Company registration number: 00965783

UK MAIL LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2013

UK MAIL LIMITED

Index to the Directors' Report and Financial Statements

for the year ended 31 March 2013

The directors present their annual report and the audited financial statements of the Company for the year ended 31 March 2013

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 £17,042,000 (2012 £10,734,000) have been achieved on revenue of £447,344,000 (2012 £400,765,000) 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 10 0% for the year to £189,249,000 (2012 £172,105,000) Operating profit before exceptional items increased by 40 6% to £16,345,000 with operating margin increasing by 1 8 percentage points to 8 6%

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)

The Parcels market of some £6bn in the UK has two main components Growth in the B2B market ("B2B"), which represents some 52% of the market, tends to be linked to overall economic performance Growth in the B2C market ("B2C"), which represents some 48% of the market, is linked to the growth of internet based home delivery, we estimate that this segment of the market is growing by some 10% per annum

We have achieved good volume growth in both the B2B and B2C market segments with Parcels volumes increasing by some 17% compared to the prior year We are particularly pleased with the volume growth we have achieved in the second half year of some 21%, following growth in the first half of some 12%, reflecting further gains in market share This performance is driven by good customer retention based on competitive pricing and strong service levels We have also benefitted from a number of good customer wins, although we continued to see an on-going volume mix change towards the lower margin B2C segment

The strong volume growth allows us to spread our fixed costs across the increased volumes and improve our operating margins As a result, despite the continued competitive pricing environment, we have improved our Parcels operating margin to 8 6% for the year (2012 6 8%)

The good growth in revenue combined with the operating margin increase has led to strong growth in the Parcels operating profit of 40 6% to £16,345,000 (2012 £11,622,000)

To allow us to handle the increasing volumes we are experiencing we are taking action to increase our capacity Of the fifty sites we operate four will be expanded during the coming year, either through moving to a nearby larger site or increasing the size of the existing building

We have introduced a number of major improvements to our I T infrastructure These include the provision of industry-leading functionality both to our customers, and to the recipients of the parcels they despatch via our 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

We have also completely replaced our delivery driver scanners This has involved the purchase of some 2,000 scanners at a cost of some £1 2m The new scanners provide significantly increased functionality including improved methods of real-time communication with our drivers to amend collection and delivery arrangements The new scanners also include GPS facilities which will be the basis for improved route planning and customer delivery notification which we plan to introduce in the autumn

Another key development has been the implementation of CRM technology into our customer care centres which allow us to improve customer service as well as track queries to ensure they are resolved promptly

Parcels (continued)

Our Retail Logistics product, which provides services tailored to the specific needs of retailers, such as hanging garments, 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 are in the process of implementing a dedicated Retail Logistics facility, including automated sortation capabilities for hanging garments, which will provide increased capacity for this business This facility, combined with further developments of our I T platform, will enhance our capabilities and support our development plans for this key product

Our ipostparcels product allows any 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 product has been successfully established in the market and is achieving rapid growth We are now handling some 10,000 items per week with this service There is an increasing trend for parcel collection and delivery services to be purchased by consumers on-line, partly caused by the growth of online transaction sites such as ebay and Amazon market place We will continue to develop and market this product which we see as a good source of future profitability

The overall parcels market in the UK is challenging and highly competitive Our target position in this market is to be a high quality operator which provides the value added 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 use of I T 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 Our service levels remained very high even during the peak seasons of the year, when we achieved our highest ever service levels whilst handling record parcel volumes

Courier

Revenues in our Courier business, which provides same-day delivery services, decreased as expected by 19 6% to £16,507,000 (2012 £20,519,000) The revenue decline is largely due to the loss of a major customer in early 2012 We are continuing to focus on national contracts that can leverage our network and blue chip customer base Operating margins increased to 15 5% (2012 13 4%) helping to restrict the decline in operating profit to £185,000 resulting in £2,563,000 for the year (2012 £2,748,000)

The increase in operating margin reflects the actions management have taken to improve effectiveness and reduce overheads in the business

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

Mail

Mail showed further growth in revenues of 16 1% to £241,588,000 (2012 £208,141,000) The Mail revenue growth includes the impact of the Royal Mail price increase on 2 April 2012, which increased prices by some 11% on an annualised basis On an underlying basis, revenues increased by 10 2%

The further Royal Mail price increase on 2 April 2013 was 3 3% (2012 12%), which will not have such a distorting effect on underlying revenue growth so we will cease to adjust for this factor in future

Our mail volumes increased by some 2% compared to the prior year, while the overall UK mail market has seen a decline in transactional volumes of some 5% per annum in recent years This growth in market share has been achieved through generating additional mail volumes from existing customers, largely due to switching from Royal Mail as their prices increase, and a number of new customer wins

Mail operating profits were up 7 8% to £10,746,000 (2012 £9,961,000) The operating margin reduced to 4 4% (2012 4 8%), which is largely the "pass-through" effect of the 11% price increase imposed by Royal Mail If the effect of the 11% price increase imposed by Royal Mail is excluded, the underlying mail margin is broadly stable compared to the prior year

