

00965783

UK MAIL LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2012

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for the year ended 31 March 2012

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The directors present their annual report and the audited financial statements of the Company for the year ended 31 March 2012

PRINCIPAL ACTIVITIES

UK Mail Limited (registration number 00965783) is a private limited company incorporated and domiciled in England. The Company is a wholly owned subsidiary of UK Mail Group plc (registration number 02800218), a public limited company incorporated and domiciled in England and listed on the London Stock Exchange (LSE UKM). The Company's registered office is Express House, 464 Berkshire Avenue, Slough, Berkshire, SL1 4PL.

The Company's principal activities are the operation of parcel and business mail collection and delivery services.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

Pre-tax profits of £10,734,000 (2011 £14,548,000) have been achieved on revenue of £400,765,000 (2011 £367,727,000). The directors consider the results to be in line with expectations.

Parcels

Revenue in Parcels, which comprises of the Company's business to business, business to consumer and international parcel delivery service, was up 3.2% for the year to £172,105,000 (2011 £166,737,000). However, operating profit before exceptional items decreased by 4.2% to £11,622,000 with the operating margin decreasing by 0.5 percentage points to 6.8%.

Due to the fixed cost nature of our parcels business, the impact of one less working day reduced operating profit by some £0.4m with an impact on the operating margin of some 0.2%.

Performance was also impacted by the effect of business-to-business revenue growth remaining subdued though this effect has been largely offset by further improvements in the efficiency and effectiveness of our parcels operation.

Whilst we are nonetheless satisfied with the operating margin achieved, our target remains to improve the margin through continued focus on profitable revenue growth and effective management of our operations.

Parcels (continued)

We continue to drive down costs to improve the profitability of our parcels operations. A key area of focus is our network cost where we are accelerating plans to reduce our fixed cost base. This has resulted in the closure of four depots, reducing our total numbers of sites to 50, along with the restructuring in a number of support areas.

We have recently introduced a number of major improvements to our IT infrastructure. These include the provision of industry-leading functionality to our customers, and to the recipients of the parcels they despatch via our courier services. All customers can now be notified in advance of expected delivery times and given easy to use facilities if they need to re-arrange deliveries.

As part of these improvements we have introduced a completely new internet platform which will help support business growth and drive down costs.

Our Retail Logistics product which provides services tailored to the specific needs of retailers continues to make good progress. This service is targeted at the extensive list of retail customers we have access to through our mail, parcels and courier businesses, and we now have a number of major retailers trading with us. We estimate the Retail Logistics market to be worth £1.2bn overall, supporting our view that this represents a significant growth opportunity for the business. We have recently enhanced our service offering to include the ability to handle hanging garments, as well as providing customers with returns and inter-store transfer facilities.

There is an increasing trend for parcel collection and delivery services to be purchased on-line, rather than through the traditional contract based approach. This trend is partly caused by the growth of on-line transaction sites, such as ebay and Amazon Marketplace, which allow small businesses to reach their customers directly. In response to this trend we launched in November 2011 our on-line parcel collection and delivery service, www.ipostparcels.com, which allows any new customer, be they an individual or a small business, to arrange parcel collection and delivery directly with UK Mail through an easy to use website. This highly innovative service makes UK Mail's parcels offering more accessible to a much wider audience of small businesses and consumers, and has shown rapid growth since its launch, now handling some 500 parcels a night. We continue to develop the service to provide an industry leading service.

The overall parcels market in the UK is challenging with growth linked to economic performance in a highly competitive environment. Our target position in this market is to be a high quality operator which provides the services that customers want. The key here is a reliable next day service, providing customers with estimated delivery windows, which can easily be re-arranged, with the strong use of IT to provide added information. We continue to be successful in winning new Parcels customers as a result of our high service levels, low-cost network and strong brand in the market.

Courier

Revenues in our Courier business, which provides same-day delivery services, increased 6.8% to £20,519,000 (2011 £19,218,000). Operating margins increased to 13.4% (2011 11.3%) leading to an increase in operating profits before exceptional items to £2,748,000 (2011 £2,177,000).

We have now developed a highly efficient nationwide courier network with a proven ability to support national contracts, which adds to our ability to offer a fully integrated proposition and supports product development across the Group. We are implementing plans to utilise our parcels network to handle some of the deliveries that are currently handled by our courier network as this can provide a more cost effective solution.

Mail

Mail showed further growth in revenues of 14.5% to £208,141,000 (2011 £181,772,000). The Mail revenue growth includes the impact of the Royal Mail price increase on 6 May 2011, which increased prices by some 15% on an annualised basis. On an underlying basis, revenues increased by 2.5%.

Our mail volumes decreased by 2% compared to the prior year. Within the overall UK mail market, there has been a decline in transactional volumes of some 4% per annum in recent years. An important factor in the continued progress of our Mail business is therefore product innovation, to open up new segments of the mail market and extend our reach.

UK Mail remains a market leader with an operational template that is ideally suited to adapt to the demands of an evolving mail market, and we have continued to focus on growing our overall volumes, by gaining additional volumes from new and existing customers and driving our new product innovations.

Mail, our web-to-print postal service, continues to grow successfully. We are continuing to develop this product to support its market leadership. Average daily volumes in March 2012 were more than double those of a year ago. We have a healthy pipeline of new opportunities for this product as we identify new areas where it can be applied successfully.

Mail operating profits before exceptional items were down 15.3% to £9,961,000 (2011 £11,756,000). The operating margin reduced to 4.8% (2011 6.5%), of which some 0.9% is the mathematical result of the 15% price increase imposed by Royal Mail. The balance of the margin reduction is caused by the pricing environment in the transactional mail market remaining very competitive, a mix change towards business class which has a lower margin percentage, and by actions taken by Royal Mail which increased the operational complexity for all mail operators and have driven up our operating costs in the year. Working closely with our customers we have now adapted our operating approach to largely eliminate this additional cost factor.

In April 2012 Ofcom officially replaced Postcomm as the mail industry regulator. In March 2012 Ofcom published their decision document on the regulatory regime that will apply from April 2012.

Mail (continued)

and the regulatory conditions which will apply to postal operators in general and Royal Mail in particular. This regime will apply until April 2019. The key factors for UK Mail are that Ofcom has continued to mandate independent/third party access to the Royal Mail delivery network, with the headroom between retail and access prices protected by Ofcom. Royal Mail have published their prices for April 2012 which fall within this control regime. This will involve a further increase in prices for business mail users of some 11%, with the access headroom further reduced. Given the competitive nature of our mail pricing, we do not expect any impact on our mail margins.

Continued focus on cash management resulted in a 1.6 debtor day reduction to 30.5 days (2011 32.1 days).

Trading since the year end has been encouraging with trading in the first quarter in line with management's expectations.

EXCEPTIONAL COSTS

The Company reported total exceptional costs of £1,547,000 (2011 £nil), net of a £593,000 taxation credit.

Of this £2,140,000 relates to the programme we instigated to improve our network infrastructure, and to reduce the fixed costs of the business. This programme involved a number of initiatives including reducing headcount and the closure of four sites, resulting in redundancy costs of £1,203,000, property related costs of £798,000 and £139,000 of other costs.

The exceptional tax credit of £593,000 relates to tax relief in respect of the exceptional restructuring costs referred to above.

RESULTS AND DIVIDENDS

The Company's profit for the financial year was £7,825,000 (2011 £10,478,000). A final dividend of £10,000 per share amounting to £10,000,000 was paid on the 2 August 2011. No interim dividend was paid during the year (2011 £nil). The directors do not recommend the payment of a final dividend (2011 £nil).

The profit for the financial year of £7,825,000 (2011 £10,478,000) has been transferred to reserves.

FINANCIAL AND OPERATIONAL RISK MANAGEMENT

As part of the UK Mail Group of companies ('Group'), the Company has an established risk management monitoring and review process. The process requires management of the business to identify, evaluate and monitor risks and take steps to reduce, eliminate or manage those risks. The risk management plan is reviewed by both the board of the Company and that of the Group.

The Group Board has overall responsibility for ensuring that the Group maintains a system of internal control to provide it with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations. There are inherent limitations in any system of internal control and, accordingly even the most effective system can provide only reasonable, and not absolute, assurance.

The key features of the internal control system within the Group are:

- clearly defined delegation of responsibilities, including relevant authorisation levels,
- clearly documented internal procedures set out in operational and administration manuals,
- regular compliance audit visits to all owned and franchised locations which monitor compliance with procedures and assess the integrity of financial information,
- review of financial procedures by the internal auditor,
- close involvement of executive directors in monitoring and managing the main risk areas of the business,
- regular information provided to senior management, covering financial performance and key business indicators, and
- monthly monitoring of results against budget and forecast, with major variances being followed up and management action taken where necessary.

The UK Mail Group plc Board has reviewed the effectiveness of the internal control systems during the period covered by the financial statements and up to the date of the approval of the financial statements. This review covered all controls, including financial, operational and compliance controls and risk management.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the Company's strategy are subject to a number of risks. The primary risks and uncertainties facing the business which could have a material adverse impact on the Company include

Market risk

Overall, since the vast majority of the Company's activities are provided to UK businesses, the fortunes of the Company are linked to the general health of the UK economy. The Company's exposure is limited by being spread across a wide range of customers and industry sectors. No single customer accounts for more than 6% of revenue.

Credit risk

Credit risk arises from cash and cash equivalents, as well as credit exposures to trade receivables.

The maximum exposure to credit risk is represented by the book value of each financial asset as recorded in the balance sheet.

Cash and cash equivalents held by the Company include bank balances and short term deposits with a maturity of one week or less. The credit risk on these liquid funds is limited because in all cases the counterparties are banks with high credit ratings confirmed by international credit-rating agencies.

The Company has no significant concentrations of credit risk. The Company's exposure is limited by being spread across a wide range of industry sectors. The Company has implemented policies that require appropriate credit checks on potential customers before sales commence and strict control of outstanding amounts. Trade credit insurance is employed to protect any significant exposure to bad debts.

Regulatory risk

On 1 October 2011, Ofcom (The Office of Communications) officially took over regulation of the UK's postal services from the previous regulator, Postcomm (The Postal Services Commission). Ofcom is responsible for safeguarding the UK's universal service obligation on postal services, in addition to ensuring that customer's needs are met through licensing postal operators (such as UK Mail and Royal Mail), and encouraging effective competition to exist in the mail market.

