Company registration number: 00965783

UK MAIL LIMITED

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2016

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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 at Express House, 120 Buckingham Avenue, Slough, SL1 4LZ

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

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.

STRATEGIC REPORT

STRATEGY

Our strategy is to grow revenue and profitability by establishing a market leading position in our key markets of parcels and mail, with a clear focus on high service levels and network efficiency together with product and service innovation. To do so, and to facilitate the future growth of the business, we are also creating additional capacity, both in our operations and in support areas including significant investment in I.T.

High service levels

High service levels are a vital element for success in our industry. Customers and recipients expect their consignments to be delivered to the agreed timescale without loss or damage. Service levels in this respect, in both our Parcels and Mail businesses have achieved consistently high levels over recent months.

Network efficiency

A low cost, efficient network is key to our market position. This allows us to win and retain contracts at good profit levels in markets that continue to be very competitive.

The key factors in achieving this objective are:

An integrated network for our Parcels, Mail and Courier Businesses

This integration allows us to spread the fixed costs of our operation and also drive operational benefits. The integrated nature of our network, which is unique in the UK, also allows us to offer services our competitors cannot match. We have continued to progress this objective in the current year and have now fully integrated our Courier operation into our Parcels network providing further efficiencies and enhanced delivery options for customers.

Extensive and innovative use of I.T.

In our industry I.T. is a key differentiator. We handle some 230,000 parcels each night together with some 12m mail items. The ability to track the progress of these items through our network and to provide customers with information on this progress is vital, as is the provision of sophisticated solutions centred on the end-consumer experience.

In the year we have continued to invest in our I.T. infrastructure, increasing capacity and resilience. We successfully completed a major upgrade to our core Track and Trace and Integration Hub systems in February. We have introduced new data services and information to our recipients and are also enhancing our ability to support and drive innovation in our business through a multiyear I.T. change programme, centred on a service orientated architecture framework.

Automation

Effective use of automated sortation is vital in our industry, to further reduce sortation costs and to increase capacity

Following the move to the new Ryton hub with its new automated sortation equipment, we intend to continue to increase the level of automated sortation. We have taken action to amend the profile of the consignments we handle to make the best use of the automated parcel sorter. There will however remain a significant element of the consignments that we handle that will not be compatible with automated sortation, normally due to their size. The ability to handle such consignments is a key differentiator for us compared to those competitors who are 100% automated. To allow us to efficiently handle these 'non-machineable' consignments we have added a second central hub which will be utilised principally for this purpose.

Product and Service Innovation

The third key factor in our strategy is product and service innovation. We are focussed on continuing to expand the size of the markets available to us and on increasing our share of these markets. To do so we have introduced new and innovative products and services in both our Parcels and our Mail businesses. This strategy continues to gain valuable traction in helping us to win new customers.

The key areas we are progressing are:

Ipostparcels: a leading parcels collection and delivery service targeting the internet end-customer/small businesses
Retail Logistics: a parcel delivery service targeting the needs of retail businesses
Imail: a market leading hybrid (web-to-print) postal service
Imailprint: an internet based printing service, linked to imail, which can meet localised printing requirements
Packets: a packet collection and delivery service providing cost effective solutions in conjunction with Royal Mail's delivery service

Making Profitable Use of Increased Capacity

UK retail e-commerce sales are predicted to increase by some 10% p.a. driven by the continued strong growth in online shopping. We have the opportunity to benefit from the market growth this will create, together with the potential to grow our market share.

To manage this growth we have increased the capacity in our operations, and our objectives now are to make the best use of this and therefore increase the profitability of the volumes processed.

Hub/Network Capacity

Increasing the capacity of our overall network is vital as our core markets continue to show strong growth. We will achieve this through fully utilising the new central hub and through localised expansion where needed. The new automated hub is operating well and achieving good throughput levels, and our objective now is to further increase the volumes that it processes, through improved network planning and hub operating methods, and through further enhancements to the automated sorter throughput. We are also about to introduce a new computerised model to optimise the efficiency of our linehaul operations and, therefore, our overall network.

We have also added a second central hub which is focussed on the 'non-machineable' freight that is not efficient for our automated hub to process. This facility increases our overall capacity and allows us to handle freight that, whilst bulky and not suitable for automated sortation, can provide a profitable income stream.

Innovation in Delivery Methods

To make the most efficient use of our delivery sites and vehicles, as well as to provide a range of delivery options to recipients, we are progressing a range of innovations in our delivery methods. These include deliveries throughout the day and evening, which make best use of our delivery sites and vehicles as well as providing flexibility for customers. We are also progressing alternative delivery and collection options such as retail stores and locker boxes.

Creating Support Capacity

The number of transactions processed in our business on a daily basis, including parcels and mail, has increased significantly in the last three years. We have enhanced our support capacity to manage this growth, with a key emphasis on our I.T. infrastructure. We are now progressing plans to create significant further such capability to support the future growth potential of the business.

Strategy Summary

We have a clear strategy which will allow us to grow revenue and profitability in markets which, whilst they are competitive, continue to offer good growth opportunities.

The transition of our business to the new hub and new method of operation did not go as we planned but we understand the causes of the problems and are well advanced in taking actions to address them to get the business fully back on track.

We believe that the completion of the recovery plan, combined with the other improvements we are making in product and service innovation, and the capacity we have created, will provide a robust platform for further growth over the coming years.

BUSINESS REVIEW

Profit before taxation of £15,023,000 (2015: £20,570,000) has been achieved on revenue of £480,982,000 (2015: £485,103,000). The directors consider the results to be in line with their expectations.

Parcels

Revenues in Parcels, which comprises the Company's business-to-business (B2B), business-to consumer (B2C) and international parcel delivery service were up 1.4% to £247,871,000 (2015: £244,564,000).

Parcels average daily volumes increased by 4.5% compared to last year. We continue to see an on-going volume mix change towards the lower margin B2C segment.

The Parcels operating margin for the period reduced to 6.4% (2015: 9.7%), resulting in operating profit before exceptional items for the period reducing to £15,815,000 (2015: £23,616,000).

Both the rate of volume growth and the operating margin have been impacted by the operational issues related to our move to the new hub. The profit reduction is partly due to the temporary increase in operating costs associated with this and also due to a magnified mix effect as a result of the increased customer churn we experienced in the first half of the year.

A detailed plan has been underway to address these issues including a number of near-term initiatives that have already eased the pressures on the hub. A key decision we have taken is to introduce a second central hub which will specialise in handling the 'non-machineable' freight. This is a highly efficient cross-dock facility designed specifically for such use and, whilst it increases our overall central hub costs, it allows the automated hub to focus on 'machineable' freight whilst enabling us to retain significant volumes of 'non-machineable' freight which we see as a good profit stream.

The efficiency of the main hub will also improve as new customers come on board thereby increasing volume throughput, with some of that new volume arriving at the new hub throughout the day rather than just in the peak hours.

More widely, our plan involves re-engineering our line haul template to fully align it with the efficiency of the new hub. We are shortly to introduce a new computerised model to optimise the planning of our linehaul routing, with the new routing being rolled out during the second quarter. This is expected to deliver improvements in trunk vehicle utilisation levels and therefore a reduction in overall linehaul costs.

Peter Fuller joined as Operations Director in April 2016. With substantial experience in parcels distribution and specifically in managing automated facilities, most recently at Parcelforce where he was Operations Director, Peter will be instrumental in the execution of our plans, and encouraging progress has already been made. The sortation equipment is operating effectively, service levels are now back to where they should be, and the machine has recently processed its 30 millionth item. We have a number of significant potential customers keen to use the services available through our new hub.

We continue to make good progress with product innovations in our Parcels business. These include Retail Today, our same-day delivery service combining our parcels and courier operations, and ipostparcels, which represents one of the lowest-cost and most user-friendly online collection and delivery services available in the UK. To support the growing demand for same-day deliveries in the retail sector, we are expanding our same-day service capability, particularly in the Greater London area. Revenues and profits grew well for these operations and we continue to invest in further enhancing our services in these areas.

Key to our parcels market position is the provision of value added services that customers increasingly demand. Our enhanced next day delivery service, which offers advance-notice one-hour delivery and collection windows, is consistently achieving strong service levels of over 95%. We have now enhanced this service to include further customer features, including the ability to redirect a delivery after the delivery driver has left the depot as well as GPS 'stamping', which is a key function to allow us to confirm that a delivery has been made based on the GPS coordinates of the delivery confirmation. We are also progressing our plans to offer parcel drop-off and collection points, including a trial with a national multi-site retailer.

Mail

Mail revenues decreased by 3.1% to £233,111,000 (2015: £240,539,000).

Our daily Mail volumes increased by 5.2% on the previous year, compared to a decline in transactional volumes of some 3% per annum in the overall UK mail market, showing that we have achieved further market share gains.

The operational issues we faced across our business in the year had some impact on our Mail business, principally in the form of additional operating costs. These were incurred to maintain service levels to customers which we are pleased to report continue to be at a very high level. In addition, the pricing environment within the mail market remains highly competitive.

As a result Mail operating profits decreased by 18.3% to £10,167,000 (2015: £12,445,000). The operating margin decreased to 4.4% (2015: 5.2%)

We have been successful in growing our volumes and our market share despite the underlying structural decline in the physical mail market overall. In the past year there have been a number of substantial mail accounts out for tender, and we have achieved a strong record of retaining existing customers, and of winning competitor accounts, albeit with some pricing pressures.

Our continued product innovation has helped us to offset this mail market decline and the associated pricing pressures, and will continue to do so. imail, our web-to-print postal service, continues to show good revenue and profit growth. We continue to invest to increase our capacity and provide additional services. 'imailprint' has now been successfully launched, providing a specialist printing service which, rather than being purely mail-related as with our current service, can produce printed documents for general usage. We see this as a medium-term low risk growth opportunity using our existing infrastructure.

