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POST OFFICE COUNTERS LTD

ACCOUNTS

For the 52 weeks ended 30 March 1997



## POST OFFICE COUNTERS LTD

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# POST OFFICE COUNTERS LTD

## DIRECTORS' REPORT

The directors have pleasure in presenting their report and audited accounts of the company for the 52 weeks ended 30 March 1997.

### 1. Results and dividend

The profit after taxation for the 52 weeks was £18m, based on a turnover of £1,161m. The directors propose a dividend of £32m in respect of the year. The movements in reserves are given on page 25 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

1996/97 saw a continued improvement in unit costs (excluding the costs of developing automation) with a reduction of 3.1 % in real terms on 1995/96.

A Private finance initiative contract to automate the entire network of post offices and introduce card payment to benefit recipients was awarded to ICL Pathway in May 1996. The first project milestone to test card payment in a live environment was successfully achieved by the installation of a stand alone system in 10 post offices. The initiative has been well received by both agents and customers and the programme to deliver the full system is now underway. By the end of March 1998 it is expected that a significant proportion of our network will be operating the system, known as Horizon, which will include automated benefit and bill payment facilities, and support the accounting for all transactions electronically. Work is also underway to bring the transactions of other post office clients onto the system, to speed up collection and processing of information and simplify transaction handling.

## POST OFFICE COUNTERS LTD

### DIRECTORS' REPORT (Continued)

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

The past year has seen continued progress towards developing long term partnerships with our major clients. There has also been a continued drive on new business developments, with insurance products, personal banking and airline ticketing among those trialled during the year. The climate for new business development is now expected to be rather more difficult than in the past few years, and the focus for the coming year will be on increasing sales of existing products. The more established, mainly Government markets, are gradually declining and growth is coming from the newer markets of utilities, lotteries and Bureau de Change.

All offices continue to undertake surveys of customers to ascertain where they need to make improvements. Many have already repeated this research and the overall level of customer satisfaction continues to increase.

In the most significant change for 90 years in the way agents are paid, a new remuneration system to reward and incentivise subpostmasters has been introduced.

The European Foundation for Quality Management model of Business Excellence continues to underpin our approach to managing the business and our business planning process. We have again conducted self assessments at all business units using the model, as well as entering a national submission for the UK Quality Award. The commitment of the business to its people is also demonstrated by the current work aimed at obtaining Investors in People accreditation by all business units.

1997/98 is planned as a year when the business will focus on supporting the automation of post offices as its top business priority, while maximising the sales of our current products, and ensuring that our existing policies and standards are more consistently deployed.

## POST OFFICE COUNTERS LTD

### DIRECTORS' REPORT

(Continued)

#### 4. Directors

The following have served as directors of the company during the 52 weeks ended 30 March 1997:

John Roberts CBE	(Chairman)
Stuart Sweetman	(Managing Director) (Appointed 14 May 1996)
Richard Dykes	(Managing Director) (Resigned 13 May 1996)
Richard Close	
Jonathan Evans	
Robert Peaple	(Resigned 6 January 1997)
Roger Tabor	
David Taylor	(Resigned 6 January 1997)
Richard Wheelhouse	
Paul Rich	(Appointed 11 February 1997)
David Morphey	(Appointed 11 February 1997)

No director had a beneficial interest in the share capital of the company at 30 March 1997.

#### 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, calculated on a full time equivalent basis, during the year was 12,481 and their aggregate cost of employment for the year was £256m.
- (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.

## POST OFFICE COUNTERS LTD

### DIRECTORS' REPORT (Continued)

#### 6. Charitable donations

During the year the company made charitable donations amounting to £45,618 (1996 £4,888).

#### 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.

The number of days' purchases in creditors at the balance sheet date is: 16

#### 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.

A handwritten signature in black ink, appearing to read 'R Osmond', with a long horizontal flourish extending to the right.

Richard Osmond  
Secretary

2 June 1997

## 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 29, 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.

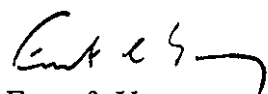
#### Basis of opinion

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 30 March 1997 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

2 June 1997



## 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. 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.

In order to ensure that no cross subsidy occurs between businesses protected by the postal monopoly and those in direct competition in the market place, continuing controls are in place, established by the Post Office Executive Committee, to ensure that appropriate pricing principles are adhered to in inter-business contracts.