To increase the efficiency of our operations and to provide additional facilities to our customers we are investing in two new, state of the art, mail sortation machines This will involve an investment of some £1m This investment reflects our confidence in our mail business and its ability to develop with the market

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 business, by gaining additional volumes from new and existing customers and driving our new product innovations

An important factor in the volume growth is product innovation imail, our web-toprint postal service, continues to grow strongly We have invested to increase our capacity and to provide additional services, such as high speed insertion We are developing this product further to support its market leadership, including the addition of data services imail's average daily volumes were more than 60% higher than those of a year ago We have a strong pipeline of new opportunities for this product as we identify new areas where it can be applied successfully

On 10 October 2012 Royal Mail published a discussion document on the development of access contracts, with the aim that the new agreements would be in place by April 2013 Overall, we believe that the document covered issues that have long needed to be addressed and, to that extent, we welcomed it as a step towards a position of greater clarity for all market participants

Mail (continued)

The key terms of the new contract relate to minimum volumes, contract variation and the ability for Royal Mail to impose future price increases on operators who do not provide all their mail to Royal Mail We do not anticipate any material adverse impact on our business from these changes

We have therefore signed the new contract which has resulted in an access price increase for our customers of 3 3%, compared to the increase of some 5% that would have been imposed had we not signed the contract We believe that all other access operators and most mail customers with direct access arrangements have also signed the new contract

The sale of Royal Mail is widely expected to be announced later in the year The Royal Mail accounts for the year to March 2012 showed that it had made a profit of £80m from access and, in its 2013 results announcement, reconfirmed that access made a considerable contribution to the cost of funding the Universal Service network We therefore fully expect a privatised Royal Mail to seek to continue to benefit from access mail arrangements, and we continue to see them as an important business partner for UK Mail

The increase in activity resulted in a 1 8 debtor day reduction to 32 3 days (2012 30 5 days)

EXCEPTIONAL COSTS

The Company reported total exceptional costs of £nil (2012 £1,547,000 net of a £593,000 taxation credit)

Of this £2,140,000 relates to the programme we instigated to improve out 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 £12,894,000 (2012 £7,825,000) A final dividend of £10,000 per share amounting to £10,000,000 was paid on the 28 February 2013 No interim dividend was paid during the year (2012 £nil) The directors do not recommend the payment of a final dividend (2012 £nil)

The profit for the financial year of £12,894,000 (2012 £7,825,000) 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	2013 £'000
Cash at bank and in hand	Floating rate linked to base rates	2,213
Finance leases	Fixed rate at inception of the lease	(1,131)
Amounts due from group undertakings	Floating rate linked to LIBOR rates	7,628
Amounts owed to group undertakings	Floating rate linked to LIBOR rates	(4,527)

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 (2012 £12m)

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 2013 or 31 March 2012, 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 2013/14	Actual 2011/12	Actual 2012/13	Change against 2012/13 target
1	CO_2 emissions (tonnes)	46 8k	48k	49 3k	7 2%
2	Waste recycling (%)	95%	91%	95 0%	5 6%
3	Health & Safety compliance (%)	95%	93%	95 0%	5 6%
4	ISO 14001 compliance (% corporate sites)	100% (50 sites)	55% (22 sites)	100% (50 sites)	-

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 CO_2 emissions, increase waste recycling and have more sites fully compliant with Health & Safety rules

Following the successful implementation of ISO14001 we are going to work toward certification of OHSAS 18001

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

Over the past five years, UK Mail has been committed to Cancer Research UK, raising almost £500,000 over this period to help with the crucial work they do in preventing and treating cancers and saving so many lives UK Mail's chosen charity for 2012 to 2015 is the NSPCC, one of the UK's largest children's charities We are proud to be supporting the NSPCC in their quest to end cruelty to children by both protecting those at risk from abuse and supporting their families In addition to a donation made by UK Mail to the NSPCC, our staff organise ad hoc local fundraising activities such as dress down days or cake sales, which take place during working hours We also run an employee payroll lottery scheme which generates around £3,500 per year for the charity.

