Company registration number: 00965783

UK MAIL LIMITED

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2015

Contents of Report and Financial Statements

for the year ended 31 March 2015

PRINCIPAL ACTVITIES

UK Mail Limited (registration number 00965783) is a private limited company incorporated and domiciled in England. The Company is a wholly owned subsidiary of UK Mail Group plc (registration number 02800218), a public limited company incorporated and domiciled in England and listed on the London Stock Exchange (LSE: UKM). The Company's registered office is at Express House, 120 Buckingham Avenue, Slough, SL1 4LZ

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

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

STRATEGIC REPORT

STRATEGY

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

High service levels

High service levels are a vital element for success in our industry. Customers and recipients expect their consignments to be delivered to the agreed timescale without loss or damage.

We continue to introduce improvements to our business to further enhance the service we provide.

A key enhancement has been the implementation of our one-hour delivery window, confirming UK Mail as one of the industry leaders in the Parcels delivery market. This provides customers with advance notification of the timing of a delivery, with the facilities to amend the delivery location and day, and we are also progressing alternative and innovative delivery options.

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

Extensive and innovative use of I.T.

In our industry I.T. is a key differentiator. We handle some 230,000 parcels each night together with some 11m 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. We are also enhancing our ability to support and drive innovation in our business. During the year we appointed a new I.T. Director who has led the process of developing this vital aspect of our business.

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 handled some 20% of our Parcels volumes through automated facilities at our previous hub in Birmingham.

Following the move to the new Ryton hub with its new automated sortation equipment, we intend to increase the level of automated sortation to some 80% of our Parcels volumes. We are taking action to amend the profile of the consignments we handle to make the best use of the automated parcel sorter.

There will however be an element of the consignments that we will continue to handle for customers that will not be compatible with automated sortation, normally on account of their size. The ability to handle such consignments is a key differentiator for us compared to those competitors who are 100% automated.

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:

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

Creating Capacity

The volumes of parcels delivered to businesses and consumer are predicted to increase, driven by the continued strong growth in online shopping. We have the opportunity to benefit from this market growth together with the potential to grow our market share.

To manage this growth we need to grow the capacity in our operations. We are taking actions in three key areas to achieve this:

New Hub/Network Capacity

Growing network capacity is vital as our core markets continue to show strong growth. We are achieving this capacity growth through localised expansion of capacity where needed, together with the expansion achieved as a result of our new central hub at Ryton. The new hub is now live and we will have transferred all our Birmingham operations to the site by the end of this Summer.

We expect that this new hub together with increased automation of our parcels operations will significantly increase our central sortation capacity.

Innovation in Delivery Methods

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

Creating Support Capacity

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

Strategy Summary

Over the past three years, very good progress has been made in developing the business to its current position, with a clear focus on high service levels, 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 good results we have achieved over that period.

We have spent the last two years preparing for the transition of our business as we move to the new hub and introduce advanced automation to our parcels business, which to date has been achieved to plan and on schedule. This transition is now well underway and, while we still have work to do, we expect to complete this transition by the end of the first half of the current financial year.

This major transition, combined with the other improvements we are making in product and service innovation, together with the creation of capacity, will provide the platform for further growth over the coming years.

BUSINESS REVIEW

Profit before taxation of £20,570,000 (2014: £22,198,000) has been achieved on revenue of £485,103,000 (2014: £481,384,000). The directors consider the results to be in line with their expectations.

Parcels

Revenues in Parcels, which comprises the Company's business-to-business (B2B), business-to consumer (B2C) and international parcel delivery service, were up 3.7% to £228,049,000 (2014: £219,900,000). On an adjusted basis, taking account of the one less working day compared to last year, they increased by some 4.3%.

We have achieved volume growth in both the B2B and B2C market segments in the period overall, with Parcels average daily volumes increasing by some 7.4% compared to last year with an on-going volume mix change towards the lower margin B2C segment. Volume growth in the final quarter was particularly strong at some 12.9%, largely due to the volume we gained as a result of the collapse of City Link. While clearly positive for the business for the future, this has caused some inevitable challenges as we continue to digest the new client volumes and establish, based on profitability, the volumes we want to retain for the longer term.

This has taken our parcel volumes temporarily above our current optimal operating capacity, resulting in above normal operating costs being incurred in the fourth quarter of the financial year. While this will be resolved when the new hub becomes fully operational, this impacted the parcels operating margin and operating profit for the year.

The Parcels operating margin reduced to 9.4% for the period (2014: 10.2%), resulting in a decrease in the Parcels operating profit to £21,407,000 (2014: £22,419,000). On an adjusted basis, taking account of the one less working day, we estimate operating profit declined by some 2.2%.

We continue to make good progress with our product innovations in this division. Today, ipostparcels represents one of the lowest-cost and most user-friendly online collection and delivery services available in the UK. Revenues and profits grew well for this business, and we continue to invest in further enhancing the product.

Key to our parcels market position is the provision of value added services that customers increasingly demand. Our enhanced next day delivery service, which offers advance-notice one-hour delivery and collection windows, is now fully operational. This now also includes our new 'You're Next" texting service and 'Follow my parcel' facility. This added functionality will give our Parcels business an excellent opportunity for further customer acquisition, especially within its growing B2C customer base.

The immediate priority for our Parcels business is to complete the transfer to the new hub, and then roll out automation to our target levels. This will allow us to increase capacity, while reducing operating costs and further increasing service levels.

Mail

Mail revenues decreased by 1.9% to £240,539,000 (2014: £245,286,000). On an adjusted basis, taking account of the one less working day compared to last year, they declined by some 1.6%. This decline however was largely caused by a mix change towards Customer Direct Access (CDA) mail, which carries substantially lower revenue per item. This mix change is largely the result of our Mail business winning a very significant public sector CDA contract during the year.

Our average daily mail volumes increased by some 4.7% compared to last year, while the overall UK mail market has seen a decline in transactional volumes of some 3% per annum, demonstrating further market share gains in the Downstream Access market.

Mail operating profits decreased by 1.7% to £12,445,000 (2014: £12,662,000). On a like-for-like basis, operating profit adjusted for the effect of one less working day was in line with the previous year. The operating margin remained at 5.2% (2014: 5.2%).

The continued Ofcom review into Access pricing, while not expected to have any direct impact on UK Mail, continues to cause uncertainty in the market and for users of end-to-end services in particular. An early resolution of these issues would be welcome.

imail, our web-to-print postal service, continues to show good revenue growth. We continue to invest to increase our capacity and provide additional services. 'imailprint' has now been successfully launched. This provides 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 medium-term growth opportunity.

A key growth element of the Access Mail market is the rising popularity of packets; a segment that we estimate currently represents some £200m of the total Access Mail market of £1.5bn. While we have made some progress in this area in recent years, our market share of the Access packets market remains very low and we are now reinvigorating this business, investing in specialist automated packets sortation equipment and increasing the size of our sales team. We believe this area will be key to growing our mail revenues and profitability in the future.

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

Courier

Revenues in our Courier business, which provides same-day delivery services, increased by 2.0% to £16,515,000 (2014: £16,198,000). Operating margins however decreased to 13.4% (2014: 17.0%) leading to a decrease in the operating profit by 19.6% to £2,209,000 (2014: £2,747,000). This business has been undergoing a period of transition away from the traditional same-day courier operation towards one that provides specialist service support to our Parcels business, which has resulted in the loss of some business in the year.