In addition, we have launched an innovative turn-key solution for the Royal Mail Mailmark service, where we manage and process individual item data on behalf of our customers with the Royal Mail. By providing a clearer chain of custody for the mail and more accurate data input into Royal Mail reporting systems, we can minimise current and future Royal Mail surcharges for our customers.

A key growth element of the Access Mail market is the rising popularity of packets; a market we estimate to be worth some £1.2bn. Whilst we have made some progress in this area in recent years, our share of the market remains very low. We now have a clear plan in place to grow our market share, with specialist packets sortation equipment in place which allows us to offer a service that fully meets our customers' requirements. We have increased the size of our sales team to capitalise on this and are gaining good traction with customers. We expect to see a positive impact in the current financial year, and continue to believe that this area will be key to growing our Mail revenues and profitability in the future.

In June 2015 Ofcom announced it was undertaking a Fundamental Regulatory Review of Royal Mail. Its stated aims were to ensure regulation remains appropriate and sufficient to secure the efficient and financially sustainable provision of the universal postal service, assess Royal Mail's efficiency, consider its position within the parcels sector, and assess Royal Mail's potential ability to set wholesale prices in a way that might harm competition.

We have responded to the Ofcom discussion paper on this subject.

We understand that Ofcom are soon to publish a more detailed Consultation Document setting out their views and proposals. We will actively participate in the consultation process that follows the issue of this paper.

UK Mail remains a market leader with an operational template ideally suited to the evolving demands of the mail market. We remain focussed on growing our business by handling additional mail for existing customers and winning volumes from other Downstream Access operators. We continue to invest for the future, and see substantial growth opportunities for the medium and longer term.

Central Costs

Central costs decreased by 2.5% to £14,204,000 (2015: £14,574,000). We continue to invest significantly in I.T.; however this investment has been offset by savings in other areas.

Net exceptional costs

The profit on sale of the national hub represents the profit on sale following the compulsory acquisition of the National hub and offices at Birmingham by the DfT and HS2 Ltd, as a result of the proposed HS2 railway.

The HS2 compensation relates to agreed compensation for the impact of HS2 on our business. The cost of automation implementation represents the costs incurred during the final weeks of the year ended 31 March 2015, as the Group moved towards the implementation and roll-out of new automation equipment. These costs largely represent asset write-offs of equipment no longer required.

National hub relocation costs represent disturbance costs associated with the relocation of our National hub and offices to Ryton.

The impairment of intangible assets charge represents the impairment cost recognised following a comprehensive strategic review of the Company's I.T. systems during the year which identified a number of software assets that did not fit within the medium and long term strategic goals of the Company, and which therefore offered no future economic value.

The impairment of tangible assets charge represents the cost of sortation equipment and related facilities that are no longer required given the revised automation strategy of the business.
The management reorganisation costs principally relate to the reorganisation of the Board which occurred during the year. These costs include the contractually agreed payments to departing directors, following mitigation, and the appointment costs of new Board directors.

Further detail on the costs and compensation discussed above is available in note 3.

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

These are all discussed in the sections 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:

Description	Actual 2013 Base year	Target 2015/16	Actual 2015/16	Actual 2014/15	Change against 2014/15	Variance Against Target	Target 2016/17
CO2 emissions (tonnes)	49.74k	47.25k	48.71k	47.99k*	+1.50%	+3.09%	48.47k
CO2 emissions by consignment	0.375kg	Not set	0.289kg	0.280kg*	+3.21%	n/a	0.288kg
Land diversion (%)	87.88%	95.00%	83.62%	96.40%	-12.78%	-11.38%	83.20%
Waste to landfill (tonnes)	340.15t	323.14t	395.41t	124.06t	+218.72%	+22.36%	393.43t
Total waste (tonnes)	2,806.49t	2,666.17t	2,417.88t	3,449.26t	-29.90%	-9.31%	2,405.79t
Water consumption (m3)	35,840m3	34,048m3	35,802m3	37,860m3	-5.44%	+5.15%	35,623m3
Health & Safety compliance	95.26%	95.00%	94.46%	94.88%	-0.42%	-0.54%	95.00%
Workplace fatalities	0	0	0	0	0%	0%	0
Maintain ISO 14001 corporate site compliance (% of the 41 corporate sites)	100%	100%	100%	100%	0.00%	0.0%	100%
Staff Turnover (%)	20.17%	20.00%	27.51%	27.70%	-0.19%	+7.51%	20.00%

* Figures for 2014/15 have been restated following the receipt of more accurate information.

UK Mail's Carbon Emissions

UK Mail's total carbon emissions were 48,714k tonnes. This is overwhelmingly made up of emissions from fuel burn. The calculation of these emissions is based on data from the Department of Environmental Food and Rural Affairs (Defra) Carbon Factors Repository 2015.

Due to the challenging business conditions and the continued adaption to a loose load network UK Mail has set an emission reduction target of 0.005% using the 2015/16 as a baseline figure for the next three years which we aim to achieve by improving operational efficiencies at our new automated national hub and rationalising transport routes.

Energy

We have energy 'smart' meters in all of our sites. These meters provide regular 'on line' energy usage readings for both gas and electricity throughout the day, every day. This information enables us to identify and reduce unusual energy usage, particularly during the periods when we are not operational.

Health, Safety and Environmental (HSE) Audit Compliance

The group fully embrace and endorses the legal and moral obligation to protect the health, safety and welfare of employees and others who may be affected by our operations.

ISO 14001 Corporate Sites

ISO 14001 is the key certification standard for Environmental Management Systems. It sets rigorous demands for the continuous improvement of our environmental management system provisions and is externally audited and verified by an UKAS accredited certification body on a regular basis. We are pleased to report that we continue to hold ISO14001 certification across all of our corporate sites.

Due to the rigorous demands placed on the entire UK Mail network, by the transition to loose loading, the move to our new National Hub at Ryton and a number of associate site moves it has not been possible to progress the objective to introduce ISO14001 compliant environmental management systems at all franchise locations. UK Mail continues to impose strict environmental compliance requirements upon franchise sites which are audited by our internal Health and Safety team.

Waste Management

We continue to improve the management of our waste. UK Mail continues to backhauls cardboard and stretch-wrap waste to regional sites for baling in order to make recycling more efficient. We now only have two waste streams; landfill and mixed recyclables.

Water Consumption

Water consumption across the business has increased despite a significant reduction in vehicle washing activities during the summer month and improved water management at our new National Hub and Offices in Ryton.

This location includes rain water harvesting systems for toilet flushing, timed taps in the washrooms and a water recycling vehicle wash. It is suspected that the recorded increase is as a result of reliance on billing data and estimates of usage rather than actual meter readings, which UK Mail will seek to address in the coming year.

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:

- The Group Board agrees the corporate strategy and business objectives to be followed over both the medium-term (a three year plan), and in the short-term (annual budgets/forecasts), which divisional management incorporate into their own financial and operational plans;
- clearly defined hierarchy of responsibilities, including authorisation levels, and documentation of operational and administrative procedures;
- periodic reporting and subsequent review and discussions with relevant management of business development, KPI achievement, health and safety, operational and financial performance;
- centralisation of certain key functions such as HR, legal and treasury enabling the Company to benefit from centres of expertise in the most efficient and cost effective manner;
- Proposed capital investment and I.T. project implementations require detailed justification, review and appraisal, prior to any approvals being granted, and post-implementation reviews are undertaken;
- A Group wide risk management framework, which accords with the Turnbull guidance, and is supported by reports by the Head of Internal Audit and Group Risk that the significant risks faced by the Group are being identified, evaluated and appropriately managed having due regard to the balance of risk, cost and opportunity; and
- a whistle-blowing policy which sets out a framework for dealing with any allegations of fraud, financial misreporting and any other whistle-blowing notification.

The UK Mail Group Audit Committee, on behalf of the Boards of both UK Mail Group plc. and UK Mail Limited, has conducted reviews of the effectiveness of the system of internal controls and processes described above.

PRINCIPAL RISKS AND UNCERTAINTIES

The table below details the principal risks and uncertainties faced by the Company and the steps taken to mitigate such risks and uncertainties. The Board considers these to be the most significant risks, and whilst not directly comparable, they have been ranked in terms of relative importance to the Company at this time.

They do not comprise all of the risks identified by the Company, nor those presently unknown to management, or those currently deemed less material, which may also have an adverse effect on the business.

Risk	Potential Impact	Mitigation	Assurance
Operational plan failure The Group has relocated to a new National hub at Ryton following contractual agreement with HS2 Ltd to acquire the National hub at Birmingham. Whilst the new hub is fully operational, it is not operating at the planned level of throughput and efficiency.	Operational costs may be higher than expected, whether directly at the hub or within the wider network. Additional hub capacity is required to handle 'non-machinable' freight.	Operational performance is closely monitored by operational management. Plans are well progressed to reduce operational costs and increase hub capacity. A second hub for 'non-machinable' freight has been introduced.	The plans for the hub and the operation are monitored on a weekly basis by the Executive directors and on a monthly basis by the full Group Board..