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 2013, the Company had 35 4 days (2012 38 7 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

NEW HUB/HS2

Alongside our plans for automation, we have also been in discussions with the Department for Transport regarding their plans for the new HS2 rail link, which will involve the relocation of our Birmingham hub Discussions are proceeding well, and further announcements will be made shortly once agreement has been reached with the Secretary of State for Transport

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 Annual 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 elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union The financial statements are required by law to 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 those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state that the financial statements comply with IFRSs as adopted by the European Union
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors confirm that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records that 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 1985 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

Independent Auditors and disclosure of Information to auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the Annual General Meeting

In the case of each director in office at the date the directors' report is approved, the following applies

(a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(b) he 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

S Glew
Director
14 June 2013

Independent auditors' report to the members of UK Mail Limited

We have audited the Directors report and financial statements of UK Mail Limited for the year ended 31 March 2013 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 page 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 and financial statements 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

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 2013 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
Uxbridge
14 June 2013

UK MAIL LIMITED

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2013

	Note	2013 £'000	2012 £'000
Revenue		**447,344**	400,765
Cost of sales		**(395,573)**	(356,390)
Gross profit		**51,771**	44,375
Administrative expenses		**(34,573)**	(33,285)
Operating profit before exceptional expenses		**17,198**	13,230
Exceptional administrative expenses	3	-	(2,140)
Operating profit	4	**17,198**	11,090
Finance income	5	**353**	316
Finance costs	5	**(509)**	(672)
Profit before taxation		**17,042**	10,734
Taxation before exceptional items		**(4,148)**	(3,502)
Exceptional taxation items		-	593
Total taxation	7	**(4,148)**	(2,909)
Profit for the financial year		**12,894**	7,825
Total comprehensive income for the year		**12,894**	7,825
Total comprehensive income attributable to:			
Equity holders of the Company		**12,894**	7,825

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 2013

	Note	2013 £'000	2012 £'000
ASSETS			
Non-current assets			
Intangible assets	8	**4,566**	3,783
Investment property	9	**1,805**	1,838
Property, plant and equipment	10	**33,395**	33,262
Deferred tax asset	17	**241**	350
		40,007	39,233
Current assets			
Inventories	12	**279**	213
Trade and other receivables	13	**69,847**	58,710
Cash and cash equivalents	14	**2,213**	4,490
		72,339	63,413
LIABILITIES			
Current liabilities			
Borrowings	15	**(781)**	(806)
Trade and other payables	16	**(76,203)**	(68,792)
Current tax liabilities		**(1,501)**	(645)
Provisions	18	**(302)**	(1,236)
		(78,787)	(71,479)
Net current liabilities		**(6,448)**	(8,066)
Non-current liabilities			
Borrowings	15	**(350)**	(430)
Deferred tax liabilities	17	**(1,741)**	(2,225)
Provisions	18	**(931)**	(771)
		(3,022)	(3,426)
Net assets		**30,537**	27,741
Shareholders' equity			
Ordinary shares	19	**1**	1
Retained earnings		**30,536**	27,740
Total equity		**30,537**	27,741

The financial statements on pages 16 to 63 were approved by the board of directors on 14 June 2013 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

CASH FLOW STATEMENT

for the year ended 31 March 2013

	Note	**2013** **£'000**	2012 £'000
Operating activities			
Cash generated from operations	21	**10,195**	21,126
Finance income received		-	316
Finance costs paid		**(68)**	(672)
Taxation paid		**(4,145)**	(3,944)
Net cash inflow from operating activities		**5,982**	16,826
Investing activities			
Proceeds from disposal of property, plant and equipment		**44**	3
Purchase of intangible assets	8	**(1,311)**	(1,804)
Purchase of property, plant and equipment	10	**(6,187)**	(4,689)
Net cash outflow from investing activities		**(7,454)**	(6,490)
Financing activities			
Repayment of finance lease liabilities		**(1,073)**	(776)
Dividend paid to parent company		-	(10,000)
Proceeds from re-finance of capital under finance leases		**268**	-
Net cash outflow from financing activities		**(10,805)**	(10,776)
Net (decrease)/increase in cash and cash equivalents	26	**(2,277)**	(440)
Cash and cash equivalents at the beginning of the year	26	**4,490**	4,930
Cash and cash equivalents at the end of the year	26	**2,213**	4,490

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

UK MAIL LIMITED

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

for the year ended 31 March 2013

	Ordinary shares £'000	Retained earnings £'000	Total Shareholders equity £'000
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
Profit for the financial year	-	12,894	12,894
Total comprehensive income for the year	-	12,894	12,894
Dividends paid to the parent company	-	(10,000)	(10,000)
Employees' share option scheme			
- value of employee services	-	(75)	(75)
- tax on items taken directly to equity	-	(23)	(23)
Total transactions with shareholders recorded directly to equity	-	(10,098)	(10,098)
Balance as at 31 March 2013	1	30,536	30,537

1 Principal accounting policies

Accounting policies for the year ended 31 March 2013

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 As applicable to Companies using IFRS and those IFRS standards as adopted by the European Union and IFRIC interpretations which are effective as at 31 March 2013

New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the current financial year that have had a material impact on the Company Financial Statements for the year ended 31 March 2013

New standards and interpretations not yet adopted

New standards, amendments and interpretations issued, effective for the financial year beginning 1 April 2013 and not yet adopted by the Group include IAS 1 amendment, 19 and IFRS 9, and 13 None of these are expected to have a material effect on the Consolidated and Company Financial Statements of the Group 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 12

