

Company registration number: 00965783

UK MAIL LIMITED

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2014

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for the year ended 31 March 2014

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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 our revenue and margins by establishing a market leading position in our key markets of parcels, mail and courier services, with a clear focus on network efficiency together with product and service innovation.

Network Efficiency

A low cost, efficient network with high service levels is key to our market position. This allows us to win and retain contracts at good profit levels in a market which continues 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 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 with further integration of our Courier network providing enhanced delivery facilities for customers.

Extensive and innovative use of I.T.

In our industry I.T. is a key differentiator. We handle some 200,000 parcels each night together with some 11.5m 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 have also introduced new data services and information to the end-customer. The key change here has been the introduction of one-hour delivery windows, which puts us alongside the industry leaders in our market.

Strong Operational Management

The organisation and management of our network is vital to achieving the consistently high operational levels we achieve. This comes down to operating disciplines and cost control. We believe we excel in this area and continue to introduce improvements to help drive down our operating costs whilst improving service levels.

As a reflection of the importance of strong operational management to the Group's success, Carl Moore, our Group Operations Director, was promoted to the Board with effect from 8th April 2014. With his strong operational focus, wide-reaching experience of parcel distribution networks and of the implementation of automated parcel sortation operations, he is a valuable addition to the Board.

Automation

Effective use of automated sortation is vital in our industry, to further reduce sortation costs and to increase capacity. Having partially automated our operations in 2010, we now handle some 20% of our Parcels volumes through these automated facilities.

We intend to increase the level of automated sortation to some 80% of our Parcels volumes, the maximum we believe our business can achieve at this stage, due to the consignments we handle not all being compatible with automated sortation.

As previously announced, this will involve the installation of further automated sortation equipment, at a capital cost of approximately £20m of which some £3.3m has been incurred in the financial year just finished with the balance to be incurred in the new financial year. We are targeting a double digit net return on the automation investment we make and the full run rate of benefits from September 2015. We estimate that this increased automation of our parcels operations will increase our central sortation capacity by some 45%.

BUSINESS REVIEW

Profit before taxation of £22,198,000 (2013: £17,042,000) has been achieved on revenue of £481,384,000 (2013: £447,344,000). The directors consider the results to be in line with 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 16.2% to £219,900,00 (2013: £189,249,00). On an adjusted basis, taking account of the four extra days compared to last year, they increased by some 14.2%.

We have achieved strong volume growth in both the B2B and B2C market segments throughout the period, with Parcels average daily volumes increasing by some 19% compared to last year. This performance is driven by good customer retention and a number of high quality customer wins. We continue to see an on-going volume mix change towards the lower margin B2C segment.

The strong volume growth allows us to spread our fixed costs across the increased volumes and so improve our operating margins. As a result, despite the continued competitive pricing environment, we have improved our Parcels operating margin to 10.2% for the year (2013: 8.6%).

The good growth in revenues combined with the operating margin increase has led to a strong growth in the Parcels operating profit of 37.2% to £22,419,000 (2013: £16,345,000). On an adjusted basis, taking account of the additional working days, operating profit grew by some 27.5%.

We continue to make progress with our specialised Retail Logistics product, which provides services tailored to the specific needs of retailers, with a special capability to handle hanging garments. Following the opening of our specialist distribution centre in July 2013, we have now introduced automated sortation capabilities for hanging garments as well as improved software which allows us seamlessly to combine our Parcels and Courier networks, providing a more flexible, integrated product for our customers.

ipostparcels represents one of the lowest-cost and most user-friendly online collection and delivery services available in the UK. While growth slowed slightly year on year as the business becomes more established among our target customer base, 2013 Christmas volumes were double those achieved in the previous year.

The overall UK parcels market is growing rapidly but remains highly competitive. While we experienced the usual mix of contract changes over the period, we continue to be successful in winning new customers as a result of our high service levels, low-cost network, our strong brand, and dislocation elsewhere in the market. To allow us to handle these increasing volumes we continue to expand our capacity, with three sites in our fifty-strong network having been expanded during the period and up to eight additional sites earmarked for expansion in the next 12 months.

Key to our parcels market position is the provision of value added services that customers increasingly demand. In March we introduced our enhanced next day delivery service that will offer advance-notice one-hour delivery and collection windows which can easily be rearranged. This includes our new "You're Next" texting service to inform customers when their delivery is some ten minutes away; an industry first which will further improve the first time delivery experience for our customers. This added functionality gives Parcels tremendous opportunity for customer acquisition and puts us firmly in the top tier of an increasingly polarised market.

Looking forward, we expect Parcels growth to slow during the 2014/15 financial year as our capacity is partially constrained ahead of the increases in which we are investing coming on stream.

Mail

Mail revenues increased by 1.5% to £245,286,000 (2013: £241,588,000). On an adjusted basis, taking account of the four extra days compared to last year, they declined by some 0.4%. This decline however was largely caused by a mix change towards Customer Direct Access (CDA) mail, which carries a lower revenue per item.

Our mail volumes increased by some 2.0% compared to the prior year, while the overall UK mail market has seen a decline in transactional volumes of some 5% per annum. This growth in market share has been achieved through generating additional mail volumes from existing customers, and a number of new customer wins.

Mail operating profits increased by 18.0% to £12,662,000 (2013: £10,746,00). On an adjusted basis, taking account of the additional working days, the increase was some 14.0%. The operating margin increased to 5.2% (2013: 4.4%).

UK Mail remains a market leader with an operational template that is ideally suited to adapt to the demands of an evolving mail market, and we have continued to focus on growing our business by gaining additional volumes from new and existing customers, and on investing for the future. To increase the efficiency of our operations and to provide additional facilities to our customers we have invested in two new, state-of-the-art, mail sortation machines, at a capital cost of some £0.8m, which reflects our confidence in the future prospects of our mail business.

In February 2014 Ofcom announced that it was to investigate a complaint from TNT concerning certain access prices introduced in April 2014. In April 2014 Ofcom confirmed that this would be dealt with under its Compensation Act powers. This Ofcom investigation has no direct effect on UK Mail. It does however create uncertainty in the wider market and we would trust that Ofcom resolves the matter as swiftly as practical. In April 2014 Ofcom also announced a review of access mail arrangements. We will fully assist with this review but, again, see no direct implications for our business.

imail, our web-to-print postal service, continues to show healthy growth and monthly items are now in excess of 2m. We continue to invest to increase our capacity and provide additional services, such as high speed insertion, and this year we launched a brand new website for the service, providing customers with enhanced personalisation options, innovative data services, and a new suite of products. This includes the introduction of advanced software and functionality for SME clients to promote integrated customer communications strategies.

The success of imail has meant that we have become the fastest growing digital printer of our type in the UK. Our area of speciality remains small run printing. We have now decided to build on this business to create 'imailprint'. This will provide a specialist printing service which, rather than being purely mailed as with our current service, can produce printed documents for general usage. We see this as a natural, low risk, medium-term growth opportunity.

