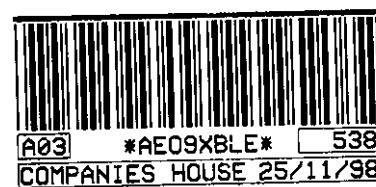


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POST OFFICE COUNTERS LTD

ACCOUNTS

For the 52 weeks ended 29 March 1998



POST OFFICE COUNTERS LTD

CONTENTS

Page

3	Directors' Report
7	Directors' Statement of Responsibilities in Respect of the Accounts
8	Report of the Auditors
9	Accounting Policies
12	Profit and Loss Account
13	Statement of Total Recognised Gains and Losses
13	Reconciliation of Movement in Shareholders' Funds
14	Statement of Historical Cost Profits and Losses
15	Balance Sheet
16	Cash Flow Statement
17	Notes to the Accounts

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 52 weeks ended 29 March 1998.

1. Results and dividend

The profit after taxation for the 52 weeks was £18m, based on a turnover of £1,130m. The directors propose a dividend of £28m in respect of the year. The movements in reserves are shown 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

In 1997-98 the business met its financial targets with a Return on Turnover of 2.9%, achieved with an efficiency improvement in real terms of 2.7%. Customer satisfaction improved with the independent survey showing a 1% improvement against last year and a 7% reduction year on year in the number of customers waiting over 5 minutes to be served.

The major programme to automate all post offices, now known as "Horizon", continues in development under a Private Finance Initiative agreement with ICL Pathway and the Benefits Agency. The implementation phase has been reprogrammed so that the main rollout will start during 1999. 204 offices were paying certain benefits through the new system at the end of March 1998.

In the year development was completed on the system to support the management of cash and stock inventory and distribution, for piloting in the Dartford logistics area in April 1998. The system, which uses bar-coding technology and standard SAP software, supplies improved information to manage stockholding and ordering levels more efficiently. It will eventually be integrated with Horizon and other related computerised systems.

POST OFFICE COUNTERS LTD

DIRECTORS' REPORT (Continued)

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

1997-98 saw the launch of 3 new insurance products for sale through post offices. These offer cover for bill payment, life plus and medical cash care. Foreign currency business through our bureau de change service increased by 50% in the year. In February we were able to support Royal Mail's issue of commemorative stamps to raise money for the Diana Princess of Wales Memorial Fund. This was the largest commemorative stamp issue we have ever undertaken.

All regions and Business Centres have now been accredited as Investors In People: and it is the Directors' intention to seek accreditation for the business as a whole in the coming year.

For 1998-99 priority will be given to continuing preparation for business automation, while driving up sales in the post offices of existing products responsive to promotion. At the same time, further significant reductions to our cost base are planned to keep our service for our customers and clients competitive. In parallel to these immediate commercial goals, the directors, supported by a dedicated in-house team and external consultants have begun a root and branch review of POCL's medium and longer term commercial positioning, and the necessary organisational arrangements.

4. Directors

The following have served as directors of the company during the 52 weeks ended 29 March 1998:

John Roberts CBE	(Chairman)
Stuart Sweetman	(Managing Director)
Richard Close	
Jonathan Evans	
Roger Tabor	
Richard Wheelhouse	
Paul Rich	
David Morpheu	

Richard Osmond resigned as company secretary on 12 September 1997. The Board thank him for his service.

No director had a beneficial interest in the share capital of the company at 29 March 1998.

POST OFFICE COUNTERS LTD

DIRECTORS' REPORT (Continued)

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 12,177 and their aggregate cost of employment for the year was £255m.
- (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, "Courier";
 - the "Talk Back" 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 £108,000 (1997 £45,618).

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: 21 days

8. Year 2000 and European Monetary Union (EMU)

The Post Office Group function has assumed responsibility for developing Year 2000 and EMU issues on behalf of all its subsidiaries. Details can be found in The Post Office Report and Accounts.

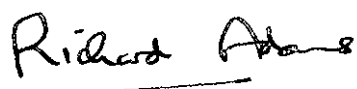
POST OFFICE COUNTERS LTD

DIRECTORS' REPORT (Continued)

9. 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 dark ink, appearing to read "Richard Adams". The signature is written in a cursive style with a horizontal line underneath the name.

Richard Adams
Secretary

1 June 1998

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.

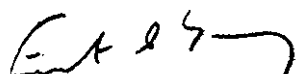
Basis of opinion

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 29 March 1998 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

1 June 1998

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

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 translated at the rate ruling at the date of the transaction, other than those covered by contracts, which are translated at contracted rates.