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

1 Principal accounting policies (continued)

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

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

1 Principal accounting policies (continued)

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

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

1 Principal accounting policies (continued)

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

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

1 Principal accounting policies (continued)

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

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

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

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

2 Segmental information

The business segment results for the year ended 31 March 2013 are as follows

	Mail £'000	Parcels £'000	Courier £'000	Central £'000	Total £'000
Segmental revenue	241,588	189,249	18,773	-	449,610
Inter-segment revenue	-	-	(2,266)	-	(2,266)
External revenue	241,588	189,249	16,507	-	447,344
Operating profit/(loss) before exceptional items	10,746	16,345	2,563	(12,456)	17,198
Exceptional items	-	-	-	-	-
Operating profit/(loss) after exceptional items					17,198
Finance income					353
Finance costs					(509)
Profit before taxation					17,042
Taxation					(4,148)
Profit attributable to equity shareholders					12,894

Other segment items

	Mail	Parcels	Courier	Central	Total
Capital expenditure (including acquisitions)					
Property, plant and equipment	840	3,730	20	2,023	6,613
Intangible assets	45	-	8	2,133	2,186
Depreciation of property, plant and equipment					
- Owned assets	506	3,348	46	1,710	5,610
- Under finance leases	572	-	-	-	572
Depreciation of investment property	-	-	-	33	33
Amortisation of intangible assets					
- Owned assets	126	-	14	1,139	1,279
- Under finance leases	-	-	-	97	97
Impairment of trade receivables	42	358	47	-	447
Total assets	53,589	48,161	81	10,515	112,346

2 Segmental information (continued)

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

	Mail	Parcels	Courier	Central	Total
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	1,607	6,545
- Under finance leases	493	-	-	-	493
Depreciation of investment property	-	-	-	33	33
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

3 Exceptional items

	2013	2012
	£'000	£'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 relates to relief in respect of exceptional operations restructuring costs included above

4 Operating profit

	2013 £'000	2012 £'000
The following items have been charged/(credited) in arriving at operating profit		
Royal mail access costs	**201,757**	169,795
Subcontractor costs	**67,264**	60,801
Employee benefits expense (note 6)	**62,281**	58,635
Cost of inventories (included in costs of sales) (note 12)	**11,081**	10,923
Depreciation of investment property (note 9)	**33**	33
Depreciation of property, plant and equipment (note 10, 11)		
- Owned assets	**5,610**	6,545
- Under finance leases	**572**	493
Amortisation of intangibles (included in administrative expenses) (note 8)		
- Owned assets	**1,279**	1,164
- Under finance leases	**97**	-
Operating lease rentals payable	**10,853**	11,013
Repairs and maintenance expenditure on property, plant and equipment	**4,034**	4,063
Operating lease rentals receivable		
- Plant and machinery	**(334)**	(285)
- Property	**(295)**	(300)
- Computer equipment	**(90)**	(85)
Loss on disposal of property, plant and equipment assets	**207**	268
Trade receivables impairment (included in administrative expenses)	**447**	326
Reversal of impairment of franchise receivables (included in administrative expenses)	**-**	-

4 Operating profit (continued)

Services provided by the Company's auditors

	2013 £'000	2012 £'000
During the year the Company obtained the following services from the Company's auditors		
Audit services	**71**	71
Tax services	**-**	-
	71	71

5 Finance income/(costs) – net

	2013 £'000	2012 £'000
Interest receivable on		
Interest receivable from tax receivables	**-**	10
Inter-company balances	**353**	306
Finance income	**353**	316
Interest payable on		
Finance leases	**(46)**	(90)
Inter-company balances	**(441)**	(567)
Other	**(22)**	(15)
Finance costs	**(509)**	(672)
Finance (costs)/income - net	**(156)**	(356)

6 Employees and directors

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

	2013	2012
	£'000	£'000
Wages and salaries	**56,076**	52,237
Social security costs	**4,652**	4,719
Post-employment benefits *	**1,628**	1,610
Share-based payments (note 20)	**(75)**	69
	62,281	58,635

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

Average monthly number of persons employed (including executive directors)

	2013	2012
	Number	Number
Operations	**2,354**	2,332
Administration	**167**	155
	2,521	2,487

	2013	2012
	£'000	£'000
Key management compensation		
Salaries and short-term employee benefits	**1,689**	1,399
Post-employment benefits	**113**	131
Termination benefits	**73**	143
Share-based payments	**(26)**	20
	1,849	1,693

6 Employees and directors (continued)

The key management figures above include the directors as detailed below

	2013	2012
	£'000	£'000
Directors' emoluments		
Aggregate emoluments	**903**	648
Post-employment benefits	**78**	77
	981	725

The highest paid director was paid £486,000 during the year (2012 £337,000) In addition, Company pension contributions of £49,000 were taken as a salary supplement (2012 £49,000

During the year ended 31 March 2013, no directors (2012 none) 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 (2012 two) directors The number of directors accruing benefits under

