

Report

& Accounts 2015

The
complete
package



UKMail
express parcels & mail

Contents

Overview

Setting the scene for our business and the markets in which we operate	Highlights of the year	1
	Chairman's statement	3
	How we do it	4

Strategic Report

A review of our strategy and how we are delivering against this	Chief Executive's statement	6
	Strategy	8
	Divisional review	11
	Key performance indicators	14
	Financial review	16
	Principal risks and uncertainties	22
	Our people	26
	Corporate responsibility	28

Governance

An introduction to our Board and their priorities and how we manage our business	Board of directors	32
	Chairman's letter	33
	Corporate governance report	34
	Audit Committee report	40
	Remuneration Committee	44
	Nomination Committee	45
	Directors' report	47
	Remuneration report	53
	Independent Auditors report	73

Financial Statements

Our financial statements provide a complete picture of our 2015 performance	Consolidated statement of comprehensive income	78
	Consolidated balance sheet	79
	Company balance sheet	80
	Consolidated cash flow statement	81
	Company cash flow statement	83
	Consolidated statement of changes in equity	84
	Company statement of changes in equity	85
	Notes to the financial statements	86
	Five year summary of results	130
	Shareholder information	131

Highlights of the year

Group Performance

Group Revenue*
£485.1m **+0.8%**

Profit before taxation*
£21.0m **-4.2%**

Revenue

Parcels

+3.7%

£228.1m

Mail

-1.9%

£240.5m

Courier

+2.0%

£16.5m

Operating Profit

-4.5%

£21.4m*

-1.7%

£12.5m

-19.6%

£2.2m

Key brands



Express UK parcels delivery
International parcel delivery
Retail logistics



Sorted mail, Unsorted mail
Packets, imail - Letters,
Data & Postcards



Sameday delivery
Retail Today
istore

“We are in the midst of a phase of strategic investment to place us at a significant advantage for the medium and longer term”

Peter Kane, Chairman



Chairman's Statement



UK Mail Group continued to make progress whilst undergoing a period of significant investment and transition. Financial highlights for the year include;

- Group revenues up 0.8% *
- Group PBT down 4.2% *
- Underlying basic EPS down 1.3%*, and
- Full year dividend increased 2.3% to 21.8p per share

* excluding discontinued operations

The format of our Annual report

Our Annual report comprises three parts; a Strategic Report followed by a Governance section and the Financial Statements.

The Strategic Report includes a review of our business model, outlines our strategy and provides detail of the development and performance of our business during the year ended 31 March 2015, followed by an analysis of our trading during the year and our financial position at the end of that year, consideration of our risk management strategy and our Corporate Responsibility report.

The Governance section details how we comply with the 2012 UK Corporate Governance Code, describing the work of the Board and its key committees. It also includes the Director's report, Remuneration Report (including a proposed revised policy), and the Auditors Report.

The success of all these are reported within our Financial statements which together with the supporting notes provide a comprehensive view of the Group's financial performance and position.

Strategy

Our strategy is to grow our 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.

As you will read later in this report, a key factor in our strategy is to expand the size of markets available to us, and to gain an increasing share of those markets. To achieve this, we have introduced a number of new and innovative services over the last few years, which are now gaining real traction.

We are also implementing our plans to grow our capacity to allow us to take advantage of the opportunities available to us.

I am pleased to say that much progress has been made in this regard as we build the necessary platforms for the future following our move to a new central hub in Ryton, where the installation of automated sortation equipment will see a reduction in our sortation costs, at the same time as providing increased capacity.

Our teams across our business have done an excellent job in planning and managing this substantial change. To date this has been delivered on schedule and on budget which is a tremendous achievement.

We have made substantial progress over the last few years, developing the business to its current position. However, whilst more remains to be done, I believe the investments of the last few years are about to bear fruit.

Discontinued operations

In January 2015, and following declining profitability in an increasingly competitive market, the Board took the decision to close the Pallets operation, with trade ceasing in March 2015. In accordance with IFRS 5, 'Non-current assets held for sale and discontinued operations', the results of this business have been presented as a discontinued operation in 2015 and 2014.

Dividend

The Board has proposed an increase in the final dividend of 0.3p, taking the final dividend to 14.5p (2014: 14.2p), resulting in a total dividend for the year of 21.8p (2014: 21.3p). This represents a full year increase of 2.3%.

The total dividend is covered 1.39 times by the underlying basic earnings (2014: 1.50 times).

People

Our people have seen many changes over the last year, largely due to the relocation of our central hub and head office. This has resulted in the relocation of some 650 people. This process has been handled professionally and I would like to personally thank all of those individuals affected for the commitment they have shown to UK Mail during such a demanding period.

The achievements of the last few years could not have been achieved without the hard work, dedication and commitment of all those who work for UK Mail. On behalf of the Board I would like to express my gratitude to all of our colleagues, be they employees, sub-contractors or suppliers to the Group.

Outlook

We operate in markets where there are significant opportunities. The Parcels market is growing rapidly and the key initiatives we are progressing in Mail will create further opportunities.

We are in the midst of a phase of strategic investment to place us at a significant competitive advantage for the medium and longer term. This investment, the benefits of which are expected to be seen from the second half of the new financial year sets us up very well for the next stage of profitable growth.

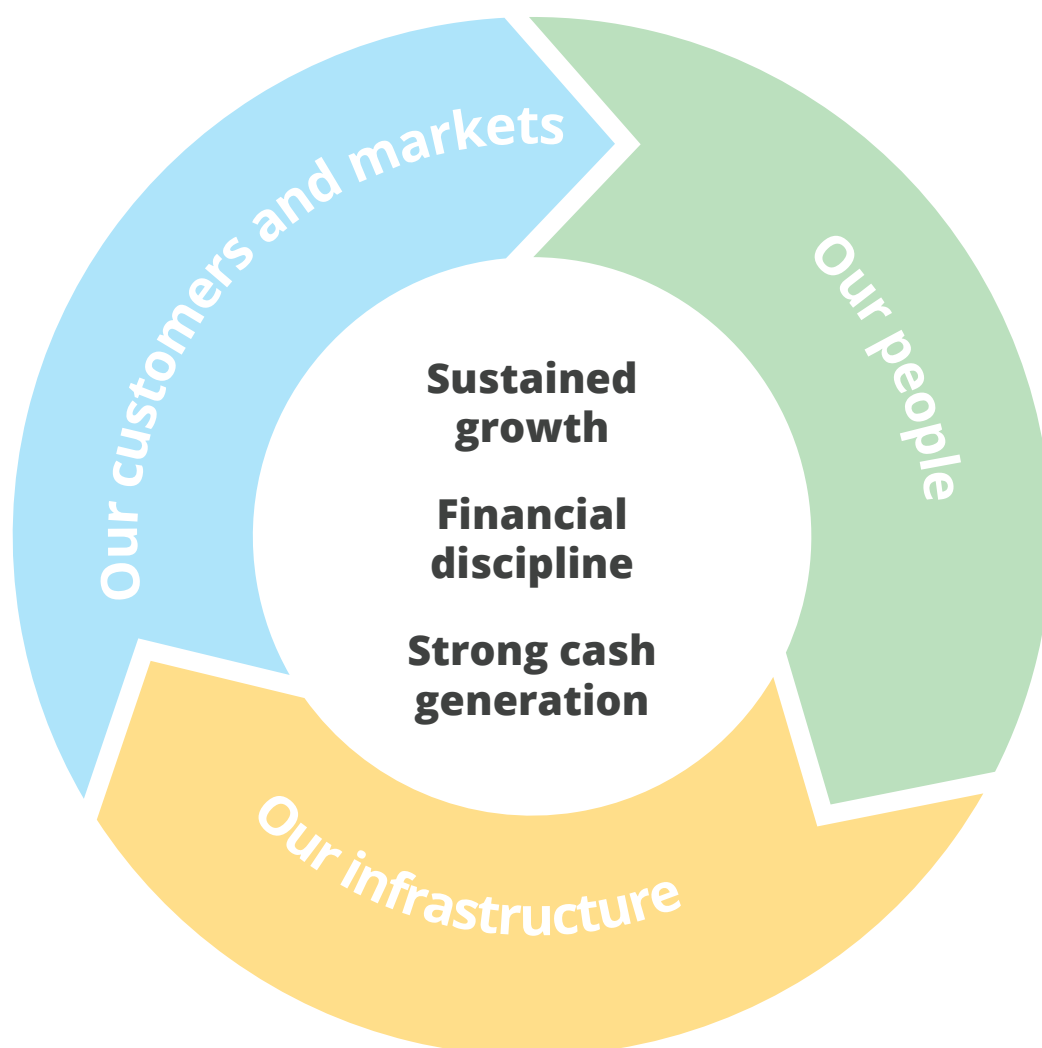
The medium and long term outlook for the Group therefore remain very positive.

Peter Kane,

Chairman

19 May 2015

How we do it



Our customers and markets

Our customers range from the largest banks, supermarkets, telecommunication businesses, and government, through to mid-range and small independent companies and sole traders. Key to our business model is the development of new products and services thus expanding the markets available to us and increasing our share of those markets we are already in, whilst delivering the same high level, efficient service to our customers.

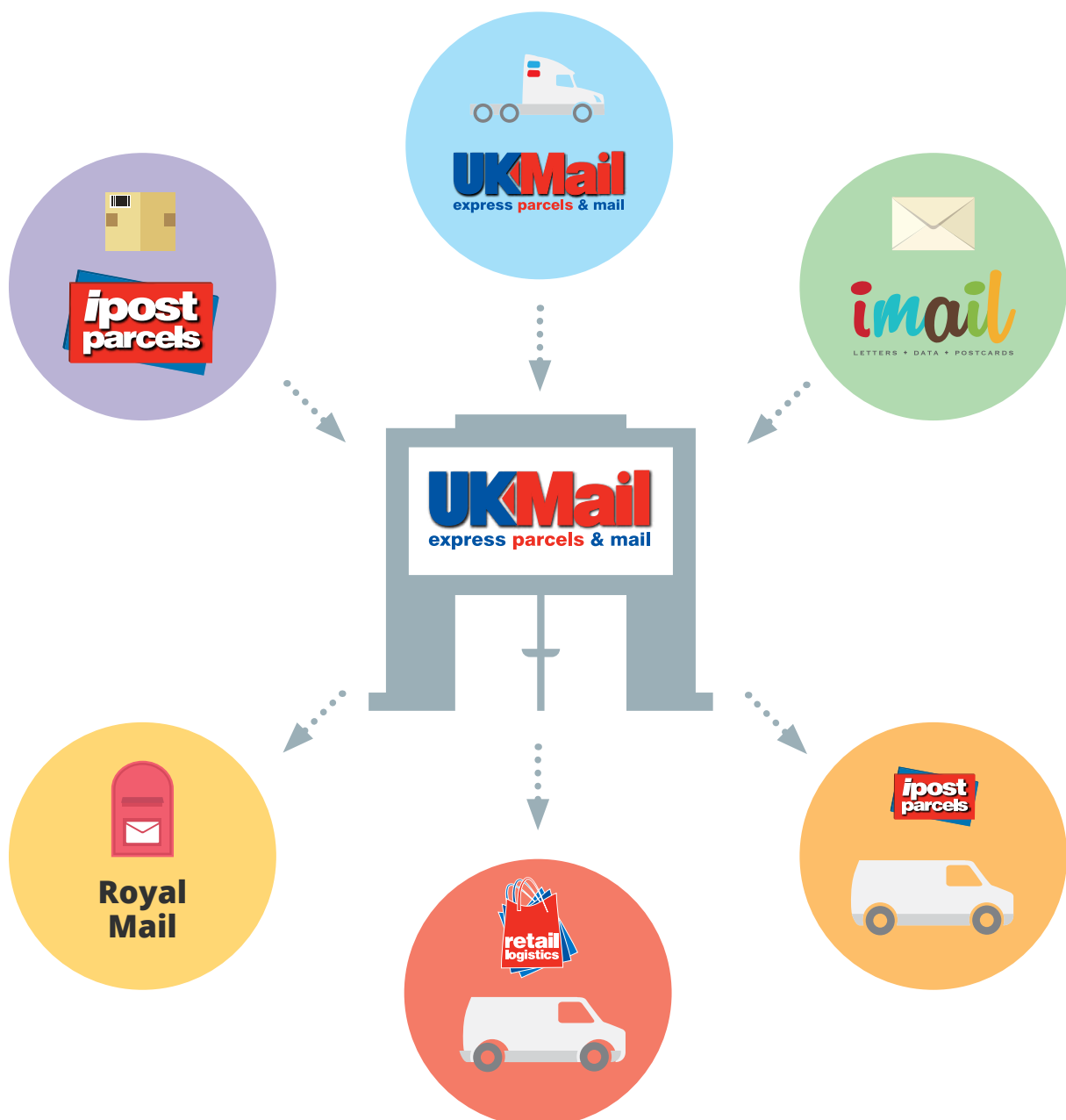
Our people

Our people have the support, training and confidence to respond and enhance the customer experience. We encourage our people to be passionate, innovative, and empower them to make decisions. We develop our people with training both internally and externally. Our people know what is right for our company and customers due to the training we undertake and the tools we provide for the job.

Our infrastructure

With over 30 years experience in parcel, mail and logistics services and with our extensive network of 53 sites, 2,700 staff, 2,400 vehicles including the sub-contractor fleet, nationwide mail sortation machines and automation equipment, this enables us to provide industry leading service on a cost efficient basis. We continue to invest significantly in our infrastructure to provide the basis for future growth.

On a daily basis we collect some 230,000 parcels and 11 million items of mail. These are sorted overnight into their destinations at our sort centres, largely at our central hub. Mail items are then delivered the next day to one of 38 Royal Mail centres for final delivery. We deliver parcels to businesses and residential locations across the UK. We use advanced technology to track all these items through our network to their destinations, providing customers with sophisticated reporting of delivery performance.



“Our investment in a newly constructed, fully automated hub is the largest strategic development in UK Mail’s history, bringing extra capacity and reducing operating costs.”

Guy Buswell Chief Executive



Chief Executive’s Statement



“UK Mail is in the midst of a period of a major investment and transition at a time when our markets are undergoing significant change.”

Guy Buswell, Chief Executive

After a strong period of growth, with the volume of parcels handled within our business doubling over the past five years, UK Mail is in the midst of a period of major investment and transition to cement our position as one of the leading players in our markets.

The focus of this investment is on continued product and service innovation and the development of a new fully automated hub which creates extra capacity and reduces operating costs across our business.

At the same time, our markets are undergoing significant change, with material movements in the competitive landscape, changes to consumer spending patterns and therefore the behaviour of retailers. All this has created some inevitable challenges but it also presents real longer-term opportunities for UK Mail as one of the best invested and most competitive operators in our markets.

The move of our national hub and Birmingham head office to the newly constructed site at Ryton near Coventry is the largest



strategic development in the history of our business. The financial year just completed has been one of preparing for this physical transition, which is proceeding on budget and on schedule, albeit a lot of work remains in the next six months to complete this key process.

We continue to benefit from our strong market position in our core businesses thanks to our efficient integrated network. The collapse of City Link at the end of December 2014 presented us with the opportunity to take on significant additional parcels volumes. This increase in volume in the fourth quarter took our parcel volumes temporarily above our current optimal operating capacity, resulting in above normal operating costs being incurred, as previously announced. We expect this effect will continue until the automation roll-out is fully completed in September 2015.

Reported Group revenues for the year at £485.1m were up 0.8% compared to the previous year. Adjusting for there being one less working day than in the previous year, underlying Group revenues increased by 1.2%. Group profit for continuing operations (pre-exceptional) before tax decreased by 4.2% on the previous year to £21.0m. We estimate that each extra working day equates to some £0.5m of contribution. Adjusting for this factor the underlying decrease in profit before tax was some 1.0%.

Our Parcels business continued to deliver a satisfactory underlying performance, with good volume growth throughout the year. This volume growth was partly driven by an increase in home deliveries related to online shopping, with a continuation of the mix change towards B2C that we have previously seen. In the fourth quarter we achieved strong

volume growth as a result of account wins following the demise of City Link.

Our Mail business achieved another good increase in volumes, with our mail volumes increasing by 4.3% in the year, compared to a market that saw an overall volume decline of some 3%. This volume growth was again driven by strong customer retention and new customer wins. Our Mail business remains well positioned in its market with a healthy pipeline of new business opportunities. We continue to see good progress from imail and our related new product innovations, and we have identified a particular opportunity for growth in Packets.

In our Courier business revenues increased by 2.0%. This business has been undergoing a period of transition away from the traditional same-day courier operation towards an operation which provides specialist service support to our Parcels business, and this has impacted the performance for the year. We would expect this business to develop well as part of our Parcels business going forward and it will be reported within the Parcels division in the future.

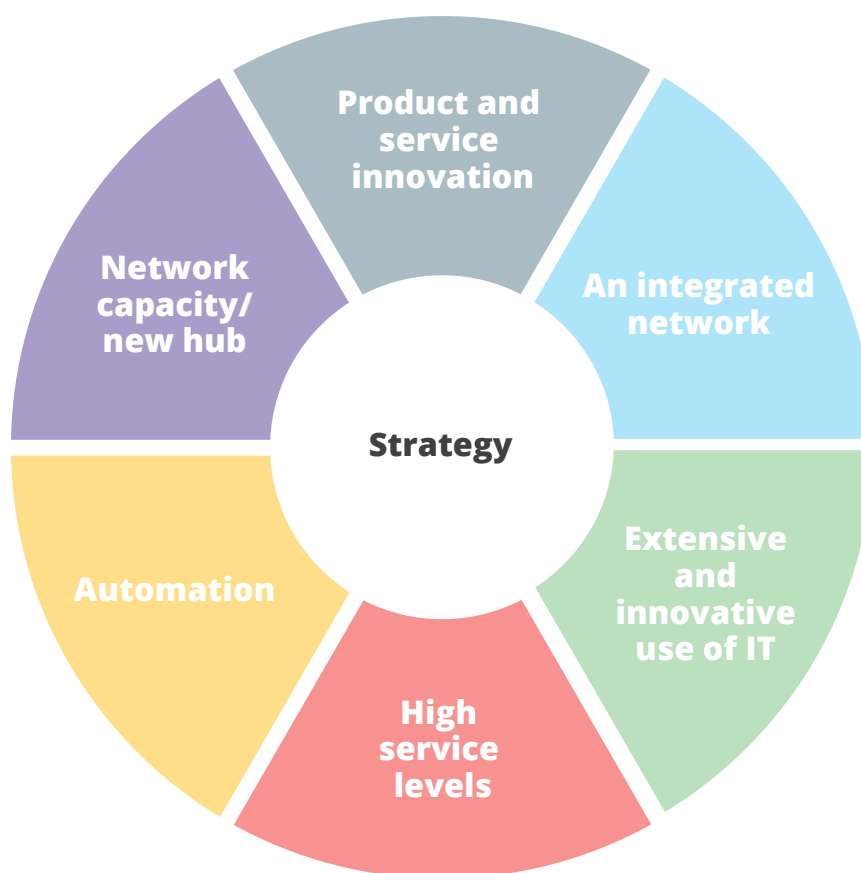
Our Pallets business had endured a challenging few years with revenue and profitability declining in an increasingly competitive market. We took the decision in January 2015 to close this business, and it ceased operating in March 2015. This business has been treated as a discontinued operation in these results.

Our underlying cash generation remains strong. We have invested some £36.1m in the new hub and automation during the year, however our cash levels have been carefully managed such that our net debt position at the year end was £5.2m (2014: net cash of £27.0m).

The Board has proposed that the final dividend be increased by 2.1% to 14.5p (2014: 14.2p). The total dividend for the year will increase 2.3% to 21.8p (2014: 21.3p) which is covered 1.39 times by the basic underlying earnings per share.

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.



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 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. 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 focused 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



Strategy continued.

Construction of our new hub was completed in February 2015; the new hub will be fully operational by the end of the summer 2015.

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.



Divisional review

Our Parcels business continued to deliver a satisfactory underlying performance with volumes increasing by 7.4% compared to last year.

Parcels

Revenues in Parcels, which comprises the Group's business-to-business (B2B), business-to-consumer (B2C) and international parcel delivery service, were up 3.7% to £228.1m (2014: £219.9m). 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 £21.4m (2014: £22.4m). 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.

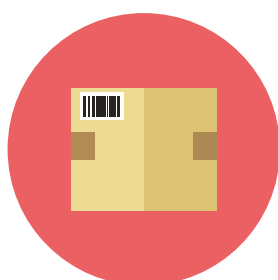
The immediate priority for our Parcels business is to complete the transfer to the new hub, and then roll out automation to our target levels. This will allow us to increase capacity, while reducing operating costs and further increasing service levels.

Parcels
revenue up



3.7%

Parcels operating
profit down*



4.5%

Mail
revenue down



1.9%

Mail operating
profit down



1.7%

*pre-exceptional items

Divisional review continued.

Our Mail business achieved another good increase in volumes with our Mail volumes increasing by 4.4% compared to last year.

Mail

Mail revenues decreased by 1.9% to £240.5m (2014: £245.3m). 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 a 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 £12.5m (2014: £12.7m). 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 £16.5m (2014: £16.2m). Operating margins however decreased to 13.4% (2014: 17.0%) leading to a decrease in the operating profit by 19.6% to £2.2m (2014: £2.7m). 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.

Pallets

Our Pallets business had endured a challenging few years

with revenue and profitability declining in an increasingly competitive market and, as announced in January, a decision was taken to close it. The business ceased operating in March 2015. The wind down was handled without disruption to our customers and with our staff treated professionally and fairly. This business has been treated as a discontinued operation in the results.

The business, which has been reported as a discontinued operation reported a loss after taxation of £10.8m for the year (2014: profit after tax £0.7m), which includes the full impairment of the goodwill arising on the acquisition together with the costs of closure, largely relating to redundancy and dilapidation costs.

Central costs

Central costs reduced to £15.1m (2014: £16.0m). We continue to invest significantly in I.T., however this investment has been offset by savings in other areas.

Guy Buswell,

Chief Executive

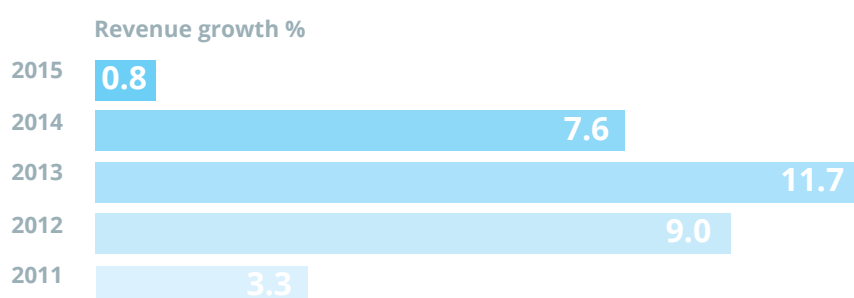
19 May 2015



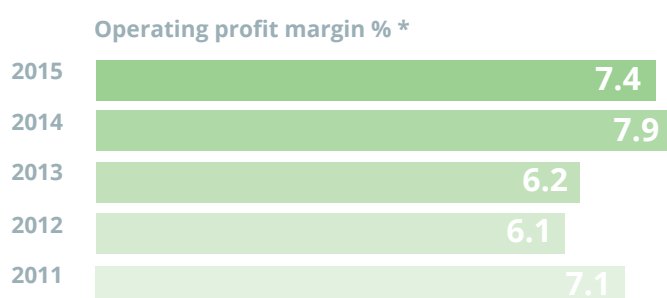
Key performance indicators

The Group uses a number of key performance indicators (KPI's) to assess the development, underlying business performance and position of the Group and its divisions. These KPI's are reviewed periodically to ensure they remain appropriate and meaningful measures of the Group's performance.

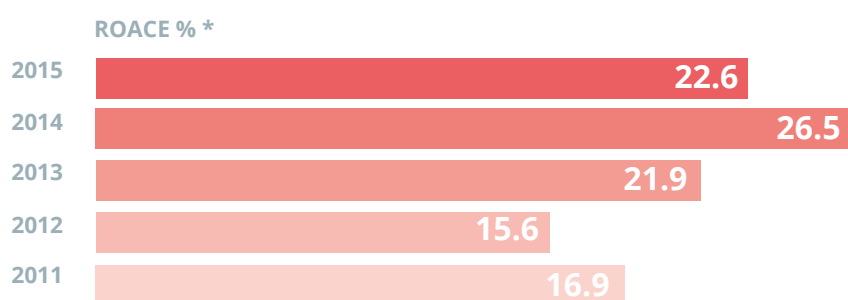
The following KPI's have been restated to exclude discontinued operations (see note 3).



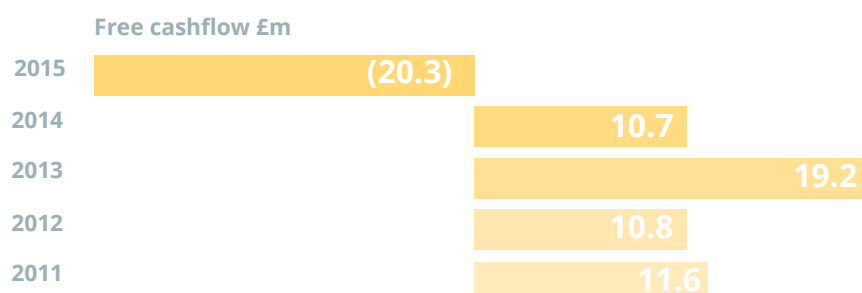
Revenue growth of 0.8% reflected strong volume growth in both the B2B and B2C market segments



The operating profit margin decreased to 7.4% largely following the 'above normal' increase in operating costs to handle increased volumes following the collapse of City Link

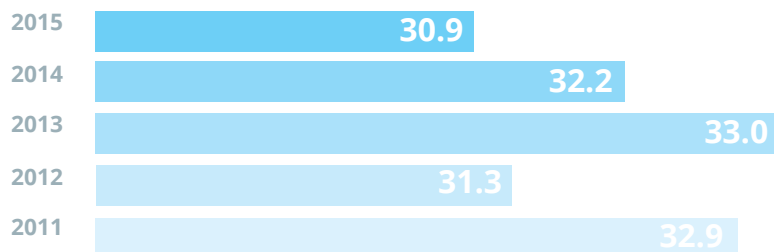


Return on average capital employed decreased from 26.5% to 22.6% in the year under review largely as a result of the debt taken on to fund capital investment



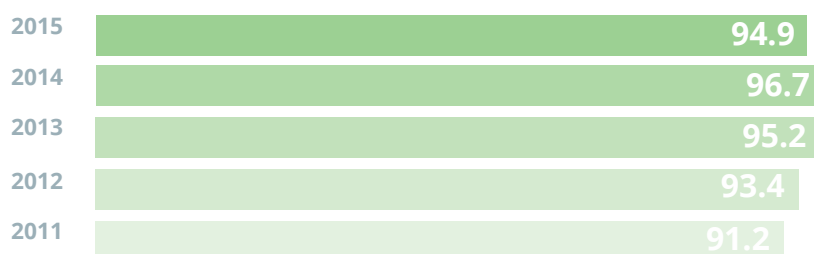
Free cash flow decreased by £31.0m to an outflow of £20.3m reflecting the capital investment in Ryton and automation

* excluding exceptional items

Debtor days

Debtor days are the KPI the Board uses to measure and monitor the efficiency of cash collection from customers.

Debtor days have decreased 1.3 days to 30.9 days.

Health & safety compliance %

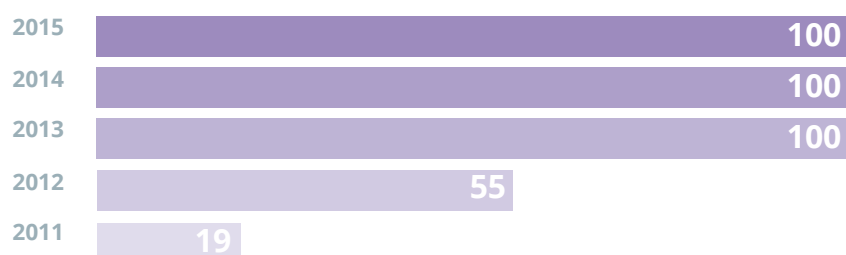
Health and Safety compliance reduced by 1.8% to 94.9% as increased consignment volumes and managerial changes impacted all sites.

CO2 Emissions (Tonnes)

CO2 emissions is the KPI the Board uses to monitor its effect on the environment.

Waste recycling (land diversion) %

This KPI monitors the amount of waste recycled, thereby avoiding landfill. The Group now backhauls all cardboard and stretch-wrap waste resulting in 96.4% of all waste generated being recycled.

ISO 14001 implementation %

ISO 14001 is the key standard for Environmental Management Systems. It sets out rigorous demands for environmental management and is externally audited on a regular basis.

Financial review

"We are now in a period of significant investment and transition, as we put the infrastructure in place for the next phase of growth."

Steven Glew, Group Finance Director



Financial Position

The Group has managed its financial position during the year to ensure we have maintained a solid position. Despite the significant investment in our new hub and in automation – details of which are set out below – we had net debt at the end of the year of £5.2m (2014: net cash of £27.0m), having funded £45.5m (2014: £27.6m) of capital investment.

Net cash inflow from operations (including discontinued operations) totalled £28.6m (2014: £33.2m). Net cash outflow for the period was £22.8m (2014: £0.8m) which included £nil cash consumed in working capital (2014: £1.6m generated), and a net £43.9m (after allowing for the deferred compensation received from HS2) expended on capital additions (2014: £17.4m).

The Group paid £11.8m (2014: £10.7m) of dividends during the period.

To provide funding for the investment in the new hub and automation the Group agreed a £25m five year revolving credit facility with Lloyds Bank plc in May 2014. This facility, which supports the cash requirements of the investment programme, was £10m drawn at 31 March 2015.

The Group has also put in place additional funding facilities as detailed in note 27 to further support our investment programme and provide adequate working capital facilities.

Revenue from continuing operations

	2015	2014	Change
Segment	£m	£m	%
Parcels	228.1	219.9	3.7%
Mail	240.5	245.3	(1.9)%
Courier	16.5	16.2	2.0%
Total revenue from continuing operations	485.1	481.4	0.8%

Revenues of £485.1m from continuing activities were up 0.8% compared to the previous year. However, the underlying increase was 1.2% after adjusting for the one less trading day in the year under review, as compared to the previous year.

This increase was largely the result of strong parcels volume growth in both the B2B and B2C market segments. The average daily parcels volumes handled by the group was some 7.4% greater than the year prior, and was in part attributable to volumes gained in the fourth quarter of the year following the collapse of City Link.

Whilst reported Mail revenues decreased by 1.9%, this was largely the result of a change in mix towards Customer Direct

Access ('CDA') mail, which carries a substantially lower revenue per item, as average daily volumes increased by some 4.7% compared to the same period last year.

Courier revenues, which increased 2.0% over the previous year, reflect the growth in the provision of an increasing number of specialist services to our customers. These specialist services, which largely relate to our parcels operations, now represent a key part of the Retail Logistics operation within our parcels business. As part of the refocus of the Group's operations into Parcels and Mail, this operation will be integrated within our Parcels unit, and it will no longer be separately reported.

Operating profit before exceptional items from continuing operations

	2015		2014		Year-on-year	
	Operating Profit	Operating Profit Margin	Operating Profit	Operating Profit Margin	Reported Operating Profit change	Change in Operating Profit margin
Segment	£m	%	£m	%	%	%
Parcels	21.4	9.4%	22.4	10.2%	(4.5)%	- 0.8%
Mail	12.5	5.2%	12.7	5.2%	(1.7)%	-
Courier	2.2	13.4%	2.7	17.0%	(19.6)%	- 3.6%
Total segmental operating profit	36.1	7.4%	37.8	7.9%	(4.7)%	- 0.5%
Central costs	(15.1)	-	(16.0)	-	5.8%	-
Operating profit before exceptional items from continuing operations	21.0	4.3%	21.8	4.5%	(3.8)%	- 0.2%

Reported operating profit (before exceptional items) from continuing activities decreased 3.8%, largely driven by decreases in both Parcels and Courier.

The 4.5% decrease in the Parcels operating profits was largely the result of the increased volumes exceeding our current effective operating capacity. Which resulted in above normal operating costs being incurred, most notably in the fourth quarter of the year, following the volumes gained following the demise of City Link. As a result the operating margin fell by 0.8 percentage points to 9.4%.

Whilst reported Mail operating profits showed a 1.7% reduction, they were only slightly below last year's level, when

adjusted for the effect of one less working day. The 5.2% reported operating margin remained stable year-on-year.