Price risk

Fuel is a significant cost to the Group, although it constitutes less than 3% of total costs. Price risk is minimised as significant increases in the fuel price can be passed onto the majority of customers via a fuel surcharge mechanism common throughout the express delivery industry.

Interest rate risk

The Company has both interest-bearing assets and interest-bearing liabilities. As at the balance sheet date these largely comprise of the following:

| Asset/liability | Interest accrues on | 2012 £'000 |
|-------------------------------------|--------------------------------------|---------------|
| Cash at bank and in hand | Floating rate linked to base rates | 4,490 |
| Finance leases | Fixed rate at inception of the lease | (1,236) |
| Amounts due from group undertakings | Floating rate linked to LIBOR rates | - |
| Amounts owed to group undertakings | Floating rate linked to LIBOR rates | (7,197) |

The reported results would not have been materially different had interest rates been 0.5% adverse/favourable throughout the financial year, with all other variables held constant.

Liquidity risk

The Board reviews both the long and short-term financing requirements of the Company to ensure that there are sufficient available funds both for the day-to-day operations of the Company and for planned capital investments.

At the year end, the UK Mail Group of companies had undrawn borrowing facilities of £12m (2011 £12m) under a facility expiring 30 June 2012.

Capital risk

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

Foreign exchange risk

The Company is not significantly exposed to the effects of fluctuations in exchange rates since all income is in sterling and costs denominated in foreign currency, principally the Euro, represent less than 0.3% of all expenditure.

There would have been no material impact on profit before tax or equity in either the year ended 31 March 2012 or 31 March 2011, had Sterling strengthened or weakened 10% against the Euro.

KEY PERFORMANCE INDICATORS

A number of performance measures are used to assess the development, underlying business performance and position of the Company. These are used collectively, and are periodically reviewed to ensure that they remain appropriate and meaningful measures of the Company's performance.

Financial

- Revenue growth
- Operating profit
- Operating profit margin
- Debtor days

These are all discussed in the section entitled 'Review of business and future developments' above.

Further performance measures relate to the success and safety of our people and environmental performance, including accident rates, health and safety compliance, and waste recycling. The Company, as part of the UK Mail Group of companies, has developed its reporting systems and can now report on these in the table below.

| | Target 2012/13 | Actual 2010/11 | Actual 2011/12 | Change against target |
|--|--------------------|-------------------|-------------------|--------------------------|
| 1 CO ₂ emissions (tonnes) | 46k | 48.8k | 48k | -4.2% |
| 2 Waste recycling (%) | 90% | 76.3% | 90.7% | 0% |
| 3 Health & Safety compliance (%) | 95% | 91.15% | 93.36% | -1.7% |
| 4 ISO 14001 compliance (% corporate sites) | 100% (40 sites) | 20% (8 sites) | 55% (22 sites) | 45% |

We have made good progress with these targets, which we will continue to do so with mechanisms in place to report and identify on a monthly basis.

We have set targets to reduce CO₂ emissions, increase waste recycling, have more sites fully compliant with Health & Safety rules and increase the number of sites that are ISO 14001 compliant, and have put in place specific initiatives to achieve these targets.

Further details of the Group's targets and commitments can be found in the Annual Report of UK Mail Group plc, which is available at www.ukmail.com.

CHARITABLE AND POLITICAL DONATIONS

The Company made charitable donations of £96,000 (2011 £40,000), of which £81,000 (2011 £24,000) was to Cancer Research UK. No political donations were made (2011 £nil).

We have also donated almost £15,000 (2011 £16,000) to a diverse range of charities, including Help for Heroes, The Princes Trust, Against Breast Cancer, Asthma UK, The MS Society, Sports Relief and Birmingham Children's Hospital. This is via our staff sponsorship scheme which supports individual employees' personal fundraising initiatives and the causes that are close to their hearts. We operate a 'Payroll Giving scheme' allowing all our employees the opportunity to contribute to their preferred charity through tax efficient salary deductions.

SUPPLIER PAYMENT POLICY

The Company's policy concerning the payment of its trade payables is to follow the Better Payment Practice Code which can be found at www.payontime.co.uk. The Company endeavours to agree standard terms of payment with its major suppliers at the commencement of business. Suppliers fulfilling the conditions of supply are paid in accordance with the agreed standard terms. Other suppliers are paid in accordance with the contractual terms as agreed from time to time. As at 31 March 2012, the Company had 38.7 days (2011 38.6 days) purchases outstanding in trade payables.

EMPLOYMENT POLICY

The Company's policy is to maintain as far as practical, close consultations with employees on matters likely to affect their interests and, to this end, established an Employee Consultative Group in April 2003. The Company is an equal opportunities employer and holds an Investors in People certificate.

The Company's policy and practice is to encourage the recruitment and subsequent training, career development and promotion of disabled persons according to their aptitudes and abilities, and the retention and retraining of employees who also become disabled during their employment.

DIRECTORS

The directors who have held office during the year and up to the date of signing the financial statements were:

C G Buswell
S Glew
P Kane (Chairman)

DIRECTORS' INDEMNITIES

We have purchased and, throughout the year, maintained appropriate insurance cover in respect of Directors' and Officers' liabilities. The Company has also entered into qualifying third party indemnity arrangements for the benefit of all its Directors, in a form and scope which comply with the requirements of the Companies Act 2006. These indemnities were in force throughout the year and up to the date of this report.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

UK MAIL LIMITED

DIRECTORS' REPORT

for the year ended 31 March 2012

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT OF DISCLOSURE OF INFORMATION TO THE AUDITORS

In the case of each of the persons who are directors at the time when this report is approved, the following applies:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and will therefore continue in office as auditors to the Company until further notice.

On behalf of the board



S Glew
Director
31 May 2012

Independent Auditors' Report to the Members of UK Mail Limited

We have audited the financial statements of UK Mail Ltd for the year ended 31 March 2012 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Shareholders' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 11 and 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

INDEPENDENT AUDITORS' REPORT (continued)

for the year ended 31 March 2012

Opinion on financial statements

In our opinion the financial statements.

- give a true and fair view of the state of the Company's affairs as at 31 March 2012 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.


Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Jaskamal Sarai (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Thames Valley
31 May 2012

UK MAIL LIMITED

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2012

| | Note | 2012 £'000 | 2011 £'000 |
|--|------|---------------|---------------|
| Revenue | | 400,765 | 367,727 |
| Cost of sales | | (356,390) | (323,163) |
| Gross profit | | 44,375 | 44,564 |
| Administrative expenses | | (33,285) | (30,069) |
| Operating profit before exceptional expenses | | 13,230 | 14,495 |
| Exceptional administrative expenses | 3 | (2,140) | - |
| Operating profit | 4 | 11,090 | 14,495 |
| Finance income | 5 | 316 | 724 |
| Finance costs | 5 | (672) | (671) |
| Profit before taxation | | 10,734 | 14,548 |
| Taxation before exceptional items | | (3,502) | (4,070) |
| Exceptional taxation items | | 593 | - |
| Total taxation | 7 | (2,909) | (4,070) |
| Profit for the financial year | | 7,825 | 10,478 |
| Total comprehensive income for the year | | 7,825 | 10,478 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the Company | | 7,825 | 10,478 |

The profit for the year arises from the Company's continuing activities, and is wholly attributable to equity holders of the Company

The related notes numbered 1 to 30 form part of these financial statements

UK MAIL LIMITED

BALANCE SHEET

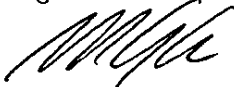
as at 31 March 2012

| | Note | 2012 £'000 | 2011 £'000 |
|-----------------------------------|------|-----------------|-----------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 8 | 3,783 | 3,143 |
| Investment property | 9 | 1,838 | 943 |
| Property, plant and equipment | 10 | 33,262 | 36,810 |
| Deferred tax asset | 17 | 350 | 375 |
| | | <u>39,233</u> | <u>41,271</u> |
| Current assets | | | |
| Inventories | 12 | 213 | 176 |
| Trade and other receivables | 13 | 58,710 | 52,259 |
| Cash and cash equivalents | 14 | 4,490 | 4,930 |
| | | <u>63,413</u> | <u>57,365</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Borrowings | 15 | (806) | (776) |
| Trade and other payables | 16 | (68,792) | (62,385) |
| Current tax liabilities | | (645) | (897) |
| Provisions | 18 | (1,236) | (140) |
| | | <u>(71,479)</u> | <u>(64,198)</u> |
| Net current liabilities | | <u>(8,066)</u> | <u>(6,833)</u> |
| Non-current liabilities | | | |
| Borrowings | 15 | (430) | (1,235) |
| Deferred tax liabilities | 17 | (2,225) | (3,036) |
| Provisions | 18 | (771) | (400) |
| | | <u>(3,426)</u> | <u>(4,671)</u> |
| Net assets | | <u>27,741</u> | <u>29,767</u> |
| Shareholders' equity | | | |
| Ordinary shares | 19 | 1 | 1 |
| Retained earnings | | 27,740 | 29,766 |
| Total shareholders' equity | | <u>27,741</u> | <u>29,767</u> |

The financial statements on pages 15 to 61 were approved by the board of directors on 31 May 2012 and were signed on its behalf by

S Glew

Director



The related notes numbered 1 to 30 form part of these financial statements

Registered number 00965783

UK MAIL LIMITED

CASH FLOW STATEMENT

for the year ended 31 March 2012

| | Note | 2012 £'000 | 2011 £'000 |
|---|------|-----------------|----------------|
| Operating activities | | | |
| Cash generated from operations | 21 | 21,126 | 14,626 |
| Finance income received | | 316 | 724 |
| Finance costs paid | | (672) | (671) |
| Taxation paid | | (3,944) | (4,846) |
| Net cash inflow from operating activities | | <u>16,826</u> | <u>9,833</u> |
| Investing activities | | | |
| Proceeds from disposal of property, plant and equipment | | 3 | 78 |
| Purchase of intangible assets | 8 | (1,804) | (2,078) |
| Purchase of property, plant and equipment | 10 | (4,689) | (5,651) |
| Net cash outflow from investing activities | | <u>(6,490)</u> | <u>(7,651)</u> |
| Financing activities | | | |
| Repayment of finance lease liabilities | | (776) | (753) |
| Dividend paid to parent company | | (10,000) | - |
| Net cash outflow from financing activities | | <u>(10,776)</u> | <u>(753)</u> |
| Net (decrease)/increase in cash and cash equivalents | 26 | (440) | 1,429 |
| Cash and cash equivalents at the beginning of the year | 26 | <u>4,930</u> | <u>3,501</u> |
| Cash and cash equivalents at the end of the year | 26 | <u>4,490</u> | <u>4,930</u> |