	2013	2012
	Number	Number
Defined contribution schemes	**-**	-
Contributions taken as a salary supplement	**2**	2
	2	2

7 Taxation

Analysis of charge in the year

	2013	2012
	£'000	£'000
Current tax - current year	**4,540**	3,609
Current tax - adjustment in respect of prior years	**6**	83
Total current tax	**4,546**	3,692
Deferred tax (note 17) - current year	**(339)**	(764)
Deferred tax (note 17) - adjustment in respect of prior years	**(59)**	(19)
Total deferred tax	**(398)**	(783)
Taxation	**4,148**	2,909

The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax of 24% (2012 26%) to the profit before tax are explained below

	2013	2012
	£'000	£'000
Profit before tax	**17,042**	10,734
Profit at the standard rate of corporation tax in the UK of 24% (2012·26%)	**4,090**	2,791
Effects of·		
Expenses not deductible for tax purposes	**202**	207
Effect of change in tax rate	**(91)**	(161)
Other timing differences	**-**	7
Adjustment in respect of prior years	**(53)**	65
Total taxation charge	**4,148**	2,909

Additionally, £23,000 of current tax has been charged (2012 £3,000 credit) directly to equity in respect of share options

The reduction in the main rate of corporation tax from 26% to 24% with effect from 1 April 2012 was substantively enacted via a resolution passed by Parliament on 26 March 2012 Finance Act 2012 was substantively enacted on 3 July 2012 and included legislation to reduce the main rate of corporation tax from 24% to 23% with effect from 1 April 2013 Closing deferred tax balances have therefore been valued at 23%

7 Taxation (continued)

Further changes to the UK Corporation tax rates were announced in the 2012 Autumn Statement and the March 2013 Budget These include further reductions to the main rate to reduce the rate to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015 These changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

8 Intangible assets

	Customer lists £'000	Acquired software licences £'000	Internal software developments £'000	Total £'000
Cost				
At 1 April 2012	90	3,479	4,566	8,135
Additions	-	1,110	1,076	2,186
Disposals	(90)	(99)	(276)	(465)
At 31 March 2013	-	4,490	5,366	9,856
Accumulated amortisation				
At 1 April 2012	90	2,024	2,238	4,352
Charge for the year	-	437	939	1,376
Disposals	(90)	(72)	(276)	(438)
At 31 March 2013	-	2,389	2,901	5,290
Net book value at 31 March 2013	-	2,101	2,465	4,566

	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

9 Investment property

	2013	2012
	£'000	£'000
Cost		
At 1 April	**2,584**	1,656
Reclassification (see note 10)	-	928
At 31 March	**2,584**	2,584
Accumulated depreciation		
At 1 April	**746**	713
Charge for the year	**33**	33
At 31 March	**779**	746
Net book value at 31 March	**1,805**	1,838

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 (2012 one) investment property is held, located in the West Midlands, and is being sublet under an operating lease The lease is due to expire on 23 June 2014 The rental income recognised in the year was £295,000 (2012 £284,000) Direct operating expenses incurred were £nil (2012 £nil)

The property was valued in March 2013 by the Group Property Manager by reference to recent comparable property transactions in the same area, at £2 4m to £2 5m

The property was last externally 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 2013, the proportion of total fees payable by the Group 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

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 2012	**21,810**	**3,554**	**32,811**	**10,942**	**69,117**
Additions	17	271	4,286	2,039	6,613
Disposals	-	(426)	(2,292)	(1,184)	(3,902)
At 31 March 2013	**21,827**	**3,399**	**34,805**	**11,797**	**71,828**
Accumulated depreciation					
At 1 April 2012	**4,755**	**1,939**	**21,510**	**7,651**	**35,855**
Charge for the year	475	327	3,779	1,601	6,182
Disposals	-	(356)	(2,041)	(1,207)	(3,604)
At 31 March 2013	**5,230**	**1,910**	**23,248**	**8,045**	**38,433**
Net book value at 31 March 2013	**16,597**	**1,489**	**11,557**	**3,752**	**33,395**

	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

11 Assets held under finance leases

	Property, plant and equipment (Motor vehicles, property, plant and equipment)		Intangible Assets (Acquired software licences)	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Cost	**4,152**	4,281	**956**	956
Additions	**-**	-	**971**	-
Accumulated depreciation	**(3,391)**	(3,077)	**(1,054)**	(956)
Disposals	**(129)**	-	**-**	-
Net book value	**632**	1,204	**873**	-

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

	2013	2012
	£'000	£'000
Fuel stock	**279**	213

The Company consumed £11,081,000 (2012 £10,923,000) of inventories during the year

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

13 Trade and other receivables

	2013	2012
	£'000	£'000
Trade receivables	**48,354**	44,117
less provision for impairment	**(89)**	(120)
Trade receivables, net of provisions for impairment	**48,265**	43,997
Other receivables	**3,071**	2,225
Amounts owed from group undertakings	**7,628**	-
Prepayments and accrued income	**10,883**	12,488
	69,847	58,710