The 19.6% decrease in Courier operating profits reflected a 3.6 percentage point reduction in the operating margin, as the business moved away from a traditional same-day courier to one that provides specialist service support to our Parcels business, which resulted in the loss of some business during the year.

Central costs were £0.9m lower than last year, despite increased investment in I.T., as savings were made in a number of other areas.

Exceptional items

Exceptional items comprised:

	2015	2014
	£m	£m
Cost of automation implementation	0.4	-
National hub relocation costs	2.5	-
HS2 compensation	(2.0)	-
Net exceptional costs – continuing operations	0.9	-
Impairment charges (including goodwill)	9.0	-
Closure costs (of UK Pallets)	1.4	-
Exceptional costs – discontinued operations	10.4	-
Total exceptional items	11.3	-

Net exceptional costs – continuing operations

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 £0.2m property costs associated with running two sites for an approximate period of two months, £1.1m of recruitment and redundancy costs, and £1.2m of 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.

As detailed in note 27, 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.

Net exceptional costs – discontinued operations

The Group acquired UK Pallets Ltd for £9.4m in July 2003, recognising an initial goodwill asset of some £8.2m. This asset, which was initially amortised as required under the then applicable UK accounting rules, stood at £7.9m by the time the Group made the transition to IFRS on 1 April 2004. Since then, this goodwill has been held on the consolidated balance sheet of UK Mail Group plc as an intangible asset and tested at least annually for impairment.

Capital additions

Capital additions for the period included our underlying business capital expenditure combined with investment in our new hub and automation.

This can be summarised as follows:

Year to 31st March	2015	2014
	£m	£m
Underlying capital additions	12.0	11.3
Investment in new hub	22.6	13.3
Investment in automation	13.5	3.3
Total capital additions	48.1	27.9

At the interim stage, and following a deterioration in the trading performance of UK Pallets, an impairment charge of £7.3m was recognised as an exceptional cost.

Since then, and as announced in January 2015, a decision was made to close the business. The business ceased trading in March 2015. Consequently, the remaining amount of goodwill arising on acquisition has also therefore been written off, resulting in a total goodwill impairment charge of £7.9m for the year ended 31 March 2015. Additionally, the Group recognised a further £1.1m impairment charge relating to the write-off of capitalised software development costs.

The cost of closing UK Pallets principally comprise £0.7m of redundancy costs, and £0.7m contract termination and additional dilapidation costs.

HS2

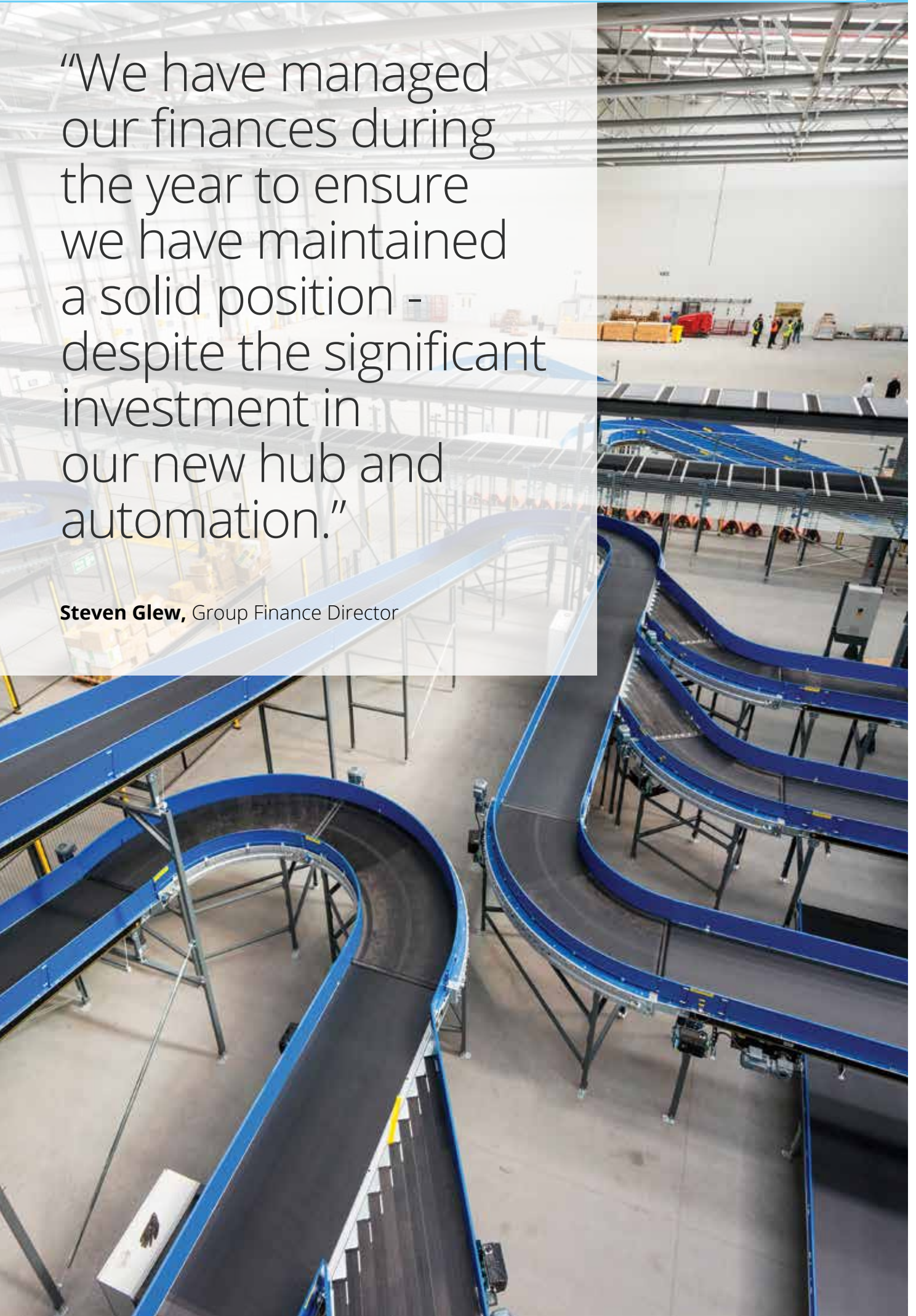
In December 2013 we reached agreement with the Secretary of State for Transport concerning the relocation of our National hub and head office as a result of the proposed High Speed Two (HS2) railway. This involves the sale of our Birmingham Heartlands site to the Department for Transport (DfT) and the relocation to a newly constructed facility at Ryton, near Coventry.

We have agreed specific compensation payments with the DfT and HS2 Ltd. Of these amounts, £4.3m 2014 (£11.6m) was received in the year with further amounts due to be received in the next financial year as they are agreed.

Whilst some of the costs of the move to the new site, including the I.T. data centre move and related staff costs have already been incurred (as detailed in exceptional items above), further costs are anticipated in the next financial year. We anticipate that the costs we incur to reinstate our existing capability will be fully compensated by the DfT and HS2 Ltd (subject to the requirements of the Compensation Code).

“We have managed our finances during the year to ensure we have maintained a solid position - despite the significant investment in our new hub and automation.”

Steven Glew, Group Finance Director



The underlying capital additions include £7.7m on I.T. as we continue to develop our system infrastructure, and £3.9m on our network.

The investment in the new hub in the period comprises the continuing payments for the construction of the National hub and new head office at Ryton. The cumulative total expected to be spent on the land and building over the period to March 2016 is some £35m. We expect our contribution to the building of the new hub will be some £15m which covers the enhancement of the site and building beyond the scale of the current facility.

The investment in automation reflects the initial payments for the design and development of the hub and network automation equipment. As previously guided, the total expected to be spent on this equipment, over the period to September 2015, is some £20m.

Balance sheet	2015	2014	Change
	£m	£m	£m
Non-current assets - goodwill	1.6	9.5	(7.9)
Non-current assets - other	99.4	60.6	38.8
Current assets - excluding cash	76.4	72.6	3.8
Cash *	4.6	27.4	(22.8)
Current liabilities - excluding tax/borrowings	(102.6)	(83.3)	(19.3)
Borrowings *	(9.8)	(0.4)	(9.4)
Tax	(0.2)	(2.7)	2.5
Non-current liabilities - excluding borrowings	(3.3)	(11.4)	8.1
Net assets	66.1	72.3	(6.2)
Net (borrowings)/cash *	(5.2)	27.0	(32.2)

Net assets decreased by £6.2m to £66.1m (2014: £72.3m).

Following the recognition of a goodwill impairment charge in respect of UK Pallets (as reported in exceptional items), the remaining £1.6m goodwill (2014: £9.5m) has been tested for impairment as detailed in note 10; there being no requirement for a resultant adjustment.

Other non-current assets increased by £38.8m, which principally reflects £22.7m build costs in respect of our new National Hub and Head offices at Ryton, and £13.4m of automation equipment.

A £3.6m increase in Mail Agency for Access ('AFA') debtors (reported in other debtors) largely accounts for the £3.8m increase in current assets (ex cash).

Whilst reported trade receivables of £56.4m (2014: £57.2m) remained materially in line with last year, high cash collections resulted in a reduction of debtor days to 30.9 days (2014: 32.2 days).

Current liabilities (excluding tax and borrowings) increased £19.3m year-on-year, of which £15.8m relates to an increase in the amount owing to trade creditors, a £7.0m increase in current deferred compensation from HS2, partially offset by a £5.4m reduction in accruals.

However, the £7.0m increase in current deferred compensation is largely offset by a £8.9m reduction in non-current deferred compensation, which together with a £1.1m increase in non-current deferred tax liabilities largely accounts for the £8.1m movement in non-current liabilities.

Cash flow and net cash

	2015	2014	Change
	£m	£m	£m
Cash generated from continuing operations	28.2	32.8	(4.6)
Tax paid	(5.0)	(5.2)	0.2
Net capital expenditure in continuing operations	(43.5)	(16.9)	(26.6)
Free cash flow	(20.3)	10.7	(31.0)
Dividends	(11.8)	(10.7)	(1.1)
Drawdown on revolving credit facility	10.0	-	10.0
Other movements	(0.7)	(0.7)	-
Decrease in cash from continuing operations	(22.8)	(0.7)	(22.1)
Cash from discontinued operations	-	(0.1)	0.1
Decrease in cash - total operations	(22.8)	(0.8)	(22.0)

The group generated £4.6m less cash from continuing operations largely following a £0.9m reduction in the profit for the year from continuing operations and the consumption of £1.4m cash in working capital compared to the generation of £2.1m in the previous year.

The increased investment programme resulting from the relocation of our National hub and head office move, together with the implementation of automation principally account for the £26.6m increase in cash expended on capital.

In order to help fund these costs the Group has drawn £10m down under the revolving credit facility. As a result net debt at the year end was £5.2m (2014: net cash £27.0m), comprising of £4.6m (2014: £27.4m) of cash at bank and in hand and £9.8m (2014: £0.4m) total debt. Further information can be found in note 29.

Net finance income

Net finance income was £nil (2014: £0.1m).

Additionally £0.3m of interest costs (2014: £nil) was capitalised as part of the construction cost of our new National hub and head office.

Taxation

As the exceptional goodwill impairment of £7.9m is not tax deductible, the Group's effective tax rate increased to 40.7% (2014: 23.3%).

The underlying effective tax rate, excluding exceptional items was 21.1% (2014: 23.3%), which largely reflects the headline reduction in UK corporation tax rate from 23% to 21% effective from 1 April 2014.

Earnings per share

Underlying basic earnings per share, which excludes both discontinued operations and exceptional items, decreased 1.5% to 30.3p (2014: 30.7p).

Basic earnings per share decreased 71.2% to 9.2p (2014: 32.0p).

Dividend

The Board has proposed a 2.1% increase in the final dividend to 14.5p (2014: 14.2p), resulting in a total dividend for the year

of 21.8p (2014: 21.3p), an increase of 2.3%. The final dividend is payable on 28 August 2015, to shareholders registered on 31 July 2015.

The total dividend is covered 1.39 times by the underlying basic earnings (2014: 1.50 times).

Treasury risk management

The treasury function of the Group operates within policies and procedures approved by the Board. These procedures cover funding, banking relationships, foreign currency, interest rate exposures and cash management.

The Group has considered carefully its cash flows and banking covenants for the next three years. These have been appraised in light of the current economic climate and on a number of forecast scenarios. As such, conservative assumptions on profitability and working capital performance have been used to determine the level of financial resources required by the Group and to assess liquidity risk.

The Group continually assesses its actual and forecast cash position on a weekly basis. This ensures that in the short term the Group's cash is used optimally. Each month a medium term review of the forecast is undertaken to ensure full compliance with the banking covenants. Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's strong levels of operating cash flow and low indebtedness mean that it is not significantly exposed to liquidity risk.

The Group 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.

As discussed above the Group has committed funding in place, comprising of a revolving credit and an overdraft facility, which the Group does not currently hedge. As a result the Group is exposed to a significant rise in interest rates. Further detail can be found in note 25.

Steven Glew,

Group Finance Director
19 May 2015

Principal risks and uncertainties

The effective management of risks within the Group is essential to the successful delivery of the Group's objectives.

A successful risk management process considers the potential risks in the context of their impact and probability. The Board has overall responsibility for ensuring that the Group has an appropriately balanced approach to risk management and internal control whilst achieving the Group's overall business plans and strategic objectives.

During the year, the Board noted the new provisions and guidance included within the Financial Reporting Council's ('FRC') 'UK Corporate Governance Code 2014', (effective for reporting periods beginning on or after 1 October 2014), and as a consequence undertook a detailed review of its risk management process.

Subsequently, a number of improvements were made to the Group's risk management monitoring and review process including;

- Increasing the minimum frequency of reviews from half-yearly to quarterly (two of which will be undertaken by the Board and two by the Audit Committee);
- Review and approval of the Group's 'risk appetite'; and
- The approval of a revised Risk Management policy.

The process requires management of the business to identify, evaluate and monitor risks and takes steps to reduce, eliminate or manage those risks.

These risks are scored as to the likelihood of their occurrence and the scale of their potential impact, after allowance is made for the effectiveness of existing or planned mitigating controls, such that the overall Risk Register can be suitably prioritised.

This register, together with the identification, implementation and progression of mitigation plans are reviewed on an on-going basis in detail by senior management of the Group.

Risk	Change in risk	Potential Impact
Potential operational and financial impact resulting from the relocation of the National hub The Group 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 Group could be exposed to a number of unforeseen costs or expenditure, for which no compensation will be received. Management is distracted from the achievement of day-to-day objectives to management of the move. Loss of key personnel affected by an increased commute and/or unwillingness to relocate. Loss of customers should service levels deteriorate
IT Systems failure Reliance is placed upon the proper functioning of IT systems for the effective running of operations.		Any prolonged interruption to the Group's IT systems could have a materially adverse effect on its business.

During the year, the Audit Committee on behalf of the Board who ultimately retain the responsibility for the Company's risk management framework reviewed the risk management process and the most significant risks identified on the Risk Register on a regular basis.

These significant risks are reported in detail to the Audit Committee and/or Board on a High Entity Risk Register ('HERR'), of which 24 risks had been identified at the date of this report. Further detail of the work undertaken by the Audit Committee in this area can be found in the Audit Committee report on page 40.

The table below details the principal risks and uncertainties faced by the Group 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.

Additionally, the Group, in common with others is exposed to a number of financial risks including market risk, credit risk, interest risk, liquidity risk, and capital risk, details of which can be found in note 25.

Mitigation	Assurance
Regular meetings and discussions are held with HS2 Ltd, with agreement in principle reached prior to the commitment of funds. The relocation is being closely managed by a dedicated HS2 steering group. Plans are in place to retain employees during and after the move. Regular monitoring by operational management of service level performance.	The Board monitors the HS2 plan on a periodic basis, and receives regular reports from the Group Finance Director, Head of HR, the Group Operations Director, and the steering group. Contingency plans have been reviewed and approved.
The Group 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 IT infrastructure. Core areas of the Group 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 Group's 'internal IT audit' resource to provide specialist expertise.

Principal risks and uncertainties continued.

Risk	Change in risk	Potential Impact
Competitive The Group 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.
Business continuity The Group 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 Group's financial performance.
Legislation and regulation The Group is subject to numerous laws and regulations, with the mail market additionally regulated by the Office of Communications ('Ofcom'). The Group, 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 Group.
Fuel Fuel shortages or strikes could affect the Group's operations. Fuel costs could increase significantly more than forecast.		Any prolonged interruption to the Group'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 on to customers.

Key:

 increase in risk
  no change
  decrease in risk

Mitigation	Assurance
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 Group seeks to expand the available market through the introduction of new products and services. The Group'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 Group's performance against KPI's is reviewed by Operating Board Directors and at Main Board meetings.
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.
The Group keeps abreast of forthcoming legislative and regulatory changes, and maintains controls and procedures to ensure full compliance. The Group maintains active engagement with Ofcom, responding to consultations, when relevant. The Group maintains both in house and external legal expertise.	The Board reviews reports from senior executives including the Group Legal Manager. The Group is subject to various audits and compliance visits from both external bodies and in house internal audit and security teams.
The Group has an established fuel contingency plan. In common with industry practise, the Group operates a fuel surcharge mechanism, whereby increases in fuel prices are recharged to the majority of the Group's customer base.	The fuel contingency plan is reviewed and tested at frequent intervals. The Board monitors both the fuel price and the fuel surcharge mechanism on a periodic basis.

Our people

The UK Mail People Strategy has continued through 2014/15 with the objective of engaging our people to deliver the company vision.

The People Strategy

The Strategy developed initially in 2013 is a three year rolling plan, reviewed on an annual basis. In 2014/15 development of the strategy was slower than the previous year; a result of the significant resources diverted to the people change management programme required to relocate circa 650 employees from the National Hub and head office in Birmingham to Ryton, near Coventry. Therefore we will undertake a complete strategic review commencing in April 2015. Nonetheless, our principle aims continue to be to:

- Recruit, reward and recognise our people, by creating a business that puts its people and its customers at the centre of all its activities, and recognising that our people matter and are key to the business achieving its goals
- Continually review and improve how we engage and communicate so our people understand the part they play in the achievement of the Company vision, and to have an open, honest and transparent communications strategy
- As a priority support the learning, development, coaching and mentoring of our people, by offering internal learning and management development programmes demonstrating our commitment to people development, thereby continually developing our team and improving their leadership capability
- Work safely by continually reviewing the 'Safe Operating Methods' we work to, and ensuring risks are managed. These reviews demonstrate how we value the safety of our employees and customers ensuring that nothing we do will cause them any harm
- Make our business 'a great place to work'; ensuring that we are seen as an 'Employer of Choice' within our business sector.

Diversity

It remains our policy to ensure that no job applicant, employee, customer or contractor receives less favourable treatment for any reason. We want to make sure no one is disadvantaged by unjustifiable conditions, criteria or practices because of their sex, gender, race, colour, ethnic origin, religion, sexual orientation, disability, marital status, age, or any other grounds of discrimination.

Legislation

We are an equal opportunities employer, and this is about having good people and employment practices. Our employees are our greatest asset and every line manager and employee has a personal responsibility for the implementation of our equal opportunities policy.

Our gender split is as follows:

- 1 (14%) female directors including non-executives of the company
- 6 (86%) male directors including non-executives of the company
- 7 (21%) number of female employees who are senior managers of the company
- 27 (79%) number of male employees who are senior managers of the company
- 627 (23%) number of female employees of the company
- 2,080 (77%) number of male employees of the company

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.

Recognition and Reward

Our employee benefit review in conjunction with our benefits consulting partner, continues for our contractual and voluntary offering, and as part of this we launched in the latter part of 2014 a new voluntary benefits package.

The UK Mail Group Personal Pension Plan continues to operate under Pension Auto Enrolment legislation with minimal opt outs demonstrating that our people are planning for their future retirement.

We have successfully set up a Pension Governance committee with the aim of reviewing how the scheme is running, the investment choices offered, and to review both our pension provider and Pension Advisor performance. The Committee is chaired by our Group Operations Director, and the committee members are our Group Finance Director, Head of HR and ECG Chairperson, as well as an active pension scheme member. The Committee meets three times per year, with one meeting specifically dedicated to a pension scheme investment review.

In addition three times a year the UK Mail Group Personal Pension Plan newsletter is produced. This newsletter has the aim of keeping all pension scheme members completely up to date with their pension scheme, any changes in pension legislation and to cascade any other useful information on pensions.

The 'I Delivered' Awards is the UK Mail Recognition scheme, which is now in its fifth year. The scheme recognises employees for going that extra mile. The next National 'I Delivered' Awards will be held in July 2015.

Learning and Development

During 2014/15 the Learning and Development directory was updated, and the Supervisory Skills, Operational Development and ECG Representative development programmes continued to run, in addition to the usual operational compliance training programmes.

The UK Mail employee incumbent Apprenticeship programme continues to run enabling employees to study whilst working for a recognised accredited qualification.

Unfortunately, 'App for that' – Apprenticeships with UK Mail' which was rolled out in 2013/14 to 15 sites was not expanded any further in 2014/15 due to training provider issues. However, as part of the People Strategy review in 2015 a review of the scheme will be undertaken with a view to re-establishing the apprenticeship schemes presence in the business. It should be reiterated that UK Mail are committed to this programme and the expansion of it during 2015/16.

Our Driver Training programme has had a good first year since its inception, and has made an impact in this specialised training area. Periodic driver assessments, post incident reviews as well as specialised operational training have been

provided. Moving into 2015/16 this department will continue to develop by expanding its remit in to in-house Driver Certificate of Professional Competence training, development of a Trainee Driver recruitment programme, and a company car driver assessment programme in order to help meet the objective of employing the best drivers in the sector.

To supplement our commitment to 'growing our own' we are committed to running a Graduate Training programme within the IT department, with indicative discussions regarding the development of a general Graduate training scheme covering parcel/mail general management. This will be the first scheme in over ten years within the UK Mail Group

The UK Mail Work Experience programme continues across all sites within the UK, and we remain committed to creating better links with local schools and colleges, to offer one week work experience placements particularly in the local area around Ryton, where our National hub and head office is now based.

Health, wellbeing, occupational health and support continues to be a priority as part of the people strategy with support being provided, when required, for those employees unfortunate to be long term sick which includes counselling for those requiring emotional support.

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.

Corporate responsibility

UK Mail continues to be committed to Corporate Responsibility ('CR') and regard the integration of sound CR practices (which take into account the interests of all our stakeholders be they employees, customers, shareholders or the wider community).

UK Mail continues to be committed to Corporate Responsibility ('CR') and regard the integration of sound CR practices (which take into account the interests of all our stakeholders be they employees, customers, shareholders or the wider community) as a long-term, sustainable approach to business. We continue to devote significant resources towards improving CR standards and practices within the Group. Our CR programme has four key elements; environment, health and safety, employment and community.

UK Mail is a signatory to the United Nations Global Compact, confirming our commitment to CR. We have committed to aligning our operations and strategies with ten universally accepted principles in areas such as labour, business integrity, employment, human rights and the environment.

Steven Glew is the Board member responsible for CR and the strategy is approved at Board level. He, together with the CR Steering Committee manages, develops and communicates our CR strategy, to provide direction and guidance on all aspects of business practice and responsibility. The members of the CR Steering Committee are drawn from a number of disciplines across the company (human resources, health and safety, operations, transport, procurement, communications and legal.)

The Board takes account of the significance of social, environmental and ethical ('SEE') matters to the business of the

Company. Currently we have identified no social, environmental or ethical risks that would have a material impact on our business.

The Environment

The Group recognises that it has a responsibility to reduce its impact on the environment and seeks to increase the environmental sustainability of its operations and those of its suppliers. Whilst we recognise that we have an important role to play in delivering goods and mail in the UK, we are acutely aware of the impact that transport operations have on the environment and the Group is committed to reducing this impact by the introduction of cost effective solutions and changes which result in real benefits to the environment as a whole. Our environmental policy is regularly reviewed and is available on our company website, www.ukmail.com

Our 2014/15 CR Targets and Achievements

As we enter year two of our three year programme we are making good progress and look to build upon the successes of our previous year. Again the main focus is on CO² emissions, health and safety, utilities, waste and our people. We continue to use 2012/13 as the key baseline from which we monitor our improvement. Following the successful implementation of ISO14001 we continue to work towards OHSAS18001 certification.

Our performance in the year against our key targets is as follows:

	Actual 2012/13 (Base Year)	Target 2015/16	Actual 2014/15	Actual 2013/14	Change against 2013/14	Variance against target
1. CO² emissions (tonnes)	49.74k	47.25k	53.72k	52.11k	+3.10%	+13.70%
CO² emissions by item	0.375kg	not set	0.314kg	0.340kg	-7.60%	N/A
2. Land Diversion (%)	87.88%	95.00%	96.40%	95.70%	+0.70%	+1.40%
3. Waste to landfill (tonnes)	340.15t	323.14t	124.06t	136.76t	-9.30%	-61.61%
4. Total waste (tonnes)	2,806.49t	2,666.17t	3,449.26t	3,183.00t	+8.36%	+29.37%
5. Water consumption (m3)	35,840M3	34,048M3	37,860M3	31,509M3	+20.16%	+11.19%
6. HSE audit compliance (%)	95.25%	95.00%	94.88%	96.65%	-1.77%	-0.12%
7. Workplace fatalities	0	0	0	0	0.00%	0.00%
8. Maintain ISO 14001 corporate site compliance (% of the 41 corporate sites)	100.00%	100.00%	100.00%	100.00%	0.00%	0.00%
9. Staff Turnover (%)	20.17%	20.00%	27.70%	16.43%	+11.27%	+7.70%

Environment

1. UK Mail's Carbon Emissions

- 2014/15 Achievement – 13.7% adverse to target
- 2015/16 Target – Reduce by 5%

UK Mail's total carbon emissions were just over 53.72k tonnes. This is overwhelmingly made up of emissions from fuel burn. The calculation of these emissions is based on respected industry methodology measurements (Carbon Trust and Defra).

Table of UK Mail's Greenhouse Gas Emissions

	Emission total (tonnes)
CO ₂ emitted from transportation activities ¹	48,349
CO ₂ equivalent from facilities ²	5,368
Total emissions (CO ₂)	53,717

¹ Emissions from transportation activities are internally verified. Note that the CO₂ reported figure for fuel emissions is actual CO₂ which is emitted from all fuel dependent assets, including Heavy Good Vehicles, C+D Vans, Company Cars and Mechanical Handling Machinery. CO₂ equivalents from franchise or service partner operations are not included in the reporting of CO₂ emissions. Emissions calculated using the Defra GHG Conversion Factors 2008 Guidelines for conversion of fuel.

² Emissions calculated using the Carbon Trust Energy & Carbon Conversions 2011 Update Guidelines for conversion of grid electricity and gas.

In addition to total emissions, UK Mail also monitors emissions per item handled. ³

³ This is a measure of how efficiently a single parcel item or consolidated mail item (tray or bag of envelopes) is handled from the point of collection through to the point of delivery. It does not include equivalents from franchise or service partner operations.

At 0.314kg emissions per item handled, UK Mail has reduced this figure over the last year representing an 7.6% or 26 gms per item improvement (following 9.3% and 35 gms improvements in 2013/14).

We continued to set ourselves challenging emission reduction targets for the next three years which we aim to meet by a number of initiatives, such as the introduction of automation which includes a new item volume target.

Fuel

UK Mail's two key objectives remain:

Objective 1: To reduce the distance travelled by our vehicle fleet through effective route planning and optimisation of vehicle fill.

We continue to use sophisticated route planning software to optimise the mileage travelled by our fleet.

Telematics devices are fitted to allow our heavy commercial vehicles to provide information on a number of key factors such as harsh braking, not driving in the 'green zone', idling time and speed, all of which can have a negative effect on miles per gallon ('MPG').

Close management of our telematics devices in all of our heavy commercial vehicles has significantly improved driving behaviour and fuel consumption per journey. We will continue to proactively manage our drivers to ensure we optimise the MPG by vehicle and route.

We continue to use software for our parcel delivery scanners which ensure our owner drivers take the most optimum route when collecting and delivering parcels. One of the key benefits of this software is to significantly reduce the miles driven.

We are also trialling in cab cameras in our heavy commercial fleet which will also help us monitor driving behaviour style.

The move to automation in 2015/16 will mean improved vehicle loading, resulting in fewer vehicles and less journeys made. Also this will significantly reduce the amounts of manual handling equipment we operate. It is estimated that at least 70x pieces of equipment will be returned.

Objective 2: To reduce the fuel consumption of our vehicles through a review of the vehicle designs used and other effective means.

We have replaced 88 tractor units in the past year with new Euro 6 engines which comply with the latest diesel engine emission standards. These all use the additive ad-blue which further enhances the overall output and mpg of the vehicle.

During the year we also replaced 77 new trailers all which have been fitted with aerodynamics top spoilers and enhanced body kits.

We have a Driver Trainer and one of his key objectives will be to maximise MPG from our commercial vehicle and company car drivers through changing driver behaviour.

Improved tyre husbandry ensures our tyres run to maximum performance and lower rolling resistance tyres (to aid MPG) are being fitted as standard.

Our CO₂ emissions, across our company car fleet, has reduced to an average of 116g/km. Drivers are encouraged to make fewer business journeys by replacing them with conference calls and we now have video conferencing on all desk and lap-top computers.

Corporate responsibility continued.

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 installed energy efficient saving lighting in our new Ryton site with movement and light sensors which will significantly reduce our lighting energy consumption.

During the coming year, we are looking at extending the replacement lighting initiative at a number of other sites. We have also installed energy reduction systems at various sites to reduce electricity consumption of our automation equipment.

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

Waste Management

2. Landfill Diversion (Waste which does not go to landfill that has now gone to a materials recycling facility or energy recycling facility or transfer stations – sorted/filtered – then recycled not in land fill)

- 2014/15 Achievement – Increased to 96.40%
- 2015/16 Target – 95%

3. Waste To Landfill (Waste which goes directly to landfill)

- 2014/15 Achievement – 61.6% adverse to target
- 2015/16 Target – Reduce by 5%

4. Total Waste (the volume of total waste generated) every single denomination of waste includes recycle general waste including hazardous waste

- 2014/15 Achievement – 29.4% adverse to target
- 2015/16 Target – Reduce by 5%

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 now over 96%, compared with just 5% in 2008.

Although we are sending significantly less waste to landfill, our volume of waste generated has increased due to the growth in our business volumes. Our key focus over the next 12 months is to reduce this.

Responsibility for waste management within the business transferred to the Health, Safety and Environmental Department in April 2015 and we will seek to enhance the improvements already implemented and further reduce the business' impact on the environment by reviewing current practices and working with our waste management contractor to identify potential improvements and implement suitable measures.

5. Water Consumption

- 2014/15 Achievement – 11.1% adverse to target
- 2015/16 Target – Reduce by 5%

Limited progress has been made in reducing our water consumption which is up by 11.1% against our target of a 5% reduction, due to an increase in the number of employees. This increase since the 2012/13 base year means that the usage per employee has increased by 0.6%.

- 2012/13 – 2,522 employees – 14.21M³
- 2013/14 – 2,639 employees – 11.93M³
- 2014/15 – 2,684 employees – 14.11M³

We have installed water saving devices at all sites to reduce consumption and waste, as well as a rain water harvesting system at our Ryton site.

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.

Health and Safety

6. HSE Audit Compliance

- 2014/15 Achievement – 94.88%
- 2015/16 Target 95%

The Group fully embraces and endorses the legal and moral obligation to

protect the health, safety and welfare of employees and others who may be affected by our operations.

Robust policies are deployed to ensure training, risk assessment, safe systems of work and accident investigations are carried out throughout the Company. Policies are updated on an on-going basis to ensure they reflect the changing environment in which we operate. Health and safety is discussed at Group Board meetings utilising our monthly health and safety report, which outlines proactive and reactive measures for discussion and debate.

A full Health, Safety and Environmental (HSE) audit is conducted at each operating location at least annually, with locations receiving a score and an improvement plan on completion. Locations are challenged to achieve a "Pass Mark" of 95% and those failing to do so undertake a re-audit within six months to ensure that improvement plan actions have been implemented. 2014/15 proved to be a challenging year for the network dealing with increased volumes and the associated issues those volumes create. A number of managerial changes also impacted on the implementation of controls and systems. As a result we experienced a decrease in the average scores achieved in the year from 96.65% to 94.88%. The health, safety and environmental team will analyse the results of all audits to identify trends and work with the operations team to implement robust solutions to redress any issues identified.