**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

Stocks comprise unissued stores and retail stocks. All stocks are carried at cost less any allowance for obsolete items.

#### 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 52 weeks ended 30 March 1997 (1996: 53 weeks)

	Notes	1997 £m	1996 £m
Turnover	2	1,161	1,195
Staff costs	3	(256)	(252)
Depreciation and other amounts written off tangible fixed assets		(27)	(38)
Other operating charges		(844)	(870)
<b>Total operating costs</b>		<b>(1,127)</b>	<b>(1,160)</b>
<b>Operating profit</b>	5	<b>34</b>	<b>35</b>
Taxation	7	(16)	(17)
<b>Profit for the financial year</b>		<b>18</b>	<b>18</b>
Dividends	8	(32)	(35)
<b>Transfer from reserves</b>		<b>(14)</b>	<b>(17)</b>

# POST OFFICE COUNTERS LTD

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the 52 weeks ended 30 March 1997 (1996: 53 weeks)

	1997 £m	1996 £m
Profit for the financial year	18	18
Net unrealised surplus on revaluation of tangible fixed assets for the year	14	9
<b>Total recognised gains for the year</b>	<b>32</b>	<b>27</b>

## RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

For the 52 weeks ended 30 March 1997 (1996: 53 weeks)

	1997 £m	1996 £m
Total recognised gains for the year	32	27
Dividend	(32)	(35)
<b>Net movement in shareholders' funds</b>	<b>0</b>	<b>(8)</b>
Opening shareholders' funds	233	241
<b>Closing shareholders' funds</b>	<b>233</b>	<b>233</b>

**POST OFFICE COUNTERS LTD**

**STATEMENT OF HISTORICAL COST PROFITS AND LOSSES**

**For the 52 weeks ended 30 March 1997 (1996: 53 weeks)**

	1997 £m	1996 £m
Profit on ordinary activities before taxation	34	35
Realisation of tangible fixed asset revaluation gains	3	2
Depreciation charge less historical cost depreciation	3	2
<b>Historical cost profit on ordinary activities before taxation</b>	<u>40</u>	<u>39</u>
<b>Historical cost loss for the year after taxation and dividends</b>	<u>(8)</u>	<u>(13)</u>

# POST OFFICE COUNTERS LTD

## BALANCE SHEET

At 30 March 1997

	Notes	1997 £m	1996 £m
<b>Tangible fixed assets</b>	9	233	233
<b>Current assets</b>			
Stores and retail stocks		21	19
Debtors - receivable beyond one year	10	7	5
Debtors - receivable within one year	10	69	60
Inter-business balances		267	418
Cash at bank and in hand		881	1,018
		1,245	1,520
<b>Current liabilities</b>			
Creditors - amounts falling due within one year	11	(1,170)	(1,430)
Inter-business balances		(61)	(73)
		(1,231)	(1,503)
<b>Net current assets</b>		14	17
<b>Total assets less current liabilities</b>		247	250
<b>Provisions for liabilities and charges</b>	12	(14)	(17)
		233	233
<b>Capital and reserves</b>			
Called up share capital	14	-	-
Revaluation reserve	15	80	72
Profit and loss account	15	153	161
		233	233

Approved by the Board on 2 June 1997.

*John Roberts*

JOHN ROBERTS

*S. I. Sweetman*

STUART SWEETMAN

*R. C. Close*

R C CLOSE

# POST OFFICE COUNTERS LTD

## CASH FLOW STATEMENT

For the 52 weeks ended 30 March 1997 (1996: 53 weeks)

	Notes	1997 £m	1996 £m
<b>OPERATING ACTIVITIES</b>			
Cash received from clients		1,191	1,225
Cash paid to suppliers		(343)	(388)
Cash paid to and on behalf of employees		(258)	(258)
Cash paid to subpostmasters, franchisees and other agents		(532)	(560)
Net client cash flow		(264)	313
Other net cash payments	16	(15)	(4)
<b>Net cash (outflow)/inflow from operating activities</b>	17	(221)	328
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
	18(i)	(35)	(27)
<b>TAXATION</b>	18(ii)	(14)	(11)
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>	18(iii)	(10)	(28)
Cash (outflow)/inflow before use of Liquid resources and financing		(280)	262
<b>MANAGEMENT OF LIQUID RESOURCES</b>			
<b>FINANCING</b>	18(iv)	143	59
<b>(DECREASE)/INCREASE IN CASH IN THE PERIOD</b>		(137)	321
<hr/> <b>Reconciliation of net cash flow to movement in net funds</b>			
	19		
<b>(DECREASE)/INCREASE IN CASH IN THE PERIOD</b>		(137)	321
Cash inflow from decrease in funds		(143)	(59)
<b>Change in net funds resulting from cash flows</b>		(280)	(280)
<b>MOVEMENT IN NET FUNDS IN THE PERIOD</b>		(280)	262
<b>NET FUNDS AT 1 APRIL 1996</b>		1,393	1,131
<b>NET FUNDS AT 30 MARCH 1997</b>		1,113	1,393



