

Registered Number 2154540

POST OFFICE COUNTERS LTD

ACCOUNTS

For the 52 weeks ended 28 March 1999



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 28 March 1999.

1. Results and dividend

The profit after taxation for the 52 weeks was £24m. The directors propose a dividend of £13m in respect of the year. The movements in reserves are shown on page 23 of the accounts (note 15).

2. Activities

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

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

- a wide range of services and products for clients and their customers, including:
 - inpayment and outpayment services;
 - access point for official information and transactions; and
 - transacting Post Office activities,
- supported by:
 - a cash distribution network;
 - excellent personal service to customers; and
 - an unrivalled physical network of outlets.

3. Review of the business and future developments

In 1998-99 the business exceeded its financial objective in achieving a return on turnover of 2.8% (against a target of 2.5%) and also improved efficiency in real terms by 2.4%. Customer serving times improved by 0.3%, with 93.9% of customers being served within 5 minutes. Overall customer satisfaction decreased slightly with the independent survey showing a 0.3% decrease from last year.

During the year there was a complete review of the company mission and vision, resulting in a new mission and vision which was communicated to all staff and agents in January 1999. The mission is to be "the UK's number one choice for the important business of everyday life". The vision outlines the focus on our commercial ambitions to become the most trusted and used:

- access point for government information and transactions;
- wholesale cash distributor;
- access point for cash deposits and withdrawals on behalf of many banks; and
- provider of transactions and specialist advice on all aspects of Post Office mail and distribution activities.

POST OFFICE COUNTERS LTD

DIRECTORS' REPORT (Continued)

Following the national roll out of a facility for bank customers to transact through our network with the Co-operative Bank in 1998-99, we will be rolling out a similar facility for Lloyds-TSB in 1999-2000.

During 1999-2000 new structures will be developed and implemented to meet the needs of the mission and vision, as part of a much wider review across the whole of the Post Office.

There will be continuing investment in the physical network to improve standards and to provide an automated platform.

On 24 May 1999, the company entered into an agreement with ICL plc and ICL Pathway Limited concerning the future development of the system designed to automate counter transactions ("the Horizon project"). However it is not anticipated that the proposed system will have the capabilities originally envisaged. The Benefits Agency, a major client of the company, intends to pay benefits through the banking system progressively from 2003. This will mean a loss of revenue to the company and presents a significant commercial challenge in terms of sustaining the current network of post offices. Further details of this agreement are set out in note 20 to the accounts.

4. Directors

The following have served as directors of the company during the 52 weeks ended 28 March 1999:

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

No director had a beneficial interest in the share capital of the company at 28 March 1999.

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 12,044 and their aggregate cost of employment for the year was £263m.

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DIRECTORS' REPORT (Continued)

- (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 £54,000 (1998 £108,000).

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. Our policy 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 company also seeks to comply with British Standard 7890 – method for achieving good payment performance in commercial transactions.

The number of days' purchases in creditors at the balance sheet date is 22 days.

8. Year 2000 and European Monetary Union (EMU)

Many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions and resulting commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers, clients and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

Within The Post Office, a Group-wide programme, designed to address the impact of the Year 2000 on its business, was commissioned by the Board and is on course. Resources have been allocated and the Board receives regular reports on progress. A risk analysis has determined the impact of this issue on our activities. From this, we have developed prioritised action plans that are designed to address the key issues in advance of critical dates and without disrupting the business. Priority is being given to systems whose failure could cause the most significant financial or legal impacts on The Post Office's business.

Given the complexity of this issue, it is not possible for any organisation to guarantee that no Year 2000 problems will remain. However, the directors believe that the company will achieve an acceptable state of readiness.

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DIRECTORS' REPORT (Continued)

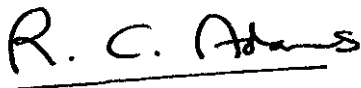
The total cost to The Post Office Group of modifications was budgeted at £96m. This cannot be an accurate figure, because the opportunity is being taken to rationalise some systems whilst others are only being repaired. The approximate Group-wide expenditure to date of £63m has been expensed, of which £4m has been borne by the company, and the programme is expected to be substantially completed by September 1999.

The Board of The Post Office has established a European Monetary Union committee. Since there are implications for The Post Office Group whether the UK joins or not, the implications of both possibilities have been evaluated. Membership of the European Monetary Union would be likely to involve considerable costs and effort that would vary based on the timetable for membership. We envisage that The Post Office would have a major rôle in managing the transition to the adoption of the Euro in the UK.

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, reading "R. C. Adams". The signature is written in a cursive style with a horizontal line underneath the name.

R C Adams
Secretary

8 June 1999

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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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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 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.

