle licences and to start handling full UK Passport applications. The directors continue to seek profitable opportunities to broaden the range of services offered to customers, in line with the wider powers granted in 1994, and guided by a clear statement of market domains within the business mission.

Profit grew substantially above 1994-95 levels while the benefits of growth were ploughed back into systems and operational developments for future benefit.

POST OFFICE COUNTERS LTD

DIRECTORS' REPORT

(Continued)

3. Review of the business and future developments (continued)

The joint project with the Benefits Agency to automate counter transactions has continued as planned. Detailed proposals were developed with three potential suppliers, culminating in an invitation to tender in March 1995. Following the evaluation of tenders and award of contract, the first automated offices will be brought on line in the coming year. A major systems development project to enhance the capability of processing transaction information for clients is being prototyped, with a view to exploiting fully the automated data capture. The quality of the information provided to clients improved by 20% during the year. Modernisation of the company's financial accounting system was completed using SAP/R3 software.

The European Foundation for Quality Management model of business excellence continues to underpin the business planning process, and self assessments were carried out in all business units. A 'Customer First' total quality training programme has been completed, introducing regular customer feedback to identify potential service improvements at post office level. The directors are committed to continuing training for employees and subpostmasters. The rate of transfers of offices to the private sector reduced with a corresponding slowdown in the reduction of numbers of counter staff.

The company is on course to deliver its strategy to transform its systems, in support of expanding markets with reduced dependency on its traditional products. By this route, and in partnership with subpostmasters and other agents, it will secure the continued viability of the national network of post offices, serving customers throughout the country in their local communities. The decrease in the network provision arises from a reduction in the number of post offices moving to private sector status.

4. Directors

The following have served as directors of the company during the 53 weeks ended 31 March 1996:

| | |
|--------------------|---|
| John Roberts CBE | (Chairman) |
| Richard Dykes | (Managing Director. Resigned 13 May 1996) |
| Richard Close | |
| Jonathan Evans | |
| Robert Peaple | |
| Roger Tabor | |
| David Taylor | |
| Richard Wheelhouse | |

POST OFFICE COUNTERS LTD

DIRECTORS' REPORT (Continued)

4. Directors (continued)

Richard Dykes resigned on appointment to another Group business. Stuart Sweetman was appointed Managing Director on 13 May 1996.

No director had a beneficial interest in the share capital of the company at 31 March 1996.

David Savill resigned as company secretary on 30 October 1995, and the directors thank him for his service.

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:

- (i) The average number of staff employed during the year was 12,627 and their aggregate cost of employment for the year was £252m.
- (ii) 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.
- (iii) 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; and
 - regular staff training sessions.

6. Charitable donations

During the year the company made charitable donations amounting to £4,888 (1995 £3,691).

POST OFFICE COUNTERS LTD

DIRECTORS' REPORT

(Continued)

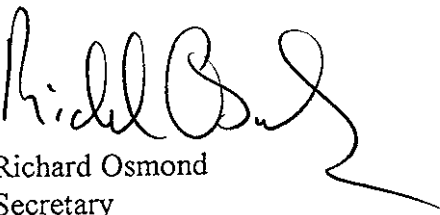
7. Supplier payment policy

The company policy is to follow the Confederation of British Industry (CBI) "prompt payment code" for all suppliers. Information about the code can be obtained from the CBI. The company practice is to agree terms of payment with suppliers in advance, to ensure suppliers are aware of the terms of payment, and to abide by them.

8. Auditors

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

By order of the Board.



Richard Osmond
Secretary

30 May 1996

POST OFFICE COUNTERS LTD

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 then 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 ensuring that proper accounting records are kept 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 ensuring that the assets of the company are safeguarded and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

POST OFFICE COUNTERS LTD

REPORT OF THE AUDITORS

to the members of Post Office Counters Ltd.

We have audited the accounts on pages 9 to 27, which have been prepared under the alternative accounting rules and on the basis of the accounting policies set out on pages 9 to 11.

Respective responsibilities of directors and auditors

As described on page 7, 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.

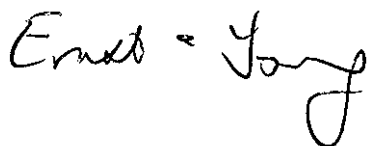
Basis of opinion

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 31 March 1996 and of its profit for the 53 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
CHARTERED ACCOUNTANTS
REGISTERED AUDITOR
LONDON

30 May 1996

POST OFFICE COUNTERS LTD

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 Companies Act 1985.