The related notes numbered 1 to 30 form part of these financial statements

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

for the year ended 31 March 2012

| | Ordinary shares £'000 | Retained earnings £'000 | Total Shareholders equity £'000 |
|---|-----------------------------|-------------------------------|--|
| Balance as at 1 April 2010 | 1 | 18,439 | 18,440 |
| Profit for the financial year | - | 10,478 | 10,478 |
| Total comprehensive income for the year | - | 10,478 | 10,478 |
| Employees' share option scheme - value of employee services | - | 849 | 849 |
| Total transactions with shareholders recorded directly to equity | - | 849 | 849 |
| Balance as at 31 March 2011 | 1 | 29,766 | 29,767 |
| Balance as at 1 April 2011 | 1 | 29,766 | 29,767 |
| Profit for the financial year | - | 7,825 | 7,825 |
| Total comprehensive income for the year | - | 7,825 | 7,825 |
| Dividends paid to the parent company | - | (10,000) | (10,000) |
| Employees' share option scheme - value of employee services | - | 146 | 146 |
| - tax on items taken directly to equity | - | 3 | 3 |
| Total transactions with shareholders recorded directly to equity | - | (9,851) | (9,851) |
| Balance as at 31 March 2012 | 1 | 27,740 | 27,741 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

1 Principal accounting policies**Accounting policies for the year ended 31 March 2012**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements have been prepared in accordance with the Companies Act 2006 and those IFRS standards as adopted by the European Union and IFRIC interpretations which are effective as at 31 March 2012. The following Standards, Interpretations and Amendments, became effective for and were adopted during the year ended 31 March 2012.

| | Effective date |
|---|----------------|
| IAS 1 (revised), 'Presentation of financial statements' | 1 January 2011 |
| IAS 24 (revised), 'Related party disclosures' | 1 January 2011 |
| IAS 34 (amendment), 'Interim financial reporting' | 1 January 2011 |
| IFRIC 13, 'Customer loyalty programmes' | 1 January 2011 |
| IFRIC 14, 'Pre-payments of a minimum funding requirement' | 1 January 2011 |
| IFRS 7 (amendment), 'Financial instruments: Disclosures' | 1 January 2011 |

The adoption of these standards and interpretations had no material impact on the amounts reported in these financial statements, but may impact the accounting for future transactions and arrangements.

The following Standards, Interpretations and Amendments are effective subsequent to the year end and consequently have not been adopted for the year ended 31 March 2012.

| | Effective date |
|---|----------------|
| IAS 1 (amendment), 'Presentation of financial statements' * | 1 July 2012 |
| IAS 12 (amendment), 'Income taxes' * | 1 January 2012 |
| IAS 19 (amendment), 'Employee benefits' * | 1 January 2013 |
| IAS 27 (amendment), 'Separate financial statements' * | 1 January 2013 |
| IAS 28 (amendment), 'Investments in associates and joint ventures' * | 1 January 2013 |
| IAS 32 (amendment), 'Financial instruments: Presentation' | 1 January 2014 |
| IFRIC 20, 'Stripping costs in the production phase of a surface mine' * | 1 January 2013 |
| IFRS 1 (amendment), 'First time adoption of IFRS' | 1 July 2011 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

1 Principal accounting policies (continued)

| | Effective date |
|--|----------------|
| IFRS 7 (amendment), 'Financial instruments Disclosures' | 1 July 2011 |
| IFRS 9 (amendment), 'Financial instruments Classification and measurement' * | 1 January 2015 |
| IFRS 9 (amendment), 'Financial instruments Accounting for financial liabilities and derecognition' * | 1 January 2015 |
| IFRS 10, 'Consolidated financial statements' * | 1 January 2013 |
| IFRS 11, 'Joint arrangements' * | 1 January 2013 |
| IFRS 12, 'Disclosures of interests in other entities' * | 1 January 2013 |
| IFRS 13, 'Fair value measurement' * | 1 January 2013 |

* Not yet endorsed by the European Union

The Directors do not anticipate that the adoption of any of the above standards or interpretations will have a material impact on the Company's financial statements in the period of initial application

The financial statements have been prepared under the historical cost convention, and on the going concern basis, as described in the going concern statement in the Directors' Report on page 11

The preparation of financial statements in conformity with generally accepted accounting principles, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates

The critical accounting judgements and the key sources of estimation uncertainty are detailed in note 29

Intangible assets

Intangible assets include acquired computer software licences not part of the operating software acquired with a related piece of hardware. These are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful economic lives, of between 3 and 7 years, which are reviewed annually

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

1 Principal accounting policies (continued)

Costs that are directly associated with development of identifiable and unique software products generated for use by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. These represent the direct employment costs of software developers' time spent on relevant projects. Computer software development costs recognised as assets are amortised on a straight line basis over their estimated useful economic lives, of between 3 and 7 years, which are reviewed annually.

Separately identifiable customer lists acquired by the Company are amortised on a straight line basis over their useful economic lives, with provision made for any impairment.

Investment properties

Investment properties comprise of freehold and leasehold land and buildings held for long term rental yields and are not occupied by the Company.

Investment properties are accounted for under the cost model, at cost less accumulated depreciation and accumulated impairment losses and are depreciated either over fifty years (in the case of freehold properties), or over the period of the lease on a straight line basis.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Cost includes the original purchase price of the asset and the cost of bringing the asset to its working condition for intended use. Freehold land is not depreciated. Depreciation is provided on a straight line basis so as to write off the cost of the assets to their residual value over their estimated useful economic lives, using the following rates:

| | |
|-------------------------------------|-------------------------|
| Freehold buildings | fifty years |
| Short leasehold buildings | the period of the lease |
| Motor vehicles, plant and equipment | three to ten years |
| Computer equipment | three to seven years |

The normal expected useful lives and residual values of the major categories of property, plant and equipment are reviewed annually.

The carrying value of property, plant and equipment is reviewed at least annually. Any resultant impairment losses are charged immediately to the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

1 Principal accounting policies (continued)

Assets that are subject to depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Inventories

Inventories represented by fuel stocks held by the Company, are stated at the lower of cost and net realisable value.

Cost is determined using the first-in-first-out method and net realisable value is the estimated selling price less costs of disposal in the ordinary course of business.

Finance and operating leases

Leasing agreements, which transfer to the Company substantially all the risks and rewards of ownership of an asset, are treated as if the asset has been purchased outright. The assets are included in non-current assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give constant periodic rates of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets.

Leases where the Company does not retain substantially all the risks and rewards of ownership of an asset, are classified as operating leases. Operating lease rental payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the term of the lease.

Revenue

Revenue reflects all sales made by the Company, whether delivered by network services or a franchisee, as the Company remains the principal in all transactions. Revenue is recognised in the accounting period in which consignments are delivered for customers.

Income from investment properties is recognised on a straight line basis over the term of the lease, even if the payments are not received on such a basis.

All revenues are stated net of value added tax.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

1 Principal accounting policies (continued)

Cost of sales

Cost of sales reflects all the direct costs incurred in the collection and delivery of a consignment, including the costs of sub-contracted and employed drivers, linehaul costs, and Royal Mail access costs, together with the direct costs of operating the network. Cost of sales includes the depreciation cost of mail sortation machines, network vehicles, cages and site equipment.

Administrative expenses

Administrative expenses reflect all the establishment and central support costs of the Company, including the remuneration of non-operational site based staff and head office personnel, depreciation of buildings, amortisation of central IT systems, and bad debts.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from the net profit in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Company provides for deferred income tax using the balance sheet liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised. Deferred income tax assets and liabilities are measured at the tax rates that apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Full provision is made for deferred taxation on all taxable temporary differences. Deferred tax assets and liabilities are recognised separately on the balance sheet. Deferred tax assets are recognised only to the extent that they are expected to be recoverable.

Deferred taxation is recognised in the statement of comprehensive income unless it relates to taxable transactions taken directly to equity, in which case the deferred tax is also recognised in equity. The deferred tax is released to the statement of comprehensive income at the same time as the taxable transaction is recognised in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

1 Principal accounting policies (continued)

Pension costs

The Company sponsors employees' personal pension plans. The assets of the plans are held separately from those of the Company in independently administered funds. The pension costs charged in the statement of comprehensive income represent contributions payable by the Company to the plans together with the administration charges of the plans.

Foreign currencies

Transactions in foreign currencies are recorded in sterling at the rate ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All exchange differences arising from trading transactions are dealt with in the statement of comprehensive income.

Share-based payments

The parent company, UK Mail Group plc operates several share-based payment schemes on behalf of eligible employees throughout the Group, the largest of which are the SAYE plan, and the long term incentive plan (LTIP). Further details can be found in the financial statements of that Company.

The costs of equity-settled share-based payments are recognised in the statement of comprehensive income with a corresponding increase in equity over the vesting period as services are provided to the Company. The charge is based on the fair value of the equity instrument granted and the number of equity instruments that are expected to vest.

The fair value is measured at grant date and takes account of vesting conditions that relate to the market price of the ultimate parent company's shares. In order to determine the value of the instrument a pricing model relevant to the type of instrument is used.

The costs of cash-settled share-based payments are recognised in the statement of comprehensive income with a corresponding increase in liabilities over the vesting period as services are provided to the Company. The charge is based on the fair value of the liability at each reporting date, with any changes in fair value recognised in the statement of comprehensive income.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

1 Principal accounting policies (continued)

Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingent liabilities

Contingent liabilities represent possible obligations whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly under the control of the Company. Contingent liabilities also include certain obligations that will probably not lead to an outflow of resources embodying economic benefits, or where the outflow of resources embodying economic benefits cannot be measured with sufficient reliability. In accordance with IFRS, contingent liabilities are not recognised as liabilities.

Exceptional items

Material and non-recurring items of income and expense are disclosed in the statement of comprehensive income as exceptional items. Examples of items which may give rise to disclosure as exceptional items include material gains or losses on the disposal of businesses or non-current assets, material asset impairments, and business reorganisation and restructuring costs.

Dividends

Interim dividends are recognised as a distribution from retained earnings in the period in which they are paid.