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

14 Cash and cash equivalents

	2013 £'000	2012 £'000
Cash at bank and in hand	**2,213**	4,490

The effective interest rate on the cash and bank balances was nil% (2012 nil%)

15 Borrowings

	2013 £'000	2012 £'000
Current		
Amounts due within one year or on demand		
Finance lease obligations	**781**	806
Non-current		
Finance lease obligations	**350**	430

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

	2013 £'000	2012 £'000
Amounts payable under finance leases		
Within 1 year	**789**	851
Between 1 and 5 years	**350**	438
Total minimum lease payments	**1,139**	1,289
Future finance charges	**(8)**	(53)
Present value of finance leases	**1,131**	1,236

16 Trade and other payables

	2013 £'000	2012 £'000
Trade payables	**38,047**	35,473
Amounts owed to group undertakings	**4,527**	7,197
Amounts owed to franchises	**1,907**	1,783
Other payables	**4,369**	844
Taxes and social security	**12,815**	12,517
Accruals	**14,459**	10,895
Deferred income	**79**	83
	76,203	68,792

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 23% (2012 24%)

The movement on the deferred tax account is as shown below

	2013 £'000	2012 £'000
Deferred tax account		
At 1 April	**(1,875)**	(2,661)
Statement of comprehensive income credit	**398**	783
(Charged)/credited to equity	**(23)**	3
At 31 March	**(1,500)**	(1,875)

	2013 £'000	2012 £'000
Deferred tax assets		
At 1 April	**350**	375
Statement of comprehensive income charge	**(86)**	(28)
(Charged)/credited to equity	**(23)**	3
At 31 March	**241**	350

17 Deferred tax (continued)

	2013 £'000	2012 £'000
Deferred tax liabilities		
At 1 April	**(2,225)**	(3,036)
Statement of comprehensive income credit	**484**	811
At 31 March	**(1,741)**	(2,225)

Deferred tax assets, which largely relate to share-based payments and other unpaid balances in respect of pensions and bonus 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 (charged)/credited to equity during the year is as follows

	2013 £'000	2012 £'000
Deferred tax on share-based payments	**(23)**	3

18 Provisions

	2013 £'000
At 1 April 2012	**2,007**
Charged to the income statement	**-**
Utilised in the year	**(774)**
At 31 March 2013	**1,233**

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

	2013 £'000	2012 £'000
Current	**302**	1,236
Non-current	**931**	771
	1,233	2,007

£479,000 of the provision relates to exceptional restructuring costs to be incurred within 1 year and up to 5 years (See note 3)

£754,000 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

	2013 £'000	2012 £'000
Authorised, issued, allotted and fully paid		
1,000 (2012 1,000) ordinary shares of £1 each	**1**	1

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

Sharesave 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 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 between £5 and £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

There have been no grants under this scheme since 2003. Long-term incentive awards are made under the UK Mail Group's Long-Term Incentive Plan (see below)

As at 31 March 2013, there were no outstanding options under this scheme and the scheme has expired

Franchise Share Option Scheme

There have been no grants under this scheme since 2005

As at 31 March 2013, there were no outstanding options under this scheme and the scheme has expired

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 three to ten years

20 Share-based payments (continued)

The performance conditions attaching to any future awards under the plan were amended at the Annual General Meeting of UK Mail Group plc held on 15 July 2009, 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, and 50% 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 three financial years

Additionally, in order to further align the interests of participants with those of shareholders of the ultimate parent company, the rules of the plan were amended such that dividends accrue on the shares comprised within the award To the extent that awards vest under the performance criteria, the proportionate value of the accrued dividends thereon will be satisfied as additional shares at the time of vesting

During the year ended 31 March 2013, the required targets under the live LTIP grants were as follows

	EPS Target range (1)		TSR Target range (1)		
Year of grant	Threshold (25%) vesting	Max (100%) vesting	Threshold (25%) vesting	Max (100%) vesting	Outcome
2009	5 0% p a	9 0% p a	Median	Top quartile	Failed EPS/TSR condition
2010	8 5% p a	13 0% p a	Median	Top quartile	Failed EPS condition 25 3% vested under the TSR condition
2012	11 6% p a	18 1% p a	Median	Top quartile	Live award

(1) vesting is on a sliding scale between the minimum and maximum points

Awards under the 2009 grant lapsed, as both the EPS and TSR conditions were below the required minimum threshold target levels

The awards made under the 2010 grant will vest in May 2013 at a 12 65% vesting level having met the threshold TSR condition The required EPS condition was below the required minimum threshold target level

20 Share-based payments (continued)

Share Matching Plan ('SMP')

Selected executives may be invited to invest a portion of their net cash bonus in the acquisition of shares in the ultimate parent company, UK Mail Group plc, worth 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, subject to the achievement of certain EPS performance criteria.

