Company registration number: 00965783

UK MAIL LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2017

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The directors' present the strategic report of the Company for the year ended 31 December 2017.

PRINCIPAL ACTVITIES

UK Mail Limited (registration number 00965783) is a private limited company incorporated and domiciled in England. The Company is both a wholly owned subsidiary of UK Mail Group Ltd (registration number 02800218) and a member of the Deutsche Post DHL Group (a global mail and logistics group). The parent Company of the Deutsche Post DHL Group is Deutsche Post AG, which is registered in Bonn, Germany and entered in the commercial register of the Bonn local court.

Copies of the consolidated financial statements of the Deutsche Post DHL Group can be accessed online at dpdhl.com/en/investors.

The registered office of UK Mail Limited 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.

STRATEGY

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

Since joining the Deutsche Post DHL Group in December 2016, we have benefitted from their global reach and expertise. We are now connected to 220 countries worldwide, and this figure is set to grow as DHL Parcel expand their global presence further. In addition, we are now able to offer our customers even more convenient and flexible options for sending and receiving parcels.

High service levels

High service levels are a vital element for success in our industry. Customers and recipients expect their consignments to be delivered to the agreed timescale without loss or damage. Service levels in this respect, in both our Parcels and Mail businesses are therefore routinely monitored on a regular basis, and issues identified and corrective actions are taken whenever necessary.

Network efficiency

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

The key factors in achieving this objective are:

An integrated network for our Parcels and Mail 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, enabling both operational 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 240,000 parcels each night together with some 10 million 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 continued on our goal to support and drive innovation in our business through a multiyear I.T. change programme, centred on a service orientated architecture framework.

We are investing further in our I.T. to achieve significantly enhanced integration with DHL central systems, allowing us to benefit from the products and services that DHL provides.

Automation

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

Following the move to the new Ryton hub with its new automated sortation equipment; we continue to increase the level of automated sortation, largely through technical innovation.

Product and Service Innovation

The third key factor in our strategy is product and service innovation. We are focussed on continuing to expand the size of the markets available to us and on increasing our share of these markets.

To do so we continue to introduce new and innovative products and services in both our Parcels and our Mail businesses. This strategy continues to gain valuable traction in helping us to win new customers.

The key areas we are progressing are:

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

Making Profitable Use of Increased Capacity

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

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

Hub/Network Capacity

Increasing the capacity of our overall network is vital as our core markets continue to show strong growth. We will achieve this through fully utilising the new central hub and through localised expansion where needed. The new automated hub is operating well and achieving good throughput levels, and we have increased the volumes that it processes, through improved network planning and hub operating methods, and through enhancements to the automated sorter throughput.

We have also increased the capacity of our network by relocating three depots to significantly larger premises in the period with plans to increase the network capacity further in 2018.

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 service points in retail stores.

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 few years. We have enhanced our support capacity to manage this growth, with a key emphasis on our I.T. infrastructure. We are now progressing plans to create significant further such capability to support the future growth potential of the business.

BUSINESS REVIEW

For the year ended 31 December 2017 the Company delivered a profit before taxation of £6,926,000 (Nine months ended 31 December 2016: £7,605,000) on revenue of £476,475,000 (Nine months ended 31 December 2016: £356,087,000). The directors' consider these results to be in line with their expectations.

Parcels

On a like for like basis, revenues of £269,953,000 in the year ended 31 December 2017 (Nine months ended 31 December 2016: £194,313,000) in Parcels, which comprises the Company's business-to-business (B2B), business-to consumer (B2C) and international parcel delivery service and courier operations were up some 4.2%.

Parcels average daily volumes increased by 10.3% compared to last year. We continue to see an on-going volume mix change towards the lower margin B2C segment.

The Parcels operating margin for the year decreased to 6.9% (Nine months ended 31 December 2016: 8.1%), resulting in operating profit for the year of £16,321,000 (Nine months ended 31 December 2016: £15,658,000 before exceptional items).

This performance reflects the on-going impact of the product mix change combined with the cost of the investments we are making to increase our capability and capacity for the future.

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

Key to our parcels market position is the provision of value added services that customers increasingly demand. Our enhanced next day delivery service, which offers advance-notice one-hour delivery and collection windows, is consistently achieving strong service levels of over 95%. We continue to enhance this service to include further customer features. We are also progressing our plans to offer parcel drop-off and collection points, including a trial with a national multi-site retailer.

Mail

On a like for like basis, mail revenues of £206,522,000 for the year ended 31 December 2017 (Nine months ended 31 December 2016: £161,774,000) decreased by some 4.3%.

Our average daily Mail volumes in the year ended 31 December 2017 decreased by 2.5% compared to those achieved during the previous nine month period ended 31 December 2016.

Whilst our Mail business has benefitted from the overall improvement in the efficiency of our operation, the pricing environment within the mail market remains highly competitive.

Volumes in the overall mail market are reducing by some 5% pa. We have managed to mitigate an element of this market volume decline, resulting in an increase in our market share.

Our continued product innovation has helped us to offset this mail market decline and the associated pricing pressures, and will continue to do so. imail, our web-to-print postal service, continues to show good revenue and profit growth. We continue to invest to increase our capacity and provide additional services.

A key growth element of the Access Mail market is the rising popularity of packets; a market we estimate to be worth some £1.2bn. Whilst we have made some progress in this area in recent years, our share of the market remains very low. We now have a clear plan in place to grow our market share. We expect to see a positive impact in the current financial year, and continue to believe that this area will be key to growing our Mail revenues and profitability in the future.