Our health and safety intranet site hosts management information which includes specific procedures and policies such as emergency response, safe operating methods, risk assessments, accident investigation procedures and the carriage of dangerous goods, as well as communications to promote health and safety in the workplace.

7. Workplace Fatalities

- 2014/15 Achievement – 0
- 2015/16 Target – 0

8. ISO 14001 Corporate Sites

- 2014/15 Achievement – 100% - Maintained Certification at all sites
- 2015/16 Target – Maintain Certification

ISO 14001 is the key certification standard for Environmental Management Systems. It sets rigorous demands for the continuous improvement of our environmental management system provision 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.

ISO 14001 Franchise Sites

- 2014/15 Achievement – work not yet started
- 2015/16 Target – 100% Compliance at Franchise sites

We plan to extend our ISO14001 certification to our franchise sites by 2016. Work on this objective is due to commence from April 2015 following a number of organisational changes affecting franchise sites.

OHSAS18001 at Corporate Sites

- 2014/15 Achievement – accreditation has not yet been achieved
- 2015/16 Target – 100% Compliance at 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.

Employment

9. Staff Turnover

- 2014/15 Achievement – 7.7% adverse to target
- 2015/16 Target – 20% turnover

The increased staff turnover largely results from the relocation of our National hub and offices to Ryton.

Employee involvement

We continue to raise awareness amongst our employees by ensuring they

understand how their actions impact the environment. We encourage switching off lights, powering off desktop computers, laptops, photocopiers, and ensuring that office materials and work practices increase recycling.

Working with our suppliers

We work closely with our suppliers to improve their environmental standards and we request details about their environmental practices and accreditation as part of our supplier selection process. Our Supplier Code of Conduct defines our minimum standards of business activity and shapes the way we work with our suppliers for mutual gain. We continually work with suppliers to develop new products and in the re-engineering of existing products to use more environmentally friendly materials and less finite materials such as paper and polymer. All of our Bagits are 100% recyclable and copier paper reduced to 75 gms. We are in the process of rolling out a new estate of photocopiers which will be set to print double-sided. This along with the introduction of the driver scanning system will mitigate the need for driver run sheets which will see the amount of copier paper reduce by some 10%. We also prefer to work with more UK based suppliers who produce our high volume products in the UK instead of other parts of the world, and this significantly reduces the transportation involved.

Community

We believe in community investment and that UK Mail should play its part as a good corporate citizen, supporting charities and community activities that affect our staff and customers.

We financially support employees who are involved in personal fundraising initiatives for causes close to their hearts. During the year we donated to a diverse range of charities through our Staff Sponsorship Scheme, helping fund cancer charities, children's charities, local hospices, The British Heart Foundation and Air Ambulance, amongst others.

Our commitment to working both with the Department of Work and Pensions, and a range of employment partners continues, so that we support the long term

unemployed from welfare to sustained employment. Our Work Experience Programme continues throughout all our sites, and we remain committed to our Apprenticeship programme 'Appforthat', which whilst less active than last year remains a key area we wish to support during 2015/16.

We are also keen to further develop our relationships with local schools and colleges during the coming year to promote work experience weeks at UK Mail.

Charity Giving

Throughout the year, UK Mail chose to support the NSPCC, one of the UK's largest children's charities. Since 2012 we have raised £105,000 for this cause throughout our three year partnership, and the money has been donated to the NSPCC's, ChildLine Schools Service. This service trains volunteers to visit primary schools around the UK, educating children about when they should contact ChildLine about issues such as abuse or bullying.

In addition to a donation from UK Mail, our employees organised local fundraising activities for the NSPCC, such as sky dives, bike rides and half marathons, or smaller fundraisers such as dress down days and cake sales, which took place during working hours. We also run an employee payroll lottery scheme generating money for the charity.

Throughout 2014/15, UK Mail also worked in partnership and raised money for The Royal British Legion. UK Mail donated £10,000 towards the RBL poppy appeal in 2014/15. The Legion has been raising funds and providing care and support to serving members of the Armed Forces, veterans and their families since 1921. We are proud to be supporting them for the year in which they commemorate 100 years since World War 1 began.

Finally, we have a policy of supporting supplier and client charitable fundraising initiatives through donations of monies or gifts.

Steven Glew,
Group Finance Director
19 May 2015

Board of Directors



Guy Buswell
Chief Executive

Guy joined the Company in 1989 and was appointed Sales Director in 1992. After a period elsewhere in the industry he re-joined the Company in 1997 and was appointed to the Board in August 1998. Guy started the company's Mail business in 2002, and became the Chief Executive in December 2005.



Steven Glew
Group Finance Director

Steven was appointed to the Board as Group Finance Director in June 2006. He has held the positions of Group Finance Director at Crown Sports plc, Booker plc, and Mothercare plc, having previously held a number of senior positions with Tesco plc. Steven is a Chartered Accountant.



Carl Moore
Group Operations Director

Carl joined UK Mail as Operations Director in 2007, having previously held a number of senior positions in parcel distribution companies across the UK. He was appointed to the board in April 2014 after successfully managing our operations for the past seven years.



Peter Kane
Chairman

Peter founded the Company. After a period as Chief Executive was appointed Chairman in July 2001.



Michael Findlay
Senior Independent
Non-Executive Director

Michael was appointed to the Board in September 2009, and is currently a member of the Audit and Nomination Committees and chairs the Remuneration Committee. He was appointed as the Senior Independent Director in June 2012. Michael is Co-Head of Bank of America Merrill Lynch's Investment Banking and Corporate Broking businesses in the UK and Ireland. He is also Chairman of Fin Capital Limited.



Bill Spencer
Independent
Non-Executive Director

Bill was appointed to the Board in November 2011 and chairs the Audit Committee. Bill has a wide range of financial experience and was Chief Financial Officer of Intertek Group plc from 1995 to 2010. He is a Chartered Management Accountant and is also a Non-Executive director and Audit Committee Chairman of Exova Group plc.



Jessica Burley
Independent
Non-Executive Director

Jessica joined the Board as a non-executive director in September 2012. She is CEO of m/SIX, a full-service media agency which specialises in digital, direct and social media marketing, and is a Non-Executive Director of Quarto plc. Jessica has over 20 years' experience in the advertising and media industry and has previously been a non-executive director of Jacques Vert plc and TalkTalk plc. Prior to this, Jessica was managing director of The National Magazine Company and COO for ACP-NatMag. She previously held senior positions at Financial Times Business, a subsidiary of FT Group, and Future Publishing Limited.

Chairman's letter

Dear Shareholder,

I am sure that you will appreciate that as a premium listed company, UK Mail is subject to the Financial Reporting Council's ('FRC') UK Corporate Governance Code 2012 (the 'Code').

I am equally sure that you will be pleased that I can again confirm that the Board considers that it has complied with the majority of the detailed provisions of the Code throughout the year and up to the date of this report.

As we all know, the world doesn't stand still. In September 2014, the FRC issued a new UK Code which is effective from 1 October 2014, which will first apply to UK Mail in the financial year commencing 1 April 2015. I will provide an update as to the Group's compliance with the 2014 Code in next year's report.

However, good corporate governance is not simply about the adherence to codes of practice but rather about the creation of the right framework such that people are clear as their roles, responsibilities and accountabilities. In its simplest form it defines what is and what isn't acceptable, with the Board responsible for ensuring the correct values are set for the company.

It involves responsible and clear leadership, aimed at setting the right standards for others to follow, and in winning the hearts and minds of people, rather than a 'tick list' mentality.

I can assure shareholders and other readers of this report, that the UK Mail Board remains committed to these objectives, continuing to ensure that these values and behaviours are consistently applied throughout the Group.

Good governance doesn't stop there, and we remain mindful of our wider responsibilities to franchises, suppliers, customers, partners and investors, amongst others. You will read elsewhere in this Annual Report of examples of this.

In the report that follows we provide an overview of our corporate governance practices, describing how the main principles of the Code have been applied throughout the year. The report includes individual reports from the Chairmen of the Audit Committee, the Nomination Committee and the Remuneration Committee which together describe how we conduct our business in line with the Code's provisions and other accepted principles of good corporate governance.

Finally, I would encourage you to attend our AGM. The AGM will once again be held at the offices of Investec, 2 Gresham Street, London, EC2V 7QP at 12:00 noon on 8 July 2015.

Peter Kane

Chairman of the Board
19 May 2015

Corporate governance report

The Listing Rules of the UK Listing Authority require listed companies to disclose how they comply with the principles of good governance and code of best practice known as the UK Corporate Governance Code 2012 (the 'Code'), and whether there has been compliance with its provisions throughout the financial year. A copy of the Code may be found on the Financial Reporting Council's website (www.frc.org.uk).

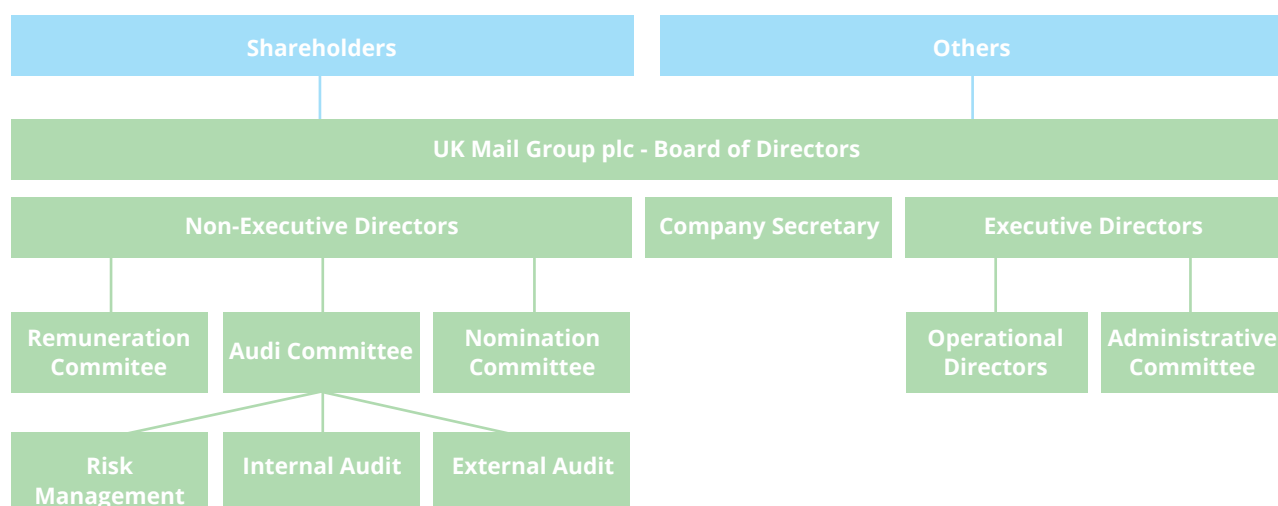
The Company is a smaller company for the purposes of the Code and in consequence certain provisions of the Code

either do not apply to the Company or may be judged to be less relevant to the Company.

The directors consider that the Company has complied with the provisions of the Code applicable to it throughout the financial year ended 31 March 2015, save for the independence of the Chairman (See 'Board Independence' on page 38).

This statement explains how the Company has applied the principles of good governance set out in the Code.

The governance structure



The Board

The Board is collectively responsible for the long-term success of the Company and is ultimately accountable to shareholders and other stakeholders for the Group's strategy, risk management and performance. Further details of the Board's activities are provided on pages 35 to 39.

Audit Committee

The Audit Committee's primary responsibilities are to monitor the integrity of the Group's financial statements, to review internal and external audit activity, and to review and monitor the effectiveness of risk management and internal controls. Further details on the activities of the Audit Committee are provided on pages 40 to 43.

Nomination Committee

The Nomination Committee is responsible for board and senior executive recruitment and succession planning, thereby ensuring the appropriate balance of skill sets are present in the boardroom. The Committee also makes recommendations to the Board on membership of its committees. Further details on the activities of the Nomination Committee are provided on pages 45 to 46.

Remuneration Committee

The Remuneration Committee is responsible for determining all elements of remuneration for the executive directors and senior executives of the Group and for approving all incentive plans. Further details on the activities of the Remuneration Committee are provided on pages 53 to 72.

Company Secretary

The Company Secretary's primary responsibility is to ensure that good information is provided to the Board and all of its committees, and that all necessary compliance issues and rules and regulations are followed. The Company Secretary reports to the Chairman on all board governance matters. All directors have access to the services of the Company Secretary and may take independent professional advice at the Company's expense in conducting their duties.

Risk Management Committee

The Risk Management Committee's primary responsibility is to identify, monitor and review the Group's non-financial risks, reporting at least quarterly to the Audit Committee and/or Board.

Internal audit

The internal audit function, (including externally sourced advisors), provides an independent in-house assurance and consulting activity designed to add value and improve the Company's operations. It helps the business accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

External audit

The external audit function provides independent audit and review.

Operational directors

The Operational directors have day-to-day responsibility to execute the strategy approved by the board and comprise of the most senior executive management within the Group including the functional heads of Mail and IT, as well as the Chief Executive, Group Operations Director and Group Finance Director.

Administrative Committee

The Administrative Committee, which comprises a quorum of at least two main Board directors, has a delegated responsibility from the Board to enter into the legal agreements or contracts approved by the Board, on its behalf. All actions undertaken are reported at the next subsequent Board meeting.

The Board

The Board is collectively responsible for the long-term success of the Company and is ultimately accountable to shareholders and other stakeholders for the Group's strategy, risk management and performance.

The Board has the powers and duties as set out in all relevant laws and the Company's Articles of Association. Amendments to the Company's Articles of Association may be made in accordance with the provisions of the Companies Act 2006.

The Board has also reserved a number of matters for its sole consideration. These include;

- the approval of major items of expenditure or commitment, including acquisitions;
- major operational projects, including new contract wins;
- financing, including lease/buy decisions and the use of derivatives and insurance; and
- policy changes relating to the operational and franchise networks

The Board routinely monitors the various financial, operational and commercial risks facing the Company through reports from management, and takes full consideration of legislative,

health and safety, environmental, employment and governance issues. In forming decisions the Board considers the impact on wider stakeholders including employees, suppliers and the environment.

Internal control

The Board of directors 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, whilst the role of management is to implement the Board's policies on risk and control and provide assurance on compliance with those policies.

In discharging these responsibilities, the Board confirms that it has established the procedures necessary to comply with the Code, including clear operating procedures, lines of responsibility and delegated authority.

The key elements of the review processes and control framework across the Group are as follows:

- The 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;
- 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 Group to benefit from centres of expertise in the most efficient and cost effective manner;
- Proposed capital investment and I.T. project implementations require detailed justification, review and appraisal, prior to any approvals being granted, and post-implementation reviews are undertaken;
- Clearly defined hierarchy of responsibilities, including authorisation levels, and documentation of operational and administrative procedures;
- 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.

Corporate governance report continued.

The system of Internal Control is designed to manage and mitigate, rather than eliminate risks completely, and it should be recognised that it can only provide reasonable not absolute assurance against material misstatement or loss.

Within that context, the Audit Committee, on behalf of the Board, has conducted reviews of the effectiveness of the system of internal controls and processes described above, as recommended by the UK Corporate Governance Code 2012, and is satisfied that it accords both with the Code and Turnbull guidance.

Financial Reporting

In addition to the general risk management and internal control processes described above, the Group has also implemented internal controls specific to the financial reporting process and the preparation of the annual and interim consolidated financial statements.

The main control aspects are as follows:

- financial policies and procedures applicable to, and consistent for, all business units;
- a detailed reporting calendar including the submission of detailed monthly accounts for each business unit in addition to the year-end and interim reporting process;
- monthly reconciliation and review of all balance sheet accounts; and
- detailed management review at Operating Director and Main Board level of the monthly management accounts, with an Audit Committee review in respect of the interim and year-end Report and Accounts

All financial information published by the Group is subject to the approval of the Board, on the recommendation of the Audit Committee.

Board meetings

The Chairman, in conjunction with the Chief Executive and Company Secretary, plans the agenda for each Board Meeting. That agenda is issued to all Board members (whether attending the meeting or not), together with all supporting papers before the meeting is held.

The Company Secretary ensures that the supporting papers provide the Board with the appropriate and necessary information such that the Board as a whole may discharge their duties. However, where a director feels that more information may be required he/she may either access the services of the Company Secretary or alternatively may take independent professional advice at the Company's expense.

Board meetings are normally held at the Slough head office of the Group, albeit at least one meeting per annum is held at the Ryton head office. Operational management are invited to attend board meetings on a regular basis. This, together with visits to the sites, helps to provide the individual directors of the Board with an opportunity to broaden their knowledge of the business, and to meet employees and management of the Group.

The Board meets formally not less than ten times a year, with other meetings held as necessary. Reports are also supplied to directors in months when a Board meeting does not take place.

Formal minutes recording the activities and decisions of the Board and Committee meetings are prepared and circulated to each director. If a Director objects to a particular decision this is recorded in the minutes of the relevant meeting.

Board composition

The Board currently comprises the Chairman, the Chief Executive, the Group Finance Director (who is also the Company Secretary), the Group Operations Director, and three independent non-executive directors. There is a clear division of responsibilities between the Chairman and the Chief Executive, set out in writing and agreed by the Board.

The Chairman is primarily responsible for the effective working of the Board, ensuring that the board as a whole plays a full and constructive part in the development and determination of the Company's strategy and its overall commercial objectives. He ensures that the board determines the nature and extent of the significant risks the Company is willing to accept in the implementation of its agreed strategy. He is also responsible for promoting the highest standards of integrity, and also manages the relationship and communication with shareholders in relation to any governance matters.

The Chief Executive is responsible for all executive management matters affecting the Company. His principal responsibility is the day-to-day running of the business and implementation of Board strategy and policy.

The Senior Independent Non-executive Director provides a sounding board for the Chairman and serves as an intermediary for the other directors as necessary. He also acts as a line of contact for shareholders if they have concerns which are not appropriate for discussion with the Chairman, the Chief Executive or the other executive directors.

The non-executive directors challenge and agree the Company's strategy with the Chief Executive and executive management and assess their performance against it.

Non-executive directors are initially appointed for a three year term with an expectation that they will continue for at least a second term.

As can be seen from the director's profiles on page 32, the directors have a wide range of skills, knowledge and experience and can bring independent judgement to bear on matters of strategy, performance, and governance.

Board induction and development

On appointment, the Chairman agrees a personalised induction plan for all new directors, tailored to their experience, background and particular area of focus, which is designed to develop their understanding of the Group's culture and operations. The programme has evolved over time having been modified following feedback, but will usually involve meetings with senior management and site visits.

On an annual basis, the Chairman reviews and approves individual development plans. Directors are encouraged to attend seminars and/or other forums relevant to their role.

Time Commitment

Service agreements and letters of appointment, for both the executive and non-executive Directors, are available for inspection at the Company's registered office and at the AGM.

The letters of appointment for each of the non-executive directors state that in accepting the appointment, the Director confirms that he/she is able to allocate sufficient time to meet the expectations of the role, with an anticipated time commitment of approximately 20 days per year.

Executive directors are permitted to take a maximum of one non-executive directorship position with another company, but any such involvement must be subject to the Board's prior approval.

Board changes during the year

Carl Moore was appointed to the Board as Group Operations Director on 8 April 2014, having served as Network Director since his appointment in 2007.

Following his appointment the Board, excluding the Chairman, comprises of an equal number of executive and independent non-executive directors.

Details of the current Board members and the composition of its committees can be found on pages 37 and 39.

Board membership, meetings and attendance

Director	Date of appointment	Position	Actual number of meetings attended	Possible number of meetings attended
Peter Kane	10 July 2001	Chairman	10	10
Jessica Burley	1 Sept 2012	Independent non-executive director	10	10
Guy Buswell	5 Dec 2005	Chief executive	10	10
Carl Moore	8 Apr 2014	Group operations director	10	10
Michael Findlay	1 Sept 2009	Senior independent non-executive director	10	10
Steven Glew	5 June 2006	Group finance director	10	10
Bill Spencer	1 Nov 2011	Independent non-executive director	10	10

Board evaluation

An evaluation of the Board, its committees, the individual directors and the Chairman was conducted internally. This was led by the Chairman, who invited each director to complete a survey, the results of which were discussed both collectively as a Board, and with each individual director.

In addition, the Chairman regularly convenes meetings of the non-executive directors to assess the performance of the Board in the absence of the executive directors. Furthermore,

both the independence and the performance of the Chairman were discussed separately by the non-executives without the Chairman present.

Overall, the Board and its committees remain satisfied that they continue to operate effectively, that the information directors receive is both of the required quality and provides sufficient time for adequate review, and that there are consequently no material changes required to existing practices.

Corporate governance report continued.

Board Independence

The Code states that the Board should determine whether a director is independent in character and judgement and whether there are relationships or circumstances, which are likely to affect or could appear to affect, the director's judgement, for example serving on a board for more than nine years, or where he/she has had a material business relationship with the Company within the last three years.

The Chairman of the company, Peter Kane is not judged to be independent due to his significant shareholding. Peter Kane was appointed as a director in April 2001, and having now served on the Board for more than nine years, is required under the provisions of the Code to submit himself for re-election each year.

The Board considers all of the Company's other non-executive directors to be independent in character and judgement and free from any relationships or circumstances which are likely to affect, or could appear to affect, their judgement.

The Board have evaluated Peter's performance and the operation of the Board as a whole, and are satisfied that no one individual dominates proceedings.

Directors' conflicts of interests

Under the Companies Act 2006, the Directors have a statutory duty to avoid a situation where they have, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company. Directors of public companies may authorise conflicts and potential conflicts where appropriate, if the articles of association contain a provision to this effect.

The Board is aware of the other commitments of its Directors and is satisfied that these do not conflict with their duties as Directors of the Company. The process for monitoring conflicts is as follows:

- changes to the commitments of all Directors are reported to the Board;
- the Directors are required to complete a conflicts questionnaire on appointment and annually thereafter;
- any conflicts identified are presented to the Board for consideration and, as appropriate, authorised in accordance with the Companies Act 2006 and the articles of association; and

- Directors are responsible for immediately notifying the Company Secretary if they become aware of any actual or potential conflict situation or a change in circumstances relating to an existing authorisation

The Board has not identified any conflict of interests during the year, and believes that the procedures established to deal with conflicts of interest are operating effectively.

Relations with shareholders

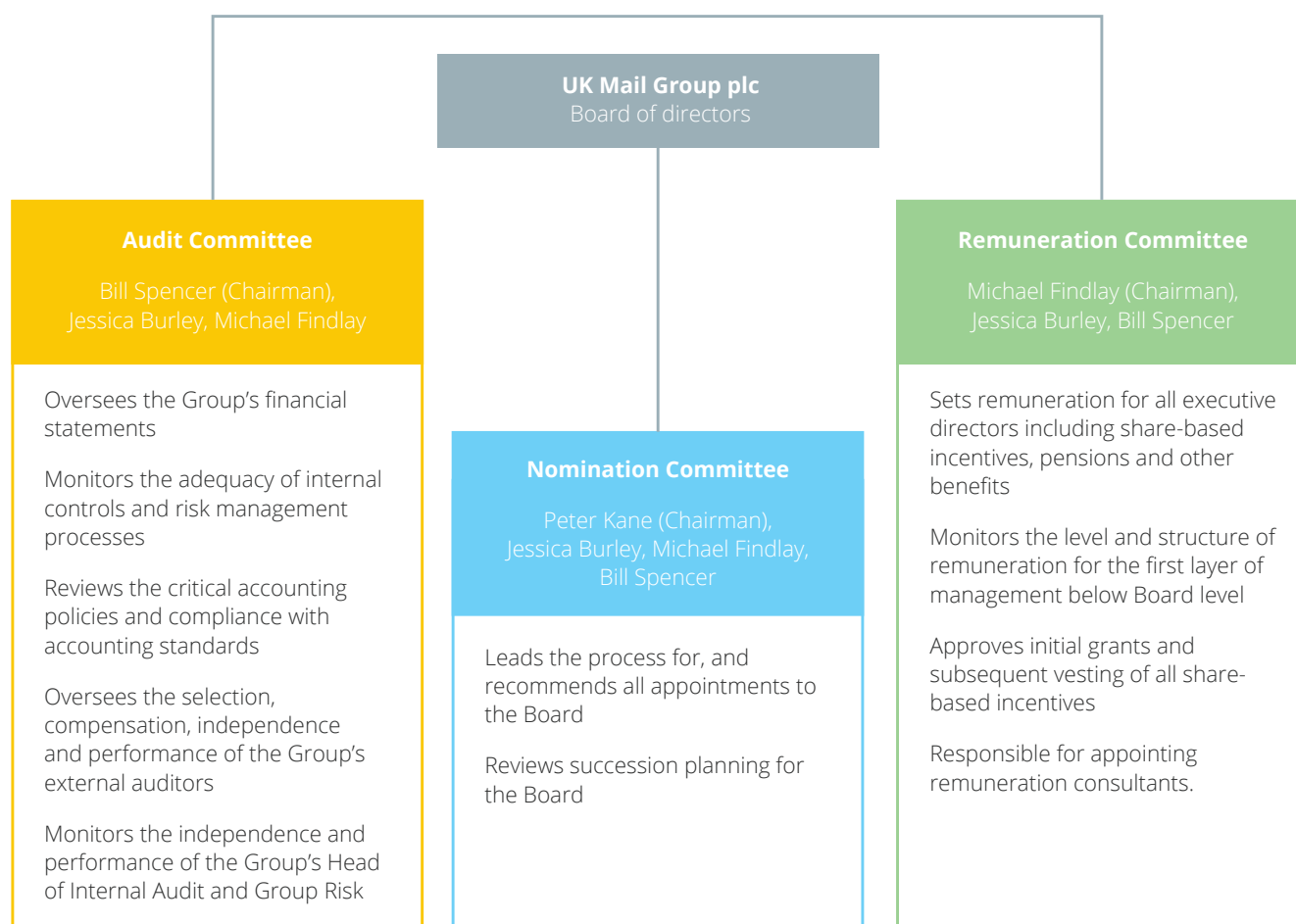
Whilst there is a substantial shareholding represented on the Board, the Company values its dialogue with both institutional and private investors. Two-way communication with institutional investors, analysts and private investors is actively pursued, and a series of presentations and meetings are held throughout the year, carefully recognising statutory constraints concerning the disclosure of information. Feedback from these meetings is collated by the Company's advisers and circulated to members of the Board to ensure that they are kept informed of the views of shareholders. In addition, the Chairman periodically attends meetings with shareholders, and non-executive directors are invited to attend results presentations.

The Group's annual and half-yearly results, interim management statements, trading updates, presentations given to analysts and all announcements made through the RNS are published on the Company's website at www.ukmail.com. A full Annual Report is sent to all shareholders who wish to receive one.

All shareholders are given at least 20 working days' notice of the AGM. It is standard practice for all directors to attend the AGM to which all shareholders are invited and at which they may put questions to the chairmen of the various committees or the Board generally. The proxy votes for and against each resolution, as well as votes withheld (which may be recorded on the proxy form accompanying the notice of AGM) are counted before the AGM commences and are made available to shareholders at the close of the formal business of the meeting. The proxy votes are also announced through the RNS and posted on the Company's website shortly after the close of the meeting.

Board Committees

The Board receives advice and support from three committees, being the Audit, Remuneration and Nomination Committees. Membership of these committees as at 19 May 2015 and their principal terms of reference are set out below:



Audit Committee Report



Bill Spencer

Chairman of the Audit Committee

"The Committees overriding purpose is to provide assurance to the Board that the interests of shareholders are suitably protected, principally through the oversight of financial reporting, risk management, the internal control environment, and the audit process".

Responsibilities

The main roles and responsibilities of the Audit Committee are set out in written terms of reference, available on the company's website www.ukmail.com. These terms are considered annually by the Audit Committee and referred to the Board for approval.

The main responsibilities of the Audit Committee are summarised below:

- Monitoring the integrity of the Company's financial reporting including the selection of the most appropriate accounting policies and compliance with accounting standards;
- Advising the Board on whether the Committee believes that the Annual Report when taken as a whole, is fair,

balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;

- Reviewing the integrity of the risk management and internal control framework;
- Monitoring the role and effectiveness of the internal audit function; and
- Approval and appointment of the external auditors, including their terms of engagement, fees, independence, performance and effectiveness

Governance

The Audit Committee is composed of entirely independent non-executive directors. The Board has satisfied itself that the chairman of the Audit Committee, and the Committee collectively, have recent and relevant financial experience due to the senior positions they hold or have held in other public companies, to enable the Committee to function effectively and to discharge its responsibilities.

Audit Committee membership, meetings and attendance

Director	Date of appointment	Position	Actual number of meetings attended	Possible number of meetings attended
Bill Spencer – Chairman	1 Nov 2011	Independent non-executive director	4	4
Jessica Burley	1 Sept 2012	Independent non-executive director	4	4
Michael Findlay	1 Sept 2009	Senior independent non-executive director	4	4

Other attendees

The Audit Committee retains discretion as to who from outside the committee can attend meetings in full but typically invites the Chairman, Chief Executive, Group Finance Director, Group Financial Controller, Head of Internal Audit and Group Risk, externally sourced advisors, and senior representatives of the external auditors, although it reserves the right to request any of these individuals to withdraw. At least once a year the Committee meets separately with the external auditors and with the Head of Internal Audit and Group Risk without executive management present.

Activities

The committee met four times during the year, and reports of these meetings were provided to the subsequent Board meetings.

The main areas of focus considered by the Committee during the year were as follows:

Financial Reporting

During the year the Committee reviewed the Group's draft interim and annual financial reports prior to Board approval. The Committee assessed whether suitable accounting policies had been adopted and whether management had made appropriate estimates and judgements. As part of these reviews the Committee received a number of accounting papers prepared by management which detail the main financial reporting judgements. Additionally, the Committee also reviewed reports prepared by the external auditors at both the half year and the full year which highlighted its attention.

Audit Committee Report continued.

The significant judgements considered by the Committee were:

Discontinued operations - UK Pallets closure: The Committee considered the treatment and disclosure of exceptional income and expenditure. In particular, in advance of the half-year reporting cycle, and following a rapid deterioration in the trading performance of UK Pallets, the Committee reviewed and considered a detailed paper prepared by management on the work undertaken and the assessments made in relation to the impairment testing of goodwill, within this Cash Generating Unit ('CGU'). The Committee, having reviewed the underlying assumptions used in the model, and in particular the changes to the forecast cash flows of this CGU, since the annual impairment test undertaken in March 2014, agreed that an impairment charge should be recognised as an exceptional item at the interim stage.

Following the January 2015 announcement to close UK Pallets, the Committee agreed it appropriate to write-off a number of other items on cessation of trade as exceptional items, principally including redundancies, an intangible asset (software system), contract exit and dilapidation costs.

Exceptional items - National hub relocation: The Committee reviewed a further paper detailing exceptional costs and compensation relative to the relocation of the National hub, and agreed that their quantum and accounting presentation were correct.

HS2 costs and compensation: The Committee considered and agreed with the accounting treatment and related costs disclosure of amounts claimed from HS2 Ltd as compensation, whether received or not at the year-end.

Goodwill impairment (Courier CGU): The Committee received the annual 'Goodwill Impairment Review' papers prepared by management, used to support the carrying value of goodwill in the Balance Sheet in respect of the Courier CGU. The Committee, having reviewed the underlying assumptions used in the model against the agreed plans for the business unit and the sensitivities to any deterioration in future cash flow projections, agreed with management's conclusion that goodwill remained unimpaired in this CGU.

Areas of management judgement: On an on-going basis management exercise judgement over the level of provisioning required in a number of areas including sales ledger credits, claims and bad debts, bonus accruals, insurance reserves, dilapidations, the outcome of share-based payment plans, and purchase order accruals. The Committee challenged both the underlying assumptions made by management, and the work undertaken by the external auditors, and after discussion and debate agreed with the accounting treatment adopted in the preparation of the financial statements.

Going concern: Prior to the publication of both the half-year and the full-year results, the Committee considered going

concern papers prepared by management, and taking into account the internal auditors' review of these papers and their assumptions, concluded that management's recommendation to prepare the financial statements on a going concern basis was appropriate. The papers included the forecast short-term and medium-term spending requirements resulting from the relocation of the National Hub to Ryton, and the Group's available committed banking facilities over these periods. The Committee paid particular focus to the sensitivities to any potential delay in both the receipt of compensation payments from HS2 Ltd and any prolonged period of deterioration in trading, and the options available to management in this event, and agreed with management's recommendation that preparation of the accounts on a going concern basis remained appropriate.

