Company registration number 02800218

UK Mail Group Plc

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

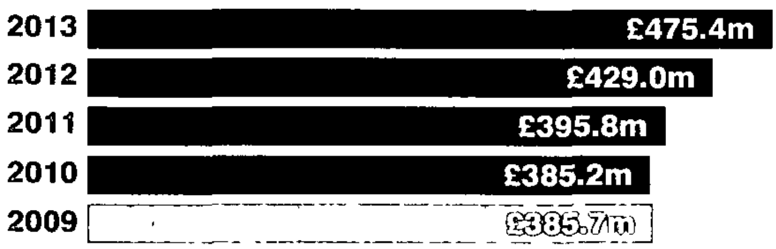
for the year ended 31 March 2013

REPORT& ACCOUNTS

2013

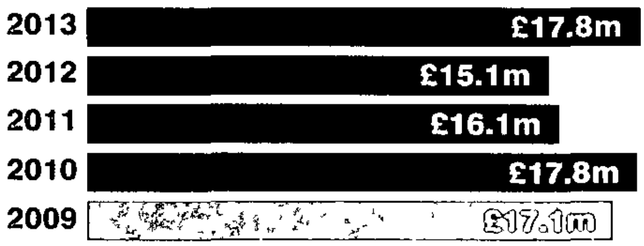
FINANCIAL HIGHLIGHTS >

REVENUE



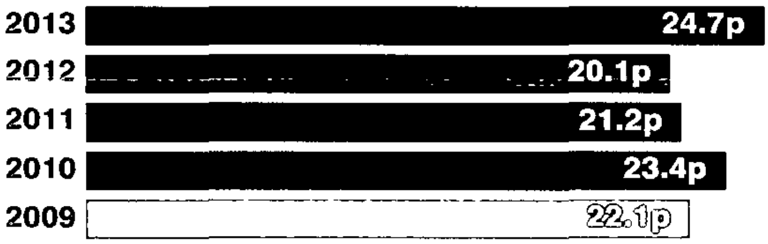
Group revenue up 10.8% to £475.4m

PROFIT BEFORE TAX & EXCEPTIONAL ITEMS



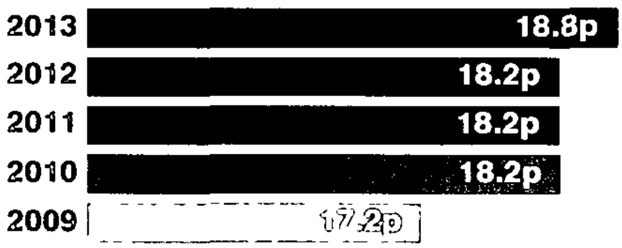
Profit before tax and exceptional items up 17.7%

ADJUSTED EARNINGS PER SHARE



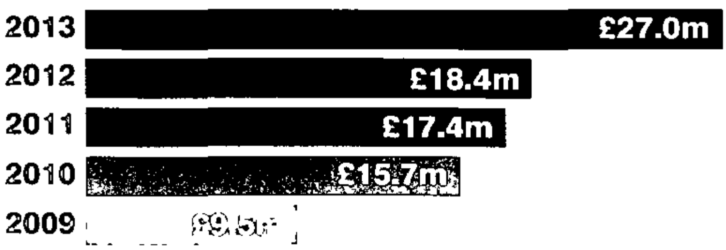
Adjusted basic earnings per share up 22.9% to 24.7p

DIVIDEND PER SHARE DECLARED



Full year dividend up 3.3% to 18.8p

NET CASH



Net cash up £8.6m to £27.0m

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CHAIRMAN'S STATEMENT >

UK Mail performed strongly in 2013 Financial highlights for the year include,

> **Group revenues up 10 8%**

> **Group PBT (before exceptional items) up 17 7%**

> **Adjusted EPS (before exceptional items) up 22 9%, and**

> **Final dividend increased 5 1% to 12 4p per share**

This is particularly pleasing given the continued market challenges we have faced and the continued difficult economic background Further details are provided in the Chief Executives 'Business Review' on page 4

Our strategy remains to continue to build competitive advantage, developing and investing in our low cost integrated network driving down cost and bringing to market new products and services to drive profitable revenue growth By capitalising on our leadership and differentiated positioning, we aim to increase both the size of the markets available to us and our share of those markets and to take advantage of opportunities that arise

As you will read later in this report imail, ipostparcels and retail logistics, all product innovations of the last few years are gaining real traction now, delivering real returns for the business Our investment in infrastructure continues at pace with further investment in automation and scanners putting us at the forefront of the industry

Our management teams have been further strengthened during the year, not only with a number of new appointments but increased training throughout the business

The strength of our business should not be under-estimated I was proud of not only how the Group responded to the unique challenges posed by the hosting of the 2012 Olympics and Paralympic games, but the seemingly annual demands placed on our network by the British winter weather

These are all achievements to be proud of

Looking forward the main operational challenge would seem to come from the necessary relocation of our national hub given the impact of HS2 However, with challenge comes opportunity and this will provide us the window required to further implement more automation, which to date has delivered real efficiencies to the business

Governance

I am committed to the highest standards of Corporate Governance I see it as my job is to ensure that the Board works effectively, largely through ensuring we have the right people with the appropriate skills and talents required to form a successful leadership team

The Board has a wide range of responsibilities but of the most important to me are firstly, that the Board sets the tone for governance throughout the group, secondly, to debate and agree our strategy, holding the executive team accountable for its execution and thirdly, to ensure that we have the most talented team to execute the strategy

We are 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

During the year we surveyed our employees for the first time The survey produced some very useful results which we will build on to improve our position

I also believe we all have a part to play in helping those unfortunate enough to be out of work, and was particularly pleased when we, in partnership with Elmfield Training, announced the launch of 'Appforthat – Apprenticeships with UK Mail'

This initiative not only supports our existing work experience programmes, but enables those who complete the work experience programme the opportunity to go onto an Apprenticeship should a position be available

Further details of these successes and others can be found in the 'Our People' and 'Corporate Responsibility' reports

Dividend

The Board has proposed an increase in the Final Dividend of 0 6p, taking the Final Dividend to 12 4p (2012 11 8p), resulting in a total dividend for the year of 18 8p (2012 18 2p)

This represents a full year increase of 3 3%

The total dividend for the year is covered 1 31 times by earnings (2012 0 95 times) The Board intends to grow dividends progressively over time to reflect our targeted earnings growth, whilst also improving the level of dividend cover

People

On behalf of the Board I would like to thank all of our colleagues, and our associates working within our franchise and pallet networks for their continued hard work and commitment in providing great service to our customers

As announced last year, Bill Cockburn stood down from the Board as Deputy Chairman and Senior Independent Director in May 2012 Bill had served as a non-executive director since 2002 and had played a key role in the establishment of our Mail business I would like to thank Bill for his many years of excellent service and his counselling

In September 2012 I was delighted to be able to welcome Jessica Burley to the Board Jessica brings a wide range of commercial and marketing expertise to the Group particularly in the on-line arena

Outlook

I remain confident in our strategy and believe that the Group is well positioned to take advantage of opportunities as they arise

Improvements made to our systems over the last few years and operational restructuring has left us with a lean and focussed business, the benefits of which should become apparent as the economy resumes growth

The evolution of our industry continues, not least with the anticipated privatisation of Royal Mail However with our strong management team, highly competitive business model and robust balance sheet I believe we have the necessary tools to generate good returns for our shareholders

Thank you again for your continued support

Peter Kane, Chairman

WHAT WE DO >

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 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 infrastructure

With over 30 years experience in parcel, mail and logistics services and with our extensive network of 50 sites, 2 000 vehicles, 2,600 staff, nationwide mail sortation machines and automation, this enables us to provide industry leading service on an efficient cost basis

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

BUSINESS REVIEW >

We are pleased with the performance we have delivered for the year, with an encouraging first half followed by a strong second half The key factor in this success has been our Parcels business

Introduction

We are pleased with the performance we have delivered for the year, with an encouraging first half followed by a strong second half The key factor in this success has been our Parcels business which had particularly high volumes in the second half leading to an increase in market share and a good operating margin

Across our businesses we continue to benefit from our strong market positions, high service levels and efficient integrated network In March we experienced the highest ever daily volumes across our combined parcels and mail businesses and, given our focus on our network management, we continued to maintain our strong customer service levels

Reported Group revenues for the year at £475 4m were up 10 8% compared to the previous year Adjusting for the increase in Royal Mail prices implemented on 2 April 2012 and two less working days than in the previous year, underlying Group revenues increased by 8 3% Group profit before tax before exceptional items increased by 17 7% on the previous year to £17 8m

Our Mail business (51% of Group revenues) grew its revenues on a reported basis by 16 1% on an underlying basis, revenues were up by 10 2% compared with the previous year This good revenue growth was driven by a continuation of strong customer retention and new business wins Mail operating profit increased by 7 8% to £10 7m (2012 £10 0m) Our Mail business remains well positioned in its market with a healthy pipeline of new business opportunities. We again saw strong progress from imail and related new product innovations

Our Parcels business (40% of Group revenues) grew its revenues by 10% compared to the previous year reflecting the benefit of recent customer wins. The pricing environment remained challenging and the shift in mix towards B2C continued Despite this mix effect the Parcels operating margin improved to 8 6% for the year (2012 6 8%) This increase in margin combined with the good revenue growth has led to a strong increase in the Parcels operating profit of 40 6% to £16 3m (2012 £11 6m) We continue to focus on operational efficiency and innovation to help drive further Parcels margin improvement A key factor here is our plans to implement further automation which is covered in more detail later in this statement

In our Courier business (3% of group revenues) revenues have declined as expected by 19 6% compared to the prior year Strong operational management however reduced operating costs, helping to restrict the operating profit decline to 6 7%

In our Pallets business (6% of group revenues) revenues showed a slight decline of 0 7% compared to the same period last year Pallets operating profits have declined by 63 8% compared to the same period last year, due primarily to temporary gaps in our nationwide member network which resulted in additional temporary operating costs During the period we have strengthened our Pallets management team and our network issues are now resolved

The Board has proposed that the final dividend be increased by 0 6p to 12 4p (2012 11 8p) The total dividend for the year will increase to 18 8p (2012 18 2p) which is covered 1 31 times by earnings per share

Our cash generation and financial position remain strong with net cash balances at the period end of £27 0m (2012 £18 4m)

Strategy

Our aim is to continue to strengthen our position as the UK s leading independent integrated postal group There are two key elements to this strategy

First, we continue to enhance the market-leading, low-cost, integrated network that underpins the competitiveness of our businesses We are doing this by continuing to drive down the cost base of our business and reshaping and extending our depot network to maximise its efficiency and capacity We have continued to invest in our IT infrastructure so as to increase efficiency and introduce new information and data services to the end customer and will continue to consider future investment opportunities, such as further automation of our network, assuming suitable financial returns can be achieved

Second, we are focused on continuing to expand the size of the markets available to us and on increasing our share of those markets To do so, we have introduced new and innovative products and services in both our Parcels and our Mail businesses, a strategy which is gaining valuable traction

We have been working hard in recent years, through driving efficiencies and introducing major product and service innovations to position ourselves as competitively as possible to outperform our competitors and to increase our market share

Automation

A key element that will increase our capacity and drive down costs is the further automation of our network In 2010 we successfully partially automated our Birmingham hub This was undertaken at a cost of some £2m and has yielded a net benefit of some £1m per annum, largely through increased vehicle utilisation Following this investment we now handle some 20% of our Parcels volumes through our current automated sortation facilities

We intend to increase the level of automated sortation to some 80% of our Parcels volumes, the maximum we believe our business can achieve at this stage, due to the freight we handle not all being compatible with automated sortation This will involve the installation of further automated sortation equipment, at a capital cost of approximately £20m which we expect will be incurred over the next two financial years This will be funded from our existing cash resources and new bank facilities We are targeting a double digit net return on the investment we make, achieving some net benefits in the year to March 2015, and the full run rate of benefits achieved from September 2015

We estimate that this increased automation of our parcels operations will increase our central sortation capacity by some 45%

New Hub/HS2

Alongside our plans for automation, we have also been in discussions with the Department for Transport regarding their plans for the new HS2 rail link, which will involve the relocation of our Birmingham hub

Discussions are proceeding well, and further announcements will be made shortly once agreement has been reached with the Secretary of State for Transport

Group revenues up
10.8%

Profit before tax and exceptional items up
17.7%

Parcels revenues up
10.0%

Mail revenues up
16.1%

BUSINESS REVIEW >

Alongside our pipeline of innovative new products and high service levels, greater automation is now a key factor in our plans to drive further volume growth and margin enhancement across the Group

Mail

Mail showed further growth in revenues of 16 1% to £241 6m (2012 £208 1m) The Mail revenue growth includes the impact of the Royal Mail price increase on 2 April 2012, which increased prices by some 11% on an annualised basis On an underlying basis, revenues increased by 10 2%

The further Royal Mail price increase on 2 April 2013 was 3 3% (2012 12%), which will not have such a distorting effect on underlying revenue growth so we will cease to adjust for this factor in future

Our mail volumes increased by some 2% compared to the prior year, while the overall UK mail market has seen a decline in transactional volumes of some 5% per annum in recent years This growth in market share has been achieved through generating additional mail volumes from existing customers, largely due to switching from Royal Mail as their prices increase, and a number of new customer wins

Mail operating profits were up 7 8% to £10 7m (2012 £10 0m) The operating margin reduced to 4 4% (2012 4 8%), which is largely the "pass-through effect of the 11% price increase imposed by Royal Mail If the effect of the 11% price increase imposed by Royal Mail is excluded the underlying mail margin is broadly stable compared to the prior year

To increase the efficiency of our operations and to provide additional facilities to our customers we are investing in two new, state of the art, mail sortation machines This will involve an investment of some £1m This investment reflects our confidence in our mail business and its ability to develop with the market