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

Central Costs

The Company incurred Central costs before exceptional items of £16,252,000 during the year ended 31 December 2017 (Nine months ended 31 December 2016: £10,687,000). We have invested significantly in our central operations during the year to provide the basis for future growth within the Deutsche Post DHL Group. A particular area of focus has been I.T. where we have significantly enhanced our capabilities.

Net exceptional costs

Net exceptional costs for the year ended 31 December 2017 were £nil (Nine months ended 31 December 2016: £3,256,000 of which £3,083,000 related to professional fees in connection with the acquisition of the UK Mail Group by Deutsche Post AG).

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 non-financial performance measures relate to the success and safety of our people and environmental performance, including accident rates, health and safety compliance, and waste recycling.

Description	Actual 2013 Base year	Actual Year ended 31/12/17	Target Year ended 31/12/17	Actual 9 months ended 31/12/16	Actual Change against annualised 31/12/16 *	Variance Against Target	Target Year ended 31/12/18
Land diversion (%)	87.88	92.20	88.00	88.06	+4.2 ppts**	+4.20 ppts**	92.00
Waste to landfill (tonnes)	340.15	215.52	285.37	224.13	-27.88%	-24.48%	204.74
Total waste (tonnes)	2,806.49	2,980.10	2,378.10	1,877.45	+19.05%	+25.31%	2,831.10
Water consumption (m3)	35,840	31,894	33,545	25,217	-5.14%	-4.92%	30,299
Health & Safety compliance (%)	95.25	91.27	95.00	93.11	-1.84 ppts**	-3.73 ppts**	95.00
Workplace fatalities (No)	0	0	0	0	-	-	0
Maintain ISO 14001 corporate site compliance (% of the 41 corporate sites)	100	100	100	100	-	-	100
Staff Turnover (%)	20.17	22.12	20.00	18.96	-3.16 ppts**	+2.12 ppts**	20.00

* - Comparative figures for waste to landfill, total waste , water consumption and staff turnover have all been adjusted by (12/9) to reflect the annualised equivalent

** ppts denotes percentage points

Land Diversion

31/12/17 Achievement	92.20% – 4.20 percentage points better than target
31/12/17 Target	88.00%

We have installed compactors at our Ryton Hub which enable us to bale a significant amount of cardboard and shrink wrap. We continue to work with our waste contractors to identify improvements to our waste handling and provide guidance to our employees to help them improve our recycling performance.

Waste to landfill (tonnes)

31/12/17 Achievement	215.52 – 24.48% better than target
31/12/17 Target	285.37

We continue to improve the management of our waste to reduce the quantity sent to landfill. Again, this is partly due to improvements to recycling and segregation of waste at sites. We only have two waste streams; general waste and mixed recyclables.

Total waste (tonnes)

31/12/17 Achievement	2,980.10 – 25.31% adverse to target
31/12/17 Target	2,378.10

The total waste produced was over 25% adverse to target. However, this can largely be attributed to the disposal of old equipment following the relocation of four sites within the year under review. The increase in parcel volumes this year has additionally resulted in a further small increase in waste production.

Water consumption (m3)

31/12/17 Achievement	31,894 – 4.92% better than target
31/12/17 Target	33,545

During 2017 we opened new sites at Enfield and Milton Keynes which are fitted with rain water harvesting systems for toilet flushing and timed taps in the washrooms. These sites, although much larger than the sites they replaced, will be much more efficient with their water consumption.

These improvements were made following proof of concept at our Ryton hub where the same rain water harvesting systems for toilet flushing, timed taps in the washrooms and a water-recycling vehicle wash have yielded distinct consumption benefits.

Health & Safety Compliance

31/12/17 Achievement	91.27% – 3.73 percentage points adverse to target

31/12/17 Target	95.00%

We remain committed to protecting the health, safety and welfare of employees and others who may be affected by our operations.

Where sites fall short of the required standards, the Health & Safety Department will work closely with the site and regional management teams to address any identified deficiencies and introduce measures to ensure standards are improved and maintained.

Workplace fatalities

31/12/17 Achievement	0
31/12/17 Target	0

ISO 14001 Corporate Sites

31/12/17 Achievement	100%
31/12/17 Target	100%

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.

Staff turnover

31/12/17 Achievement	22.12% - 2.12 ppts adverse to target
31/12/17 Target	20.00%

The increase in staff turnover is a result of the impact of Brexit on labour and challenging recruitment conditions.

Principal risks and uncertainties

Risk	Potential Impact	Mitigation
Cyber security The Company is subject to a range of regulations including the General Data Protection Regulation ('GDPR') and customer contractual obligations and/or expectations over the personal data it processes. The Company could at any time be the potential target of a cyber-security attack that could threaten the integrity and confidentiality of data held.	The Company could face severe reputational damage, resulting in a loss of existing and potential customers. The company could potentially face fines of up to 4% of its total global revenue.	The Company's existing processes are fully compliant with the Data Protection Act 1998. Following an external review, the Company has developed a project plan to identify gaps found within its existing processes in order to ensure full compliance with the GDPR. The Company has insurance cover against the risk of cyber-attack.
Labour availability The sourcing of both agency supply workers and the recruitment of employees appears to be more difficult following the lower levels of unemployment and the relative weakness in the pound since the Brexit vote.	A lack of labour, particularly at short-notice, could impact the Company's ability to deliver a complete service to its customers, resulting in potential customer dissatisfaction and churn.	The Company has increased its recruitment activity and is holding regular review meetings with external agency labour suppliers. The company is further reviewing its pay rates and conditions, seeking alignment with the core DHL Group.