Today, our Courier business works increasingly closely with our parcels business and now represents a key part of the Retail Logistics operation within our parcels business. Given this, we have decided to integrate the Courier operation within our Parcels business and it will no longer be separately reported.

Central Costs

Central costs decreased by 6.2% to £14,574,000 (2014: £15,535,000). We continue to invest significantly in I.T., however this investment has been offset by savings in other areas.

Net exceptional costs

The cost of automation implementation represents the costs incurred during the final weeks of the year ended 31 March 2015, as the Group moved towards the implementation and roll-out of new automation equipment. These costs largely represent contract termination costs. Further amounts are expected to be taken as exceptional costs in the 2015/16 financial year.

National hub relocation costs represent disturbance costs associated with the relocation of our National hub and offices to Ryton following an agreement reached with the Department of Transport ('DfT') to acquire the National hub and offices in Birmingham. These costs largely comprise property costs associated with running two sites for an approximate period of two months, £1.1m of recruitment and redundancy costs the costs relating to short term site operating costs, incurred due to a delay in the expansion of our old National hub as a result of this compulsory acquisition.

Full reimbursement of these costs is being sought from the DfT and HS2 Ltd, subject to the requirements of the Compensation Code.

HS2 compensation received relates to agreed compensation concerning the profit impact of the delay of automation of our operation due to the impact of HS2 on the Group's plans, recognised on a pro-rata basis over the affected period. Further amounts are expected to be taken as exceptional income in the 2015/16 financial year.

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

KEY PERFORMANCE INDICATORS

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

Financial

- Revenue growth
- Operating profit
- Operating profit margin

These are all discussed in the sections above.

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

Description	Actual 2013 Base year	Target 2014/15	Actual 2014/15	Actual 2013/14	Change against 2013/14	Variance Against Target
CO2 emissions (tonnes)	49.7k	47.3k	53.7k	52.1k	+3.0%	+13.7%
CO2 emissions by consignment	0.375kg	Not set	0.314kg	0.340kg	-7.6%	N/A
Land diversion (%)	87.9%	95.0%	96.4%	95.7%	+0.7%	+1.4%
Waste to landfill (tonnes)	340.2	323.1	124.1	136.8	-9.3%	-61.6%
Total waste (tonnes)	2,806	2,666	3,449	3,183	+8.4%	+29.4%
Water consumption (m3)	35,840	34,048	37,860	31,509	+20.2%	+11.2%
Health & Safety compliance	95.3%	95.0%	94.9%	96.7%	-1.8%	-0.1%
Workplace fatalities	0	0	0	0	0%	0%
Maintain ISO 14001 corporate site compliance (% of the 401 corporate sites)	100%	100%	100%	0.0%	0.0%	0.0%
Staff Turnover (%)	20.2%	20.0%	27.7%	16.4%	+11.3%	+7.7%

UK Mail's Carbon Emissions
Total carbon emissions were 53.7k 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 continue to set ourselves challenging emission reduction targets which we aim to meet by a number of initiatives, such as the introduction of automation which includes a new item volume target.

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

We have launched a new 2015/16 Eco challenge with the aim of further engaging all our employees in energy conservation.

Health, Safety and Environmental (HSE) Audit 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 developing appropriate policies and procedures has begun but no progress has been made towards seeking accreditation. This cannot be completed until all policies and procedures have been rolled out and fully implemented.

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
Limited progress has been made in reducing our water consumption which is up 11.2% against our target of a 5.0% reduction, due to an increase in the number of employees.

We have also removed vehicle wash facilities at a number of sites to further reduce our water usage and have installed smart metres at our high consumption sites.

FINANCIAL AND OPERATIONAL RISK MANAGEMENT

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

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

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

- The Group Board agrees the corporate strategy and business objectives to be followed over both the medium-term (a three year plan), and in the short-term (annual budgets/forecasts), which divisional management incorporate into their own financial and operational plans;

- clearly defined hierarchy of responsibilities, including authorisation levels, and documentation of operational and administrative procedures;

- periodic reporting and subsequent review and discussions with relevant management of business development, KPI achievement, health and safety, operational and financial performance;

- centralisation of certain key functions such as HR, legal and treasury enabling the Company to benefit from centres of expertise in the most efficient and cost effective manner;

- proposed capital investment and I.T. project implementations require detailed justification, review and appraisal, prior to any approvals being granted;

- a Group wide risk management framework, which accords with the Turnbull guidance, and is supported by reports by the Head of Internal Audit and Group Risk that the significant risks faced by the Group are being identified, evaluated and appropriately managed having due regard to the balance of risk, cost and opportunity; and

- a whistle-blowing policy which sets out a framework for dealing with any allegations of fraud, financial misreporting and any other whistle-blowing notification.

The UK Mail Group Audit Committee, on behalf of the 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, and is satisfied that it accords both with the UK Corporate Governance Code 2012 and Turnbull guidance. 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
Potential operational and financial impact resulting from the relocation of the National hub			
The Company is in the middle of a relocation process to a new National hub at Ryton following contractual agreement with HS2 Ltd to acquire the National hub at Birmingham. Whilst construction has been completed the hub will not be fully operational until mid-2015.	The Company could be exposed to a number of unforeseen costs or expenditure, for which no compensation will be received.	Regular meetings and discussions are held with HS2 Ltd, with agreement in principle reached prior to the commitment of funds.	The Board monitors the HS2 plan on a periodic basis, and receives regular reports from the Finance Director, Head of HR, the Operations Director and the steering group.
	Management is distracted from the achievement of day-to-day objectives to management of the move.	The relocation is being closely managed by a dedicated HS2 steering group.	Contingency plans have been reviewed and approved.
	Loss of key personnel affected by an increased commute and/or unwillingness to relocate.	Plans are in place to retain employees before, during and after the move.	
	Loss of customers should service levels deteriorate	Regular monitoring by operational management of service level performance.	

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

Risk	Potential Impact	Mitigation	Assurance
Business continuity The Company could be materially affected if there was a significant incident such as a terrorist incident, fire or flooding, particularly at one of the major hubs.	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 Group Board reviews reports from senior executives including the Group Legal Manager. The Company is subject to various audits and compliance visits from both external bodies and in house internal audit and security teams.
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 if they cannot be passed onto customers.	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 Group Board monitors both the fuel price and the fuel surcharge mechanism on a periodic basis.

S Glew
Director
16 June 2015

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 £16,270,000 (2014: £17,039,000). An interim dividend of £20,000 per share amounting to £20,000,000 (2014: £10,000,000) was paid on the 31 March 2015. The directors do not recommend the payment of a final dividend (2014: £nil).

The profit for the financial year of £16,270,000 (2014: £17,039,000) has been transferred to reserves.

CHARITABLE AND POLITICAL DONATIONS

During the year, the Company made charitable donations of £25,000 (2014: £34,000). The Company made no political donations (2014: £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 2013. The next Employee Survey was scheduled to take place in September 2014; however the decision was taken to postpone the survey until the second quarter of 2015 due to the Ryton relocation change management programme. Plans are already being formulated to prepare for the survey so that we continue with the work to increase our staff engagement and morale programme, and as part of this since January 2015 we have been working on our continuous improvement programme in readiness for our 'pulse check' Investors in People assessment planned for October 2015.