Packets represents an exciting new growth area for the Company. We have recently launched a new packets service, based on a new agreement with Royal Mail which will allow us to offer customers a two/three day, low cost delivery service. The new agreement enables us to collect packets, using our nationwide efficient network, and sort them for final delivery by Royal Mail. This combination allows us to provide a profitable product to customers which can compete with the 'lifestyle couriers' who provide a basic service at low cost. We estimate the packets market to be worth some £1.2bn, of which we estimate some £200m is handled by 'lifestyle couriers'.

We would expect the new packets product to make a positive contribution in the new financial year with good medium-term growth prospects once it is fully established in the market.

Courier

Revenues in our Courier business, which provides same-day delivery services, decreased slightly by 1.9% to £16,198,000 (2013: £16,507,000). We are continuing to focus on national contracts that can leverage our network and blue chip customer base. Operating margins increased to 17.0% (2013: 15.5%) helping to increase operating profit by 7.2% to £2,747,000 (2013: £2,563,000). The increase in operating margin reflects the actions management have taken to improve operational effectiveness and reduce overheads in the business.

Our Courier network also provides the 'istore' service. This involves the local storage of parts and components for which service engineers need easy access to complete timely service jobs. We provide the storage facilities, largely in our parcels depots, and the courier delivery service to the engineers. This is a growing market in which we have developed a market leading position.

We have now developed a highly efficient nationwide courier network with a proven ability to support national contracts, which adds to our ability to offer a fully integrated proposition and supports product development across the Group.

Central Costs

Central costs increased by 24.7% to £15,535,000 (2013: £12,456,000). This increase is largely due to increase I.T. costs, reflecting our increased investments in this key area.

Network Capacity/New Hub

Growing network capacity is vital in a market that continues to show strong growth, largely due to the rapid growth of internet shopping. We aim to achieve this capacity growth through localised expansion of capacity where needed, together with the expansion of our central hub. The expansion of our central hub is overdue and was delayed due to the uncertainty caused by the relocation of our Birmingham hub as a result of the HS2 rail link. This position was resolved in December 2013, and our new hub is under construction at a site near Coventry. This new hub, together with increased automation, is key to our future growth plans. We expect construction to be completed in late 2014, with the hub being fully operational from mid-2015.

Product and Service Innovation

The second 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 is gaining valuable traction helping us to win new customers.

The key areas we are progressing are:

imail – a market leading hybrid mail service

imailprint – an internet based printing service, linked to imail, that can meet localised printing requirements

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

Packets – a packet collection and delivery service providing cost effective solutions in conjunction with Royal Mail's delivery service

istore – a localised storage and delivery service targeting local repair engineer services that need fast access locally to parts and components More details are provided on the progress of these initiatives in the following review.

Strategy Summary

Over the past three years, excellent progress has been made in developing the business to its current position, with a clear focus on network efficiency and product innovation. The result is a robust operational platform and strong competitive positions in our chosen markets. The new products that we have introduced have gained valuable traction, and we have become a significantly more consumer-focused business. The benefits can be seen in the strong results we have achieved.

As previously announced, we are now entering the next phase of strategic investment, targeting significant improvements in our capacity, customer-facing technology, IT infrastructure and automation. Combined, these will create the platform for the next chapter of growth over the coming years.

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	Target 2014	Actual 2014	Change against 2013	Variance Against Target
CO2 emissions (tonnes)	55,401	52,631	58,560	5.7%	11.3%
CO2 emissions by consignment	0.441kg	Not set	0.393kg	-10.9%	N/A
Health & Safety compliance	95.7%	95.0%	96.6%	0.7%	1.6%
Workplace fatalities	0	0	0	0%	0%
Maintain ISO 14001 corporate site compliance (% of the 40 corporate sites)	100%	100%	100%	0%	0%
OHSAS 18001 compliance (% of the 40 corporate sites)	N/A	N/A	N/A	N/A	N/A
Land diversion (%)	90.6%	95.0%	96.3%	+5.7%	1.3%
Waste to landfill (tonnes)	270,615	257,084	125,594	-53.6%	-51.1%
Total waste (tonnes)	2,894	2,749	3,521	+21.7%	+28.1%
Water consumption (m3)	35,342	33,575	31,422	-11.1%	-6.4%

UK Mail's Greenhouse Gas Emissions

Total carbon emissions were 58,560k tonnes. This is overwhelmingly made up of emissions from fuel burn. The calculation of these emissions is based on respected industry measurements (Carbon Trust and Defra).

We have again set ourselves challenging emission reduction targets for the next three years which we aim to meet by a number of initiatives which includes a new consignment volume target.

Energy

We have reduced our electricity consumption by 5.0% and gas consumption by 5.3% during the year.

We have installed 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 is enabling us to identify and reduce unusual energy usage, particularly during the periods when we are not operating.

Health, Safety and Environment Compliance

We fully embrace and endorse 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. We have an objective to achieve OHSAS18001 certification across all of our corporate sites, which is the British Standard for occupational health and safety management systems. Work on this objective has not yet started.

Waste Management

We continue to improve the management of our waste. UK Mail now backhauls all of our cardboard and stretch-wrap waste to a regional site in order to make recycling more efficient. We now only have two waste streams; landfill and mixed recyclables. Our landfill diversion rates are over 96%, compared with just 5% in 2008.

Water Consumption

Good progress has been made in reducing our water consumption by 6.4% against our target of a 5% reduction.

We have installed water saving devices at all sites to reduce consumption and waste.

FINANCIAL AND OPERATIONAL RISK MANAGEMENT

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

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

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

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

The 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
<p>Potential operational and financial impact resulting from the relocation of the National hub</p> <p>A new National hub (Ryton) is in the process of being constructed following contractual agreement with HS2 Ltd to acquire the existing National hub (Birmingham).</p> <p>Completion of the Ryton construction is expected to be in late 2014, with the hub fully operational from mid-2015.</p>	<p>The Company could be exposed to a number of unforeseen costs or expenditure, for which no compensation will be received.</p> <p>Management is distracted from the achievement of day-to-day objectives to management of the move.</p> <p>Loss of key personnel affected by a period of uncertainty and/or unwillingness to relocate.</p>	<p>The relocation is being closely managed by a dedicated HS2 steering group.</p> <p>Plans are discussed and agreed with HS2 Ltd in advance of funds being committed</p> <p>Plans are in place to retain employees before, during and after the move.</p>	<p>The Board monitors the HS2 plan on a periodic basis, and receives regular reports from the Head of HR, and the steering group.</p> <p>Contingency plans have been reviewed and approved.</p>