# POST OFFICE COUNTERS LTD

## NOTES TO THE ACCOUNTS

For the 52 weeks ended 30 March 1997 (1996: 53 weeks)

### 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

	1997 £m	1996 £m
Wages and salaries	234	230
Social security costs	18	18
Pension charge (see note 21)	4	4
	<hr/> 256	<hr/> 252

Average staff numbers, calculated on a full time equivalent basis, including part-time employees were:

	1997	1996
Business headquarters	1,706	1,540
Regional offices	10,775	11,087
	<hr/>	<hr/>
Total	<hr/> 12,481	<hr/> 12,627
	<hr/>	<hr/>
Subpostmasters at year-end	<hr/> 17,364	<hr/> 17,360

# POST OFFICE COUNTERS LTD

## NOTES TO THE ACCOUNTS (Continued)

### 4. Directors' emoluments

Directors' aggregate emoluments, including pension contributions, were £604,375 (1996 £600,256), and compensation for loss of office was £nil (1996 £nil). In both years there were no fees and the company paid no pensions to former directors.

The emoluments of the Chairman were £nil (1996 £nil). Those of the highest paid director were £108,546 (1996 £125,338), 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.

The following directors have been granted interest free loans by the company:

	Amount outstanding at 1 April 1996	Amount outstanding at 30 March 1997	Maximum amount outstanding during the year
Jonathan Evans	£16,367	£14,591	£16,367
David Morphey	-	£30,900	£30,900
Stuart Sweetman	£14,228	£10,257	£14,228

Emoluments of directors, excluding pension contributions, were:

	1997 Number	1996 Number
£0 to £5,000	2	2
£10,001 to £15,000	2	-
£15,001 to £20,000	1	-
£75,001 to £80,000	2	-
£85,001 to £90,000	-	1
£95,001 to £100,000	1	4
£100,001 to £105,000	2	-
£105,001 to £110,000	1	-
£125,001 to £130,000	-	1

# POST OFFICE COUNTERS LTD

## NOTES TO THE ACCOUNTS (Continued)

### 5. Operating profit

Operating profit is stated after (crediting)/charging:

	1997 £m	1996 £m
Income from inter-business services:		
Royal Mail	(229)	(220)
Parcelforce	(20)	(23)
Licence and franchise fees	(8)	(6)
Net interest receivable (see note 6)	(14)	(23)
Subpostmasters costs	533	530
Operating lease charges on land and buildings	21	19
Permanent diminutions in value of fixed assets	1	3
Additional depreciation in respect of counter equipment	-	10
Inter-business charges:		
Royal Mail	49	52
Parcelforce	6	1
Group headquarters and centrally provided services	4	44

Auditors' remuneration amounted to £108,000 (1996 £131,000) for audit services. Remuneration for non-audit services amounted to £230,000 (1996 £217,000). Expenditure on research and development amounted to £190,000 (1996 £220,000).

A reappraisal of the commercial arrangements between ourselves and one of our major clients, has resulted in a reduction of £43m to both turnover and other operating charges during the year.

From 1 April 1996 some centrally provided services were transferred to Royal Mail

### 6. Net interest receivable

	1997 £m	1996 £m
Interest receivable	16	25
Interest payable	(2)	(2)
	<hr/>	<hr/>
	14	23

All of the interest receivable, was from other group undertakings (1996 £24m). No interest was payable to other group undertakings.

## POST OFFICE COUNTERS LTD

### NOTES TO THE ACCOUNTS (Continued)

#### 7. Taxation

	1997 £m	1996 £m
Corporation tax on the profit for the year	14	15
Deferred taxation charged	2	2
	<hr/>	<hr/>
	16	17

Deferred taxation not provided for the year amounts to a release of £5m (1996 a charge of £1m) in respect of timing differences.

The overall tax charge is calculated by reference to the historical cost profit for the year of £40m (1996 £39m).