Management distraction Following the Company's acquisition by Deutsche Post DHL, senior management have had to dedicate material amounts of time to a number of key integration work streams.	Over time, excessive involvement of senior management on integration projects could impact the Company's operational and financial performance.	A dedicated Project Management Officer has been recruited to oversee the efficiency of the work streams, whilst at the same time minimising the disruption to the Company's day-to-day business.
Loss of key management The Company is highly reliant on the continued service of its key executives and management, who possess commercial, operational, IT and financial skills that are critical to the success of the Company.	Loss of knowledge and/or necessary expertise resulting in a reduced ability to achieve the Company's strategic and business objectives. Loss of competitive advantage due to the delayed delivery of projects or required developments.	Remuneration packages, including incentives, are regularly reviewed to ensure that key executives and management are remunerated in line with local prevailing market rates. Senior management regularly reviews the availability of the required skills within the Company, and succession planning All employees are appraised at least twice per year with agreed objectives and development plans set.
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 operations, financial performance and future prospects.	The Company has a Business Continuity Plan in the event of IT systems failure, and undertakes annual penetration tests, addressing any resultant issues identified. Networks are protected by firewalls and anti-virus protection. Systems are backed up, and offsite disaster recovery facilities exist in the event that a major issue affects one of our key locations. Executive Director approval is required for any material system changes. A full implementation review and/or parallel running is/are undertaken by the sponsoring department and IT prior to any new system 'go live'. The Company is implementing a number of key medium-term IT modernisation projects to cater for significantly increased transactional volumes.

Legislation and regulation		
The Company uses a large number of agency workers and sub-contractors. A number of government enquiries are underway regarding the employment status of workers in the 'gig' economy, including the 'Taylor Review on Modern Employment Practices'.	The Company could face an increase in its future operational costs in addition to any potential back dated legal claims and/or tax and national insurance settlements. Competitive pressures may result in an inability to pass on these costs to the Company's customer base.	The Company continues to monitor developments in this area, together with the contractual arrangements and operational relationships with all of its workers.
Royal Mail continues to argue to Ofcom that it has not taken forward their proposal for a proactive sustainability framework, seeking changes to the regulated access arrangement which UK Mail avails itself of.	Changes to the access arrangement could have a material effect on the profitability of the Company's mail product offerings.	The Company's relationship with both UK Mail and Ofcom is under continuous review by management. Regular contact is maintained with Royal Mail, both formally and informally.
Business continuity		
The Company could be materially affected if there was a significant incident such as a terrorist incident, fire or flooding, particularly at one of the major hubs, or the main automated sortation equipment was inoperable for a period of time.	Severe disruption and reputational damage to the business, which would ultimately impact on the Company's financial performance.	The Company employs an on-site maintenance team and undertakes an on-going programme of preventative maintenance in order to ensure the continued operation and efficiency of the main sortation equipment as far as possible. The Company would utilise sister sites in the event of a major incident.

On behalf of the board

S Glew
Director
27 March 2018

The directors' present their report and audited financial statements for the year ended 31 December 2017.

RESULTS AND DIVIDENDS

The Company's profit for the financial year was £5,242,000 (Nine months ended 31 December 2016 £5,176,000). No interim dividend was paid during the year ended 31 December 2017 (Nine months ended 31 December 2016: £5,000 per ordinary share amounting to £5,000,000). The directors' do not recommend the payment of a final dividend (Nine months ended 31 December 2016: £nil).

The profit for the financial year of £5,242,000 (Nine months ended 31 December 2016: £5,176,000) has been transferred to reserves.

DIRECTORS

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

P Fuller
S Glew
P Kane (Resigned 29 September 2017)
C Mangham

CHARITABLE AND POLITICAL DONATIONS

The Company made charitable donations of £13,500 during the year ended 31 December 2017 (Nine months ended 31 December 2016: £29,482). The Company made no political donations (Nine months ended 31 December 2016: £nil).

EMPLOYMENT POLICY

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

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

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 5% 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.

The Company has no significant concentrations of credit risk. Concentrations of credit risk with respect to trade receivables are limited due to the Company's customer base being large and unrelated, with no one customer accounting for more than 6.3% 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.

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 represent less than 3% of total costs there is an element of price risk. Price risk is minimised as significant increases in the fuel price can be passed onto the majority of customers via a fuel surcharge mechanism common throughout the express delivery industry.

Interest rate risk

The Company has both interest-bearing assets and interest-bearing liabilities. These largely comprise cash at bank and in hand, borrowings and finance leases.

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.

Prior to the Company's acquisition by the Deutsche Post DHL group of companies on 22 December 2016 financing was provided through a £25,000,000 revolving credit facility ('RCF') and a £10,000,000 overdraft facility with Lloyds Bank plc. in place until 28 February 2017. At 31 December 2016 the Company had drawn £15,650,000 under the RCF and was undrawn on the overdraft facility.

In January 2017, financial support was provided by the Deutsche Post DHL Group through a loan facility with Exel Limited (a fellow Deutsche Post DHL group company). Following receipt of this loan, the Company repaid the RCF in full in January 2017 and did not seek a renewal of the overdraft facility.

The Company has received a letter of support from Deutsche Post AG that confirms their intention to provide financial support to the Company until July 2020 such that the Company can meet its liabilities as they fall due.

Capital risk

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

The Board seeks to maintain a balance between the level of debt (which for these purposes includes finance leases and inter-company loans) and the advantages and security afforded by a sound capital position. In order to maintain or adjust the capital structure, the Company may draw on borrowing facilities, or sell assets to reduce debt.

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 the year ended 31 December 2017 or nine months ended 31 December 2016, had Sterling strengthened or weakened 10% against the Euro.