C. Intra-Group 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.

POST OFFICE COUNTERS LTD

ACCOUNTING POLICIES

(Continued)

- (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:

Property:

| | | |
|-------------------------------|---|--|
| Freehold buildings | - | up to 60 years |
| Leasehold land & buildings | - | 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.

POST OFFICE COUNTERS LTD

ACCOUNTING POLICIES

(Continued)

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 retranslated at the rate ruling at the date of the transaction.

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

POST OFFICE COUNTERS LTD

PROFIT AND LOSS ACCOUNT

For the 53 weeks ended 31 March 1996

| | Notes | 1996 £m | 1995 £m |
|---|-------|----------------|----------------|
| Turnover | 2 | 1,195 | 1,118 |
| Staff costs | 3 | (252) | (242) |
| Depreciation and other amounts written off tangible fixed assets | | (38) | (24) |
| Other operating charges | | (870) | (822) |
| Total operating costs | | (1,160) | (1,088) |
| Operating profit | 5 | 35 | 30 |
| Taxation | 7 | (17) | (7) |
| Profit for the financial year | | 18 | 23 |
| Dividends | 8 | (35) | (27) |
| Transfer from reserves | | (17) | (4) |

POST OFFICE COUNTERS LTD

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the 53 weeks ended 31 March 1996

| | 1996 £m | 1995 £m |
|--|------------|------------|
| Profit for the financial year | 18 | 23 |
| Net unrealised surplus/(deficit) on revaluation of tangible fixed assets for the year | 9 | (1) |
| | <hr/> | <hr/> |
| Total recognised gains for the year | 27 | 22 |
| | <hr/> | <hr/> |

RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

For the 53 weeks ended 31 March 1996

| | 1996 £m | 1995 £m |
|-------------------------------------|------------|------------|
| Total recognised gains for the year | 27 | 22 |
| Dividend | (35) | (27) |
| | <hr/> | <hr/> |
| Net movement in shareholder's funds | (8) | (5) |
| Opening shareholder's funds | 241 | 246 |
| | <hr/> | <hr/> |
| Closing shareholder's funds | 233 | 241 |
| | <hr/> | <hr/> |

POST OFFICE COUNTERS LTD

STATEMENT OF HISTORICAL COST PROFITS AND LOSSES

For the 53 weeks ended 31 March 1996

| | 1996 £m | 1995 £m |
|--|------------|------------|
| Profit on ordinary activities before taxation | 35 | 30 |
| Realisation of tangible fixed asset revaluation gains | 2 | 4 |
| Depreciation charge less historical cost depreciation | 2 | 1 |
| Historical cost profit on ordinary activities before taxation | <hr/> 39 | <hr/> 35 |
| Historical cost (loss)/profit retained for the year after taxation and dividends | <hr/> (13) | <hr/> 1 |

POST OFFICE COUNTERS LTD


BALANCE SHEET

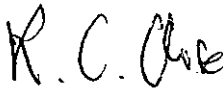
At 31 March 1996

| | Notes | 1996 £m | 1995 £m |
|---|-------|---------------|---------------|
| Tangible fixed assets | 9 | 233 | 241 |
| Current assets | | | |
| Debtors - receivable beyond one year | 10 | 5 | 4 |
| Debtors - receivable within one year | 10 | 79 | 103 |
| | | <hr/> 84 | <hr/> 107 |
| Intra-Group balances | | 418 | 467 |
| Cash at bank and in hand | | 1018 | 697 |
| | | <hr/> 1,520 | <hr/> 1,271 |
| Current liabilities | | | |
| Creditors - amounts falling due within one year | 11 | (1,430) | (1,191) |
| Intra-Group balances | | (73) | (58) |
| | | <hr/> (1,503) | <hr/> (1,249) |
| Net current assets | | <hr/> 17 | <hr/> 22 |
| Total assets less current liabilities | | 250 | 263 |
| Provisions for liabilities and charges | 12 | <hr/> (17) | <hr/> (22) |
| | | 233 | 241 |
| Capital and reserves | | | |
| Called up share capital | 14 | - | - |
| Revaluation reserve | 15 | 72 | 67 |
| Profit and loss account | 15 | 161 | 174 |
| | | <hr/> 233 | <hr/> 241 |

Approved by the Board on 30 May 1996.