The Employee Consultative Group ('ECG') is even more established within the business now, following the appointment of Area Lead ECG representatives, and more local site representatives than ever before. It has played a key role in the communication with those employees affected by the relocation of the UK Mail National hub and head office to Ryton, near Coventry. The ECG representatives and Employee Committee that was set up to help the transition have been instrumental in ensuring a smooth transitional process in all elements of the People work stream.

The ECG Representative numbers for the second year running have increased which has helped ensure that all parts of the business are represented, and with the increase in these numbers the ECG modular Learning and Development programme continued to be rolled out.

Ryton Relocation

The impact of the relocation of our National hub and head office from Birmingham to Ryton, near Coventry took a great deal of planning and focus from a people perspective during the 2014/15 year. Within the Head Office function circa 60% of employees decided to relocate to the new facility. Within the National Hub to date circa 20% of employees are relocating with a partnership being in place with a local specialist provider to help recruit for the circa 350 vacancies on offer.

Those employees who have decided to relocate are being offered support and trial periods in their roles at Ryton. For those employees who have unfortunately decided to not make the move then full employee assistance is being offered in order to help them secure alternative roles, and retraining.

Financial Risk Management

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

Market risk

Overall, since the vast majority of the Company's activities are provided to UK businesses, the fortunes of the Company are linked to the general health of the UK economy. The Company's exposure is limited by being spread across a wide range of customers and industry sectors. No single customer accounts for more than 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 2.2% of total costs there is an element of price risk. Price risk is minimised as significant increases in the fuel price can be passed onto the majority of customers via a fuel surcharge mechanism common throughout the express delivery industry.

Interest rate risk

The Company has both interest-bearing assets and interest-bearing liabilities. These largely comprise cash at bank and in hand, finance leases and amounts owed to and from group undertakings.

Liquidity risk

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

As at 31 March 2015, the Company had an undrawn overdraft facility of £10m (2014: £5m undrawn) in place until 30 June 2015 and £10m drawn down of the £25m available on the revolving credit facility in place until 31 May 2019.

Subsequent to year end the overdraft facility was increased to £20m until 30 September 2015, to fund the remaining National hub and automation program.

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 1% of all expenditure.

There would have been no material impact on profit before tax or equity in either the year ended 31 March 2015 or 31 March 2014, 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 2015, 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
16 June 2015

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

UK Mail Limited's financial statements comprise:

- the balance sheet as at 31 March 2015;
- the statement of comprehensive income for the year then ended;
- the cash flow statement for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is 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.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

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

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

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

Jaskamal Sarai (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge
16 June 2015

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2015

	Note	2015 £'000	2014 £'000
Revenue		**485,103**	481,384
Cost of sales		**(428,266)**	(419,745)
Gross profit		**56,837**	61,639
Administrative expenses		**(36,207)**	(39,346)
Operating profit before exceptional items		**21,487**	22,293
Automation implementation	3	**(403)**	-
National hub relocation costs	3	**(2,454)**	-
HS2 compensation	3	**2,000**	-
Operating profit	4	**20,630**	22,293
Finance income	5	**2**	342
Finance costs	5	**(62)**	(437)
Profit before taxation		**20,570**	22,198
Total taxation	7	**(4,300)**	(5,159)
Profit for the financial year		**16,270**	17,039
Total comprehensive income for the year		**16,270**	17,039
Total comprehensive income attributable to:			
Equity owners of the Company		**16,270**	17,039

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

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

UK MAIL LIMITED

BALANCE SHEET

as at 31 March 2015

	Note	2015 £'000	2014 £'000
ASSETS			
Non-current assets			
Intangible assets	8	**11,570**	7,147
Investment property	9	**1,738**	1,771
Property, plant and equipment	10	**85,434**	50,066
Deferred tax asset	17	**567**	621
		99,309	59,605
Current assets			
Inventories	12	**237**	214
Trade and other receivables	13	**74,846**	68,211
Cash and cash equivalents	14	**6,222**	5,650
		81,305	74,075
LIABILITIES			
Current liabilities			
Borrowings	15	**(9,758)**	(374)
Trade and other payables	16	**(130,500)**	(80,481)
Current tax liabilities		**(829)**	(2,311)
Provisions	18	**(765)**	(366)
		(141,852)	(83,532)
Net current liabilities		**(60,547)**	(9,457)
Non-current liabilities			
Deferred tax liabilities	17	**(2,560)**	(1,535)
Provisions	18	**(752)**	(1,022)
Trade and other payables	16	**-**	(8,890)
		(3,312)	(11,447)
Net assets		**35,450**	38,701
Shareholders' equity			
Ordinary shares	19	**1**	1
Retained earnings		**35,449**	38,700
Total equity		**35,450**	38,701

The financial statements on pages 23 to 76 were approved by the board of directors on 16 June 2015 and were signed on its behalf by:

S Glew
Director

The related notes numbered 1 to 30 form part of these financial statements
Registered number: 00965783

CASH FLOW STATEMENT

for the year ended 31 March 2015

	Note	2015 £'000	2014 £'000
Profit for the financial year		**16,270**	17,039
Adjustments for:			
Exceptional items	3	**857**	-
Depreciation and amortisation	4	**7,945**	7,506
Share-based payment expense		**616**	836
Loss on sale of property, plant and equipment		**125**	482
Finance income	5	**(2)**	(342)
Finance costs	5	**62**	437
Taxation	7	**4,300**	5,159
Operating profit before changes in working capital		**30,173**	31,117
(Increase)/decrease in inventories		**(23)**	65
(Increase)/decrease in trade and other receivables		**(6,635)**	1,636
Increase/(decrease) in trade and other payables		**16,068**	(6,897)
Increase in provisions		**129**	155
Total cash outflow from changes in working capital		**9,539**	(5,041)
Cash generated from operations		**39,712**	26,076
Finance income received	5	**2**	221
Finance costs paid	5	**(62)**	(44)
Income tax paid		**(4,970)**	(5,219)
Net cash flow from operating activities		**34,682**	21,034
Investing activities			
Purchase of property, plant and equipment		**(38,966)**	(23,555)
Purchase of intangible assets		**(6,464)**	(4,041)
Deferred compensation	16	**2,000**	10,640
Proceeds from sale of plant and equipment		**29**	116
Net cash outflow from investing activities		**(43,401)**	(16,840)
Financing activities			
Repayment of finance leases	15	**(374)**	(757)
Draw down of revolving credit facility		**10,000**	-
Facility arrangement costs paid		**(335)**	-
Net cash from financing activities		**9,291**	(757)
Net increase in cash and cash equivalents		**572**	3,437
Cash and cash equivalents at the beginning of the year		**5,650**	2,213
Cash and cash equivalents at the end of the year		**6,222**	5,650

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2015

	Ordinary shares £'000	Retained earnings £'000	Total equity £'000
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
Balance as at 1 April 2014	**1**	**38,700**	**38,701**
Profit for the financial year	-	16,270	16,270
Total comprehensive income for the year	-	**16,270**	**16,270**
Dividends paid to the parent company	-	(20,000)	(20,000)
Employees' share option scheme:			
- value of employee services	-	616	616
- tax on items taken directly to equity	-	(138)	(138)
Total transactions recorded directly to equity	-	**(19,522)**	**(19,522)**
Balance as at 31 March 2015	**1**	**35,448**	**35,449**

1 Principal accounting policies

Accounting policies for the year ended 31 March 2015

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 2015.