Risk	Potential Impact	Mitigation	Assurance
<p>IT Systems failure</p> <p>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.</p>	<p>Any prolonged interruption to the Company's IT systems could have a materially adverse effect on its business.</p>	<p>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.</p> <p>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'.</p>	<p>Disaster Recovery and Business Continuity plans are regularly reviewed and tested at frequent intervals.</p> <p>Internal IT department constantly monitors threats to data protection by viruses, hacking and breach of access controls.</p> <p>Deloitte LLP have been appointed as the Company's 'internal IT audit' resource to provide specialist expertise.</p>
<p>Competitive</p> <p>The Company operates in highly competitive markets and faces competition from international, national, regional and local companies, as well as the Royal Mail.</p>	<p>Increased competitive activity could lead to an adverse effect on results, either through loss of customers or pressure on margins.</p>	<p>Market activity, and competitor behaviour, and trading opportunities are regularly reviewed.</p> <p>Dedicated customer account teams exist for larger accounts.</p> <p>Hierarchy approval for customer rates charged.</p> <p>The Company seeks to expand the available market through the introduction of new products and services.</p> <p>The Company's customers are spread across a large number of business sectors and wide geography.</p>	<p>Competitor activity is monitored at both a strategic and tactical level to enable suitable actions to be developed in response.</p> <p>Feedback from customers, including complaints, together with the findings from customer satisfaction surveys are routinely monitored and discussed.</p> <p>The Company's performance against KPI's is discussed at Operating and Main Board meetings.</p>

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.	Severe disruption and reputational damage to the business, which would ultimately impact on the Company's financial performance.	Business Continuity Plans are in place for each site, and tested on a rotational basis.	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 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.
Fuel Fuel shortages or strikes could affect the Company's operations. Fuel costs could increase significantly more than forecast.	Any prolonged interruption to the Company's fuel supplies could have a materially adverse effect on its business. Higher fuel costs could lead to reduced margins and profitability.	The Company has an established fuel contingency plan. In common with industry practise, the Company operates a fuel surcharge mechanism, whereby increases in fuel prices are recharged to the majority of the Company's customer base.	The fuel contingency plan is reviewed and tested at frequent intervals. The Board monitors both the fuel price and the fuel surcharge mechanism on a periodic basis.

DIRECTORS

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

C G Buswell
S Glew
P Kane (Chairman)

RESULTS AND DIVIDENDS

The Company's profit for the financial year was £17,039,000 (2013: £12,894,000). A final dividend of £10,000 per share amounting to £10,000,000 (2013: £10,000,000) was paid on the 5 December 2013. No interim dividend was paid during the year (2013: £nil). The directors do not recommend the payment of a final dividend (2013: £nil).

The profit for the financial year of £17,039,000 (2013: £12,894,000) has been transferred to reserves.

CHARITABLE AND POLITICAL DONATIONS

During the year, the Company made charitable donations of £34,000 (2013: £80,000). The Company made no political donations (2013: £nil).

EMPLOYMENT POLICY

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

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

Communication and Engagement

UK Mail completed its first employee survey in March / April 2013, and were encouraged with a 50% response rate. Employees were asked about their views on their understanding of business objectives and achievements together with their thoughts on team work, recognition, and learning and development so that employee engagement could be assessed.

The findings of the survey were analysed by department through to an overall group view, and actions plans were developed and worked through the year 2013/14.

The aim was to ensure a programme of continuous improvement and increased engagement was developed from a group action plan perspective changes have been made to policies enhancing the Long Service Policy, to the way we communicate, to the expansion of our learning and development programme through better promotion of learning offered and accessibility, and to the enhancement of our Employee Consultative Group . Our second Employee Survey is planned for June 2014, and we are looking forward to receiving and acting on the results.

In February 2014, the Company was reassessed for the 'Investors in People' accreditation and are proud to have been re-accredited for a further 3 years.

The Employee Consultative Group ('ECG') is well established, and provides the voice of the employees to the senior Management team with the aim of influencing workplace change by giving their views, thoughts and opinions and to ensure that company feedback is communicated back to employees in a structured and consistent way.

The ECG Representative numbers continue to increase and in 2013 /14 a new ECG modular Learning and Development programme was launched in order to ensure that the training available to all ECG Representatives upskilled their knowledge and showed progression of the group. In January 2014, a new ECG Chairperson was appointed from our Driver population who will serve for a three year term. We are looking forward to working with him to development and implement some of his progressive and forward thinking ideas so that the ECG can move to the next level.

The ECG brand, aims and objectives were reviewed and refreshed in 2013, again to ensure that the ECG is kept up to date. In 2014 / 15 the plan is to revisit the ECG Constitution, which has come about due to the appointment of 6 ECG area Representatives, who are an area support function for the ECG Chairperson, We continue to hold the bi annual ECG Team Conferences in March and September of each year, and continue to use these for ECG Representatives to get direct access to the senior management of UK Mail, and be able to give them direct information, advice and support which supplements our aim of making UK Mail a great place to work.

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 6% 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 2.5% 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. As at the balance sheet date these largely comprise of the following:

Liquidity risk

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

At the year end, the UK Mail Group of companies had undrawn borrowing facilities of £12m (2013: £12m).

Capital risk

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

Foreign exchange risk

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

There would have been no material impact on profit before tax or equity in either the year ended 31 March 2014 or 31 March 2013, had Sterling strengthened or weakened 10% against the Euro.

DIRECTORS' INDEMNITIES

As at the date of this report, indemnities (which are qualifying third-party indemnity provisions as defined in section 234 of the Companies Act 2006) are in place under which the Company has agreed to indemnify the directors of the Company and the former directors of the Company who held office during the year ended 31 March 2014, to the extent permitted by law in and by the Company's Articles of Association, in respect of liabilities incurred as a result of their office. The Company maintains insurance against certain liabilities which could arise from a negligent act or a breach of duty by its directors and officers in the discharge of their duties.

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. 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.

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



S Glew
Director
1 July 2014

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UK MAIL LIMITED

for the year ended 31 March 2014

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 March 2014 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by UK Mail Limited, comprise:

- the balance sheet as at 31 March 2014;
- the statement of comprehensive income for the year then ended;
- the cash flow statement for the year then ended;
- the statement of changes in shareholders' 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 their preparation is applicable law and IFRSs as adopted by the European Union.

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.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UK MAIL LIMITED (continued)

for the year ended 31 March 2014

In addition, we read all the financial and non-financial information in the Directors' Report and Financial Statements (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.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UK MAIL LIMITED (continued)

for the year ended 31 March 2014

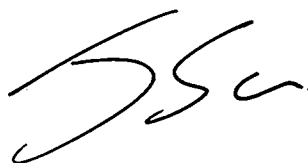
Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 18, 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 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 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.