DIRECTORS' INDEMNITIES

The Company maintains insurance against certain liabilities which could arise from a negligent act or a breach of duty by its directors' and officers' (including former directors' and officers who have held office during the year ended 31 December 2017) in the discharge of their duties. This is a qualifying third-party indemnity provision as defined in section 234 of the Companies Act 2006.

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 the financial statements, the directors' are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- 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.

The directors' 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.

The directors' are further responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

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

On behalf of the board

S Glew
Director
27 March 2018

Independent auditors' report to the members of UK Mail Limited

Report on the audit of the financial statements

Opinion

In our opinion, UK Mail Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the statement of comprehensive income and the statement of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion..

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 19 and 20, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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

We have no exceptions to report arising from this responsibility.

Alex Hookway (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge
27 March 2018

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 £'000	9 months ended 31 December 2016 £'000
Revenue	3	**476,475**	356,087
Cost of sales		**(416,715)**	(314,906)
Gross profit		**59,760**	41,181
Administrative expenses before exceptional items		**(52,582)**	(30,009)
Operating profit before exceptional items		**7,178**	11,172
Deutsche Post AG acquisition costs	4	**-**	(3,083)
Revolving credit facility	4	**-**	(173)
HS2 compensation	4	**170**	244
National hub relocation costs	4	**(170)**	(244)
Total exceptional items	4	**-**	(3,256)
Operating profit	5	**7,178**	7,916
Finance income	6	**30**	12
Finance costs	6	**(282)**	(323)
Profit before taxation		**6,926**	7,605
Tax on profit	8	**(1,684)**	(2,429)
Profit for the financial year/period		**5,242**	5,176
Total comprehensive income for the year/ period		**5,242**	5,176
Total comprehensive income attributable to:			
Equity owners of the Company		**5,242**	**5,176**

The related notes numbered 1 to 27 form part of these financial statements

UK MAIL LIMITED

BALANCE SHEET

As at 31 December 2017

	Note	31 December 2017 £'000	31 December 2016 £'000
ASSETS			
Non-current assets			
Intangible assets	9	**12,491**	10,130
Property, plant and equipment	10	**73,499**	72,308
Deferred tax asset	17	**1**	1
		85,991	82,439
Current assets			
Inventories	12	**192**	237
Trade and other receivables	13	**67,641**	66,547
Cash and cash equivalents	14	**3,179**	415
		71,012	67,199
LIABILITIES			
Current liabilities			
Borrowings	15	**(12,952)**	(16,083)
Trade and other payables	16	**(81,401)**	(74,658)
Current tax liabilities		**(1,103)**	(2,502)
Provisions	18	**(715)**	(755)
		(96,171)	(93,998)
Net current liabilities		**(25,159)**	(26,799)
Non-current liabilities			
Borrowings	15	**(3,587)**	(4,038)
Deferred tax liabilities	17	**(3,266)**	(2,814)
Provisions	18	**(720)**	(785)
		(7,573)	(7,637)
Net assets		**53,259**	48,003
Equity			
Ordinary shares	19	**1**	1
Retained earnings		**53,258**	48,002
Total equity		**53,259**	48,003

The financial statements on pages 24 to 61 were approved by the board of directors on 27 March 2018 and were signed on its behalf by:

S Glew
Director

The related notes numbered 1 to 27 form part of these financial statements

Registered number: 00965783

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Ordinary shares £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 April 2016	1	47,677	47,678
Profit for the financial period	-	5,176	5,176
Total comprehensive income for the financial period	-	5,176	5,176
Dividends paid	-	(5,000)	(5,000)
Employees' share option scheme:			
- value of employee services	-	149	149
Total transactions recorded directly to equity	-	(4,851)	(4,851)
Balance as at 31 December 2016	1	48,002	48,003

	Ordinary shares £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 January 2017	1	48,002	48,003
Profit for the financial year	-	5,242	5,242
Total comprehensive income for the financial year	-	5,242	5,242
Employees' share option scheme:			
- value of employee services	-	14	14
Total transactions recorded directly to equity	-	14	14
Balance as at 31 December 2017	1	53,258	53,259

1 General information

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 Ltd (registration number 02800218).

The immediate parent company UK Mail Group Ltd was previously listed on the London Stock Exchange (as UK Mail Group plc.) until 22 December 2016, when it was successfully acquired by Deutsche Post AG, a company listed in Germany.

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

The registered office of UK Mail Group Limited is at Express House, 120 Buckingham Avenue, Slough, SL1 4LZ.

2 Principal accounting policies

Accounting policies for the year ended 31 December 2017

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 periods presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in compliance with FRS 101 under the historical cost convention, and in accordance with the Companies Act 2006.

2 Principal accounting policies - continued

The Company has taken advantage of the following disclosure exemptions available under FRS 101:

- The requirements of IFRS 7 Financial Instruments Disclosures
- IAS 24 requirements to disclose intercompany transactions between related parties that are wholly controlled by the parent entity and key management compensation
- The requirement to produce a Company cash flow statement under IAS 7, 'Statement of cash flows', as the cash flows of the company are included in the consolidated financial statements of Deutsche Post AG
- The requirement to present certain comparative period disclosures under IAS 1
- Certain disclosures in respect of share-based payment arrangements

The preparation of financial statements in conformity with FRS 101 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.

Going concern

The directors' of the Company believe that preparation of the financial statements on the going concern basis is appropriate due to the continued financial support of Deutsche Post AG, the Company's ultimate parent undertaking. The directors' have received confirmation that Deutsche Post AG intend to support the Company for a period of at least one year from the signing of these financial statements.