Monetary assets and liabilities held in foreign currencies at the balance sheet date are re-translated 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 29 March 1998

	Notes	1998 £m	1997 £m
Turnover	2	1,130	1,161
Staff costs	3	(255)	(256)
Depreciation and other amounts written off tangible fixed assets		(26)	(27)
Other operating charges		(816)	(844)
Total operating costs		<u>(1,097)</u>	<u>(1,127)</u>
Operating profit	5	33	34
Taxation	7	(15)	(16)
Profit for the financial year		<u>18</u>	<u>18</u>
Dividends	8	(28)	(32)
Transfer from reserves		<u>(10)</u>	<u>(14)</u>

POST OFFICE COUNTERS LTD

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the 52 weeks ended 29 March 1998

	1998 £m	1997 £m
Profit for the financial year	18	18
Net unrealised surplus on revaluation of tangible fixed assets for the year	7	14
	<hr/>	<hr/>
Total recognised gains for the year	25	32
	<hr/>	<hr/>

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

For the 52 weeks ended 29 March 1998

	1998 £m	1997 £m
Total recognised gains for the year	25	32
Dividends	(28)	(32)
	<hr/>	<hr/>
Net movement in shareholders' funds	(3)	0
Opening shareholders' funds	233	233
	<hr/>	<hr/>
Closing shareholders' funds	230	233
	<hr/>	<hr/>

POST OFFICE COUNTERS LTD

STATEMENT OF HISTORICAL COST PROFITS AND LOSSES

For the 52 weeks ended 29 March 1998

	1998 £m	1997 £m
Profit on ordinary activities before taxation	33	34
Realisation of tangible fixed asset revaluation gains	3	3
Depreciation charge less historical cost depreciation	1	3
Historical cost profit on ordinary activities before taxation	<u>37</u>	<u>40</u>
Historical cost loss for the year after taxation and dividends	<u>(6)</u>	<u>(8)</u>

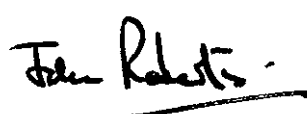
POST OFFICE COUNTERS LTD

BALANCE SHEET

At 29 March 1998

	Notes	1998 £m	1997 £m
Tangible fixed assets	9	230	233
Current assets			
Stores and retail stocks		15	21
Debtors - receivable beyond one year	10	11	7
Debtors - receivable within one year	10	87	69
Inter-business balances		234	267
Cash at bank and in hand		791	881
		<u>1,138</u>	<u>1,245</u>
Current liabilities			
Creditors - amounts falling due within one year	11	(1,055)	(1,170)
Inter-business balances		(63)	(61)
		<u>(1,118)</u>	<u>(1,231)</u>
Net current assets		<u>20</u>	<u>14</u>
Total assets less current liabilities		250	247
Provisions for liabilities and charges	12	<u>(20)</u>	<u>(14)</u>
		230	233
Capital and reserves			
Called up share capital	14	-	-
Revaluation reserve	15	83	80
Profit and loss account	15	<u>147</u>	<u>153</u>
		<u>230</u>	<u>233</u>

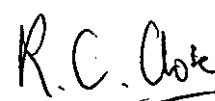
Approved by the Board on 1 June 1998.



JOHN ROBERTS



S J SWEETMAN



R C CLOSE

POST OFFICE COUNTERS LTD

CASH FLOW STATEMENT

For the 52 weeks ended 29 March 1998

	Notes	1998 £m	1997 £m
OPERATING ACTIVITIES			
Cash received from clients		1,163	1,191
Cash paid to suppliers		(266)	(343)
Cash paid to and on behalf of employees		(250)	(258)
Cash paid to subpostmasters, franchisees and other agents		(504)	(532)
Net client cash flow		(196)	(264)
Other net cash payments	16	(11)	(15)
Net cash outflow from operating activities	17	(64)	(221)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
TAXATION	18(i)	(15)	(14)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	18(ii)	(15)	(10)
EQUITY DIVIDENDS PAID		(32)	(35)
Cash outflow before use of liquid resources and financing		(126)	(280)
MANAGEMENT OF LIQUID RESOURCES			
FINANCING	18(iii)	36	143
DECREASE IN CASH IN THE PERIOD		(90)	(137)
Reconciliation of net cash flow to movement in net funds			
	19	1998 £m	1997 £m
DECREASE IN CASH IN THE PERIOD		(90)	(137)
Cash inflow from decrease in funds		(36)	(143)
Change in net funds resulting from cash flows		(126)	(280)
MOVEMENT IN NET FUNDS IN THE PERIOD		(126)	(280)
NET FUNDS AT 31 MARCH 1997		1,113	1,393
NET FUNDS AT 29 MARCH 1998		987	1,113