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 at 31 March 2013, there were no outstanding options under this plan

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 The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the option-pricing model used

20 Share-based payments (continued)

The significant assumptions used to estimate the fair value of the options granted in the financial year were as follows

	LTIP	SAYE	SAYE
Grant date	29/11/12	19/07/12	19/07/12
Share price at grant date	£2 975	£2 225	£2 225
Exercise price	-	£1 8688	£1 8688
Number of employees	5	140	20
Number of shares granted	244,229	291,153	48,472
Vesting period (years)	3	3	5
Expected volatility	28 19%	29 74%	35 92%
Option life (years)	3	3	5
Expected life (years)	3	3	5
Risk-free interest rate	0 35%	0 59%	0 25%
Expected dividends expressed as a dividend yield	0 0%	8 18%	8 18%
Fair value per option	£2 51	£0 29	£0 34
Expected forfeiture (%)	20 3%	N/a	N/a

The risk-free rate was determined by reference to the rate on UK government securities ('UK Gilts') with maturities commensurate with the expected term remaining for each award The expected volatility is estimated by considering the historic share price volatility of the ultimate parent company over similar periods to the expected life of the option under consideration In addition, the expected dividend yield was based at the prevailing rates for SAYE grants, but is assumed as zero for the LTIP grant given the 'dividend equivalence' term

Reconciliation of option movements

A reconciliation of option movements over the year to 31 March 2013 is shown below

	2013 Number	**2013 Weighted average exercise price**	2012 Number	2012 Weighted average exercise price
Outstanding as at 1 April	**1,202,087**	**£0 58**	1,731,491	£0 76
Granted	**583,854**	**£1 09**	-	-
Lapsed	**(796,660)**	**£0 62**	(489,144)	£1 08
Exercised	**(70,819)**	**£2 27**	(40,260)	£2 40
Outstanding as at 31 March	**918,462**	**£0.74**	1,202,087	£0 58
Exercisable at 31 March	**-**	**-**	47,092	£4 02

20 Share-based payments (continued)

Options are exercisable as follows·

Range of exercise prices	2013 Weighted average exercise price	2013 Number of shares	2013 Weighted average remaining life expected years	2013 Weighted average remaining life contracted years
£0 00 - £0 99	£0 00	573,853	1 2	8.1
£1 00 - £1.99	£1 87	307,461	2 9	3.1
£2 00 - £2 99	£2 75	37,148	1 3	1.5
	£0 74	918,462	1.8	6 2

Range of exercise prices	2012 Weighted average exercise price	2012 Number of shares	2012 Weighted average remaining life expected years	2012 Weighted average remaining life contracted years
£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

The weighted average share price for options exercised during the year ended 31 March 2013 was £2 90 (2012 £2 58) The total credit for the year relating to employee equity share-based payments was £75,000, (2012 £76,000 charge).

21 Cash flow from operating activities

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

	2013	2012
	£'000	£'000
Profit for the year	**12,894**	7,825
Taxation	**4,148**	2,909
Finance costs payable	**509**	672
Finance income receivable	**(353)**	(316)
Depreciation and amortisation	**7,592**	8,235
Share-based payments	**(75)**	76
Loss on disposal of property, plant and equipment	**279**	268
Increase in inventories	**(66)**	(37)
Increase in trade and other receivables	**(21,225)**	(6,451)
Increase in trade and other payables	**7,266**	6,478
Increase/(decrease) in provisions	**(774)**	1,467
Cash generated from operations	**10,195**	21,126

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

22 Financial instruments (continued)

At 31 March 2013	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	48,265	48,265	48,265	48,265	-	-	-
Other receivables	3,071	3,071	3,071	3,071	-	-	-
Accrued income	5,986	5,986	5,986	5,986	-	-	-
Cash at bank and in hand	2,213	2,213	2,213	2,213	-	-	-
	59,535	59,535	59,535	59,535	-	-	-

At 31 March 2013	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	(1,131)	(1,062)	(1,131)	(781)	(350)	-	-
Trade payables	(38,047)	(38,047)	(38,047)	(38,047)	-	-	-
Other payables	(4,369)	(4,369)	(4,369)	(4,369)	-	-	-
Amounts owed to franchises	(1,907)	(1,907)	(1,907)	(1,907)	-	-	-
Amounts owed to group undertakings	(4,527)	(4,527)	(4,527)	(4,527)	-	-	-
Accruals	(14,459)	(14,459)	(14,459)	(14,459)	-	-	-
	(64,440)	(64,371)	(64,440)	(64,090)	(350)	-	-

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	-	-	-

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 franchises	(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)	(56,998)	(430)	-	--

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 (2012 none) whose terms have been renegotiated and would otherwise be past due or impaired

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

	2013	2012
	£'000	£'000
At 1 April	120	138
Amount utilised	(31)	(18)
At 31 March	89	120

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

	2013	2012
	£'000	£'000
Less than 30 days	48,130	43,734
Between 30 - 60 days	9	272
Between 60 - 90 days	85	(20)
More than 90 days	130	131
	48,354	44,117