Fair, balanced and understandable: At the request of the Board, the Committee considered whether the Annual and Interim Reports were 'fair, balanced and understandable', and whether they provided the necessary information for shareholders to assess the Company's performance, business model and strategy. In forming this conclusion, the Committee considered the overall review and confirmation process around the production of the Annual and Interim Reports including reports received from subject matter experts (both internal and external), executive and senior management, internal audit and external auditors.

In reviewing these processes, key considerations included ensuring that there was consistency between the accounts and the narrative largely provided in the front half of the Annual Report, and that there was an appropriate and honest balance of reporting both the Group's failures as well as successes.

Risk management and internal control

The Committee, on behalf of the Board, is responsible for reviewing the effectiveness of the risk management framework within the Group, in relation to the key operational, compliance and financial risks the Company faces. The Committee therefore reviewed the following;

Risk Management: At the request of the Board, and following guidance provided in the Financial Reporting Councils ('FRC') 2014 revision to the UK Corporate Governance Code, the Audit Committee received and considered an updated and comprehensive Risk Management policy.

The key recommendations approved by the Committee included acceptance of the proposed 'risk appetite' matrix, and an increase in the frequency of risk reporting to the Board.

Risk Register: The Committee twice reviewed the prime financial and non-financial risks, as identified on the Risk Register during the year, together with the effectiveness of the Group's controls to manage and mitigate the impact of those risks.

As part of this work, the Committee reviewed and discussed the key risks judged by the Board to have the largest potential impact on the Group, further details of which can be found on pages 22 to 25.

Internal Control Procedures: The Committee considered reports from both the Head of Internal Audit and Group Risk and the Group Finance director on the operation of, and issues arising from, the Group's internal control procedures, together with observations from the external auditors and discussions with senior management.

Whistle blowing and fraud incidents: The Committee received whistle blowing and fraud incident reports, and reviewed not only the cause of those incidents, and the subsequent actions taken by management to resolve and prevent recurrence, but the use and internal communication of this facility. The Committee agreed that the Group was doing all it could to encourage suppliers, sub-contractors or employees to raise any malpractice or dishonest concerns in complete confidentiality.

Revenue assurance and I.T. systems: The Committee received a number of reports on revenue integrity and assurance from both management and the internal auditor, which were discussed in detail, with subsequent actions set for management. The Committee reviewed the progress of the I.T. development programme, and determined the priorities and outline timetable for the year.

Loss prevention: The Committee reviewed and discussed the three year strategic loss prevention plan from the Head of Loss Prevention. The Committee agreed that the overall plan was appropriate, and that the key areas of focus had been properly identified.

The effectiveness of internal controls and the risk management framework

The Committee recognises that a robust and effective system of internal control is critical to achieving reliable and consistent business performance. On behalf of the Board, the Committee reviews the effectiveness of the risk management and control systems in relation to the key financial, operational and compliance controls. The Committee noted continued focus and improvement in this area during the year.

The Committee noted that the framework of IT internal control continues to be implemented across the Company. Whilst the Committee is pleased with the progress achieved to date, there remains much still to do and work in these areas will be on-going into the new financial year.

Internal audit

The Committee monitored and reviewed the work of the internal audit function during the year as follows:

Internal audit plan: The Internal Audit Plan, which is initially determined by the Head of Internal Audit and Group Risk through a structured process of risk assessment, was reviewed by the Committee twice during the year, with a number of priorities changed as a result. This included the internal IT audit plan, which is undertaken by Deloitte LLP, who act as the independent internal IT audit resource for the Company.

Internal audit reports: Members of the Audit Committee received Internal Audit Reports on a regular basis throughout the year, as and when they were concluded. Twice during the course of the year, the Head of Internal Audit and Group Risk presented updates to the Committee as to the most significant findings resulting from this work, together with a status and progress report of the agreed management action implementation plans.

The reviews included a discussion surrounding the I.T. review work undertaken, and the key findings identified by Deloitte LLP.

The Committee also met with the Head of Internal Audit and Group Risk in private during the year to provide additional opportunity for open dialogue and feedback without management present.

External audit

The Committee monitored and reviewed the work of the external audit function during the year as follows:

Audit scope: The scope, fee, and performance of the external auditors were considered by the Audit Committee. The Committee considered the external auditors risk assessment (of significant and elevated risks) in relation to the Group's financial statements, which for this year were; the accounting treatment and disclosure of HS2 compensation, 'the recoverability of goodwill', 'the risk of fraud in revenue recognition' and 'management override of controls'. Additionally, the scope and nature of work in respect of the discontinued UK Pallets operation was agreed. Throughout the year, the Committee monitored these risks and the associated work undertaken by the external auditors.

Audit effectiveness: The Committee monitored the effectiveness and coverage of external audit, through consideration of the content of their report, the degree to which the agreed audit plan had been fulfilled, the significant control weaknesses identified, (together with their recommended solutions to these), the interaction between management and the auditors (including the dedication of sufficient management time to the audit process), the experience and expertise of the auditors, their overall audit judgments and findings, and communication with, and support, to the Committee.

Significant accounting and control issues: The external auditors reported twice to the Committee (once after the interim review and one after the year-end audit), on the significant accounting and control issues identified during the course of their work, the key accounting and audit judgements made by management, the level of errors noted during the audits and made a number of internal control recommendations in their management letter.

Accounting and reporting changes: The Committee received a number of reports from the external auditors during the year regarding developments in accounting and reporting, regulatory and corporate governance matters.

Auditor independence: The Committee currently has no set policy on the tendering frequency or the tenure of the external auditor. The Committee will continue to keep this under review in light of the audit tendering provisions in the 2014 Code and regulations and will regularly consider the current level of audit services that the Company receives along with the fees it pays and the value being delivered.

The external audit was last put out to tender in 2011, after PricewaterhouseCoopers LLP had been in tenure since the year ended 31 March 2003, following which the Audit Committee recommended the reappointment of PricewaterhouseCoopers LLP to the board, which was subsequently ratified by shareholders at the 2012 Annual General Meeting. A new lead audit partner was appointed at this time. The external auditors are required to rotate the audit partners responsible for the Group and subsidiary audits at least every five years, and employees of the external auditor who have worked on the audit in the past two years are not appointed to senior financial positions within the Group.

There are no contractual obligations restricting the Company's choice of external auditor.

The Committee believes it can receive particular benefit from certain non-audit services provided by the external auditors due to their wide and intricate knowledge of the Group. However, the Committee is also mindful of the potential conflict that can result, whether real or perceived, and therefore has an approved policy for the provision of non-audit services which can be viewed on the Company's website www.ukmail.com.

The policy specifically details a number of services which are not permitted to be provided by the external auditor, including

those activities normally undertaken by management, where the auditor would be rewarded through a success fee, or where the auditor could be required to audit their own work.

The policy permits the external auditors to provide a number of specified non-audit services to the Company without reference to the Committee where the work is closely related to the performance of the audit, or is a logical extension of the audit, or is of an assurance or compliance nature where the auditors are in the best place to undertake, and where the fee is both less than £50,000 and cumulatively less than 50% of that financial year's audit fee.

During the year, the Committee appointed the Group's auditors to undertake I.T. assurance services in connection with the move of the Group's Data Centre, following the relocation of the Group's National hub and head office. This decision was based on the external auditors detailed knowledge and understanding of the Group's I.T. systems.

The Committee reviewed the non-audit fees paid to the Group's auditors which was noted as compliant with this policy. Further details of the amounts paid to the Company's auditors can be found in Note 5 to the financial statements.

The Committee remains confident that the objectivity and independence of the auditors is not impaired in any way by reason of their non-audit work or other factors and has adopted controls to ensure that this independence is not compromised. The auditors further confirmed their independence to the Committee in a formal statement.

The Committee also met with the external auditors in private during the year to provide additional opportunity for open dialogue and feedback from the Committee without management present.

Upon the recommendation of the Audit Committee, a resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the company will be proposed to shareholders at the 2015 AGM to be held on 8 July 2015.

Bill Spencer

Chairman of the Audit Committee
19 May 2015

Remuneration Committee



Michael Findlay

Chairman of the Remuneration Committee

Role and responsibilities

The main roles and responsibilities of the Remuneration Committee are set out in written terms of reference, available on the company's website www.ukmail.com. These terms are considered annually by the Remuneration Committee and referred to the Board for approval.

The prime responsibility of the Remuneration Committee is to determine the policy for the remuneration of the Chairman, the executive directors and the operating directors.

The Committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration.

Remuneration Committee membership, meetings and attendance

Director	Date of appointment	Position	Actual number of meetings attended	Possible number of meetings attended
Michael Findlay – Chairman	1 Sept 2009	Senior independent non-executive director	5	5
Jessica Burley	1 Sept 2012	Independent non-executive director	5	5
Bill Spencer	1 Nov 2011	Independent non-executive director	5	5

Further details of the Committees' membership, activities during the year and responsibilities together with details of director's remuneration can be found within the Remuneration Report on page 53.

Michael Findlay

Chairman of the Remuneration Committee
19 May 2015

Nomination Committee

Peter Kane Chairman



Role and responsibilities

The main roles and responsibilities of the Nomination Committee are set out in written terms of reference, available on the company's website www.ukmail.com. These terms are considered annually by the Nomination Committee and referred to the Board for approval.

The Committee is responsible for making recommendations to the Board, within these agreed terms of reference.

The main responsibilities of the Nomination Committee are summarised below:

Composition of the Board and its committees

The Nomination Committee is responsible for a number of matters relating to the composition of the Board and its Committees. The Committee meets as necessary to consider the size, composition and structure of the Board, and succession planning. The Nomination Committee plays a key role for appointments to the Board in agreeing the principle job description, appointing independent recruitment consultants and interviewing the preferred candidates.

The Committee keeps itself updated on key developments relevant to the Company, including the subject of diversity in

the boardroom. Whilst no specific targets have been set, the Nominations Committee confirms that the benefits of diversity, including gender diversity, will continue to be a consideration when changes to the Board are contemplated, whilst ensuring that the primary objective remains ensuring that the Board has the appropriate balance of skills, experience and independence.

Performance evaluation

The Committee is responsible for reviewing the effectiveness of the Board as a whole and its committees, including its own. As part of this responsibility the Committee is required to review the time commitments required from non-executives on an annual basis, through use of a performance evaluation process.

Re-election of directors

The Committee makes recommendations to the Board under both the annual re-election and retirement rotation provisions in the Company's Articles of Association, having regard to both the overall balance of knowledge, skills and experience on the Board and the need for the Board to be progressively refreshed, particularly in relation to directors being re-elected for a term beyond nine years.

Nomination Committee membership, meetings and attendance

Director	Date of appointment	Position	Actual number of meetings attended	Possible number of meetings attended
Peter Kane – Chairman	10 July 2001	Chairman	1	1
Jessica Burley	1 Sept 2012	Independent non-executive director	1	1
Michael Findlay	1 Sept 2009	Senior independent non-executive director	1	1
Bill Spencer	31 May 2012	Independent non-executive director	1	1

Nomination Committee continued.

Nomination Committee Activity during the year

The Nomination Committee met once during the year to discuss the following matters:

- A review of the size, structure and composition of the Board;
- Approval of a number of proposed changes to the Committees Terms of Reference to accord with current corporate Governance best practice;
- An initial review of the results of the annual Board evaluation exercise, prior to a subsequent full Board discussion (see page 37);
- The re-appointment of Bill Spencer for a further period of three years from 1 November 2014;
- A review of the time commitments required of the non-executives; and
- The re-appointment of those directors standing for re-election at the AGM

Diversity

The Committee recognises the importance of ensuring there is a diversity of background, experience and perspective in its Board and within the wider workforce. Since the business was first established in 1971 it has supported the progression of individuals through the organisation regardless of gender, age, background or formal qualifications.

Following the appointment of one female director in 2012, and one male director in April 2014, the Board now has 14%

female representation. Whilst the Board remains supportive of the aims of the Davies Report on Women on Boards, it does not believe that the setting of a specific target for a small Board is necessarily appropriate, as there is a real risk of overlooking other well-qualified candidates.

Therefore, in evaluating potential Board appointments, the prime objective of the Nomination Committee will continue to focus on finding the candidate that can bring the most appropriate skill sets and experience to the Board, whilst mindful of the Davies Reports' aims.

AGM election and re-election of directors

The Nomination Committee is aware of the FRC's suggestion that companies outside the FTSE 350 should consider the annual re-election of all directors. On the basis that this is neither a requirement of the Code, nor has it been raised as an issue by any shareholder, the Nomination Committee has chosen not to change its existing practice.

The Nomination Committee strongly supports the re-election of the three directors standing for re-election at the Company's forthcoming Annual General Meeting, details of which can be found in the Notice of Meeting accompanying this Annual Report

Peter Kane

Chairman
19 May 2015

Directors' report

The directors present their Annual Report and the audited consolidated accounts of UK Mail Group plc for the year ended 31 March 2015.

Strategic report

The Companies Act 2006 requires us to present a fair review of the business during the year to 31 March 2015 and of the position of the Group at the end of the financial year along with a description of the principal risks and uncertainties faced (known as a 'strategic report'). The purpose of the strategic report is to enable shareholders to assess how the Directors have performed their duty under Section 172 of the Companies Act 2006 (duty to promote the success of the Company). The information that fulfils the requirements of the strategic report can be found on pages 6 to 31.

Corporate governance report

The Disclosure and Transparency Rules require certain information to be included in a corporate governance statement in the Directors' report. Information that fulfils the requirements of the corporate governance statement can be found in the Corporate Governance report on pages 34 to 46 and is incorporated into this Directors' report by reference.

Results and dividends

The profit for the financial year of £5.0 million is reported in the Consolidated Statement of Comprehensive Income on page 78. The directors recommend a final dividend of 14.5p per share (2014: 14.2p), payable on 28 August 2015 to shareholders on the register on 31 July 2015. This gives a total dividend for the year of 21.8p per share (2014: 21.3p).

Political donations

The Group did not make any political donation or incur any political expenditure during the year (2014: £nil).

Research and development

The Group is engaged in on-going research and development aimed at improving processes and expanding the range of service offerings. Research and development expenditure is expensed when incurred, or in the case of internal software developments capitalised (see note 11), where it meets the recognition criteria detailed in note 1 to the financial statements.

Greenhouse gas emissions

Details of the Group's greenhouse gas emissions (as required to be disclosed under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013) are set out on page 28 of the strategic report.

Directors and their interests

The directors of the Company who were in office during the year and up to the date of signing this Annual Report are listed in the Corporate Governance Report on page 37.

A list of directors, their interests in the ordinary share capital of the Company, their interests in its long-term incentive and

share matching plans, together with details of their options over the ordinary share capital of the Company are given in the Remuneration Report on pages 53 to 72.

Brief particulars of the directors in office as at the date of this Report are shown in the Board of Directors section of this Annual Report on page 32.

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.

Employment policy

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

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

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

Further information concerning the Group's human resource management activities is set out in the 'Our people' report on page 26.

Environmental responsibility and health and safety

A statement on the steps taken to operate the business in pursuit of good environmental and health standards is set out in the Corporate Responsibility report on page 28.

Financial instruments

The Group's accounting policies in respect of financial instruments are set out in note 1 to the financial statements. The Group's financial risk management objectives and policies and its exposure to the following risks – credit, market, price, interest rate, liquidity, and capital – are included in note 25 to the financial statements.

Directors' report continued.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on page 4. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described in the Strategic Report. The Strategic Report and note 25 to the financial statements include a description of the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources available and a strong balance sheet, together with long term contracts with a wide range of public and private sector customers and suppliers as explained in the Strategic Report. Cash flow plans are prepared as part of the Group's annual budget and three year plan. These plans are sensitised to provide an understanding of the impact of risks in order to provide additional comfort on the level of headroom against available bank facilities. The plans are subject to review by Internal Audit who provide a report to the Board. The Board has reviewed and approved these plans. As a result, the directors believe that the Group is well placed to manage its business risks successfully despite the challenging market conditions.

Notwithstanding that the Group has net current liabilities of £31.6m at 31 March 2015 (including £9.6m deferred compensation and £9.8m drawn under the revolving credit facility) the directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future and consequently a going concern basis continues to be appropriate in preparing the accounts.

The Board is mindful of the changes made to the UK Corporate Governance Code in 2014 with regard to the longer term viability statement, compliance with which will apply to the Company for the financial year ended 31 March 2016. The Directors are ensuring that processes are in place in order to be in a position to report in compliance with such enhanced disclosure in next year's Annual Report.

Share capital

The Company has a single class of share capital which is divided into ordinary shares of 10p each. All shares rank equally and are fully paid. No person holds shares carrying special rights with regard to the control of the Company.

Each share carries the right to one vote at general meetings of the Company and no right to fixed income.

Directors are still limited as to the number of shares they can allot. The current authority allows Directors to allot shares up to a nominal amount of £1,526,551. During the year ended 31 March 2015, the Directors exercised their authority to allot shares in respect of employee share schemes (see note 23).

The Company may purchase its own shares. An authority from ordinary shareholders for the Company to purchase up to 5,473,448 shares (representing approximately 10% of its

issued share capital at 20 May 2014) remained in force at 31 March 2015.

The Company operates an employee benefit trust to hold shares in the Company which are used to satisfy grants under the Group's share incentive schemes. Computershare Trustees (Jersey) Limited is the current trustee of the trust. The trustees may vote in respect of any shares held in the trusts but has waived this right.

Details of the movement in the authorised and issued share capital of the Company during the financial year to 31 March 2015 and of the outstanding options over shares in the Company at 31 March 2015 can be found in note 23 to the financial statements on page 113.

General rights attaching to shares

The rights attaching to the ordinary shares are set out in the Companies Act 2006 and the Company's Articles of Association. A copy of the Articles can be obtained on request from the Company Secretary. The Articles may only be changed by special resolution of shareholders which requires, on a vote on a show of hands, at least three-quarters of the shareholders or proxies present at the meeting to be in favour of the resolution or, on a poll, at least three-quarters in nominal value of the votes cast by shareholders or their proxies to be in favour of the resolution.

A shareholder whose name appears on the register of members may choose whether those shares are evidenced by share certificates (certificated form) or held in electronic form (uncertificated) in CREST.

Dividend rights

Subject to the provisions of the Companies Act 2006, the Company may, by ordinary resolution, declare a dividend to be paid to shareholders but the amount of the dividend may not exceed the amount recommended by the Board. The Board may also pay interim dividends at any time and of any amount whenever in the opinion of the Board there are sufficient distributable profits of the Company to merit payment.

Voting rights

Subject to the restrictions set out below, a shareholder is entitled to attend (or appoint another person as his/her representative (a 'proxy') to attend) and to exercise all or any of his/her rights to speak, ask questions and vote at any general meeting of the Company. A shareholder may also appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company.

The right to appoint a proxy does not apply to a person who has been nominated under section 146 of the 2006 Act to enjoy information rights (a 'Nominated Person'). He/she may, however, have a right under an agreement with the registered shareholder holding the shares on his/her behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if a Nominated Person does not have such a right,

or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

In accordance with section 327 of the 2006 Act, in order to be valid, any form of proxy sent by the Company to shareholders or any proxy registered electronically in relation to any general meeting must be delivered to the Company's registrars not later than 48 hours before the time fixed for holding the meeting (or any adjourned meeting). In calculating the 48 hour period no account shall be taken of any part of a day that is not a working day. Full details of the deadlines for exercising voting rights in respect of the 2015 AGM are set out in the Notice of AGM.

Subject to any rights or restrictions for the time being attached to any class or classes of shares and to any other provisions of the Articles of Association or statutes, on a vote on a resolution at a general meeting on a show of hands every shareholder present in person, every proxy present who has been duly appointed by one or more shareholders entitled to vote on the resolution and every authorised representative of a corporation which is a shareholder of the Company entitled to vote on the resolution, shall have one vote. If a proxy has been duly appointed by more than one shareholder and has been instructed by one or more of those shareholders to vote for the resolution and by one or more of those shareholders to vote against it, that proxy shall have one vote for and one vote against the resolution. On a poll, every shareholder present in person or by proxy shall have one vote for every share held.

A resolution put to the vote at a general meeting shall be decided on a show of hands unless the notice of the meeting specifies that a poll will be called on such resolution or a poll is (before the resolution is put to the vote on a show of hands or on the declaration of the results of the show of hands) directed by the Chairman or demanded in accordance with the Articles of Association.

If a person fails to give the Company any information required by a notice served on him by the Company under section 793 of the 2006 Act (which confers upon public companies the power to require information to be supplied in respect of a person's interests in the Company's shares) then the Company may, no sooner than 21 days later, and after warning that person, serve a disenfranchisement notice upon the shareholder registered as the holder of the shares in respect of which the section 793 notice was given. Unless the information required by the section 793 notice is given within 14 days, such holder will not be entitled to receive notice of any general meeting or attend any such meeting of the Company and shall not be entitled to exercise, either personally or by proxy, the votes attaching to such shares in respect of which the disenfranchisement notice has been given unless and until the information required by the section 793 notice has been provided.

Liquidation

If the Company is wound up the liquidator may, with the sanction of a special resolution of the Company, and any other

sanction required by law, divide amongst the shareholders the whole or any part of the assets of the Company. He may, for such purposes, set such value as he deems fair upon any property to be divided and may determine how such division shall be carried out as between the shareholders or different classes of shareholders. The liquidator may also transfer the whole or any part of such assets to trustees to be held in trust for the benefit of the shareholders. No shareholder can be compelled to accept any shares or other securities which would give him any liability.

Transfer of shares

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles and legislation. The Directors are not aware of any agreements between the Company's shareholders that may result in restrictions on the transfer of shares or on voting rights.

In accordance with the Listing Rules of the Financial Conduct Authority, certain employees are required to seek the approval of the Company to deal in its shares.

The directors may decline to register the transfer of any certificated share unless the instrument of transfer is duly stamped (if stampable) and accompanied by the certificate of the shares to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer.

Transfers of uncertificated shares must be conducted through CREST and the directors can refuse to register transfers in accordance with the regulations governing the operation of CREST.

All share transfers must be registered as soon as practicable.

Change of control – significant agreements

The following significant agreements contain provisions entitling the counter parties to exercise termination rights in the event of a change of control in the Company:

Under the terms of the banking facility agreement detailed in the Financial Review, if any person, or group of persons acting in concert, gains control of the Company, Lloyds Bank plc is no longer obliged to fund any loan and may cancel its commitment under the facility and declare its participation in all outstanding loans, together with accrued interest and all other amounts payable under the facility, immediately due and repayable.

The Group's share schemes also contain provisions relating to the vesting and exercising of awards/options in the event of a change of control of the Group.

The executive directors' service agreements contain provisions for up to 12 months compensation for loss of office or employment following a takeover. Further details are reported in the Remuneration Report.

Amendment of the Company's Articles of Association

Any amendments to the Company's Articles of Association may

Directors' report continued.

be made in accordance with the provisions of the Companies Act 2006 by way of special resolution.

Appointment and replacement of directors

The Board must comprise of not less than three directors and no more than 15 directors.

No person other than a director retiring at a general meeting shall, unless recommended by the directors for election, be eligible for election to the office of director unless, not less than seven nor more than 42 days beforehand, the Company has been given notice, executed by a shareholder eligible to vote at the meeting, of his/her intention to propose such person for election together with a notice executed by that person of his/her willingness to be elected.

The Company may, by ordinary resolution, of which special notice has been given in accordance with section 312 of the 2006 Act, remove any director before the expiration of his/her period of office and may, by ordinary resolution, appoint another person in his/her stead.

Substantial shareholders

As at 31 March 2015, in accordance with the Disclosure and Transparency Rules the Company had been notified of the following substantial shareholdings, other than those of the Directors, in the issued share capital of the Company:

	No. of shares	As a percentage of the issued share capital
Mr John Kane	15,549,127	28.41%
M & G Investment Management	5,634,755	10.29%
Mr Michael Kane	5,300,000	9.68%
Unicorn Asset Management	3,311,628	6.05%
Liontrust Asset Management	3,255,680	5.95%
Hargreave Hale	3,105,879	5.67%
Mr Matthew and Mrs Joanna Bailey	3,033,333	5.54%
Schroder Investment Management	1,732,048	3.16%

Mr John Kane and Mrs Joanna Bailey are the adult children of Peter Kane.

As at 19 May 2015, the Company has not been notified of any changes to the above, pursuant to the requirements of Rule 5 of the DTR. Any such information provided to the company pursuant to the DTR is published on a Regulatory Information Service and on the Company's website.

Post balance sheet events

There were no post balance sheet events.

Other disclosures under listing rule 9.8.4

Details of the amount of interest capitalised by the Group during the year, together with details of the tax treatment can be found in note 13.

Annual General Meeting

The Annual General Meeting ('AGM') will be held at the offices of Investec, 2 Gresham Street, London EC2V 7QP on Wednesday 8 July 2015 at 12:00 noon. A letter from the Chairman and the Notice of Meeting ('Notice') is made available to all ordinary shareholders at least 21 working days before the meeting and may be found at www.ukmail.com.

The routine business of an AGM is to receive and adopt the Director's Annual Report and Accounts, to approve the annual statement by the chairman of the Remuneration Committee together with the annual report on remuneration, to re-elect directors in respect of those retiring, to appoint auditors and fix their remuneration and to declare a dividend.

At last year's AGM, and following changes to the Companies Act 2006 (the 'Act'), shareholders approved a remuneration policy as part of the Directors' Remuneration Report. Under the Act, the remuneration policy must be put to shareholders at least every three years or earlier if during that time changes to the policy are proposed.

The Company's Remuneration Committee has recently carried out a review of the remuneration arrangements for the executive directors, and the implementation of its recommendations requires a revised remuneration policy to be put to a vote at the AGM. The vote is binding which means that payments cannot be made under the revised remuneration policy until it has been approved by shareholders.

Providing that notice is given to the Company no later than six weeks before an AGM or no later than the date on which the notice of AGM is given, shareholders representing at least 5% of the total voting rights of all the shareholders who have a right to vote at the AGM or at least 100 shareholders who have that right and who hold shares in the Company on which there has been paid up an average sum per shareholder of at least £100, may require the Company to include an item in the business to be dealt with at the AGM.

All Directors are requested to attend the AGM. The Chairmen of the Board and each Board Committee make themselves available to take questions from ordinary shareholders at the AGM.

Annual General Meeting - special business

In addition to the routine business of the meeting, the special business set out below will be transacted.

Resolution 10

Resolution 10 renews a similar authority given at last year's Annual General Meeting and, if passed, will authorise the

directors to allot shares in the Company (and to grant such rights) up to an aggregate nominal amount of £1,525,938. If given, this authority will expire at the conclusion of the Company's next Annual General Meeting or on 8 October 2016 (whichever is the earlier). It is the directors' intention to renew this authority each year. As at the date of this document, no ordinary shares are held by the Company in treasury.

This resolution complies with the latest guidance issued by the Association of British Insurers (the 'ABI').

Resolution 11

Generally, if the directors wish to allot new shares or other equity securities (within the meaning of section 560 of the Companies Act 2006 ('Act')) for cash, then under the Act they must first offer such shares or securities to shareholders in proportion to their existing holdings. These statutory pre-emption rights may be disapplied by shareholders.

Resolution 11, which will be proposed as a special resolution, renews a similar power given at last year's Annual General Meeting and, if passed, will enable the directors to allot equity securities for cash up to a maximum aggregate nominal amount of £273,703 without having to comply with statutory pre-emption rights, but this power will be limited to allotments:

- (a) in connection with a rights issue, open offer or other pre-emptive offer to ordinary shareholders and to holders of other equity securities (if required by the rights of those securities or the directors otherwise consider necessary), but (in accordance with normal practice) subject to such exclusions or other arrangements, such as for fractional entitlements and overseas shareholders, as the directors consider necessary; and
- (b) in any other case, up to an aggregate nominal amount of £273,703 (which represents approximately 5% of the issued ordinary share capital of the Company as at 19 May 2015).

The Company has issued 6,136 ordinary shares in the last year and 9,147 ordinary shares in the last three years on a non pre-emptive basis, representing 0.011% and 0.017%, respectively, of the issued ordinary share capital of the Company. This is in line with the 2008 Statement of Principles issued by the Pre-emption Group which provides that a company should not issue shares representing more than 5.0% in any period and no more than 7.5% of its issued ordinary share capital for cash in any rolling three year period, other than on a pre-emptive basis, without prior consultation with shareholders.

If given, this power will expire at the conclusion of the Company's next Annual General Meeting or on 8 October 2016 (whichever is the earlier). It is the directors' intention to renew this power each year.

Save for issues of shares in respect of various employee share scheme, the directors have no current plans to exercise the authorities sought under resolutions 10 and 11 although they consider their renewal appropriate in order to take advantage of business opportunities as they arise.

Resolution 12

Resolution 12, which will be proposed as a special resolution, renews a similar authority given at last year's Annual General Meeting. If passed, it will allow the Company to purchase up to 5,474,061 ordinary shares in the market (which represents approximately 10% of the issued ordinary share capital of the Company as at 19 May 2015). The minimum and maximum prices for such a purchase are set out in the resolution. If given, this authority will expire at the conclusion of the Company's next Annual General Meeting or on 8 October 2016 (whichever is the earlier). It is the directors' intention to renew this authority each year.

The directors have no current intention to exercise the authority sought under resolution 12 to make market purchases, but consider the authority desirable to provide maximum flexibility in the management of the Company's capital base. If passed, the directors will only exercise this authority if they believe that to do so would result in an increase in earnings per share and would be in the best interests of the Company and of its shareholders generally.

The Treasury Shares Regulations allow shares purchased by the Company out of distributable profits to be held as treasury shares, which may then be cancelled, sold for cash or used to meet the Company's obligations under its employee share schemes. The authority sought by this resolution is intended to apply equally to shares to be held by the Company as treasury shares in accordance with the Treasury Shares Regulations.

While held in treasury, the shares are not entitled to receive any dividend or dividend equivalent (apart from any issue of bonus shares) and have no voting rights. This power will only be exercised if and when, in the light of market conditions prevailing at that time, the directors believe that such purchases would increase earnings per share and would be for the benefits of shareholders generally. The directors will have regard to institutional shareholder guidelines which may be in force at the time of any such purchase, holding or re-sale of shares held in treasury. As at 19 May 2015, the Company holds no ordinary shares in treasury.

As at 19 May 2015 (being the last practicable date before the publication of this document), there were options outstanding over 1,402,895 ordinary shares in the Company (which represents 2.56% of the issued ordinary share capital of the Company at that date). If the authority to purchase the Company's ordinary shares was exercised in full and those shares were subsequently cancelled, these options would represent 2.85% of the issued ordinary share capital of the Company.

Resolution 13

The directors are proposing Resolution 13 set out in the Notice to renew the authority obtained at last year's AGM to reduce the notice period for general meetings (other than AGM's) to at least 14 days. It is intended that this shorter notice period will only be used for non-routine business and where it is in the best interests of shareholders as a whole.

Annual General Meetings will continue to be held on at least 21 clear days' notice.

If given, the approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed.

Note that the changes to the Act mean that, in order to be able to call a general meeting on less than 21 clear days' notice, the Company must make a means of electronic voting available to all shareholders for that meeting.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration 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 Group and Parent Company 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 Group and the Company and of the profit or loss of the Group 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 IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; 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 the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements,

Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The directors consider that the Report & Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Each of the directors, whose names and functions are listed on page 37 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report contained in the Report & Accounts includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The directors also confirm that:

- so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- they have taken all steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors' responsibilities statement was approved by a duly authorised Committee of the Board of Directors on 19 May 2015 and signed on its behalf by Steven Glew, Company Secretary.

By order of the Board

Steven Glew

Company Secretary
19 May 2015

Cautionary Statement

This report contains statements that are, or may be, forward-looking regarding the group's financial position and results, business strategy, plans and objectives. Such statements involve risk and uncertainty because they relate to future events and circumstances and there are accordingly a number of factors which might cause actual results and performance to differ materially from those expressed or implied by such statements. Forward-looking statements speak only as of the date they are made and no representation or warranty, whether expressed or implied, is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. Other than in accordance with the Company's legal or regulatory obligations (including under the Listing Rules and the Disclosure and Transparency Rules), the Company does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise. Information contained in this report relating to the Company or its share price, or the yield on its shares, should not be relied upon as an indicator of future performance. Nothing in this report should be construed as a profit forecast.

Chairman of the Remuneration Committee's Annual Statement

Dear Shareholder,

It gives me great pleasure to present the Remuneration Report for 2014/15.

This report is split into three sections namely:

- This Annual Statement;
- A proposed revised Remuneration Policy for 2015 (following a change to the remuneration policy approved by shareholders at the 2014 AGM); and
- The Annual Report on Remuneration (which explains payments made in the year under review and how the policy will be operated for 2015).