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 would have a material impact on the Company financial statements for the year ended 31 March 2015.

New standards and interpretations not yet adopted

New standards, amendments and interpretations issued, effective for the financial year beginning 1 April 2015 or later periods and not yet adopted by the Company include IFRS 15, 'Revenue from contracts with customers', and IFRS 9, 'Financial instruments'. 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 28.

1 Principal accounting policies (continued)

Intangible assets

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

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

Investment properties

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Cost includes the original purchase price of the asset and the cost of bringing the asset to its working condition for intended use. Borrowing costs which are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset.

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

Depreciation

Depreciation is provided on a straight line basis so as to write off the cost of the assets to their residual value over their estimated useful economic lives, which are principally:

1 Principal accounting policies (continued)

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

Freehold land is not depreciated.

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

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

Impairment

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

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

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

Inventories

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

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

1 Principal accounting policies (continued)

Finance and operating leases

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

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

Revenue

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

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

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

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

All revenues are stated net of value added tax.

1 Principal accounting policies (continued)

Cost of sales

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

Administrative expenses

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

Taxation

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

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

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

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

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

1 Principal accounting policies (continued)

Pension costs

The Company makes contributions to a defined contribution pension scheme on behalf of its employees. The assets of the scheme are held separately from those of the Company in independently administered funds. The pension costs charged in the statement of comprehensive income represent contributions payable by the Company to the scheme together with the administration charges of the scheme.

Foreign currencies

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

Share-based payments

The costs of equity-settled share-based payments are recognised in the statement of comprehensive income with a corresponding increase in equity over the vesting period as services are provided to the Company.

The charge is based on the fair value of the equity instrument granted and the number of equity instruments that are expected to vest. The fair value is measured at grant date and takes account of vesting conditions that relate to the market price of the ultimate parent company's shares. In order to determine the value of the instrument a pricing model relevant to the type of instrument is used.

Provisions

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

Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

1 Principal accounting policies (continued)

Contingent assets

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

Contingent liabilities

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

Exceptional items

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

Dividends

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

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

Share capital

Ordinary shares are classified as equity.

1 Principal accounting policies (continued)

Financial instruments

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

Trade and other receivables: These are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off to the statement of comprehensive income when identified.

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

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

1 Principal accounting policies (continued)

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

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

2 Segmental information

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

	Mail	Parcels	Courier	Central	Total
	£'000	£'000	£'000	£'000	£'000
Segmental revenue	240,539	228,049	19,996	-	488,584
Inter-segment revenue	-	-	(3,481)	-	(3,481)
External revenue	240,539	228,049	16,515	-	485,103
Operating profit/(loss) before exceptional items	12,445	21,407	2,209	(14,574)	21,487
Exceptional items – administrative expenses	-	(857)	-	-	(857)
Operating profit	12,445	20,550	2,209	(14,574)	20,630
Finance income					2
Finance costs					(62)
Profit before taxation					20,570
Taxation					(4,300)
Profit attributable to equity shareholders					16,270
Other segment items					
Capital expenditure (including acquisitions)					
Property, plant and equipment (note 10)	880	40,454	28	3,933	45,295
HS2 compensation (note 10)	-	(4,155)	-	-	(4,155)
Intangible assets (note 8)	1,428	-	219	5,047	6,694
Depreciation of property, plant and equipment					
- Owned assets (note 10)	869	3,325	29	1,241	5,464
- Under finance leases (note 10)	-	158	-	-	158
Depreciation of investment property (note 9)	-	-	-	33	33
Amortisation of intangible assets					
- Owned assets (note 8)	137	-	19	1,970	2,126
- Under finance leases (note 8)	-	-	-	164	164
Impairment of trade receivables	6	217	15	-	238
Total assets	46,110	114,941	245	19,318	180,614

2 Segmental information (continued)

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 (note 10)	1,391	19,922	10	1,959	23,282
Intangible assets (note 8)	174	-	3	3,864	4,041
Depreciation of property, plant and equipment					
- Owned assets (note 10)	516	3,398	37	1,690	5,641
- Under finance leases (note 10)	-	472	-	-	472
Depreciation of investment property (note 9)	-	-	-	34	34
Amortisation of intangible assets					
- Owned assets (note 8)	76	-	8	1,112	1,196
- Under finance leases (note 8)	-	-	-	164	164
Impairment of trade receivables	34	137	43	-	213
Total assets	56,158	63,787	46	13,689	133,680

3 Exceptional items

	2015	2014
	£'000	£'000
Cost of automation implementation	403	-
National hub relocation costs	2,454	-
HS2 compensation	(2,000)	-
Net exceptional items	857	-

The cost of automation implementation represents the costs incurred during the final weeks of the year ended 31 March 2015, as the Group moved towards the implementation and roll-out of new automation equipment. These costs largely represent contract termination costs. Further amounts are expected to be taken as exceptional costs in the 2015/16 financial year.

National hub relocation costs represent disturbance costs associated with the relocation of our National hub and offices to Ryton following an agreement reached with the Department of Transport ('DfT') to acquire the National hub and offices in Birmingham. These costs comprise £180,000 property costs associated with running two sites for an approximate period of two months, £1,112,000 of recruitment and redundancy costs, and £1,162,000 of costs relating to short term site operating costs, incurred as a result of the delay in the expansion of our old National hub as a result of this compulsory acquisition.

As detailed in note 23, full reimbursement of these costs is being sought from the DfT and HS2 Ltd, subject to the requirements of the Compensation Code.

HS2 compensation received relates to agreed compensation resulting from the profit impact of the delay of automation of our operation due to the impact of HS2 on the Company's plans, recognised on a pro-rata basis over the affected period. Further amounts are expected to be taken as exceptional income in the 2015/16 financial year.

4 Operating profit

	2015	2014
	£'000	£'000
The following items have been charged/(credited) in arriving at operating profit:		
Royal mail access costs	**195,463**	202,833
Subcontractor costs	**97,012**	86,393
Employee benefits expense (note 6)	**64,894**	67,430
Cost of inventories (included in costs of sales) (note 12)	**10,068**	11,612
Depreciation of investment property (note 9)	**33**	34
Depreciation of property, plant and equipment (note 10)		
- Owned assets	**5,464**	5,641
- Under finance leases	**158**	472
Amortisation of intangibles (included in administrative expenses) (note 8)		
- Owned assets	**2,126**	1,196
- Under finance leases	**164**	164
Operating lease rentals payable	**12,546**	11,590
Repairs and maintenance expenditure on property, plant and equipment	**4,872**	4,441
Loss on foreign currency translation	**55**	63
Operating lease rentals receivable		
- Plant and machinery	**(464)**	(407)
- Property	**(277)**	(283)
- Computer equipment	**(198)**	(159)
Loss on disposal of property, plant and equipment assets	**125**	401
Trade receivables impairment (included in administrative expenses)	**238**	213

4 Operating profit (continued)

Services provided by the Company's auditors

	2015	2014
	£'000	£'000
During the year the Company obtained the following services from the Company's auditors:		
Audit services	95	88
	95	88

5 Finance income/(costs) – net

	2015	2014
	£'000	£'000
Interest receivable on:		
Interest receivable from tax receivables	1	-
Inter-company balances	-	342
Other	1	-
Finance income	2	342
Interest payable on:		
Finance leases	-	(6)
Inter-company balances	-	(389)
Other	(62)	(42)
Finance costs	(62)	(437)
Finance (costs)/income - net	(60)	(95)