New standards, amendments and IFRIC interpretations

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2017, have had a material impact on the Company.

2 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.

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:

2 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 non-current 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.

2 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.

All revenues are stated net of value added tax.

2 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 access costs which are not shown in the Income Statement as UK Mail Ltd acts as the agent for the customer), 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 UK Mail 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.

2 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.

Where the Company is charged for the cost of share-based payment arrangements the amounts are treated as a reduction in the capital contribution. If the amount charged is in excess of the share-based payment charge the Company treats the excess as a notional distribution and charges this to retained earnings.

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.

2 Principal accounting policies (continued)

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

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.

2 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.

2 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.

3 Analysis of divisional results

The business results for the year ended 31 December 2017 are as follows:

	Parcels £'000	Mail £'000	Central £'000	Total £'000
Revenue	269,953	206,522	-	476,475
Operating profit/(loss)	16,320	7,110	(16,252)	7,178
Finance income				30
Finance costs				(282)
Profit before taxation				6,926
Tax on profit				(1,684)
Profit attributable to equity shareholders				5,242

3 Analysis of divisional results (continued)

The business results for the nine months ended 31 December 2016 are as follows:

	Parcels £'000	Mail £'000	Central £'000	Total £'000
Revenue	194,313	161,774	-	356,087
Operating profit/(loss) before exceptional items	15,658	6,201	(10,687)	11,172
Exceptional items – administrative expenses	(274)	153	(3,135)	(3,256)
Operating profit/(loss)	15,384	6,354	(13,822)	7,916
Finance income				12
Finance costs				(323)
Profit before taxation				7,605
Tax on profit				(2,429)
Profit attributable to equity shareholders				5,176

4 Exceptional items

	Year ended 31 December 2017	9 months ended 31 December 2016
	£'000	£'000
HS2 compensation	170	244
Exceptional income	170	244
Deutsche Post AG acquisition costs	-	(3,083)
Revolving credit facility	-	(173)
National hub relocation costs	(170)	(244)
Exceptional costs	(170)	(3,500)
Net exceptional costs	-	(3,256)

Exceptional income (Nine months ended 31 December 2016)

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

Exceptional costs (Nine months ended 31 December 2016)

In September 2016, the boards of both Deutsche Post AG and the Company's parent company, UK Mail Group plc. ('UK Mail) announced the terms of an agreed recommended offer for UK Mail, which was conditional amongst other factors of both at least 75% UK Mail shareholder approval and court sanction.

Consequently, the Company incurred professional fees of £3,083,000 in connection with the transaction.

As detailed in previous years, and in order to provide the Company with sufficient cash resources to fund its investment programme, in May 2014 the Company agreed a £25m five year revolving credit facility with Lloyds Bank plc. Following the takeover by Deutsche Post AG, the Company received a letter of assurance from Deutsche Post AG, that financing would be provided 'in house', and therefore it was agreed that the Company's five year revolving credit facility, which was due to expire in May 2019, should be repaid in full. As a result, the remaining £173,000 of unamortised arrangement fees was written-off, as an exceptional cost.

National hub relocation costs represented 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.

5 Operating profit

	Year ended 31 December 2017	9 months ended 31 December 2016
	£'000	£'000
The following items have been charged/(credited) in arriving at operating profit:		
Royal mail access costs	**161,046**	129,603
Subcontractor costs	**110,749**	79,856
Employee benefits expense (note 7)	**71,404**	51,877
Cost of inventories (included in costs of sales) (note 12)	**9,730**	6,581
Depreciation of investment property	**-**	6
Depreciation of property, plant and equipment (note 10)		
- Owned assets	**5,940**	4,332
- Under finance leases	**914**	686
Amortisation of intangibles (included in administrative expenses) (note 9)		
- Owned assets	**3,637**	1,938
- Under finance leases	**164**	122
Operating lease rentals payable	**13,668**	9,328
Repairs and maintenance expenditure on property, plant and equipment	**6,030**	4,318
Loss on foreign currency translation	**133**	34
Operating lease rentals receivable		
- Plant and machinery	**(606)**	(365)
- Property	**-**	(28)
- Computer equipment	**(179)**	(150)
Loss on disposal of property, plant and equipment assets	**1**	-
Trade receivables impairment (included in administrative expenses)	**243**	41

5 Operating profit (continued)

Services provided by the Company's auditors

	Year ended 31 December 2017	9 months ended 31 December 2016
	£'000	£'000
During the year the Company obtained the following services from the Company's auditors:		
Fees payable on behalf of UK Mail Group Limited	8	-
Fees payable to the Company's auditors for the statutory audit of the Company's financial statements	106	145
	114	145

6 Net finance costs

	Year ended 31 December 2017	9 months ended 31 December 2016
	£'000	£'000
Interest receivable on:		
Bank deposits	30	12
Finance income	30	12
Interest payable on:		
Finance leases	(187)	(153)
Factoring arrangements	(80)	-
Revolving credit facility	(14)	(168)
Other	(1)	(2)
Finance costs	(282)	(323)
Net finance costs	(252)	(311)

7 Employees and directors

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

	Year ended 31 December 2017 £'000	9 months ended 31 December 2016 £'000
Wages and salaries	**63,274**	46,130
Social security costs	**6,150**	4,133
Other pension costs *	**1,966**	1,465
Share-based payments (note 20)	**14**	149
	71,404	51,877

* Post-employment benefits all relate to defined contribution pension schemes. At the year end there was a payment of £167,000 (31 December 2016 £163,000) outstanding.