Final dividends are recognised as a distribution from retained earnings in the period in which they are approved and declared by the directors.

Share capital

Ordinary shares are classified as equity.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

1 Principal accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised in the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Company no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires.

Trade and other receivables: These are recognised and carried at the original invoice amount less an allowance for any non-collectible amounts. Provision is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off to the statement of comprehensive income when identified.

Cash and cash equivalents. These comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Interest-bearing loans and borrowings: All interest-bearing loans and borrowings are initially recognised at fair value plus directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium.

Trade and other payables: These are recognised and carried at their amortised cost. With the exception of balances owing to fellow group undertakings, trade and other payables do not carry any interest.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

2 Segmental information

The business segment results for the year ended 31 March 2012 are as follows

| | Mail £'000 | Parcels £'000 | Courier £'000 | Central £'000 | Total £'000 |
|---|----------------|------------------|------------------|------------------|----------------|
| Segmental revenue | 208,141 | 172,105 | 22,193 | - | 402,439 |
| Inter-segment revenue | - | - | (1,674) | - | (1,674) |
| External revenue | 208,141 | 172,105 | 20,519 | - | 400,765 |
| Operating profit/(loss) before exceptional items | 9,961 | 11,622 | 2,748 | (11,101) | 13,230 |
| Exceptional items | (668) | (1,106) | (304) | (62) | (2,140) |
| Operating profit/(loss) after exceptional items | 9,293 | 10,516 | 2,444 | (11,163) | 11,090 |
| Finance income | | | | | 316 |
| Finance costs | | | | | (672) |
| Profit before taxation | | | | | 10,734 |
| Taxation | | | | | (2,909) |
| Profit attributable to equity shareholders | | | | | 7,825 |

Other segment items

| | | | | | |
|---|---------------|---------------|------------|--------------|----------------|
| Capital expenditure (including acquisitions) | | | | | |
| Property, plant and equipment | 273 | 2,992 | 47 | 1,377 | 4,689 |
| Intangible assets | 121 | - | - | 1,683 | 1,804 |
| Depreciation of property, plant and equipment | | | | | |
| - Owned assets | 700 | 4,185 | 53 | 1,640 | 6,578 |
| - Under finance leases | 493 | - | - | - | 493 |
| Amortisation of intangible assets | | | | | |
| - Owned assets | 133 | - | 49 | 982 | 1,164 |
| Impairment of trade receivables | 56 | 210 | 60 | - | 326 |
| Total assets | 34,496 | 58,691 | 114 | 9,345 | 102,646 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

2 Segmental information (continued)

The business segment results for the year ended 31 March 2011 are as follows

| | Mail £'000 | Parcels £'000 | Courier £'000 | Central £'000 | Total £'000 |
|---|----------------|------------------|------------------|------------------|----------------|
| Segmental revenue | 181,772 | 166,737 | 20,350 | - | 368,859 |
| Inter-segment revenue | - | - | (1,132) | - | (1,132) |
| External revenue | 181,772 | 166,737 | 19,218 | - | 367,727 |
| Operating profit/(loss) | 11,756 | 12,133 | 2,177 | (11,571) | 14,495 |
| Finance income | | | | | 724 |
| Finance costs | | | | | (671) |
| Profit before taxation | | | | | 14,548 |
| Taxation | | | | | (4,070) |
| Profit attributable to equity shareholders | | | | | 10,478 |
| Other segment items | | | | | |
| Capital expenditure (including acquisitions) | | | | | |
| Property, plant and equipment | 230 | 3,809 | 54 | 1,558 | 5,651 |
| Intangible assets | 86 | - | 24 | 1,968 | 2,078 |
| Depreciation of property, plant and equipment | | | | | |
| - Owned assets | 759 | 3,739 | 134 | 1,356 | 5,988 |
| - Under finance leases | 512 | 26 | - | - | 538 |
| Amortisation of intangible assets | | | | | |
| - Owned assets | 186 | - | 84 | 663 | 933 |
| Impairment of trade receivables | 93 | 302 | 33 | - | 428 |
| Total assets | 63,310 | 26,876 | 178 | 8,272 | 98,636 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

3 Exceptional items

| | 2012 £'000 | 2011 £'000 |
|--|---------------|---------------|
| Restructuring costs | 2,140 | - |
| Exceptional taxation credit – relief on operations restructuring costs | (593) | - |
| Exceptional items | 1,547 | - |

Operations restructure

During the year ended 31 March 2012, the board approved a change programme, designed to improve the efficiency of the network infrastructure, and to reduce the fixed cost of the business. This resulted in a number of restructuring changes in operational, sales and head office management with further changes surrounding the regionalisation of customer care centres, the closure of four depots and the restructuring of Courier operations.

These changes have resulted in an exceptional cost of £2,140,000 which comprises of £1,203,000 redundancies, £798,000 property closures, and £139,000 other costs.

Exceptional taxation charge

The exceptional taxation credit of £593,000 (2011: £nil) relates to relief in respect of exceptional operations restructuring costs included above.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

4 Operating profit

| | 2012 | 2011 |
|---|----------------|--------------|
| | £'000 | £'000 |
| The following items have been charged/(credited) in arriving at operating profit | | |
| Royal mail access costs | 169,795 | 143,794 |
| Subcontractor costs | 60,801 | 59,800 |
| Employee benefits expense (note 6) | 58,559 | 60,684 |
| Cost of inventories (included in costs of sales) (note 12) | 10,923 | 10,168 |
| Depreciation of investment property (note 9) | 33 | 33 |
| Depreciation of property, plant and equipment (note 10, 11) | | |
| - Owned assets | 6,545 | 5,988 |
| - Under finance leases | 493 | 538 |
| Amortisation of intangibles (included in administrative expenses) (note 8) | | |
| - Owned assets | 1,164 | 932 |
| - Under finance leases | - | 1 |
| Operating lease rentals payable | 11,013 | 10,410 |
| Repairs and maintenance expenditure on property, plant and equipment | 4,063 | 3,302 |
| Operating lease rentals receivable | | |
| - Plant and machinery | (285) | (275) |
| - Property | (300) | (284) |
| - Computer equipment | (85) | (79) |
| Loss/(profit) on disposal of property, plant and equipment assets | 268 | (50) |
| Trade receivables impairment (included in administrative expenses) | 326 | 478 |
| Reversal of impairment of franchise receivables (included in administrative expenses) | - | (50) |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

4 Operating profit (continued)**Services provided by the Company's auditors**

| | 2012 | 2011 |
|---|--------------|--------------|
| | £'000 | £'000 |
| During the year the Company obtained the following services from the Company's auditors | | |
| Audit services | 71 | 84 |
| Tax services | - | 30 |
| | 71 | 114 |

5 Finance income/(costs) – net

| | 2012 | 2011 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Interest receivable on | | |
| Interest receivable from tax receivables | 10 | 4 |
| Inter-company balances | 306 | 720 |
| Finance income | 316 | 724 |
| Interest payable on | | |
| Finance leases | (90) | (134) |
| Inter-company balances | (567) | (537) |
| Other | (15) | - |
| Finance costs | (672) | (671) |
| Finance (costs)/income - net | (356) | 53 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

6 Employees and directors

Employee benefits expense for the Company during the year (including executive directors)

| | 2012 | 2011 |
|--------------------------------|----------------------|----------------------|
| | £'000 | £'000 |
| Wages and salaries | 52,237 | 53,256 |
| Social security costs | 4,719 | 4,914 |
| Post-employment benefits * | 1,610 | 1,518 |
| Share-based payments (note 20) | 69 | 996 |
| | <u>58,635</u> | <u>60,684</u> |

* Post-employment benefits all relate to defined contribution pension schemes

Average monthly number of persons employed (including executive directors)

| | 2012 | 2011 |
|----------------|---------------------|---------------------|
| | Number | Number |
| Operations | 2,259 | 2,291 |
| Administration | 204 | 199 |
| | <u>2,463</u> | <u>2,490</u> |

| | 2012 | 2011 |
|---|---------------------|---------------------|
| | £'000 | £'000 |
| Key management compensation | | |
| Salaries and short-term employee benefits | 1,399 | 1,525 |
| Post-employment benefits | 131 | 141 |
| Termination benefits | 143 | - |
| Share-based payments | 20 | 438 |
| | <u>1,693</u> | <u>2,104</u> |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

6 Employees and directors (continued)

The key management figures above include the directors as detailed below

| | 2012 | 2011 |
|------------------------------|-------------------|------------|
| | £'000 | £'000 |
| | | (restated) |
| Directors' emoluments | | |
| Aggregate emoluments | 648 | 863 |
| Post-employment benefits | 77 | 102 |
| | <u>725</u> | <u>965</u> |

The prior year figures have been restated on a basis comparable with the current year

The highest paid director was paid £337,000 during the year (2011 £337,000) In addition, Company pension contributions of £49,000 were taken as a salary supplement (2011 £49,000)

During the year ended 31 March 2012, no directors (2011 three directors) exercised options over shares of 10p each of the ultimate parent company, UK Mail Group plc, details of which can be found in the Annual Report of that Company

Pension contributions were made in respect of two (2011 three) directors The number of directors accruing benefits under

| | 2012 | 2011 |
|--|-----------------|----------|
| | Number | Number |
| Defined contribution schemes | - | 1 |
| Contributions taken as a salary supplement | <u>2</u> | <u>2</u> |
| | <u>2</u> | <u>3</u> |

UK MAIL LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

7

Taxation

Analysis of charge in the year

| | 2012 | 2011 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Current tax - current year | 3,609 | 4,646 |
| Current tax - adjustment in respect of prior years | 83 | (214) |
| Total current tax | 3,692 | 4,432 |
| Deferred tax (note 17) - current year | (764) | (482) |
| Deferred tax (note 17) - adjustment in respect of prior years | (19) | 120 |
| Total deferred tax | (783) | (362) |
| Taxation | 2,909 | 4,070 |

The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax of 26% (2011 28%) to the profit before tax are explained below:

| | 2012 | 2011 |
|--|---------------|--------------|
| | £'000 | £'000 |
| Profit before tax | 10,734 | 14,548 |
| Profit at the standard rate of corporation tax in the UK of 26% (2011 28%) | 2,791 | 4,073 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 207 | 271 |
| Effect of change in tax rate | (161) | (196) |
| Other timing differences | 7 | 15 |
| Adjustment in respect of prior years | 65 | (93) |
| Total taxation charge | 2,909 | 4,070 |

Additionally, £3,000 of current tax has been credited (2011 £nil) directly to equity in respect of share options

From 1 April 2012, the main rate of UK Corporation tax reduced from 28% to 26%. A further UK Corporation tax rate reduction to 24% was announced in the March 2012 budget statement and will have effect from 1 April 2013. Further reductions to the main rate have been proposed to reduce the rate by 1% per annum to 22% by 1 April 2014.