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

6 Employees and directors

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

	2015	2014
	£'000	£'000
Wages and salaries	57,051	59,813
Social security costs	5,168	5,002
Other pension costs *	2,059	1,779
Share-based payments (note 19)	616	836
	64,894	67,430

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

Average monthly number of persons employed (including executive directors)

	2015	2014
	Number	Number
Operations	2,481	2,457
Administration	203	182
	2,684	2,639

	2015	2014
Key management compensation	£'000	£'000
Salaries and short-term employee benefits	1,436	2,007
Post-employment benefits	138	104
Share-based payments	344	388
	1,918	2,499

6 Employees and directors (continued)

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

Directors' emoluments	**2015** **£'000**	2014 £'000
Aggregate emoluments [1]	**1,510**	1,101
Post-employment benefits	**104**	79
	1,614	1,180

1 - Aggregate emoluments includes the value of LTIPs that are due to vest in November 2015, inclusive of the value of accrued dividends over the vesting period based on the parent Company's share price over the last quarter of the financial year i.e. 1 January 2015 – 31 March 2015.

The highest paid director was paid £847,000 during the year (2014: £602,000). In addition, Company pension contributions of £66,000 were taken as a salary supplement (2014: £50,000).

During the year ended 31 March 2015, no directors (2014: 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 (2014: two) directors; paid as a supplement to the directors salaries.

7 Taxation

Analysis of charge in the year

	2015 £'000	2014 £'000
Current tax - current year	**3,524**	5,484
Current tax - adjustment in respect of prior years	**(165)**	(27)
Total current tax	**3,359**	5,457
Deferred tax (note 17) - current year	**824**	(270)
Deferred tax (note 17) - adjustment in respect of prior years	**117**	(28)
Total deferred tax	**941**	(298)
Taxation	**4,300**	5,159

The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax of 21% (2014: 23%) to the profit before tax are explained below:

	2015 £'000	2014 £'000
Profit before taxation	**20,570**	22,198
Profit at the standard rate of corporation tax in the UK of 21% (2014:23%)	**4,320**	5,106
Effects of:		
Expenses not deductible for tax purposes	**118**	246
Effect of change in tax rate	**(54)**	(137)
Other timing differences	**(36)**	-
Adjustment in respect of prior years	**(48)**	(56)
Total taxation charge	**4,300**	5,159

Additionally, £138,000 of deferred tax has been charged (2014: £289,000 credited) directly to equity in respect of share options.

Reductions in the UK corporation tax rate from 23% 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 2015 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

8 Intangible assets

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

	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 10)	-	(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

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

Assets under construction	**Acquired software licences £'000**	**Internal Software developments £'000**	**Total £'000**
Net book value at 31 March 2015	**-**	**1,479**	**1,479**
Net book value at 31 March 2014	-	-	-

9 Investment property

	2015	2014
	£'000	£'000
Cost		
At 1 April	2,584	2,584
At 31 March	2,584	2,584
Accumulated depreciation		
At 1 April	813	779
Charge for the year	33	34
At 31 March	846	813
Net book value at 31 March	1,738	1,771

One (2014: one) investment property is held by the Company, located in the West Midlands, and is being sublet under an operating lease. The rental income recognised in the year was £277,480 (2014: £283,061). Direct operating expenses incurred were £nil (2014: £nil). The lease is due to expire on 23 June 2015.

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 2014, the proportion of total fees payable by the Company to the total fee income of the UGL service group was less than 5%. The valuation was primarily derived using comparable recent market transactions on arm's length terms. The valuation was carried out in accordance with the RICS Appraisal and Valuation Standards.

The property has since been valued by the Company's Property Manager at £2.4m to £2.6m by reference to market evidence of transaction prices for similar properties in the same area.

10 Property, plant and equipment

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

	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 8)	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

10 Property, plant and equipment

Three of the company's properties included above, with a net book value of £6,339,000 have been given as security against advance payments for compensation received from HS2 Ltd.

Interest and revolving credit facility arrangement fees totalling £283,000 have been capitalised as part of property, plant and equipment as they relate to the construction phase of the Company's new National hub and head office. These qualify for capital allowances.

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

Assets under construction	Freehold land and buildings £'000	Short leasehold buildings £'000	Motor vehicles, plant and equipment £'000	Computer equipment £'000	Total £'000
Net book value at 31 March 2015	**19,220**	**-**	**17,195**	**2,200**	**38,615**
Net book value at 31 March 2014	603	-	3,302	-	3,905

11 Assets held under finance leases

	Property, plant and equipment (Motor vehicles, property, plant and equipment)		**Intangible Assets** (Acquired software licences)	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Cost	**3,360**	4,152	**1,729**	1,927
Additions	-	-	-	-
Accumulated depreciation	**(3,358)**	(3,200)	**(1,183)**	(1,019)
Disposals	-	(792)	-	(198)
Net book value	**2**	160	**546**	710

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

12 Inventories

	2015	2014
	£'000	£'000
Fuel stock	**237**	214

The Company consumed £10,068,000 (2014: £11,612,000) of inventories during the year.

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

13 Trade and other receivables

	2015	2014
	£'000	£'000
Trade receivables	**54,957**	53,310
less: provision for impairment	**(68)**	(55)
Trade receivables, net of provisions for impairment	**54,889**	53,255
Other receivables	**5,451**	2,047
Amounts owed from group undertakings	**199**	476
Prepayments and accrued income	**14,307**	12,433
	74,846	68,211

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

Further information on the credit risks relating to trade and other receivables is given in note 21.

14 Cash and cash equivalents

	2015 £'000	2014 £'000
Cash at bank and in hand	6,222	5,650

The effective interest rate on the cash and bank balances was nil% (2014: nil%).

15 Borrowings

Current	2015 £'000	2014 £'000
Amounts due within one year or on demand:		
Revolving credit facility	9,758	-
Finance lease obligations	-	374
	9,758	374

The revolving credit facility is shown net of £242,000 (2014: £nil) unamortised arrangement fees.

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

Amounts payable under finance leases	2015 £'000	2014 £'000
Within one year	-	374
Total minimum lease payments	-	374
Future finance charges	-	-
Present value of finance leases	-	374

16 Trade and other payables - current

	2015	2014
	£'000	£'000
Trade payables	**58,332**	41,099
Amounts owed to group undertakings	**29,835**	381
Amounts owed to franchises	**1,549**	1,950
Other payables	**9,058**	7,049
Taxes and social security	**12,620**	12,867
Accruals	**9,407**	14,395
Deferred compensation	**9,640**	2,655
Deferred income	**59**	85
	130,500	80,481

Trade and other payables – non-current

	2015	2014
	£'000	£'000
Deferred compensation	**-**	8,890
	-	8,890

Amounts owed to group undertakings bear interest at 1.0% over the Bank of England base rate, and are repayable on demand.

Total deferred compensation of £9,640,000 (2014: £11,545,000) relates to amounts received by the Company in respect of reimbursements for operating expenditure, business disruption costs and capital expenditure resulting from the compulsory purchase of the Company's National hub and head office.