**REPORT OF THE AUDITORS
to the members of Post Office Counters Ltd.**

We have audited the accounts on pages 9 to 24, 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.

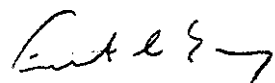
Basis of opinion

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 28 March 1999 and of its profit for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
REGISTERED AUDITOR
LONDON
/ June 1999

POST OFFICE COUNTERS LTD

ACCOUNTING POLICIES

During the year, a number of new accounting standards have come into force. In the main, our accounting policies have remained consistent with previous years but certain changes have been required to comply with these new standards. The effects of the new standards are as follows:

FRS 11, Impairment of Fixed Assets and Goodwill

The FRS came into effect for these accounts and impairment reviews are performed where appropriate.

FRS 12, Provisions, Contingent Liabilities and Contingent Assets

No restatement of prior year financial information has been required, but additional narrative disclosures have been provided in accordance with the standard.

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.

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ACCOUNTING POLICIES (Continued)

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' valuations.
- Short leasehold properties, motor vehicles and fixtures and equipment are stated at their depreciated replacement costs by reference to actual costs of the assets concerned or to appropriate cost indices.

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

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

Property:

Freehold buildings	- up to 60 years
Leasehold Land & buildings	- the shortest of 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

(iii) Impairment reviews of fixed assets, as defined by FRS 11, are performed where appropriate.

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.

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ACCOUNTING POLICIES (Continued)

H. Deferred taxation

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

I. Pensions

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

J. Research and development

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

K. Foreign currencies

Transactions in foreign currencies entered into during the year are translated at the rate ruling at the date of the transaction, 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, other than those covered by contracts, which are re-translated at contracted rates. All differences are taken to the profit and loss account.

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PROFIT AND LOSS ACCOUNT

For the 52 weeks ended 28 March 1999

	Notes	1999 £m	1998 £m
Turnover	2	1,148	1,130
Staff costs	3	(263)	(255)
Depreciation and other amounts written off tangible fixed assets		(24)	(26)
Other operating charges		(839)	(816)
Total operating costs		(1,126)	(1,097)
Operating profit	5	22	33
Profit on disposal of tangible fixed assets	9(iv)	10	-
Profit on ordinary activities before taxation		32	33
Taxation	7	(8)	(15)
Profit for the financial year		24	18
Dividends	8	(13)	(28)
Retained profit/(loss) for the year	15	11	(10)

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STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the 52 weeks ended 28 March 1999

	1999 £m	1998 £m
Profit for the financial year	24	18
Net unrealised surplus on revaluation of tangible fixed assets for the year	3	7
Total recognised gains for the year	<u>27</u>	<u>25</u>

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

For the 52 weeks ended 28 March 1999

	1999 £m	1998 £m
Total recognised gains for the year	27	25
Dividends	(13)	(28)
Net movement in shareholders' funds	<u>14</u>	<u>(3)</u>
Opening shareholders' funds	230	233
Closing shareholders' funds	<u>244</u>	<u>230</u>

POST OFFICE COUNTERS LTD

STATEMENT OF HISTORICAL COST PROFITS AND LOSSES

For the 52 weeks ended 28 March 1999

	1999 £m	1998 £m
Profit on ordinary activities before taxation	32	33
Realisation of tangible fixed asset revaluation gains	6	3
Depreciation charge less historical cost depreciation	3	1
Historical cost profit on ordinary activities before taxation	<u>41</u>	<u>37</u>
Historical cost profit/(loss) for the year after taxation and dividends	<u>20</u>	<u>(6)</u>

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BALANCE SHEET

At 28 March 1999

	Notes	1999 £m	1998 £m
Tangible fixed assets	9	244	230
Current assets			
Stores and retail stocks		14	15
Debtors - receivable beyond one year	10	16	11
Debtors - receivable within one year	10	491	321
Cash at bank and in hand		998	791
		<u>1,519</u>	<u>1,138</u>
Current liabilities			
Creditors - amounts falling due within one year	11	(1,496)	(1,118)
Net current assets		<u>23</u>	<u>20</u>
Total assets less current liabilities		267	250
Provisions for liabilities and charges	12	<u>(23)</u>	<u>(20)</u>
		244	230
Capital and reserves			
Called up share capital	14	-	-
Revaluation reserve	15	77	83
Profit and loss account	15	<u>167</u>	<u>147</u>
Shareholders' funds		<u>244</u>	<u>230</u>

Approved by the Board on 1 June 1999.