This year's report will be presented to shareholders for approval at the forthcoming AGM to be held on 8 July 2015. At the AGM, shareholders will have the opportunity to vote on two separate remuneration resolutions as follows:

- a binding vote on the directors' Remuneration Policy as set out on pages 55 to 62. The Remuneration Policy describes the Company's forward looking remuneration policy and will, subject to shareholder approval, become formally effective from the conclusion of the 2015 AGM; and
- an advisory vote on the remainder of the Remuneration Report which covers the Annual Statement and the Annual Report on Remuneration as set out on pages 53 to 72. The Annual Report on Remuneration provides details of the remuneration earned by directors in the year ended 31 March 2015, and how the new remuneration policy for the year ending 31 March 2016 will be applied.

Performance and Reward for 2014/15

As set out in the Financial Review, 2014/15 was a challenging year as the Group positioned itself for the future with the relocation of the National hub and head offices to Ryton, and the preparation of the business for large scale automation. Additionally, whilst the collapse of City Link at the end of December 2014 provided an opportunity to significantly increase our parcels volumes, the increased pressure placed on our normal operating costs in the short-term, resulted in an

overall 4.2% reduction in the Group's underlying profit before tax for the year.

As a result, these financial indicators determined that there would be no pay-out under the Group's bonus scheme.

However, the achievement of an underlying 28.6p earnings per share ('EPS') for the year just ended, meant that the minimum required EPS condition relating to the November 2012 LTIP grant has been met. As a result 26.6% of the awards will vest under this condition.

Furthermore, the total shareholder return ('TSR') over the three year vesting period has been in the top quartile, and thus a further 50.0% of the 2012 LTIP will vest under this condition.

Consequently 76.6% of the awards will vest to executives in November 2015 (being the third anniversary of the grant).

The Committee believes that the bonus and LTIP outcomes are reflective of performance over their respective performance periods.

The new Remuneration Policy and how it will be applied in 2015/16

As discussed last year an important objective of the Committee is to ensure that there is close alignment between the interests of directors and those of shareholders, and the Committee aims to achieve this through the linking of short- and long-term incentives to the successful financial performance of the Company, with the potential to receive competitive levels of total pay only if stretching performance targets are met.

In 2013/14 the Committee, following feedback from a number of institutional shareholders, decided to cease to offer a share matching plan with the final grant made in the year just ended.

Following further consultation it is clear that investors are in favour of bonus deferral and as a result the Committee has proposed an amendment to the remuneration policy such that 25% of any bonus is now required to be invested in the Group's shares for a minimum period of three years. The introduction of bonus deferral and the removal of the share matching arrangement are the only changes to the previously approved Remuneration Policy. There has been no increase to either the short- or long-term incentive opportunities.

Remuneration report

This part of the Remuneration Report is unaudited

I believe that these two changes have not only more closely aligned executive and operational directors with shareholders but have also done so in a simple and cost effective manner.

Whilst the Company's policy has normally been to apply salary increases from April each year, the Committee remains mindful that the business needs to re-enter a period of stability prior to the determination of an annual pay review, and has therefore decided to postpone the salary review until later in the year. Details of any salary increases will be reported in next year's Remuneration Report. In forming its decision, the Committee will ensure that the review is consistent with the new remuneration policy.

Strategy

In summary, the Committee's remuneration strategy is to set packages that;

- attract, motivate and retain the best employees;
- aligns reward with the achievement of the Groups key short and long-term strategic goals;
- aligns managements interests with the interests of shareholders, and other stakeholders in the Group;
- is weighted towards variable pay, dependent on performance; and
- remains consistent with the Groups risk policies

Summary

As set out elsewhere in this Annual Report, 2015 has been a challenging year for the business.

However, the Committee is satisfied that the revised remuneration policy, which is designed to reward success and to align directors' interests with shareholders, remains appropriate.

Remuneration remains a topic on which shareholders hold widely different views, but I firmly believe that UK Mail's principles of relative simplicity, clarity and shareholder alignment will strike a chord with the majority.

In this regard, I am pleased to note that at the 2014 AGM the Remuneration Report was approved by 99.95% of the votes cast and the Remuneration Policy by 95.32%.

I would hope you welcome the proposed improvements to the Remuneration Policy which the Committee unanimously supports and recommend shareholders approve the resolutions to be put forward at this year's AGM, where I look forward to getting an opportunity to meet you.

Michael Findlay

Chairman of the Remuneration Committee
19 May 2015

The director's Remuneration Policy will be subject to a binding vote under an ordinary resolution at the 2015 AGM. If approved, the policy will be effective as of 8 July 2015, the date of the AGM. The Remuneration Policy is not audited.

Compliance Statement

The Company has complied with the principles and provisions relating to the Directors' remuneration in the 2014 UK Corporate Governance Code (the 'Code'), and the Directors' Remuneration Report has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The auditors have reported on certain parts of the Directors' Remuneration Report and stated whether, in their opinion, those parts of the have been properly prepared in accordance with the Companies Act 2006. Those sections of the Directors' Remuneration Report which have been subject to audit are clearly indicated. At our 2015 Annual General Meeting we will be holding a binding vote to approve the amended Remuneration Policy and there will be a single advisory vote on the rest of the Directors' Remuneration Report, including this Annual Statement.

The Remuneration Committee

The constitution and operation of the Committee during the year has complied with the Code's guidance on directors' remuneration.

The Committee's principal duty is the determination of the remuneration packages for the Chairman, the executive and operational directors. The Committee's detailed terms of reference are available on the company website at www.ukmail.com, with the key responsibilities summarised as follows:

- The determination of a senior remuneration strategy that ensures that the senior management of the Company are provided with the appropriate incentives to encourage enhanced performance, and are suitably rewarded for their individual contribution to the success of the Company;
- Reviewing the effectiveness of the senior remuneration policy with regard to its impact and compatibility with remuneration policy across the rest of the Company;
- Ensuring that any contractual terms on termination are fair both to the Company and to the individual, and that failure is not rewarded;
- Ensuring the remuneration policy operates within an acceptable risk profile;
- Approving the design, targets and payments for the Company's bonus schemes;
- Approving the design, targets and annual awards made for all share incentive plans requiring shareholder approval; and
- Assessing the subsequent achievement of the performance targets in respect of both bonus schemes and share incentive plans.

The Committee is particularly keen to ensure that achievement of the Company's key strategic and financial goals is encouraged through the design and implementation of suitably appropriate remuneration packages, thereby aligning executive's interests with those of all shareholders.

External trends and best practice are routinely monitored and the Committee welcomes feedback from institutional shareholders, advisory and shareholders representative bodies.

Remuneration policy

Our remuneration policy is to provide competitive remuneration packages that will recruit, retain and motivate directors and individuals of the required calibre to meet the Group's strategic and financial objectives. The objective is to ensure the policy is appropriate to the Group's needs and rewards executives for creating shareholder value, thereby promoting and ensuring the long term success of the Company. The Committee monitors the Group's compliance with the Code provisions and institutional investor guidelines for directors' remuneration.

The policy aims to balance appropriately the fixed and performance-related elements of remuneration. The latter element is achieved through an annual bonus scheme and long term incentives. The bonus plan rewards the achievement of Group financial or non-financial targets which the Committee and the Board believes reflect the key short term priorities of the business. Longer term performance remuneration is delivered through an equity-based LTIP scheme which may reward three-year relative Total Shareholder Return (TSR), Earnings per Share (EPS) performance or any other metrics aligned to the Company's medium to long-term strategy as determined by the Committee prior to grant.

The Committee normally reviews the executive directors' and senior management team's remuneration annually, against a policy that positions base salaries at competitive levels. The variable elements of the package are designed to attract high calibre individuals, motivate outstanding performance and provide executive directors and the senior management team with the opportunity to earn an overall upper quartile total remuneration package for top quartile performance.

Details of the individual Executive Directors' remuneration are described below.

The remuneration policy for non-executive directors is determined by the Board.

The table below summarises each element of the remuneration policy for the directors, explaining how each component operates and how each part links to the corporate strategy.

Remuneration report continued.

This part of the Remuneration Report is unaudited

Component	Alignment with strategy	Operation
Base salary	Set at the appropriate level for the skills, experience, and general performance of the individual and the role	Reviewed annually Any annual increases awarded are ordinarily aligned with salary increases across the company Increases beyond those granted to the wider workforce (in percentage terms) may be awarded in certain circumstances such as where there is a change in responsibility, progression in the role, a significant increase in either the role or the size and/or complexity of the Group or where salaries have fallen well below the policy positioning for a sustained period Periodic benchmarking may be undertaken taking account the remuneration levels in companies of similar revenues, profits and/or market capitalisation
Pension	Provides a competitive retirement benefit, in a cost efficient manner for the Company	A defined contribution or alternatively individuals can elect to receive some or all of their pension contributions as a salary supplement
Benefits	Provides a competitive way to reward executives, in a cost efficient manner for the Company	The main benefits executive directors receive include private health cover, permanent health insurance and death in service benefits Executive directors can opt to receive either a car or car allowance Executive directors may partake in the Group's SAYE scheme or any other HMRC all-employee scheme that may be introduced In exceptional circumstances and if considered appropriate and reasonable by the Remuneration Committee, then additional benefits such as relocation or related expenses may be offered
Annual bonus	Designed to reward Executives for achieving short term objectives linked to the business' KPIs Bonus deferral enhances alignment with shareholders	Targets are set annually at the start of the year and any pay-out is determined by the Committee after the year-end, based on performance against those targets The annual bonus is non-pensionable – 75% of the bonus is payable in cash, and 25% is deferred in shares for three years The bonus is subject to clawback for two years from the date of payment for reasons of financial misstatement, administrative error and/or misconduct by the individual
Long term incentive plan	Provides a medium-term motivational tool to Executive directors, focused on performance metrics which support the creation of shareholder value Aligns directors' and shareholders' interests over the long-term Supports shareholding guideline requirements	Approved by shareholders in July 2009 Annual grant of share awards in the form of nil cost or nominal cost options or conditional awards which are subject to performance conditions measured over three years and continued employment The LTIP is subject to clawback for two years from the date of vesting for reasons of material misstatement of the financial results of the Company, miscalculation error or cessation of employment following misconduct To the extent that the awards vest, dividend equivalents over the vesting period are payable. The Remuneration Committee can determine whether these are to be satisfied in either shares or cash

Maximum Potential Value	Performance Metrics
Ordinarily, salary increases (in percentage terms) will be in line with the wider workforce However, salary increases may be made above this level at the Committee's discretion to take account of specific individual circumstances such as; - An increase in scope and responsibilities - An increase to reflect the individuals' development and performance in the role (e.g. for a new appointment where the initial base salary may be increased over time rather than set directly by reference to the previous incumbent) - Alignment to the mid-market level of similar size companies	None, albeit the overall performance of the individual is considered by the Committee when setting and reviewing salaries annually
The maximum contribution or salary supplement is 20% of the executive director's base salary No element other than the base salary is pensionable	None
Insured benefit values, which are arranged under a Group basis, will vary from year to year depending on the cost of providing them The maximum car allowance or car benefit would be 10% of base salary SAYE scheme participation will remain in line with HMRC limits that may change over time Set at a level which the Remuneration Committee considers appropriate based on the Executive director's role and individual circumstances	None
Ordinarily, the individual limit is 100% of base salary The limit can be extended to 150% in exceptional circumstances (e.g. major business initiative)	The bonus targets will be determined annually by the Remuneration Committee from a potential range of stretching financial, operational, strategic or personal metrics aligned to the achievement of the Company's strategic goals Financial measures (e.g. underlying PBT, operating margin) will ordinarily represent the majority of the bonus For financial elements, the bonus starts to accrue at threshold performance
Overall ordinary individual limit of 100% of base salary As per the share rules, which were approved by shareholders, the limit can be extended to 150% in exceptional circumstances (e.g. on initial recruitment)	Awards granted under the LTIP 2009 plan may be subject to the following performance conditions measured over three years; - EPS growth - Relative TSR compared to an appropriate peer group The EPS target range is set prior to grant, based on an assessment of internal financial forecasts and having due regard to external analyst consensus Up to 25% of the awards will vest at threshold performance with 100% vesting at maximum performance. There is straight line vesting between these two points The Committee may alter the weightings between metrics or introduce another metric together with, or in place of EPS or TSR, which supports the Company's medium term strategy KPI's, but would seek to consult with shareholders prior to any such change

Remuneration report continued.

This part of the Remuneration Report is unaudited

Component	Alignment with strategy	Operation
Share matching plan (expired in 2014)	Provides retention and alignment with shareholders whilst rewarding long-term value creation Supports shareholding guideline requirements	In respect of bonus earned for performance in a previous year, Executive directors could have deferred up to 25% of their annual bonus. The bonus would have been deferred in shares for a period of three years and will vest subject to continued employment If bonus was voluntarily deferred, a matching award of shares of equivalent value, under the Share Matching Plan ('SMP') would have been granted. These awards will vest after three years subject to performance conditions The Share Matching Plan expired in July 2014 and therefore the award in respect of the 2013/14 bonus represented the last opportunity to receive a matching award. In line with investor expectations on matching plans, the plan will not be renewed. Dividend equivalents are not payable on matching awards
Shareholding requirements	To encourage a long-term, sustainable focus on shareholder value	Executive directors are expected to retain all share awards which vest (post settlement of tax liabilities) until they have met the following shareholding guideline: CEO – 200% of salary Group Finance Director - 150% of salary Group Operations Director – 100% of salary
Non-executive directors	Set at an appropriate level based on the time commitments and responsibility of the individual	Fees are paid in cash on a monthly basis The fees for the Non-executive directors are determined annually by the Chairman and the Executive Directors, whilst the fees for the Chairman are determined by the Remuneration Committee (excluding the Chairman) A basic fee is paid to all Non-executive directors with supplementary fees for holding the position of Senior Independent Director and/or chairing one of the committees Fees are reviewed on an annual basis and set in context to fees paid in companies of comparable size and with reference to on-going time commitments The Non-executive directors do not participate in the annual cash bonus or LTIP plans nor do they receive any benefits or pension contributions, with the exception of the Chairman who receives health benefits Any business related expenses (for example, travel or accommodation) which are deemed to be taxable by HMRC will be reimbursed by the Company together with any personal tax payable
New appointments	Base salary levels will be set with reference to the above policy but with the flexibility to reflect the experience and calibre of the individual. If a new director is appointed on a below market salary initially they may be the subject of a series of phased increases to achieve a market positioning over an appropriate time frame subject to their development in the role and overall performance Benefits and pension will generally be provided in accordance with the approved policy, with relocation expenses and/or an expatriate allowance paid for if necessary. For an overseas appointment, the benefit and pension arrangements may be tailored to reflect local market practice (subject to the overall maximum limits on pension set out in the policy table). Tax equalisation may also be considered as may payment of the executive's legal fees in connection with the appointment The structure and potential quantum of the variable pay elements will be in accordance with UK Mail's approved policy as detailed above. However, the Committee may set different performance measures and performance periods for awards under the annual bonus or long term incentive plan in the year of appointment, if the Committee determines that the circumstances merit such alteration	

Maximum Potential Value	Performance Metrics
The lower of 25% of pre-tax salary or 100% of the pre-tax bonus may be voluntarily deferred Matching ratio of 1:1 on a gross of tax basis	None for deferred bonus Matching awards are subject to a sliding scale of EPS growth targets. The target range is set prior to grant, based on an assessment of internal financial forecasts and having due regard to external analyst consensus. 33% of the awards will vest at threshold performance with 100% vesting at maximum performance There is straight line vesting between these two points
None	None
The overall fees payable to Non-executive directors will remain within the limit stated in our articles of association, currently £400,000	None

The Remuneration Committee may consider it necessary to compensate an individual for the value of any remuneration forfeited on leaving their current employer. Where this is considered appropriate, the Committee will endeavour to structure this compensation so that it mirrors the terms of remuneration being replaced in terms of composition, value and timing. In order to facilitate this, the Committee may rely on an exemption in the Listing Rules which allows for the grant of awards to facilitate, in unusual circumstances, the recruitment of a director

The rationale for the application of any of the above would be reported within the director's annual remuneration report

In the case of an internal hire, i.e. promotion, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its term of grant

Fees for a new Chairman or non-executive director will be set in line with the approved policy

Remuneration report continued.

This part of the Remuneration Report is unaudited

For the avoidance of doubt, in approving the policy report, authority is given to the Company to honour any commitments previously entered into with current employees or former directors that have been disclosed previously to shareholders. This includes any outstanding share matching awards made under the Share Matching Plan which has now been discontinued.

Incentive plan discretions

The Committee will operate the annual bonus plan and LTIP according to their respective rules, the policy set out above and in accordance with the Listing Rules and HMRC rules where relevant.

The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these plans. These include (but are not limited to) the following:

- Who participates in the plans;
- The timing of grant of award and/or payment;
- The size of an award and/or a payment;
- The choice of (and adjustment of) performance measures

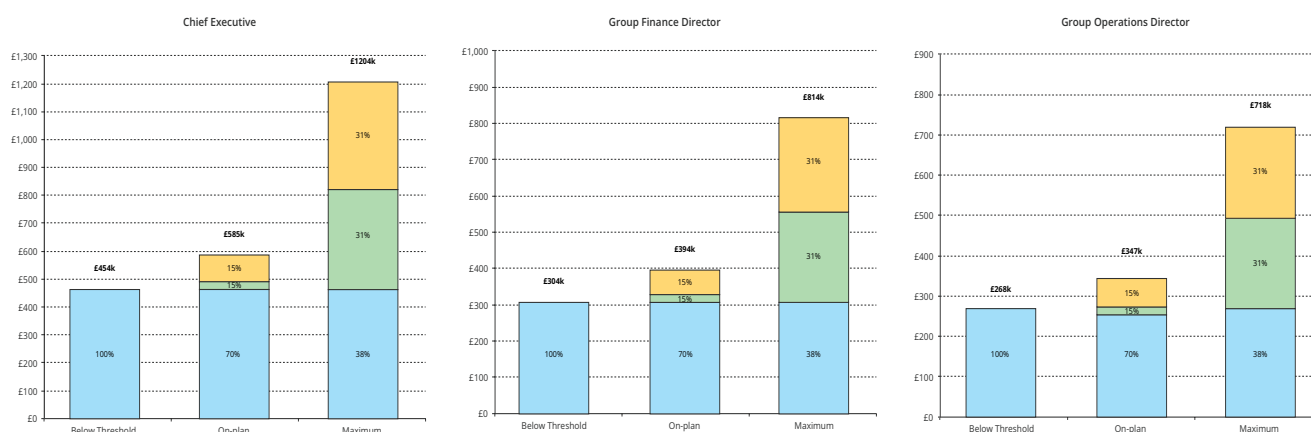
and targets for each incentive plan in accordance with the policy set out above and the rules of each plan (including the treatment of delisted companies for the purpose of the TSR Comparator Group);

- Discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- Determination of a good leaver (in addition to any specified categories) for incentive plan purposes based on the rules of each plan and the appropriate treatment under the plan rules;
- Adjustments required in certain circumstances (e.g. rights issues, corporate restructuring, on a change of control and special dividends).

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

Composition of Remuneration Package

The targeted composition of each executive director's remuneration between fixed and variable remuneration is as follows:



Notes to Charts:

1. Below Threshold: comprises fixed pay only i.e. base salary as applies at the start of 2015/16, value of 2014/15 benefits and pension contribution based on salaries as at the start of 2015/16
2. On-plan: bonus has been assumed to pay-out at 10% of the maximum, and 25% of the LTIP vests
3. Maximum: full pay-out of the bonus and LTIP
4. No share price growth has been modelled

External Appointments

The Committee believes that where Board members hold directorships in other companies the Company can benefit from their experience. As a result, and subject to the Board's prior approval, executive directors may take on no more than one external directorship and retain any fees earned.

Directors' Service Contracts and Termination Policy

It is the Company's policy that, whilst there should not be a fixed duration in respect of directors' service contracts, each contract contains notice periods of not more than one year. It is also the Company's policy that contracts should provide the Company with discretion to terminate employment by making a payment in lieu of notice. The Chief Executive and Finance Director's contracts provide for a maximum termination payment of 12 months' remuneration (defined as base salary, bonus, pension contributions, car allowance and any other benefit then accruing).

As previously reported, the Remuneration Committee has since determined that any bonus element will be excluded from termination payments, in line with best practice, ensuring that any such compensation does not exceed the sum of one year's salary, pension and benefits, and will involve mitigation wherever possible, although the Remuneration Committee would have discretion to award a pro-rata bonus for part of the year worked based on performance in the year. This policy

was applied in respect of the Group Operations Director who became a Board director on 8 April 2014.

Mr Buswell's contract provides that any payment in lieu of notice paid on termination would consist of a payment of 12 months remuneration.

Messrs' Glew and Moore's contracts provide that any payment in lieu of notice paid on termination by the Company would consist of an initial payment of six months remuneration. Thereafter, they would receive a monthly payment at the same annual rate, until the earlier of 12 months, the date they commence employment with a third party or the date they become self-employed.

There are no provisions for predetermined compensation in excess of one year's remuneration in respect of any of the executive directors.

The date of each service contract is noted in the table below:

Guy Buswell	31.03.06	12 months
Steven Glew	05.06.06	12 months
Carl Moore	08.04.14	12 months

The Committee's policy in an exit event is outlined in the table below:

Payment	“Bad” leaver (e.g. voluntary resignation or termination for cause)	Departure on agreed terms	“Good” leaver (e.g. death, ill health, redundancy)
Base salary, pension and benefits	Paid for the proportion of the notice period worked	Treatment will normally fall between Good Leaver and Bad Leaver treatment, subject to the discretion of the Remuneration Committee and the terms of any termination agreement	Paid up to the date of leaving, including any untaken holidays and, subject to mitigation, a payment in lieu of notice may be made
Annual bonus	None		Bonus paid pro-rata based on the complete calendar months worked
Long Term Incentive Plan	Unvested share awards lapse		At the discretion of the Remuneration Committee unvested awards are eligible to vest either at the normal vesting date or on cessation. The Remuneration Committee's normal policy is (i) to apply performance targets over the original performance period and (ii) the application of a pro-rata reduction. The Committee may, at its discretion and acting fairly and reasonably, decide not to apply a pro-rated reduction.
Share Matching Plan	Unvested share awards lapse		
Other	None	Disbursements such as legal costs, outplacement etc	

Remuneration report continued.

This part of the Remuneration Report is unaudited

Non-Executive Directors

All directors are required by the Company's Articles of Association to submit themselves for re-election at least every three years or in the case of a director appointed by the directors in the past year, such director is required to submit themselves for re-election at the next AGM.

Non-Executive Director	Contract date	Unexpired term as at 31 March 2015
Jessica Burley	30.07.12	5 months
Peter Kane	01.10.01	Indefinite
Michael Findlay	24.04.12	5 months
Bill Spencer	30.09.14	31 months

How Employees' Pay is taken into Account

The Remuneration Committee will consider the remuneration structures elsewhere in the Group when setting pay for the executive directors and in particular by considering the salary increase levels set for the Group.

Regular updates are provided by the HR function so the Remuneration Committee is kept aware of the policies across the Group.

No formal consultation with employees is conducted in relation to their views on the current pay policy although general engagement is continually assessed through employee surveys which include several questions regarding the effectiveness of the current remuneration policy, and ECG feedback.

How Executive Directors' Remuneration Policy Relates to the Wider Group

The remuneration policy summarised in the table above provides an overview of the structure that operates for the Executive Directors and other senior management levels.

Below this level, the same broad remuneration principles will apply, albeit it with the structure and quantum tailored according to the relevant job grade based on seniority, level of responsibility and ability to influence overall group performance.

How Shareholders' Views Are Taken Into Account

The Remuneration Committee considers shareholder feedback to be essential in developing a remuneration policy which is fair for both Executives and the Company. Feedback is collected at each AGM, during meetings held with shareholders from time to time, as well as more general on-going guidance from shareholder representative bodies. This feedback is then considered as part of the Company's annual and on-going reviews of remuneration policy.

The Committee will consult with shareholders if any significant changes in the policy are proposed in the future.

The Annual Report on Remuneration together with the Annual Statement will be subject to an advisory vote at the 2015 AGM.

Implementation of the remuneration policy for 2015/16

As detailed in the notice of meeting, approval of the Committee's remuneration policy will be sought from shareholders at the Annual General Meeting to be held on 8 July 2015.

Subject to approval, the policy will be implemented as follows:

Base salaries for executive directors

The base salaries for 2015/16 for the executive directors will be as follows:

	2015/16 £000	2014/15 £000	% Change
Guy Buswell	375	375	-
Steven Glew	255	255	-
Carl Moore	225	225	-

The Remuneration Committee recognises that 2014/15 was a challenging year not only for the executive directors but for all the Group's employees, as they managed, for example, the National hub and head office relocation, the implementation of large scale automation, the on-boarding of new customers following the demise of City Link, as well as increasing volumes.

Whilst the Remuneration Committee remains keen to review salaries this year, it believes a prudent approach is required whilst the Group stabilises after all these material changes, and as a result has determined that the Annual Pay review should be carried out in September 2015.

As detailed in the Remuneration Policy report, the Remuneration Committee would also expect to adopt a consistent approach to the increase offered to the executive directors as to the wider workforce.

Benefits and pension

Benefits including a company car (or car allowance), private health cover, permanent health insurance and death in service benefits will be provided to executive directors as set out in the Remuneration Policy.

Pension contributions will be paid as follows;

	Car or car allowance £	Pension contribution (or salary supplement equivalent) % of base salary
Guy Buswell	12,000	17.5%
Steven Glew	11,000	15.0%
Carl Moore	8,000	15.0%

Annual bonus for 2015/16

As in previous years, in order for the bonus to be triggered the Group is required to hit a 'profit floor' target. Above the floor the 2015/16 bonus will be determined on an escalating scale of the Group's actual performance against the following two target measures;

Profit before tax – maximum opportunity 80% of base salary

Operating margin – maximum opportunity 20% of base salary

These two measures continue to represent the most important factors in creating value for shareholders, and the use of these measures supports the Committees principles of aligning executive interests with those of the wider shareholder base.

The Committee considers that the target measures are commercially sensitive on a forward looking basis and has therefore chosen not to disclose them at this time. Full retrospective disclosure of actual achievement, threshold and maximum targets will be included in next year's Annual Report on Remuneration.

Remuneration report continued.

This part of the Remuneration Report is unaudited

Consistent with the change in policy being introduced this year, any bonus received in respect of performance in 2015/16 will be; 75% payable in cash following the end of the financial year, and 25% deferred in shares for three years

Long term incentive awards to be granted in 2015/16

The Committee intends to grant an award to executive and operational directors in 2015/16 at 100% of base salary, with the following vesting conditions:

Performance measure	Award proportion	Threshold performance	Maximum performance
EPS	50%	25% will vest where EPS growth exceeds 8% p.a.	100% will vest where growth exceeds 15% p.a.
Relative Total Shareholder Return	50%	25% will vest for median performance against the FTSE all-share index (ex-Investment Trusts)	100% will vest for upper quartile performance against the FTSE all-share index (ex-Investment Trusts)

For performance between threshold and maximum, awards will vest on a straight line basis.

The Committee considers that these two measures remain the most appropriate measures of long-term performance for the Group, in that they ensure executives are incentivised and rewarded for the earnings performance of the Group as well as returning value to shareholders.

Fees for the non-executive directors

The fee levels for 2015/16 for the non-executive directors remain unchanged and will be as follows:

	2015/16 £000	2014/15 £000	% Change
Chairman ¹	70	70	-
Non-executive director – base fee	30	30	-
Supplementary fees:			
Chair of committee	5	5	-
Senior independent director	5	5	-

¹ – The Chairman's fee is inclusive of his Nomination Committee chair role

Membership of the Remuneration Committee

The members of the Remuneration Committee during the year were Michael Findlay (Chairman), Bill Spencer and Jessica Burley. All members are independent Non-Executive Directors and no director plays a part in any discussion directly relating to their own remuneration.

Advisors to the Committee

During the year the Committee sought advice, from external remuneration consultants, New Bridge Street ('NBS'), largely as to best market practice and policy, the setting of suitably challenging targets for the Long Term Incentive Plan, bonus deferral, remuneration report drafting and determination of the vesting level in respect of the 2012 LTIP grant which is due to vest in November 2015.

NBS also provided sundry administrative services such as the calculation of the Company's actual TSR performance against the benchmark, actual LTIP vesting levels, and of the fair values of share awards granted during the year. NBS is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct. The Committee is satisfied that there are no potential conflicts. No material additional work has been provided to the Company by either NBS, or any other company within the Aon plc group of companies, of which NBS is a member.

During the year to 31 March 2015 the Company incurred costs of £14k (2014: £24k) in respect of fees for advice by NBS provided to the Remuneration Committee.

The Committee also sought internal support from the Group's Chairman, Chief Executive, Finance Director, and Head of Human Resources, all of whom may attend meetings by invitation, but are not present for any discussions that relate directly to their own remuneration.

The Company Secretary acted as secretary to the Committee during the year under review.

Performance Graph

The graphs shown below compare the total shareholder return for an investment in the shares of UK Mail with the return for the same investment in the FTSE All-Share index (excluding Investment Trusts) over a six year and a three year period commencing on 31 March 2009 and 31 March 2012. In the opinion of the Committee, the FTSE All-Share index, (excluding Investment Trusts), is currently the most appropriate index against which the TSR of UK Mail should be measured and is also the comparator group used in the Long Term Incentive Plan.

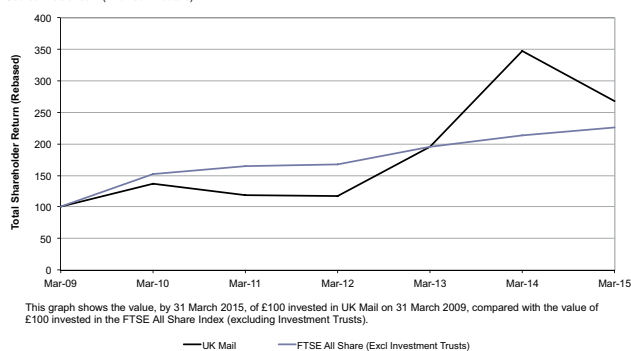
Review of the year

During the year ended 31 March 2015, the following agenda items were discussed:

- Review of salary levels for executive directors, operational directors and the overall workforce;
- Determination and approval of the annual bonus pay-outs for the 2013/14 financial year;
- The review and approval of a 2014/15 Share Matching Plan grant to executive and operational directors;
- Review and approval of the annual bonus schemes and targets for the financial year 2014/15, including the introduction of new targets for relevant senior managers relating to the achievement of cost and benefit efficiencies within the new Hub and Automation project;
- Approval of an LTIP grant to the Group Operations Director on his appointment to the Board and subsequent approval to a later grant to the other executive and operational directors; and
- Review and approval of the Group's Remuneration policy

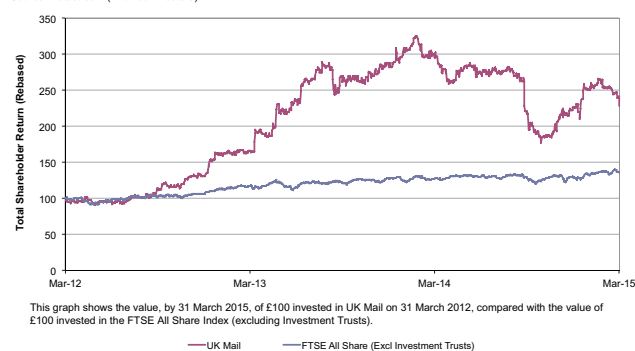
Total Share Return: 6 Year Chart

Source: Datastream (Thomson Reuters)



3 Year Chart Daily

Source: Datastream (Thomson Reuters)



The three year graph has also been included as it is more closely representative of the performance period of the executive incentive plans.

Remuneration report continued.