Risk	Potential Impact	Mitigation	Assurance
IT Systems failure Reliance is placed upon the proper functioning of IT systems for the effective running of operations.	Any prolonged interruption to the Company's IT systems could have a materially adverse effect on its business. The Group could suffer loss of confidential data and damage to its brand reputation, and face regulatory penalties.	The Company' has a Business Continuity Plan in the event of IT systems failure. Networks are protected by firewalls and anti-virus protection. Systems are backed up, and offsite disaster recovery facilities exist in the event that a major issue affects one of our key locations. Executive Director approval is required for any material system changes. A full implementation review and/or parallel running is/are undertaken by the sponsoring department and IT prior to any new system 'go live'. The Group has initiated two key medium-term IT modernisation projects to cater for significantly increased transactional volumes.	Continued investment in I.T. infrastructure. Core areas of the Company are subject to certification including ISO 27001. Internal IT department constantly monitors threats to data protection by viruses, hacking and breach of access controls. Deloitte LLP have been appointed as the Company's 'internal IT audit' resource to provide specialist expertise.
Competitive The Company operates in highly competitive markets and faces competition from international, national, regional and local companies, as well as the Royal Mail.	Increased competitive activity could lead to an adverse effect on results, either through loss of customers or pressure on margins, putting growth, profitability and cash flow at risk.	Market activity, and competitor behaviour, and trading opportunities are regularly reviewed. Dedicated customer account teams exist for larger accounts. Hierarchical approval for customer rates charged. The Company seeks to expand the available market through the introduction of new products and services. The Company's customers are spread across a large number of business sectors and wide geography.	Competitor activity is monitored at both a strategic and tactical level to enable suitable actions to be developed in response. Feedback from customers, including complaints, together with the findings from customer satisfaction surveys are routinely monitored, discussed and action plans developed as appropriate. The Company's performance against KPI's is discussed by the operational directors and at Main Group Board meetings.

Risk	Potential Impact	Mitigation	Assurance
Business continuity The Company could be materially affected if there was a significant incident such as a terrorist incident, fire or flooding, particularly at one of the major hubs, or the main automated sortation equipment was inoperable for a period of time.	Severe disruption and reputational damage to the business, which would ultimately impact on the Company's financial performance.	A detailed Business Continuity Plan is being developed for the main Ryton site, which once operational will be tested on a rotational basis. Business continuity plans exist and are regularly tested at all the other sites.	The progress of this plan is monitored and reviewed by the Risk Committee, the Audit Committee and the main Board Disaster Recovery and Business Continuity plans are regularly reviewed and tested at frequent intervals.
Legislation and regulation The Company is subject to numerous laws and regulations, with the mail market additionally regulated by the Office of Communications ('Ofcom'). The Company, in common with many businesses, is subject to litigation from time to time.	Failure to comply or respond could lead to financial loss, either from financial penalties or damages, redeployment of management resource, or reputational damage to the Company.	The Company keeps abreast of forthcoming legislative and regulatory changes, and maintains controls and procedures to ensure full compliance. The Company maintains active engagement with Ofcom, responding to consultations, when relevant. The Company maintains both in house and external legal expertise.	The Group Board reviews reports from senior executives including the Group Legal Manager. The Company is subject to various audits and compliance visits from both external bodies and in house internal audit and security teams.
Loss of key management The Group is highly reliant on the continued service of its key executives and management, who possess commercial, operational, IT and financial skills that are critical to the success of the Group	Loss of knowledge and/or necessary expertise resulting in a reduced ability to achieve the Group's strategic and business objectives. Loss of competitive advantage due to the delayed delivery of projects or required developments.	Remuneration packages are regularly reviewed to ensure that key executives and management are remunerated in line with local prevailing market rates. Senior management regularly reviews the availability of the required skills within the Group, and will seek to engage suitable staff where necessary. Positions can be backfilled by contract staff, providing headroom to the key executive or manager. All employees are appraised at least twice per year with agreed objectives and development plans set.	Resourcing requirements are monitored by departmental and operational heads, together with HR, on an on-going basis. The Main Board monitors, reviews and challenges the resourcing of any proposed project or development, prior to approval.

S Glew
Director
21 June 2016

DIRECTORS

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

S Glew
P Kane (Chairman)
G Buswell (resigned 25th November 2015)

RESULTS AND DIVIDENDS

The Company's profit for the financial year was £12,397,000 (2015: £16,270,000). No interim dividend was paid (2015: £20,000,000). The directors do not recommend the payment of a final dividend (2015: £nil).

The profit for the financial year of £12,397,000 (2015: £16,270,000) has been transferred to reserves.

CHARITABLE AND POLITICAL DONATIONS

During the year, the Company made charitable donations of £26,312 (2015: £25,000). The Company made no political donations (2015: £nil).

EMPLOYMENT POLICY

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

The Group'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 may become disabled during their employment.

Many employees are stakeholders in the business through participation in share option and long term incentive plan schemes.

Further information concerning the Group's human resource management activities is set out in the 'Our people' report.

Communication and Engagement

UK Mail completed its first Employee Survey in 2013, and implemented a number of changes following the resultant feedback. In March 2016 a further Employee Survey was launched which was open for a two week period, with a full programme of communication in place to encourage all employees to proffer their views and influence change in the business. The success of this could be seen in the resultant 59% response rate.

The Group will conclude on the analysis of the results of the survey in June 2016, developing action plans for the business as a whole, through bespoke plans by business unit area at both site and departmental level which all survey respondents will have had an influence in. This process demonstrates how we want our employees to play a pivotal role in the way we shape our business.

In December 2015, we undertook an Investors in People 18 month 'pulse check' review, which was successfully passed; with the next full Investors in People assessment scheduled to commence in February 2017.

The Employee Consultative Group ('ECG') continues to play a key role in the communication between the business, the senior management and the employees. The ECG is headed up by the ECG Chairperson; a permanent full-time role within the business. The Area Lead Representatives continue to assist the ECG Chairperson in all areas of communications, as well as supporting their local ECG Representatives, and have played a key role in feeding into the new ECG Learning and Development modules, as well as promoting the Employee Survey.

Throughout the Ryton relocation change management programme, the ECG were integral in the smooth people transition.

Ryton Relocation

The Ryton relocation project concluded in October 2015 following the successful implementation of a well structured and detailed people plan for the business.

Within the head office function approximately 60% of our colleagues relocated to the new facility. Within the National hub approximately 20% of our colleagues relocated resulting in the recruitment of over 350 new employees.

Those employees who decided not to relocate were supported via a partnership with the DWP, and in some instances bursaries were also offered for retraining.

Financial Risk Management

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 7% of revenue.

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.

Price risk

Royal Mail access costs represent a significant cost to the Company. Price risk is limited as Ofcom is mandated to maintain sufficient headroom between retail and access prices, such that competition is encouraged within the mail industry.

Whilst fuel costs only constitute approximately 1.9% of total costs there is an element of price risk. 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. These largely comprise cash at bank and in hand, borrowings, finance leases and amounts owed to and from group undertakings.

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

As at 31 March 2016, the Company had not drawn on the revolving credit facility of £25m (2015: £10.0m drawn) in place until 31 May 2019. The Company also has an overdraft facility which was also undrawn of £10.0m, in place until 30 June 2016.

Capital risk

The capital structure of the Company consists of debt, cash and cash equivalents and equity attributable to the parent company. The Company's policy has been to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. The Board's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

The Board seeks to maintain a balance between the level of debt (which for these purposes includes finance leases) and the advantages and security afforded by a sound capital position. In order to maintain or adjust the capital structure, the Company may draw on borrowing facilities, or sell assets to reduce debt. An analysis of the Group's net cash/(debt) position is given in note 25.

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 1% of all expenditure.

There would have been no material impact on profit before tax or equity in either the year ended 31 March 2016 or 31 March 2015, had Sterling strengthened or weakened 10% against the Euro.

DIRECTORS' INDEMNITIES

The Company maintains insurance against certain liabilities which could arise from a negligent act or a breach of duty by its directors and officers (including former directors and officers who have held office during the year ended 31 March 2016) in the discharge of their duties. This is a qualifying third-party indemnity provision as defined in section 234 of the Companies Act 2006.

These indemnities would not provide any coverage where a director is proved to have acted fraudulently or dishonestly.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

Independent Auditors and disclosure of Information to auditors

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
21 June 2016

Report on the financial statements

Our opinion

In our opinion, UK Mail Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Report and Financial Statements (the "Annual Report"), comprise:

- the balance sheet as at 31 March 2016;
- the statement of comprehensive income for the year then ended;
- the cash flow statement for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception
Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.
Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 20, 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) ("ISAs (UK & 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 parent 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.

What an audit of financial statements involves
We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Jaskamal Sarai (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors Uxbridge
21 June 2016

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2016

	Note	**2016 £'000**	2015 £'000
Revenue		**480,982**	485,103
Cost of sales		**(431,602)**	(428,266)
Gross profit		**49,380**	56,837
Administrative expenses		**(33,854)**	(36,207)
Operating profit before exceptional items		**11,778**	21,487
Profit on sale of national hub	3	**1,126**	-
HS2 compensation	3	**16,499**	2,000
Cost of automation implementation	3	**(644)**	(403)
National hub relocation costs	3	**(7,085)**	(2,454)
UK Pallets closure costs	3	**(35)**	-
Impairment of intangible assets	3	**(3,778)**	-
Impairment of tangible assets	3	**(981)**	-
Management reorganisation	3	**(1,354)**	-
Operating profit	4	**15,526**	20,630
Finance income	5	**4**	2
Finance costs	5	**(507)**	(62)
Profit before taxation		**15,023**	20,570
Total taxation	7	**(2,626)**	(4,300)
Profit for the financial year		**12,397**	16,270
Total comprehensive income for the year		**12,397**	16,270
Total comprehensive income attributable to:			
Equity owners of the Company		**12,397**	16,270

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

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

BALANCE SHEET

as at 31 March 2016

	Note	2016 £'000	2015 £'000
ASSETS			
Non-current assets			
Intangible assets	8	**8,871**	11,570
Investment property	9	**1,705**	1,738
Property, plant and equipment	10	**73,394**	85,434
Deferred tax asset	17	**301**	567
		84,271	99,309
Current assets			
Inventories	12	**267**	237
Trade and other receivables	13	**64,780**	74,846
Cash and cash equivalents	14	**3,376**	6,222
		68,423	81,305
LIABILITIES			
Current liabilities			
Borrowings	15	**(233)**	(9,758)
Trade and other payables	16	**(94,220)**	(130,500)
Current tax liabilities		**(1,478)**	(829)
Provisions	18	**(1,158)**	(765)
		(97,089)	(141,852)
Net current liabilities		**(28,666)**	(60,547)
Non-current liabilities			
Borrowings	15	**(4,364)**	-
Deferred tax liabilities	17	**(2,732)**	(2,560)
Provisions	18	**(831)**	(752)
		(7,927)	(3,312)
Net assets		**47,678**	35,450
Shareholders' equity			
Ordinary shares	19	**1**	1
Retained earnings		**47,677**	35,449
Total equity		**47,678**	35,450