UK Mail remains a market leader with an operational template that is ideally suited to adapt to the demands of an evolving mail market, and we have continued to focus on growing our business, by gaining additional volumes from new and existing customers and driving our new product innovations

An important factor in the volume growth is product innovation imail our web-to-print postal service, continues to grow strongly We have invested to increase our capacity and to provide additional services, such as high speed insertion We are developing this product further to support its market leadership including the addition of data services imail s average daily volumes were more than 60% higher than those of a year ago We have a strong pipeline of new opportunities for this product as we identify new areas where it can be applied successfully

On 10 October 2012 Royal Mail published a discussion document on the development of access contracts with the aim that the new agreements would be in place by April 2013 Overall, we believe that the document covered issues that have long needed to be addressed and, to that extent, we welcomed it as a step towards a position of greater clarity for all market participants

The key terms of the new contract relate to minimum volumes contract variation and the ability for Royal Mail to impose future price increases on operators who do not provide all their mail to Royal Mail We do not anticipate any material adverse impact on our business from these changes

We have therefore signed the new contract which has resulted in an access price increase for our customers of 3 3%, compared to the increase of some 5% that would have been imposed had we not signed the contract We believe that all other access operators and most mail customers with direct access arrangements have also signed the new contract

The sale of Royal Mail is widely expected to be announced later in the year The Royal Mail accounts for the year to March 2012 showed that it had made a profit of £80m from access and, in its 2013 results announcement, reconfirmed that access made a considerable contribution to the cost of funding the Universal Service network We therefore fully expect a privatised Royal Mail to seek to continue to benefit from access mail arrangements, and we continue to see them as an important business partner for UK Mail

Parcels

Revenues in Parcels, which comprises the Group's business-to-business, business-to-consumer and international parcel delivery service, were up 10% for the year to £189 3m (2012 £172 1m)

The Parcels market of some £6bn in the UK has two main components Growth in the B2B market (B2B"), which represents some 52% of the market tends to be linked to overall economic performance Growth in the B2C market ("B2C"), which represents some 48% of the market, is linked to the growth of internet based home delivery, we estimate that this segment of the market is growing by some 10% per annum

We have achieved good volume growth in both the B2B and B2C market segments with Parcels volumes increasing by some 17% compared to the prior year We are particularly pleased with the volume growth we have achieved in the second half year of some 21%, following growth in the first half of some 12% reflecting further gains in market share This performance is driven by good customer retention based on competitive pricing and strong service levels We have also benefitted from a number of good customer wins, although we continued to see an on-going volume mix change towards the lower margin B2C segment

The strong volume growth allows us to spread our fixed costs across the increased volumes and improve our operating margins As a result despite the continued competitive pricing environment we have improved our Parcels operating margin to 8 6% for the year (2012 6 8%)

The good growth in revenue combined with the operating margin increase has led to strong growth in the Parcels operating profit of 40 6% to £16 3m (2012 £11 6m)

Parcels volumes up
17.0%

Mail volumes up
2.0%

imail volumes up over
60%

To increase the efficiency of our operations and to provide additional facilities to our customers we are investing in two new, state of the art, mail sortation machines

BUSINESS REVIEW >

We have been working hard in recent years, through driving efficiencies and introducing major product and service innovations, to position ourselves as competitively as possible

To allow us to handle the increasing volumes we are experiencing we are taking action to increase our capacity Of the fifty sites we operate four will be expanded during the coming year, either through moving to a nearby larger site or increasing the size of the existing building

We have introduced a number of major improvements to our I T infrastructure These include the provision of industry-leading functionality both to our customers, and to the recipients of the parcels they despatch via our services All customers can now be notified in advance of expected delivery times and given easy-to-use facilities if they need to re-arrange deliveries

We have also completely replaced our delivery driver scanners This has involved the purchase of some 2,000 scanners at a cost of some £1 2m The new scanners provide significantly increased functionality including improved methods of real-time communication with our drivers to amend collection and delivery arrangements The new scanners also include GPS facilities which will be the basis for improved route planning and customer delivery notification which we plan to introduce in the autumn

Another key development has been the implementation of CRM technology into our customer care centres which allow us to improve customer service as well as track queries to ensure they are resolved promptly

Our Retail Logistics product, which provides services tailored to the specific needs of retailers such as hanging garments, continues to make good progress This service is targeted at the extensive list of retail customers we have access to through our mail parcels and courier businesses, and we now have a number of major retailers trading with us We estimate the Retail Logistics market to be worth £1 2bn overall, supporting our view that this represents a significant growth opportunity for the business We are in the process of implementing a dedicated Retail Logistics facility, including automated sortation capabilities for hanging garments, which will provide increased capacity for this business This facility, combined with further developments of our I T platform, will enhance our capabilities and support our development plans for this key product

Our ipostparcels product allows any customer, be they an individual or a small business, to arrange parcel collection and delivery directly with UK Mail through an easy-to-use website This product has been successfully established in the market and is achieving rapid growth We are now handling some 10 000 items per week with this service There is an increasing trend for parcel collection and delivery services to be purchased by consumers on-line, partly caused by the growth of on-line transaction sites such as ebay and Amazon market place We will continue to develop and market this product which we see as a good source of future profitability

The overall parcels market in the UK is challenging and highly competitive Our target position in this market is to be a high quality operator which provides the value added services that customers want The key here is a reliable next day service, providing customers with estimated delivery windows, which can easily be re-arranged with the use of I T to provide added information We continue to be successful in winning new Parcels customers as a result of our high service levels, low-cost network and strong brand in the market Our service levels remained very high even during the peak seasons of the year when we achieved our highest ever service levels whilst handling record parcel volumes

Courier

Revenues in our Courier business which provides same day delivery services decreased as expected by 19 6% to £16 5m (2012 £20 5m) The revenue decline is largely due to the loss of a major customer in early 2012 We are continuing to focus on national contracts that can leverage our network and blue chip customer base Operating margins increased to 15 5% (2012 13 4%) helping to restrict the decline in operating profit to £0 1m resulting in £2 6m for the year (2012 £2 7m) The increase in operating margin reflects the actions management have taken to improve effectiveness and reduce overheads in the business

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

Pallets

Revenues in our Pallets business which provides a nationwide palletised goods delivery service decreased by 0 7% to £28 0m (2012 £28 3m)

The Pallets business is based on a national network of members During the period we experienced temporary gaps in this network which gave rise to additional delivery costs As a result operating profit for the period declined by £1 3m to £0 8m (2012 £2 1m) These network issues are now resolved and we have developed successful relationships with major hauliers which will play a major role in developing this business in the future

As part of our plans to re-energise this business we have appointed a new Managing Director and new management team to support him

We remain convinced that this business can be successful in a market with good long term growth prospects

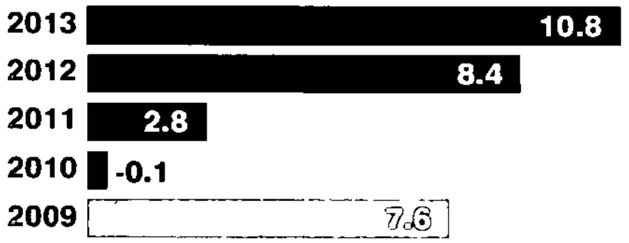
Guy Buswell, Chief Executive

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

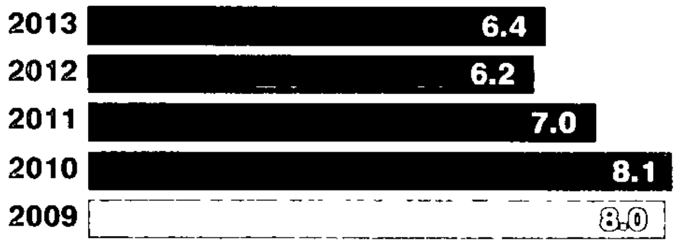
Further discussion on the financial KPI s can be found in the Financial Review report on page 12, and on the non-financial KPI's in the Corporate Responsibility report on page 20

REVENUE GROWTH %



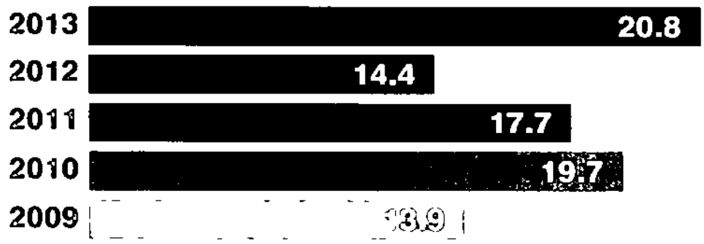
Group revenues have grown 10.8% in the year. This is a good indicator of the growth of activity within the company.

OPERATING PROFIT MARGIN %



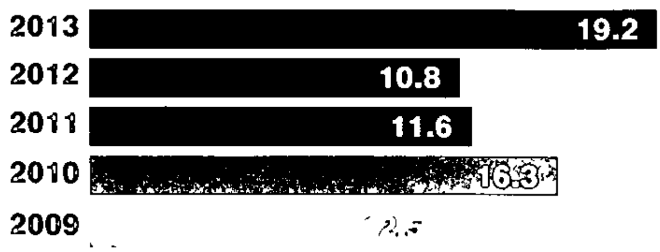
Operating profit margin is the KPI used by the Board to measure profit margins both on a Group and segmental basis. The operating profit margin has increased to 6.4%.

ROACE %



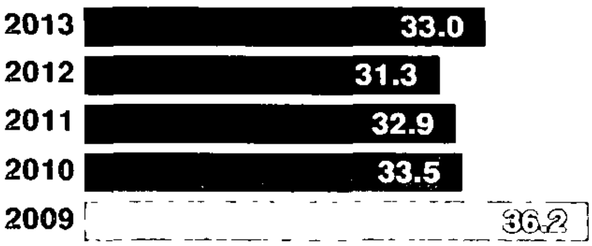
Return on average capital employed is the Boards' prime measure for the return (profits) on assets utilised within the business. The ROACE improved from 14.4% to 20.8% in the year under review.

FREE CASHFLOW £m



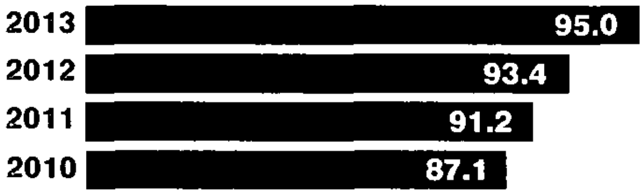
Free cash flow is the KPI the Board uses to measure cash generated excluding financing activities. Free cash flow has increased by £8.4m to £19.2m.

DEBTOR DAYS



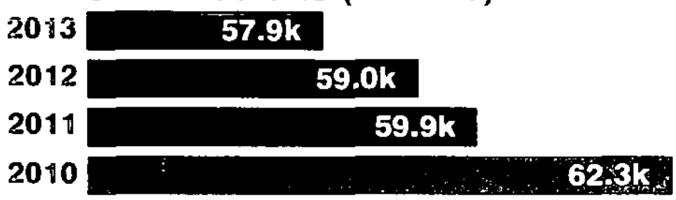
Debtor days are the KPI the Board uses to measure and monitor the efficiency of cash collection from customers. Debtor days have increased 1.7 days to 33.0 days.

HEALTH & SAFETY COMPLIANCE %



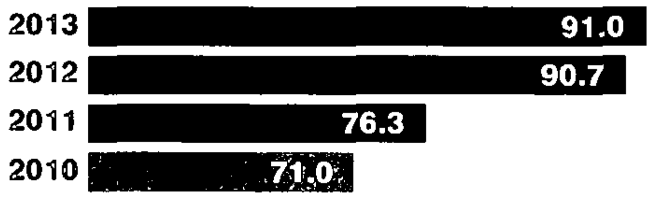
Health and Safety compliance has improved from 93.4% to 95.0% of all sites.

CO_2 EMISSIONS (TONNES)



CO_2 emissions is the KPI the Board uses to monitor its effect on the environment. The 57.9k tonnes emitted represents a 1.1k tonne improvement year on year, despite the increased activity

WASTE RECYCLING %



This KPI is used by the Board to monitor the amount of waste recycled, thereby avoiding landfill.
The Group recycled 91% of all waste generated.

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.
The Group has achieved 100% certification at all corporate sites.