This part of the Remuneration Report is unaudited

Chief Executive - six year earnings history

The following table details the total remuneration of the CEO for the six year period ending 31 March 2015;

	CEO Single figure of total remuneration (£000)	Annual variable element award rates against maximum opportunity	Long term incentive vesting rates against maximum opportunity
2010 ¹	730	50.31%	52.70%
2011	386	0.00%	0.00%
2012	386	0.00%	0.00%
2013	578	45.09%	12.65%
2014 ²	652	77.00%	-
2015	913	0.00%	76.60%

¹ LTI vesting is a weighted average of 60.92% vesting under the LTIP and 36.67% under the SMP

² No LTIP or SMP grant in 2011

Single figure of total remuneration for 2015

The table below provides a single figure of total remuneration for 2015 for directors:

	Fixed pay			Variable pay				
	Salary	Benefits ¹	Pension Contributions	Sub total	Bonus	LTIP ²	Sub total	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Chairman								
Peter Kane	70	1	-	71	-	-	-	71
Executive directors								
Guy Buswell	375	13	66	454	-	459	459	913
Steven Glew	255	11	38	304	-	326	326	630
Carl Moore	224	9	34	267	-	135	135	402
Sub-total	854	33	138	1,025	-	920	920	1,945
Non-executive directors								
Jessica Burley	30	-	-	30	-	-	-	30
Michael Findlay	40	-	-	40	-	-	-	40
Bill Spencer	35	1	-	36	-	-	-	36
Sub-total	105	1	-	106	-	-	-	106
Total	1,029	35	138	1,202	-	920	920	2,122

¹ This is the taxable value of benefits received in the year. This includes a car / car allowance, private medical care and travel expenses

² Based on the average share price for the last quarter of the financial year i.e. 1 January 2015 – 31 March 2015 as a proxy for the share price at vesting, and inclusive of the value of accrued dividends over the vesting period

The table below provides a single figure of total remuneration for 2014 for directors:

	Fixed pay			Variable pay				Total
	Salary	Benefits	Pension Contributions	Sub total	Bonus	LTIP	Sub total	
	£000	£000	£000	£000	£000	£000	£000	£000
Chairman								
Peter Kane	70	-	-	70	-	-	-	70
Executive directors								
Guy Buswell	333	13	50	396	256	-	256	652
Steven Glew	236	12	29	277	182	-	182	459
Sub-total	569	25	79	673	438	-	438	1,111
Non-executive directors								
Jessica Burley	30	-	-	30	-	-	-	30
Michael Findlay	40	-	-	40	-	-	-	40
Bill Spencer	35	-	-	35	-	-	-	35
Sub-total	105	-	-	105	-	-	-	105
Total	744	25	79	848	438	-	438	1,286

Annual Bonus for 2014/15

The bonus in operation for 2014/15 was subject to sliding scale profit before tax and operating margin targets:

Performance Measure	Threshold	Maximum	Actual	% of bonus payable
Underlying profit before tax £m	£24.0m	£28.0m	£21.0m	Nil% (max 80%)
Operating margin %	4.5%	4.9%	4.3%	Nil% (max 20%)

The Group failed to achieve the underlying 'profit floor' condition (i.e. the threshold underlying profit before tax target) and therefore no bonus is payable.

Long-term incentives vesting in respect of performance period ended 31 March 2015

The LTIP award granted on 29 November 2012 which will partially vest on 30 November 2015, was based on the three-year performance period to 31 March 2015. The applicable vesting percentages will be as follows:

Proportion of award	Performance condition	Threshold (25% vesting) target	Maximum (100% vesting) target	Actual %	% vesting
50%	Average growth per annum in underlying EPS over the three year performance period	11.6% p.a.	18.1% p.a.	14.1% p.a.	26.6%
50%	Relative performance against all other companies in the FTSE All Share Index (excluding Investment Trusts)	Median	Upper quartile	Above upper quartile 1	50.0%
Total vesting					76.6%

1 TSR over the vesting period was 148.4%, which was above the upper quartile rank of 112.7%

Under the rules of the LTIP, accrued dividend equivalents will be paid on vested shares at the time of vesting.

Remuneration report continued.

This part of the Remuneration Report is unaudited

Share incentives granted during 2014/15

LTIP awards were granted during 2014/15 on the following basis:

Executive	Grant date	Number of shares comprising award	Face/Maximum Value of Awards at Grant Date (% salary)	% of Award Vesting at Threshold	Performance Period
Guy Buswell	28.11.14	54,486	£240,828 (64%)	25%	01.04.14 – 31.03.17
Steven Glew	28.11.14	37,050	£163,761 (64%)	25%	01.04.14 – 31.03.17
Carl Moore	10.06.14	32,691	£204,319 (91%)	25%	01.04.14 – 31.03.17

The awards will vest three years from the date of grant subject to the following challenging performance conditions:

Performance Measure	Award proportion	Definition	Vesting requirement
EPS	EPS	The EPS measure is calculated by reference to UK Mail's real EPS growth. The measure is defined as annualised growth in adjusted EPS (i.e. on a continuing basis and excluding exceptional items) over a three year performance period to 31 March 2017	Threshold performance – 25% will vest where EPS growth exceeds 8% p.a. Maximum performance – 100% will vest where EPS growth exceeds 14% p.a.
TSR	50%	The TSR is calculated (on an annualised compound basis) assuming that all shares are re-invested. No shares will be released under the TSR condition if UK Mail's TSR over the three year performance period to 31 March 2017, when compared to that of the constituents of the FTSE All-Share index (ex Investment Trusts), falls below the median	Threshold performance – 25% will vest for median performance against the benchmark index Maximum performance – 100% will vest for upper quartile or above performance against the benchmark index

For performance between threshold and maximum, vesting will be determined on a straight line basis

SMP awards were granted during 2014/15 on the following basis:

Executive	Grant date	Number of shares comprising award	Face/Maximum Value of Awards at Grant Date (% salary)	% of Award Vesting at Threshold	Performance Period
Guy Buswell	10.06.14	12,195	£76,219 (20%)	33.3%	01.04.14 – 31.03.17
Steven Glew	10.06.14	4,000	£25,000 (10%)	33.3%	01.04.14 – 31.03.17
Carl Moore	10.06.14	4,000	£25,000 (11%)	33.3%	01.04.14 – 31.03.17

Awards under the SMP will vest according to the following conditions:

Performance measure	Award proportion	Definition	Vesting requirement
EPS	100%	The EPS measure is calculated by reference to UK Mail's real EPS growth. The measure is defined as annualised growth in adjusted EPS (i.e. on a continuing basis and excluding exceptional items) over a three year performance period	Threshold performance – 33.3% will vest where EPS growth exceeds R.P.I. + 4% p.a. over a three year period Maximum performance – 100% will vest where EPS growth exceeds R.P.I. + 6% p.a. over a three year period

For performance between threshold and maximum, vesting will be determined on a straight line basis

The R.P.I. measure is used because the Remuneration Committee believes it ensures that executives are only rewarded when there has been real growth.

Directors' interests in shares held in the Long Term Incentive Plan are as follows:

Date of Award	Plan	Award Price	Performance Period Ending	Number at 1 April 2014	Granted in the year	Exercised in the year	Lapsed in the year	Number at 31 March 2015
Guy Buswell								
29.11.12	LTIP	298p	31.03.15	94,325	-	-	-	94,325
04.06.13	LTIP	510p	31.03.16	58,260	-	-	-	58,260
28.11.14	LTIP	442p	31.03.17	-	54,486	-	-	54,486
				152,585	54,486	-	-	207,071
Steven Glew								
29.11.12	LTIP	298p	31.03.15	66,939	-	-	-	66,939
04.06.13	LTIP	510p	31.03.16	41,345	-	-	-	41,345
28.11.14	LTIP	442p	31.03.17	-	37,050	-	-	37,050
				108,284	37,050	-	-	145,334
Carl Moore								
29.11.12	LTIP	298p	31.03.15	27,655	-	-	-	27,655
04.06.13	LTIP	510p	31.03.16	20,619	-	-	-	20,619
10.06.14	LTIP	625p	31.03.17	-	32,691	-	-	32,691
				48,274	32,691	-	-	80,965

(i) Or date of appointment if later

Awards granted may be exercised between three and ten years following the date of grant, subject to continuing employment with the Group and performance conditions being achieved.

The LTIP awards are primarily subject to two distinct performance conditions, 50% relates to EPS performance and 50% relates to the Company's TSR relative to the FTSE All-Share index as detailed on page 56. The table below details the vesting history of awards granted under the LTIP 2009 since it has been in operation;

Date of award	Vesting	EPS target range (i)	TSR target range (i)	Number at EPS achieved	Granted in TSR achieved	% Awards vesting
26.05.10	28.05.13	8.5% - 13.0% p.a.	Median to Upper Quartile	No	Yes	12.65%
No award made in 2011	-	-	-	-	-	-
29.11.12	Live plan	11.6% - 18.1% p.a.	Median to Upper Quartile	53.1% (of the 50.0% condition)	100% (of the 50.0% condition)	76.6%
04.06.13	Live plan	7.23% - 15.47% p.a.	Median to Upper Quartile	Live plan	Live plan	Live plan
28.11.14	Live plan	8.0% - 14.0% p.a.	Median to Upper Quartile	Live plan	Live plan	Live plan

(i) EPS and TSR target range represents minimum/maximum range for 25% to 100% vesting with straight-line pro-rata vesting between these two points.

Remuneration report continued.

This part of the Remuneration Report is unaudited

Director's interests in shares held in the Share Matching Plan are as follows:

Date of Award	Plan	Award Price	Performance Period Ending	Number at 1 April 2014	Granted in the year	Exercised in the year	Lapsed in the year	Number at 31 March 2015
Guy Buswell								
11.06.13	SMP	495p	31.03.16	8,823	-	-	-	8,823
10.06.14	SMP	625p	31.03.17	-	12,195	-	-	12,195
				8,823	12,195	-	-	21,018
Steven Glew								
11.06.13	SMP	495p	31.03.16	3,018	-	-	-	3,018
10.06.14	SMP	625p	31.03.17	-	4,000	-	-	4,000
				3,018	4,000	-	-	7,018
Carl Moore								
11.06.13	SMP	495p	31.03.16	1,177	-	-	-	1,177
10.06.14	SMP	625p	31.03.17	-	4,000	-	-	4,000
				1,177	4,000	-	-	5,177

Director's interests in shares held in the Sharesave Scheme are as follows:

Date of Award	Plan	Award Price	Performance Period Ending	Number at 1 April 2014	Granted in the year	Exercised in the year	Lapsed in the year	Number at 31 March 2015
Guy Buswell								
25.07.13	01.09.16	418.67p	01.03.17	2,149	-	-	-	2,149
				2,149	-	-	-	2,149
Steven Glew								
25.07.13	01.09.16	418.67p	01.03.17	2,149	-	-	-	2,149
30.07.14	01.09.17	471.14p	01.03.18	-	1,910	-	-	1,910
				2,149	1,910	-	-	4,059
Carl Moore								
19.07.12	01.09.15	186.88p	01.03.18	4,815	-	-	-	4,815
				4,815	-	-	-	4,815

The Sharesave Scheme provides a savings plan to purchase shares and has no performance criteria in order to participate.

The market price of the Company's shares at the end of the financial year was 482p and the range of prices during the year was between 380p and 665p.

Interests in Shares

The interests of the directors (together with interests held by his or her connected persons) in the ordinary shares of the Company as at 31 March 2015 were as follows:

	Legally And Beneficially Owned		% of salary Held Under Shareholding Guideline	Guideline met?	Share Matching Plan Awards		Long Term Incentive Plan Awards		Sharesave Scheme Awards		Total
	31.03.15	31.03.14			Unvested	Vested	Unvested	Vested	Unvested	Vested	
Executive Directors			(% of salary)								31.03.15
Guy Buswell	286,117	255,612	368%	Yes	21,018	-	207,071	-	2,149	-	516,355
Steven Glew	125,263	121,263	237%	Yes	7,018	-	145,334	-	4,059	-	281,674
Carl Moore ¹	5,177	1,177	11%	No	5,177	-	80,965	-	4,815	-	96,134
Non-executive Directors											
Jessica Burley	1,500	-	-	N/a	-	-	-	-	-	-	1,500
Michael Findlay	1,500	1,500	-	N/a	-	-	-	-	-	-	1,500
Peter Kane	3,339,633	3,339,633	-	N/a	-	-	-	-	-	-	3,339,633
Bill Spencer	4,800	4,800	-	N/a	-	-	-	-	-	-	4,800

¹ - Carl Moore was appointed to the Board on 8 April 2014

New directors are expected to retain share awards which vest until they have met the shareholding guideline.

All directors' interests are beneficially held. There has been no change in the interests set out above between 31 March 2015 and 19 May 2015.

Payments to past Directors and payments for loss of office

There have been no payments to past Directors or payments for loss of office.

Remuneration report continued.

This part of the Remuneration Report is unaudited

Relative importance of the spend on pay

The following table sets out the percentage change in profit, dividends and overall spend on pay in 2015 compared to 2014:

	2015 £m	2014 £m	% change
Underlying profit after taxation – continuing operations	16.6	16.8	-1.5%
Dividends	11.8	10.7	+10.3%
Employee remuneration costs	68.5	71.1	- 3.6%

Statement of percentage change in remuneration of the CEO compared with other employees

The table below shows the movement in salary, benefits and annual bonus for the CEO between the 2014 and 2015 financial years, as compared to the average for all employees:

	Salary % change	Taxable benefits % change	Bonus % change
CEO	+12.7%	+1.5%	-100.0%
All employees (average per FTE)	-5.6%	+3.4%	-100.0%

Share Dilution Limits

Where new issued or treasury shares are used to satisfy share awards, the aggregate dilution resulting from the issue of shares to satisfy executive share plan award grants will not exceed 5% in any ten year period. Dilution resulting from all incentives including all-employee incentive schemes will not exceed 10% in any ten year period. The Remuneration Committee regularly reviews dilution against these limits and currently has headroom of 1.7% and 5.9% respectively.

Employee Share Ownership Trust

The Company's Employee Share Ownership Trust holds shares in the Company for subsequent transfer to employees under the Long Term Incentive Plan, the Share Matching Plan and the Sharesave plan. Shares held by the Trust are not voted at shareholder meetings and do not accrue dividends. At 31 March 2015, the Trust held a total of 6,801 shares (2014: 6,801 shares).

AGM Voting

At the Company's AGM held on 9 July 2014, votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

Resolution	No. of votes	For		Against		Total votes cast ^{(i) (ii)}	
		% of votes cast	No. of votes	% of votes cast	No. of votes	% of issued share capital	Votes withheld
To approve the Annual Statement by the Chairman of the Remuneration Committee and the Annual Report on Remuneration	32,648,676	99.95%	15,561	0.05%	32,664,237	59.67%	3,100
To approve the Directors Remuneration policy	31,136,766	95.32%	1,527,471	4.68%	32,664,237	59.67%	3,100

i- the total voting rights in the Company at the date of the meeting was 54,735,776 ordinary shares of 10 pence each, each carrying one vote on a poll

ii- a vote withheld is not a vote in law and is not counted in the calculation of votes for or against the resolutions

Michael Findlay

Chairman of the Remuneration Committee

On behalf of the Board

19 May 2015

Independent Auditors' report to the members of UK Mail Group plc

Report on the financial statements

Our opinion

In our opinion:

- UK Mail Group plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2015 and of the group's profit and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

What we have audited

UK Mail Group plc's financial statements comprise:

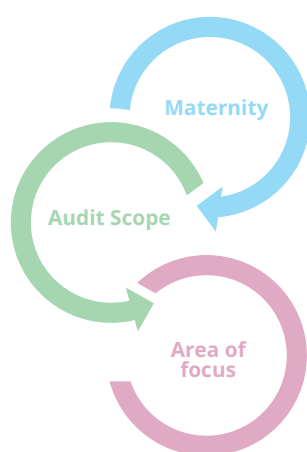
- the consolidated and company balance sheets as at 31 March 2015;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated and company statements of cash flows for the year then ended;
- the consolidated and company statements of changes in equity for the year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

Certain required disclosures have been presented elsewhere in the Report & Accounts (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

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 and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Our audit approach

Overview



Materiality

- Overall group materiality: £0.99 million which represents 5% of profit before tax and exceptional items.

Audit Scope

- We performed an audit of the complete financial information of the parent company, UK Mail Group plc and its principal trading subsidiary UK Mail Ltd, due to their financial significance to the overall group financial statements, and which together account for over 95% of both the group's revenues and profit before tax and exceptional items.
- In addition we performed specific work over the closure of UK Pallets Ltd, a non-core operating subsidiary that ceased trading during the year and was classified as a discontinued operation.

Areas of focus

- Closure of non-core subsidiary, UK Pallets Ltd, related impairments, closure costs and disclosures.
- Accounting treatment and disclosure of compensation receivable in respect of the compulsory purchase of the group's central hub and Birmingham head office.

The scope of our audit and our areas of focus

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

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating

whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Independent Auditors' report to the members of UK Mail Group plc continued.

Area of focus	How our audit addressed the area of focus
Closure of non-core subsidiary, UK Pallets Ltd, related impairments, closure costs and disclosures Refer to note 3 and 10 of the financial statements. At the start of the financial year the consolidated balance sheet included £7.9m in respect of goodwill arising on the purchase of UK Pallets Ltd in 2003. The profitability of UK Pallets Ltd has been in decline over the past few years and at the half year management considered that this was a trigger event which necessitated an impairment review in accordance with the requirements of IAS 36 "Impairment of assets". The value in use calculation prepared by management demonstrated that only £0.6m of the related goodwill was supportable and consequently an impairment charge of £7.3m was recorded in the results for the six months ended 30 September 2014. Subsequently, a decision was taken in January 2015 to close the business and trading ceased on 24 March 2015. As a result the remaining £0.6m of goodwill was written-off together with an additional impairment charge of £1.1m in respect of capitalised software development costs. An impairment of £9.1m was also recorded in the company financial statements of UK Mail Group plc to reduce the carry value of its investment of £9.3m to its recoverable net assets of £0.3m. In addition to the above, management recorded closure costs of £1.4m which comprised £0.7m for redundancies, £0.3m for onerous contracts and £0.4m for additional dilapidation costs and presented the results of UK Pallets Ltd as a discontinued operation in the group financial statements. We focused on this matter due to the material impact it has had on the group financial statements. In particular we focused on: • Whether the impairment had been correctly accounted for and disclosed, including the treatment of the impairment charges and classification of the closure costs as exceptional items; • Testing the assumptions that underpin the additional provisions booked in relation to the closure decision, including estimates of commitments for redundancies, onerous contracts and costs expected to be incurred in relation to dilapidation rectifications; and • Evaluating compliance with the extensive disclosure requirements of IFRS5 "Non-current assets held for sale and discontinued operations".	As UK Pallets Ltd ceased trading during the year ended 31 March 2015 we checked that the impairment charges recorded by management reduced the carrying value of the impacted assets (goodwill and capitalised software development costs) in the consolidated balance sheet to £nil and did not identify any material errors. We obtained and understood management's assessment of the remaining carrying value of the investment in UK Pallets Ltd in the company financial statements of UK Mail Group plc. In particular we evaluated the recoverability of the remaining assets and completeness and valuation of remaining liabilities. Our work did not identify any further adjustments in respect to these balances. In relation to the closure costs we: • Agreed amounts totalling £0.5m to bank statements for redundancy payments made prior to the year end and reperformed the calculations for the remaining £0.2m provision included in the consolidated balance sheet as at 31 March 2015; • Obtained and read the contracts for onerous agreements to determine whether the amounts provided for by management were appropriate and complete, identifying no matters that we considered required adjustment of the provision; and • Compared the estimated provision for dilapidations recorded by management to correspondence received from the landlord, noting that there was no material difference. We evaluated the treatment of these costs as exceptional items by assessing the amount and nature of such expenses. We determined, based on the evidence obtained, that the criteria for treatment as exceptional items were satisfied and they were in accordance with the group's accounting policy for exceptional items. We also considered the requirements of IFRS 5 and satisfied ourselves that the UK Pallets business qualified as a discontinued operation in the period and that the disclosures given in the group financial statements were appropriate.

Area of focus	How our audit addressed the area of focus
Accounting treatment and disclosure of compensation receivable in respect of the compulsory purchase of the group's central hub and Birmingham head office. The Group's central hub and Birmingham head office were subject to a compulsory purchase order to make way for the HS2 link between London and Birmingham. An agreement for the sale of the site and related compensation was signed in December 2013. Whilst certain elements of the compensation were quantified in the agreement and timing of their receipt was indicated, reimbursements of any "disturbance" costs are subject to the provisions of the Compensation Code, may be subject to forensic investigation by HS2's advisers and ultimately require the approval of the Department of Transport. The group has incurred amounts during the year that management deem to be "disturbance costs" and these have been disclosed as an exceptional item. These amounts have not been recognised as a related recoverable amount from HS2 but have been disclosed as a contingent asset totalling £7.2m as at 31 March 2015 as management are still in negotiations to finalise the compensation claim and hence they believe that there was not sufficient certainty at the balance sheet date to record a receivable due from HS2. We focused on this area as there is judgement around: - Classifying the costs incurred as a result of HS2 as exceptional items: - The related consideration of both the amount and timing of any recognition of the "disturbance" element of these costs expected to be received as compensation in the consolidated statement of comprehensive income: and - The classification in the consolidated balance sheet and cash flow statement.	We read and considered the contract for the sale of the site, the relevant elements of the Compensation Code and related correspondence from the company's advisers who have been assisting with the claim to update our understanding of the contractual agreement between the parties and the process through which compensation is calculated. In addition to the above we considered written correspondence that the group has received from HS2 which acknowledges the nature of expenses that are reclaimable as "disturbance costs" and compared these to the costs incurred to date and treated as a contingent asset and found no material inconsistencies. The correspondence from HS2 acknowledges the merits of the compensation claim for "disturbance" costs made by the group but it does not constitute an agreement to specific amounts and is still subject to negotiation and finalisation between the parties. Consequently, we evaluated management's decision not to recognise these amounts as an asset, and instead to disclose a contingent asset. Based on the evidence obtained and by considering the recognition criteria for recording a receivable, we determined the treatment adopted to be appropriate. As part of our work we obtained a breakdown of the disturbance costs incurred during the period and traced a sample of these to supporting documentation. We concurred with management's classification of these amounts as exceptional items in the consolidated statement of comprehensive income after considering the underlying nature of the expenditure and ensuring they were consistent with the group's accounting policy for exceptional items. We also assessed the appropriateness of the disclosures made in the financial statements for the costs incurred in respect of the compulsory purchase and related compensation and deemed these were sufficient to understand the impact of this matter.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

During the year the group consisted of two operating subsidiaries, UK Mail Ltd and UK Pallets Ltd, and the holding company, UK Mail Group plc. UK Pallets Ltd, a non-core business for the group ceased operations shortly before the year end.

We performed an audit of the complete financial information of UK Mail Group plc and UK Mail Ltd, due to their financial significance to the overall group financial statements. As described in our areas of focus, due to the closure of the non-core subsidiary, UK Pallets Ltd, we performed procedures over impaired assets such as goodwill and capitalised software development costs. Our audit work also addressed the costs of closing the business such as redundancy costs, contract

terminations and additional dilapidations costs and the recoverability of the remaining trade receivables balances.

Additional audit procedures were performed at the centralised head office function in respect of the exceptional items and the consolidation adjustments in the group financial statements.

All work was undertaken by the group engagement team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as set out over page:

Independent Auditors' report to the members of UK Mail Group plc continued.

Overall group materiality	£0.99 million (2014: £1.14 million).
How we determined it	5% of profit before tax and exceptional items.
Rationale for benchmark applied	We believe that profit before exceptional items is the key measure used by the shareholders as a body in assessing the Group's performance. We adjusted for exceptional items this year because this provides us with a consistent year on year basis for determining materiality by eliminating the non-recurring disproportionate impact of these items.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £100,000 (2014: £100,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 48, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the group and company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the

date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's and company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

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.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

Information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group and company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

the statement given by the directors on page 52, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's and company's performance, business model and strategy is materially inconsistent with our knowledge of the group and company acquired in the course of performing our audit.

We have no exceptions to report arising from this responsibility.

the section of the Annual Report on page 40, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report - Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

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.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

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 52, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

Jaskamal Sarai (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors Uxbridge
19 May 2015

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2015

		2015	2014
		£m	£m
Continuing operations	Note		
Revenue	2	485.1	481.4
Cost of sales		(428.3)	(415.8)
Gross profit		56.8	65.6
Administrative expenses		(35.8)	(43.8)
Operating profit before exceptional items		21.0	21.8
Automation implementation	3	(0.4)	-
National hub relocation costs	3	(2.5)	-
HS2 compensation	3	2.0	-
Operating profit	5	20.1	21.8
Finance income	4	-	0.2
Finance costs	4	-	(0.1)
Profit before taxation		20.1	21.9
Taxation - on profit before exceptional items		(4.4)	(5.1)
Taxation - on exceptional items		0.2	-
Total taxation	7	(4.2)	(5.1)
Profit for the year from continuing operations		15.9	16.8
(Loss)/profit for the year from discontinued operations		(10.8)	0.7
Profit for the financial year		5.1	17.5
Total comprehensive income attributable to:			
- Continuing operations		15.9	16.8
- Discontinued operations		(10.8)	0.7
Total comprehensive income attributable to equity holders of the company		5.1	17.5
Earnings/(loss) per share from continuing and discontinued operations			
Basic earnings per share	9		
From continuing operations		29.0p	30.7p
From discontinued operations		(19.8p)	1.3p
Total basic earnings per share		9.2p	32.0p
Diluted earnings per share	9		
From continuing operations		28.9p	30.6p
From discontinued operations		(19.7p)	1.3p
Total diluted earnings per share		9.2p	31.9p

The notes on pages 86 to 129 are an integral part of these financial statements.

Consolidated Balance Sheet as at 31 March 2015

	Note	2015 £m	2014 £m
ASSETS			
Non-current assets			
Goodwill	10	1.6	9.5
Intangible assets	11	11.6	8.0
Investment properties	12	1.7	1.8
Property, plant and equipment	13	85.4	50.1
Deferred tax assets	21	0.7	0.7
		101.0	70.1
Current assets			
Inventories	16	0.2	0.2
Trade and other receivables	17	76.2	72.4
Cash and cash equivalents	18	4.6	27.4
		81.0	100.0
LIABILITIES			
Current liabilities			
Borrowings	20	(9.8)	(0.4)
Trade and other payables	19	(101.1)	(82.9)
Current tax liabilities		(0.2)	(2.7)
Provisions	22	(1.5)	(0.4)
		(112.6)	(86.4)
Net current (liabilities)/assets			
		(31.6)	13.6
Non-current liabilities			
Deferred tax liabilities	21	(2.6)	(1.5)
Provisions	22	(0.7)	(1.0)
Trade and other payables	19	-	(8.9)
		(3.3)	(11.4)
Net assets			
		66.1	72.3
Shareholders' equity			
Ordinary shares	23	5.5	5.5
Share premium		15.3	15.3
Retained earnings		45.3	51.5
Total shareholders' equity		66.1	72.3

The financial statements on pages 78 to 85 were approved by the Board of Directors on 19 May 2015 and were signed on its behalf by:

Guy Buswell
Chief Executive

Steven Glew
Group Finance Director

Registered Number: 02800218

The notes on pages 86 to 129 are an integral part of these financial statements.

Company Balance Sheet as at 31 March 2015

	Note	2015 £m	2014 £m
ASSETS			
Non-current assets			
Investment in subsidiaries	15	11.1	19.6
		11.1	19.6
Current assets			
Trade and other receivables	17	29.9	-
Current tax asset		0.1	0.1
Cash and cash equivalents	18	-	22.2
		30.0	22.3
LIABILITIES			
Current liabilities			
Borrowings	20	(1.3)	-
Trade and other payables	19	-	(3.5)
		(1.3)	(3.5)
Net current assets			
		28.7	18.8
Net assets			
		39.8	38.4
Shareholders' equity			
Ordinary shares	23	5.5	5.5
Share premium		15.3	15.3
Retained earnings		19.0	17.6
Total shareholders' equity		39.8	38.4

The financial statements on pages 78 to 85 were approved by the Board of Directors on 19 May 2015 and were signed on its behalf by:

Guy Buswell
Chief Executive

Steven Glew
Group Finance Director

Registered Number: 02800218

The notes on pages 86 to 129 are an integral part of these financial statements.

Consolidated Cash Flow Statement for the year ended 31 March 2015

		Consolidated	
		2015	2014
		£m	£m
Continuing operations	Note		
Profit for the year		15.9	16.8
Adjustments for:			
Exceptional items	3	0.9	-
Depreciation and amortisation		7.9	7.5
Share-based payment expense		0.6	0.9
Loss on sale of property, plant and equipment		0.1	0.5
Finance income		-	(0.2)
Finance costs		-	0.1
Taxation	7	4.2	5.1
Operating profit before changes in working capital		29.6	30.7
Decrease in inventories		-	0.1
(Increase) in trade and other receivables		(10.1)	(5.0)
Increase in trade and other payables		8.5	6.9
Increase in provisions		0.2	0.1
Total cash flow from changes in working capital		(1.4)	2.1
Cash generated from continuing operations		28.2	32.8
Discontinued operations			
(Loss)/profit for the year		(10.8)	0.7
Adjustments for:			
Exceptional items	3	10.4	-
Depreciation and amortisation		0.1	-
Taxation	7	(0.7)	0.2
Operating profit before changes in working capital		(1.0)	0.9
Decrease/(increase) in trade and other receivables		6.6	(0.7)
(Decrease)/increase in trade and other payables		(5.8)	0.2
Increase in provisions		0.6	-
Total cash flow from changes in working capital		1.4	(0.5)
Cash generated from continuing operations		28.2	32.8
Cash generated from discontinued operations		0.4	0.4
Total cash generated from operations		28.6	33.2
Interest received		-	0.2
Income tax paid		(5.0)	(5.2)
Net cash flow from continuing operating activities		23.2	27.8
Net cash flow from discontinued operating activities		0.4	0.4
Total cash flow from operating activities		23.6	28.2

The notes on pages 86 to 129 are an integral part of these financial statements.

Consolidated Cash Flow Statement for the year ended 31 March 2015

		Consolidated	
		2015	2014
Investing activities			
Purchase of property, plant and equipment	13	(39.1)	(23.5)
Purchase of intangible assets	11	(6.4)	(4.1)
Deferred compensation	19	2.0	10.6
Proceeds from sale of plant and equipment		-	0.1
Net cash used in investing activities - continuing operations		(43.5)	(16.9)
Net cash used in investing activities - discontinued operations		(0.4)	(0.5)
Total cash used in investing activities		(43.9)	(17.4)
Financing activities			
Repayment of finance leases	29	(0.4)	(0.8)
Dividends paid to shareholders	8	(11.8)	(10.7)
ESOT shares acquired		-	(0.1)
Draw down of revolving credit facility	20	10.0	-
Facility arrangement costs paid		(0.3)	-
Net cash used in financing activities - continuing operations		(2.5)	(11.6)
Net cash used in financing activities - discontinued operations		-	-
Total cash used in financing activities		(2.5)	(11.6)
Net decrease in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	29	27.4	28.2
Cash and cash equivalents at the end of the year	29	4.6	27.4

Company Cash Flow Statement for the year ended 31 March 2015

		Company	
		2015	2014
	Note	£m	£m
Profit for the year		12.5	10.8
Adjustments for:			
Exceptional item - impairment of investment	15	9.1	-
Finance income		-	(0.4)
Finance costs		-	0.3
Taxation		(0.1)	(0.1)
Operating profit before changes in working capital		21.5	10.6
(Increase)/decrease in trade and other receivables		(10.7)	0.1
(Decrease) in trade and other payables		(22.5)	(4.1)
Total cash flow from changes in working capital		(33.2)	(4.0)
Cash (used in)/generated from operations		(11.7)	6.6
Finance income received		-	0.1
Net cash flow from operating activities		(11.7)	6.7
Investing activities			
Net cash used in investing activities		-	-
Financing activities			
Dividends paid to shareholders	8	(11.8)	(10.7)
ESOT shares acquired		-	(0.1)
Net cash used in financing activities		(11.8)	(10.8)
Net decrease in cash and cash equivalents	29	(23.5)	(4.1)
Cash and cash equivalents at the beginning of the year	29	22.2	26.3
Cash and cash equivalents at the end of the year	29	(1.3)	22.2

The notes on pages 86 to 129 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 March 2015

		Ordinary shares	Share premium	Retained earnings	Total equity
	Note	£m	£m	£m	£m
Balance as at 1 April 2013		5.5	15.3	43.6	64.4
Profit for the financial year		-	-	17.5	17.5
Total comprehensive income for the year		-	-	17.5	17.5
Dividends paid to shareholders	8	-	-	(10.7)	(10.7)
Employees' share option scheme:	24				
- share-based payments		-	-	0.9	0.9
- purchase of UK Mail shares by the ESOT		-	-	(0.1)	(0.1)
- tax credited directly to equity		-	-	0.3	0.3
Total transactions with shareholders recorded directly in equity		-	-	(9.6)	(9.6)
Balance as at 31 March 2014		5.5	15.3	51.5	72.3

		Ordinary Shares	Share premium	Retained earnings	Total equity
	Note	£m	£m	£m	£m
Balance as at 1 April 2014		5.5	15.3	51.5	72.3
Profit for the financial year		-	-	5.1	5.1
Total comprehensive income for the year		-	-	5.1	5.1
Dividends paid to shareholders	8	-	-	(11.8)	(11.8)
Employees' share option scheme:	24				
- share-based payments		-	-	0.6	0.6
- tax charged directly to equity		-	-	(0.1)	(0.1)
Total transactions with shareholders recorded directly in equity		-	-	(11.3)	(11.3)
Balance as at 31 March 2015		5.5	15.3	45.3	66.1

Company Statement of Changes in Equity

for the year ended 31 March 2015

		Ordinary Shares	Share premium	Retained earnings	Total equity
	Note	£m	£m	£m	£m
Balance as at 1 April 2013		5.5	15.3	16.7	37.5
Profit for the financial year		-	-	10.8	10.8
Total comprehensive income for the year		-	-	10.8	10.8
Dividends paid to shareholders	8	-	-	(10.7)	(10.7)
Employees' share option scheme:	24				
- share-based payments		-	-	0.9	0.9
- purchase of UK Mail shares by the ESOT		-	-	(0.1)	(0.1)
Total transactions with shareholders recorded directly in equity		-	-	(9.9)	(9.9)
Balance as at 31 March 2014		5.5	15.3	17.6	38.4

		Ordinary Shares	Share premium	Retained earnings	Total equity
	Note	£m	£m	£m	£m
Balance as at 1 April 2014		5.5	15.3	17.6	38.4
Profit for the financial year		-	-	12.5	12.5
Total comprehensive income for the year		-	-	12.5	12.5
Dividends paid to shareholders	8	-	-	(11.8)	(11.8)
Employees' share option scheme:	24				
- share-based payments		-	-	0.7	0.7
Total transactions with shareholders recorded directly in equity		-	-	(11.1)	(11.1)
Balance as at 31 March 2015		5.5	15.3	19.0	39.8

The notes on pages 86 to 129 are an integral part of these financial statements.