JOHN ROBERTS


STUART SWEETMAN


R C CLOSE

POST OFFICE COUNTERS LTD

CASH FLOW STATEMENT

For the 53 weeks ended 31 March 1996

| | Notes | 1996 £m | 1995 £m |
|---|-------|------------|------------|
| Operating activities | | | |
| Cash received from customers | | 1,225 | 1,157 |
| Cash paid to suppliers | | (388) | (371) |
| Cash paid to and on behalf of employees | | (258) | (247) |
| Cash paid to subpostmasters, franchisees and other agents | | (560) | (472) |
| Net client cash flow | | 313 | (175) |
| Other net cash payments | 16 | (4) | (8) |
| Net cash inflow/(outflow) from operating activities | 17 | 328 | (116) |
| Returns on investment and servicing of finance | | | |
| Dividend paid to parent undertaking | | (27) | (15) |
| Taxation | | | |
| Corporation tax paid | | (11) | (8) |
| Investing activities | | | |
| Purchase of tangible fixed assets | | (36) | (21) |
| Disposal of tangible fixed assets | | 7 | 7 |
| VAT recovered on capital expenditure | | 1 | 1 |
| Net cash outflow from investing activities | | (28) | (13) |
| Net cash inflow/(outflow) | | 262 | (152) |
| Net increase/(decrease) in cash and cash equivalents | 18 | 262 | (152) |

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS

For the 53 weeks ended 31 March 1996

1. Basis of preparation

The accounts have been prepared in accordance with the accounting policies set out on pages 9 to 11.

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

| | 1996 £m | 1995 £m |
|------------------------------|------------|------------|
| Wages and salaries | 230 | 221 |
| Social security costs | 18 | 17 |
| Pension charge (see note 20) | 4 | 4 |
| | <hr/> | <hr/> |
| | 252 | 242 |
| | <hr/> | <hr/> |

Average staff numbers, calculated on a full time equivalent basis, were:

| | 1996 | 1995 |
|---------------------------------------|--------|--------|
| Business headquarters | 1,540 | 1,435 |
| Regional offices | 11,087 | 11,396 |
| | <hr/> | <hr/> |
| Total (including part-time employees) | 12,627 | 12,831 |
| | <hr/> | <hr/> |
| Subpostmasters at year-end | 17,360 | 17,565 |
| | <hr/> | <hr/> |

The subpostmasters number for 1995 has been restated to reflect the fact that some subpostmasters operate more than one outlet.

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS

(Continued)

4. Directors' emoluments

Directors' aggregate emoluments, including pension contributions, were £600,256 (1995 £570,474), and compensation for loss of office was £nil (1995 £30,000). In both years there were no fees and the company paid no pensions to former directors.

The emoluments of the Chairman were £nil (1995 £nil). Those of the highest paid director were £125,338 (1995 £115,794), excluding pension contributions. The emoluments of directors, who were also Board Members of The Post Office, are disclosed in The Post Office report and accounts.

Jonathan Evans has been granted an interest free loan by the company. The amount outstanding at the year-end was £16,367 (1995 £18,076).

Emoluments of directors, excluding pension contributions, were:

| | 1996 Number | 1995 Number |
|--------------------|----------------|----------------|
| £0 to £5,000 | 2 | 4 |
| £5,001 to £10,000 | - | 1 |
| £10,001 to £15,000 | 1 | 4 |
| £15,001 to £20,000 | - | 1 |
| £20,001 to £25,000 | 4 | - |
| £25,001 to £30,000 | - | 1 |
| £30,001 to £35,000 | 1 | - |

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

5. Operating profit

Operating profit is stated after (crediting)/charging:

| | 1996 £m | 1995 £m |
|--|------------|------------|
| Income from intra-Group services: | | |
| Royal Mail | (220) | (222) |
| Parcelforce | (23) | (24) |
| Licence and franchise fees | (6) | (9) |
| Net interest receivable (see note 6) | (23) | (20) |
| Subpostmasters costs | 530 | 475 |
| Operating lease charges on land and buildings | 19 | 19 |
| Permanent diminutions in value of fixed assets | 3 | - |
| Accelerated depreciation in respect of counter equipment | 10 | - |
| Intra-Group charges: | | |
| Royal Mail | 52 | 53 |
| Parcelforce | 1 | 1 |
| Centrally provided services | 44 | 47 |

Auditors' remuneration amounted to £131,000 (1995 £136,000) for audit services. Remuneration for non-audit services amounted to £217,000 (1995 £271,000). Expenditure on research and development amounted to £220,000 (1995 £190,000).