Average monthly number of persons employed (including executive directors)

	Year ended 31 December 2017 Number	9 months ended 31 December 2016 Number
Operations	**2,541**	2,581
Administration	**217**	205
	2,758	2,786

Key management compensation	Year ended 31 December 2017 £'000	9 months ended 31 December 2016 £'000
Salaries and short-term employee benefits	**1,215**	986
Post-employment benefits	**46**	80
Share-based payments	**14**	50
	1,275	1,116

7 Employees and directors (continued)

The key management figures above include the following directors emoluments:

Directors' emoluments	Year ended 31 December 2017 £'000	9 months ended 31 December 2016 £'000
Aggregate emoluments	**1,001**	831
Post-employment benefits	**29**	67
	1,030	898

The highest paid director was paid £287,000 (Nine months 31 December 2016: £265,000). In addition, Company pension contributions of £39,000 were taken as a salary supplement (Nine months ended 31 December 2016: £29,000).

During the year ended 31 December 2017, no directors (Nine months ended 31 December 2016: none) exercised options over shares of 10p each of the immediate parent company, UK Mail Group plc. (now UK Mail Group Ltd).

Pension contributions were made in respect of two (31 December 2016: four) directors; paid as a supplement to the directors salaries.

8 Tax on profit

Analysis of charge in the year/period

	Year ended 31 December 2017	9 months ended 31 December 2016
	£'000	£'000
Current tax - current year/period	1,228	2,018
Current tax - adjustment in respect of prior periods	4	30
Total current tax	1,232	2,048
Deferred tax (note 17) - current year/period	452	353
Deferred tax (note 17) - adjustment in respect of prior periods	-	179
Effect of change in tax rate	-	(151)
Total deferred tax	452	381
Total tax charge	1,684	2,429

8 Tax on profit - continued

The differences between the total tax shown above and the amount calculated by applying the hybrid rate of UK corporation tax of 19.25% (Nine months ended 31 December 2016: 20%) to the profit before taxation are explained below:

	Year ended 31 December 2017 £'000	9 months ended 31 December 2016 £'000
Profit before taxation	**6,926**	7,605
Profit at the standard rate of corporation tax in the UK of 19.25% (Nine months ended 31 December 2016: 20%)	**1,333**	1,521
Effects of:		
Expenses not deductible for tax purposes	**410**	905
Effect of change in tax rate	**(63)**	(206)
Adjustment in respect of prior periods	**4**	209
Total tax charge	**1,684**	2,429

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was enacted on 2 July 2013. A further reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax balances at 31 December 2017 have been calculated based on these rates.

9 Intangible assets

	Acquired software licences £'000	Software development cost £'000	Total £'000
Cost			
At 1 January 2017	**5,992**	**15,043**	**21,035**
Additions	**766**	**5,396**	**6,162**
At 31 December 2017	**6,758**	**20,439**	**27,197**
Accumulated amortisation			
At 1 January 2017	**3,801**	**7,104**	**10,905**
Charge for the year	**2,058**	**1,743**	**3,801**
At 31 December 2017	**5,859**	**8,847**	**14,706**
Net book value at 31 December 2017	**899**	**11,592**	**12,491**
Net book value at 31 December 2016	2,191	7,939	10,130

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 January 2017	**45,982**	**3,701**	**54,877**	**13,808**	**118,368**
Additions	**-**	**547**	**4,212**	**3,289**	**8,048**
Disposals	**-**	**(283)**	**(7)**	**-**	**(290)**
At 31 December 2017	**45,982**	**3,965**	**59,082**	**17,097**	**126,126**
Accumulated depreciation					
At 1 January 2017	**5,981**	**2,373**	**27,893**	**9,813**	**46,060**
Charge for the year	**853**	**265**	**4,134**	**1,602**	**6,854**
Disposals	**-**	**(283)**	**(4)**	**-**	**(287)**
At 31 December 2017	**6,834**	**2,355**	**32,023**	**11,415**	**52,627**
Net book value at 31 December 2017	**39,148**	**1,610**	**27,059**	**5,682**	**73,499**
Net book value at 31 December 2016	40,001	1,328	26,984	3,995	72,308

11 Assets held under finance leases

	Property, plant and equipment (Motor vehicles, plant and equipment)		**Intangible Assets** (Acquired software licences)	
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016
	£'000	£'000	**£'000**	£'000
Cost	**17,068**	17,068	**1,729**	1,729
Accumulated depreciation	**(5,569)**	(4,655)	**(1,633)**	(1,469)
Net book value	**11,499**	12,413	**96**	260

The leases are for an initial contractual period of either six or fifteen 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

	31 December 2017	31 December 2016
	£'000	£'000
Fuel stock	**192**	237

13 Trade and other receivables

	31 December 2017 £'000	31 December 2016 £'000
Trade receivables	**50,794**	49,985
less: provision for impairment	**(95)**	(64)
Trade receivables - net of provisions for impairment	**50,699**	49,921
Other receivables	**7,938**	6,133
Amounts owed from group undertakings	**-**	1,123
Prepayments and accrued income	**9,004**	9,370
	67,641	66,547

The provisions for impairment of Trade receivables relate to customers balances that are impaired at the balance sheet date but not written off.

All carrying amounts above 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.

Amounts owed from group undertakings do not bear interest save for amounts owed from UK Mail Group Ltd where interest accrues at a 0.5% rate.