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

Total compensation received in 2014 amounted to £11,545,000, of which £10,640,000 is shown in investing activities (being £8,640,000 in respect of sale proceeds received on account in respect of the old Birmingham National hub and £2,000,000 of reimbursed capital expenditure) and £905,000 in operating activities relating to business disruption costs.

During the year ended 31 March 2015, £4,155,000 has been credited against the build cost of the Ryton National hub (shown as an asset under construction in note 10) and £2,000,000 has been included in exceptional items (shown as HS2 compensation in note 3).

Three of the Company's properties have been given as security against advanced payments for compensation received from HS2 Ltd.

17 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 20% (2014: 20%).

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

Deferred tax assets	**2015** **£'000**	2014 £'000
At 1 April	**621**	241
Statement of comprehensive income credit/(charge)	**84**	91
Credited/(charged) to equity	**(138)**	289
At 31 March	**567**	621

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

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

Deferred tax liabilities	**2015** **£'000**	2014 £'000
At 1 April	**(1,535)**	(1,741)
Statement of comprehensive income (charge)/credit	**(1,025)**	206
At 31 March	**(2,560)**	(1,535)

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

17 Deferred tax

Deferred tax assets	**2015 £'000**	2014 £'000
Within 12 months	**93**	107
After 12 months	**474**	514
At 31 March	**567**	621

Deferred tax liabilities	**2015 £'000**	2014 £'000
Within 12 months	**-**	(232)
After 12 months	**(2,560)**	(1,303)
At 31 March	**(2,560)**	(1,535)

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

	2015 £'000	2014 £'000
Deferred tax on share-based payments	**(138)**	289

18 Provisions

	Automation £'000	Lease dilapidations £'000	Restructuring £'000	Total £'000
At 1 April 2014	**-**	**1,041**	**347**	**1,388**
Charged to the income statement	**403**	**218**	**-**	**621**
Utilised in the year	**(152)**	**(189)**	**(151)**	**(492)**
At 31 March 2015	**251**	**1,070**	**196**	**1,517**

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

	2015 £'000	2014 £'000
Current	**765**	366
Non-current	**752**	1,022
	1,517	1,388

The automation provision largely relates to the early termination costs of exiting existing contracts as a result of the roll-out of large scale automation within the network.

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 two years.

19 Ordinary shares

	2015 £'000	2014 £'000
Authorised, issued, allotted and fully paid		
1,000 (2014: 1,000) ordinary shares of £1 each	**1**	1

20 Share-based payments

The Company recognised a charge of £616,000, (2014: £836,000) in respect of equity settled share-based payments during the year. There have been no cancellations or modifications to any of the plans during the year. The main details of all the schemes which existed during the year were as follows:

Sharesave Plan ('SAYE')

UK Mail Group has offered a SAYE share plan since 1996 to eligible employees, including directors. The plan is an HMRC approved all-employee share plan. HMRC does not permit performance conditions to be attached to the exercise of options. Under the plan, participants are granted options over UK Mail Group plc shares. Each participant may save between £5 and £500 per month to purchase shares in UK Mail Group plc at a discount of up to a maximum 20% of the market value at the time of the option grant.

Long Term Incentive Plan ('LTIP')

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

The performance conditions attaching to any future awards under the plan were amended at the Annual General Meeting of UK Mail Group plc held on 15 July 2009, such that 50% of an Award is subject to a performance condition based on the annual earnings per share (EPS) growth of the ultimate parent company, UK Mail Group plc, and 50% is determined by the TSR performance of the ultimate parent company relative to all the other companies in the FTSE All Share Index (excluding Investment Trusts) at the start of the financial year in which an award is granted over a period of three financial years.

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

20 Share-based payments (continued)

During the year ended 31 March 2015, the required targets under the live LTIP grants were as follows:

	EPS Target range (1)		TSR Target range (1)		
Year of grant	Threshold (25%) vesting	Max (100%) vesting	Threshold (25%) vesting	Max (100%) vesting	Outcome
2012	11.6% p.a.	18.1% p.a.	Median	Top quartile	26.6% will vest under the EPS condition
					50.0% will vest under the TSR condition
2013	7.2% p.a.	15.5% p.a.	Median	Top quartile	Live award
2014	8.0% p.a.	14.0% p.a.	Median	Top quartile	Live award

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

Awards under the 2012 grant will vest in November 2015 at a 76.6% vesting level having met the threshold TSR condition in full (100% of the 50%), and the required EPS in part (53.1% of the 50%). Successful award holders will receive a further 21% in respect of their dividend equivalence entitlement.

Share Matching Plan ('SMP')

In previous years, selected executives may be invited to invest a portion of their cash bonus in the acquisition of shares in the ultimate parent company, UK Mail Group plc, worth up to 25% of their pre-tax salary. However, the Remuneration Committee of UK Mail Group plc no longer considers this as an appropriate means of incentivising senior management, with the last grant made on 10 June 2014. (Further details can be found in the Remuneration Report of that Company).

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

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

20 Share-based payments (continued)

Calculation of fair values

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

The expected life of options depends on the behaviour of option holders, which is incorporated into the option model consistent with historic observable data. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the option-pricing model used.

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

	LTIP	LTIP	SMP	SAYE
Grant date	10/06/14	28/11/14	10/06/14	30/07/14
Share price at grant date	£6.25	£4.42	£6.25	£6.00
Exercise price	-	-	-	£4.7114
Number of employees	1	3	3	139
Number of shares granted	32,691	108,971	20,195	118,870
Vesting period (years)	3	3	3	3
Expected volatility	28.5%	29.3%	N/a	27.9%
Option life (years)	3	3	3	3
Expected life (years)	3	3	3	3
Risk-free interest rate	1.14%	0.80%	N/a	1.35%
Expected dividends expressed as a dividend yield	0.0%	0.0%	3.41%	3.55%
Fair value per option	£4.77	£2.77	£5.64	£1.38
Expected forfeiture (%)	0.0%	0.0%	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.

20 Share-based payments (continued)

Reconciliation of option movements

A reconciliation of option movements over the year to 31 March 2015 is shown below:

	2015 Number	2015 Weighted average exercise price	2014 Number	2014 Weighted average exercise price
Outstanding as at 1 April	1,125,902	£0.94	918,462	£0.74
Granted	277,671	£1.97	661,725	£0.88
Lapsed	(110,817)	£2.67	(379,496)	£0.32
Exercised	(6,136)	£2.01	(74,789)	£1.06
Outstanding as at 31 March	1,286,620	£1.00	1,125,902	£0.94
Exercisable at 31 March	-	-	-	-

Options are exercisable as follows:

	2015				2014			
Range of exercise prices	Weighted average exercise price	Number of shares	Weighted average remaining life expected years	Weighted average remaining life contracted years	Weighted average exercise price	Number of shares	Weighted average remaining life expected years	Weighted average remaining life contracted years
£0.00 - £0.99	£0.00	851,842	1.4	8.0	£0.00	722,605	2.1	8.9
£1.00 - £1.99	£1.87	244,274	0.9	1.2	£1.87	267,962	1.9	2.1
£2.00 - £2.99	£2.75	6,850	0.8	1.0	£2.75	9,207	1.8	2.0
£4.00 - £4.99	£4.44	183,654	2.2	2.4	£4.19	126,128	2.7	2.9
	£1.00	1,286,620	1.4	5.9	£0.94	1,125,902	2.1	6.6

21 Financial instruments

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

The use of simple financial derivatives is considered in order to hedge specific financial risks where cost effective to do so. The Company does not enter into, or trade, financial instruments, including derivative financial instruments, for speculative purposes. At the year end the Company has not entered into any financial derivatives contracts: (2014: £nil.)