Jaskamal Sarai (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge
1 July 2014

UK MAIL LIMITED

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2014

	Note	2014 £'000	2013 £'000
Revenue		481,384	447,344
Cost of sales		(419,745)	(395,573)
Gross profit		61,639	51,771
Administrative expenses		(39,346)	(34,573)
Operating profit	3	22,293	17,198
Finance income	4	342	353
Finance costs	4	(437)	(509)
Profit before taxation		22,198	17,042
Total taxation	6	(5,159)	(4,148)
Profit for the financial year		17,039	12,894
Total comprehensive income for the year		17,039	12,894
Total comprehensive income attributable to:			
Equity owners of the Company		17,039	12,894

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 29 form part of these financial statements

UK MAIL LIMITED

BALANCE SHEET

as at 31 March 2014

	Note	2014 £'000	2013 £'000
ASSETS			
Non-current assets			
Intangible assets	7	7,147	4,566
Investment property	8	1,771	1,805
Property, plant and equipment	9	50,066	33,395
Deferred tax asset	16	621	241
		<u>59,605</u>	<u>40,007</u>
Current assets			
Inventories	11	214	279
Trade and other receivables	12	68,211	69,847
Cash and cash equivalents	13	5,650	2,213
		<u>74,075</u>	<u>72,339</u>
LIABILITIES			
Current liabilities			
Borrowings	14	(374)	(781)
Trade and other payables	15	(80,481)	(76,203)
Current tax liabilities		(2,311)	(1,501)
Provisions	17	(366)	(302)
		<u>(83,532)</u>	<u>(78,787)</u>
Net current liabilities			
		<u>(9,457)</u>	<u>(6,448)</u>
Non-current liabilities			
Borrowings	17	-	(350)
Deferred tax liabilities	16	(1,535)	(1,741)
Provisions	17	(1,022)	(931)
Trade and other payables	15	(8,890)	-
		<u>(11,447)</u>	<u>(3,022)</u>
Net assets			
		<u>38,701</u>	<u>30,537</u>
Shareholders' equity			
Ordinary shares	18	1	1
Retained earnings		38,700	30,536
Total equity		<u>38,701</u>	<u>30,537</u>

The financial statements on pages 23 to 66 were approved by the board of directors on 1 July 2014 and were signed on its behalf by:

S Glew
Director



The related notes numbered 1 to 29 form part of these financial statements

Registered number: 00965783

UK MAIL LIMITED

CASH FLOW STATEMENT

for the year ended 31 March 2014

	2014 £'000	2013 £'000
Profit for the financial year	17,039	12,894
Adjustments for:		
Depreciation and amortisation	7,506	7,592
Share-based payment expense	836	(141)
Loss on sale of property, plant and equipment	482	279
Finance income	(342)	(353)
Finance costs	437	509
Taxation	5,159	4,148
Operating profit before changes in working capital and provisions	31,117	24,928
Decrease/(increase) in inventories	65	(66)
Decrease/(increase) in trade and other receivables	1,636	(11,137)
Decrease in trade and other payables	(6,897)	(3,348)
Increase/(decrease) in provisions	155	(774)
Total cash outflow from working capital	(5,041)	(15,325)
Cash generated from operations	26,076	9,603
Interest paid	(44)	(86)
Interest received	221	155
Income tax paid	(5,219)	(3,689)
Net cash flow from operating activities	21,034	£5,983
Investing activities		
Purchase of property, plant and equipment	(23,555)	(6,187)
Purchase of intangible assets	(4,041)	(1,311)
Deferred compensation	10,640	-
Proceeds from sale of plant and equipment	116	43
Net cash outflow from investing activities	(16,840)	(7,455)
Financing activities		
Repayment of finance leases	(757)	(1,073)
Other financing	-	268
Net cash from financing activities	(757)	(805)
Net increase/(decrease) in cash and cash equivalents	3,437	(2,277)
Cash and cash equivalents at the beginning of the year	2,213	4,490
Cash and cash equivalents at the end of the year	5,650	2,213

The related notes numbered 1 to 29 form part of these financial statements

UK MAIL LIMITED

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2014

	Ordinary shares £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 April 2012	1	27,740	27,741
Profit for the financial year	-	12,894	12,894
Total comprehensive income for the year	-	12,894	12,894
Dividends paid to the parent company	-	(10,000)	(10,000)
Employees' share option scheme:			
- value of employee services	-	(75)	(75)
- tax on items taken directly to equity	-	(23)	(23)
Total transactions recorded directly to equity	-	(10,098)	(10,098)
Balance as at 31 March 2013	1	30,536	30,537
Profit for the financial year	-	17,039	17,039
Total comprehensive income for the year	-	17,039	17,039
Dividends paid to the parent company	-	(10,000)	(10,000)
Employees' share option scheme:			
- value of employee services		836	836
- tax on items taken directly to equity		289	289
Total transactions recorded directly to equity	-	(8,875)	(8,875)
Balance as at 31 March 2014	1	38,700	38,701

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

1 Principal accounting policies

Accounting policies for the year ended 31 March 2014

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 International Financial Reporting Interpretation Committee (IFRIC) interpretations which are effective as at 31 March 2014.

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 18.

New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the current financial year that have had a material impact on the Company Financial Statements for the year ended 31 March 2014.

New standards and interpretations not yet adopted

New standards, amendments and interpretations issued, effective for the financial year beginning 1 April 2014 and not yet adopted by the Company include IAS 27 (revised), 'Separate financial statements', IAS 32 (amendment), 'Financial instruments: Presentation', and changes resulting from both the 2012 and 2013 'Annual improvements'. None of these are expected to have 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 27.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

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 that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. These represent the direct employment costs of software developers' time spent on relevant projects. Computer software development costs recognised as assets are amortised on a straight line basis over their estimated useful economic lives, of between 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.

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

Freehold land is not depreciated. Depreciation is provided on a straight line basis so as to write off the cost of the assets to their residual value over their estimated useful economic lives, using the following rates:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

1 Principal accounting policies (continued)

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

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 on behalf of its customers. Revenue is recognised in the accounting period in which consignments are delivered for customers.

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

All revenues are stated net of value added tax.

Cost of sales

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

1 Principal accounting policies (continued)**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.

Pension costs

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

1 Principal accounting policies (continued)**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.

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.

1 Principal accounting policies (continued)**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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

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 2014 are as follows:

	Mail £'000	Parcels £'000	Courier £'000	Central £'000	Total £'000
Segmental revenue	245,286	219,900	18,873	-	484,059
Inter-segment revenue	-	-	(2,675)	-	(2,675)
External revenue	245,286	219,900	16,198	-	481,384
Operating profit/(loss)	12,662	22,419	2,747	(15,535)	22,293
Finance income					342
Finance costs					(437)
Profit before taxation					22,198
Taxation					(5,159)
Profit attributable to equity shareholders					17,039

Other segment items

Capital expenditure (including acquisitions)					
Property, plant and equipment	1,391	19,922	10	1,959	23,282
Intangible assets	174	-	3	3,864	4,041
Depreciation of property, plant and equipment					
- Owned assets	516	3,398	37	1,690	5,641
- Under finance leases	-	472	-	-	472
Depreciation of investment property	-	-	-	34	34
Amortisation of intangible assets					
- Owned assets	76	-	8	1,112	1,196
- Under finance leases	-	-	-	164	164
Impairment of trade receivables	34	137	43	-	213
Total assets	56,158	63,787	46	13,689	133,680