John Roberts

JOHN ROBERTS

S. J. Sweetman

S J SWEETMAN

R. C. Close

R C CLOSE

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS

For the 52 weeks ended 28 March 1999

1. Basis of preparation

The accounts have been prepared in accordance with the accounting policies set out on pages 9 to 11. No cash flow statement has been prepared as the company is a wholly-owned subsidiary of The Post Office.

These accounts have been prepared on a going concern basis. This statement is made in the context of the events referred to in Note 20 to the accounts. The Post Office, the company's parent undertaking, has confirmed to the directors that it will ensure that the company is in a position to meet all of its obligations, liabilities and debts as they fall due.

2. Turnover

Turnover, all from continuing operations, comprises the value of services provided, excluding VAT, from the company's one principal area of activity. POCL operates wholly within the United Kingdom.

3. Staff costs and employee information

	1999 £m	1998 £m
Wages and salaries	244	236
Social security costs	18	17
Pension costs (see note 17)	<u>1</u>	<u>2</u>
	<u>263</u>	<u>255</u>

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

	1999	1998
Total employees	<u>12,044</u>	<u>12,177</u>
	1999	1998
Subpostmasters at year-end	<u>16,750</u>	<u>17,183</u>

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

4. Directors' emoluments

Directors' aggregate emoluments, including pension contributions, were £714,295 (1998 £614,467). 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	
			1999	1998	1999	1998
£	£	£	£	£	£	£
101,520	28,730	7,106	137,356	113,304	23,166	21,187

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 in connection with relocation by the company:

	Amount outstanding at 30 March 1998	Amount outstanding at 28 March 1999	Maximum amount outstanding during the year
	£	£	£
Jonathan Evans	12,808	11,108	12,808
David Morphey	30,900	44,099	45,000
Stuart Sweetman	6,287	2,317	6,287

5. Operating profit

Operating profit is stated after (crediting)/charging:

	1999 £m	1998 £m
Income from inter-business services:		
Royal Mail	(245)	(233)
Parcelforce Worldwide	(20)	(19)
Licence and franchise fees	(6)	(3)
Net interest receivable (see note 6)	(21)	(16)
Subpostmasters costs	551	547
Operating lease charges on land and buildings	22	19
Inter-business charges:		
Royal Mail	48	47
Parcelforce Worldwide	9	10
Group Headquarters and centrally provided services	10	7

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

Auditors' remuneration amounted to £118,000 (1998 £113,000) for audit services. Remuneration for non-audit services amounted to £196,000 (1998 £181,000). Expenditure on research and development amounted to £620,000 (1998 £230,000).

Income from inter-business services and inter-business charges above relate to principal operating divisions of the company's parent undertaking, The Post Office.

6. Net interest receivable

	1999 £m	1998 £m
Interest receivable	24	20
Interest payable	(3)	(4)
	<hr/> 21	<hr/> 16

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

7. Taxation

	1999 £m	1998 £m
Corporation tax on the profit for the year	9	17
Adjustment in respect of prior years	(1)	-
Deferred taxation released	-	(2)
	<hr/> 8	<hr/> 15

Deferred taxation not provided for the year in respect of timing differences amounts to a charge of £1m (1998 a release of £3m).

The overall tax charge is calculated by reference to the historical cost profit for the year of £41m (1998 £37m).

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

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 £13m (1998 £28m) is proposed.

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 30 March 1998	119	13	104	10	178	424
Reclassification	-	3	(3)	-	-	-
Revaluation	(1)	1	5	-	4	9
Acquisitions	12	-	9	2	20	43
Disposals	(7)	-	(2)	(2)	(12)	(23)
At 28 March 1999	123	17	113	10	190	453
Accumulated depreciation						
At 30 March 1998	3	1	54	2	134	194
Reclassification	-	2	(2)	-	-	-
Revaluation	-	-	3	-	3	6
Charge for the year	3	1	4	1	15	24
Disposals	(1)	-	(1)	(1)	(12)	(15)
At 28 March 1999	5	4	58	2	140	209
Net book amount						
At 28 March 1999	118	13	55	8	50	244
At 30 March 1998	116	12	50	8	44	230

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 & Smith, Hamilton Osborne King Ltd and Ryden International Property Consultants in accordance with the Appraisal & Valuation Manual prepared by the Royal Institution of Chartered Surveyors.
- (ii) £32m (1998 £35m) of the total amount of land and buildings, represents land not subject to depreciation.
- (iii) The historical cost amounts of the fixed assets are:

	Cost 1999 £m	Accumulated Depreciation 1999 £m	Net 1999 £m	Cost 1998 £m	Accumulated Depreciation 1998 £m	Net 1998 £m
Land and buildings	184	75	109	166	70	96
Motor vehicles	9	2	7	9	2	7
Fixtures and equipment	159	108	51	149	105	44
	<u>352</u>	<u>185</u>	<u>167</u>	<u>324</u>	<u>177</u>	<u>147</u>

- (iv) Profit on sale of tangible fixed assets comprises primarily one property in the City of London sold for redevelopment. The transaction benefits from roll-over relief.