The financial statements on pages 25 to 78 were approved by the board of directors on 21 June 2016 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 2016

	Note	2016 £'000	2015 £'000
Profit for the financial year		**12,397**	16,270
Adjustments for:			
Exceptional items	3	**5,054**	857
Depreciation and amortisation	4	**9,040**	7,945
Share-based payment expense		**(78)**	616
Loss on sale of property, plant and equipment		**65**	125
Finance income	5	**(5)**	(2)
Finance costs	5	**507**	62
Taxation	7	**2,626**	4,300
Operating profit before changes in working capital		**29,606**	30,173
(Increase)/decrease in inventories		**(30)**	(23)
Decrease/(increase) in trade and other receivables		**10,066**	(6,635)
(Decrease)/increase in trade and other payables		**(23,611)**	16,068
(Decrease)/increase in provisions		**(261)**	129
Total cash (outflow)/inflow from changes in working capital		**(13,836)**	9,539
Cash generated from operations		**15,770**	39,712
Finance income received	5	**5**	2
Finance costs paid	5	**(458)**	(62)
Income tax paid		**(1,844)**	(4,970)
Net cash flow from operating activities		**13,473**	34,682
Investing activities			
Purchase of property, plant and equipment		**(11,898)**	(38,966)
Purchase of intangible assets		**(4,673)**	(6,464)
Deferred compensation	16	**5,388**	2,000
Proceeds from sale of plant and equipment		**24**	29
Net cash outflow from investing activities		**(11,159)**	(43,401)
Financing activities			
Proceeds from finance lease		**13,708**	-
Repayment of finance leases	15	**(8,925)**	(374)
(Repayment)/Draw down of revolving credit facility		**(9,943)**	10,000
Facility arrangement costs paid		**-**	(335)
Net cash (outflow)/inflow from financing activities		**(5,160)**	9,291
Net (decrease)/increase in cash and cash equivalents		**(2,846)**	572
Cash and cash equivalents at the beginning of the year		**6,222**	5,650
Cash and cash equivalents at the end of the year		**3,376**	6,222

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2016

	Ordinary shares £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 April 2014	1	38,700	38,701
Profit for the financial year	-	16,270	16,270
Total comprehensive income for the year	-	16,270	16,270
Dividends paid to the parent company	-	(20,000)	(20,000)
Employees' share option scheme:			
- value of employee services	-	617	617
- tax on items taken directly to equity	-	(138)	(138)
Total transactions recorded directly in equity	-	(19,521)	(19,521)
Balance as at 31 March 2015	1	35,449	35,450
Balance as at 1 April 2015	**1**	**35,449**	**35,450**
Profit for the financial year	-	**12,397**	**12,397**
Total comprehensive income for the year	-	**12,397**	**12,397**
Dividends paid to the parent company	-	-	-
Employees' share option scheme:			
- value of employee services	-	**(78)**	**(78)**
- tax on items taken directly to equity	-	**(91)**	**(91)**
Total transactions recorded directly to equity	-	**(169)**	**(169)**
Balance as at 31 March 2016	**1**	**47,677**	**47,678**

1 Principal accounting policies

Accounting policies for the year ended 31 March 2016

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

Basis of preparation

These financial statements have been prepared in accordance with the Companies Act 2006 and those International Financial Reporting Standards (IFRSs) as adopted by the European Union and interpretations issued by the IFRS Interpretations Committee (IFRIS IC) which are effective as at 31 March 2016.

The financial statements have been prepared under the historical cost convention, and on the going concern basis, as described in the Directors' Report on page 20.

New and amended standards adopted by the Company

The following new or revised standards, amendments and interpretations issued by the International Accounting Standards Board have been implemented for the year ended 31 March 2016:

Annual Improvements to IFRS 2010-2012 Cycle

Annual Improvements to IFRS 2011-2013 Cycle

IAS 19 (amended) 'Defined Benefit Plans: Employee Contributions'

IFRIC 21 'Levies'

The adoption of these standards and interpretations has not led to any changes in accounting policies, or had a material impact on the Financial Statements of the Company for the year ended 31 March 2016.

New standards and interpretations not yet adopted

The following new or revised standards, amendments and interpretations issued by the International Accounting Standards Board, and that are potentially relevant to the Company, have not been applied in preparing these accounts as their effective dates fall in periods beginning on or after 1 April 2016 (and in some cases have not yet been adopted by the EU):

1 **Principal accounting policies (continued)**

Annual Improvements to IFRS 2012-2014 Cycle - effective for accounting periods beginning on or after 1 January 2016

Amendments to IAS 1 - effective for accounting periods beginning on or after 1 January 2016

Amendments to IAS 27 'Equity Method in Separate Financial Statements' - applicable for accounting periods on or after 1 January 2016

IAS 16 and IAS 38 (amended) 'Clarification of Acceptable Methods of Depreciation and Amortisation' - effective for accounting periods beginning on or after 1 January 2016

IFRS 9 'Financial Instruments: Classification and measurement' - effective for accounting periods beginning on or after 1 January 2018

IFRS 15 'Revenue from contracts with Customers' – effective for accounting periods beginning on or after 1 January 2018

IFRS 16 'Leases' - effective for accounting periods beginning on or after 1 January 2019

The adoption of certain of these standards, amendments and interpretations will require addition to, or amendment of, disclosures in the accounts. The Directors are considering the impact of the adoption of IFRS 16 on the Company. However, the Directors consider that the adoption of the other standards, amendments or interpretations listed above will not result in a material effect on the Financial Statements of the Company.

The preparation of financial statements in conformity with IFRS 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 28.

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 three and seven 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 where it is probable that will 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 three and seven years, which are reviewed annually.

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. Borrowing costs which are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset.

Where significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items.

Depreciation

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, which are principally:

1 Principal accounting policies (continued)

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

Freehold land is not depreciated.

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.

Impairment

At each balance date, the Company reviews the carrying amount of all its assets excluding deferred tax assets, inventories and financial assets to determine whether there is any indication that any of those assets have suffered an impairment loss.

An impairment loss is recognised in the statement of comprehensive income whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to that asset.

An impairment loss for an individual asset will be reversed if there has been a change in estimate used to determine the recoverable amount since the last impairment loss was recognised and is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of amortisation or depreciation, had no impairment loss been recognised.

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.

1 Principal accounting policies (continued)

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 and are classified as finance leases. 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, including lease incentives, are recognised as an expense in the statement of comprehensive income on a straight line basis over the term of the lease. Similarly, where the Company acts as a lessor, operating lease income is credited to the statement of comprehensive income on a straight line basis over the term of the lease.

Revenue

Revenue reflects all sales made by the Company, whether delivered by network services, franchises or sub-contractors. The Company remains the principal in all transactions, save where it acts as an agent under an agency access arrangement with the Royal Mail ('AFA revenue'), on behalf of its customers.

AFA revenue represents charges for Royal Mail postal services whereby the Company recognises its share of the overall transaction charge to the customer as revenue, excluding those elements collected on behalf of, and payable to the Royal Mail, for their services.

Revenue is recognised at the fair value of the consideration received or receivable to the extent that it is probable that economic benefits will flow to the Company and can be reliably measured.

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.

1 Principal accounting policies (continued)

Cost of sales

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

Administrative expenses

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

Taxation

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

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

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

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

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

1 Principal accounting policies (continued)

Pension costs

The Company makes contributions to a defined contribution pension scheme on behalf of its employees. The assets of the scheme 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 scheme together with the administration charges of the scheme.

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 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.

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.

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.

1 Principal accounting policies (continued)

Contingent assets

Contingent assets are those possible assets that arise from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. In accordance with IFRS, contingent assets are not recognised as assets.

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 initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A 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.

Trade and other payables: Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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 cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium.

1 Principal accounting policies (continued)

Cash and cash equivalents: These comprise cash in hand and current account and demand deposit balances with banks and similar institutions, which are readily convertible to a known amount of cash within three months 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.