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

2 Segmental information (continued)

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

	Mail £'000	Parcels £'000	Courier £'000	Central £'000	Total £'000
Segmental revenue	241,588	189,249	18,773	-	449,610
Inter-segment revenue	-	-	(2,266)	-	(2,266)
External revenue	241,588	189,249	16,507	-	447,344
Operating profit/(loss) before exceptional items	10,746	16,345	2,563	(12,456)	17,198
Finance income					353
Finance costs					(509)
Profit before taxation					17,042
Taxation					(4,148)
Profit attributable to equity shareholders					12,894
Other segment items					
Capital expenditure (including acquisitions)					
Property, plant and equipment	840	3,730	20	2,023	6,613
Intangible assets	45	-	8	2,133	2,186
Depreciation of property, plant and equipment					
- Owned assets	506	3,348	46	1,710	5,610
- Under finance leases	572	-	-	-	572
Depreciation of investment property	-	-	-	33	33
Amortisation of intangible assets					
- Owned assets	126	-	14	1,139	1,279
- Under finance lease	-	-	-	97	97
Impairment of trade receivables	42	358	47	-	447
Total assets	53,589	48,161	81	10,515	112,346

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

3 Operating profit

	2014	2013
	£'000	£'000
The following items have been charged/(credited) in arriving at operating profit:		
Royal mail access costs	202,833	201,757
Subcontractor costs	86,393	67,264
Employee benefits expense (note 5)	67,430	62,281
Cost of inventories (included in costs of sales) (note 11)	11,612	11,081
Depreciation of investment property (note 8)	33	33
Depreciation of property, plant and equipment (note 9, 10)		
- Owned assets	5,641	5,610
- Under finance leases	472	572
Amortisation of intangibles (included in administrative expenses) (note 7)		
- Owned assets	1,196	1,279
- Under finance leases	164	97
Operating lease rentals payable	11,590	10,853
Repairs and maintenance expenditure on property, plant and equipment	4,441	4,034
Loss on foreign currency translation	63	37
Operating lease rentals receivable		
- Plant and machinery	(407)	(334)
- Property	(283)	(295)
- Computer equipment	(159)	(90)
Loss on disposal of property, plant and equipment assets	401	207
Trade receivables impairment (included in administrative expenses)	213	447

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

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

	2014	2013
	£'000	£'000
During the year the Company obtained the following services from the Company's auditors:		
Audit services	88	71
Tax services	-	-
	<u>88</u>	<u>71</u>

4 Finance income/(costs) – net

	2014	2013
	£'000	£'000
Interest receivable on:		
Interest receivable from tax receivables	-	-
Inter-company balances	<u>342</u>	<u>353</u>
Finance income	<u>342</u>	<u>353</u>
Interest payable on:		
Finance leases	(6)	(46)
Inter-company balances	(389)	(441)
Other	<u>(42)</u>	<u>(22)</u>
Finance costs	<u>(437)</u>	<u>(509)</u>
Finance (costs)/income - net	<u>(95)</u>	<u>(156)</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

5 Employees and directors

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

	2014 £'000	2013 £'000
Wages and salaries	59,813	56,076
Social security costs	5,002	4,652
Other pension costs *	1,779	1,628
Share-based payments (note 19)	836	(75)
	<u>67,430</u>	<u>62,281</u>

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

Average monthly number of persons employed (including executive directors)

	2014 Number	2013 Number
Operations	2,457	2,354
Administration	182	167
	<u>2,639</u>	<u>2,521</u>

	2014 £'000	2014 £'000
Key management compensation		
Salaries and short-term employee benefits	2,007	1,689
Post-employment benefits	104	113
Termination benefits	-	73
Share-based payments	388	(26)
	<u>2,499</u>	<u>1,849</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

5 Employees and directors (continued)

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

	2014	2013
	£'000	£'000
Directors' emoluments		
Aggregate emoluments	1,101	903
Post-employment benefits	79	78
	<u>1,180</u>	<u>981</u>

The highest paid director was paid £602,000 during the year (2013: £486,000). In addition, Company pension contributions of £50,000 were taken as a salary supplement (2013: £49,000).

During the year ended 31 March 2014, no directors (2013: 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 (2013: two) directors. The number of directors accruing benefits under:

	2014	2013
	Number	Number
Defined contribution schemes	-	-
Contributions taken as a salary supplement	<u>2</u>	<u>2</u>
	<u>2</u>	<u>2</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

6 Taxation

Analysis of charge in the year

	2014 £'000	2013 £'000
Current tax - current year	5,484	4,540
Current tax - adjustment in respect of prior years	(27)	6
Total current tax	<u>5,457</u>	<u>4,546</u>
Deferred tax (note 16) - current year	(270)	(339)
Deferred tax (note 16) - adjustment in respect of prior years	(28)	(59)
Total deferred tax	<u>(298)</u>	<u>(398)</u>
Taxation	<u>5,159</u>	<u>4,148</u>

The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax of 23% (2013: 24%) to the profit before tax are explained below:

	2014 £'000	2013 £'000
Profit before taxation	<u>22,198</u>	<u>17,042</u>
Profit at the standard rate of corporation tax in the UK of 23% (2013: 24%)	5,106	4,090
Effects of:		
Expenses not deductible for tax purposes	246	202
Effect of change in tax rate	(137)	(91)
Other timing differences	-	-
Adjustment in respect of prior years	(56)	(53)
Total taxation charge	<u>5,159</u>	<u>4,148</u>

Additionally, £289,000 of current tax has been credited (2013: £23,000 charged) directly to equity in respect of share options.

A reduction in the UK corporation tax rate from 24% to 23% (effective 1 April 2013) was substantively enacted on 3 July 2012. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly.

The net deferred tax liability at 31 March 2014 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

7 Intangible assets

	Customer lists £'000	Acquired software licences £'000	Internal software developments £'000	Total £'000
Cost				
At 1 April 2013	-	4,490	5,366	9,856
Additions	-	356	3,685	4,041
Disposals	-	(446)	(437)	(883)
At 31 March 2014	-	4,400	8,614	13,014
Accumulated amortisation				
At 1 April 2013	-	2,389	2,901	5,290
Charge for the year	-	497	863	1,360
Disposals	-	(446)	(310)	(756)
Reclassification (see note 9)			(27)	(27)
At 31 March 2014	-	2,440	3,427	5,867
Net book value at 31 March 2014	-	1,960	5,187	7,147

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2013

8 Investment property

	2014	2013
	£'000	£'000
Cost		
At 1 April	2,584	2,584
At 31 March	2,584	2,584
Accumulated depreciation		
At 1 April	779	746
Charge for the year	34	33
At 31 March	813	779
Net book value at 31 March	1,771	1,805

One (2013: one) investment property is held by the Group, located in the West Midlands, and is being sublet under an operating lease. The lease is due to expire on 23 June 2014. The rental income recognised in the year was £283,061 (2013: £284,231m). Direct operating expenses incurred were £nil (2013: £nil).