Notes to the Financial Statements

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.

General information

UK Mail Group plc (registration 02800218) is a public limited company incorporated and domiciled in England and the holding company of UK Mail Limited and UK Pallets Limited. It is quoted on the London Stock Exchange (LSE: UKM). The Group's principal activity is the provision of express collection and delivery services for parcels, mail and palletised goods. The address of its registered office is 120 Buckingham Avenue Slough SL1 4LZ.

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 going concern statement in the Directors' Report on page 48.

New and amended standards adopted by the Group

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 Consolidated or Company Financial Statements of the Group for the year ended 31 March 2015.

New standards and interpretations not yet adopted

New standards, amendments and interpretations issued, effective for the Group's financial year beginning 1 April 2015 or later periods and not yet adopted by the Group 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 Consolidated and Company Financial Statements of the Group.

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 32.

Consolidation

The Group's financial statements consolidate those of the Company and its subsidiary undertakings. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated and consistent accounting policies are used throughout the Group for the purposes of the consolidation.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at fair value of the assets given, equity instruments issued, contingent consideration arrangements entered into, and liabilities incurred or assumed at the date of exchange. Directly attributable transaction costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. These values are finalised within 12 months of the date of acquisition. Amortisation of business combination intangibles is a separately disclosed item.

When the ownership of an acquired company is less than 100%, the non-controlling interest is measured at either the proportion of the recognised net assets attributable to the non-controlling interest or at the fair value of the acquired company at date of acquisition. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recorded as goodwill.

The financial statements of subsidiaries are consolidated from the date that control commences to the date control ceases.

The results, assets and liabilities of the franchise network are not consolidated into the Group's results as the Group does not have a participating share ownership in the franchises, or the ability to direct and control their activities. Additionally, the Group does not bear or benefit in the majority of the risks and rewards.

Advantage has been taken of Section 408 of the Companies

Notes to the Financial Statements continued.

Act 2006 not to include the Company's own statement of comprehensive income. The profit of the Company for the year was £12.5m (2014: £10.8m).

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of identifiable net assets of a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is allocated to those cash generating units (CGUs) expected to benefit from the business combination and tested for impairment at least annually or whenever there is an indication that the asset may be impaired. Impairment testing is based on assets grouped at the lowest level at which goodwill is monitored for internal management reporting purposes. Any impairment is recognised immediately in the statement of comprehensive income and is not subsequently reversed.

On the disposal of a business, goodwill relating to that business remaining on the balance sheet is included in the determination of the gain or loss on disposal.

Intangible assets (other than goodwill)

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 lives, of between three and seven years, which are reviewed annually.

Costs that are directly associated with the development of identifiable and unique software products generated for use by the Group, 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 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 Group.

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 together with the costs attributable to bringing the asset to its working condition for its 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:

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

Land is not depreciated.

The normal expected useful economic 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 sheet, the Group 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 or its CGU 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. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. Impairment losses recognised in respect of CGU's are allocated first to reduce the carrying amount of

Notes to the Financial Statements continued.

any goodwill allocated to those units, and then to reduce the carrying amount of other assets in the CGU on a pro-rata basis.

An impairment loss for an individual asset or CGU 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. Impairment of goodwill is not reversed.

Investments in subsidiaries

Investments in Group undertakings are stated at cost less any provision for impairment.

The Company reflects the fair value of share-based payments granted to employees of subsidiary companies as an investment in subsidiaries, with a corresponding credit to equity.

Inventories

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

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

Finance and operating leases

Leasing agreements, which transfer to the Group 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 Group 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 Group 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 Group, whether delivered by network services, franchisees or sub-contractors. The Group 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 Group 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 Group 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.

Cost of sales

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

Administrative costs

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

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of the company. The chief operating decision-maker assesses the performance of the operating segments based on the measures of revenue and operating profit. Central overheads, finance income and costs, and taxation are not allocated to the operating segments.

Discontinued operations

Discontinued operations represent operating segments of the company that have either been abandoned, disposed of, or are classified as 'held for sale' per the requirements of IFRS 5, 'Non-current assets held for sale and discontinued operations'.

In the statement of comprehensive income, the profit or loss from discontinued operations is presented separately from the profit or loss from continuing operations, and the prior period restated on a comparable basis.

In the cash flow statement, the cash flows from discontinued operations are also presented separately from the cash flows arising from continuing operations, and the prior period restated on a comparable basis.

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

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

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

Pension costs

The Group 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 Group in independently administered funds. The pension costs

charged in the statement of comprehensive income represent contributions payable by the Group 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 Group.

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 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 Group 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 Group 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 Group. 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 at the general meeting.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Own equity instruments that are reacquired (treasury shares) or shares held in the Employee Share Ownership Trust (ESOT) are deducted from equity. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the

contractual provisions of the instrument. Financial assets are de-recognised when the Group 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: Trade receivables 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 Group 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 measure 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 amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium.

Cash and cash equivalents: These comprise cash in hand, 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 an insignificant risk of change in value.

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

2. Segmental information

Management has determined the operating segments based on reports that are reviewed by the Board for making strategic decisions. These reports reflect the Group's defined management structure, whereby distinct managers are accountable to the Board for the results and activities of their identified segments and the different markets in which they operate. The Board, which is the Group's chief operating decision maker, considers that the Group has three reportable operating segments following the cessation of trading of UK Pallets Ltd (note 3).

The Group's operating segments consist of Mail, Parcels, and Courier (which are shown as continuing operations). The Board assesses the performance of the operating segments based on a measure of operating profit before net finance costs and taxation.

Central costs comprises of network costs and central support costs. Central assets comprise mainly of corporate assets, cash, current and deferred tax balances.

The Group manages its business segments on a national basis, with all its operations in the UK, as are nearly all of the customers.

Inter-company transactions, (which are conducted on an arm's length basis), balances and unrealised gains on transactions between segments are eliminated. Unrealised losses are also eliminated.

No individual customer accounted for more than 6% of revenue in the periods included in these consolidated financial statements.

Notes to the Financial Statements continued.

Business segments

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

	Continuing operations			Central £m	Total £m
	Mail £m	Parcels £m	Courier £m		
Segmental revenue	240.5	228.1	20.0	-	488.6
Inter-segment revenue	-	-	(3.5)	-	(3.5)
Group revenue	240.5	228.1	16.5	-	485.1
Operating profit/(loss) before exceptional items	12.5	21.4	2.2	(15.1)	21.0
Exceptional items – administrative expenses	-	(0.9)	-	-	(0.9)
Operating profit	12.5	20.5	2.2	(15.1)	20.1
Finance income					-
Finance costs					-
Profit before taxation					20.1
Taxation					(4.2)
Profit attributable to equity shareholders					15.9
Other segment items					
Capital expenditure (including acquisitions)					
- Property, plant and equipment (note 13)	0.9	40.4	-	4.0	45.3
- Intangible assets (note 11)	1.4	-	0.2	5.0	6.6
Depreciation of property, plant and equipment (note 13)					
- Owned assets	0.9	3.3	-	1.2	5.4
- Under finance leases	-	0.2	-	-	0.2
Amortisation of intangible assets (note 11)					
- Owned assets	0.1	-	-	2.0	2.1
- Under finance leases	-	-	-	0.2	0.2
Impairment of trade receivables	-	0.2	-	-	0.2
Intangible Assets ¹	1.6	-	0.2	11.4	13.2
Property, plant and equipment ²	2.4	76.5	-	8.2	87.1
Deferred tax assets	-	-	-	0.6	0.6
Inventories	-	0.2	-	-	0.2
Trade and other receivables	52.1	36.0	-	30.7	118.8
Intercompany eliminations	(14.2)	-	-	(29.9)	(44.1)
	41.9	112.7	0.2	21.0	175.8
Cash and cash equivalents	4.3	2.0	-	(1.3)	5.0
Total assets	46.2	114.7	0.2	19.7	180.8

¹ Including goodwill ² Including investment properties

The business segment results for the year ended 31 March 2014 are as follows:

	Continuing operations			Central £m	Total £m
	Mail £m	Parcels £m	Courier £m		
Segmental revenue	245.3	219.9	18.9	-	484.1
Inter-segment revenue	-	-	(2.7)	-	(2.7)
Group revenue	245.3	219.9	16.2	-	481.4
Operating profit/(loss)	12.7	22.4	2.7	(16.0)	21.8
Finance income					0.2
Finance costs					(0.1)
Profit before taxation					21.9
Taxation					(5.1)
Profit attributable to equity shareholders					16.8
Other segment items					
Capital expenditure (including acquisitions)					
- Property, plant and equipment (note 13)	1.4	19.9	-	2.0	23.3
- Intangible assets (note 11)	0.2	-	-	3.9	4.1
Depreciation of property, plant and equipment (note 13)					
- Owned assets	0.5	3.4	-	1.7	5.6
- Under finance leases	0.5	-	-	-	0.5
Amortisation of intangible assets (note 11)					
- Owned assets	-	0.1	-	1.1	1.2
- Under finance leases	-	-	-	0.2	0.2
Impairment of trade receivables	-	0.1	0.1	-	0.2
Intangible Assets ¹	0.3	-	-	16.4	16.7
Property, plant and equipment ²	2.4	43.9	-	5.6	51.9
Deferred tax assets	-	-	-	0.6	0.6
Inventories	-	0.2	-	-	0.2
Trade and other receivables	49.8	34.7	-	0.7	85.2
Intercompany eliminations	(17.5)	-	-	-	(17.5)
	35.0	78.8	-	23.3	137.1
Cash and cash equivalents	1.5	4.2		22.2	27.9
Total assets	36.5	83.0	-	45.5	165.0

¹ Including goodwill ² Including investment properties

Notes to the Financial Statements continued.

3. Exceptional items and discontinued operations

Exceptional items	2015	2014
	£m	£m
Cost of automation implementation	0.4	-
National hub relocation costs	2.5	-
HS2 compensation	(2.0)	-
Net exceptional costs – continuing operations ¹	0.9	-
Impairment charges (including goodwill)	9.0	-
Closure costs	1.4	-
Exceptional costs – discontinued operations ²	10.4	-
Net exceptional items	11.3	-

¹ Presented on the face of the Consolidated Statement of Comprehensive Income ² Presented within the loss for the year from discontinued operations

Net exceptional costs - continuing operations

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 £0.2m property costs associated with running two sites for an approximate period of two months, £1.1m of recruitment and redundancy costs, and £1.2m 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 27, 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 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.

Exceptional costs - discontinued operations

The Group acquired UK Pallets for £9.4m in July 2003, recognising an initial goodwill asset of some £8.2m. This asset, which was initially amortised as required under the then applicable UK accounting rules, stood at £7.9m by the time the Group made the transition to IFRS on 1 April 2004. Since then, this goodwill has been held on the consolidated balance sheet of UK Mail as an intangible asset and tested at least annually for impairment.

At the interim stage, and following a deterioration in the trading performance of UK Pallets, an impairment charge of £7.3m was recognised as an exceptional cost.

Since then, and as announced in January 2015, a decision was made to close the business. The business ceased trading in March 2015. Consequently, the remaining amount of goodwill arising on acquisition has therefore been written off, resulting in a total goodwill impairment charge of £7.9m for the year ended 31 March 2015. Additionally, the Group recognised a further £1.1m impairment charge relating to the write-off of capitalised software development costs.

Closure costs of £1.4m principally comprise £0.7m of redundancy costs, and £0.7m contract termination and additional dilapidation costs.

Notes to the Financial Statements continued.

Discontinued operations

The results of discontinued operations are as follows:

	2015	2014
Note	£m	£m
Revenue	22.8	27.1
Cost of sales	(22.0)	(24.5)
Gross profit	0.8	2.6
Administrative expenses	(1.9)	(1.7)
Operating (loss)/profit before exceptional items	(1.1)	0.9
Exceptional items	(10.4)	-
Operating profit	(11.5)	0.9
Taxation on profit/(loss) before exceptional items	0.2	(0.2)
Taxation on exceptional items	0.5	-
Total taxation 7	0.7	(0.2)
(Loss)/profit for the financial year	(10.8)	0.7

These represent the results of UK Pallets Ltd.

Notes to the Financial Statements continued.

4. Finance income – net

	2015	2014
	£m	£m
Continuing operations		
Interest receivable on:		
Bank balances	-	0.2
Finance income	-	0.2
Interest payable on:		
Other interest	-	(0.1)
Finance cost	-	(0.1)
Finance income - net	-	0.1

Interest and revolving credit facility arrangement fees totalling £0.3m have been capitalised as part of property, plant and equipment (note 13) as they relate to the construction phase of the group's new national hub and head office.

Notes to the Financial Statements continued.

5. Operating profit

	2015	2015	2015	2014	2014	2014
	£m	£m	£m	£m	£m	£m
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
The following items have been charged/ (credited) in arriving at operating profit:						
Royal Mail access costs	195.5	-	195.5	202.8	-	202.8
Subcontractor costs	97.0	15.8	112.8	86.4	17.7	104.1
Employee benefits expense (note 6)	65.0	3.5	68.5	67.5	3.6	71.1
Cost of fuel included in cost of sales (note 16)	10.1	0.8	10.9	11.6	1.0	12.6
Depreciation of owned property, plant and equipment (note 13)	5.6	-	5.6	6.1	-	6.1
Amortisation of intangibles (included in administrative expenses) (note 11)	2.3	0.1	2.4	1.4	-	1.4
Loss on disposal of property, plant and equipment	0.1	-	0.1	0.4	-	0.4
Impairment of goodwill and other intangibles (note 3)	-	9.0	9.0	-	-	-
Loss on foreign currency translation	-	-	-	0.1	-	0.1
Operating lease rentals payable	12.6	1.4	14.0	11.6	1.5	13.1
Repairs and maintenance expenditure on property, plant and equipment	4.8	0.5	5.3	4.4	0.4	4.8
Operating lease rentals receivable	(1.0)	(0.1)	(1.1)	(0.8)	(0.1)	(0.9)
Research and development costs	2.2	-	2.2	0.5	-	0.5
Impairment of trade receivables (included in administrative expenses)	0.2	0.2	0.4	0.2	-	0.2

Services provided by the Company's auditor

During the year the Group obtained the following services from the Company's auditors:

	2015	2014
	£000's	£000's
Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements	45	36

Fees payable to the Company's auditor and its associates for other services:

- The audit of the Company's subsidiaries pursuant to legislation	95	100
- Other services pursuant to legislation	12	12
Total audit and audit-related services	152	148
All other services	28	1
Total non-audit services	28	1
Total audit and non-audit services	180	149

Other services in 2015 principally relate to IT assurance services.

6. Employees and directors

Employee benefit expense for the Group during the year

	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	2015	2015	2015	2014	2014	2014
	£m	£m	£m	£m	£m	£m
Wages and salaries	57.1	3.2	60.3	59.8	3.3	63.1
Social security costs	5.2	0.3	5.5	5.0	0.3	5.3
Pension costs ¹	2.1	-	2.1	1.8	-	1.8
Share-based payments (note 24)	0.6	-	0.6	0.9	-	0.9
	65.0	3.5	68.5	67.5	3.6	71.1

¹ - pension costs all relate to defined contribution schemes.

The monthly average number of people (including executive directors) employed by the Group was:

	2015	2014
	Number	Number
Mail services	215	214
Parcel services	2,182	2,164
Courier services	84	79
Central services	203	182
Continuing operations	2,684	2,639
Discontinued operations - Pallet services	101	117
	2,785	2,756

Key management compensation

	2015	2014
	£000	£000
Salaries and short-term employee benefits	1,436	2,007
Post-employment benefits	138	104
Share-based payments	344	398
	1,918	2,509

The key management figures given above include the main board and operational directors and relates entirely to continuing operations.

Directors' remuneration

	2015	2014
	£000	£000
Aggregate emoluments	1,984	1,207
Pension costs	138	79
Sub-Total	2,122	1,286

Pension contributions were made in respect of three (2014: two) directors, including contributions paid as a supplement to the directors salaries, as detailed in the Remuneration Report.

Further details of directors' emoluments are set out in the Remuneration Report and all such emoluments relate to continuing operations.

Notes to the Financial Statements continued.

7. Taxation

	2015	2014
	£m	£m
Analysis of charge in the period		
Continuing operations		
Current tax - current year	3.4	5.4
Current tax - adjustment in respect of prior years	(0.1)	-
Total current tax	3.3	5.4
Deferred tax		
Deferred tax (note 21) - current year	0.8	(0.3)
Deferred tax (note 21) - adjustment in respect of prior years	0.1	-
Total deferred tax	0.9	(0.3)
Total tax on continuing operations	4.2	5.1
Discontinued operations		
Current tax - current year	(0.7)	0.2
Total current tax	(0.7)	0.2
Total tax	3.5	5.3

	2015	2014
	£m	£m
Taxation on continuing operations		
Profit before taxation on continuing operations	20.1	21.9
Profit on continuing operations multiplied by the standard rate of corporation tax in the UK of 21% (2014: 23%)	4.2	5.0
Effects of:		
Expenses not deductible for tax purposes	0.1	0.2
Effect of change in tax rate	(0.1)	(0.1)
Total tax charge	4.2	5.1

Additionally, £0.1m (2014: £0.3m credited) of deferred tax has been charged directly to equity in respect of share options.

Reduction 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. Dividends

The directors have proposed a payment of a final dividend of 14.5p per share (2014: 14.2p per share), payable on 28 August 2015 to shareholders who are on the register of members on 31 July 2015. This dividend, which is subject to approval by shareholders at the Annual General Meeting on 8 July 2015, has not been included as a liability in these financial statements. The dividend payment will amount to some £7.9m.

	2015		2014	
	Dividends per share pence	£m	Dividends per share pence	£m
Amounts recognised as distributions to equity shareholders during the year:				
Final dividend paid in respect of the prior year	14.2p	7.8	12.4p	6.8
Interim dividend paid in respect of the current year	7.3p	4.0	7.1p	3.9
	21.5p	11.8	19.5p	10.7

9. Earnings per share

The basic, diluted and underlying earnings per share are calculated based on the following data:

	2015	2014
	£m	£m
Profit after taxation – continuing items	15.9	16.8
(Loss)/profit after taxation – discontinued operations	(10.8)	0.7
Profit after taxation	5.1	17.5

	2015	2014
	Number	Number
Basic weighted average number of shares	54,729,788	54,705,627
Effect of dilutive shares		
SAYE options	182,336	202,631
Long Term Incentive Plan	-	64,039
Diluted weighted average number of shares	54,912,124	54,972,297

The Group has two classes of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year, and the contingently issuable shares under the Group's Long Term Incentive Plan.

	2015	2014
	Pence	Pence
Basic earnings per share – continuing items	29.0p	30.7p
Basic (loss)/earnings per share – discontinued operations	(19.8)p	1.3p
Basic earnings per share	9.2p	32.0p

Basic earnings per share is calculated by dividing the profit for the year (the 'earnings') attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the employee share ownership trust (note 23), which are treated as cancelled.

	2015	2014
	Pence	Pence
Diluted earnings per share – continuing operations	28.9p	30.6p
Diluted (loss)/earnings per share – discontinued operations	(19.7)p	1.3p
Diluted earnings per share	9.2p	31.9p

For diluted earnings per share, the weighted average number of shares is adjusted to assume conversion of all dilutive potential ordinary shares.

Underlying earnings per share

	Note	2015	2014
		£m	£m
Profit before taxation – continuing operations		20.1	21.9
Adjustments:			
Exceptional administrative items - continuing operations	3	0.9	-
Underlying profit before taxation – continuing operations		21.0	21.9
Taxation – continuing operations		(4.4)	(5.1)
Underlying profit after taxation – continuing operations		16.6	16.8
Underlying earnings per share			
Basic		30.3p	30.7p
Diluted		30.1p	30.6p

The directors consider that the underlying EPS more accurately reflects the underlying performance of the business.

10. Goodwill

	2015	2014
Group	£m	£m
Cost		
At 1 April and 31 March	9.5	9.5
Aggregate impairment		
At 1 April	-	-
Impairment charge	7.9	-
At 31 March	7.9	-
Net book value as at 31 March	1.6	9.5

The following table shows the allocation of goodwill at the end of the reporting period by cash-generating unit ('CGU'):

	2015	2014
Goodwill by segment	£m	£m
Courier Services	1.6	1.6
Pallet Services	-	7.9
Net book value at 31 March	1.6	9.5

The goodwill carried in the Courier Services segment represents goodwill acquired on the acquisition of Business Post Group Limited (formerly BXT Limited) in February 2003. The Group's courier operations were consolidated under single management during the year ended 31 March 2007, and as a result are now all reported in the books of UK Mail Limited.

The goodwill carried in the Pallet Services segment represents goodwill acquired on the acquisition of UK Pallets Ltd in July 2003.

Impairment charge

As reported in the interim results, and following a marked deterioration in the profitability of the Pallet Services segment, a detailed impairment review was undertaken which resulted in the recognition of a £7.3m impairment charge against the carrying value of goodwill as at 30 September 2014.

Since then the Group has reviewed the available options for the business, which resulted in a decision in January 2015 to close it, with trade ceasing in March 2015.

Consequently, the remaining £0.6m goodwill has been written-off with the £7.9m total impairment charge for the year classified as an exceptional item within the net loss on

discontinued operations (see note 3).

Annual impairment testing

Goodwill is tested for impairment at least annually. The recoverable amount of the CGU is based on a value in use calculation using cash flow forecasts based on the 2015/16 Budget (as approved by the Board), extrapolated over the following four years in line with the Group's three year plan (as approved by the Board) and management estimates of the individual CGU's growth rate. Thereafter, the growth rate has assumed to be in line with the anticipated long term GDP rate of the UK economy. Pre-tax discount rates, derived from the Group's pre-tax weighted average cost of capital are then applied to the projections.

The key assumptions used in testing for impairment for the remaining goodwill in the Courier Services segment are as follows:

- the 2015/16 Budget (year 1)
- the rates of growth in years 2 to 5
- the long-term GDP growth rate of the UK economy
- the pre-tax discount rate used

Notes to the Financial Statements continued.

Budget 2015/16

The 2015/16 Courier Budget was initially prepared by the management team of the Courier Services segment CGU based on their detailed knowledge and experience of their own CGU. This Budget has subsequently been approved by the Board, following detailed discussions with management and rigorous testing of the underlying assumptions. Non-cash items have been added back to profit before interest and taxation in order to determine the cash flow for the CGU.

Rates of growth in years 2 to 5

The rates of revenue growth in years 2 to 5 are based on the Group's approved three year plan (for years 2 and 3), and managements best estimates (for years 4 and 5) based on past performance, expectations for future business development, and known business initiatives. The growth rates are in the range of 4.3% to 8.6% p.a. (2014: 2.0% to 9.4% p.a.)

Long term GDP rate of the UK economy

The anticipated minimum long term GDP growth rate of the UK economy has been estimated at 2.00% p.a. (2014: 1.75% p.a.).

Pre-tax discount rate

The discount rate applied to a CGU represents a pre-tax rate that reflects the Group's weighted average cost of capital, adjusted for the risks specific to the CGU. The pre-tax discount rate used is 9.65% (2014: 8.31%).

Sensitivity to changes in assumptions

The results of impairment testing is impacted by management's estimates and judgements, in particular in relation to the forecasting of future cash flows and the discount rate applied to those cash flows. Sensitivity analysis has therefore been performed for these key assumptions.

Growth of market and market share

Management has considered the impact of a variance in the growth of the market and market share for the Courier Services CGU, and believe that there is no reasonable potential change in any of the key assumptions used that would cause the carrying value of the Courier Services CGU to exceed its recoverable amount.

Pre-tax discount rate

Management has considered the impact of an increase in the pre-tax discount rate applied to this calculation, and believe that there is no reasonable potential change in the pre-tax discount rate that would cause the carrying value of the Courier Services CGU to exceed its recoverable amount.

Market structure

Management believe that there will be no structural change in the courier market which will adversely affect these forecasts in the foreseeable future.

11. Intangible assets

	Acquired software licences	Internal software developments	Total
	£m	£m	£m
Group			
Cost			
At 1 April 2014	4.4	9.7	14.1
Additions	0.6	6.4	7.0
Disposals	(0.3)	(1.1)	(1.4)
At 31 March 2015	4.7	15.0	19.7
Aggregate amortisation			
At 1 April 2014	2.4	3.7	6.1
Charge for the year	0.5	1.9	2.4
Disposals	-	(0.4)	(0.4)
At 31 March 2015	2.9	5.2	8.1
Net book value at 31 March 2015	1.8	9.8	11.6

	Acquired software licences	Internal software developments	Total
	£m	£m	£m
Group			
Cost			
At 1 April 2013	4.5	6.0	10.5
Additions	0.4	4.2	4.6
Disposals	(0.5)	(0.5)	(1.0)
At 31 March 2014	4.4	9.7	14.1
Aggregate amortisation			
At 1 April 2013	2.4	3.2	5.6
Charge for the year	0.5	0.9	1.4
Disposals	(0.5)	(0.4)	(0.9)
At 31 March 2014	2.4	3.7	6.1
Net book value at 31 March 2014	2.0	6.0	8.0

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

	Acquired software licences	Internal software developments	Total
	£m	£m	£m
Assets under construction			
Net book value at 31 March 2015	-	1.5	1.5
Net book value at 31 March 2014	-	-	-

Software related amortisation charges have been charged through administrative expenses.

Notes to the Financial Statements continued.

12. Investment properties

Group	2015	2014
	£m	£m
Cost		
At 1 April	2.6	2.6
At 31 March	2.6	2.6
Accumulated depreciation		
At 1 April	0.8	0.8
Charge for the year	0.1	-
At 31 March	0.9	0.8
Net book value at 31 March	1.7	1.8

One (2014: one) investment property is held by the Group, located in the West Midlands, which is being sublet under an operating lease. The rental income recognised in the year was £0.3m (2014: £0.3m). 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 Group to the total fee income of the DTZ 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 Group Property Manager at £2.4m to £2.6m in March 2015 by reference to market evidence of transaction prices for similar properties in the same area.

13. Property, plant and equipment

	Freehold land and buildings	Short leasehold buildings	Motor vehicles, plant and equipment	Computer equipment	Total
Group	£m	£m	£m	£m	£m
Cost					
At 1 April 2014	35.1	3.4	38.7	11.8	89.0
Additions	22.8	0.3	18.0	4.2	45.3
HS2 compensation	(4.2)	-	-	-	(4.2)
Disposals	-	-	(2.8)	(0.4)	(3.2)
At 31 March 2015	53.7	3.7	53.9	15.6	126.9
Accumulated depreciation					
At 1 April 2014	5.8	1.9	23.3	7.9	38.9
Charge for the year	0.5	0.3	3.5	1.3	5.6
Disposals	-	-	(2.6)	(0.4)	(3.0)
At 31 March 2015	6.3	2.2	24.2	8.8	41.5
Net book value at 31 March 2015	47.4	1.5	29.7	6.8	85.4

	Freehold land and buildings	Short leasehold buildings	Motor vehicles, plant and equipment	Computer equipment	Total
Group	£m	£m	£m	£m	£m
Cost					
At 1 April 2013	21.8	3.5	35.7	12.2	73.2
Additions	13.3	0.3	7.6	2.1	23.3
Disposals	-	(0.4)	(4.6)	(2.5)	(7.5)
At 31 March 2014	35.1	3.4	38.7	11.8	89.0
Accumulated depreciation					
At 1 April 2013	5.3	1.9	24.0	8.5	39.7
Charge for the year	0.5	0.3	3.6	1.7	6.1
Disposals	-	(0.3)	(4.3)	(2.3)	(6.9)
At 31 March 2014	5.8	1.9	23.3	7.9	38.9
Net book value at 31 March 2014	29.3	1.5	15.4	3.9	50.1

Notes to the Financial Statements continued.

Three of the group properties included above, with a net book value of £6.3m have been given as security against advance payments for compensation received from HS2 Ltd.

Interest and revolving credit facility arrangement fees totalling £0.3m have been capitalised as part of property, plant and equipment as they relate to the construction phase of the group's new national hub and head office, and qualify for capital allowances.

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

	Freehold land and buildings	Short leasehold buildings	Motor vehicles, plant and equipment	Computer equipment	Total
Group	£m	£m	£m	£m	£m
Assets under construction					
Net book value at 31 March 2015	19.2	-	17.2	2.2	38.6
Net book value at 31 March 2014	0.6	-	3.3	-	3.9

Notes to the Financial Statements continued.

14. Assets held under finance leases

Included in notes 11 and 13 are the following assets held under finance leases:

	Property, plant and equipment		Intangible	
	(Motor vehicles, property, plant and equipment)		(Acquired software licences)	
	2015	2014	2015	2014
	£m	£m	£m	£m
Cost	3.5	4.3	1.7	1.9
Accumulated depreciation	(3.4)	(3.3)	(1.2)	(1.0)
Disposals	(0.1)	(0.8)	-	(0.2)
Net book value	-	0.2	0.5	0.7

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

15. Investments

Company

	2015	2014
	£m	£m
Non-current investments		
Cost of investments in subsidiaries		
At 1 April	19.6	18.7
Increase in investments in subsidiaries - share-based payments	0.6	0.9
Impairment of investment in subsidiaries	(9.1)	-
At 31 March	11.1	19.6

The impairment of investment in subsidiaries relates to UK Pallets Ltd, further details of which can be found in note 3.

16. Inventories

	2015	2014
	£m	£m
Fuel stock	0.2	0.2

17. Trade and other receivables

	Group		Company	
	2015	2014	2015	2014
	£m	£m	£m	£m
Trade receivables	56.5	57.3	-	-
Less: provision for impairment	(0.1)	(0.1)	-	-
Trade receivables - net of provisions for impairment	56.4	57.2	-	-
Amounts due from subsidiary undertakings	-	-	29.9	-
Other debtors	5.5	2.1	-	-
Prepayments and accrued income	14.3	13.1	-	-
	76.2	72.4	29.9	-

Further information on the credit risks relating to trade and other receivables is given in note 25.

Company

Amounts due from subsidiary undertakings bear interest at 1.0% over the Bank of England base rate, are unsecured and are repayable on demand.

None (2014: none) of the Company's trade and other receivables were past due at the year end and the Company does not consider it necessary to provide for any impairment.