2 Segmental information

The business segment results for the year ended 31 March 2016 are as follows:

	Mail	Parcels	Central	Total
	£'000	£'000	£'000	£'000
Segmental revenue	233,111	247,871	-	480,982
Operating profit/(loss) before exceptional items	10,167	15,815	(14,204)	11,778
Exceptional items – administrative expenses	(1,613)	11,690	(6,329)	3,748
Operating profit	8,554	27,505	(20,533)	15,526
Finance income				4
Finance costs				(507)
Profit before taxation				15,023
Taxation				(2,626)
Profit attributable to equity shareholders				12,397
Other segment items				
Capital expenditure (including acquisitions)				
- Property, plant and equipment (note 10)	1,801	3,744	1,951	7,496
- Under finance leases (note 10)	-	13,708	-	13,708
HS2 compensation (note 10)	-	(922)	(2,295)	(3,217)
Intangible assets (note 8)	1,763	-	3,929	5,692
HS2 compensation (note 8)	-	-	(2,171)	(2,171)
Depreciation of property, plant and equipment				
- Owned assets (note 10)	749	4,099	1,113	5,961
- Under finance leases (note 10)	-	609	-	609
Depreciation of investment property (note 9)	-	-	33	33
Amortisation of intangible assets				
- Owned assets (note 8)	280	-	1,993	2,273
- Under finance leases (note 8)	-	-	164	164
Impairment of trade receivables	18	257	-	275
Total assets	38,596	101,301	12,797	152,694

2 Segmental information (continued)

The business segment results for the year ended 31 March 2015 are as follows:

	Mail	Parcels (restated)	Central	Total
	£'000	£'000	£'000	£'000
Segmental revenue	240,539	244,564	-	485,103
External revenue	240,539	244,564	-	485,103
Operating profit/(loss)	12,445	23,616	(14,574)	21,487
Exceptional items – administrative expenses	-	(857)	-	(857)
Operating profit	12,445	22,759	(14,574)	20,630
Finance income				2
Finance costs				(62)
Profit before taxation				20,570
Taxation				(4,300)
Profit attributable to equity shareholders				16,270
Other segment items				
Capital expenditure (including acquisitions)				
Property, plant and equipment (note 10)	880	40,482	3,933	45,295
HS2 compensation	-	(4,155)	-	(4,155)
Intangible assets (note 8)	1,428	219	5,047	6,694
Depreciation of property, plant and equipment				
- Owned assets (note 10)	869	3,354	1,241	5,464
- Under finance leases (note 10)	-	158	-	158
Depreciation of investment property (note 9)	-	-	33	33
Amortisation of intangible assets				
- Owned assets (note 8)	137	19	1,970	2,126
- Under finance leases (note 8)	-	-	164	164
Impairment of trade receivables	6	232	-	238
Total assets	46,110	115,186	19,318	180,614

3 Exceptional items

	2016	2015
	£'000	£'000
Profit on sale of national hub	1,126	-
HS2 compensation	16,499	2,000
Net exceptional income	17,625	2,000
Cost of automation implementation	(644)	(403)
National hub relocation costs	(7,085)	(2,454)
Impairment of intangible assets	(3,778)	-
Impairment of tangible assets	(981)	-
UK Pallets closure costs	(35)	
Management reorganisation	(1,354)	-
Exceptional costs	(13,877)	(2,857)
Net exceptional incomes/(costs)	3,748	(857)

Net exceptional income

The profit on sale of the national hub represents the gain on sale following the compulsory acquisition of our National hub and offices at Birmingham by the DfT and HS2 Ltd, as a result of the proposed High Speed Two ('HS2') railway.

The HS2 compensation relates to agreed compensation for the impact of HS2 on our business.

Net exceptional costs

The cost of automation implementation represents the cost incurred as we implement and roll out the new automaton equipment. These costs largely represent asset write offs and contract termination costs.

National hub relocation costs represent disturbance costs associated with the relocation of our National hub and offices to Ryton following an agreement reached with the Department of Transport ('DfT') to acquire the National hub and offices in Birmingham.

These costs largely comprise £3,992k of disturbance payments including recruitment and redundancy costs and legal & professional fees. £2,540k of property costs associated with running two sites for an approximate period of six months, hub expansions costs of £265k and £288k loss of profit due to the delay in hub capacity expansion. No further amounts are expected to be taken as exceptional costs in the 2016/17 financial year.

The impairment of intangible assets represents the impairment cost recognised following a comprehensive strategic review of the Company's I.T. systems during the year which identified a number of software assets that did not fit within the medium and long term strategic goals of the Group, and which therefore offered no future economic value.

3 Exceptional items - continued

The impairment of tangible assets represents the cost of sortation equipment and related facilities that are no longer required given the revised automation strategy of the business. The management reorganisation costs principally relate to the reorganisation of the Board which occurred during the year. These costs include the contractually agreed payments to departing directors, following mitigation, and the appointment costs of new Board directors

The company incurred exceptional closure costs of £35k for UK Pallets (a subsidiary of the parent company) these relate to final closure costs settled by the company.

4 Operating profit

	2016	2015
	£'000	£'000
The following items have been charged/(credited) in arriving at operating profit:		
Royal mail access costs	**189,134**	195,463
Subcontractor costs	**103,539**	97,012
Employee benefits expense (note 6)	**65,373**	64,894
Cost of inventories (included in costs of sales) (note 12)	**8,821**	10,068
Depreciation of investment property (note 9)	**33**	33
Depreciation of property, plant and equipment (note 10)		
- Owned assets	**5,961**	5,464
- Under finance leases	**609**	158
Amortisation of intangibles (included in administrative expenses) (note 8)		
- Owned assets	**2,273**	2,126
- Under finance leases	**164**	164
Operating lease rentals payable	**14,460**	12,546
Repairs and maintenance expenditure on property, plant and equipment	**5,440**	4,872
Loss on foreign currency translation	**75**	55
Operating lease rentals receivable		
- Plant and machinery	**(511)**	(464)
- Property	**(266)**	(277)
- Computer equipment	**(200)**	(198)
Loss on disposal of property, plant and equipment assets	**65**	125
Trade receivables impairment (included in administrative expenses)	**275**	238

4 Operating profit (continued)

Services provided by the Company's auditors

	2016	2015
	£'000	£'000
During the year the Company obtained the following services from the Company's auditors:		
Fees payable to the Company's auditor for the statutory audit of the Company's financial statements	**102**	95
	102	95

5 Finance income/(costs) – net

	2016	2015
	£'000	£'000
Interest receivable on:		
Interest receivable from tax receivables	**1**	1
Inter-company balances	**-**	-
Other	**3**	1
Finance income	**4**	2
Interest payable on:		
Finance leases	**(145)**	-
Inter-company balances	**-**	-
Other	**(362)**	(62)
Finance costs	**(507)**	(62)
Finance (costs)/income – net	**(503)**	(60)

Interest and revolving credit facility arrangement fees totalling nil (2015: £283,000) have been capitalised as part of property, plant and equipment (note 10) as they relate to the construction phase of the Company's new national hub and head office.

6 Employees and directors

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

	2016 £'000	2015 £'000
Wages and salaries	**58,106**	57,051
Social security costs	**5,391**	5,168
Other pension costs *	**1,951**	2,059
Share-based payments (note 20)	**(77)**	616
	65,373	64,894

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

Average monthly number of persons employed (including executive directors)

	2016 Number	2015 Number
Operations	**2,506**	2,481
Administration	**206**	203
	2,712	2,684

Key management compensation	2016 £'000	2015 £'000
Salaries and short-term employee benefits	**1,648**	1,436
Post-employment benefits	**131**	138
Share-based payments	**(139)**	344
	1,640	1,918

6 Employees and directors (continued)

The key management figures above include the directors as detailed below:

Directors' emoluments	2016 £'000	2015 £'000
Aggregate emoluments [1]	**1,331**	1,483
Post-employment benefits	**102**	138
	1,433	1,621

1 - aggregate emoluments in respect of the year ended 31 March 2015 have been restated to reflect the actual share price at the date of exercise of the LTIP award granted on 29 November 2012 which vested on 30 November 2015.

The highest paid director was paid £641,000 (inclusive of £344,000 for payments for loss of office) during the year (2015: £847,000). In addition, Company pension contributions of £43,000 were taken as a salary supplement (2015: £66,000).

During the year ended 31 March 2016, no directors (2015: 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 (2015: two) directors; paid as a supplement to the directors salaries.

7 Taxation

Analysis of charge in the year

	2016 £'000	2015 £'000
Current tax - current year	**2,753**	3,524
Current tax - adjustment in respect of prior years	**(376)**	(165)
Total current tax	**2,377**	3,359
Deferred tax (note 17) - current year	**54**	824
Deferred tax (note 17) - adjustment in respect of prior years	**394**	117
Effect of change in tax rate	**(199)**	-
Total deferred tax	**249**	941
Taxation	**2,626**	4,300

7 Taxation - continued

The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax of 20% (2015: 21%) to the profit before tax are explained below:

	2016 £'000	2015 £'000
Profit before taxation	**15,023**	20,570
Profit at the standard rate of corporation tax in the UK of 20% (2015:21%)	**3,005**	4,320
Effects of:		
Expenses not deductible for tax purposes	**509**	118
Non-taxable gain on disposal	**(499)**	-
Effect of change in tax rate	**(294)**	(54)
Other timing differences	**(113)**	(36)
Adjustment in respect of prior years	**18**	(48)
Total taxation charge	**2,626**	4,300

Additionally, £91,000 of deferred tax has been charged (2015: £138,000 charged) directly to equity in respect of share options.

The Finance Act 2015, which was substantively enacted on 18 November 2015, included legislation which reduced the main UK corporation tax rate from 20% to 19%, effective from 1 April 2017 and to 18% effective from 1 April 2020. The deferred tax balances have been measured in accordance with these rates.

A further reduction in the main UK Corporation tax rate down to 17% effective from 1 April 2020 was announced in the March 2016 Budget. Deferred tax balances have not been impacted by this latest rate change as it had not been substantively enacted by the balance sheet date.

8 Intangible assets

	Acquired software licences £'000	Software development cost £'000	Total £'000
Cost			
At 1 April 2015	4,985	14,720	19,705
Additions	744	4,948	5,692
HS2 compensation	-	(2,171)	(2,171)
Disposals*	(174)	(5,336)	(5,510)
At 31 March 2016	5,555	12,161	17,716
Accumulated amortisation and impairment			
At 1 April 2015	2,963	5,172	8,135
Charge for the year	418	2,019	2,437
Disposals*	(24)	(1,703)	(1,727)
At 31 March 2016	3,357	5,488	8,845
Net book value at 31 March 2016	2,198	6,673	8,871

* includes impairment of £3,778,000

	Acquired Software Licences £'000	Software development cost £'000	Total £'000
Cost			
At 1 April 2014	4,400	8,614	13,014
Additions	585	6,109	6,694
Disposals	-	(3)	(3)
At 31 March 2015	4,985	14,720	19,705
Accumulated amortisation and impairment			
At 1 April 2014	2,440	3,427	5,867
Charge for the year	523	1,767	2,290
Disposals	-	-	-
Reclassification (see note 10)	-	(22)	(22)
At 31 March 2015	2,963	5,172	8,135
Net book value at 31 March 2015	2,022	9,548	11,570

8 Intangible assets - continued

The tables above include the following net book value of assets under construction:

Assets under construction	Acquired software licences £'000	Internal Software developments £'000	Total £'000
Net book value at 31 March 2016	-	-	-
Net book value at 31 March 2015	-	1,479	1,479

9 Investment property

	2016 £'000	2015 £'000
Cost		
At 1 April	**2,584**	2,584
At 31 March	**2,584**	2,584
Accumulated depreciation		
At 1 April	**846**	813
Charge for the year	**33**	33
At 31 March	**879**	846
Net book value at 31 March	**1,705**	1,738

One (2015: one) investment property is held by the Company, located in the West Midlands, and is being sublet under an operating lease. The rental income recognised in the year was £265,993 (2015: £277,480,). Direct operating expenses incurred were £nil (2015: £nil).