FINANCIAL REVIEW >

The Group delivered a solid financial result in a very competitive market whilst maintaining its robust capital position

Revenue

Segment	**2013 £m**	2012 £m	Change %
Mail	**241 6**	208 1	16 1%
Parcels	**189 3**	172 1	10 0%
Courier	**16 5**	20 5	(19 6)%
Pallets	**28 0**	28 3	(0 7)%
Total Revenue	**475 4**	429 0	10 8%

Reported Group revenues for the year at £475 4m were up 10 8% compared to the previous year However, the underlying increase was 8 3% after allowing for the increase in Royal Mail prices implemented on 2 April 2012, and there being two less trading days in the year under review

The increases in both Mail and Parcel revenues reflected both strong levels of customer retention, together with good volumes resulting from new customer wins

Courier revenues declined 19 6% following the loss of a major customer in the early part of the financial year

Operating profit before exceptional items

Segment	**Op Profit 2013 £m**	**Op Profit Margin %**	Op Profit 2012 £m	Op Profit Margin %	Reporting Op Profit change %	Change in Op Profit margin %
Mail	**10 7**	**4 4%**	10 0	4 8%	7 8%	- 0 4%
Parcels	**16 3**	**8 6%**	11 6	6 8%	40 6%	+ 1 8%
Courier	**2 6**	**15 5%**	2 7	13 4%	(6 7)%	+ 2 1%
Pallets	**0 8**	**2 7%**	2 1	7 4%	(63 8)%	- 4 7%
Total segmental operating profit	**30 4**	**6 4%**	26 4	6 2%	15 0%	+ 0 2%
Central costs	**(12 7)**	-	(11 3)	-	(12 0)%	-
Reported operating profit	**17 7**	**3 7%**	15 1	3 5%	16 7%	+ 0 2%

Reported operating profit before exceptional items increased 16 7%, largely driven by volume increases in both Mail and Parcels

Mail operating profits increased by some £0 7m largely driven by a 10 2% underlying growth in revenues after adjusting for effect of the Royal Mail price increase The underlying operating margin within Mail was stable year-on-year despite the reported fall to 4 4% as the Royal Mail price increase was passed onto customers

Despite a change in the B2B/B2C mix within Parcels increased volumes which led to an increase in market share together with good cost control resulted in a 40 6% increase in operating profits As a result Parcels reported an operating profit margin of 8 6%, some 1 8 percentage points better than 2012

As reported last year, actions taken to control the cost base have enabled Courier to report a 2 1 percentage point increase in the operating margin, despite reduced revenues following the loss of a major customer early on in the year

Operating profits within Pallets were impacted by the necessary additional delivery costs incurred, following temporary gaps within the member network. Whilst these network issues have been resolved, this one-off effect has materially impacted the reported operating margin

There were no exceptional items during the current year, for further details on the previous year, see note 3

Net finance income

Continued strong control over working capital enabled the Group to maintain high average cash balances throughout the year enabling the Group to earn £0 2m (2012 £0 1m) of bank deposit interest income

Once finance lease interest costs of £0 1m (2012 £0 1m) are taken into account the Group reported net finance income of £0 1m (2012 £nil)

Taxation

The Group s effective tax rate was 24 3% (2012 27 1%), the reduction largely a direct reflection of the 2% reduction in corporation tax effective from 1 April 2012

Earnings per share

Basic earnings per share increased 43 0% to 24 7p (2012 17 3p) The underlying basic earnings per share, which excludes the impact of exceptional items incurred last year, increased 22 9% to 24 7p (2012 20 1p)

Dividend

The Board has proposed an increase of 0 6p to take the Final Dividend to 12 4p (2012 11 8p), resulting in a total dividend for the year of 18 8p (2012 18 2p) The Final Dividend is payable on 26 July 2013 to shareholders registered on 28 June 2013

The total dividend is covered 1 31 times by earnings (2012 0 95 times) The Board intends to grow dividends progressively over time to reflect our targeted earnings growth, whilst also improving the level of dividend cover

Cash flow and net cash

	2013	2012
	£m	£m
Cash generated from operations	**31 1**	21 8
Tax paid	**(4 1)**	(4 5)
Net capital expenditure	**(7 8)**	(6 5)
Free Cash Flow	**19 2**	10 8
Dividends	**(9 9)**	(9 9)
Other movements	**(2 7)**	(1 7)
Increase/(decrease) in cash	**6 6**	(0 8)

The 42 9% increase in cash generated from operations was driven by continued close control of working capital, which generated £5 6m this year (2012 £0 2m) together with the £4 8m increase in operating profit

Despite a £1 3m increase in the amount expended on capital expenditure, free cash flow increased 77 4% to £19 2m (2012 £10 8m)

The strong cash generation enabled the Group to repay the final £2m of a £10m loan taken out to fund the acquisition of UK Pallets

As a result net cash at the year end was £27 0m (2012 £18 4m), comprising of £28 2m (2012 £21 6m) cash in hand and £1 2m (2012 £3 2m) total debt

Further information can be found in note 30

FINANCIAL REVIEW >

Balance sheet

	2013 £m	2012 £m	Change £m
Non-current assets	**50 0**	48 9	1 1
Current assets – excluding cash	**67 0**	63 7	3 3
Cash *	**28 2**	21 6	6 6
Current liabilities – excluding tax/borrowings	**(74 6)**	(65 4)	(9 2)
Borrowings *	**(1 2)**	(3 2)	2 0
Tax	**(2 3)**	(1 7)	(0 6)
Non-current liabilities – excluding borrowings	**(2 7)**	(3 0)	0 3
Net assets	**64 4**	60 9	3 5
Net cash *	**27 0**	18 4	8 6

Net assets increased by £3 5m to £64 4m (2012 £60 9m)

Goodwill represents £9 5m (2012 £9 5m) of the balance sheet total This has been tested for impairment as detailed in note 10 there being no requirement for resultant adjustment

Increased business and a 1 7 day increase in debtor days to 33 0 days (2012 31 3 days) largely account for the increase in current assets

This increased activity was also reflected in the £9 2m increase in current liabilities where other creditors which include franchise AFA and subcontractor creditors increased £4 4m and trade creditors increased £1 7m year-on-year

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

The Group s exposure to any significant interest risk is minimal due to the relatively low level of debt

PRINCIPAL RISKS & UNCERTAINTIES >

Risk is an inevitable fact of life The real challenge for any business is to identify the principal risks it faces, be they operational, commercial or financial in nature, and to develop appropriate mitigating controls

A successful risk management process weighs up the potential risks and rewards against 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

The Group has an established risk management monitoring and review process as described in the Corporate Governance Report on pages 26 to 36 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

The Audit Committee, who ultimately retain the responsibility for the Company s risk management framework, review the risk management process and the top 30 risks identified on the Risk Register on a regular basis

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, capital risk and foreign exchange risk details of which can be found in note 26 on page 82

Risk	Potential Impact	Mitigation	Assurance
IT Systems failure			
Reliance is placed upon the proper functioning of IT systems for the effective running of operations Any prolonged interruption to the Group's IT systems could have a materially adverse effect on its business	Any prolonged interruption to the Group's IT systems could have a materially adverse effect on its business	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 undertaken by the sponsoring department and IT prior to any new system go live	Disaster Recovery and Business Continuity plans are regularly reviewed and tested at frequent intervals Internal IT department constantly monitors threats to data protection by viruses, hacking and breach of access controls
Potential impact of HS2 rail link on our National hub			
The Birmingham hub is sited on the proposed HS2 rail route	Management is distracted from the achievement of day-to-day objectives to management of the move	The relocation is being managed by a dedicated HS2 steering group	Contingency plans have been reviewed
	Loss of key personnel affected by a period of uncertainty and/or unwillingness to relocate	Plans are in place to retain employees before, during and after the move	The Board monitors the HS2 plan on a periodic basis and receives regular reports from the Head of HR, and the steering group

Risk	Potential Impact	Mitigation	Assurance
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	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
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	Market activity, and competitor behaviour, and trading opportunities are regularly reviewed Dedicated customer account teams exist for larger accounts Hierarchy 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 and discussed The Group s performance against KPI s is discussed at Operating and Main Board meetings
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	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 Head of Regulatory Compliance, and 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
Fuel Fuel shortages or strikes could affect the Group's operations	Any prolonged interruption to the Group's fuel supplies could have a materially adverse effect on its business	The Group has an established fuel contingency plan	The fuel contingency plan is reviewed and tested at frequent intervals
Fuel costs could increase significantly more than forecast	Higher fuel costs could lead to reduced margins and profitability	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 Board monitors both the fuel price and the fuel surcharge mechanism on a periodic basis

OUR PEOPLE >

Policy

The UK Mail People Plan is to develop and engage our people to deliver the company vision

To achieve this we are committed to recruiting rewarding and recognising 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

We are committed to engaging and communicating at all levels by ensuring our employees understand the part they play to achieve the Company vision and that at all times open communication methods are used

We will ensure our people learn and develop by ensuring we develop our leader capability so we improve engagement and performance and create an environment so that people development is seen as key to individual, team and business success

By working safely we show that we value the safety of our employees and customers ensuring that nothing we do will cause harm

Our overall objective is to become an Employer of Choice by showing we are best in class and set 'role model' standards developing a culture that provides employees with a great place to work and being a leading employer within our sector

Diversity

It is 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 prohibited by legislation

We are an equal opportunities employer, and being this is about good employment practices and efficient use of our most valuable assets our employees Every manager and employee has personal responsibility for the implementation of our equal opportunities policies

Employee Communication and Engagement

UK Mail employees have been surveyed for the first time on a range of areas, including their understanding of business objectives and achievements together with views on team work, recognition and learning and development with a view to assessing and measuring employee engagement The findings of the survey have been analysed to understand what is working and what improvements are required from a Group perspective through to individual site and department level Each site and department has been given an individual report with the objective of making continuous improvement and increased engagement

We engage and communicate with our employees in a variety of ways through bi-monthly newsletters, using the Company Intranet and local team briefings, as well as senior management briefing sessions

The Group holds the Investors in People accreditation and we continue to make significant progress in Human Resource management as we aim to become an Employer of Choice'

The Employee Consultative Group ('ECG') has been in operation for ten years and is well established to provide a robust platform for all employees to make a significant contribution to bringing about change in the workplace and to provide a forum for the exchange of information, opinions and feedback

There are now 62 ECG representatives and they receive on-going training in their role including health and safety effective communication and meeting and negotiations Every three years a new ECG Chairperson is elected with the next renewal scheduled for October 2013

In addition to this the ECG brand is to be re-launched and the aims and objectives of the ECG refreshed We held our first ECG Team Conference in March 2013 as part of the re-launch as we see the ECG forum as the backbone of our Company providing an invaluable channel for information, advice and support to our colleagues, simply making UK Mail a better place to work

Voluntary benefits are an important part of the employee benefit structure

Learning and Development continues to be at the forefront of the business

The 'i Delivered' Awards is the UK Mail Recognition scheme for going the Extra Mile.

Recognition and Reward

Our recognition and reward schemes are constantly reviewed and benchmarked in order to ensure that we provide what both our employees and the market require Voluntary benefits are an important part of the employee benefit structure and these continue to be reviewed in order that we can establish and add in to the scheme new offerings The company continues to run salary sacrifice schemes to allow employees to make savings on their National Insurance, and this scheme will further be enhanced with a salary sacrifice scheme on the implementation of Pension Auto-Enrolment

Learning and Development

Learning and Development continues to be at the forefront of the business and we continue to provide Management Development training to help develop and progress those members of the UK Mail team up the career ladder, as well as the required operational training To help supplement this we are developing a Training Directory and Training Matrix that can track what courses and development an employee should have by role in order to promote succession and career planning

UK Mail continues to offer all employees the opportunity to study for NVQ enabling them to study for an accredited qualification

Helping People into Work

In April 2013 UK Mail launched Apploithat – Apprenticeships with UK Mail', in partnership with Elmfield Training Apprenticeships will be available in four pilot sites in Warehousing, Mail Sortation and Customer Care These are permanent roles from day one with a full training programme available to all apprentices over a 12 month period

We also offer Work Experience programmes and if available, those people who have completed Work Experience successfully can then go onto an Apprenticeship programme when a role becomes available

Occupational Health and support for those employees unfortunate to be long term sick continues to form part of the Group s health and well-being strategy, with the emphasis being on work related issues and highlighting any risks to enable employees to know what to look for

The 'I Delivered' Awards is the UK Mail Recognition scheme for going the Extra Mile Awards are made on a quarterly basis with nominations from the quarterly awards being made to the National Awards held in June of each year

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) as a long term sustainable approach to business We continue to devote significant resources towards improving CR standards and practices within the Group Our Corporate Responsibility programme has four key elements, environment, health and safety, employment and community

CR strategy is approved at Board level, with Steven Glew having the appropriate CR responsibility He, together with the CR Steering Committee actively manage, develop and communicate our CR strategy with the strategy providing 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)

To show our continuing commitment to CR, we are a signatory to the United Nations Global Compact We have committed to take action and uphold the ten universally accepted principles in relation to areas such as labour, business integrity employment human rights and the environment

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 Our environmental policy is regularly reviewed and is available on our company website www ukmail com

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 can have on the environment

However, the Group is committed to reducing this impact through the introduction of cost effective solutions and changes which result not only in efficient operations, but in real benefits to the environment as a whole

Our 2012/13 CR Targets

To date, our CR programme has been driven through focused on the year 2013, three years from the 2010 base year

Our performance in the year against those original targets was as follows

	Baseline 2009/10	Target 2012/13	Actual 2012/13	Change against 2011/12	Achievements Against Target
CO_2 emissions (tonnes)	62 3k	56 0k	57 9k	-1 9%	Failed by 3 4%
Health & Safety compliance (%)	85%	95%	95%	+1 7%	Achieved
Workplace fatalities	0	0	0	0	Achieved
ISO 14001 compliance (% corporate sites)	5% (2 sites)	100% (40 sites)	100% (39 sites)	+45%	Achieved
Land Fill Diversion (previously Waste Recycling) (%)	71%	90%	91%	+0 3%	Achieved
Waste to landfill (tonnes)	929t	464t	276t	-0 4%	Achieved by 40%
Total Waste (tonnes)*	5 488t	4,116t	3,099t	+5 1%	Achieved by 24 7%
Water Consumption (M^3)	35 500m³	33 500m³	35 923 m³	+4 4%	Failed by 7 2%
Number of Training Days completed	N/a	1 800	2,401	+37%	N/a

CR Targets and Achievements

Going forward, we have set our targets to 2016 against current actuals which will be more challenging than the previous three years.

Again the main focus will be on CO_2 emissions, health and safety, utilities waste and our people.

We will be using 2012/13 as the key baseline to ensure continuous improvement. Following the successful implementation of ISO14001 we are going to work toward certification of OHSAS 18001.

CO_2 Emissions

2010 - 2013 Target - Reduce CO_2 by 10%

Achievement - Reduced by 7.1% against baseline

2016 Target - Reduce by 5%

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

Fuel

UK Mail has two key objectives

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 linehaul fleet.

We have fitted telematics devices to all of our vehicles which provide data on the drivers driving behaviour and fuel consumption per journey. This allows us to proactively manage the driver to ensure we maximise the mpg by vehicle and route.