18. Cash and cash equivalents

Cash and cash equivalents include the following for the purpose of the cash flow statement:

	Group		Company	
	2015	2014	2015	2014
	£m	£m	£m	£m
Cash at bank and in hand	4.6	27.4	-	22.2
Bank overdraft	-	-	(1.3)	-
Cash and cash equivalents	4.6	27.4	(1.3)	22.2

Credit interest rates on bank balances range between 0.00% and 0.70%, and debit interest rates on borrowings range between 1.82% and 2.5%. As far as practical cash balances are held centrally and are used first to repay borrowings under the Group's revolving credit facility before being placed on deposit.

Notes to the Financial Statements continued.

19. Trade and other payables – current

	Group		Company	
	2015	2014	2015	2014
	£m	£m	£m	£m
Trade payables	58.7	42.9	-	-
Other payables	9.1	7.1	-	-
Amounts owed to franchises	1.6	1.9	-	-
Amounts owed to subsidiary undertakings	-	-	-	3.5
Other taxes and social security payable	12.6	13.2	-	-
Accruals	9.4	15.1	-	-
Deferred compensation	9.6	2.6	-	-
Deferred income	0.1	0.1	-	-
	101.1	82.9	-	3.5

Trade and other payables – non-current

	Group		Company	
	2015	2014	2015	2014
	£m	£m	£m	£m
Deferred compensation	-	8.9	-	-
	-	8.9	-	-

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

Total deferred compensation of £9.6m (2014: £11.5m) relates to amounts received by the group in respect of reimbursements for operating expenditure, business disruption costs and capital expenditure resulting from the compulsory purchase of the group's national hub.

Total compensation received in 2015 was £4.3m of which £2.0m is shown in investing activities relating to the reimbursement of capital expenditure and £2.3m in operating activities relating to business disruption costs.

Total compensation received in 2014 amounted to £11.5m, of which £10.6m is shown in investing activities (being £8.6m in respect of sale proceeds received on account in respect of the old Birmingham National hub and £2.0m of reimbursed capital expenditure) and £0.9m in operating activities relating to business disruption costs.

During the year ended 31 March 2015, £4.2m has been credited against the build cost of the Ryton National hub (shown as an asset under construction in note 13) and £2.0m has been included in exceptional items (shown as HS2 compensation in note 3).

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

20. Borrowings

Current

	Group		Company	
	2015	2014	2015	2014
	£m	£m	£m	£m
Amounts due within one year or on demand:				
Revolving credit facility ¹	9.8	-	-	-
Finance lease obligations (see note 25)	-	0.4	-	-
Bank overdraft	-	-	1.3	-
	9.8	0.4	1.3	-

¹ The revolving credit facility is shown net of £0.2m (2014: £nil) unamortised arrangement fees.

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

	Group		Company	
	2015	2014	2015	2014
	£m	£m	£m	£m
Amounts payable under finance leases				
Within one year	-	0.4	-	-
Between one and five years	-	-	-	-
Total minimum lease payments	-	0.4	-	-
Future finance charges	-	-	-	-
Present value of finance leases	-	0.4	-	-

Notes to the Financial Statements continued.

21. 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 account is as shown below:

	Group	
	2015	2014
	£m	£m
Deferred tax assets		
At 1 April	0.7	0.3
(Charge)/credit to equity - continuing operations	(0.2)	0.3
Credit/(charge) to income statement	0.2	0.1
At 31 March	0.7	0.7

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:

	Group	
	2015	2014
	£m	£m
Deferred tax liabilities		
At 1 April	1.5	1.7
Income statement charge/(credit)	1.1	(0.2)
At 31 March	2.6	1.5

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

Deferred tax assets and liabilities are expected to be recovered as follows:

	Group	
	2015	2014
	£m	£m
Deferred tax assets		
Within 12 months	0.1	0.1
After 12 months	0.5	0.6
At 31 March	0.6	0.7
Deferred tax liabilities		
Within 12 months	-	0.2
After 12 months	2.6	1.3
At 31 March	2.6	1.5

£0.2m deferred tax was charged to equity during the year (2014: £0.3m credited). There was no recognised or unrecognised deferred tax for the company (2014: £nil)

22. Provisions

	Automation	Closure costs	Lease dilapidations	Restructuring	Total
	£m	£m	£m	£m	£m
At 1 April 2014	-	-	1.1	0.3	1.4
Provided in the year	0.4	0.3	0.6	-	1.3
Utilised in the year	(0.2)	-	(0.2)	(0.1)	(0.5)
At 31 March 2015	0.2	0.3	1.5	0.2	2.2

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

	2015	2014
	£m	£m
Current	1.5	0.4
Non-current	0.7	1.0
	2.2	1.4

The automation provision largely relates to 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.

The closure costs are for UK Pallets and largely relate to redundancy payments and contractual cancellation charges.

Lease dilapidations represent the anticipated expenditure resulting from the Group's contractual obligations to make good properties prior to reversion of the building to the landlord in respect of leases expiring within one year and up to 14 years.

The timing of outflows is variable, and is dependent not only on property lease expiry dates, and opportunities to surrender leases, but repair programmes and the results of negotiation.

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

Notes to the Financial Statements continued.

23. Ordinary shares

Group and company

	2015	2014
Authorised	£m	£m
70,000,000 (2014: 70,000,000) ordinary shares of 10p each	7.0	7.0

Issued, allotted and fully paid

	2015		2014	
Ordinary shares of 10p each	Shares	£m	Shares	£m
At 1 April	54,734,482	5.5	54,732,981	5.5
Allotted under share option schemes	6,136	-	1,501	-
At 31 March	54,740,618	5.5	57,734,482	5.5

Potential issues of ordinary shares

Certain directors, key managers and employees hold options to subscribe for shares in the Company at prices ranging from £nil to 471.14p under share option schemes approved by shareholders between 2004 and 2009, as follows;

	Year of grant	Exercise price	Exercise period	2015 numbers	2014 numbers
Scheme					
Sharesave scheme	2010 - 2014	186.88p - 471.14p	01.09.15 to 01.03.18	444,404	412,187
LTIP	2012 - 2014	Nil	29.11.15 to 28.11.24	825,417	716,375
SMP	2013 - 2014	Nil	11.06.16 to 10.12.17	34,394	14,199
				1,304,215	1,142,761

Employee Share Ownership Trust

The Company's Employee Share Ownership Trust holds shares in the Company for subsequent transfer to employees under its incentive scheme awards. Shares held by the Trust are not voted at shareholder meetings and do not accrue dividends. All other shares carry voting rights and accrue dividends.

The ESOT did not allot any ordinary shares of 10p each in the year ended 31 March 2015.

During the year ended 31 March 2014 the ESOT allotted 80,503 ordinary shares of 10p each with an aggregate nominal value of £8,050 to satisfy exercises under the Group's LTIP and SAYE plans at an average price of 549p per share, and repurchased 31,811 ordinary shares of 10p each for a total consideration of £163,373, following elections by participants to dispose of their shares.

The trust held a total of 6,801 shares with a market value of £32,781 at 31 March 2015 (2014: 6,801 shares with a market value of £44,206).

Notes to the Financial Statements continued.

24. Share-based payments

The Group recognised a charge of £0.6m (2014: £0.9m) 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 are as follows:

Sharesave Plan ('SAYE')

The Company 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 the Company's shares. Each participant may save between £5 and £500 per month to purchase shares in the Company 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')

The Remuneration Committee first introduced an LTIP 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 Company to employees of the Company, with a contractual life of an option being between three and ten years.

The performance conditions attaching to any future awards granted under the plan were amended at the Annual General Meeting of the Company held on 15 July 2009, such that 50% of an Award is subject to a performance condition based on the Company's annual earnings per share (EPS) growth, and 50% is determined by the TSR performance of the 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, the rules of the plan were amended such that dividends accrue on the shares comprised within the award. To the extent that awards vest under the performance criteria, the proportionate value of the accrued dividends thereon will be satisfied as additional shares at the time of vesting.

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

Year of grant	EPS Target range ⁽¹⁾		TSR Target range ⁽¹⁾		Outcome
	Threshold (25%) vesting	Max (100%) vesting	Threshold (25%) vesting	Max (100%) vesting	
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 made 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 50.0%), and the required EPS in part (53.1% of the 50%). Successful award holders will receive a further 21.0% in respect of their dividend equivalence entitlement.

Share Matching Plan ('SMP')

In previous years, selected executives had been invited to invest a portion of their cash bonus in the acquisition of Company shares worth up to 25% of their pre-tax salary. However, as detailed in the Remuneration Policy Report, the Remuneration Committee no longer considers this as an appropriate means of incentivising senior management; with the last grant made on 10 June 2014.

Where such an investment was made, the executives will receive a grant of a matching award over shares in the Company 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. Further detail is provided in the Remuneration Report on page 58.

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 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 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	10/06/2014	28/11/2014	10/06/2014	30/07/2014
Share price at grant date	£6.25	£4.42	£6.25	£6.00
Exercise price	-	-	-	£4.7114
Number of employees	1	3	3	142
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 dividend yield	0.00%	0.00%	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 obtainable 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 Company's historic average share price volatility 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 the SAYE and SMP grants but is assumed as zero for the LTIP grant given the 'dividend equivalence' term.

Notes to the Financial Statements continued.

Reconciliation of option movements

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

	2015		2014	
	Number	Weighted average exercise price	Number	Weighted average exercise Price
Outstanding as at 1 April	1,142,761	£0.95	934,192	£0.74
Granted	280,727	£1.99	675,022	£0.89
Lapsed	(113,137)	£2.70	(389,470)	£0.32
Exercised	(6,136)	£2.01	(76,983)	£1.08
Outstanding as at 31 March	1,304,215	£1.02	1,142,761	£0.95
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	859,811	1.4	8.0	£0.00	730,574	2.1	8.9
£1.00 - £1.99	£1.87	246,713	0.9	1.2	£1.87	270,401	1.9	2.1
£2.00 - £2.99	£2.75	7,973	0.8	1.0	£2.75	10,330	1.8	2.0
£3.00 - £3.99	-	-	-	-	-	-	-	-
£4.00 - £4.99	£4.44	189,718	2.2	2.4	£4.19	131,456	2.7	2.9

25. Financial instruments

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

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

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

	2015 Group			2014 Group		
	Financial instruments	Other	Total	Financial instruments	Other	Total
Goodwill	-	1.6	1.6	-	9.5	9.5
Intangible assets	-	11.6	11.6	-	8.0	8.0
Investment properties	-	1.7	1.7	-	1.8	1.8
Property plant and equipment	-	85.4	85.4	-	50.1	50.1
Deferred tax assets	-	0.7	0.7	-	0.7	0.7
Non-current assets	-	101.0	101.0	-	70.1	70.1
Trade receivables (net of impairment)	56.4	-	56.4	57.2	-	57.2
Other debtors	5.5	-	5.5	2.1	-	2.1
Prepayments and accrued income	-	14.3	14.3	-	13.1	13.1
Trade and other receivables	61.9	14.3	76.2	59.3	13.1	72.4
Inventories	-	0.2	0.2	-	0.2	0.2
Cash and cash equivalents	4.6	-	4.6	27.4	-	27.4
Current assets	66.5	14.5	81.0	86.7	13.3	100.0
Total assets	66.5	115.5	182.0	86.7	83.4	170.1
Trade payables	(58.7)	-	(58.7)	(42.9)	-	(42.9)
Other payables	(9.1)	-	(9.1)	(7.1)	-	(7.1)
Amounts owed to franchisees	(1.6)	-	(1.6)	(1.9)	-	(1.9)
Other taxes and social security payable	-	(12.6)	(12.6)	-	(13.2)	(13.2)
Accruals	(9.4)	-	(9.4)	(15.1)	-	(15.1)
Deferred compensation	-	(9.6)	(9.6)	-	(2.6)	(2.6)
Deferred income	-	(0.1)	(0.1)	-	(0.1)	(0.1)
Trade and other payables	(78.8)	(22.3)	(101.1)	(67.0)	(15.9)	(82.9)
Borrowings	(9.8)	-	(9.8)	(0.4)	-	(0.4)
Current tax liabilities	-	(0.2)	(0.2)	-	(2.7)	(2.7)
Provisions	(1.5)	-	(1.5)	(0.4)	-	(0.4)
Current liabilities	(90.1)	(22.5)	(112.6)	(67.8)	(18.6)	(86.4)
Deferred tax liabilities	-	(2.6)	(2.6)	-	(1.5)	(1.5)
Provisions	(0.7)	-	(0.7)	(1.0)	-	(1.0)
Deferred compensation	-	-	-	-	(8.9)	(8.9)
Non-current liabilities	(0.7)	(2.6)	(3.3)	(1.0)	(10.4)	(11.4)
Total liabilities	(90.8)	(25.1)	(115.9)	(68.8)	(29.0)	(97.8)
Net assets	(24.3)	90.4	66.1	17.9	54.4	72.3

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

The use of simple financial derivatives is considered in order to hedge specific financial risks where cost effective to do so. The Company does not enter into, or trade, financial instruments, including derivative financial instruments, for speculative purposes. At the year end the Group 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 table below:

	2015 Company			2014 Company		
	Financial instruments	Other	Total	Financial instruments	Other	Total
Investment in subsidiaries	-	11.1	11.1	-	19.6	19.6
Non-current assets	-	11.1	11.1	-	19.6	19.6
Amounts due from subsidiary undertakings	29.9	-	29.9	-	-	-
Current tax assets	-	0.1	0.1	-	0.1	0.1
Cash and cash equivalents	-	-	-	22.2	-	22.2
Current assets	29.9	0.1	30.0	22.2	0.1	22.3
Total assets	29.9	11.2	41.1	22.2	19.7	41.9
Amounts owed to subsidiary undertakings	-	-	-	(3.5)	-	(3.5)
Trade and other payables	-	-	-	(3.5)	-	(3.5)
Borrowings	(1.3)	-	(1.3)	-	-	-
Current liabilities	(1.3)	-	(1.3)	(3.5)	-	(3.5)
NET ASSETS	28.6	11.2	39.8	18.7	19.7	38.4

Classification of financial instruments

The tables below set out the Group's IAS 39 classification for each of its financial assets and liabilities:

Group	Loans and receivables	Financial liabilities at amortised cost	Total carrying value
At 31 March 2015	£m	£m	£m
Cash at bank and in hand	4.6	-	4.6
Borrowings due within one year	-	(9.8)	(9.8)
Other financial assets	61.9	-	61.9
Other financial liabilities	-	(81.0)	(81.0)
	66.5	(90.8)	(24.3)
At 31 March 2014	£m	£m	£m
Cash at bank and in hand	27.4	-	27.4
Borrowings due within one year	-	(0.4)	(0.4)
Other financial assets	59.3	-	59.3
Other financial liabilities	-	(68.4)	(68.4)
	86.7	(68.8)	17.9
Company	Loans and receivables	Financial liabilities at amortised cost	Total carrying value
At 31 March 2015	£m	£m	£m
Borrowings due within one year	-	(1.3)	(1.3)
Other financial assets	29.9	-	29.9
	29.9	(1.3)	28.6
At 31 March 2014	£m	£m	£m
Cash at bank and in hand	22.2	-	22.2
Other financial liabilities	-	(3.5)	(3.5)
	22.2	(3.5)	18.7

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.

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

Notes to the Financial Statements continued.

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 Group'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.

Group	Book value	Fair value	Total contractual cash flows	Within one year	Between one and two years	Between two and five years	Over five years
At 31 March 2015	£m	£m	£m	£m	£m	£m	£m
Financial liabilities:							
Trade payables	(58.7)	(58.7)	(58.7)	(58.7)	-	-	-
Other payables	(9.1)	(9.1)	(9.1)	(9.1)	-	-	-
Amounts owed to franchisees	(1.6)	(1.6)	(1.6)	(1.6)	-	-	-
Accruals	(9.4)	(9.4)	(9.4)	(9.4)	-	-	-
Provisions	(2.2)	(2.2)	(2.2)	(1.5)	(0.2)	(0.3)	(0.2)
Borrowings	(9.8)	(9.8)	(9.8)	(9.8)	-	-	-
	(90.8)	(90.8)	(90.8)	(90.1)	(0.2)	(0.3)	(0.2)

	Book value	Fair value	Total contractual cash flows	Within one year	Between one and two years	Between two and five years	Over five years
At 31 March 2014	£m	£m	£m	£m	£m	£m	£m
Financial liabilities:							
Finance leases	(0.4)	(0.4)	(0.4)	(0.4)	-	-	-
Trade payables	(42.9)	(42.9)	(42.9)	(42.9)	-	-	-
Other payables	(7.1)	(7.1)	(7.1)	(7.1)	-	-	-
Amounts owed to franchisees	(1.9)	(1.9)	(1.9)	(1.9)	-	-	-
Accruals	(15.1)	(15.1)	(15.1)	(15.1)	-	-	-
Provisions	(1.4)	(1.4)	(1.4)	(0.4)	(0.4)	(0.4)	(0.2)
	(68.8)	(68.8)	(68.8)	(67.8)	(0.4)	(0.4)	(0.2)

Notes to the Financial Statements continued.

Company	Book value	Fair value	Total contractual cash flows	Within one year	Between one and two years	Between two and five years	Over five years
At 31 March 2015	£m	£m	£m	£m	£m	£m	£m
Financial liabilities:							
Borrowings	(1.3)	(1.3)	(1.3)	(1.3)	-	-	-
	(1.3)	(1.3)	(1.3)	(1.3)	-	-	-

	Book value	Fair value	Total contractual cash flows	Within one year	Between one and two years	Between two and five years	Over five years
At 31 March 2014	£m	£m	£m	£m	£m	£m	£m
Financial liabilities:							
Amounts owed to subsidiary undertakings	(3.5)	(3.5)	(3.5)	(3.5)	-	-	-
	(3.5)	(3.5)	(3.5)	(3.5)	-	-	-

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.

Credit risk

Credit risk is the risk of financial loss to the Group 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 Group 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 Group has no significant concentrations of credit risk. Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated, with no one customer accounting for more than 12.1% of trade receivables. The Group 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.

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 Group will not be able to collect all amounts due according to the original terms. However, the Group expects a portion of these receivables to be recovered.

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

At 31 March, the ageing analysis of the group's trade receivables before provisions is as follows:

	2015	2014
	£m	£m
Less than 30 days	56.1	57.1
Between 30 - 60 days	0.2	-
Between 60 - 90 days	0.1	-
More than 90 days	-	0.1
	56.4	57.2

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

	2015	2014
	£m	£m
At 1 April	0.1	0.1
Amount released through administrative expenses	-	-
Utilised during the period	-	-
At 31 March	0.1	0.1

As at 31 March 2015, trade receivables of £0.1m (2014: £0.1m) were impaired. The amount of provision was £0.1m at 31 March 2015 (2014: £0.1m). The ageing of these impaired trade receivables is as follows:

	2015	2014
	£m	£m
Less than 30 days	-	-
Between 30 - 60 days	-	-
Between 60 - 90 days	0.1	-
More than 90 days	-	0.1
	0.1	0.1

As at 31 March 2015, trade receivables of £7.3m (2014: £5.1m) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default and there are no indications that they will not meet their payment obligations in respect of the trade receivables recognised in the balance sheet that are past due and unprovided. The ageing of these trade receivables is as follows:

	2015	2014
	£m	£m
Less than 30 days	7.0	5.1
Between 30 - 60 days	0.2	-
Between 60 - 90 days	0.1	-
More than 90 days	-	-
	7.3	5.1

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

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

Credit quality of cash at bank and short-term deposits

The credit quality of cash at bank and short-term deposits is as follows:

	2015	2014
	£m	£m
Current rating (Moody's)		
A2	4.6	1.0
A3	-	26.4
Total	4.6	27.4

Market risk

Overall, since the vast majority of the Group's activities are provided to UK businesses, the fortunes of the Group are linked to the general health of the UK economy. The Group's exposure is limited by being spread across a wide range of customers. No customer accounts for more than 6% of revenue.

Price risk

Royal Mail access costs represent a significant cost to the Group. 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 interest rate profile of the Group's interest-earning financial assets and interest-bearing liabilities at 31 March 2015 was:

	2015			2014		
	Book value total	Fixed rate financial assets/ (liabilities)	Floating rate financial assets/ liabilities	Book value total	Fixed rate financial assets/ (liabilities)	Floating rate financial assets/ liabilities
	£m	£m	£m	£m	£m	£m
Financial assets						
Cash and cash equivalents	4.6	-	4.6	27.4	-	27.4
	4.6	-	4.6	27.4	-	27.4
Financial liabilities						
Finance leases	-	-	-	(0.4)	(0.4)	-
Revolving credit facility	(9.8)	-	(9.8)	-	-	-
	(9.8)	-	(9.8)	(0.4)	(0.4)	-

Group Treasury monitor cash and cash equivalent balances on a daily basis, placing surplus funds with approved financial institutions, generally overnight. Interest receivable is based on a rate linked to the base rate. The Group has additionally made a number of longer term deposits where the interest rate receivable has been agreed on inception, with the monies being able to be called back at immediate notice without penalty.

Notes to the Financial Statements continued.

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.

The Group has used a sensitivity analysis technique that measures the estimated change to profit before tax and equity of a 1% (100 basis points) difference in interest rates from the rates applicable at the balance sheet date, with all other variables remaining constant, this being considered a reasonable possible change to interest rates, that could have affected the Group.

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

	2015		2014	
	Profit before tax	Equity	Profit before tax	Equity
	£m	£m	£m	£m
Increase of 100 bp in the average rate receivable/(payable)	(0.1)	(0.1)	0.2	0.1
Decrease of 100 bp in the average rate receivable/(payable)	0.1	0.1	(0.2)	(0.1)

Liquidity risk

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 6 to 15. The financial position of the Group, its cash flows, liquidity position and treasury risk management approach are described in the Financial Review on pages 16 to 21, and its borrowing facilities detailed in note 27.

Liquidity risk is the risk that the Group 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 Group to ensure that there are sufficient available funds both for the day-to-day operations of the Group and for planned capital investments. The Group has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current economic outlook.

As at 31 March 2015, the Group 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 capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to the parent company. The Group's policy has been to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. The Board's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure. This includes maintaining the level of dividends at a level commensurate with underlying operating profitability of the Group and obtaining sufficient short and medium-term debt facilities that are appropriate for the needs of the business.

The Board seeks to maintain a balance between the level of debt (which for these purposes includes finance leases) and the advantages and security afforded by a sound capital position.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return or issue share capital to shareholders, draw on borrowing facilities, or sell assets to reduce debt.

An analysis of the Group's net cash/(debt) position is given in note 29.

Notes to the Financial Statements continued.

26. Operating lease commitments - minimum lease payments

At 31 March, the Group had total commitments under non-cancellable operating leases as follows:

	Group 2015		Group 2014	
	Land and buildings	Vehicles, plant and equipment	Land and buildings	Vehicles, plant and equipment
	£m	£m	£m	£m
Commitments under non-cancellable operating leases expiring:				
Within one year	6.3	5.4	5.3	5.7
Between one and two years	4.6	5.0	4.1	3.5
Between two and five years	7.7	5.2	7.0	5.9
After five years	6.4	-	4.8	0.1
At 31 March	25.0	15.6	21.2	15.2

The Group leases various properties under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The Group 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 Group sublets one of its properties (see note 12) under a non-cancellable operating lease agreement, due to expire 23 June 2015. The total future sub-lease payments receivable relating to the above operating lease amounted to £0.1m (2014: £0.1m), all due within one year.

27. Contingent assets and liabilities

Contingent assets

In December 2013 the Group 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 Group 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 Group 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 13) 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 Group has a bank guarantee agreement with Lloyds Bank plc, under which the bank provides a facility which allows the Group 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 Group, the bank has issued a guarantee with a value of £8m (2014: £8m) to a third party supplier of a subsidiary company.

The Group has a documentary credit facility with Lloyds Bank plc. of £1.7m (2014: £1.7m), in respect of letters of credit opened with the bank.

The Group is subject to litigation from time to time as a result of its activities. The Group 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 the obligation and the amount can be reliably estimated. Since these provisions, which are reflected in the Group's consolidated financial statements, represent estimates, the final resolution of any such matters could have a material effect on the Group's operating results and cash flows for a particular reporting period.

28. Capital and other financial commitments

	2015	2014
	£m	£m
Assets under the course of construction	-	17.1
Property, plant and equipment	0.1	12.8
Total	0.1	29.9

29. Analysis of net cash/(debt)

Group					
	At 31 March		At 31 March	At 31 March	
	2013	Cash flow	2014	Cash flow	2015
	£m	£m	£m	£m	£m
Cash at bank and in hand	28.2	(0.8)	27.4	(22.8)	4.6
	28.2	(0.8)	27.4	(22.8)	4.6
Debt due within one year	-	-	-	(9.8)	(9.8)
Finance leases	(1.2)	0.8	(0.4)	0.4	-
	(1.2)	0.8	(0.4)	(9.4)	(9.8)
Net cash/(debt)	27.0	-	27.0	(32.2)	(5.2)

Company					
	At 31 March		At 31 March	At 31 March	
	2013	Cash flow	2014	Cash flow	2015
	£m	£m	£m	£m	£m
Cash at bank and in hand	26.3	(4.1)	22.2	(23.5)	(1.3)
Net (debt)/cash	26.3	(4.1)	22.2	(23.5)	(1.3)

Notes to the Financial Statements continued.

30. Related party transactions

The Group has identified the directors of the Company, parties related to the directors, its key management, its ESOT (see note 23) and its subsidiaries (note 31) as related parties for the purpose of IAS 24 'Related party disclosures'.

Material transactions and year end balances with related parties were as follows:

	2015	2014
	£000	£000
Dividends paid by UK Mail Group plc and received in a beneficial capacity by:		
- the directors of UK Mail Group plc	806	740
- parties related to the directors of UK Mail Group plc	4,363	4,191
- PDMR'S of UK Mail Group plc (other than above)	3	5
Dividends received by the ultimate parent company from subsidiaries	22,001	11,005
Amounts owed from/(to) subsidiaries	29,883	(3,465)
Interest free loan to ESOT (see note 23)	3,536	3,536

P Kane, a director of the company, and members of his close family and certain family trusts the beneficiaries of which are persons connected with P Kane, control directly and indirectly 42.6% of the issues share capital of the company.

Key management compensation is disclosed in note 6.

31. Subsidiary undertakings

Details of the Group's principal subsidiary undertakings are given below:

Subsidiary	Nature of Business	Country of incorporation and principal country of operation	Description of shares held	Percentage of nominal value of issued shares held by the Group
UK Mail Limited	Collection and delivery of parcels and mail	England	Ordinary £1 shares	100%

The Company directly holds 100% of the voting rights of the above subsidiary.

The financial results of the subsidiary listed above are included within the consolidated financial statements.

The Company also directly holds investments in other subsidiaries which are not trading, and which do not require a statutory audit as follows:

Subsidiary	Status as at 31 March 2015	Country of incorporation	Description of shares held	Percentage of nominal value of issued shares held by the Group
UK Pallets Ltd (ceased trading in March 2015)	Non-training	England	Ordinary £1 shares	100%
UK Mail Express Parcels and Mail Limited	Dormant	England	Ordinary £1 shares	100%
Business Post Limited	Dormant	England	Ordinary £1 shares	100%
Business Post Group Limited	Dormant	England	Ordinary £1 shares	100%
Business Mail Ltd	Dormant	England	Ordinary £1 shares	100%
UK Today Couriers Ltd	Dormant	England	Ordinary £1 shares	100%
Web-Despatch.com Ltd	Dormant	England	Ordinary £1 shares	100%
Business Post Europe Ltd	Dormant	England	Ordinary £1 shares	100%

There are no significant restrictions on the ability of subsidiary undertakings to transfer funds to the parent, other than those imposed by the Companies Act 2006.

32. Critical accounting judgements and key sources of estimation uncertainty

The Group'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 Group'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 Group. The Directors label these items collectively as 'exceptional items'.

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

- (i) loss or cessation of a material contract representing 5% or more of the Group's revenues;
- (ii) disposal of non-current assets where the profit or loss represents 5% or more of the Group'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.

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.

Goodwill impairment

Goodwill impairment is tested for at least annually, by calculating the estimated recoverable amount from each

cash-generating unit ('CGU') on a value-in-use basis. In performing the test management needs to assess and consider;

- (i) the likely sales and cost growth assumptions used by the CGU;
- (ii) the sector specific short- and long-term growth rates, as well as that in the UK economy as a whole;
- (iii) the pre-tax discount rate applicable to the Company.

The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment are disclosed in note 10.

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 Group 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 Group 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 Group maintains its properties through a programme of repair and renewal which may result in changes required in the carrying value of these provisions.

The Group 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. Similarly, the Directors have provided for the anticipated contract and employee termination costs following the cessation of business at UK Pallets Ltd as detailed in note 22. Should the actual amounts differ from these estimates future results could be materially impacted.

Five Year Summary of Results.

	2015	2014	2013	2012 ¹	2011
	£m	£m	£m	£m	£m
Revenue	485.1	481.4	447.3	400.8	367.7
Cost of sales	(428.3)	(419.8)	(395.5)	(356.4)	(323.1)
Gross profit	56.8	61.6	51.8	44.4	44.6
Administrative expenses	(35.8)	(39.8)	(34.9)	(33.5)	(30.2)
Operating profit before exceptional items	21.0	21.8	16.9	10.9	14.4
Exceptional items	(0.9)	-	0.1	-	(0.1)
Operating profit	20.1	21.8	17.0	10.9	14.3
Net finance costs	-	0.1	0.0	(0.1)	-
Profit before taxation	20.1	21.9	17.0	10.8	14.3
Taxation	(4.2)	(5.1)	(4.1)	(2.9)	(4.0)
Profit for the financial year from continuing operations	15.9	16.8	12.9	7.9	10.3
Earnings per share from continuing operations - basic	29.0p	30.7p	23.5p	14.4p	18.9p
Dividends per share - interim paid and final purposed	21.8p	21.3p	18.8p	18.2p	18.2p
Balance sheet					
Goodwill	1.6	9.5	9.5	9.5	9.5
Non-current assets (excluding goodwill)	99.4	60.6	40.5	39.4	41.6
Current assets	81.0	100.0	95.2	85.3	79.3
Current liabilities	(112.6)	(86.4)	(77.7)	(68.9)	(62.6)
Non-current liabilities	(3.3)	(11.4)	(3.1)	(4.4)	(6.7)
Shareholders equity	66.1	72.3	64.4	60.9	61.1
Net (debt)/cash	(5.2)	27.0	27.0	18.4	17.4

¹ - Administrative expenses and taxation are stated inclusive of £2.2m exceptional cost and £0.6m exceptional credit respectively

The calculation of earnings per share for the five years ended 31 March 2015 is based on the following weighted numbers of shares in issue:

31 March 2015	54,729,788
31 March 2014	54,705,627
31 March 2013	54,632,719
31 March 2012	54,586,755
31 March 2011	54,522,247

Shareholder Information

Registrars and Transfer Office

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Tel: 0871 384 2799 or 0871 384 2255 text phone for shareholders with hearing difficulties.

The call centre provides information and assistance on register queries between 8:30am and 5:30pm, Monday to Friday excluding UK public holidays. Calls to this number are charged at 8p per minute plus network extras.

International callers: +44 (0) 121 415 7047
www.shareview.co.uk

Financial calendar

8 July 2015	Annual General Meeting (commences 12:00 noon)
25 July 2015	Ex-dividend date – final dividend
27 July 2015	Record date to be eligible for the final dividend
28 August 2015	Payment of the final dividend for the year ended 31 March 2015
November 2015*	Results for the half year to 30 September 2015
January 2016*	Payment of interim dividend for the year ending 31 March 2016

*provisional dates

Sharegift

Sometimes shareholders have only a small holding of shares which may be uneconomical to sell. Shareholders who wish to donate these shares to charity can do so through ShareGift, an independent charity share donation scheme (registered charity no. 1052686). Further information about ShareGift may be obtained from ShareGift on 020 7930 3737 or at www.sharegift.org.

Shareholder security

Shareholders are advised to be cautious about any unsolicited financial advice, offers to buy shares at a discount or offers of free company reports. Further information can be found at www.moneyadvice.service.org.uk.

Independent Auditors

PricewaterhouseCoopers LLP
The Atrium
1 Harefield
Uxbridge
UB8 1EX

Stockbrokers and Financial Advisers

Investec Investment Banking
2 Gresham Street
London
EC2V 7QP

Registered office

Express House
120 Buckingham Avenue
Slough
Berkshire
SL1 4LZ

Tel: 01753 706 070
Email: investor@ukmail.com
www.ukmail.com

Company No: 02800218

Forward looking statements

The Annual Report contains certain statements about the future outlook for the Group. Although the Company believes that the expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.



UK Mail Limited
Express House
120 Buckingham Avenue
Slough
Berkshire
SL1 4LZ