The property was valued in March 2013 by the Group Property Manager by reference to recent comparable property transactions in the same area, at £2.4m to £2.5m.

The property was last externally valued by qualified professional valuers working for the company of DTZ Debenham Tie Leung, Chartered Surveyors, acting in the capacity of External Valuers in December 2010 at £2,445,000. All such valuers are Chartered Surveyors, being members of the Royal Institution of Chartered Surveyors ('RICS'). DTZ Debenham Tie Leung is a wholly owned subsidiary of DTZ Holdings plc (the 'DTZ Group'), a part of the UGL service group. In the financial year to 30 April 2013, the proportion of total fees payable by the Group to the total fee income of the UGL service group was less than 5%. The valuation was primarily derived using comparable recent market transactions on arm's length terms. The valuation was carried out in accordance with the RICS Appraisal and Valuation Standards.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

9 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 2013	21,827	3,399	34,805	11,797	71,828
Additions	13,341	316	7,582	2,043	23,282
Disposals	-	(365)	(4,522)	(2,456)	(7,343)
Reclassification	(13)	12	2	(1)	-
At 31 March 2014	35,155	3,362	37,867	11,383	87,767
Accumulated depreciation					
At 1 April 2013	5,230	1,910	23,248	8,045	38,433
Charge for the year	479	321	3,593	1,720	6,113
Disposals	-	(272)	(4,299)	(2,301)	(6,872)
Reclassification (see note 7)	2	-	1	24	27
At 31 March 2014	5,711	1,959	22,543	7,488	37,701
Net book value at 31 March 2014	29,444	1,403	15,324	3,895	50,066
	Freehold land and buildings £'000	Short leasehold buildings £'000	Motor vehicles plant and equipment £'000	Computer equipment £'000	Total £'000
Cost					
At 1 April 2012	21,810	3,554	32,811	10,942	69,117
Additions	17	271	4,286	2,039	6,613
Disposals	-	(426)	(2,292)	(1,184)	(3,902)
At 31 March 2013	21,827	3,399	34,805	11,797	71,828
Accumulated depreciation					
At 1 April 2012	4,755	1,939	21,510	7,651	35,855
Charge for the year	475	327	3,779	1,601	6,182
Disposals	-	(356)	(2,041)	(1,207)	(3,604)
At 31 March 2013	5,230	1,910	23,248	8,045	38,433
Net book value at 31 March 2013	16,597	1,489	11,557	3,752	33,395

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

10 Assets held under finance leases

	Property, plant and equipment (Motor vehicles, property, plant and equipment)		Intangible Assets (Acquired software licences)	
	2014	2013	2014	2013
	£m	£m	£m	£m
Cost	4,152	4,152	1,927	956
Additions	-	-	-	971
Accumulated depreciation	(3,200)	(3,391)	(1,019)	(1,054)
Disposals	(792)	(129)	(198)	-
Net book value	160	632	710	873

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

11 Inventories

	2014	2013
	£'000	£'000
Fuel stock	214	279

The Company consumed £11,612,000 (2013: £11,081,000) of inventories during the year.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

12 Trade and other receivables

	2014 £'000	2013 £'000
Trade receivables	53,310	48,354
less: provision for impairment	(55)	(89)
Trade receivables, net of provisions for impairment	53,255	48,265
Other receivables	2,047	3,071
Amounts owed from group undertakings	476	7,628
Prepayments and accrued income	12,433	10,883
	68,211	69,847

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 20.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

13 Cash and cash equivalents

	2014 £'000	2013 £'000
Cash at bank and in hand	<u>5,650</u>	<u>2,213</u>

The effective interest rate on the cash and bank balances was nil% (2013: nil%).

14 Borrowings

	2014 £'000	2013 £'000
Current		
Amounts due within one year or on demand:		
Finance lease obligations	<u>374</u>	<u>781</u>
Non-current		
Finance lease obligations	<u>-</u>	<u>350</u>

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

	2014 £'000	2013 £'000
Amounts payable under finance leases		
Within 1 year	374	789
Between 1 and 5 years	-	350
Total minimum lease payments	<u>374</u>	<u>1,139</u>
Future finance charges	-	(8)
Present value of finance leases	<u>374</u>	<u>1,131</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

15 Trade and other payables - current

	2014 £'000	2013 £'000
Trade payables	41,099	38,047
Amounts owed to group undertakings	381	4,527
Amounts owed to franchisees	1,950	1,907
Other payables	7,049	4,369
Taxes and social security	12,867	12,815
Accruals	14,395	14,459
Deferred compensation	2,655	-
Deferred income	85	79
	<u>80,481</u>	<u>76,203</u>

Trade and other payables – non-current

	2014 £'000	2013 £'000
Deferred compensation	8,890	-
	<u>8,890</u>	<u>-</u>

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

Two of the Company's properties have been given as security against advanced payments for compensation received from HS2 Ltd. Total deferred compensation of £11,545 relates to amounts received by the Company in respect of re-imbursements for operating expenditure, business disruption costs and capital expenditure resulting from the compulsory purchase of the Company's national hub

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2013

16 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 20% (2013: 23%).

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

	2014 £'000	2013 £'000
Deferred tax assets		
At 1 April	241	350
Statement of comprehensive income credit/(charge)	91	(86)
Credited/(charged) to equity	289	(23)
At 31 March	621	241

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:

	2014 £'000	2013 £'000
Deferred tax liabilities		
At 1 April	(1,741)	(2,225)
Statement of comprehensive income credit	206	484
At 31 March	(1,535)	(1,741)

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:

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

	2014 £'000	2013 £'000
Deferred tax on share-based payments	289	(23)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

17 Provisions

	Lease Dilapidations £'000	Restructuring £'000	Total £'000
			2014 £'000
At 1 April 2013	754	479	1,233
Charged to the income statement	392	-	392
Utilised in the year	(105)	(132)	(237)
At 31 March 2014	1,041	347	1,388

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

	2014 £'000	2013 £'000
Current	366	302
Non-current	1,022	931
	1,388	1,233

Lease dilapidations represent the anticipated expenditure resulting from the Company's contractual obligations to make good properties prior to sub-letting, or reversion of the lease, 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 irrevocable property costs, which are expected to be utilised within one year and up to three years.