In 2013/14 we will implement new software on our parcel scanners which will show our Owner Drivers the most effective route to take when undertaking deliveries with the object of significantly reducing the miles driven.

Objective 2 To reduce the fuel consumption of our vehicles through a review of the design of vehicles used and other effective means

Efficient vehicle design is key to reducing our CO_2. Over the past three years we have reviewed our vehicle and trailer specifications and through redesigning them managed to maximise mpg through the use of sloping trailer roofs.

Whilst our average CO_2 emission across our company car fleet is 127g/km, cars delivered in 2012/13 had an average emission of 121g/km. Furthermore, we encourage drivers to make fewer business journeys by replacing them with conference calls and video conferencing.

We have set a maximum target of 125g/km for new company cars acquired in 2013/14.

Energy

We have deployed '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. The information provided is allowing us to identify and act upon unusual energy usage, particularly during the periods when our operations are closed down.

In 2012/13 we replaced the lighting in our Birmingham, Manchester, Thames Valley, Leicester and Docklands sites to more energy efficient lighting with movement and light sensors. This has reduced our lighting energy consumption by around 50% at these sites, and reduced our CO_2 emissions by 497 tonnes per annum. We are looking at extending the replacement lighting initiative across a number of other sites in 2013/14.

We have launched an 'Eco' campaign with the aim of engaging all our staff in energy conservation with the aim of reducing energy usage by 5%.

CO2 Emissions Reduced by

7.1%

Waste to landfill down

70.2%

ISO Target achieved

100%

at all sites

CORPORATE RESPONSIBILITY >

Health, Safety and Environment (SHE) Compliance

2010 - 2013 Target 95%

Achievement - 95% against baseline

2016 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 investigation procedures 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 Safety Health and Environment (SHE) audit is carried out on a regular basis each year at all operating locations We are pleased to report that the average score achieved in the year has increased to 95% This has been achieved through integrating safety into the way we work, improved staff awareness and new working methods

A health and safety intranet site contains readily available information for managers on specific procedures and policies such as safety policies and procedures emergency response safe systems, risk assessments accident investigations, limited quantities of dangerous goods allowed and communications to promote health and safety and to prevent accidents from occurring in the work place

ISO 14001

2010 - 2013 Target - 100% certification at all corporate sites

Achievement - 100% certification at all corporate sites

2016 Target - maintain existing certification and roll-out to all franchise sites

Certification of OHSAS 18001 at all corporate sites

ISO 14001 is the key standard for Environmental Management Systems It sets rigorous demands for environmental management and is externally audited on a regular basis We are pleased to report that we have achieved the ISO 14001 Standard across all our corporate sites

By 2016 we are aiming for certification of ISO 14001 at our franchise sites and OHSAS 18001 across our corporate sites, which is the British Standard for occupational health and safety management systems

Waste Management

Landfill Diversion	***2010 – 2013 Target – Increase to 90%***
	Achievement – Increased to 91% against baseline
	2016 Target – Increase to 95%
Waste To Landfill	***2010 – 2013 Target – Reduce by 50%***
	Achievement – Reduced by 70% against baseline
	2016 Target – Reduce by 5%
Total Waste	***2010 – 2013 Target – Reduce by 25%***
	Achievement – Reduced by 43% against baseline
	2016 Target – Reduce by 5%

We have been working hard to improve the management of our waste For example we are now backhauling all of our cardboard and stretch-wrap waste to a regional site in order to make our recycling more efficient Moreover we have reduced the number of internal waste streams from five to two This increased focus has boosted landfill diversion rates to 91% in 2012/13 (compared to just 5% in 2008)

Water Consumption

2010 - 2013 Target - Reduce by 5 6%

Achievement - Increased by 1% against baseline

2016 Target - Reduce by 5%

Despite an increase in business activity we were still able to reduce the growth of our water consumption across the business

We shall escalate the roll-out of water saving devices fitted in our washroom facilities across all of our sites which will reduce water consumption We have also removed vehicle wash facilities at a number of sites and have installed smart meters at our high consumption sites

Our People

2010 – 2013 Target – 1,800 training days

Achievement – 2,401 training days

2016 Target – 2,500 training days

Our approach to our people is set out in Our People report on page 18

Learning and Development continues to be at the forefront of the business and we continue to provide Management Development training to help develop and progress those members of the UK Mail team up the career ladder as well as deliver the required operational training To help supplement this we are developing a Training Directory and Training Matrix that can track which courses and development an employee should have, by role

UK Mail continues to offer all employees the opportunity to study for NVQ enabling all employees to study for an accredited qualification Moreover we are working with a leading vehicle manufacturer to support us in rolling out our driver Certificate of Professional Competence training

Employee involvement

We continue to campaign internally to raise awareness amongst our employees of the environmental impact of their actions This has seen employees consciously switching off lights powering off machines and using on-site recycling facilities, increasing landfill diversion rates up to 91% Management at local sites have also been empowered to introduce practices which will encourage a reduction in on-site energy usage and waste, and increase recycling

Working with our suppliers

We work closely with our suppliers to improve their environmental standards and require them to provide details of their environmental practices and accreditation as part of the 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 our suppliers to develop new products and in re-engineering existing products such that more environmentally friendly materials and less finite materials are used, such as paper and polymer

For example we have trialled and are introducing degradable plastics for our shipping bags We also work more with UK based suppliers who produce our high volume products in the UK instead of other parts of the world, which significantly reduces the transportation involved

Community

We believe in community investment and that we should play our 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 In 2012/13 we donated £20 000 to a diverse range of charities through our Staff Sponsorship Scheme, helping fund cancer charities, sea rescue, air ambulance, dog's homes and children's charities amongst others

We remain committed to working with Job Centre Plus to help potential recruits move from welfare to sustained employment continues with the participation in the government's Work Experience Programme The Company has been successful in converting a number of work experience candidates into employed status and continues to actively support this government initiative

In addition, UK Mail launched Appforthat' Apprenticeships in April 2013 Initially piloted in four operational sites throughout the UK this programme aims to help tackle the UK's youth unemployment challenge by offering entry level opportunities with the necessary personal development support required to build a successful career at UK Mail The programme works in partnership with an external training partner

Charity Giving

Over the past ~~five years~~ UK Mail has ~~been committed~~ to Cancer Research UK raising almost £500,000 over this period to help with the crucial work they do in preventing and treating cancers and saving so many lives

UK Mail's chosen charity for 2012 to 2015 is the NSPCC, one of the UK's largest children's charities We are proud to be supporting the NSPCC in their quest to end cruelty to children by both protecting those at risk from abuse and supporting their families

In addition to a donation made by UK Mail to the NSPCC, our staff organise ad hoc local fundraising activities such as dress down days or cake sales which take place during working hours We also run an employee payroll lottery scheme which generates around £3,500 per year for the charity

UK Mail encourages staff not only to fund raise but also to give time for our nominated charity ChildLine, which is part of the NSPCC is a service whereby volunteers visit primary schools to educate children about what is and isn t acceptable behaviour, and when they should speak to somebody about issues such as abuse or bullying Staff are given time towards training and also the flexibility to adjust working hours to enable them to get involved

We operate a 'Payroll Giving Scheme ' allowing all our employees the opportunity to contribute to their preferred charity through tax efficient salary deductions

Finally, UK Mail has a policy of supporting supplier and client charitable fundraising initiatives through donations of monies or gifts, where possible and has made a number of contributions to external companies' and individuals' charitable activities in the last twelve months

CHAIRMAN'S INTRODUCTION >

It has been my belief for many years that good corporate governance is the foundation on which strong corporate performance can be built

I am not alone in this opinion, and indeed this year has seen much debate about corporate governance, culminating with a number of notable statements issued such as the Financial Reporting Council's ('FRC') 'Feedback Statement on Revisions to the UK Corporate Code' and 'The UK Stewardship Code' as well as papers produced by such bodies as the Department of Business, Innovation and Skills ('BIS')

However, good corporate governance to me is not simply following a checklist rather it lies within the culture of an organisation As the FRC says, its purpose is 'to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the Company' This I agree with

I am fortunate in chairing a strong board, which was further strengthened in September 2012 following the appointment of Jessica Burley I now chair a Board comprised of three non-executive and two executive directors, and thus have a Board with a wide breadth of skills and experience on which to call

I believe that not only the balance of the Board, but the size of the Board is now at the optimum level for a Company of our size

UK Mail's success depends on following a clear and robust strategy to deliver continued growth and shareholder value The Board is confident in the strategy we have developed over the years, but we continue to test our current and proposed activities against this framework A key objective for me is to ensure that the Board sets suitably stretching financial objectives whilst ensuring our prudent risk appetite remains intact

We have seen much discussion and debate on executive pay over the last year which I welcome as I remain of the opinion that good financial performance follows good corporate governance

Indeed in following this debate, and listening to the feedback from our shareholders and other interested parties, a number of changes have been made to our remuneration policies For example we introduced bonus and LTIP claw back provisions, which I believe even more closely aligns the interests of senior executives to the interests of all shareholders

I believe that the Company remains in a strong position, following the right strategy under a strong leadership team I look forward to the future challenges and opportunities with confidence and optimism

Finally I would welcome the opportunity to see you at this year's AGM

Peter Kane

Peter Kane, Chairman

BOARD OF DIRECTORS >

Peter Kane
Chairman

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

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 rejoined 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 Store plc Steven recently served as a Non-Executive Director for 3 years with Supergroup plc where he chaired the audit committee Steven is a Chartered Accountant

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 on 1 June 2012 Michael is a Managing Director and Co-Head of Bank of America Merrill Lynch s Corporate Broking business in EMEA 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 FTSE listed Intertek Group plc from 1995 to 2010 He is a Chartered Management Accountant and is currently also a Non-Executive Director of Exova Group Ltd and an Independent Non-Executive Member of the Finance Committee of the Royal Institution of Chartered Surveyors

Jessica Burley
Independent Non-Executive Director

Jessica joined the Board as a Non-Executive Director on 1 September 2012 She is CEO of m/SIX, a full-service media agency which specialises in digital, direct and social media marketing 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

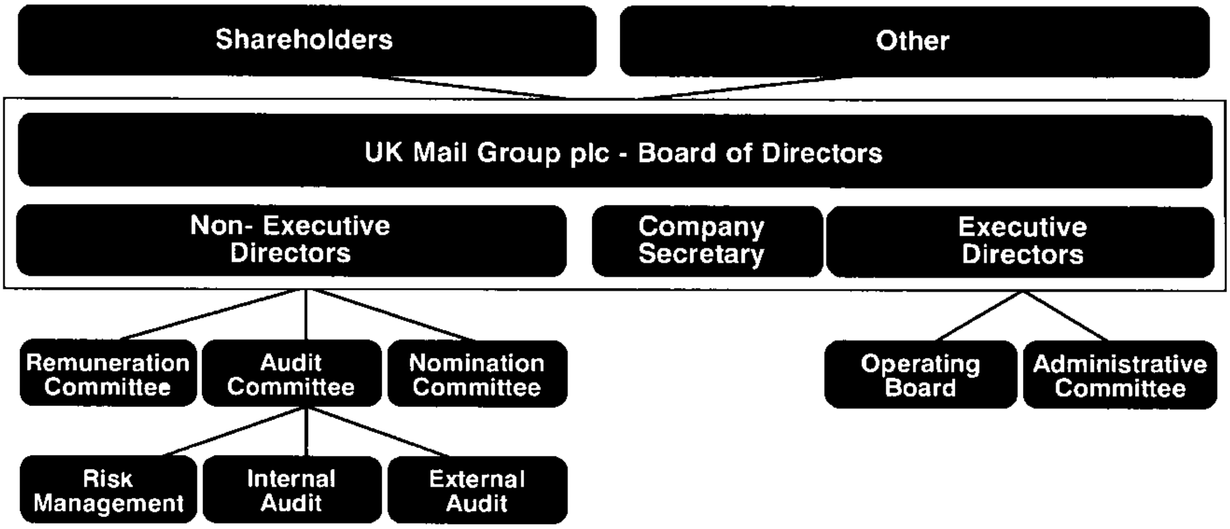
Corporate Governance Report

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 (the Code), and whether there has been compliance with its provisions throughout the financial year The Code may be found on the FRC website (www frc org uk) Procedures have been put in place to address the new edition of the Code which was published in September 2012 and which applies to reporting periods beginning on or after 1 October 2012

The directors consider that the Company has complied fully with the provisions of the Code applicable to it (the June 2010 Code) throughout the financial year ended 31 March 2013

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 27 to 29

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 31 to 33

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 34 to 35

Remuneration Committee

The Remuneration Committee is responsible for determining all element 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 page 34

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

Corporate Governance Report

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 bi-annually to the Audit Committee

Internal audit

The internal audit function 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 Further details on the activities of their work are provided on pages 32 to 33

Operating board

The Operating Board has day-to-day responsibility to execute the strategy approved by the board and comprises of the most senior executive management within the Group including the functional heads of Network and Operations, Mail, IT, as well as the Chief Executive, 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 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 reserves 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 franchise network

The Board routinely monitors the various financial, operational and commercial risks facing the Company through reports from management

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 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 head office of the Group albeit at least one meeting per annum is held at the National Hub in Birmingham 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) 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

Corporate Governance Report

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 Group Finance Director

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 25, 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 The Company supports the aims and objectives of the Davies Report on Women on Boards and welcomes diversity in the boardroom, be that driven by gender, or any other factor

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 Steven Glew held such an appointment during the year details of which are set out in the Remuneration Report

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	6	6
Guy Buswell	5 Dec 2005	Chief Executive	10	10
Michael Findlay	1 Sept 2009	Senior Independent Non-executive director	10	10
Steven Glew	5 June 2006	Group Finance Director	9 *	10
Bill Spencer	1 Nov 2011	Independent Non-executive director	10	10
Past Committee members				
Bill Cockburn – until 31 May 2012	1 April 2002	Ex-Senior Independent Non-executive director and Ex-Deputy Chairman	2	2