6. Net interest receivable

| | 1996 £m | 1995 £m |
|---------------------|------------|------------|
| Interest receivable | 25 | 22 |
| Interest payable | (2) | (2) |
| | <hr/> | <hr/> |
| | 23 | 20 |
| | <hr/> | <hr/> |

Of the interest receivable, £24m (1995 £21m) was from other group undertakings. No interest was payable to other group undertakings.

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

7. Taxation

| | 1996 £m | 1995 £m |
|---|------------|------------|
| Corporation tax at 33% on the profit for the year | 15 | 11 |
| Deferred taxation charged/(released) | 2 | (4) |
| | <hr/> | <hr/> |
| | 17 | 7 |
| | <hr/> | <hr/> |

Deferred taxation not provided for the year amounts to a charge of £1m (1995 a charge of £3m) in respect of total timing differences.

The overall tax charge is calculated by reference to the historical cost profit for the year of £39m (1995 £35m).

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 £35m (1995 £27m) is proposed.

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

9. Tangible fixed assets

| | Land and buildings | | | Motor vehicles £m | Fixtures & equipment £m | Total £m |
|-------------------------------------|--------------------|---------------------|----------------------|-------------------------|-------------------------------|-------------|
| | Freehold £m | Long lease £m | Short lease £m | | | |
| Valuation | | | | | | |
| At 27 March 1995 | 103 | 11 | 100 | 9 | 150 | 373 |
| Reclassification | 7 | (1) | (6) | - | - | - |
| Revaluation | (4) | - | 9 | - | 7 | 12 |
| Acquisitions | 10 | - | - | 1 | 17 | 28 |
| Disposals | (3) | - | (4) | (2) | (2) | (11) |
| Intra Group disposal | (1) | - | - | - | - | (1) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 March 1996 | 112 | 10 | 99 | 8 | 172 | 401 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Accumulated depreciation | | | | | | |
| At 27 March 1995 | 1 | - | 46 | 2 | 83 | 132 |
| Reclassification | - | - | - | - | - | - |
| Revaluation | (7) | - | 4 | - | 6 | 3 |
| Charge for the year | 7 | - | 4 | 1 | 26 | 38 |
| Disposals | - | - | (2) | (1) | (2) | (5) |
| Intra Group disposal | - | - | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 March 1996 | 1 | - | 52 | 2 | 113 | 168 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Net book amount | | | | | | |
| At 31 March 1996 | 111 | 10 | 47 | 6 | 59 | 233 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 27 March 1995 | 102 | 11 | 54 | 7 | 67 | 241 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |

- (i) 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 a combination of qualified internal and external surveyors, primarily Weatherall Green and Smith, in accordance with the Appraisal & Valuation Manual prepared by the Royal Institution of Chartered Surveyors.

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

9. Tangible Fixed Assets (Continued)

- (ii) Included within the depreciation charge for land and buildings is in respect of permanent diminutions in the value of land and buildings £3m (1995 £1m).
- (iii) Of the total amount of land and buildings, £34m (1995 £34m) represents land not subject to depreciation.
- (iv) The historical net book amounts of the fixed assets are:

| | Cost 1996 £m | Acc Dep 1996 £m | Net 1996 £m | Cost 1995 £m | Acc Dep 1995 £m | Net 1995 £m |
|------------------------|--------------------|-----------------------|-------------------|--------------------|-----------------------|-------------------|
| Land and buildings | 160 | 61 | 99 | 154 | 53 | 101 |
| Motor vehicles | 8 | 2 | 6 | 9 | 2 | 7 |
| Fixtures and equipment | 144 | 88 | 56 | 130 | 64 | 66 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| | 312 | 151 | 161 | 293 | 119 | 174 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |

10. Debtors

| | 1996 £m | 1995 £m |
|--------------------------------|------------|------------|
| Receivable beyond one year: | | |
| Pension contributions prepaid | 4 | 3 |
| Other debtors | 1 | 1 |
| | <hr/> | <hr/> |
| | 5 | 4 |
| | <hr/> | <hr/> |
| Receivable within one year: | | |
| Trade debtors | 42 | 80 |
| Prepayments and accrued income | 18 | 14 |
| Stores and retail stocks | 19 | 9 |
| | <hr/> | <hr/> |
| | 79 | 103 |
| | <hr/> | <hr/> |