The property was last externally valued by qualified professional valuers working for the company of NRS North Rae Sanders, Commercial Real Estate Services and Chartered Surveyors, acting in the capacity of External Valuers in April 2015 at £3m. The valuers are Chartered Surveyors, being members of the Royal Institution of Chartered Surveyors ('RICS'), Industrial Agents Society, Office Agents Society and Investment Property Forum. In January 2016, NRS Rae Sanders was acquired by Avison Young UK, a global real estate firm. In the 2016 financial year, the proportion of total fees payable by the Group to the total fee income of Avison Young was less than 1%. 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 2015	**53,775**	**3,691**	**53,868**	**15,606**	**126,940**
Additions	**(55)**	**155**	**18,994**	**2,110**	**21,204**
HS2 compensation	**(922)**	**-**	**-**	**(2,295)**	**(3,217)**
Disposals*	**(9,425)**	**(287)**	**(17,814)**	**(2,535)**	**(30,061)**
At 31 March 2016	**43,373**	**3,559**	**55,048**	**12,886**	**114,866**
Accumulated depreciation and impairment					
At 1 April 2015	**6,189**	**2,263**	**24,261**	**8,793**	**41,506**
Charge for the year	**833**	**303**	**4,228**	**1,206**	**6,570**
Disposals*	**(2,573)**	**(235)**	**(2,630)**	**(1,166)**	**(6,604)**
At 31 March 2016	**4,449**	**2,331**	**25,859**	**8,833**	**41,472**
Net book value at 31 March 2016	**38,924**	**1,228**	**29,189**	**4,053**	**73,394**

* includes impairment of £981,000

	Freehold land and buildings £'000	Short leasehold buildings £'000	Motor vehicles plant and equipment £'000	Computer equipment £'000	Total £'000
Cost					
At 1 April 2014	35,155	3,362	37,867	11,383	87,767
Additions	22,775	329	17,968	4,223	45,295
HS2 compensation	(4,155)	-	-	-	(4,155)
Disposals	-	-	(1,967)	-	(1,967)
At 31 March 2015	53,775	3,691	53,868	15,606	126,940
Accumulated depreciation and impairment					
At 1 April 2014	5,711	1,959	22,543	7,488	37,701
Charge for the year	478	304	3,535	1,305	5,622
Disposals	-	-	(1,817)	-	(1,817)
At 31 March 2015	6,189	2,263	24,261	8,793	41,506
Net book value at 31 March 2015	47,586	1,428	29,607	6,813	85,434

10 Property, plant and equipment (continued)

As at 31 March 2015 three of the Company's properties included above, with a net book value of £6,339,000 have been given as security against advance payments for compensation received from HS2 Ltd. These charges were subsequently released during the year ended 31 March 2016, following the final contractual settlement of the DfT and HS2 Ltd compensation claim.

Interest and revolving credit facility arrangement fees totalling £nil (2015: £0.3m), which qualify for capital allowances, have been capitalised as part of property, plant and equipment as they relate to the construction phase of the group's new national hub and head offices at Ryton.

The table above includes the following net book value of assets under construction:

Assets under construction	Freehold land and buildings £'000	Short leasehold buildings £'000	Motor vehicles, plant and equipment £'000	Computer equipment £'000	Total £'000
Net book value at 31 March 2016	-	-	-	-	-
Net book value at 31 March 2015	19,220	-	17,195	2,200	38,615

11 Assets held under finance leases

	Property, plant and equipment (Motor vehicles, property, plant and equipment)		Intangible Assets (Acquired software licences)	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Cost	**3,360**	3,360	**1,729**	1,729
Additions	**13,708**	-	**-**	-
Accumulated depreciation	**(3,969)**	(3,358)	**(1,347)**	(1,183)
Disposals	**-**	-	**-**	-
Net book value	**13,099**	2	**382**	546

The majority of the leases are for an initial contractual period of six to 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

	2016	2015
	£'000	£'000
Fuel stock	**267**	237

The Company consumed £8,821,000 (2015: £10,068,000) of inventories during the year.

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

13 Trade and other receivables

	2016 £'000	2015 £'000
Trade receivables	**46,717**	54,957
less: provision for impairment	**(139)**	(68)
Trade receivables, net of provisions for impairment	**46,578**	54,889
Other receivables	**6,145**	5,451
Amounts owed from group undertakings	**490**	199
Prepayments and accrued income	**11,567**	14,307
	64,780	74,846

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 21.

14 Cash and cash equivalents

	2016 £'000	2015 £'000
Cash at bank and in hand	**3,376**	6,222

The effective interest rate on the cash and bank balances was nil% (2015: nil%).

15 Borrowings

Current	**2016 £'000**	2015 £'000
Amounts due within one year or on demand:		
Revolving credit facility	**(185)**	9,758
Finance lease obligations	**418**	-
	233	9,758
Non-current		
Finance lease obligations	**4,364**	-

The revolving credit facility is shown net of £185,000 (2015: £242,000) unamortised arrangement fees.

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

Amounts payable under finance leases	**2016 £'000**	2015 £'000
Within one year	**(620)**	-
Between one and five years	**(3,100)**	
Over five year	**(2,119)**	-
Total minimum lease payments	**(5,839)**	-
Future finance charges	**1,057**	-
Present value of finance leases	**4,782**	-

16 Trade and other payables - current

	2016 £'000	2015 £'000
Trade payables	**49,742**	58,332
Amounts owed to group undertakings	**14,143**	29,835
Amounts owed to franchises	**1,351**	1,549
Other payables	**8,365**	9,058
Taxes and social security	**12,059**	12,620
Accruals	**8,078**	9,407
Deferred compensation	**414**	9,640
Deferred income	**68**	59
	94,220	130,500

Amounts owed to group undertakings bear interest at 1% over the Bank of England base rate, and are repayable on demand.

Total deferred compensation of £414,000 (2015: £9,640,000) relates to disturbance costs to be incurred.

Total compensation received in 2016 was £22,059,000 of which £15,497,000 was credited to the income statement, £5,388,000 was credited against capital expenditure for assets purchased that could not have been transferred to the new Ryton site including the data centre and associated assets, plus compulsory moving costs (stamp duty, planning and legal fees) and £760,000 being the final payment for the old Birmingham site.

During the year ended 31 March 2016 deferred compensation of £8,640,000 has been credited to the income statement in relation to the disposal of the Birmingham site (which is reported within the exceptional item 'Profit on sale of national hub') and £1,000,000 has been credited within the 'HS2 compensation' exceptional item.

Total compensation received in 2015 was £4,250,000 of which £2,000,000 is shown in the cash flow statement within investing activities relating to the reimbursement of capital expenditure and £2,250,000 within operating activities relating to business disruption costs.

During the year ended 31 March 2015, £4,155,000 was credited against the build cost of the Ryton National hub (shown as an asset under construction in note 10) within the balance sheet and £2,000,000 was included as an exceptional item within 'HS2 compensation'. Further details of those items classified as exceptional can be found in note 3

17 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 18-19% (2015: 20%).

The movement on the deferred tax asset account is as shown below:

Deferred tax assets	2016 £'000	2015 £'000
At 1 April	**567**	621
Statement of comprehensive income (charge)/credit	**(175)**	84
(Charged)/Credited to equity	**(91)**	(138)
At 31 March	**301**	567

Deferred tax assets, which largely relate to share-based payments, are calculated on the difference between the market price at the balance sheet date and the option exercise price. The excess of the deferred tax over the cumulative income statement charge is recognised in equity. There are no unrecognised deferred tax assets..

The movement on the deferred tax liability account is as shown below:

Deferred tax liabilities	2016 £'000	2015 £'000
At 1 April	**(2,560)**	(1,535)
Statement of comprehensive income (charge)/credit	**(172)**	(1,025)
At 31 March	**(2,732)**	(2,560)

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

17 Deferred tax (continued)

Deferred tax assets	**2016** **£'000**	2015 £'000
Within 12 months	**200**	93
After 12 months	**101**	474
At 31 March	**301**	567

Deferred tax liabilities	**2016** **£'000**	2015 £'000
Within 12 months	**-**	-
After 12 months	**(2,732)**	(2,560)
At 31 March	**(2,732**	(2,560)

The deferred income tax (charged)/credited to equity during the year is as follows:

	2016 **£'000**	2015 £'000
Deferred tax on share-based payments	**(91)**	(138)

18 Provisions

	Automation £'000	Lease dilapidations £'000	Restructuring £'000	Management reorganisation £'000	Total £'000
At 1 April 2015	**251**	**1,070**	**196**	**-**	**1,517**
Charged to the income statement	**27**	**452**	**-**	**633**	**1,112**
Utilised in the year	**(251)**	**(267)**	**(122)**	**-**	**(640)**
At 31 March 2016	**27**	**1,255**	**74**	**633**	**1,989**

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

	2016 £'000	2015 £'000
Current	**1,158**	765
Non-current	**831**	752
	1,989	1,517

The automation provision largely relates to the revised automation strategy and related facilities costs, plus the early termination costs of exiting existing contracts as a result of the roll-out of a programme of large scale automation within the network in the 2014/15 financial year.