18 Ordinary shares

	2014 £'000	2012 £'000
Authorised, issued, allotted and fully paid 1,000 (2013: 1,000) ordinary shares of £1 each	1	1

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

19 Share-based payments

The Company recognised a charge of £836,000, (2013: £75,000 credit) 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:

Savesave Plan

UK Mail Group has offered a SAYE share plan since 1996 to eligible employees, including directors. The plan is an HMRC approved all-employee share plan. HMRC does not permit performance conditions to be attached to the exercise of options. Under the plan, participants are granted options over UK Mail Group plc shares. Each participant may save between £5 and £250 per month to purchase shares in UK Mail Group plc at a discount of up to a maximum 20% of the market value at the time of the option grant.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

19 Share-based payments (continued)

During the year ended 31 March 2014, the required targets under the live LTIP grants were as follows:

Year of grant	EPS Target range (1)		TSR Target range (1)		Outcome	EPS
	Threshold (25%) vesting	Max (100%) vesting	Threshold (25%) vesting	Max (100%) vesting		
2010	8.5% p.a.	13.0% p.a.	Median	Top quartile	Failed condition. 25.3% vested under the TSR condition	
2012	11.6% p.a.	18.1% p.a.	Median	Top quartile	Live award	
2013	7.2% p.a.	15.5% p.a.	Median	Top quartile	Live award	

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

Awards under the 2010 grant vested in May 2013 at a 12.65% vesting level having met the threshold TSR condition. However, as the required EPS was below the required minimum threshold target level, no awards vested under that condition. Successful award holders received a further 1.53% in respect of their dividend equivalence entitlement.

Share Matching Plan ('SMP')

Under the rules of the SMP, selected executives may be invited to invest a portion of their net cash bonus in the acquisition of shares in the ultimate parent company, UK Mail Group plc, worth up to 25% of their pre-tax salary. 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 schedule for July 2014. (Further details can be found in the Remuneration Report of that Company).

Where such an investment is made, the executives will receive a grant of a matching award over shares in UK Mail Group plc with an equivalent value, which may be exercised between 36 and 42 months following the date of grant, subject to the achievement of certain EPS performance criteria.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

19 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	LTIP	SMP	SAYE
Grant date	04/06/13	16/09/13	11/06/13	25/07/13
Share price at grant date	£5.10	£5.72	£4.95	£5.77
Exercise price	-	-	-	£4.1867
Number of employees	66	1	4	194
Number of shares granted	504,265	4,939	14,199	138,322
Vesting period (years)	3	3	3	3
Expected volatility	29.6%	29.6%	-	28.5%
Option life (years)	3	3	3	3
Expected life (years)	3	3	3	3
Risk-free interest rate	0.52%	0.52%	N/a	0.63%
Expected dividends expressed as a dividend yield	0.0%	0.0%	3.80%	3.26%
Fair value per option	£4.58	£4.58	£4.42	£1.50
Expected forfeiture (%)	15.0%	15.0%	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 rates for SAYE grants, but is assumed as zero for the LTIP grant given the 'dividend equivalence' term.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

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

A reconciliation of option movements over the year to 31 March 2014 is shown below:

	2014 Number	2014 Weighted average exercise price	2013 Number	2013 Weighted average exercise price
Outstanding as at 1 April	918,462	£0.74	1,202,087	£0.58
Granted	661,725	£0.88	583,854	£1.09
Lapsed	(379,496)	£0.32	(796,660)	£0.62
Exercised	(74,789)	£1.06	(70,819)	£2.27
Outstanding as at 31 March	1,125,902	£0.94	918,462	£0.74
Exercisable at 31 March	-	-	-	-

Options are exercisable as follows:

Range of exercise prices	2014				2013			
	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	722,605	2.1	8.9	£0.00	573,853	1.2	8.1
£1.00 - £1.99	£1.87	267,962	1.9	2.1	£1.87	307,461	2.9	3.1
£2.00 - £2.99	£2.75	9,207	1.8	2.0	£2.75	37,148	1.3	1.5
£4.00 - £4.99	£4.19	126,128	2.7	2.9	-	-	-	-
	£0.94	1,125,902	2.1	6.6	£0.74	918,462	1.8	6.2

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

20 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 Group Finance Director, the Group Treasury function identifies and evaluates financial risks in close co-operation with the operating divisions.

The use of simple financial derivatives is considered in order to hedge specific financial risks where cost effective to do so. The Company does not enter into, or trade, financial instruments, including derivative financial instruments, for speculative purposes. At the year end the Company has not entered into any financial derivatives contracts: (2013: £nil.)

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.

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

	Loans and receivables	Financial liabilities at amortised cost	Total carrying value
	£'000	£'000	£'000
At 31 March 2014			
Cash at bank and in hand	5,650	-	5,650
Borrowings due within one year	-	(374)	(374)
Other financial assets	55,302	-	55,302
Other financial liabilities	-	(66,262)	(66,262)
	60,952	(66,36)	(5,684)
At 31 March 2013			
Cash at bank and in hand	2,213	-	2,213
Borrowings due within one year	-	(781)	(781)
Borrowings due after more than one year	-	(350)	(350)
Other financial assets	51,336	-	51,336
Other financial liabilities		(63,309)	(63,309)
	53,549	(64,440)	(10,891)

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

20 Financial instruments (continued)

Interest payable on financial instruments carried at amortised cost (mainly comprising of bank overdraft and finance lease liabilities) is disclosed in note 4.

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.

	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
At 31 March 2014							
Financial liabilities							
Finance leases	(374)	(374)	(374)	-	-	-	-
Trade payables	(41,099)	(41,099)	(41,099)	-	-	-	-
Other payables	(7,049)	(7,049)	(7,049)	-	-	-	-
Amounts owed to franchises	(1,950)	(1,950)	(1,950)	-	-	-	-
Amounts owed to group undertakings	(381)	(381)	(381)	-	-	-	-
Accruals	(14,395)	(14,395)	(14,395)	-	-	-	-
Provisions	(1,388)	(1,388)	(1,388)	(366)	(361)	(436)	(225)
	(66,636)	(66,636)	(66,636)	(366)	(361)	(436)	(225)
At 31 March 2013							
Financial liabilities							
Finance leases	(1,131)	(1,062)	(1,131)	(781)	(350)	-	-
Trade payables	(38,047)	(38,047)	(38,047)	(38,047)	-	-	-
Other payables	(4,369)	(4,369)	(4,369)	(4,369)	-	-	-
Amounts owed to franchises	(1,907)	(1,907)	(1,907)	(1,907)	-	-	-
Amounts owed to group undertakings	(4,527)	(4,527)	(4,527)	(4,527)	-	-	-
Accruals	(14,459)	(14,459)	(14,459)	(14,459)	-	-	-
Provisions	(1,233)	(1,233)	(1,233)	(302)	(450)	(302)	(179)
	(65,673)	(65,604)	(65,673)	(64,392)	(800)	(302)	(179)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2013

20 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 bank loan approximates to the value reported in the balance sheet since it carries a floating rate where payments are reset to market rates at intervals less than one year. The value of finance leases is calculated by discounting the contracted cash flows at prevailing interest rates.

All financial assets and liabilities are sterling denominated.

Fair value measurements

The group 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 7.7% 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 (2013: none) whose terms have been renegotiated and would otherwise be past due or impaired.