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS

For the 52 weeks ended 29 March 1998

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

	1998 £m	1997 £m
Wages and salaries	236	234
Social security costs	17	18
Pension charge (see note 21)	<u>2</u>	<u>4</u>
	<u>255</u>	<u>256</u>

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

	1998	1997
Business Headquarters	2,496	1,706
Regional offices	<u>9,681</u>	<u>10,775</u>
Total	<u>12,177</u>	<u>12,481</u>
Subpostmasters at year-end	<u>17,183</u>	<u>17,364</u>

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

4. Directors' emoluments

Directors' aggregate emoluments, including pension contributions, were £614,467 (1997 £604,375), and compensation for loss of office was £nil (1997 £nil). In both years there were no fees and the company paid no pensions to former directors. All the directors are members of a Post Office Group defined benefit scheme.

The amounts in respect of the highest paid director are as follows:

Basic salary and fees	Performance related pay	Benefits in kind	Total excluding pensions		Accumulated total accrued pension	
			1998	1997	1998	1997
£	£	£	£	£	£	£
98,289	7,700	7,315	113,304	103,723	21,187	18,926

In addition, a lump sum, equivalent to three times the accumulated total accrued pension is payable.

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 31 March 1997	Amount outstanding at 29 March 1998	Maximum amount outstanding during the year
	£	£	£
Jonathan Evans	14,591	12,808	14,591
David Morphey	30,900	30,900	30,900
Stuart Sweetman	10,257	6,287	10,257

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

5. Operating profit

Operating profit is stated after (crediting)/charging:

	1998 £m	1997 £m
Income from inter-business services:		
Royal Mail	(233)	(229)
Parcelforce	(19)	(20)
Licence and franchise fees	(3)	(8)
Net interest receivable (see note 6)	(16)	(14)
Subpostmasters costs	547	533
Operating lease charges on land and buildings	19	21
Permanent diminutions in value of buildings	-	1
Inter-business charges:		
Royal Mail	47	49
Parcelforce	10	6
Group Headquarters and centrally provided services	7	4

Auditors' remuneration amounted to £113,000 (1997 £108,000) for audit services. Remuneration for non-audit services amounted to £181,000 (1997 £230,000). Expenditure on research and development amounted to £230,000 (1997 £190,000).

A reappraisal of the commercial arrangements between POCL and a major client has resulted in a further reduction of £39m (1997 £43m) to both turnover and other operating charges during the year.

6. Net interest receivable

	1998 £m	1997 £m
Interest receivable	20	16
Interest payable	(4)	(2)
	<hr/>	<hr/>
	16	14

All of the interest receivable, was from other group undertakings. No interest was payable to other group undertakings.

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

7. Taxation

	1998 £m	1997 £m
Corporation tax on the profit for the year	17	14
Deferred taxation (released)/charged	(2)	2
	<hr/>	<hr/>
	15	16

Deferred taxation not provided for the year amounts to a release of £3m (1997 a release of £5m) in respect of timing differences.

The overall tax charge is calculated by reference to the historical cost profit for the year of £37m (1997 £40m).

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 £28m (1997 £32m) 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
Valuation						
At 31 March 1997	117	11	106	9	174	417
Reclassification	(1)	2	(1)	-	-	-
Revaluation	5	1	1	1	-	8
Acquisitions	2	-	5	3	12	22
Disposals	(4)	(1)	(7)	(3)	(8)	(23)
At 29 March 1998	119	13	104	10	178	424
Accumulated depreciation						
At 31 March 1997	1	-	56	2	125	184
Revaluation	(1)	-	1	-	1	1
Charge for the year	4	1	4	1	16	26
Disposals	(1)	-	(7)	(1)	(8)	(17)
At 29 March 1998	3	1	54	2	134	194
Net book amount						
At 29 March 1998	116	12	50	8	44	230
At 31 March 1997	116	11	50	7	49	233

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 Megran Ltd and Ryden International 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 £nil (1997 £1m) in respect of permanent diminutions in the value of land and buildings.
- (iii) £35m (1997 £33m) 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 1998 £m	Acc Dep 1998 £m	Net 1998 £m	Cost 1997 £m	Acc Dep 1997 £m	Net 1997 £m
Land and buildings	166	70	96	165	66	99
Motor vehicles	9	2	7	9	2	7
Fixtures and equipment	149	105	44	144	97	47
	<u>324</u>	<u>177</u>	<u>147</u>	<u>318</u>	<u>165</u>	<u>153</u>