These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

8 Intangible assets

| | Customer lists £'000 | Acquired software licences £'000 | Internal software developments £'000 | Total £'000 |
|--|----------------------------|---|---|----------------|
| Cost | | | | |
| At 1 April 2011 | 90 | 3,374 | 3,474 | 6,938 |
| Additions | - | 712 | 1,092 | 1,804 |
| Disposals | - | (607) | - | (607) |
| At 31 March 2012 | 90 | 3,479 | 4,566 | 8,135 |
| Accumulated amortisation | | | | |
| At 1 April 2011 | 90 | 2,316 | 1,389 | 3,795 |
| Charge for the year | - | 315 | 849 | 1,164 |
| Disposals | - | (607) | - | (607) |
| At 31 March 2012 | 90 | 2,024 | 2,238 | 4,352 |
| Net book value at 31 March 2012 | - | 1,455 | 2,328 | 3,783 |
| | | | | |
| | Customer lists £'000 | Acquired software licences £'000 | Internal software developments £'000 | Total £'000 |
| Cost | | | | |
| At 1 April 2010 | 90 | 3,225 | 1,843 | 5,158 |
| Additions | - | 447 | 1,631 | 2,078 |
| Disposals | - | (298) | - | (298) |
| At 31 March 2011 | 90 | 3,374 | 3,474 | 6,938 |
| Accumulated amortisation | | | | |
| At 1 April 2010 | 90 | 2,315 | 755 | 3,160 |
| Charge for the year | - | 299 | 634 | 933 |
| Disposals | - | (298) | - | (298) |
| At 31 March 2011 | 90 | 2,316 | 1,389 | 3,795 |
| Net book value at 31 March 2011 | - | 1,058 | 2,085 | 3,143 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

8 Intangible assets (continued)

Amortisation of customer lists is charged through cost of sales. Software related amortisation has been charged through administrative expenses.

9 Investment property

| | 2012 £'000 | 2011 £'000 |
|-----------------------------------|---------------|---------------|
| Cost | | |
| At 1 April | 1,656 | 1,656 |
| Reclassification (see note 10) | 928 | - |
| At 31 March | 2,584 | 1,656 |
| Accumulated depreciation | | |
| At 1 April | 713 | 680 |
| Charge for the year | 33 | 33 |
| At 31 March | 746 | 713 |
| Net book value at 31 March | 1,838 | 943 |

Investment property is accounted for under the cost model, at cost less accumulated depreciation and accumulated impairment losses and is depreciated over fifty years on a straight line basis.

One (2011: one) investment property is held by the Company, located in the West Midlands, which is being sublet under an operating lease. The rental income recognised in the year was £300,000 (2011: £284,000). Direct operating expenses incurred were £nil (2011: £nil).

The property was valued by qualified professional valuers working for the company of DTZ Debenham Tie Leung, Chartered Surveyors, acting in the capacity of External Valuers in December 2010 at £2,445,000. All such valuers are Chartered Surveyors, being members of the Royal Institution of Chartered Surveyors ('RICS'). DTZ Debenham Tie Leung is a wholly owned subsidiary of DTZ Holdings plc (the 'DTZ Group'), a part of the UGL service group. In the financial year to 30 April 2012, the proportion of total fees payable by the Company to the total fee income of the UGL service group was less than 5%.

The valuation was primarily derived using comparable recent market transactions on arm's length terms. The valuation was carried out in accordance with the RICS Appraisal and Valuation Standards.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

9 Investment property (continued)

The property has since been valued by the UK Mail Group Property Manager at £2.4m to £2.5m in March 2012 by reference to market evidence of transaction prices for similar properties in the same area

10 Property, plant and equipment

| | Freehold land and buildings £'000 | Short leasehold buildings £'000 | Motor vehicles plant and equipment £'000 | Computer equipment £'000 | Total £'000 |
|--|--|--|--|--------------------------------|----------------|
| Cost | | | | | |
| At 1 April 2011 | 22,606 | 3,373 | 32,246 | 11,077 | 69,302 |
| Additions | 132 | 158 | 2,981 | 1,418 | 4,689 |
| Disposals | - | (49) | (2,344) | (1,553) | (3,946) |
| Reclassification (see note 9) | (928) | 72 | (72) | - | (928) |
| At 31 March 2012 | 21,810 | 3,554 | 32,811 | 10,942 | 69,117 |
| Accumulated depreciation | | | | | |
| At 1 April 2011 | 4,287 | 1,529 | 19,186 | 7,490 | 32,492 |
| Charge for the year | 468 | 370 | 4,486 | 1,714 | 7,038 |
| Disposals | - | (32) | (2,090) | (1,553) | (3,675) |
| Reclassification | - | 72 | (72) | - | - |
| At 31 March 2012 | 4,755 | 1,939 | 21,510 | 7,651 | 35,855 |
| Net book value at 31 March 2012 | 17,055 | 1,615 | 11,301 | 3,291 | 33,262 |
| | Freehold land and buildings £'000 | Short leasehold buildings £'000 | Motor vehicles plant and equipment £'000 | Computer equipment £'000 | Total £'000 |
| Cost | | | | | |
| At 1 April 2010 | 22,023 | 3,244 | 29,567 | 11,700 | 66,534 |
| Additions | 583 | 213 | 3,224 | 1,631 | 5,651 |
| Disposals | - | (84) | (545) | (2,254) | (2,883) |
| At 31 March 2011 | 22,606 | 3,373 | 32,246 | 11,077 | 69,302 |
| Accumulated depreciation | | | | | |
| At 1 April 2010 | 3,868 | 1,233 | 15,529 | 8,192 | 28,822 |
| Charge for the year | 419 | 368 | 4,187 | 1,552 | 6,526 |
| Disposals | - | (72) | (530) | (2,254) | (2,856) |
| At 31 March 2011 | 4,287 | 1,529 | 19,186 | 7,490 | 32,492 |
| Net book value at 31 March 2011 | 18,319 | 1,844 | 13,060 | 3,587 | 36,810 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

11 Assets held under finance leases

Property, plant and equipment assets (see note 10) includes the following assets held under finance leases

| | 2012 | 2011 |
|-----------------------------------|---------------------|---------------------|
| | £'000 | £'000 |
| Cost | 5,237 | 5,237 |
| Accumulated depreciation | (4,033) | (3,540) |
| Net book value at 31 March | <u>1,204</u> | <u>1,697</u> |

The majority of the leases are for an initial contractual period of seven years, with options to renew for varying periods at fixed rates. The interest rate inherent in the lease is fixed at the contract date for the term of the lease.

12 Inventories

| | 2012 | 2011 |
|------------|-------------------|-------------------|
| | £'000 | £'000 |
| Fuel stock | <u>213</u> | <u>176</u> |

The Company consumed £10,923,000 (2011: £10,168,000) of inventories during the year.

Inventories are carried at the lower of cost and net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

13 Trade and other receivables

| | 2012 | 2011 |
|---|---------------|--------------|
| | £'000 | £'000 |
| Trade receivables | 44,117 | 40,992 |
| less provision for impairment | (120) | (138) |
| Trade receivables, net of provisions for impairment | 43,997 | 40,854 |
| Other receivables | 2,225 | 1,207 |
| Amounts owed from group undertakings | - | 236 |
| Prepayments and accrued income | 12,488 | 9,962 |
| | 58,710 | 52,259 |

All carrying amounts of total trade and other receivables are denominated in sterling, and are due within one year. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

Further information on the credit risks relating to trade and other receivables is given in note 22.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

14 Cash and cash equivalents

| | 2012 | 2011 |
|--------------------------|--------------|--------------|
| | £'000 | £'000 |
| Cash at bank and in hand | <u>4,490</u> | <u>4,930</u> |

The effective interest rate on the cash and bank balances was nil% (2011 nil%)

15 Borrowings

| | 2012 | 2011 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Current | | |
| Amounts due within one year or on demand: | | |
| Finance lease obligations | <u>806</u> | <u>776</u> |
| Non-current | | |
| Finance lease obligations | <u>430</u> | <u>1,235</u> |

The minimum finance lease payments under finance leases fall due as follows

| | 2012 | 2011 |
|---|---------------------|---------------------|
| | £'000 | £'000 |
| Amounts payable under finance leases | | |
| Within 1 year | 851 | 866 |
| Between 1 and 5 years | <u>438</u> | <u>1,289</u> |
| Total minimum lease payments | 1,289 | 2,155 |
| Future finance charges | <u>(53)</u> | <u>(144)</u> |
| Present value of finance leases | <u>1,236</u> | <u>2,011</u> |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

16 Trade and other payables

| | 2012 £'000 | 2011 £'000 |
|------------------------------------|---------------|---------------|
| Trade payables | 35,473 | 32,579 |
| Amounts owed to group undertakings | 7,197 | 6,328 |
| Amounts owed to franchisees | 1,783 | 1,941 |
| Other payables | 844 | 1,754 |
| Taxes and social security | 12,517 | 10,924 |
| Accruals | 10,895 | 8,757 |
| Deferred income | 83 | 102 |
| | <u>68,792</u> | <u>62,385</u> |

Amounts owed to group undertakings bear interest, and are repayable on demand

17 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 24% (2011 26%)

The movement on the deferred tax account is as shown below

| | 2012 £'000 | 2011 £'000 |
|--|-----------------------|-----------------------|
| Deferred tax account | | |
| At 1 April | (2,661) | (3,023) |
| Statement of comprehensive income credit | 783 | 362 |
| Credited to equity | 3 | - |
| At 31 March | <u>(1,875)</u> | <u>(2,661)</u> |
| | 2012 £'000 | 2011 £'000 |
| Deferred tax assets | | |
| At 1 April | 375 | 548 |
| Statement of comprehensive income charge | (28) | (173) |
| Credited to equity | 3 | - |
| At 31 March | <u>350</u> | <u>375</u> |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

17 Deferred tax (continued)

| | 2012 | 2011 |
|--|-----------------------|-----------------------|
| | £'000 | £'000 |
| Deferred tax liabilities | | |
| At 1 April | (3,036) | (3,572) |
| Statement of comprehensive income credit | <u>811</u> | <u>536</u> |
| At 31 March | <u>(2,225)</u> | <u>(3,036)</u> |

Deferred tax assets, which largely relate to share-based payments, are calculated on the difference between the market price of the parent company's shares at the balance sheet date and the option exercise price. The excess of the deferred tax charge over the cumulative statement of comprehensive income charge is recognised in equity. The directors consider that it is more likely than not that there will be sufficient taxable profits in the future such as to realise the deferred tax asset, and therefore the asset has been recognised in these financial statements.