10. Debtors

	1999 £m	1998 £m
Receivable beyond one year:		
Pension contributions prepaid	15	10
Other debtors	<u>1</u>	<u>1</u>
	<u>16</u>	<u>11</u>
Receivable within one year:		
Trade debtors	72	73
Amounts due from parent undertaking	406	234
Prepayments and accrued income	<u>13</u>	<u>14</u>
	<u>491</u>	<u>321</u>

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

11. Creditors - amounts falling due within one year

	1999 £m	1998 £m
Client service balances	1,176	832
Creditors and accruals	245	187
Amount due to parent undertaking	47	63
Corporation tax	10	18
Other taxation and social security	18	18
	<u>1,496</u>	<u>1,118</u>

Client service balances are amounts owed to or due from clients in respect of counter transactions.

12. Provisions for liabilities and charges

	At 30 March 1998 £m	Charged for the year £m	Released in the year £m	Utilised in the year £m	At 28 March 1999 £m
Counter automation	15	3	-	(2)	16
Surplus properties	3	1	-	(1)	3
Other	2	2	-	-	4
	<u>20</u>	<u>6</u>	<u>-</u>	<u>(3)</u>	<u>23</u>

Provisions made under the counter automation programme relate to revenue costs committed on modifications to sub post office premises and on subpostmasters' training, together with service management infrastructure development and unavoidable incidental legal costs. Approximately £12m of these costs will arise in the next financial year, and the balance during the following year.

Where the company holds surplus leasehold properties, provision is made for future rentals and other unavoidable property costs up to the earlier of the lease termination date and management's best estimate of the likely date of disposal. £1m of the provision will be utilised in 1999-00 and the balance over the following nine years.

Other provisions relate to reimbursements to nominee subpostmasters, legal claims against the company and additional costs relating to the Royal Mail tariff change.

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

13. Deferred taxation

	Full potential taxation	
	1999 £m	1998 £m
Capital allowances in advance of depreciation	10	10
Other timing differences	(3)	(4)
	<hr/>	<hr/>
Total timing differences	7	6
	<hr/>	<hr/>

No provision has been made for deferred taxation. 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.

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

15. Reserves

	Revaluation reserve £m	Profit and loss account £m	Total £m
At 30 March 1998	83	147	230
Net revaluation of tangible fixed assets	3	-	3
Retained profit for the year	-	11	11
Reserve transfers:			
Realised fixed asset revaluation gains	(6)	6	-
Depreciation charge less historical cost depreciation	(3)	3	-
	<hr/>	<hr/>	<hr/>
At 28 March 1999	77	167	244

16. Commitments

(i) Capital commitments

Capital commitments contracted for but not provided in the accounts amount to £4m (1998 £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	
	1999 £m	1998 £m	1999 £m	1998 £m
For leases which expire:				
Within one year	1	1	-	-
Between two and five years	3	3	-	-
Beyond five years	24	21	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	28	25	-	-

POST OFFICE COUNTERS LTD

NOTES TO THE ACCOUNTS (Continued)

17. 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 £1m (1998 £2m). 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 1998. Full details of the schemes are provided in The Post Office Report and Accounts.

18. Contingent liabilities

The company is defending legal claims amounting to £34m. The directors have assessed the liability as significantly less than this sum and adequate provision has been made in the accounts.

19. 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.

20. Post balance sheet event

On 24 May 1999, the company entered into an agreement with ICL plc and ICL Pathway Limited concerning the future development of the system designed to automate counter transactions ("the Horizon project"). The agreement between the two parties stipulates that reasonable endeavours will be made to finalise the development and implementation of the system. During implementation, the company is required to pay ICL Pathway a total of £548m plus VAT (subject to certain retentions) and further annual payments by way of operating charges until 31 March 2005. The company bears the cost of irrecoverable VAT on all payments to ICL Pathway. However it is not anticipated that the proposed system will have the capabilities originally envisaged and it has also been confirmed to the company's board that the Benefits Agency, a major client of the company, intends to pay benefits through the banking system progressively from 2003. This transition, and associated loss of revenue to the company presents a significant commercial challenge in terms of sustaining the current network of post offices.

If a new contract for the development of Horizon is not agreed by 16 July 1999, the company may have a right to terminate the agreement on payment of £150m plus VAT to ICL Pathway.

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 130 Old Street, London, EC1V 9PQ.