22 Financial instruments (continued)

As at 31 March 2013, trade receivables of £111,000 were impaired (2012 £144,000) The amount of provision was £89,000 at 31 March 2013 (2012· £120,000) The ageing of these impaired trade receivables is as follows

	2013	2012
	£'000	£'000
Less than 30 days	**-**	-
Between 30 - 60 days	**35**	68
Between 60 - 90 days	**30**	31
More than 90 days	**46**	45
	111	144

As at 31 March 2013, trade receivables of £6,722,000 were past due but not impaired (2012 £6,194,000) The ageing of these trade receivables is as follows

	2013	2012
	£'000	£'000
Less than 30 days	**6,447**	5,930
Between 30 - 60 days	**37**	215
Between 60 - 90 days	**108**	(46)
More than 90 days	**130**	95
	6,722	6,194

As at 31 March 2013, there were £nil (2012 £nil) trade receivables impaired but not past due for payment

22 Financial instruments (continued)

None (2012 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 2013 was

	2013 Book value £'000	**2013 Fixed rate financial liabilities £'000**	**2013 Floating rate financial liabilities £'000**	2012 Book value £'000	2012 Fixed rate financial liabilities £'000	2012 Floating rate financial liabilities £'000
Financial assets						
Cash and cash equivalents	**2,213**	-	-	4,490	-	4,490
Amounts due from group undertakings	-	-	-	-	-	-
	2,213	-	-	4,490	-	4,490
Financial liabilities						
Finance leases	**(1,131)**	-	-	(1,236)	(1,236)	-
Amounts due to group undertakings	**(4,527)**	**(4,527)**	-	(7,197)	(7,197)	-
	(5,658)	**(4,527)**	-	(8,433)	(8,433)	-

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

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:

	2013 Profit before tax	**2013 Equity**	2012 Profit before tax	2012 Equity
	£'000	**£'000**	£'000	£'000
Increase of 1% in the average rate receivable/(payable)	**58**	**58**	**174**	**174**
Decrease of 1% in the average rate receivable/(payable)	**(58)**	**(58)**	**(174)**	**(174)**

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 2013, the Company had undrawn borrowing facilities of £12m under a group arrangement (2012 £12m)

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 2013 or 31 March 2012, had Sterling strengthened or weakened 10% against the Euro

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

	2013		2012	
Commitments under non-cancellable operating leases expiring:	**Land and buildings £'000**	**Vehicles, plant and equipment £'000**	Land and buildings £'000	Vehicles, plant and equipment £'000
Within 1 year	**4,778**	**4,851**	4,667	5,487
Between 1 and 2 years	**3,785**	**2,425**	4,280	4,180
Between 2 and 5 years	**5,903**	**2,426**	8,722	1,602
After 5 years	**3,471**	**735**	4,425	-
At 31 March	**17,937**	**10,437**	22,094	11,269

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 (2012 £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·	**2013 £'000**	2012 £'000
Within 1 year	**285**	285
Between 1 and 2 years	**65**	350
Between 2 and 5 years	**-**	-
At 31 March	**350**	635

24 Contingent liabilities

The Company acted as guarantor for loan that was settled during the financial year (2012 £2m) The loan was 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 (2012 £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 2013 and the final amount of any payments made by the Company to settle such issues

25 Capital and other financial commitments

	2013	2012
	£'000	£'000
Contracts placed for future capital expenditure not provided in the financial statements		
Intangible assets	-	-
Property, plant and equipment	-	2
	-	2

26 Analysis of net cash

	At 31 March 2011	Cash flow	**At 31 March 2012**	**Cash flow**	**At 31 March 2013**
	£'000	£'000	**£'000**	**£'000**	**£'000**
Cash at bank and in hand	4,930	(440)	**4,490**	**(2,277)**	**2,213**
Total Cash	4,930	(440)	**4,490**	**(2,277)**	**2,213**
Finance leases	(2,011)	775	**(1,236)**	**105**	**(1,131)**
Total Debt	(2,011)	775	**(1,236)**	**105**	**(1,131)**
Net Cash	2,919	335	**3,254**	**(2,172)**	**1,082**

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

	2013 £'000	2012 £'000
Receivables from related parties		
Fellow group undertakings	7,628	-
Payables to related parties		
Parent undertaking	-	(3,054)
Fellow group undertakings	(4,527)	(4,143)

The following transactions were undertaken during the year with related parties		
Cash transfers in respect of treasury management	19,573	(4,516)
Dividend paid to fellow group undertaking	(10,000)	-
Recharges of costs to fellow group undertakings	952	1,444
Recharges of costs from fellow group undertakings	(227)	(162)
Settlement of liabilities	-	2,129
	10,298	(1,105)

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

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) disposal of non-current assets where the profit or loss represents 5% or more of the Company's profit before tax,

(ii) disposal of investments,

(iii) 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

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 2013