* Non-attendance at meetings was due to illness

Board changes during the year

The following board changes occurred during the year

Bill Cockburn retired on 31 May 2012, having served on the board since 1 April 2002 Bill had in recent years served as the Deputy Chairman of the Board and was the Senior Independent Non-executive Director

Jessica Burley was appointed to the Board on 1 September 2012, as an Independent Non-executive Director

Details of the current Board members and the composition of its committees can be found on pages 25 and 30

Corporate Governance Report

Board activity during the year

The following items were discussed by the Board during the year,

- Monthly Chief Executive's report on operational performance and key issues facing the business,
- Monthly Finance Directors Report on financial performance
- Monthly Health and Safety Report
- The Group s Olympic and Paralympic games plan
- The effect of the proposed HS2 rail link on the Group,
- Proposals for the acquisition of capital assets (above the required threshold level),
- Ofcom and Royal Mail proposals including the approval of a new access contract,
- Strategic reviews including market and competitor behaviour,
- Operational and I T performance reviews,
- Corporate governance best practice
- Reviews of proposals made by Board Committees, and
- Dividend policy

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 convened meetings of the non-executive directors to assess the performance of the Board in the absence of the executive directors Furthermore, the performance of the Chairman was 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

Board Independence

The Board considers all the Company's 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 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

Bill Cockburn who had in recent years served as the senior independent non-executive director retired on 31 May 2012 Bill Cockburn had initially been appointed to the Board as a non-executive director in April 2002 and had therefore served on the Board for more than nine years

Bill Cockburn previously had a consultancy agreement which included incentives in relation to the performance of UK Mail These incentives vested in May 2008 with payment of his entitlement shortly thereafter Bill s role since that time had been solely as a non-executive director The board had previously evaluated Bill s judgement and character, and found it had been consistent throughout and have therefore satisfied themselves that Bill Cockburn acted as an independent director

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

Corporate Governance Report

Board Committees

The Board has a number of committees, the principal ones being the Audit Remuneration and Nomination Committees. Membership of these committees as at May 2013 and their principal terms of reference are set out below

UK Mail Group plc
Board of directors

Audit Committee

Bill Spencer (Chairman)

Jessica Burley, Michael Findlay

- Oversees the Group's financial statements
- Monitors the adequacy of internal controls and risk management processes
- Reviews the critical accounting policies and compliance with accounting standards
- Oversees the selection, compensation, independence and performance of the Group s external auditors
- Monitors the independence and performance of the Group's Head of Internal Audit and Group Risk

Nomination Committee

Peter Kane (Chairman),

Jessica Burley, Michael Findlay Bill Spencer

- Leads the process for, and recommends all appointments to the Board
- Reviews succession planning for the Board

Remuneration Committee

Michael Findlay (Chairman)

Jessica Burley, Bill Spencer

- Sets remuneration for all executive directors including share-based incentives, pensions and other benefits
- Monitors the level and structure of remuneration for the first layer of management below Board level
- Approves initial grants and subsequent exercise of all share-based incentives
- Responsible for appointing remuneration consultants

Corporate Governance Report
Audit Committee Report

"The Committee has worked closely with both the internal and external auditors this year to improve the effective management of risk and internal controls"

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

Financial reporting

The Committee is responsible for ensuring the integrity of the Company's financial information and other formal documents relating to its financial performance and for making appropriate recommendations to the Board before publication

A key factor in ensuring the integrity of the financial statements is compliance with accounting standards and consistency of accounting policies from one year to the next Additionally, the Committee reviews the significant issues and judgements made by management, including the potential classification of exceptional items and reviews the reports and opinions of the external auditors

Risk management and internal control

The Committee is responsible for reviewing the Company s internal control and risk management systems, by considering reports from the Head of Internal Audit and Group Risk the Group Finance Director and the external auditors

Internal audit

The Committee reviews and approves the Internal Audit work plan, which is determined through a structured risk assessment' process

External audit

The Committee is responsible for the approval of the appointment, terms of engagement, compensation and independence of the external auditors

The Committee reviews and challenges the external audit plan to ensure that all the key risk areas have been identified and included

The Committee considers the reports and recommendations made by the external auditors regarding financial control, governance, accounting and audit issues

Fraud and bribery

The Company operates a whistleblowing' hotline allowing employees, contractors, suppliers or customers to raise issues of concern in relation to suspected dishonesty or malpractice on an entirely confidential basis The Committee regularly reviews reported 'whistleblowing' activity, and other identified incidents of actual or potential fraud and the subsequent actions taken by management

The Audit Committee also monitors the Group s compliance with the provisions of the Bribery Act 2010

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 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 meetings attended
Bill Spencer – Chairman	1 Nov 2011	Independent Non executive director	4	4
Jessica Burley	1 Sept 2012	Independent Non-executive director	3	3
Michael Findlay	1 Sept 2009	Senior Independent Non-executive director	4	4
Past Committee members				
Bill Cockburn – until 31 May 2012	1 April 2002	Ex-Senior Independent Non executive director	1	1

Corporate Governance Report
Audit Committee Report

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, 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 Committee discharged its obligations in respect of the financial year in the following ways

Financial Reporting

During the year the Committee reviewed the Group s draft interim and annual financial reports prior to Board approval As part of these reviews the Committee received a report from the external auditors setting out the accounting and judgmental issues which required its attention The auditors' reports were based on a full audit (Annual Report) and a high level review (Interim Report) respectively

The Committee reviewed and approved the principal accounting and treasury policies of the Company and proposed changes to them, and considered the critical accounting judgments made by management in their application

Management reports were reviewed regarding the appropriateness of the going-concern basis, and the Internal Audit review thereof

Risk management and internal control

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 The risks and uncertainties which are currently judged by the Board to have the largest potential impact on the Group are set out on pages 16 to 17

The Committee was briefed on the key issues identified from the Business Continuity tests undertaken at five sites during the year ensuring relevant points were carried into the Business Continuity Plan

The Committee considered reports from both the Group Finance director and the Head of Internal Audit and Group Risk 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

The Company s auditors, Pricewaterhousecoopers LLP presented their findings to the Committee, following a detailed (non-audit) review of the IT and manual controls, processes and systems surrounding revenue assurance A subsequent update was provided to the Committee by the Group Finance Director

Internal audit

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 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 Whilst the Committee agreed that in general priority should be given to the perceived highest risk areas, it was also necessary to ensure that all areas of the business both operational and non-operational are subjected to internal audit over the course of a four year cycle

The Committee also met with the Head of Internal Audit and Group Risk in private during the year

External audit

The scope, fee, performance and independence of the external auditors were considered by the Audit Committee 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 This included a review of the non-audit fees paid to the Group s auditors which was noted as compliant with the Group s policy

The external auditors reported twice to the Committee on the significant accounting and control issues identified during the course of their work the key accounting and audit judgements made by management and made a number of internal control recommendations in their management letter

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

The Committee also met with the external auditors in private during the year

Corporate Governance Report
Audit Committee Report

Fraud and bribery

The Committee received reports on fraud perpetuated or attempted against the Company, and subsequent actions taken

Following a review of the relatively low volume of calls taken by the whistle-blowing helpline, the Committee approved group-wide initiatives to re-invigorate knowledge of, and the purpose of its existence through promotional material at sites on payslips and via other staff communications

EXTERNAL AUDITOR OBJECTIVITY AND INDEPENDENCE

External audit rotation

As detailed above the Committee has primary responsibility for recommending to the Board the appointment, re-appointment, or removal of the external auditor and the determination of their remuneration The Audit Committee has also noted the changes to the UK Corporate Governance Code introduced by the FRC in September 2012 and in particular, the requirement contained in the Guidance on Audit Committees (for FTSE 350 companies) to put the external audit contract out to tender at least every ten years The new code is effective for accounting periods beginning on or after 1 October 2012

PricewaterhouseCoopers LLP has been the Company's auditor since August 2002 following a tender process. In order to ensure good corporate governance and that the services of the external auditor remained of the highest quality, the Audit Committee recommended that the provision of external audit services be put out to tender in 2011

Following a transparent and competitive tender, including presentations from all candidate firms and discussions with management the Audit Committee recommended to the Board the re-appointment of PricewaterhouseCoopers LLP This was subsequently approved at the 2012 Annual General Meeting

The external auditors are required to rotate the audit partners responsible for the Group and subsidiary audits at least every five years A new lead audit partner was appointed in September 2011, following the tender process There are no contractual obligations restricting the Company's choice of external auditor

Auditor independence

Auditor independence is maintained by limiting the nature and value of non-audit services performed by the external auditors, ensuring that 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 and the rotation of the lead audit partner at least every five years. The current lead audit partner has held the position since September 2011.

Rotation of senior engagement personnel is reviewed on a regular basis by the lead partner in consultation with the Audit Committee, and a formal statement of independence is received from the external auditors every year

Non-audit services provided by the external auditors

The policy for the provision of non-audit services by the external auditors, which has been approved by the Audit Committee, is available on the company's website www ukmail com The purpose of the policy is to ensure that the independence of the auditors is not impaired

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

Included within this permitted category are a number of taxation services where the independence of the external auditor is not compromised, such as reviews of corporation tax returns for example

The policy also lists a number of services where a case-by-case decision would be required by the Audit Committee

In the year under review all non-audit services provided by the external auditors were in compliance with these rules Further information on fees payable to the external auditors is provided in note 5

Bill Spencer

Chairman of the Audit Committee

Corporate Governance Report
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 members of the Operating Board

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	4	4
Bill Spencer	1 Nov 2011	Independent Non-executive director	5	5
Past Committee members				
Bill Cockburn – until 31 May 2012	1 April 2002	Ex-Senior Independent Non-executive director	1	1

Further details of the Committees membership and responsibilities together with details of director s remuneration can be found within the Remuneration Report on page 42

Nomination Committee

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 most recently on 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

The Committee also makes recommendations to the Board on the membership of its committees

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

Corporate Governance Report
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	2	2
Jessica Burley	1 Sept 2012	Independent Non-executive director	-	-
Michael Findlay	1 Sept 2009	Senior Independent Non-executive director	2	2
Bill Spencer	31 May 2012	Independent Non-executive director	1	1
Past Committee members				
Bill Cockburn – until 31 May 2012	1 April 2002	Ex-Senior Independent Non executive director	1	1

Nomination Committee Activity during the year

The Nomination Committee met twice during the year The Committee discharged its obligations in respect of the financial year in the following ways

Composition of the Board and its committees

Under the guidance of the Chairman a recruitment process had been undertaken to find a replacement non-executive director following the retirement of Bill Cockburn in May 2012

Hanson Green, an external search agency specialising in the recruitment of Directors which has no connection to the Company, was engaged to assist in the appointment of Jessica Burley A description of the role and capabilities required for the position was provided to the agency Reports on potential appointees were provided to the Committee members who after careful consideration made a recommendation to the Board

In forming this decision the Committee considered that Jessica is able to devote sufficient time to this role and complements the skills knowledge and experience of the existing Board

Re-election of directors

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

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 There are inherent limitations in any system of internal control and, accordingly, even the most effective system can provide only reasonable and not absolute, assurance

The Turnbull report, as revised in October 2005 by the Financial Reporting Council, provided further guidance as to how the Code principles on internal control should be applied in practice

The Board considers that the Company has complied with the Turnbull report throughout the year There is a formal on going process for identifying, managing and reviewing any changes in the risks faced by the Company This process operates under the direction of and is regularly reviewed by, the Board who is satisfied with the level of effectiveness of the internal control system

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

- clearly defined delegation of responsibilities, including relevant authorisation levels,
- clearly documented internal procedures set out in operational and administration manuals,
- regular compliance audit visits to all owned and franchised locations which monitor compliance with procedures and assess the integrity of financial information
- review of both financial and operational procedures by the Head of Internal Audit and Group Risk, prioritised in the perceived highest business risk areas
- a Group-wide risk management framework which is embedded throughout the Group Under it key risks are identified and assessed and action plans are developed to mitigate or eliminate unwanted exposures The results of these reviews are placed on risk registers and are reviewed quarterly,
- regular information provided to senior management, covering financial performance and key business indicators
- monthly monitoring of results against budget forecast and prior year with major variances being followed up and management action taken where necessary and
- a whistle-blowing policy which sets out a framework for dealing with any allegations of fraud financial misreporting and any whistle-blowing notification

Corporate Governance Report

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

- formal written 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,
- detailed management review at Operating Board and Main Board level of the monthly management accounts with additionally an Audit Committee review in respect of the interim and year-end accounts, and
- monthly reconciliation and review of all balance sheet accounts

Other

Details of the Group s activities in relation to its environmental employment and health and safety responsibilities are set out in the Corporate Responsibility statement

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

No significant findings were identified which required action to be taken

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 and Accounts 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

Directors' Report

The directors present their Annual Report and the audited consolidated financial statements of UK Mail Group Plc for the year ended 31 March 2013

Principal activities

UK Mail Group Plc (registration number 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

Business review

The Companies Act 2006 requires us to present a fair review of the business of the Group during the year to 31 March 2013 and of the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group

The information that fulfils the requirements of the Business Review can be found in the Chairman's Statement Business Review (including Financial Review), and Corporate Responsibility statements which are incorporated in this report by reference

Results and dividends

The profit for the financial year of £13 5 million is reported in the Consolidated Statement of Comprehensive Income on page 58 A final dividend of 11 8p per share in respect of the year ended 31 March 2012 was paid on 27 July 2012 An unchanged interim dividend of 6 4p per share in respect of the year ended 31 March 2013 was paid on 18 January 2013 and the directors recommend a final dividend of 12 4p per share, payable on 26 July 2013 to shareholders on the register on 28 June 2013