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

10. Debtors

	1998 £m	1997 £m
Receivable beyond one year:		
Pension contributions prepaid	10	6
Other debtors	1	1
	<hr/>	<hr/>
	11	7
	<hr/>	<hr/>
Receivable within one year:		
Trade debtors	73	55
Prepayments and accrued income	14	14
	<hr/>	<hr/>
	87	69
	<hr/>	<hr/>

11. Creditors - amounts falling due within one year

	1998 £m	1997 £m
Client service balances	832	1,025
Creditors and accruals	187	116
Corporation tax	18	16
Other taxation and social security	18	13
	<hr/>	<hr/>
	1,055	1,170
	<hr/>	<hr/>

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

12. Provisions for liabilities and charges

	At 31 March 1997 £m	Charged for the year £m	Released in the year £m	Utilised in the year £m	At 29 March 1998 £m
Counter network changes	6	-	(3)	(3)	-
Reimbursement to nominee subpostmasters	3	-	(1)	-	2
Restructuring of product delivery costs	1	-	-	(1)	-
Vacant leasehold property	2	1	-	-	3
Counter automation programme	-	15	-	-	15
	12	16	(4)	(4)	20
Deferred taxation (note 13)	2	-	(2)	-	-
	14	16	(6)	(4)	20

13. Deferred taxation

	Full potential taxation		Provided in accounts	
	1998 £m	1997 £m	1998 £m	1997 £m
Total timing differences	6	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.

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 31 March 1997	80	153	233
Net revaluation of tangible fixed assets	7	-	7
Post dividend transfer	-	(10)	(10)
Reserve transfers:			
Realised fixed asset revaluation gains	(3)	3	-
Depreciation charge less historical cost depreciation	(1)	1	-
	<hr/>	<hr/>	<hr/>
At 29 March 1998	83	147	230

16. Other net cash payments

	1998 £m	1997 £m
VAT paid to Customs and Excise	(27)	(29)
Interest received	18	16
Interest paid	(2)	(2)
	<hr/>	<hr/>
	(11)	(15)

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

17. Reconciliation of operating profit to net cash outflow from operating activities

	1998 £m	1997 £m
Operating profit	33	34
Depreciation charge	26	27
Changes in operating assets and liabilities:		
Stores and retail stocks	6	(2)
Debtors	(20)	(13)
Creditors	74	7
Provisions	8	(5)
Client service balances	(193)	(264)
Net inter-business balances	2	(5)
	<hr/>	<hr/>
Net cash outflow from operating activities	(64)	(221)

POCL 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 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

	1998 £m	1997 £m
(i) Taxation		
Corporation tax paid	<u>(15)</u>	<u>(14)</u>
Net cash outflow for tax paid	<u><u>(15)</u></u>	<u><u>(14)</u></u>
(ii) Capital expenditure and financial investment		
Purchase of tangible fixed assets	(22)	(22)
Sale of tangible fixed assets	7	11
VAT recovered on capital expenditure	<u>-</u>	<u>1</u>
Net cash outflow for capital expenditure and financial investment	<u><u>(15)</u></u>	<u><u>(10)</u></u>
(iii) Financing		
Movement in amounts due from the parent undertaking within one year	<u>36</u>	<u>143</u>
Net cash inflow from financing	<u><u>36</u></u>	<u><u>143</u></u>

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

19. Analysis of net funds

	At 31 March 1997	Cash flows	At 29 March 1998
	£m	£m	£m
Cash in hand and at bank	881	(90)	791
		(90)	
Amounts due from the parent undertaking within one year	232	(36)	196
		(36)	
Total	1,113	(126)	987

20. Commitments

(i) Capital commitments

Capital commitments contracted for but not provided in the accounts amount to £1m (1997 £1m)

(ii) Operating lease obligations

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

	Land and buildings		Motor vehicles	
	1998	1997	1998	1997
	£m	£m	£m	£m
For leases which expire:				
Within one year	1	1	-	-
Between two and five years	3	3	-	1
Beyond five years	21	21	-	-
	<u>25</u>	<u>25</u>	<u>-</u>	<u>1</u>

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

21. 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 £2m (1997 £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 1997 for POSSS and 31 March 1995 for POPS with a further revaluation of the assets and liabilities of both POSSS and POPS as at 31 March 1998 currently underway. Full details of the schemes are provided in The Post Office Report and Accounts.

22. Related party transactions

The company has taken advantage of one of the exemptions conferred by FRS8 ('Related Party Transactions'), whereby certain details regarding transactions with group companies do not have to be disclosed where group accounts are publicly available.

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.