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for the year ended 31 March 2013

20 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:

	2014 £'000	2013 £'000
At 1 April	89	120
Amount utilised	(34)	(31)
At 31 March	<u>55</u>	<u>89</u>

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

	2014 £'000	2013 £'000
Less than 30 days	53,260	48,130
Between 30 - 60 days	16	9
Between 60 - 90 days	15	85
More than 90 days	19	130
	<u>53,310</u>	<u>48,354</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

20 Financial instruments (continued)

As at 31 March 2014, trade receivables of £55,000 were impaired (2013: £111,000). The amount of provision was £55,000 at 31 March 2014 (2013: £89,000). The ageing of these impaired trade receivables is as follows:

	2014 £'000	2013 £'000
Less than 30 days	5	-
Between 30 - 60 days	16	35
Between 60 - 90 days	15	30
More than 90 days	19	46
	<u>55</u>	<u>111</u>

As at 31 March 2014, trade receivables of £3,621,000 were past due but not impaired (2013: £6,722,000). The ageing of these trade receivables is as follows:

	2014 £'000	2013 £'000
Less than 30 days	3,621	6,447
Between 30 - 60 days	-	37
Between 60 - 90 days	-	108
More than 90 days	-	130
	<u>3,621</u>	<u>6,722</u>

As at 31 March 2014, there were £nil (2013: £nil) trade receivables impaired but not past due for payment.

Financial instruments (continued)

None (2013: 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

20 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 6% of revenue.

Interest rate risk

The interest risk profile of the Company's interest-earning financial assets and interest-bearing financial liabilities at 31 March 2014 was:

	2014 Book value £'000	2014 Fixed rate financial liabilities £'000	2014 Floating rate financial liabilities £'000	2013 Book value £'000	2013 Fixed rate financial liabilities £'000	2013 Floating rate financial liabilities £'000
Financial assets						
Cash and cash equivalents	5,650	-	-	2,213	-	-
	5,650	-	-	2,213	-	-
Financial liabilities						
Finance leases	(374)	-	-	(1,131)	-	-
Amounts due to group undertakings	(381)	(381)	-	(4,527)	(4,527)	-
	(755)	(381)	-	(5,658)	(4,527)	-

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

20 Financial instruments (continued)

A change of 100 basis points in the average interest rate receivable and payable over the financial year would have increased or decreased profit before tax and equity for the year, as follows:

	2014 Profit before tax £'000	2014 Equity £'000	2013 Profit before tax £'000	2013 Equity £'000
Increase of 100 bp in the average rate receivable/(payable)	(31)	(24)	58	58
Decrease of 100 bp in the average rate receivable/(payable)	31	24	(58)	(58)

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 2014, the Company had undrawn borrowing facilities of £12m under a group arrangement (2013: £12m).

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 2.5% 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

20 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 0.3% of all expenditure.

There would have been no impact on profit before tax or equity in either the year ended 31 March 2014 or 31 March 2013, 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.

21 Operating lease commitments – minimum lease payments

Commitments under non-cancellable operating leases expiring:	2014		2013	
	Land and buildings £'000	Vehicles, plant and equipment £'000	Land and buildings £'000	Vehicles, plant and equipment £'000
Within 1 year	5,028	5,299	4,778	4,851
Between 1 and 2 years	4,196	3,460	3,785	2,425
Between 2 and 5 years	6,966	5,788	5,903	2,426
After 5 years	4,785	92	3,471	735
At 31 March	20,975	14,639	17,937	10,437

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

The total of future minimum sub-lease payments receivable under non-cancellable sub-leases at the balance sheet date was £nil (2013: £nil).

The Company sublets one of its properties (see note 8) under a non-cancellable operating lease agreement, due to expire on 23 June 2014. At 31 March, the future minimum lease payments receivable were as follows:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

21 Operating lease commitments – minimum lease payments (continued)

Commitments under non-cancellable operating leases expiring:	2014 £'000	2013 £'000
Within 1 year	65	285
Between 1 and 2 years	-	65
Between 2 and 5 years	-	-
At 31 March	65	350

22 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 £12m (2013: £12m).

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 (2013: £10m). At 31 March 2014, upon the request of the Company, the bank has issued a guarantee with a value of £8m (2013: £8m) to a third party supplier of the company.

The Company is subject to litigation and/or claims from external parties. Where it is more likely than not that an outflow of resources will be required to settle such obligations and the amount can be reliably estimated, this is reflected in the financial statements based on management's best estimate of the potential liability. The final resolution of such matters could have a material effect on the Company's operating results and cash flows for a particular reporting period as a result of any difference between the estimated amounts recorded in the financial statements for the year ended 31 March 2014 and the final amount of any payments made by the Company to settle such issues.

23 Capital and other financial commitments

	2014 £'000	2013 £'000
Contracts placed for future capital expenditure not provided in the financial statements		
Assets under the course of construction	17,141	-
Property, plant and equipment	12,723	-
	29,864	-

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

24 Analysis of net cash

	At 31 March 2012 £'000	Cash flow £'000	At 31 March 2013 £'000	Cash flow £'000	At 31 March 2014 £'000
Cash at bank and in hand	4,490	(2,277)	2,213	3,437	5,650
Total Cash	4,490	(2,277)	2,213	3,437	5,650
Finance leases	(1,236)	105	(1,131)	757	(374)
Total Debt	(1,236)	105	(1,131)	757	(374)
Net Cash	3,254	(2,172)	1,082	4,194	5,276

25 Related party transactions

Key management compensation is disclosed in note 5.

Intercompany balances arise from recharges of costs from and to other Group companies.

Year end balances arising from these recharges are as follows:

	2014 £'000	2013 £'000
Receivables from related parties		
Fellow group undertakings	476	7,628
Payables to related parties		
Parent undertaking	-	-
Fellow group undertakings	(381)	(4,527)

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

	2014 £'000	2013 £'000
Cash transfers in respect of treasury management	3,955	19,573
Dividend paid to fellow group undertaking	(10,000)	(10,000)
Recharges of costs to fellow group undertakings	3,255	952
Recharges of costs from fellow group undertakings	(216)	(227)
	3,006	10,298

26 Ultimate parent undertaking and controlling party

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

26 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

27 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;

(iii) disposal of investments;

(iv) organisational or restructuring programmes.

Leases

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

27 Critical accounting judgements and key sources of estimation uncertainty (continued)**HS2 accounting**

The directors have considered the contractual terms in determining the accounting treatment of the HS2 national hub acquisition and compensation contract. The key area of judgement includes the timing of recognition, specifically in relation to compensation payments, where management assumptions are necessary.

b) Key sources of estimation uncertainty

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

Useful economic lives of property, plant and equipment

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

The Company assesses whether there are any indicators of impairment at each reporting date, or at other times when such indicators exist. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

27 Critical accounting judgements and key sources of estimation uncertainty (continued)**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.

28 Dividends

	2014 £'000	2013 £'000
Interim dividend paid in respect of current year (£10,000 per share)	10,000	10,000
	<u>10,000</u>	<u>10,000</u>

The directors do not recommend the payment of a final dividend (2013 :£nil)

29 Post-balance sheet events

There were no significant post-balance sheet events affecting the Company since 31 March 2014.