#### 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 £32m (1996 £35m) is proposed.

# POST OFFICE COUNTERS LTD

## NOTES TO THE ACCOUNTS (Continued)

### 9. Tangible fixed assets

#### Land and Buildings

	Freehold £m	Long lease £m	Short lease £m	Motor vehicles £m	Fixtures & equipment £m	Total £m
<b>Valuation</b>						
At 1 April 1996	112	10	99	8	172	401
Reclassification	-	-	-	-	-	-
Revaluation	4	-	5	-	4	13
Acquisitions						
- external	2	1	3	3	6	15
- Group	5	-	-	-	-	5
Disposals						
- external	(5)	-	(1)	(2)	(8)	(16)
- Group	(1)	-	-	-	-	(1)
<b>At 30 March 1997</b>	<b>117</b>	<b>11</b>	<b>106</b>	<b>9</b>	<b>174</b>	<b>417</b>
<b>Accumulated depreciation</b>						
At 1 April 1996	1	-	52	2	113	168
Reclassification	-	-	-	-	-	-
Revaluation	(5)	-	1	-	3	(1)
Charge for the year	5	-	4	1	17	27
Disposals	-	-	(1)	(1)	(8)	(10)
<b>At 30 March 1997</b>	<b>1</b>	<b>-</b>	<b>56</b>	<b>2</b>	<b>125</b>	<b>184</b>
<b>Net book amount</b>						
<b>At 30 March 1997</b>	<b>116</b>	<b>11</b>	<b>50</b>	<b>7</b>	<b>49</b>	<b>233</b>
<b>At 1 April 1996</b>	<b>111</b>	<b>10</b>	<b>47</b>	<b>6</b>	<b>59</b>	<b>233</b>

# POST OFFICE COUNTERS LTD

## NOTES TO THE ACCOUNTS

(Continued)

### 9. Tangible Fixed Assets (Continued)

- (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 Weatherall Green and Smith, Osborne King and Megran Ltd and Ryden Property Consultants in accordance with the Appraisal & Valuation Manual prepared by the Royal Institution of Chartered Surveyors.
- (ii) Included within the depreciation charge for land and buildings is £1m (1996 £3m) in respect of permanent diminutions in the value of land and buildings.
- (iii) £33m (1996 £34m) of the total amount of land and buildings, represents land not subject to depreciation.
- (iv) The historical net book amounts of the fixed assets are:

	Cost 1997 £m	Acc Dep 1997 £m	Net 1997 £m	Cost 1996 £m	Acc Dep 1996 £m	Net 1996 £m
Land and buildings	165	66	99	160	61	99
Motor vehicles	9	2	7	8	2	6
Fixtures and equipment	144	97	47	144	88	56
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	318	165	153	312	151	161
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

# POST OFFICE COUNTERS LTD

## NOTES TO THE ACCOUNTS (Continued)

### 10. Debtors

	1997 £m	1996 £m
Receivable beyond one year:		
Pension contributions prepaid	6	4
Other debtors	1	1
	<hr/>	<hr/>
	7	5
	<hr/>	<hr/>
Receivable within one year:		
Trade debtors	55	42
Prepayments and accrued income	14	18
	<hr/>	<hr/>
	69	60
	<hr/>	<hr/>

### 11. Creditors - amounts falling due within one year

	1997 £m	1996 £m
Client service balances	1,025	1,292
Creditors and accruals	116	112
Corporation tax	16	16
Other taxation and social security	13	10
	<hr/>	<hr/>
	1170	1,430
	<hr/>	<hr/>

# POST OFFICE COUNTERS LTD

## NOTES TO THE ACCOUNTS (Continued)

### 12. Provisions for liabilities and charges

	At 1 April 1996 £m	Charged for the year £m	Released in the year £m	Utilised in the year £m	At 30 March 1997 £m
Counter network changes	6	6	-	(6)	6
Reimbursement to nominee subpostmasters	4	-	-	(1)	3
Restructuring of product delivery costs	4	-	(1)	(2)	1
Vacant leasehold property	3	-	(1)	-	2
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	17	6	(2)	(9)	12
Deferred taxation (note 13)	-	2	-	-	2
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	17	8	(2)	(9)	14
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

### 13. Deferred taxation

	Full potential taxation		Provided in accounts	
	1997 £m	1996 £m	1997 £m	1996 £m
Total timing differences	11	14	2	-
	<hr/>	<hr/>	<hr/>	<hr/>

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.