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

	2015			2014		
	Financial instruments	**Other**	**Total**	Financial instruments	Other	Total
Intangible assets	-	**11,570**	**11,570**	-	7,147	7,147
Investment property	-	**1,738**	**1,738**	-	1,771	1,771
Property, plant and equipment	-	**85,434**	**85,434**	-	50,066	50,066
Deferred tax asset	-	**567**	**567**	-	621	621
Non-current assets	-	**99,309**	**99,309**	-	59,605	59,605
Trade receivables (net of impairment)	**54,889**	-	**54,889**	53,255	-	53,255
Other debtors	**5,451**	-	**5,451**	2,047	-	2,047
Prepayments and accrued income	-	**14,307**	**14,307**	-	12,433	12,433
Amounts owed from group undertakings	**199**	-	**199**	476	-	476
Trade and other receivables	**60,539**	**14,307**	**74,846**	55,778	12,433	68,211
Inventories	-	**237**	**237**	-	214	214
Cash and cash equivalents	**6,222**	-	**6,222**	5,650	-	5,650
Current assets	**66,761**	**14,544**	**81,305**	61,428	12,647	74,075
LIABILITIES						
Trade payables	**(58,332)**	-	**(58,332)**	(41,099)	-	(41,099)
Other payables	**(9,058)**	-	**(9,058)**	(7,049)	-	(7,049)
Amounts owed to franchise	**(1,549)**	-	**(1,549)**	(1,950)	-	(1,950)
Amounts owed to group undertakings	**(29,835)**	-	**(29,835)**	(381)	-	(381)
Other taxes and social security payable	-	**(12,620)**	**(12,620)**	-	(12,867)	(12,867)
Accruals	**(9,407)**	-	**(9,407)**	(14,395)	-	(14,395)
Deferred compensation	-	**(9,640)**	**(9,640)**	-	(2,655)	(2,655)
Deferred income	-	**(59)**	**(59)**	-	(85)	(85)
Trade and other payables	**(108,181)**	**(22,319)**	**(130,500)**	(64,874)	(15,607)	(80,481)
Borrowings	**(9,758)**	-	**(9,758)**	(374)	-	(374)
Current tax liabilities	-	**(829)**	**(829)**	-	(2,311)	(2,311)
Provisions	**(765)**	-	**(765)**	(366)	-	(366)
Current liabilities	**(118,704)**	**(23,148)**	**(141,852)**	(65,614)	(17,918)	(83,532)
Deferred tax liabilities	-	**(2,560)**	**(2,560)**	-	(1,535)	(1,535)
Provisions	**(752)**	-	**(752)**	(1,022)	-	(1,022)
Deferred compensation	-	-	-	-	(8,890)	(8,890)
Non-current liabilities	**(752)**	**(2,560)**	**(3,312)**	(1,022)	(10,425)	(11,447)
Total liabilities	**(119,456)**	**(25,708)**	**(145,164)**	(66,636)	(28,343)	(94,979)
Net assets	**(52,695)**	**88,145**	**35,450**	(5,208)	43,909	38,701

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
At 31 March 2015	**£'000**	**£'000**	**£'000**
Cash at bank and in hand	**6,222**	**-**	**6,222**
Borrowings due within one year	**-**	**(9,758)**	**(9,758)**
Other financial assets	**60,539**	**-**	**60,539**
Other financial liabilities	**-**	**(109,698)**	**(109,698)**
	66,761	**(119,456)**	**(52,695)**
At 31 March 2014			
Cash at bank and in hand	5,650	-	5,650
Borrowings due within one year	-	(374)	(374)
Other financial assets	55,778	-	55,778
Other financial liabilities	-	(66,262)	(66,262)
	61,428	(66,636)	(5,208)

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

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

21 Financial instruments (continued)

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

Contractual cash flows

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

At 31 March 2015	**Book value £'000**	**Fair value £'000**	**Total contractual cash flows £'000**	**Within one year £'000**	**Between one and two years £'000**	**Between two and five years £'000**	**Over five years £'000**
Financial liabilities							
Finance leases	-	-	-	-	-	-	-
Trade payables	(58,332)	(58,332)	(58,332)	-	-	-	-
Other payables	(9,058)	(9,058)	(9,058)	-	-	-	-
Amounts owed to franchises	(1,549)	(1,549)	(1,549)	-	-	-	-
Amounts owed to group undertakings	(29,835)	(29,835)	(29,835)	-	-	-	-
Accruals	(9,407)	(9,407)	(9,407)	-	-	-	-
Provisions	(1,517)	(1,517)	(1,517)	(765)	(242)	(307)	(203)
	(109,698)	(109,698)	109,698)	(765)	(242)	(307)	(203)

At 31 March 2014	Book value £'000	Fair value £'000	Total contractual cash flows £'000	Within one year £'000	Between one and two years £'000	Between two and five years £'000	Over five years £'000
Financial liabilities							
Finance leases	(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)

21 Financial instruments (continued)

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

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

All financial assets and liabilities are sterling denominated.

Fair value measurements

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

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

Credit risk

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

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

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

The Company has no significant concentrations of credit risk. Concentrations of credit risk to trade receivables are limited due to the Company's customer base being large and unrelated, with no one customer accounting for more than 14% 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 (2014: none) whose terms have been renegotiated and would otherwise be past due or impaired.

21 Financial instruments (continued)

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

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

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

	2015	2014
	£'000	£'000
At 1 April	**55**	89
Amount provided/(utilised)	**13**	(34)
At 31 March	**68**	55

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

	2015	2014
	£'000	£'000
Less than 30 days	**54,889**	53,260
Between 30 - 60 days	**41**	16
Between 60 - 90 days	**18**	15
More than 90 days	**9**	19
	54,957	53,310

21 Financial instruments (continued)

As at 31 March 2015, trade receivables of £68,000 were impaired (2015: £55,000). The amount of provision was £68,000 at 31 March 2015 (2014: £55,000). The ageing of these impaired trade receivables is as follows:

	2015	2014
	£'000	£'000
Less than 30 days	-	5
Between 30 - 60 days	41	16
Between 60 - 90 days	18	15
More than 90 days	9	19
	68	55

As at 31 March 2015, trade receivables of £5,836,000 were past due but not impaired (2014: £3,621,000). The ageing of these trade receivables is as follows:

	2015	2014
	£'000	£'000
Less than 30 days	5,834	3,621
Between 30 - 60 days	-	-
Between 60 - 90 days	2	-
More than 90 days	-	-
	5,836	3,621

As at 31 March 2015, there were £nil (2014: £nil) trade receivables impaired but not past due for payment.

Financial instruments (continued)

None (2014: none) of the other classes of financial assets within trade and other receivables contain impaired assets.