Lease dilapidations represent the anticipated expenditure resulting from the Company's contractual obligations to make good properties prior to reversion of the building to the landlord in respect of leases expiring within one year and up to 14 years. The timing of outflows is variable, and is dependent not only on property lease expiry dates, and opportunities to surrender leases, but repair programmes and the results of negotiation.

Restructuring relates to provisions arising following a change programme initiated in the financial year ended 31 March 2012 and relates to onerous property lease costs, which are expected to be utilised within one year.

Management reorganisation provisions largely relate to the Board changes during the year, including the exit costs in respect of the previous Group Operations Director and the appointment costs for both the new Group CEO and Group Operations Director.

19 Ordinary shares

	2016	2015
	£'000	£'000
Authorised, issued, allotted and fully paid		
1,000 (2015: 1,000) ordinary shares of £1 each	1	1

20 Share-based payments

The Company recognised a credit of £77,000, (2015: £616,000 charge) in respect of equity settled share-based payments during the year. There have been no cancellations or modifications to any of the plans during the year. The main details of all the schemes which existed during the year were as follows:

Sharesave Plan ('SAYE')

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 £500 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.

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.

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.

20 Share-based payments (continued)

During the year ended 31 March 2016, 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
2012	11.6% p.a.	18.1% p.a.	Median	Top quartile	26.6% vested under the EPS condition 50.0% vested under the TSR condition
2013	7.2% p.a.	15.5% p.a.	Median	Top quartile	Failed both the EPS and the TSR condition
2014	8.0% p.a.	14.0% p.a.	Median	Top quartile	Live award
2015	8.0% p.a.	15.0% p.a.	Median	Top quartile	Live award

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

No awards will vest under the 2013 grant as UK Mail Group plc. failed to meet both the required minimum EPS and TSR targets.

Share Matching Plan ('SMP')

In previous years, selected executives had been invited to invest a portion of their 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. However, the Remuneration Committee of UK Mail Group plc no longer considers this as an appropriate means of incentivising senior management, with the last grant made on 10 June 2014. (Further details can be found in the Remuneration Report of that Company).

Where such an investment was 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.

20 Share-based payments (continued)

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.

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

	LTIP	SAYE
Grant date	02/06/15	20/07/15
Share price at grant date	£5.025	£5.20
Exercise price	-	£4.1414
Number of employees	1	202
Number of shares granted	29,904	203,915
Vesting period (years)	3	3
Expected volatility	29.1%	28.2%
Option life (years)	3	3
Expected life (years)	3	3
Risk-free interest rate	0.80%	0.97%
Expected dividends expressed as a dividend yield	0.0%	4.19%
Fair value per option	£3.75	£1.09
Expected forfeiture (%)	0.0%	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 rate for the SAYE grant, but is assumed as zero for the LTIP grant given the 'dividend equivalence' term.

20 Share-based payments (continued)

Reconciliation of option movements

A reconciliation of option movements over the year to 31 March 2016 is shown below:

	2016 Number	**2016 Weighted average exercise price**	2015 Number	2015 Weighted average exercise price
Outstanding as at 1 April	**1,286,620**	**£1.00**	1,125,902	£0.94
Granted	**233,819**	**£3.61**	277,671	£1.97
Lapsed	**(419,694)**	**£1.31**	(110,817)	£2.67
Exercised	**(391,813)**	**£1.11**	(6,136)	£2.01
Outstanding as at 31 March	**708,932**	**£1.62**	1,286,620	£1.00
Exercisable at 31 March	**-**	**-**	-	-

Options are exercisable as follows:

	2016				2015			
Range of exercise prices	**Weighted average exercise price**	**Number of shares**	**Weighted average remaining life expected years**	**Weighted average remaining life contracted years**	Weighted average exercise price	Number of shares	Weighted average remaining life expected years	Weighted average remaining life contracted years
£0.00 - £0.99	**£0.00**	**430,345**	**0.6**	**7.4**	£0.00	851,842	1.4	8.0
£1.00 - £1.99	**£1.87**	**15,568**	**1.7**	**1.9**	£1.87	244,274	0.9	1.2
£2.00 - £2.99	**-**	**-**	**-**	**-**	£2.75	6,850	0.8	1.0
£4.00 - £4.99	**£4.27**	**263,019**	**2.0**	**2.3**	£4.44	183,654	2.2	2.4
	£1.62	**708,932**	**1.1**	**5.4**	£1.00	1,286,620	1.4	5.9

21 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. Risk management is carried out by a central treasury function under written policies approved by the Board. Under the supervision of the UK Mail Group Finance Director, the UK Mail 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. At the year end the Company has not entered into any financial derivatives contracts: (2015: £nil.)

Details of the Company's financial instruments and non-financial instruments are detailed in the following table:

	2016 £'000 Financial instruments	Other	Total	2015 £'000 Financial instruments	Other	Total
Intangible assets	-	8,871	8,871	-	11,570	11,570
Investment property	-	1,705	1,705	-	1,738	1,738
Property, plant and equipment	-	73,394	73,394	-	85,434	85,434
Deferred tax asset	-	301	301	-	567	567
Non-current assets	-	84,271	84,271	-	99,309	99,309
Trade receivables (net of impairment)	46,578	-	46,578	54,889	-	54,889
Other debtors	6,145	-	6,145	5,451	-	5,451
Prepayments and accrued income	-	11,567	11,567	-	14,307	14,307
Amounts owed from group undertakings	490	-	490	199	-	199
Trade and other receivables	53,213	11,567	64,780	60,539	14,307	74,846
Inventories	-	267	267	-	237	237
Cash and cash equivalents	3,376	-	3,376	6,222	-	6,222
Current assets	56,589	11,834	68,423	66,761	14,544	81,305
LIABILITIES						
Trade payables	(49,742)	-	(49,742)	(58,332)	-	(58,332)
Other payables	(8,365)	-	(8,365)	(9,058)	-	(9,058)
Amounts owed to franchise	(1,351)	-	(1,351)	(1,549)	-	(1,549)
Amounts owed to group undertakings	(14,143)	-	(14,143)	(29,835)	-	(29,835)
Other taxes and social security payable	-	(12,059)	(12,059)	-	(12,620)	(12,620)
Accruals	(8,078)	-	(8,078)	(9,407)	-	(9,407)
Deferred compensation	-	(414)	(414)	-	(9,640)	(9,640)
Deferred income	-	(68)	(68)	-	(59)	(59)
Trade and other payables	(81,679)	(12,541)	(94,220)	(108,181)	(22,319)	(130,500)
Borrowings	(233)	-	(233)	(9,758)	-	(9,758)
Current tax liabilities	-	(1,478)	(1,478)	-	(829)	(829)
Provisions	(1,158)	-	(1,158)	(765)	-	(765)
Current liabilities	(83,070)	(14,019)	(97,089)	(118,704)	(23,148)	(141,852)
Borrowings	(4,364)	-	(4,364)	-	-	-
Deferred tax liabilities	-	(2,732)	(2,732)	-	(2,560)	(2,560)
Provisions	(831)	-	(831)	(752)	-	(752)
Non-current liabilities	(5,195)	(2,732)	(7,927)	(752)	(2,560)	(3,312)
Total liabilities	(88,265)	(16,751)	(105,016)	(119,456)	(25,708)	(145,164)
Net assets	(31,676)	79,354	47,678	(52,695)	88,145	35,450

The tables below set out the classification for each of its financial assets and liabilities:

At 31 March 2016	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Total carrying value £'000
Cash at bank and in hand	3,376	-	3,376
Borrowings due within one year	-	(233)	(233)
Borrowings due more than one year	-	(4,364)	(4,364)
Other financial assets	53,213	-	53,213
Other financial liabilities	-	(83,668)	(83,668)
	56,589	(88,265)	(31,676)
At 31 March 2015			
Cash at bank and in hand	6,222	-	6,222
Borrowings due within one year	-	(9,758)	(9,758)
Other financial assets	60,539	-	60,539
Other financial liabilities	-	(109,698)	(109,698)
	66,761	(119,456)	(52,695)

Other financial assets comprise trade receivables and other receivables which are receivable within and after more than one year. Other financial liabilities comprise trade payables, accruals and other financial liabilities which are payable within and after more than one year.

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 and capital risk. These are discussed below.

21 Financial instruments (continued)

Interest payable on financial instruments is carried at amortised cost (mainly comprising of intercompany balances (where not settled monthly), interest payable on early settlement of trade receivables and finance lease liabilities) is disclosed in note 5.

Contractual cash flows

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

At 31 March 2016	**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	(4,782)	(4,782)	(4,782)	(418)	(894)	(1,500)	(1,970)
Trade payables	(49,742)	(49,742)	(49,742)	(49,742)	-	-	-
Other payables	(8,365)	(8,365)	(8,365)	(8,365)	-	-	-
Amounts owed to franchises	(1,351)	(1,351)	(1,351)	(1,351)	-	-	-
Amounts owed to group undertakings	(14,143)	(14,143)	(14,143)	(14,143)	-	-	-
Accruals	(8,078)	(8,078)	(8,078)	(8,078)	-	-	-
Provisions	(1,989)	(1,989)	(1,989)	(1,158)	(280)	(323)	(228)
	(88,450)	(88,450)	(88,450)	(83,255)	(1,174)	(1,823)	(2,198)

At 31 March 2015	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	-	-	-	-	-	-	-
Trade payables	(58,332)	(58,332)	(58,332)	(58,332)	-	-	-
Other payables	(9,058)	(9,058)	(9,058)	(9,058)	-	-	-
Amounts owed to franchises	(1,549)	(1,549)	(1,549)	(1,549)	-	-	-
Amounts owed to group undertakings	(29,835)	(29,835)	(29,835)	(29,835)	-	-	-
Accruals	(9,407)	(9,407)	(9,407)	(9,470)	-	-	-
Provisions	(1,517)	(1,517)	(1,517)	(765)	(242)	(307)	(203)
	(109,698)	(109,698)	109,698)	(109,009)	(242)	(307)	(203)

21 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 fair value of the RCF borrowings approximate to the book value since it carries a floating rate where payments are reset to market rates at intervals of less than one year. The fair value of finance leases is based by discounting the contracted cash flows at prevailing interest rates.