14 Cash and cash equivalents

	31 December 2017 £'000	31 December 2016 £'000
Cash at bank and in hand	**3,179**	415

Credit interest rates on bank balances range between 0.00% to 1.00% (Nine months ended 31 December 2016: 0.00% to 0.84%), and interest charged on borrowings range between 0.4% to 2.5% (Nine months ended 31 December 2016: 0.4% to 2.5%). As far as practical cash balances are placed on overnight deposit.

15 Borrowings

Current	31 December 2017 £'000	31 December 2016 £'000
Amounts due within one year or on demand:		
Loan from fellow group undertaking	**12,500**	-
Revolving credit facility	-	15,650
Finance lease obligations	**452**	433
	12,952	16,083
Non-current		
Finance lease obligations	**3,587**	4,038

The loan from fellow group undertaking bears no interest and is repayable within one year.

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

Amounts payable under finance leases	31 December 2017 £'000	31 December 2016 £'000
Within one year	**620**	620
Between one and five years	**2,481**	2,481
Over five years	**1,654**	2,274
Total minimum lease payments	**4,755**	5,375
Future finance charges	**(716)**	(904)
Present value of finance leases	**4,039**	4,471

16 Trade and other payables

	31 December 2017 £'000	31 December 2016 £'000
Trade payables	**41,656**	33,730
Amounts owed to group undertakings	**6,972**	7,481
Amounts owed to franchises	**1,781**	1,705
Other payables	**10,260**	8,892
Taxes and social security	**10,366**	12,175
Accruals	**10,326**	10,409
Deferred compensation	**-**	170
Deferred income	**40**	96
	81,401	74,658

Amounts owed to group undertakings do not bear interest save for amounts owed to UK Mail Group Ltd where interest accrues at a 0.5% rate.

Total deferred compensation of £nil (31 December 2016: £170,000) relates to amounts received for HS2 relocation costs still to be incurred.

Total compensation received in the year ended 31 March 2016 was £22,059,000 of which £15,497,000 was credited to the income statement, £5,388,000 was credited against capital expenditure for assets purchased that could not have been transferred to the new Ryton site including the data centre and associated assets, plus compulsory moving costs (stamp duty, planning and legal fees) and £760,000 being the final payment for the old Birmingham site.

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

17 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (31 December 2016: 18 - 19%) depending on the anticipated time of reversal.

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

Deferred tax assets	31 December 2017 £'000	31 December 2016 £'000
At the beginning of the year/period	**1**	301
Statement of comprehensive income charge	-	(300)
Charged to equity	-	-
At the end of the year/period	**1**	1

The deferred tax asset at 31 December 2017 and 31/12/16 relates to provisions.

There are no unrecognised deferred tax assets.

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

Deferred tax liabilities	31 December 2017 £'000	31 December 2016 £'000
At the beginning of the year/period	**(2,814)**	(2,732)
Statement of comprehensive income charge	**(452)**	(82)
At the end of the year/period	**(3,266)**	(2,814)

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

17 Deferred tax (continued)

Deferred tax assets	31 December 2017 £'000	31 December 2016 £'000
Within 12 months	1	1
	1	1

Deferred tax liabilities	31 December 2017 £'000	31 December 2016 £'000
Within 12 months	-	-
After 12 months	(3,266)	(2,814)
	(3,266)	(2,814)

18 Provisions

	Automation £'000	Lease dilapidations £'000	Tax on staff incentives £'000	Management reorganisation £'000	Total £'000
At 1 January 2017	**27**	**1,400**	**-**	**113**	**1,540**
Charged to the income statement	**-**	**402**	**43**	**-**	**445**
Utilised in the year	**(27)**	**(391)**	**(19)**	**(113)**	**(550)**
At 31 December 2017	**-**	**1,411**	**24**	**-**	**1,435**

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

	31 December 2017 £'000	31 December 2016 £'000
Current	**715**	755
Non-current	**720**	785
	1,435	1,540

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

Lease dilapidations represent the anticipated expenditure resulting from the Company's contractual obligations to make good properties prior to reversion of the building to the landlord in respect of leases expiring within one year and up to 15 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.

The tax on staff incentive provision relates to the anticipated tax liability arising following the issue of awards and vouchers to employees including long service awards.

The management reorganisation provisions largely related to Board changes during the year ended 31 March 2016, including the exit costs in respect of the previous Group Operations Director and the appointment costs for both the new Group CEO and Group Operations Director.

19 Ordinary shares

	31 December 2017 £'000	31 December 2016 £'000
Authorised, issued, allotted and fully paid		
1,000 (31 December 2016: 1,000) ordinary shares of £1 each	**1**	1

20 Share-based payments

The Company recognised a charge of £14,000 (Nine months ended 31 December 2016: £149,000) in respect of equity settled share-based payments.

During the year ended 31 December 2017 a number of executives received options under the Deutsche Post AG Performance Share Plan ('PSP') as detailed below. Under the PSP shares are issued to successful participant's dependant on the achievement of demanding performance targets, and following a waiting period.

	2017 tranche
Grant date	1 September 2017
Exercise price (Euro's)	€34.72
Waiting period expires	31 August 2021

The value of the PSP is measured using actuarial methods on option pricing models (fair value measurement). The average remaining maturity of the outstanding PSU's as at 31 December 2017 was 44 months. As a result £14,000 (Nine months ended 31 December 2016: £nil) was recognised in respect of the PSP during the year.

Prior to the Company's acquisition by the Deutsche Post DHL group of companies, UK Mail Group plc, (the parent of UK Mail Ltd), had offered a number of share incentive plans to its employees including a Share Save plan ('SAYE'), Long Term Incentive Plan ('LTIP') and Share Matching Plan ('SMP').