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

21 Financial instruments (continued)

Market risk

Overall, since the vast majority of the Company's activities are provided to UK businesses, the fortunes of the Company are linked to the general health of the UK economy. The Company's exposure is limited by being spread across a wide range of customers. No customer accounts for more than 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 2015 was:

	2015 Book value £'000	**2015 Fixed rate financial liabilities £'000**	**2015 Floating rate financial liabilities £'000**	2014 Book value £'000	2014 Fixed rate financial liabilities £'000	2014 Floating rate financial liabilities £'000
Financial assets						
Cash and cash equivalents	**6,222**	-	-	5,650	-	-
	6,222	-	-	5,650	-	-
Financial liabilities						
Finance leases	-	-	-	(374)	-	-
Amounts due to group undertakings	**(29,835)**	**(29,835)**	-	(381)	(381)	-
Revolving credit facility	**(9,758)**	-	-			
	(39,593)	**(29,835)**	-	(755)	(381)	-

The UK Mail plc Group Treasury department monitor cash and cash equivalent balances on a daily basis, placing surplus funds with approved financial institutions, generally overnight. Interest receivable is based on a rate linked to the base rate.

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

21 Financial instruments (continued)

Liquidity risk

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

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

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

As at 31 March 2015, the Company had an undrawn overdraft facility of £10m (2014: £12m undrawn) in place until 30 June 2015 and £10m drawn down of the £25m available on the revolving credit facility in place until 31 May 2019.

Subsequent to year end the overdraft facility was increased to £20m until 30 September 2015, to fund the remaining National hub and automation program.

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% of total costs there is an element of price risk. Price risk is minimised as significant increases in the fuel price can be passed onto the majority of customers via a fuel surcharge mechanism common throughout the express delivery industry.

21 Financial instruments (continued)

Foreign exchange risk

The Company incurs foreign currency risks on sales, purchases and cash denominated in currencies other than Sterling. The Company is not significantly exposed to the effects of fluctuations in exchange rates since all income is in sterling and costs denominated in foreign currency (principally the Euro) represent less than 1% of all expenditure.

There would have been no impact on profit before tax or equity in either the year ended 31 March 2015 or 31 March 2014, had Sterling strengthened or weakened 10% against the Euro.

Capital risk

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

22 Operating lease commitments – minimum lease payments

	2015		2014	
Commitments under non-cancellable operating leases expiring:	**Land and buildings £'000**	**Vehicles, plant and equipment £'000**	Land and buildings £'000	Vehicles, plant and equipment £'000
Within one year	**6,342**	**5,417**	5,028	5,299
Between one and two years	**4,545**	**5,043**	4,196	3,460
Between two and five years	**7,715**	**5,153**	6,966	5,788
After five years	**6,350**	**16**	4,785	92
At 31 March	**24,952**	**15,629**	20,975	14,639

The Company leases various properties under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The Company also leases vehicles and office equipment under non-cancellable operating lease agreements. Leases are negotiated for an average term of four years during which time the rentals are fixed.

The total of future minimum sub-lease payments receivable under non-cancellable sub-leases at the balance sheet date was £nil (2014: £nil).

The Company sublets one of its properties (see note 9) under a non-cancellable operating lease agreement, due to expire on 23 June 2015. At 31 March, the future minimum lease payments receivable were as follows

22 Operating lease commitments – minimum lease payments (continued)

Commitments under non-cancellable operating leases expiring:	2015 £'000	2014 £'000
Within one year	**71**	65
Between one and two years	**-**	-
Between two and five years	**-**	-
At 31 March	**71**	65

23 Contingent assets and liabilities

Contingent assets

In December 2013 the Company reached agreement with the Department of Transport ('DfT') to acquire the National hub and offices at Birmingham, as a result of the site being situated on land required for the proposed High Speed Two ('HS2') railway.

Consequently the Company was required to relocate the Birmingham National hub and offices to a newly constructed facility at Ryton, near Coventry, the costs of which we anticipate to recover from the DfT and HS2 Ltd, subject to the requirements of the Compensation Code.

As at 31 March 2015, the Company had incurred costs of £2.5m (as detailed in note 3), and acquired £4.7m of plant, property and equipment assets (as included in note 10) which are the subject of a claim. We also expect to incur further costs in the year commencing 1 April 2015 which will also be the subject of a claim. As the compensation claim remains to be agreed, no recoverable asset has been recognised as at 31 March 2015

Contingent liabilities

The Company has guaranteed bank and other borrowings of subsidiary undertakings in a cross-guarantee agreement on an undrawn Group borrowing facility amounting to £10m (2014: £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 (2014: £11m). At 31 March 2015, upon the request of the Company, the bank has issued a guarantee with a value of £8m (2014: £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 2015 and the final amount of any payments made by the Company to settle such issues.

24 Capital and other financial commitments

	2015	2014
	£'000	£'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	140	12,723
	140	29,864

25 Analysis of net cash

	At 31 March 2013 £'000	Cash flow £'000	At 31 March 2014 £'000	**Cash flow £'000**	**Non-cash movement £'000**	**At 31 March 2015 £'000**
Cash at bank and in hand	2,213	3,437	5,650	**572**	-	**6,222**
Total cash	2,213	3,437	5,650	**572**	-	**6,222**
Draw down of RCF	-	-	-	**(10,000)**	-	**(10,000)**
RCF arrangement fee	-	-	-	**335**	**(93)**	**242**
Finance leases	(1,131)	757	(374)	**374**	-	-
Total debt	(1,131)	757	(374)	**(9,291)**	**(93)**	**(9,758)**
Net Cash	1,082	4,194	5,276	**(8,719)**	**(93)**	**(3,536)**

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

26 Related party transactions

Key management compensation is disclosed in note 6. Intercompany balances arise from recharges of costs from and to other Group companies.

Year end balances arising from these recharges are as follows:

	Note	2015 £'000	2014 £'000
Receivables from related parties			
Fellow group undertakings	13	**199**	476
Payables to related parties			
Parent undertaking	16	**(29,831)**	-
Fellow group undertakings	16	**(4)**	(381)

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

	2015 £'000	2014 £'000
Cash transfers in respect of treasury management	**(14,248)**	3,955
Dividend paid to ultimate parent undertaking	**(20,000)**	(10,000)
Recharges of costs to fellow group undertakings	**4,760**	3,255
Recharges of costs from fellow group undertakings	**(242)**	(216)
	(29,730)	(3,006)

27 Ultimate parent undertaking and controlling party

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

27 Ultimate parent undertaking and controlling party - continued

The parent undertaking of the largest and smallest group which includes the Company and for which group financial statements are prepared is UK Mail Group plc. Copies of the financial statements can be publicly obtained from the registered office at Express House, 120 Buckingham Avenue, Slough, SL1 4LZ

28 Critical accounting judgements and key sources of estimation uncertainty

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

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

Exceptional items

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

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

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

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

(iii) disposal of investments;

(iv) organisational or restructuring programmes.

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 areas of judgement include an assessment of the quantum of recoverable costs expended on the project and the accounting disclosure thereof, specifically in relation to compensation payments, where management assumptions are necessary.

28 Critical accounting judgements and key sources of estimation uncertainty (continued)

b) Key sources of estimation uncertainty

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

Recoverability of trade receivables

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

Taxation

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

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

Provisions

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

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

29 Dividends

	2015		2014	
	Dividend per share		Dividend per share	
	£'000	**£'000**	£'000	£'000
Interim dividend paid in respect of the current year	**20**	**20,000**	10	10,000
	20	**20,000**	10	10,000

The directors do not recommend the payment of a final dividend (2014: £nil).

30 Post-balance sheet events

There were no significant post-balance sheet events affecting the Company since 31 March 2015.