All financial assets and liabilities are sterling denominated.

Fair value measurements

The Company does not have any material financial instruments held at fair value.

Accordingly, the three level hierarchy required by IFRS has not been presented.

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 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. 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 7.1% 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 (2015: none) whose terms have been renegotiated and would otherwise be past due or impaired.

21 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:

	2016	2015
	£'000	£'000
At 1 April	**68**	55
Amount provided/(utilised)	**71**	13
At 31 March	**139**	68

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

	2016	2015
	£'000	£'000
Less than 30 days	**46,633**	54,889
Between 30 - 60 days	**76**	41
Between 60 - 90 days	**8**	18
More than 90 days	**-**	9
	46,717	54,957

21 Financial instruments (continued)

As at 31 March 2016, trade receivables of £139,000 were impaired (2015: £68,000). The amount of provision was £139,000 at 31 March 2016 (2015: £68,000). The ageing of these impaired trade receivables is as follows:

	2016	2015
	£'000	£'000
Less than 30 days	**9**	-
Between 30 - 60 days	**52**	41
Between 60 - 90 days	**29**	18
More than 90 days	**50**	9
	139	68

As at 31 March 2016, trade receivables of £4,745,000 were past due but not impaired (2015: £5,836,000). The ageing of these trade receivables is as follows:

	2016	2015
	£'000	£'000
Less than 30 days	**4,661**	5,834
Between 30 - 60 days	**76**	-
Between 60 - 90 days	**8**	2
More than 90 days	**-**	-
	4,745	5,836

As at 31 March 2016, there were £nil (2015: £nil) trade receivables impaired but not past due for payment.

Financial instruments (continued)

None (2015: 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.

21 Financial instruments (continued)

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 7% 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 2016 was:

	2016 Book value £'000	2016 Fixed rate financial liabilities £'000	2016 Floating rate financial liabilities £'000	2015 Book value £'000	2015 Fixed rate financial liabilities £'000	2015 Floating rate financial liabilities £'000
Financial assets						
Cash and cash equivalents	3,376	-	-	6,222	-	-
	3,376	-	-	6,222	-	-
Financial liabilities						
Finance leases	(4,782)	(4,782)	-	-	-	-
Amounts due to group undertakings	(14,143)	(14,143)	-	(29,835)	(29,835)	-
Revolving credit facility	185	185	-	(9,758)	-	-
	(18,740)	(18,740)	-	(39,593)	(29,835)	-

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 interest rate payable on finance leases is fixed at the inception of any agreement. The interest rate payable on the revolving credit facility is 1.5% over LIBOR.

21 Financial instruments (continued)

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 2016, the Company had not drawn on the revolving credit facility of £25.0m (2015: £10.0m drawn) in place until 31 May 2019. The Company also has an overdraft facility which was also undrawn of £10.0m, in place until 30 June 2016.

Price risk

Royal Mail access costs represent a significant cost to the Company. Price risk is limited as Ofcom is mandated to maintain sufficient headroom between retail and access prices, such that competition is encouraged within the mail industry.

Whilst fuel costs only constitute approximately 1.9% of total costs there is an element of price risk. 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.

21 Financial instruments (continued)

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 1% of all expenditure.

There would have been no impact on profit before tax or equity in either the year ended 31 March 2016 or 31 March 2015, had Sterling strengthened or weakened 10% against the Euro.

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.

22 Operating lease commitments – minimum lease payments

	2016		2015	
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 one year	**6,131**	**5,698**	6,342	5,417
Between one and two years	**4,868**	**4,413**	4,545	5,043
Between two and five years	**8,279**	**3,110**	7,715	5,153
After five years	**3,984**	**-**	6,350	16
At 31 March	**23,262**	**13,221**	24,952	15,629

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 and office equipment under non-cancellable operating lease agreements. Leases are negotiated for an average term of four years during which time the rentals are fixed.

The total of future minimum sub-lease payments receivable under non-cancellable sub-leases at the balance sheet date was £nil (2015: £nil).

The Company sublets one of its properties (see note 9) under a non-cancellable operating lease agreement, due to expire on 6 May 2016. At 31 March, the future minimum lease payments receivable were as follows

22 Operating lease commitments – minimum lease payments (continued)

Commitments under non-cancellable operating leases expiring:	2016 £'000	2015 £'000
Within one year	24	71
Between one and two years	-	-
Between two and five years	-	-
At 31 March	**24**	71

23 Contingent liabilities

The Company has guaranteed bank and other borrowings of subsidiary undertakings in a cross-guarantee agreement on an undrawn Group borrowing facility amounting to £10m (2015: £10m).

The Company has a bank guarantee agreement with Lloyds Bank plc, under which the bank provides a facility which allows the Company to request that the bank issue guarantees to third party suppliers for general business purposes. The maximum total facility value is £11m (2015: £11m). At 31 March 2016, upon the request of the Company, the bank has issued a guarantee with a value of £8m (2015: £8m) to a third party supplier of the Company.

The Company has a documentary credit facility with Lloyds Bank plc. of £1.7m (2015: £1.7m), in respect of letters of credit opened with the bank.

The Company is subject from time to time to litigation and/or claims from external parties. The Company establishes provisions in connection with litigation where it has a present legal or constructive obligation as a result of past events, and 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. Since these provisions, which are reflected in the Company's financial statements represent estimates, the final resolution of any such matters could have a material effect on the Company's operating results and cash flows for a particular reporting period.

24 Capital and other financial commitments

	2016 £'000	2015 £'000
Contracts placed for future capital expenditure not provided in the financial statements		
Property, plant and equipment	**452**	140
	452	140

25 Analysis of net (debt)/cash

	At 31 March 2014 £'000	Cash flow 2014 £'000	Non-cash movement £'000	At 31 March 2015 £'000	**Cash flow £'000**	**Non-cash movement £'000**	**At 31 March 2016 £'000**
Cash at bank and in hand	5,650	572	-	6,222	**(2,846)**	-	**3,376**
Total cash	5,650	572	-	6,222	**(2,846)**	-	**3,376**
Draw down of RCF	-	(10,000)	-	(10,000)	**10,000**	-	-
RCF arrangement fee	-	335	(93)	242	-	**(57)**	**185**
Finance leases	(374)	374	-	-	**(4,872)**	-	**(4,872)**
	(374)	(9,291)	(93)	(9,758)	**5,128**	**(57)**	**(4,687)**
Net(debt)/cash	5,276	(8,719)	(93)	(3,536)	**2,282**	**(57)**	**(1,311)**

The non-cash movement represents the amortisation of the revolving credit facility ('RCF') arrangement fee.

26 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:

	Note	2016 £'000	2015 £'000
Receivables from related parties			
Fellow group undertakings	13	**490**	199
Payables to related parties			
Parent undertaking	16	**(14,139)**	(29,831)
Fellow group undertakings	16	**(4)**	(4)

The following transactions were undertaken during the year with related parties:

	2016 £'000	2015 £'000
Cash transfers in respect of treasury management	**15,692**	(14,248)
Dividend paid to ultimate parent undertaking	**-**	(20,000)
Recharges of costs to fellow group undertakings	**290**	4,760
Recharges of costs from fellow group undertakings	**-**	(242)
	15,982	(29,730)

27 Ultimate parent undertaking and controlling party

UK Mail Group plc. (registration: 02800218), a Company incorporated in England, is the immediate and ultimate parent undertaking and the ultimate controlling party.

27 Ultimate parent undertaking and controlling party - continued

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, 120 Buckingham Avenue, Slough, SL1 4LZ

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

i) loss or cessation of a material contract representing 5% or more of the Company's revenues;

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

(iii) organisational or restructuring programmes.

HS2 accounting

The directors have in previous years considered the contractual terms in determining the accounting treatment of the HS2 National hub acquisition and compensation contract. The key area of judgement for the year ended 31 March 2016 was the accounting disclosure thereof, specifically in relation to compensation payments, where management assumptions were necessary.

28 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.

Recoverability of trade receivables

Trade receivables are stated in the balance sheet at their nominal value less any appropriate provision for irrecoverable amounts. In determining whether provision is required against any trade receivable, judgment is required in estimating the likely levels of recovery. In exercising this judgment, consideration is given to both the overall economic environment in which a debtor operates, as well as specific indicators that the recovery of the nominal balance may be in doubt, for example days' sales outstanding in excess of agreed credit terms or other qualitative information such as historical trend. The Directors also consider debtor specific circumstances.

Taxation

The Company has, from time to time, deferred tax assets and/or deferred tax liabilities.

Judgement is required in the assessment of the future recoverability of deferred tax assets, as to both quantum and timing, and the probability, timing and size of any deferred tax liabilities that may become payable.

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 previously provided for the estimated costs of re-organisation, which involved 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.

29 Dividends

	2016 Dividend per share £'000	£'000	2015 Dividend per share £'000	£'000
Interim dividend paid in respect of the current year	-	-	20	20,000
	-	-	20	20,000

The directors do not recommend the payment of a final dividend (2015: £nil).

30 Post-balance sheet events

As at the date of this report, there were no significant post-balance sheet events affecting the Company for the year ended 31 March 2016.