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

11. Creditors - amounts falling due within one year

| | 1996 £m | 1995 £m |
|------------------------------------|------------|------------|
| Client service balances | 1,292 | 979 |
| Creditors and accruals | 112 | 182 |
| Corporation tax | 16 | 12 |
| Other taxation and social security | 10 | 18 |
| | <hr/> | <hr/> |
| | 1,430 | 1,191 |
| | <hr/> | <hr/> |

12. Provisions for liabilities and charges

| | At 27 March 1995 £m | Charged for the year £m | Released in the year £m | Utilised in the year £m | At 31 March 1996 £m |
|--|------------------------------|----------------------------------|----------------------------------|----------------------------------|------------------------------|
| Restructuring | 2 | - | - | (2) | - |
| Counter network changes | 11 | 9 | (6) | (8) | 6 |
| Reimbursement to nominee subpostmasters | 4 | - | - | - | 4 |
| Restructuring of product delivery costs | 4 | - | - | - | 4 |
| Business identity | 3 | - | (3) | - | - |
| Vacant leasehold properties | - | 3 | - | - | 3 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| | 24 | 12 | (9) | (10) | 17 |
| Deferred taxation (note 14) | (2) | 2 | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| | 22 | 14 | (9) | (10) | 17 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

13. Deferred taxation

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

| | Full potential taxation | | Provided in accounts | |
|--------------------------|-------------------------|------------|----------------------|------------|
| | 1996 £m | 1995 £m | 1996 £m | 1995 £m |
| Total timing differences | 14 | 11 | - | 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.

14. 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.

15. Reserves

| | Revaluation reserve £m | Profit and loss account £m | Total £m |
|--|------------------------------|----------------------------------|-------------|
| At 27 March 1995 | 67 | 174 | 241 |
| Net revaluation of tangible fixed assets | 9 | - | 9 |
| Post appropriation transfer | - | (17) | (17) |
| Reserve transfers: | | | |
| Realised fixed asset revaluation gains | (2) | 2 | - |
| Depreciation charge less historical cost depreciation | (2) | 2 | - |
| At 31 March 1996 | 72 | 161 | 233 |

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

16. Other net cash payments

| | 1996 £m | 1995 £m |
|--------------------------------|------------|------------|
| VAT paid to Customs and Excise | (28) | (28) |
| Interest received | 25 | 21 |
| Interest paid | (1) | (1) |
| | <hr/> | <hr/> |
| | (4) | (8) |
| | <hr/> | <hr/> |

17. Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

| | 1996 £m | 1995 £m |
|---|------------|------------|
| Operating profit | 35 | 30 |
| Depreciation charge | 38 | 24 |
| Changes in operating assets and liabilities: | | |
| Debtors | 19 | 41 |
| Creditors | (72) | (39) |
| Provisions | (7) | - |
| Client service balances | 313 | (175) |
| Net intra-Group balances | 2 | 3 |
| | <hr/> | <hr/> |
| Net cash inflow/(outflow) from operating activities | 328 | (116) |
| | <hr/> | <hr/> |

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

18. Changes in cash and cash equivalents

| | 1996 £m | 1995 £m | Change in year £m | Change in previous year £m |
|--|------------|------------|-------------------------|----------------------------------|
| Cash at bank and in hand | 1,018 | 697 | 321 | (67) |
| Parent undertaking current account | 392 | 449 | (57) | (80) |
| Net cash held for other subsidiary and parent undertakings | (17) | (15) | (2) | (5) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 1,393 | 1,131 | 262 | (152) |
| | <hr/> | <hr/> | <hr/> | <hr/> |

19. Commitments

(i) Capital commitments

Capital commitments not provided in the accounts amounts to £3m (1995 £4m)

(ii) Operating lease obligations

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

| | 1996 £m | 1995 £m |
|----------------------------|------------|------------|
| For leases which expire: | | |
| Within one year | 1 | 1 |
| Between two and five years | 2 | 2 |
| Beyond five years | 22 | 23 |
| | <hr/> | <hr/> |
| | 25 | 26 |
| | <hr/> | <hr/> |

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS **(Continued)**

20. 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 (1995 £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 1995 for POPS. Full details of the schemes are provided in The Post Office report and accounts.

21. 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.