Deferred tax liabilities, which largely relate to accelerated capital allowances, are calculated on the difference between the accounting net book value of the assets and their carrying amount for tax purposes.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

The deferred income tax credited to equity during the year is as follows:

| | 2012 | 2011 |
|--------------------------------------|--------------|----------|
| | £'000 | £'000 |
| Deferred tax on share-based payments | <u>3</u> | <u>-</u> |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

18 Provisions

| | £'000 |
|---------------------------------|--------------|
| At 1 April 2011 | 540 |
| Charged to the income statement | 2,369 |
| Utilised in the year | (902) |
| At 31 March 2012 | 2,007 |

Provisions have been analysed between current and non-current as follows

| | 2012 £'000 | 2011 £'000 |
|-------------|---------------|---------------|
| Current | 1,236 | 140 |
| Non-current | 771 | 400 |
| | 2,007 | 540 |

£1,388,000 of the provision relates to exceptional restructuring costs to be incurred within 1 year and up to 6 years (See note 3)

£619,000 of the provision for property leases relates to dilapidations on properties under leases expiring within 1 year and up to 15 years. The properties have been inspected by the UK Mail Group Property Manager, and estimates made for the anticipated dilapidation expenditure to be incurred prior to sub-letting, or reversion of the lease.

19 Ordinary shares

| | 2012 £'000 | 2011 £'000 |
|---|---------------|---------------|
| Authorised, issued, allotted and fully paid 1,000 (2011: 1,000) ordinary shares of £1 each | 1 | 1 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

20 Share-based payments

In order to align the interests of UK Mail Group employees and franchisees with those of the shareholders, share options are awarded to employees and franchisees under discretionary share incentive plans, and employees under all-employee share plans, as follows

Savesave Plan

UK Mail Group has offered a SAYE share plan since 1996 to eligible employees, including directors. The plan is an HMRC approved all-employee share plan. The HMRC does not permit performance conditions to be attached to the exercise of options. Under the plan, participants are granted options over UK Mail Group plc shares. Each participant may save up to £250 per month to purchase shares in UK Mail Group plc at a discount of up to a maximum 20% of the market value at the time of the option grant.

New Executive 2001 Share Option Scheme

Awards were made under an executive share option scheme between 2001 and 2003 to employees at senior management level and above, exercisable within 3 - 10 years of the grant date. Options were granted with a fixed exercise price equal to the market price of the shares under option at the date of the grant.

Options granted under the executive share option scheme are exercisable on the third anniversary of the date of grant, subject to the condition that the growth in the parent company's earnings per share exceeds the increase in the index of retail prices from the date of grant by more than 3% p.a.

Additionally, exercise of an option is subject to continued employment, with settlement in the form of shares.

Franchise Share Option Scheme

The franchise share option scheme was introduced in 2002. Under the scheme the UK Mail Group plc Remuneration Committee can grant options over shares in the parent company to franchisees of the Company. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of the grant. The contractual life of an option is 3 - 10 years. Awards under the scheme are generally reserved for franchisees who have met operational performance criteria in the year prior to the award and currently there are 2 franchisees participating.

Options granted under the franchisee share option scheme are exercisable on the third anniversary of the date of grant, subject to the condition that the growth in the parent company's earnings per share exceeds the increase in the index of retail prices from the date of grant by more than 3% p.a.

20 Share-based payments (continued)

Additionally, exercise of an option is subject to a continued franchisee relationship, with settlement in the form of shares

Long Term Incentive Plan ('LTIP')

Following a decision by the UK Mail Group plc Remuneration Committee an LTIP was introduced in 2004, as a more effective means of incentivising the Company's senior management than the executive share option scheme. Under the LTIP the Remuneration Committee can grant options over shares in the parent company to employees of the Company, with a contractual life of an option being 3 - 10 years.

2006 and 2007 Awards

In order to provide the UK Mail Group plc Remuneration Committee with flexibility to offer competitive awards to senior executives, shareholder approval was sought and granted at the Annual General Meeting held on 11 July 2006 to amend the performance conditions applying to future LTIP awards.

40% of an Award is subject to a performance condition based on the annual earnings per share (EPS) growth of the ultimate parent company, UK Mail Group plc. For the awards in 2007, 25% (of the 40%) would vest for growth of 15% p a over the three year period from 2007 to 2010, with 100% vesting for growth of 20% p a over that period.

60% of an award is determined by the Total Shareholder Return (TSR) performance of the ultimate parent company relative to all the other companies in the FTSE All Share Index (excluding Investment Trusts) at the start of the financial year in which an award is granted over a period of 3 financial years. The proportion of the award which may be exercised depends upon the ranking of the ultimate parent company's TSR, whereby 25% (of the 60%) of shares may be exercised if the ultimate parent company achieves median ranking, rising pro-rata to 100% if the ultimate parent company's ranking falls within the top quartile. No shares are exercisable if the ultimate parent company's ranking is below the median.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

20 Share-based payments (continued)

2009 and 2010 Awards

A new LTIP plan was approved by shareholders at the Annual General Meeting of UK Mail Group plc held on 15 July 2009, which contains the same award limits as the previous plan. The performance conditions were amended such that,

50% of an Award is subject to a performance condition based on the annual earnings per share (EPS) growth of the ultimate parent company, UK Mail Group plc.

For the awards in 2009, 25% (of the 50%) would vest for growth of 8.5% p.a. over the three year period from 2009 to 2012, with 100% vesting for growth of 13% p.a. over that period. As the actual EPS fell short of the minimum vesting level then no shares vested under this condition.

50% of an award is determined by the TSR performance of the ultimate parent company relative to all the other companies in the FTSE All Share Index (excluding Investment Trusts) at the start of the financial year in which an award is granted over a period of 3 financial years. The proportion of the award which may be exercised depends upon the ranking of the ultimate parent company's TSR, whereby 25% (of the 50%) of shares may be exercised if the ultimate parent company achieves median ranking, rising pro-rata to 100% if the ultimate parent company's ranking falls within the top quartile. No shares are exercisable if the ultimate parent company's ranking is below the median.

As the ultimate parent company's TSR was below the minimum vesting level (i.e. below median) then no shares vested under this condition in respect of the 2009 awards.

To the extent that shares vest, the value of dividends payable over the vesting period will be rolled-up and awarded in shares to successful award holders.

20 Share-based payments (continued)***Share Matching Plan ('SMP')***

In 2004 the UK Mail Group plc Remuneration Committee introduced a SMP, designed to further align the interests of certain invited executives to long-term shareholders. Under the rules, selected executives may be invited to invest a proportion of their cash bonus in the acquisition of UK Mail Group plc shares up to 25% of their pre-tax salary. Where such an investment is made, the executives will receive a grant of a matching award over shares in UK Mail Group plc with an equivalent value, which may be exercised between 36 and 42 months following the date of grant.

The proportion of the award which may be exercised depends upon the growth in the ultimate parent company's earnings per share and is subject to a minimum growth of 4% p.a. above the index of retail prices ('RPI') over the three year performance period. One third of the award may be exercised if growth is in excess of RPI growth by 12% over the period, two thirds if growth is in excess by 15%, and in full if growth exceeds RPI growth by 18% over the period. The awards lapse if the minimum condition is not achieved at the end of the three year performance period, as was the case for the 2008 SMP award which lapsed on 3 June 2011.

Exercise of an option is subject to continued employment, with settlement in the form of shares.

Calculation of fair values

For equity-settled share-based transactions, fair values of share options awarded in the financial year are measured at the date of grant of the option using a share pricing option model. Where the model is dependent on the ultimate parent company's TSR over a period, the Monte Carlo model is used, in all other circumstances the Black-Scholes model is used. Non-market conditions, such as the ultimate parent company meeting earnings per share targets, are not incorporated into the calculation of fair value at the grant date but are reflected in the amount of compensation expense accrued over the vesting period.

The expected life of options depends on the behaviour of option holders, which is incorporated into the option model consistent with historic observable data.

For cash-settled share-based transactions, fair values of share options awarded in the financial year are measured at each balance sheet date at the fair value of the liability, with all changes immediately recognised in the Statement of comprehensive income. Non-market conditions, such as the ultimate parent company meeting earnings targets, are not incorporated into the calculation of fair value at the grant date but are reflected in the amount of compensation expense accrued over the vesting period. The expected life of options is determined by reference to the contractual terms.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

20 Share-based payments (continued)**Reconciliation of option movements**

A reconciliation of option movements over the year to 31 March 2012 is shown below

| | 2012 Number | 2012 Weighted average exercise price | 2011 Number | 2011 Weighted average exercise price |
|----------------------------|----------------|--|----------------|--|
| Outstanding as at 1 April | 1,731,491 | £0 76 | 1,643,348 | £0 90 |
| Granted | - | - | 691,782 | £0 49 |
| Lapsed | (489,144) | £1 08 | (356,493) | £1 22 |
| Exercised | (40,260) | £2 40 | (247,146) | £0 23 |
| Outstanding as at 31 March | 1,202,087 | £0 58 | 1,731,491 | £0 76 |
| Exercisable at 31 March | 47,092 | £4 02 | 323,439 | £3 98 |

Options are exercisable as follows

| | 2012 Weighted average exercise price | 2012 Number of shares | 2012 Weighted average remaining life expected years | 2012 Weighted average remaining life contracted years |
|--------------------------|--|--------------------------------|---|---|
| Range of exercise prices | | | | |
| £0 00 - £0 99 | £0 00 | 947,323 | 0 7 | 7 7 |
| £2 00 - £2 99 | £2.43 | 207,672 | 1 3 | 1 5 |
| £3 00 - £3 99 | £3.80 | 19,735 | 0 1 | 0 3 |
| £4 00 - £4 99 | £4.18 | 27,357 | 0 1 | 0 2 |
| | £0 58 | 1,202,087 | 0 8 | 6 3 |

| | 2011 Weighted average exercise price | 2011 Number of shares | 2011 Weighted average remaining life expected years | 2011 Weighted average remaining life contracted years |
|--------------------------|--|--------------------------------|---|---|
| Range of exercise prices | | | | |
| £0 00 - £0 99 | £0 00 | 1,250,786 | 1 7 | 8 6 |
| £2 00 - £2 99 | £2 45 | 390,064 | 1 9 | 2 2 |
| £3 00 - £3 99 | £3 71 | 36,770 | 0 6 | 1 1 |
| £4 00 - £4 99 | £4 18 | 53,871 | 0 6 | 1 2 |
| | £0 76 | 1,731,491 | 1 7 | 6 8 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

20 Share-based payments (continued)

The weighted average share price for options exercised during the year ended 31 March 2012 was £2.58 (2011 £3.45). The total charge for the year relating to employee share-based payments was £76,000, (2011 £996,000), £146,000 (2011 £863,000) of which related to equity-settled share-based payment transactions and £70,000 credit (2011 £133,000 cost) to cash-settled share-based transactions.