# POST OFFICE COUNTERS LTD

## NOTES TO THE ACCOUNTS (Continued)

### 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 1 April 1996	72	161	233
Net revaluation of tangible fixed assets	14	-	14
Post dividend transfer		(14)	(14)
Reserve transfers:			
Realised fixed asset revaluation gains	(3)	3	-
Depreciation charge less historical cost depreciation	(3)	3	-
At 30 March 1997	<u>80</u>	<u>153</u>	<u>233</u>

### 16. Other net cash payments

	1997 £m	1996 £m
VAT paid to Customs and Excise	(29)	(28)
Interest received	16	25
Interest paid	(2)	(1)
	<u>(15)</u>	<u>(4)</u>

# POST OFFICE COUNTERS LTD

## NOTES TO THE ACCOUNTS (Continued)

### 17. Reconciliation of operating profit to net cash inflow from operating activities

	1997 £m	1996 £m
Operating profit	34	35
Depreciation charge	27	38
Changes in operating assets and liabilities:		
Stores and retail stocks	(2)	-
Debtors	(13)	19
Creditors	7	(72)
Provisions	(5)	(7)
Client service balances	(264)	313
Net inter-business balances	(5)	2
	<hr/>	<hr/>
Net cash (outflow)/inflow from operating activities	(221)	328

Post Office Counters receives cash from Government agencies (reflected in "Net client cash flow" as shown on the face of the cash flow statement) for disbursement to customers. The level of such funds held at the accounting year end can vary significantly, at each balance sheet date.

# POST OFFICE COUNTERS LTD

## NOTES TO THE ACCOUNTS

(Continued)

### 18. Analysis of items combined in the cash flow statement

	1997 £m	1996 £m
<b>(i) Returns on investments and servicing of finance</b>		
Dividends paid to parent undertaking	(35)	(27)
<b>Net cash outflow for returns on investments and servicing of finance</b>	<u>(35)</u>	<u>(27)</u>
<b>(ii) Taxation</b>		
UK corporation tax paid	(14)	(11)
<b>Net cash outflow for tax paid</b>	<u>(14)</u>	<u>(11)</u>
<b>(iii) Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(22)	(36)
Sale of tangible fixed assets	11	7
VAT recovered on capital expenditure	1	1
<b>Net cash outflow for capital expenditure and financial investment</b>	<u>(10)</u>	<u>(28)</u>
<b>(iv) Financing</b>		
Amounts due from the holding company function within one year	143	59
<b>Net cash inflow from financing</b>	<u>143</u>	<u>59</u>

# POST OFFICE COUNTERS LTD

## NOTES TO THE ACCOUNTS (Continued)

### 19. Analysis of net funds

	At 1 April 1996	Cash flows	At 30 March 1997
	£m	£m	£m
Cash in hand and at bank	1,018	(137)	881
		(137)	
Amounts due from the parent undertaking within one year	375	(143)	232
		(143)	
<b>Total</b>	<u>1,393</u>	<u>(280)</u>	<u>1,113</u>

### 20. Commitments

#### (i) Capital commitments

Capital commitments not provided in the accounts amount to £1m (1996 £2m)

#### (ii) Operating lease obligations

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

	Land and Buildings		Motor vehicles	
	1997	1996	1997	1996
	£m	£m	£m	£m
For leases which expire:				
Within one year	1	1	-	-
Between two and five years	3	2	1	1
Beyond five years	21	22	-	-
	<u>24</u>	<u>25</u>	<u>1</u>	<u>1</u>

## POST OFFICE COUNTERS LTD

### NOTES TO THE ACCOUNTS

(Continued)

#### 21 Contingent Liabilities

A VAT tribunal has recently heard an appeal relating to the status of the relationship between a subpostmaster and Post Office Counters. The Tribunal have not yet made a decision known. Should the decision be contrary to the interests of Post Office Counters there may be material but as yet unquantifiable adverse financial consequences.

#### 22. 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 (1996 £4m). The pension charge relating to the schemes is assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The latest actuarial assessments of the schemes were carried out as at 31 March 1994 for POSSS and 31 March 1995 for POPS with a further revaluation of the assets and liabilities of POSSS as at 31 March 1997 currently underway. Full details of the schemes are provided in The Post Office Report and Accounts.

#### 23. 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 130 Old Street, London, EC1V 9PQ.