Corporate governance report

The Corporate Governance report for the year ended 31 March 2013, prepared in accordance with rule 7 2 of the FSA's Disclosure and Transparency Rules is set out on pages 26 to 36 and forms part of this Director s report by reference

Donations

During the year, the Group made charitable donations of £110,672 (2012 £96 372) to a number of both local and national charitable causes including £80,672 to Cancer Research UK (2012 £80 929) and £33 000 to NSPCC (2012 £nil) The Group made no political donations during the year (2012 £nil)

Directors and their interests

A list of directors their interests in the ordinary share capital of the Company, their interest in in its long-term incentive plan and details of their options over the ordinary share capital of the Company are given in the Remuneration Report on pages 42 to 56

No director had a material interest in any significant contract, other than their contract for services, with the Company or any of its subsidiaries at any time during the year

Subject to the Company's Articles of Association, UK legislation and any directions given by special resolution, the business of the Company is managed by the Board, which may exercise all the powers of the Company 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

Directors' indemnities

As at the date of this report indemnities (which are qualifying third-party indemnity provisions under 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 2013, 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 18

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 statement

Financial instruments

The Group's 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 foreign exchange and capital - are included in note 26 to the financial statements

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 required recognition criteria detailed in note 1 to the financial statements

Supplier payment policy

The Group s policy concerning the payment of its trade payables is to follow the Better Payment Practice Code which can be found at www payontime co uk The Group endeavours to agree standard terms of payment with its major suppliers at the commencement of business Suppliers fulfilling the conditions of supply are paid in accordance with the agreed standard terms Other suppliers are paid in accordance with contractual terms as agreed from time to time As at 31 March 2013 the Group had 34 6 days (2012 38 1 days) purchases outstanding in trade creditors

Directors' Report

Properties

The directors are of the opinion that the current market value of the Group's properties is in excess of the carrying amount at which they are included in the balance sheet

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 Business Review on pages 4 to 9 The financial position of the Group its cash flows, liquidity position and borrowing facilities are described in the Financial Review The Financial Review and note 26 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 as explained in the Financial Review on page 12 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 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

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

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 £1,526,852 During the year ended 31 March 2013, 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 5 473 147 shares (representing approximately 10% of its issued share capital at 5 June 2012) remained in force at 31 March 2013

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 EES Trustees International Ltd 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 2013 and of the outstanding options over shares in the Company at 31 March 2013 can be found in note 23 to the financial statements on page 79

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 representative (a 'proxy') to attend) and to exercise all or any of his 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 2013 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

Directors' Report

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 Services 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 listed in the Financial Review, if any person, or group of persons acting in concert, gains control of the Company Lloyds TSB 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

A number of commercial agreements entered into in the normal course of business include change of control provisions

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 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 3 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 7 nor more than 42 days beforehand, the Company has been given notice executed by a shareholder eligible to vote at the meeting of his intention to propose such person for election together with a notice executed by that person of his 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 period of office and may, by ordinary resolution, appoint another person in his stead

Substantial shareholders

As at 21 May 2013, 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	15,975,647	29 19%
Mr Michael Kane	5,708,725	10 43%
M & G Investment Management	5,653,576	10 33%
Ms Joanna Bailey	3,974,320	7 26%
Liontrust Asset Management	3,215 193	5 87%
Fidelity investments	2 847 868	5 20%
Schroder Investment Management	2,512 513	4 59%

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

Directors' Report

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
- 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

Each of the directors whose names and functions are listed in the Directors and Advisers Section 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 Directors report contained in this Annual Report 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

Independent auditors and disclosure of information to auditors

Each of the persons who is a director at the time of this report confirms that

- so far as the director is aware there is no relevant audit information of which the Company s auditors are unaware and
- the director has taken all steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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

Annual General Meeting

The Annual General Meeting (AGM) will be held at the offices of Investec 2 Gresham Street London EC2V 7QP on Wednesday 10 July 2013 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 Remuneration Report of the directors, to re-elect directors in respect of those retiring, to appoint auditors and fix their remuneration and to declare a dividend

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 Chairman and each Board Committee chairman 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 9

Resolution 9 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 £1,526 701 If given, this authority will expire at the conclusion of the Company's next Annual General Meeting or on 10 October 2014 (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 10

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 10, 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 £273 664 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 £273,664 (which represents approximately 5% of the issued ordinary share capital of the Company as at 21 May 2013)

Directors' Report

The Company has issued 1,510 ordinary shares in the last year and 57,740 ordinary shares in the last three years on a non pre-emptive basis representing 0 003% and 0 105%, 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 10 October 2014 (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 9 and 10 although they consider their renewal appropriate in order to take advantage of business opportunities as they arise

Resolution 11

Resolution 11, 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 5 473 298 ordinary shares in the market (which represents approximately 10% of the issued ordinary share capital of the Company as at 21 May 2013) 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 10 October 2014 (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 11 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 21 May 2013, the Company holds no ordinary shares in treasury

As at 21 May 2013 (being the last practicable date before the publication of this document) there were options outstanding over 934,192 ordinary shares in the Company (which represents 1 71% 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 1 90% of the issued ordinary share capital of the Company

Resolution 12 Notice period for general meetings

The directors are proposing Resolution 12 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

By order of the Board

Steven Glew
Company Secretary
21 May 2013

Cautionary Statement

Remuneration Report

This part of the Remuneration Report is unaudited

Dear Shareholder

It gives me great pleasure to present the Remuneration Report for 2012/13

I was appointed as the Chairman of the Remuneration the Committee in May 2012, following the resignation of Bill Cockburn I would like to thank Bill Cockburn for his successful chairmanship of this Committee over a number of years.

In September 2012 I was pleased to welcome Jessica Burley as a member following her appointment to the Board who along with Bill Spencer ensures that we retain a fully and suitably independent committee

There has been much discussion and debate on executive pay over the last year which I welcome as I remain of the opinion that good financial performance follows good corporate governance I am also a firm believer in open and transparent dialogue with the Company's shareholders on remuneration matters and believe it is important to both understand their views and to ensure our strategy is suitably aligned to these The Committee thus monitors closely the views of the Company's shareholders and institutional investor guidelines for directors remuneration

The Committee has taken note of the recommendations made in the Department of Business Innovation and Skills (BIS) consultation document on executive remuneration narrative reporting and shareholder voting rights

Indeed a number of changes have been made to both our policies and to the format of the following report all of which I hope you welcome

Performance and Reward for 2012/13

The remuneration framework for our Executive Directors remains relatively straightforward Our incentive plans largely comprise an annual cash bonus incentive linked to both profit and margin performance and a Long Term Incentive Plan aligned to the Company's EPS growth and relative shareholder return performance over a three year period

2012/13 has been a good year of financial and operational performance with resumed growth in earnings the delivery of key restructuring activities (as announced last year) and continued successful investment in the network infrastructure

As described in the Business Review on page 4 the Company's underlying PBT and operating margin were robust for the year under review exceeding the targets set under the annual bonus plan As a result the Committee determined that 45% of the bonus maximum was payable to both the Chief Executive and the Group Finance Director

However, whilst long-term incentive awards which are based on three year performance to the end of 2012/13 met the threshold TSR vesting target, they failed to achieve the necessary EPS target, and therefore this element of the award lapsed The Committee is satisfied that the remuneration payable to Executives is a fair reward for performance during the year

We encourage Executive Directors to hold a stake in the business they manage, and I am pleased to note that their shareholdings are materially over the minimum levels suggested by this policy

This year, we further aligned our remuneration policies with the interests of all shareholders through the introduction of bonus and LTIP clawback provisions

Remuneration Policy for 2013/14

In summary I see it as the Committee's prime aim to ensure the Company continues to attract, motivate and retain the highest calibre individuals to deliver the best possible returns for shareholders I firmly believe that the mix of our remuneration packages provides this opportunity, not only to the Executive Directors but equally to the teams they manage

The Committee feels that the current remuneration structure remains appropriate for the current year and therefore does not propose any material changes to the on-going policy

Our remuneration packages will continue to be reviewed annually to ensure they remain tightly aligned to the Company's objectives and to our shareholders interests whilst ensuring they continue to motivate and stretch all our employees to achieve the challenging targets we demand

Finally I would welcome the opportunity to see you at this year's AGM

Michael Findlay

Chairman of the Remuneration Committee

Remuneration Report

This part of the Remuneration Report is unaudited

This report to shareholders has been prepared on behalf of the board by the Remuneration Committee The Committee adopts the principles of good governance as set out in the UK Corporate Governance Code (the Code) and complies with the Listing Rules of the Financial Conduct Authority and the relevant schedules of the Companies Act 2006 and the Directors Remuneration Report Regulations in Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 These regulations require the Company s auditors to report on the Audited Information in the report and to state that this section has been properly prepared in accordance with these regulations The sections of the report which are subject to audit have been highlighted This report is subject to shareholder approval at the Annual General Meeting (AGM) on 10 July 2013

As stated in the Chairman s introductory letter the format of this report has been prepared in accordance with the proposed revised reporting regulations The report has been split into two sections the Remuneration Policy Report setting out the policy for 2013/14 and subject to on going review for subsequent periods and the Implementation Report which sets out the remuneration paid in respect of the year under review The content of this report continues to comply with current legislation

The Remuneration Committee

The current members of the Remuneration Committee (the 'Committee') are Michael Findlay (Chairman) Bill Spencer and Jessica Burley Bill Cockburn was the Chairman of the Committee until 31 May 2012 when he resigned as a director All current members of the Committee have been members throughout the year except for Jessica Burley who was appointed on 1 September 2012

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 directors and the members of the Operating Board It met 5 times during the year and each member s attendance at those meetings is set out on page 34 of the Corporate Governance Report

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 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 report

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 objectives The objective is to ensure the policy is appropriate to the Group's needs and rewards executives for creating shareholder value 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 longer term incentives The bonus plan rewards the achievements of Group profit before tax and operating margin targets which the Committee and the Board believes are highly relevant measures of annual performance Longer term performance remuneration is delivered through equity-based LTIP schemes which reward three-year relative Total Shareholder Return (TSR') and Earnings per Share ('EPS') performance

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

The Committee regularly reviews the constituent elements of remuneration and the policy as a whole to ensure it does not encourage any undue risk taking

Remuneration Report

This part of the Remuneration Report is unaudited

Details of the individual Executive Directors remuneration are described below

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

Elements of the remuneration package of executive directors

Component	Alignment to strategic goal	Operation	2013/14 Maximum Potential Value	2013/14 Performance Metrics	Application for 2013/14
Base salary	Set at the appropriate level for the skills, experience, and general performance of the individual and the role	Any annual increases awarded are fully aligned with salary increases across the company Normally reviewed in April of each year by reference to the mid-market level of companies of similar revenues, profits and market capitalisation	The salaries as at 31 March 2013 were, CEO £329,000 Gp FD £233 000 These would normally be subject to the annual review in April 2013 However this review has been postponed to July 2013 (in line with the wider employee population review)	None	Salaries are subject to the next annual review in July 2013 where it is anticipated any increases proposed will be in line with the wider employee population
Pension	Provides a competitive retirement benefit, in a cost efficient manner for the Company	A defined contribution or alternatively individuals can elect to receive their pension contributions as a salary supplement	CEO 15% of base salary Gp FD 12 5% of base salary	None	No changes to existing contribution arrangements
Benefits	Provides a competitive way to reward executives in a cost efficient manner for the Company	Executive directors receive private health cover, permanent health insurance and death in service benefits and can opt to receive either a car or car allowance	The car allowance or car benefit as at 31 March 2013 were, CEO £12,000 Gp FD £10,000 Insured benefit values will vary from year to year depending on the cost of providing them	None	No changes to existing benefit arrangements
Annual cash bonus	Designed to reward Executives for achieving short term objectives linked to the business' KPIs	75% of the bonus is payable in cash 25% of any bonus received by executive directors is compulsory deferred into the Share Matching plan The bonus is subject to clawback for reasons of financial misstatement and/or misconduct of an individual	Maximum of 100% of base salary	The bonus is primarily dependent on a sliding scale of targets based on - the Group s underlying PBT performance (80%) - the Groups actual operating margin achieved (20%)	No changes to the incentive opportunity Performance measures remain as 80% linked to the Group's underlying PBT performance against budget and 20% linked to the Group's actual operating margin achieved

Remuneration Report

This part of the Remuneration Report is unaudited

Component	Alignment to strategic goal	Operation	2013/14 Maximum Potential Value	2013/14 Performance Metrics	Application for 2013/14
Bonus deferral	Provides retention and alignment with shareholders whilst rewarding long-term value creation Supports shareholding guideline requirements	Executive Directors are required to defer 25% of their annual bonus for a period of 3 years subject to continued service only The Executives receive a matching award of shares of equivalent value, under the Share Matching Plan ('SMP) which vest after 3 years subject to performance conditions	25% of annual bonus deferred Matching ratio of 1 1 (i e maximum matching award of 25% of the annual bonus)	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	25% of the 2012/13 annual bonus awarded to Executives will be deferred with a corresponding matching award under the SMP anticipated in June 2013
Long term incentive plan	Provides a medium-term motivational tool to Executive Directors, focussed on 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 awards which are subject to performance conditions measured over 3 years The LTIP is subject to clawback for reasons of material misstatement of the financial results of the Company or cessation of employment following misconduct	Overall ordinary individual limit of 100% of base salary The limit can be extended to 150% in exceptional circumstances (e g in acute retention scenarios or on initial recruitment)	It is proposed that awards granted in 2013/14 will be subject to the following performance conditions measured over 3 years - Max 50% is dependent on EPS growth in 2015/16 compared to the base EPS in 2012/13 - Max 50% is determined by the relative TSR compared to the constituents of the FTSE All-Share Companies index (ex Investment Trusts) The target range is set prior to grant, based on an assessment of internal financial forecasts and having due regard to external analyst consensus	An LTIP grant is anticipated to be made in May 2013 on the following basis, CEO- 100% of salary Gp FD- 100% of salary
Shareholding Requirements	To encourage a long-term, sustainable focus on shareholder value	Executive are expected to retain all shares which vest (post settlement of tax liabilities) until they have the following shareholding CEO – 200% of salary Gp FD- 150% of salary	CEO 200% of salary Gp FD 150% of salary	None	As at 31 March 2013 each director has surpassed the respective shareholding guideline' CEO – 361% of base salary Gp FD – 186% of salary