21 Cash flow from operating activities

The reconciliation of profit to cash generated from operations is as follows

| | 2012 £'000 | 2011 £'000 |
|--|---------------|---------------|
| Profit for the year | 7,825 | 10,478 |
| Taxation | 2,909 | 4,070 |
| Finance costs payable | 672 | 671 |
| Finance income receivable | (316) | (724) |
| Depreciation and amortisation | 8,235 | 7,492 |
| Share-based payments | 76 | 996 |
| Loss/(profit) on disposal of property, plant and equipment | 268 | (50) |
| (Increase)/decrease in inventories | (37) | 44 |
| Increase in trade and other receivables | (6,451) | (5,003) |
| Increase/(decrease) in trade and other payables | 6,478 | (3,259) |
| Increase/(decrease) in provisions | 1,467 | (89) |
| Cash generated from operations | 21,126 | 14,626 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

22 Financial instruments

The Company's overall objective when managing financial risk is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders. As a member of the UK Mail Group plc group of companies, risk management is carried out by a central treasury function under written policies approved by the Group Board. Under the supervision of the Group Finance Director, the Group Treasury function identifies and evaluates financial risks in close co-operation with the operating divisions.

The use of simple financial derivatives is considered in order to hedge specific financial risks where cost effective to do so. The Company does not enter into, or trade, financial instruments, including derivative financial instruments, for speculative purposes.

Risks are inherent in the use of debt capital, including interest rate risk. Additionally the Company is routinely exposed to a number of other financial risks, including credit risk, market risk, liquidity risk, foreign exchange risk and capital risk. These are discussed below.

The contractual maturity profile of the Company's financial assets and liabilities at 31 March is set out below. The amounts disclosed are the contractual undiscounted cash flows and therefore include interest cash flows (forecast using LIBOR interest rates as at 31 March in the case of floating rate financial assets and liabilities). The table also compares the book value and the fair value of the Company's financial assets and liabilities. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest.

| At 31 March 2012 | Book value £'000 | Fair value £'000 | Total contractual cash flows £'000 | Within one year £'000 | Between one and two years £'000 | Between two and five years £'000 | Over five years £'000 |
|--------------------------|---------------------|---------------------|---------------------------------------|--------------------------|------------------------------------|-------------------------------------|--------------------------|
| Financial assets | | | | | | | |
| Trade receivables | 43,997 | 43,997 | 43,997 | 43,997 | - | - | - |
| Other receivables | 2,225 | 2,225 | 2,225 | 2,225 | - | - | - |
| Accrued income | 7,003 | 7,003 | 7,003 | 7,003 | - | - | - |
| Cash at bank and in hand | 4,490 | 4,490 | 4,490 | 4,490 | - | - | - |
| | 57,715 | 57,715 | 57,715 | 57,715 | - | - | - |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

22 Financial instruments (continued)

| At 31 March 2012 | Book value £'000 | Fair value £'000 | Total contractual cash flows £'000 | Within one year £'000 | Between one and two years £'000 | Between two and five years £'000 | Over five years £'000 |
|--------------------------------------|---------------------|---------------------|---------------------------------------|--------------------------|------------------------------------|-------------------------------------|--------------------------|
| Financial liabilities | | | | | | | |
| Finance leases | (1,236) | (1,158) | (1,236) | (806) | (430) | - | - |
| Trade payables | (35,473) | (35,473) | (35,473) | (35,473) | - | - | - |
| Other payables | (844) | (844) | (844) | (844) | - | - | - |
| Amounts owed to franchisees | (1,783) | (1,783) | (1,783) | (1,783) | - | - | - |
| Amounts owed to group undertakings | (7,197) | (7,197) | (7,197) | (7,197) | - | - | - |
| Accruals | (10,895) | (10,895) | (10,895) | (10,895) | - | - | - |
| | (57,428) | (57,350) | (57,428) | (57,010) | (418) | - | - |
| Financial assets | | | | | | | |
| Trade receivables | 40,854 | 40,854 | 40,854 | 40,854 | - | - | - |
| Other receivables | 1,207 | 1,207 | 1,207 | 1,207 | - | - | - |
| Accrued income | 4,431 | 4,431 | 4,431 | 4,431 | - | - | - |
| Amounts owed from group undertakings | 236 | 236 | 236 | 236 | - | - | - |
| Cash at bank and in hand | 4,930 | 4,930 | 4,930 | 4,930 | - | - | - |
| | 51,658 | 51,658 | 51,658 | 51,658 | - | - | - |
| At 31 March 2011 | Book value £'000 | Fair value £'000 | Total contractual cash flows £'000 | Within one year £'000 | Between one and two years £'000 | Between two and five years £'000 | Over five years £'000 |
| Financial liabilities | | | | | | | |
| Finance leases | (2,011) | (1,962) | (2,011) | (776) | (1,235) | - | - |
| Trade payables | (32,579) | (32,579) | (32,579) | (32,579) | - | - | - |
| Other payables | (1,754) | (1,754) | (1,754) | (1,754) | - | - | - |
| Amounts owed to franchisees | (1,941) | (1,941) | (1,941) | (1,941) | - | - | - |
| Amounts owed to group undertakings | (6,328) | (6,328) | (6,328) | (6,328) | - | - | - |
| Accruals | (8,757) | (8,757) | (8,757) | (8,757) | - | - | - |
| | (53,370) | (53,321) | (53,370) | (52,135) | (1,235) | - | - |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

22 Financial instruments (continued)

All financial assets and liabilities stated at fair value in the table above have carrying amounts where the fair value component is a level two fair value measurement. Level two fair value measurements use inputs other than quoted prices that are observable for the relevant asset or liability, either directly or indirectly.

The value of finance leases is based by discounting the contracted cash flows at prevailing interest rates.

All financial assets and liabilities are sterling denominated.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. These risks arise principally from the credit exposure to trade receivables, as well as from cash and cash equivalents.

The maximum exposure to credit risk is represented by the book value of each financial asset as recorded in the balance sheet.

Cash and cash equivalents held by the Company includes bank balances and short term deposits with a maturity of one week or less. The credit risk on these liquid funds is limited because in all cases the counterparties are banks with high credit ratings confirmed by international credit-rating agencies.

The Company has no significant concentrations of credit risk. Concentrations of credit risk to trade receivables are limited due to the Company's customer base being large and unrelated, with no one customer accounting for more than 6% of trade receivables. The Company has implemented policies that require appropriate credit checks on potential customers before sales commence and strict credit control of outstanding amounts. Trade credit insurance is employed to protect any significant exposure to bad debts.

Trade receivables that are neither past due nor impaired are expected to be fully recovered as there is no recent history of default or any indications that the debtors will not meet their payment obligations. At the year-end there are no trade receivables (2011: none) whose terms have been renegotiated and would otherwise be past due or impaired.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

22 Financial instruments (continued)

Impaired receivables mainly relate to debtors in financial difficulty where defaults in payments have occurred, liability for payment is disputed, or debtors have entered into bankruptcy. Trade receivables are impaired when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms. However, the Company expects a portion of these receivables to be recovered.

The Company does not hold any material collateral as security and no assets have been acquired through the exercise of any collateral previously held.

The Company's trade receivables are stated after allowances for bad and doubtful debts, an analysis of which is as follows:

| | 2012 £'000 | 2011 £'000 |
|-----------------|---------------|---------------|
| At 1 April | 138 | 147 |
| Amount utilised | (18) | (9) |
| At 31 March | 120 | 138 |

As at 31 March, the ageing analysis of trade receivables is as follows:

| | 2012 £'000 | 2011 £'000 |
|----------------------|---------------|---------------|
| Less than 30 days | 43,734 | 41,202 |
| Between 30 - 60 days | 272 | 169 |
| Between 60 - 90 days | (20) | 5 |
| More than 90 days | 131 | (522) |
| | 44,117 | 40,854 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

22 Financial instruments (continued)

As at 31 March 2012, trade receivables of £144,000 were impaired (2011 £165,000). The amount of provision was £120,000 at 31 March 2012 (2011 £138,000). The ageing of these impaired trade receivables is as follows

| | 2012 | 2011 |
|----------------------|--------------|--------------|
| | £'000 | £'000 |
| Less than 30 days | - | - |
| Between 30 - 60 days | 68 | 59 |
| Between 60 - 90 days | 31 | 38 |
| More than 90 days | 45 | 68 |
| | 144 | 165 |

As at 31 March 2012, trade receivables of £6,194,000 were past due but not impaired (2011 £5,171,000). The ageing of these trade receivables is as follows

| | 2012 | 2011 |
|----------------------|--------------|--------------|
| | £'000 | £'000 |
| Less than 30 days | 5,930 | 5,382 |
| Between 30 - 60 days | 215 | 218 |
| Between 60 - 90 days | (46) | 37 |
| More than 90 days | 95 | (466) |
| | 6,194 | 5,171 |

As at 31 March 2012, there were £nil (2011 £nil) trade receivables impaired but not past due for payment

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

22 Financial instruments (continued)

None (2011 none) of the other classes of financial assets within trade and other receivables contain impaired assets

Amounts owed by group undertakings bear interest at a rate linked to the base rate, and are repayable on demand

Market risk

Overall, since the vast majority of the Company's activities are provided to UK businesses, the fortunes of the Company are linked to the general health of the UK economy. The Company's exposure is limited by being spread across a wide range of customers. No customer accounts for more than 6% of revenue.