The agreed takeover of the parent company, UK Mail Group plc, ('UK Mail Group') triggered early vesting under the rules of the SAYE, Share Matching and Long Term Incentive Plans as detailed in last year's Annual Report.

20 Share-based payments (continued)

Reconciliation of option movements

A reconciliation of Sterling denominated option movements (being those granted prior to the Company's acquisition by the Deutsche Post DHL group of companies) during the year ended 31 December 2017 (Nine months ended 31 December 2016) is shown below:

	31 December 2017 Number	**31 December 2017 Weighted average exercise price**	31 December 2016 Number	31 December 2016 Weighted average exercise price
Outstanding as at the beginning of the year/period	**11,274**	**£4.24**	708,932	£1.62
Granted	-	-	-	-
Lapsed	**(11,274)**	**£4.24**	(621,407)	£1.30
Exercised	-	-	(76,251)	£3.84
Outstanding as at the end of the year/period	-	-	11,274	£4.24
Exercisable at the end of the year/period	-	-	11,274	£4.24

A reconciliation of Euro denominated option movements (being those granted post the Company's acquisition by the Deutsche Post DHL group of companies) during the year ended 31 December 2017 (Nine months ended 31 December 2016) is shown below:

	31 December 2017 Number	**31 December 2017 Weighted average exercise price**	31 December 2016 Number	31 December 2016 Weighted average exercise price
Outstanding as at the beginning of the year/period	-	-	-	-
Granted	**12,126**	**€34.72**	-	-
Lapsed	-	-	-	-
Exercised	-	-	-	-
Outstanding as at the end of the year/period	**12,126**	**€34.72**	-	-
Exercisable at the end of the year/period	-	-	-	-

21 Operating lease commitments – minimum lease payments

	31 December 2017		31 December 2016	
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	**6,657**	**4,914**	6,855	6,132
Between one and two years	**8,183**	**2,656**	5,707	3,978
Between two and five years	**19,279**	**1,549**	10,445	2,741
After five years	**20,868**	**69**	4,446	-
	54,987	**9,188**	27,453	12,851

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 Company has elected to early adopt IFRS 16 'Leases' with effect from 1 January 2018.

As at 1 January 2018	**Note**	**£'000**
Operating lease commitments – undiscounted	21	64,175
Finance lease commitments – undiscounted	15	4,755
Total lease commitments - undiscounted		**68,930**
Less: Commitments relating to short-term leases		(1,511)
Less: Commitments relating to low value assets		(367)
Add: Commitments relating to secondary rentals on finance lease		125
Gross lease commitments at 1 January 2018		**67,177**
Less: future finance charges		(8,826)
Lease liabilities under IFRS 16		**58,351**

21 Operating lease commitments – minimum lease payments continued

In implementing IFRS 16, the directors have reviewed and revised the anticipated duration of the finance lease agreement in respect of the Ryton sortation equipment, resulting in an additional £125,000 of minimum lease payments.

22 Contingent liabilities

The Company is subject from time to time to litigation and/or claims from external parties. The Company establishes provisions in connection with litigation where it has a present legal or constructive obligation as a result of past events, and where it is more likely than not that an outflow of resources will be required to settle such obligations and the amount can be reliably estimated. Since these provisions, which are reflected in the Company's financial statements represent estimates, the final resolution of any such matters could have a material effect on the Company's operating results and cash flows for a particular reporting period.

In addition, at 31 December 2016 the Company had guaranteed bank and other borrowings of UK Mail Group Ltd and its subsidiary undertakings in a cross-guarantee agreement on an undrawn borrowing facility amounting to £10m.

Furthermore, the Company had a bank guarantee agreement with Lloyds Bank plc, under which the bank provided a facility which allowed the Company to request that the bank issue guarantees to third party suppliers for general business purposes. The maximum total facility value was £11m. At 31 December 2016, upon the request of the Company, the bank had issued a guarantee with a value of £8m to a third party supplier of the Company.

In addition, the Company had a documentary credit facility with Lloyds Bank plc. as at 31 December 2016 of £1.7m in respect of letters of credit opened with the bank.

23 Capital and other financial commitments

	31 December 2017 £'000	31 December 2016 £'000
Contracts placed for future capital expenditure not provided in the financial statements		
Intangible assets	60	-
Property, plant and equipment	130	-
	190	-

24 Ultimate parent undertaking and controlling party

UK Mail Group Ltd is the company's immediate parent undertaking and Deutsche Post AG, which is incorporated in Germany, is the ultimate parent undertaking and the ultimate controlling party. The parent undertaking of the largest and smallest group which includes the Company and for which group financial statements are prepared is Deutsche Post AG, which is incorporated in Germany.

Copies of the group financial statements of Deutsche Post AG can be obtained from Deutsche Post DHL Group, Zentrale – Investor Relations, 53250 Bonn, Germany.

25 Critical accounting judgements and key sources of estimation uncertainty

The Company's accounting policies are set out in note 2 to these financial statements. Management is required to exercise significant judgement in the application of these policies. Areas which management believes require the most critical accounting judgements are as follows (apart from those policies involving estimation which are outlined in (b) below).

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

Exceptional items

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

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

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

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

(iii) organisational or restructuring programmes.

25 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.

26 Dividends

	Year ended 31 December 2017		Nine months ended 31 December 2016	
	Dividend per share £'000	**£'000**	Dividend per share £'000	£'000
Interim dividend paid in respect of the current year	-	-	5	5,000
	-	-	5	5,000

The directors do not recommend the payment of a final dividend (31 December 2016: £nil).

27 Post-balance sheet events

As at the date of this report, there were no significant post-balance sheet events that require disclosure or adjustment in the financial statements.