Remuneration Report

This part of the Remuneration Report is unaudited

Component	Alignment to strategic goal	Operation	2013/14 Maximum Potential Value	2013/14 Performance Metrics	Application for 2013/14
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 remuneration of each Non-Executive Director is 100% non-performance related The fees for the Group Chairman and other Non-Executive Directors are determined by the Board as a whole 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 a annual basis and set in context to fees paid in companies of comparable size and with reference to on-going time commitments	Chairman Fee £70,000 Basic Fee £30 000 Senior Independent Fee £5,000 Committee Chairman Fee - £5,000	None	No changes to existing arrangements
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 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 A new director would be expected to participate in the remuneration structure outlined above 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				

1 Guy Buswell and Steven Glew had shareholdings at 31 March 2013 of 310 693 and 113 919 respectively The share price used for calculating the value of the executive s shareholding is 379p being the closing share price on 31 March 2013 The base salary used represents the salary earned in the financial year as per the Directors emoluments table on page 52

Detailed Remuneration Policy Report (Unaudited information)

Base salaries

Base salaries are reviewed annually although not necessarily altered In considering appropriate salary levels the Committee takes into account the remuneration paid by comparable UK companies in terms of market capitalisation, revenues and profits The Company's practice is to target basic salaries by reference to the mid-market level in the appropriate market for the executive position However, the Committee will not review external benchmark data in isolation, but will use it as part of a broader review which considers experience and development in the role general performance levels and wider wage and inflationary indicators In forming their decision, the Committee is mindful of the general increases awarded to the rest of the organisation, and would ordinarily expect to approve a consistent approach

Following the initial decision in March 2012 to freeze base salaries, a salary increase of 1 5% was awarded in October 2012 to Executive Directors consistent with the approved increase applied across the Company to all employees The Committee would expect a similar approach to be adopted for the 2013/14 review which will take place in July 2013

Remuneration Report

This part of the Remuneration Report is unaudited

Annual cash bonuses

The Group operates an annual cash bonus scheme for executive directors The level of bonus payment is dependent upon the Group s performance evaluated against Group budgeted pre-tax profit set out at the beginning of the year The annual bonus is not pensionable by the Company The bonus potential for executive directors is up to 100% of basic salary for maximum performance

For 2013/14 bonuses will be determined by performance against a sliding scale of budgeted pre-tax profit (80% of bonus) and operating margin (20% of bonus) targets

The Committee considers that the profit before tax and operating margin targets are commercially sensitive on a forward looking basis and has therefore chosen not to disclose them at this time Full retrospective disclosure of the targets used will be included in the Implementation Report for 2013/14

The annual bonus is subject to clawback provisions which allow the Committee to recover any undue bonus for reasons of material misstatement of the Company s financial results, cessation of employment as a result of misconduct, or administrative error Clawback applies for two years from the date of payment

The rules of the bonus scheme require that at least 25% of any bonus received by executive directors is deferred for a period of 3 years in the share matching plan The vesting of deferred shares is subject to continued service only

Share Matching Plan

Selected executives are required to invest a portion of their cash bonus in the acquisition of Company shares worth up to 25% of their pre-tax salary Where such an investment is made the executives will receive under the Share Matching Plan a matching award of shares of equivalent value As noted above at least 25% of any bonus received by executive directors will need to be invested in the Share Matching Plan

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 PI + 4% p a over a three year period **Maximum performance –** 100% will vest where EPS growth exceeds R PI + 6% p a over a three year period

The RPI measure is used because the Remuneration Committee believes it ensures that executives are only rewarded where there has been real growth

Long Term Incentive Plan

The Group s Long Term Incentive Plan is a key link between executive remuneration and the long term success and performance of the Group

The current plan was approved by shareholders at the AGM in July 2009 This permits a maximum potential annual award of shares to an executive of 100% of salary (with the additional flexibility to grant awards worth up to 150% of salary in exceptional circumstances, such as on recruitment or in acute retention scenarios) Shares vest after three years, conditional upon the satisfaction of relevant performance criteria

In order to align the interests of participants with those of shareholders, the rules of the plan were amended to allow the Remuneration Committee to determine that dividends accrue on the shares comprised in the award The Remuneration Committee can determine that these dividends are satisfied either as shares or as their cash equivalent when the award vests to the extent that the performance criteria are achieved

In 2012 the Remuneration Committee introduced a 'clawback' provision whereby the Committee retains the right, in exceptional circumstances to reclaim any monies based on financial misstatement and/or the misconduct of an individual through means deemed appropriate to those specific circumstances

Remuneration Report

This part of the Remuneration Report is unaudited

The Committee intends to grant an award to executive and operating Board members in 2013/14 at 100% of base salary, with the following vesting conditions

Performance measure	Award proportion	Definition	Vesting requirement
EPS	50%	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 2016	**Threshold performance –** 25% will vest where EPS growth exceeds 6% 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 2016, when compared to that of the FTSE All-Share index (ex Investment Trusts) falls below the median	**Threshold performance –** 25% will vest for median performance against the constituents of the benchmark index. **Maximum performance –** 100% will vest for upper quartile or above performance against the constituents of the benchmark index

Performance in between the threshold and maximum points will be calculated on a straight line basis

These measures are used because the Remuneration Committee believes they offer a balance between meeting the needs of shareholders (by measuring performance against other UK listed companies) and providing a measure of performance (EPS growth) over which the executive directors have direct influence

Other Schemes

Executive directors are eligible to participate in the Group's HMRC approved Sharesave scheme on the same terms as other employees Under this scheme, participants may contribute between £5 and £250 in total each month, for a fixed period of three or five years. Contributions are deducted from net salary At the end of the savings period, these funds can be used to purchase ordinary shares in the Company at a discount capped at 20% of the market price set at the grant date

Composition of Remuneration Package

The targeted composition of each executive director's remuneration between fixed and variable remuneration is approximately 50% derived from salary and benefits and 50% from variable incentives as follows

Notes to Charts

1 On-plan bonus has been assumed to pay-out at 50% of the maximum with the SMP (based on the level of deferral at this level of performance) assumed to pay-out at 50% and the LTIP vesting at 50%

2 Maximum full pay-out of the bonus, SMP (based on level of deferral at this level of performance) and LTIP

3 No share price growth has been modelled

Remuneration Report

This part of the Remuneration Report is unaudited

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 the details of which were as follows

Executive	Company	Fee £	Comment
Steven Glew	SuperGroup plc	50,000	Resigned 5 Feb 2013

Directors' Service Contracts

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 and contains a clause whereby the maximum contractual termination payments do not exceed the director s remuneration (defined as base salary, bonus, pension contributions car allowance and any other benefit then accruing) for the previous calendar year

For future director appointments the Remuneration Committee has previously 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

Mr Buswell s contract provides that on termination by the Company without cause he is entitled to a termination payment of 12 months remuneration with immediate effect

Mr Glew's contract provides that on termination by the Company without cause he is entitled to receive an initial payment of 6 months remuneration Thereafter, he would be entitled to a monthly payment at the same annual rate until the earlier of 12 months the date he commences employment with a third party or the date he becomes self-employed

However in the event of termination following a change of control, executive directors are entitled to a termination payment of 12 months remuneration

There are no provisions for either of the executive directors or predetermined compensation in excess of one year's remuneration

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

Executive Director	Contract date	Unexpired term as at 31 March 2013	Date of next election
Guy Buswell	31 03 06	12 months	2014 AGM
Steven Glew	05 06 06	12 months	2015 AGM

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 at the normal vesting date with the Remuneration Committee's normal policy being (i) to apply performance targets over the original performance period and (ii) the application of a pro-rata reduction
Other	None	Disbursements such as legal costs outplacement etc	

Remuneration Report

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

Executive Director	Contract date	Unexpired term as at 31 March 2013	Date of next election
Jessica Burley	30 07 12	29 months	2013 AGM
Peter Kane	01 10 01	indefinite	2013 AGM
Michael Findlay	24 04 12	29 months	2013 AGM
Bill Spencer	10 10 11	19 months	2014 AGM

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

With regards to 2014/15 the Remuneration Committee will review remuneration policy in light of the feedback received in relation to the 2013 AGM The Committee will consult with shareholders if any significant changes in the policy are proposed in the future

AGM Voting

At the Company s AGM held on 11 July 2012 shareholders were asked to approve the 2012 Remuneration Report The following votes were received from shareholders

	Total number of votes	Percentage of votes cast
For	38,619 131	99 73
Against	100 304	0 26
Abstentions	5 190	0 01
TOTAL	**38,724,625**	**100 00**

Remuneration Report

This part of the Remuneration Report is unaudited

Implementation Report

Advisors to the Committee

During the year the Committee sought advice, from external remuneration consultants New Bridge Street ('NBS'), largely as to best practice in the market, the setting of suitably challenging targets for the Long Term Incentive Plan, and revision of the plan rules so as to introduce 'clawback' provisions in respect of executive director awards

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

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

Review of the year

During the year ended 31 March 2013, the following agenda items were discussed

- Review and approval of salary increases for executive directors operating board directors and the overall workforce
- Review and approval of the annual bonus schemes and targets for the financial year 2012/13
- Review and approval of an amendment to the LTIP 2009 rules to effect the inclusion of executive director 'clawback' provisions
- Approval of an LTIP grant to executive and board members
- Review of executive remuneration market practice, and
- Review of corporate governance practice

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 five year and a three year period commencing on 31 March 2008 and 31 March 2010 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

Total Share Return

Total Share Return

This graph shows the value by 31 March 2013 of £100 invested in UK Mail Group on 31 March 2008 compared with the value of £100 invested in the FTSE All Share (excluding Investment Trusts) Index The other points plotted are the values at intervening financial year ends Source Thomson Reuters

This graph shows the value by 31 March 2013 of £100 invested in UK Mail Group on 31 March 2010 compared with the value of £100 invested in the FTSE All Share (excluding Investment Trusts) Index The other points plotted are the values at intervening financial year ends. Source Thomson Reuters

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

Remuneration Report

This part of the Remuneration Report is audited

Directors' Emoluments

Emoluments receivable by each director during the year were as follows

	Salary & Fees £000	Benefits £000	Pension Contributions £000	Bonus £000	2013 Total £000	2012 Total £000
Executive directors						
Guy Buswell	326	13	49	147	535	386
Steven Glew	232	11	29	104	376	270
Non-executive directors						
Jessica Burley (i)	18	-	-	-	18	-
Bill Cockburn (ii)	7	-	-	-	7	45
Michael Findlay	39	-	-	-	39	30
Trevor Jenkins (iii)	-	-	-	-	-	20
Peter Kane	70	-	-	-	70	70
Bill Spencer (iv)	35	-	-	-	35	15
	727	**24**	**78**	**251**	**1,080**	**836**

(i) Jessica Burley was appointed to the Board on 1 September 2012

(ii) Bill Cockburn retired from the Board on 31 May 2012

(iii) Trevor Jenkins retired from the Board on 31 October 2011

(iv) Bill Spencer was appointed to the Board on 1 November 2011

No director waived emoluments in respect of the years ended 31 March 2012 and 2013

Single figure of total remuneration for 2013

The table below provides a single figure of total remuneration for 2013 for executive directors

	Fixed pay				Variable pay			
	Salary £000	Benefits £000	Pension Contributions £000	Sub total £000	Bonus £000	2013 LTIP (i) £000	Sub total £000	Total £000
Executive directors								
Guy Buswell	326	13	49	388	147	43	190	578
Steven Glew	232	11	29	272	104	31	135	407
Total	**558**	**24**	**78**	**660**	**251**	**74**	**325**	**985**

(i) The LTIP value is based on the estimated number of shares vesting at 362 9p being the average share price in the quarter ended 31 March 2013

Remuneration Report

This part of the Remuneration Report is audited

The following table details the total remuneration of the CEO for the five year period ending 31 March 2013,

	CEO Single figure of total remuneration (£ '000)	Annual variable element award rates against maximum opportunity	Long term incentive vesting rates against maximum opportunity
2009[1]	1,193	50 00%	98 40%
2010[2]	730	50 31%	52 70%
2011	386	0 00%	0 00%
2012	386	0 00%	0 00%
2013	578	45 09%	12 65%

[1] LTI vesting is a weighted average of 94 34% vesting under the LTIP, 99 9% vesting under the one-off LTIP and 100% vesting under the SMP

[2] LTI vesting is a weighted average of 60 92% vesting under the LTIP and 36 67% vesting under the SMP

Base Salaries, Benefit and Pension

Salaries were reviewed and increased in October 2012 by 1 5% in line with the wider employee population to £329 000 p a for the Chief Executive and £233,000 p a for the Group Finance Director

Benefits comprise company car benefits health insurance and death in service benefits

Pension contributions of 15% of base salary were made to the Chief Executive and 12 5% of base salary for the Group Finance Director

Annual Bonus

The bonus in operation for 2012/13 was subject to sliding scale profit before tax and operating margin targets

Performance Measure	Budget	Threshold	Maximum	Actual	% of bonus payable
Profit before tax £m	£15 8m	£16 0m	£19 0m	£17 8m	40% (max 80%)
Operating margin %	3 5%	3 5%	4 5%	3 7%	5% (max 20%)