Interest rate risk

The interest risk profile of the Company's interest-earning financial assets and interest-bearing financial liabilities at 31 March 2012 was

| | 2012 Book value £'000 | 2012 Fixed rate financial liabilities £'000 | 2012 Floating rate financial liabilities £'000 | 2011 Book value £'000 | 2011 Fixed rate financial liabilities £'000 | 2011 Floating rate financial liabilities £'000 |
|-------------------------------------|--------------------------------|--|---|--------------------------------|--|---|
| Financial assets | | | | | | |
| Cash and cash equivalents | 4,490 | - | 4,490 | 4,930 | - | 4,930 |
| Amounts due from group undertakings | - | - | - | 236 | - | 236 |
| | 4,490 | - | 4,490 | 5,166 | - | 5,166 |
| Financial liabilities | | | | | | |
| Finance leases | (1,236) | (1,236) | - | (2,011) | (2,011) | - |
| Amounts due to group undertakings | (7,197) | (7,197) | - | (6,328) | (6,328) | - |
| | (8,433) | (8,433) | - | (8,339) | (8,339) | - |

The UK Mail plc Group Treasury department monitor cash and cash equivalent balances on a daily basis, placing surplus funds with approved financial institutions, generally overnight. Interest receivable is based on a rate linked to the base rate. The Group has additionally made a number of longer term deposits where the interest rate receivable has been agreed on inception, with the monies being able to be called back at immediate notice without penalty.

The interest rate payable on finance leases is fixed at the inception of any agreement.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

22 Financial instruments (continued)

A change of 1% in the average interest rate receivable and payable over the financial year would have increased or decreased profit before tax and equity for the year, as follows

| | 2012 Profit before tax £'000 | 2012 Equity £'000 | 2011 Profit before tax £'000 | 2011 Equity £'000 |
|---|--|-------------------------|--|-------------------------|
| Increase of 1% in the average rate receivable/(payable) | 174 | 174 | 124 | 124 |
| Decrease of 1% in the average rate receivable/(payable) | (174) | (174) | (124) | (124) |

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due

The Board reviews both the long and short-term financing requirements of the Company to ensure that there are sufficient available funds both for the day-to-day operations of the Company and for planned capital investments. The Company has long-term contracts with a number of customers and suppliers across different geographic areas and industries. Additionally, the Company has further access to funding as a member of the UK Mail Group of companies.

As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current economic outlook.

As at 31 March 2012, the Company had undrawn borrowing facilities of £12m under a group arrangement (2011: £12m). These facilities are in place until 30 June 2012.

Foreign exchange risk

The Company incurs foreign currency risks on sales, purchases and cash denominated in currencies other than Sterling. The Company is not significantly exposed to the effects of fluctuations in exchange rates since all income is in sterling and costs denominated in foreign currency (principally the Euro) represent less than 0.3% of all expenditure.

There would have been no impact on profit before tax or equity in either the year ended 31 March 2012 or 31 March 2011, had Sterling strengthened or weakened 10% against the Euro.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

22 Financial instruments (continued)**Capital risk**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for the ultimate parent company and benefits for other stakeholders

23 Operating lease commitments – minimum lease payments

| Commitments under non-cancellable operating leases expiring: | 2012 | | 2011 | |
|--|-----------------------------|--|-----------------------------|--|
| | Land and buildings £'000 | Vehicles, plant and equipment £'000 | Land and buildings £'000 | Vehicles, plant and equipment £'000 |
| Within 1 year | 4,667 | 5,487 | 4,009 | 6,049 |
| Between 1 and 2 years | 4,280 | 4,180 | 3,487 | 5,314 |
| Between 2 and 5 years | 8,722 | 1,602 | 7,967 | 5,329 |
| After 5 years | 4,425 | - | 5,137 | - |
| At 31 March | 22,094 | 11,269 | 20,600 | 16,692 |

The Company leases various properties under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The Company also leases vehicles, plant and equipment under non-cancellable operating lease agreements.

The total of future minimum sub-lease payments receivable under non-cancellable sub-leases at the balance sheet date was £nil (2011: £nil).

The Company sublets one of its properties (see note 9) under a non-cancellable operating lease agreement, due to expire on 23 June 2014. At 31 March, the future minimum lease payments receivable were as follows:

| Commitments under non-cancellable operating leases expiring: | 2012 £'000 | 2011 £'000 |
|--|---------------|---------------|
| Within 1 year | 285 | 285 |
| Between 1 and 2 years | 350 | 285 |
| Between 2 and 5 years | - | 285 |
| At 31 March | 635 | 855 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

24 Contingent liabilities

The Company acts as guarantor for a £2m (2011 £3m) sterling term loan held by the ultimate parent company, UK Mail Group plc, details of which are shown in the annual report of that Company

In addition the Company, together with fellow subsidiaries of UK Mail Group plc, acts as a guarantor under an undrawn £12m Group borrowing facility (2011 £12m)

The Company is subject to litigation and/or claims from external parties. Where it is more likely than not that an outflow of resources will be required to settle such obligations and the amount can be reliably estimated, this is reflected in the financial statements based on management's best estimate of the potential liability. The final resolution of such matters could have a material effect on the Company's operating results and cash flows for a particular reporting period as a result of any difference between the estimated amounts recorded in the financial statements for the year ended 31 March 2012 and the final amount of any payments made by the Company to settle such issues.

25 Capital and other financial commitments

| | 2012 £'000 | 2011 £'000 |
|---|---------------|---------------|
| Contracts placed for future capital expenditure not provided in the financial statements | | |
| Intangible assets | - | 4 |
| Property, plant and equipment | 2 | - |
| | <u>2</u> | <u>4</u> |

26 Analysis of net cash

| | At 1 April 2010 £'000 | Cash flow £'000 | At 31 March 2011 £'000 | Cash flow £'000 | At 31 March 2012 £'000 |
|--------------------------|-----------------------------|-----------------------|------------------------------|-----------------------|------------------------------|
| Cash at bank and in hand | 3,501 | 1,429 | 4,930 | (440) | 4,490 |
| Total Cash | <u>3,501</u> | <u>1,429</u> | <u>4,930</u> | <u>(440)</u> | <u>4,490</u> |
| Finance leases | (2,764) | 753 | (2,011) | 775 | (1,236) |
| Total Debt | <u>(2,764)</u> | <u>753</u> | <u>(2,011)</u> | <u>775</u> | <u>(1,236)</u> |
| Net Cash | <u>737</u> | <u>2,182</u> | <u>2,919</u> | <u>335</u> | <u>3,254</u> |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

27 Related party transactions

Key management compensation is disclosed in note 6

Intercompany balances arise from recharges of costs from and to other Group companies
Year end balances arising from these recharges are as follows

| | 2012 £'000 | 2011 £'000 |
|---|---------------|---------------|
| Receivables from related parties | | |
| Fellow group undertakings | - | 236 |
| Payables to related parties | | |
| Parent undertaking | (3,054) | (6,324) |
| Fellow group undertakings | (4,143) | (4) |

The following transactions were undertaken during the year with related parties

| | | |
|---|----------------|--------------|
| Cash transfers in respect of treasury management | (4,516) | 7,113 |
| Recharges of costs to fellow group undertakings | 1,444 | 635 |
| Recharges of costs from fellow group undertakings | (162) | - |
| Settlement of liabilities | 2,129 | - |
| | <u>(1,105)</u> | <u>7,748</u> |

28 Ultimate parent undertaking and controlling party

UK Mail Group plc, a Company incorporated in England, is the immediate and ultimate parent undertaking and the ultimate controlling party

The parent undertaking of the largest and smallest group which includes the Company and for which group financial statements are prepared is UK Mail Group plc. Copies of the financial statements can be publicly obtained from the registered office at Express House, 464 Berkshire Avenue, Slough, Berkshire, SL1 4PL

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

29 Critical accounting judgements and key sources of estimation uncertainty

The Company's accounting policies are set out in note 1 to these financial statements. Management is required to exercise significant judgement in the application of these policies. Areas which management believes require the most critical accounting judgements are as follows (apart from those policies involving estimation which are outlined in (b) below):

a) Critical accounting judgements in applying the Company's accounting policies

Exceptional items

The directors consider that items of income or expense which are material by virtue of their nature and amount should be disclosed separately if the financial statements are to fairly present the financial performance of the Company. The directors label these items collectively as 'exceptional items'.

Determining which transactions are to be considered exceptional is often a subjective matter. However, circumstances that the directors believe would give rise to exceptional items, requiring separate disclosure would include,

- (i) loss or cessation of a material contract representing 5% or more of the Company's revenues,
- (ii) disposal of non-current assets where the profit or loss represents 5% or more of the Company's profit before tax,
- (iii) disposal of investments,
- (iv) organisational or restructuring programmes

Leases

In determining whether a lease is a finance lease or an operating lease, management is required to evaluate where the substantial risks and rewards reside. Where management conclude that the arrangement constitutes a finance lease, then it is necessary to both calculate the proportion of the payment which should be treated as finance cost and capital repayment, and to judge the likely period of use at the inception of the agreement.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

29 Critical accounting judgements and key sources of estimation uncertainty (continued)**b) Key sources of estimation uncertainty**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management makes estimates and assumptions about the future, which will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful economic lives of property, plant and equipment

Depreciation of property, plant and equipment is charged so as to write down the value of those assets to their residual value over their respective useful lives. The directors are required to assess both the useful economic lives of the assets so that depreciation is charged on a systematic and proportionate basis, and the probable residual values.

Recoverability of trade receivables

Trade receivables are recorded net of provisions for bad debts and credit notes. In evaluating the required provision, the directors consider debtor specific circumstances, in addition to historical trends.

Provisions

The Company has provided for the estimated cost of making good properties on cessation of the lease. This requires the directors to make an assessment of the potential cost of the work as at the reporting date. However, these costs will not be immediately incurred and on an on-going basis, the Company maintains its properties through a programme of repair and renewal which may result in changes required in the carrying value of these provisions.

The Company has additionally provided for the estimated costs of re-organisation (see note 3), which involves making significant estimates for employee termination costs, onerous lease and other exit costs, and to realisable values of assets made redundant or obsolete. Should the actual amounts differ from these estimates future results could be materially impacted.

30 Post-balance sheet events

There were no significant post-balance sheet events affecting the Company since 31 March 2012.