Therefore total bonus payments were 45% of salary for the Chief Executive and 45% of salary for the Group Finance Director The Committee is satisfied that the level of bonus is a fair reward for the performance delivered in the year

25% of the bonus will be deferred into shares attracting a matching award under the SMP during 2013/14 No bonus was payable in 2011/12 and therefore no deferral or matching award was made during the year under review

Long Term Incentives

LTIP Awards were granted on 29 November 2012 on the following basis

Executive	Number of shares comprising award	Face/Maximum Value of Awards at Grant Date (% salary)	% of Award Vesting at Threshold	Performance Period
Guy Buswell	94,325	£280 617 (86%)	25%	01 04 12 – 31 03 15
Steven Glew	66,939	£199 143 (86%)	25%	01 04 12 – 31 03 15

Remuneration Report

This part of the Remuneration Report is audited

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	50%	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 2015	**Threshold performance –** 25% will vest where EPS growth exceeds 11 6% p a **Maximum performance –** 100% will vest where EPS growth exceeds 18 1% 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 2015 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

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 2012	Granted in the year	Exercised in the year	Lapsed in the year	**Number at 31 March 2013**
Guy Buswell								
15 07 09	LTIP	275p	31 03 12	124 807	-	-	(124,807)	-
26 05 10	LTIP	340p	31 03 13	81,391	-	-	-	**81,391**
29 11 12	LTIP	298p	31 03 15	-	94 325	-	-	**94,325**
				206,198	**94,325**	**-**	**(124,807)**	**175,716**
Steven Glew								
15 07 09	LTIP	275p	31 03 12	88 570	-	-	(88 570)	-
26 05 10	LTIP	340p	31 03 13	57 759	-	-	-	**57,759**
29 11 12	LTIP	298p	31 03 15	-	66,939	-	-	**66,939**
				146,329	**66,939**	**-**	**(88,570)**	**124,698**

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 In the event of leaving employment before the maturity date, an award will immediately lapse

Remuneration Report

This part of the Remuneration Report is audited

The 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 80 The table below details the vesting history of awards granted under the LTIP 2009 since it has been in operation,

Date of award	Plan	Vesting	EPS target range (i)	TSR target range (i)	EPS achieved	TSR achieved	% Awards vesting
15 07 09	LTIP	16 07 12	5 0% - 9 0% p a	Median to Upper Quartile	No	No	0%
26 05 10	LTIP	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	LTIP	Live plan	11 6% - 18 1% 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

Sharesave Scheme

Date of Grant	Earliest Exercise Date	Expiry Date	Exercise Price	Number at 1 April 2012	Granted in the year	Exercised in the year	Lapsed in the year	**Number 31 March at 2013**
Steven Glew								
17 07 09	01 09 12	01 03 13	227p	3 997	-	-	(3,997)	-

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 379p and the range of prices during the year was between 214p and 379p

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 2013 were as follows

	31 March 2013 Ordinary Shares of 10p	1 April 2012 Ordinary Shares of 10p
Guy Buswell	**310,693**	305,693
Jessica Burley	-	-
Michael Findlay	**1,500**	1,500
Steven Glew	**113,919**	113,919
Peter Kane	**3,339,633**	6 672 967
Bill Spencer	**4,800**	4,800

Remuneration Report

This part of the Remuneration Report is unaudited

	Legally And Beneficially Owned		% of salary Held Under Shareholding Guideline	Deferred Bonus Awards		Share Matching Plan Awards		Long Term Incentive Plan Awards		Sharesave Scheme Awards		Total
	31 03 13	31 03 12	(% of salary)	Unvested	Vested	Unvested	Vested	Unvested	Vested	Unvested	Vested	**31 03 13**
Executive Directors												
Guy Buswell	310,693	305,693	361%	-	-	-	-	175,716	-	-	-	**486,409**
Steven Glew	113,919	113,919	186%	-	-	-	-	124 698	-	-	-	**238,617**
Non executive Directors												
Jessica Burley	-	-	-	-	-	-	-	-	-	-	-	-
Michael Findlay	1,500	1 500	-	-	-	-	-	-	-	-	-	**1,500**
Peter Kane	3 339 633	6 672,967	-	-	-	-	-	-	-	-	-	**3,339,633**
Bill Spencer	4,800	4,800	-	-	-	-	-	-	-	-	-	**4,800**

All directors' interests are beneficially held save for 3 333,334 ordinary shares which are held by beneficiaries who are persons connected with Peter Kane There has been no change in the interests set out above between 31 March 2013 and 21 May 2013

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 0% and 3 8% 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 2013 the Trust held a total of 55,493 shares (2012 126 471 shares)

Michael Findlay
Chairman of the Remuneration Committee
On behalf of the Board
21 May 2013

Independent Auditors' Report

Independent Auditors' Report to the members of UK Mail Group Plc

We have audited the financial statements of UK Mail Group Plc for the year ended 31 March 2013 which comprise the Consolidated Statement of Comprehensive Income, The Consolidated and Company Balance Sheets the Cash Flow Statements, The Consolidated and Company Statements of Changes in Equity and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the Parent Company Financial Statements as applied in accordance with the provisions of the Companies Act 2006

Respective responsibilities of directors and auditors

As explained more fully in the Directors Responsibilities Statement set out on page 40, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) 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

Scope of the audit of the financial statements

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 Parent 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 In addition, we read all the financial and non-financial information in the Report & Accounts to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group s and of the Parent Company s affairs as at 31 March 2013 and of the Group's profit and Group's and Parent Company s cash flows for the year then ended
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the Parent 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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- the part of the Directors Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006,
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following

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

- adequate accounting records have not been kept by the parent company or returns adequate for our audit have not been received from branches not visited by us, or
- the Parent Company financial statements and the part of the Directors Remuneration Report to be audited are not in agreement with the accounting records and returns or
- certain disclosures of directors remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review

- the directors statement set out on page 38, in relation to going concern,
- the parts of the Corporate Governance Statement relating to the company s compliance with the nine provisions of UK Corporate Governance Code specified for our review and
- certain elements of the report to shareholders by the Board on directors remuneration

Jaskamal Sarai (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge
21 May 2013

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2013

	Note	2013 £m	2012 £m
Revenue	2	**475 4**	429 0
Cost of sales		**(420 7)**	(380 4)
Gross profit		**54 7**	48 6
Administrative expenses		**(37 0)**	(35 7)
Operating profit before exceptional expenses	5	**17 7**	15 1
Exceptional administrative expenses	3	**-**	(2 2)
Operating profit		**17 7**	12 9
Finance income	4	**0 2**	0 1
Finance costs	4	**(0 1)**	(0 1)
Profit before taxation		**17 8**	12 9
Taxation before exceptional items		**(4 3)**	(4 1)
Exceptional taxation items	3	**-**	0 6
Total taxation	7	**(4 3)**	(3 5)
Profit for the financial year		**13 5**	9 4
Total comprehensive income for the year		**13 5**	9 4
Total comprehensive income attributable to			
Owners of the parent		**13 5**	9 4
Basic earnings per share	9	**24 7p**	17 3p
Diluted earnings per share	9	**24 6p**	17 3p

The notes on pages 64 to 90 are an integral part of these financial statements

Consolidated Balance Sheet

as at 31 March 2013

	Note	2013 £m	2012 £m
ASSETS			
Non-current assets			
Goodwill	10	**9 5**	9 5
Intangible assets	11	**4 9**	3 8
Investment properties	12	**1 8**	1 8
Property plant and equipment	13	**33 5**	33 4
Deferred tax assets	21	**0 3**	0 4
		50 0	48 9
Current assets			
Inventories	16	**0 3**	0 2
Trade and other receivables	17	**66 7**	63 5
Cash and cash equivalents	18	**28 2**	21 6
		95 2	85 3
LIABILITIES			
Current liabilities			
Borrowings	20	**(0 8)**	(1 8)
Trade and other payables	19	**(74 3)**	(64 1)
Current tax liabilities		**(2 3)**	(1 7)
Provisions	22	**(0 3)**	(1 3)
		(77 7)	(68 9)
Net current assets		**17 5**	16 4
Non-current liabilities			
Borrowings	20	**(0 4)**	(1 4)
Deferred tax liabilities	21	**(1 7)**	(2 2)
Provisions	22	**(1 0)**	(0 8)
		(3 1)	(4 4)
Net assets		**64 4**	60 9
Shareholders' equity			
Ordinary shares	23	**5 5**	5 5
Share premium		**15 3**	15 3
Retained earnings		**43 6**	40 1
Total equity		**64 4**	60 9

The financial statements on pages 58 to 90 were approved by the Board of Directors on 21 May 2013 and were signed on its behalf by

Guy Buswell
Chief Executive

Steven Glew
Group Finance Director

Registered number 02800218

The notes on pages 64 to 90 are an integral part of these financial statements.

Company Balance Sheet

as at 31 March 2013

	Note	2013 £m	2012 £m
ASSETS			
Non-current assets			
Investments in subsidiaries	15	**18 7**	18 8
		18 7	18 8
Current assets			
Trade and other receivables	17	**0 1**	3 1
Current tax assets		**-**	0 1
Cash and cash equivalents	18	**26 3**	17 5
		26 4	20 7
LIABILITIES			
Current liabilities			
Borrowings	20	**-**	(1 0)
Trade and other payables	19	**(7 6)**	-
		(7 6)	(1 0)
Net current assets		**18 8**	19 7
Non-current liabilities			
Borrowings	20	**-**	(1 0)
Net assets		**37 5**	37 5
Shareholders' equity			
Ordinary shares	23	**5 5**	5 5
Share premium		**15 3**	15 3
Retained earnings		**16 7**	16 7
Total equity		**37 5**	37 5

The financial statements on pages 58 to 90 were approved by the Board of Directors on 21 May 2013 and were signed on its behalf by

Guy Buswell
Chief Executive

Steven Glew
Finance Director

Registered number 02800218

The notes on pages 64 to 90 are an integral part of these financial statements.

Cash Flow Statements

for the year ended 31 March 2013

		Group		Company	
		2013	2012	**2013**	2012
	Note	**£m**	£m	**£m**	£m
Operating activities					
Cash generated from operations	25	**31 1**	21 8	**20 4**	10 2
Finance income received		**0 1**	0 1	**0 6**	0 7
Finance costs paid		**(0 1)**	(0 1)	**(0 4)**	(0 4)
Taxation paid		**(4 1)**	(4 5)	**-**	(0 1)
Net cash inflow from operating activities		**27 0**	17 3	**20 6**	10 4
Investing activities					
Purchase of property, plant and equipment	13	**(6 2)**	(4 7)	**-**	-
Purchase of intangible assets	11	**(1 6)**	(1 8)	**-**	-
Net cash outflow from investing activities		**(7 8)**	(6 5)	**-**	-
Financing activities					
Dividends paid to shareholders	8	**(9 9)**	(9 9)	**(9 9)**	(9 9)
Repayment of finance lease liabilities	30	**(0 8)**	(0 8)	**-**	-
Net proceeds from issue of ordinary share capital		**0 1**	0 1	**0 1**	0 1
Repayment of term loan	30	**(2 0)**	(1 0)	**(2 0)**	(1 0)
Net cash outflow from financing activities		**(12 6)**	(11 6)	**(11 8)**	(10 8)
Net increase/(decrease) in cash and cash equivalents	30	**6 6**	(0 8)	**8 8**	(0 4)
Cash and cash equivalents at the beginning of the year	30	**21 6**	22 4	**17 5**	17 9
Cash and cash equivalents at the end of the year	30	**28 2**	21 6	**26 3**	17 5

The notes on pages 64 to 90 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 March 2013

Group	Note	Ordinary shares £m	Share premium £m	Retained earnings £m	Total Equity £m
Balance as at 1 April 2011		5 5	16 7	38 9	**61 1**
Profit for the year		-	-	9 4	**9 4**
Total comprehensive income for the year		-	-	9 4	**9 4**
Dividends paid to shareholders	8	-	-	(9 9)	**(9 9)**
Employees' share option scheme					
- share-based payments		-	-	0 2	**0 2**
- exercise of share options		-	0 1	-	**0 1**
Transfer between reserves		-	(1 5)	1 5	-
Total transactions with shareholders recorded directly in equity		-	(1 4)	(8 2)	**(9 6)**
Balance as at 31 March 2012		**5 5**	**15 3**	**40 1**	**60 9**
Balance as at 1 April 2012		**5 5**	**15 3**	**40 1**	**60 9**
Profit for the year		-	-	**13 5**	**13 5**
Total comprehensive income for the year		-	-	**13 5**	**13 5**
Dividends paid to shareholders	8	-	-	**(9 9)**	**(9 9)**
Employees' share option scheme					
- share-based payments		-	-	**(0 1)**	**(0 1)**
Total transactions with shareholders recorded directly in equity		-	-	**(10 0)**	**(10 0)**
Balance as at 31 March 2013		**5 5**	**15 3**	**43 6**	**64 4**

The notes on pages 64 to 90 are an integral part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31 March 2013

Company	Note	Ordinary shares £m	Share premium £m	Retained earnings £m	Total Equity £m
Balance as at 1 April 2011		5 5	16 7	14 9	**37 1**
Profit for the year		-	-	10 0	**10 0**
Total comprehensive income for the year		-	-	10 0	**10 0**
Dividends paid to shareholders	8	-	-	(9 9)	**(9 9)**
Employees' share option scheme					
- increase in investment in subsidiaries	15	-	-	0 2	**0 2**
- exercise of share options		-	0 1	-	**0 1**
Transfer between reserves		-	(1 5)	1 5	-
Total transactions with shareholders recorded directly in equity		-	(1 4)	(8 2)	**(9 6)**
Balance as at 31 March 2012		**5 5**	**15 3**	**16 7**	**37 5**
Balance as at 1 April 2012		**5 5**	**15 3**	**16 7**	**37 5**
Profit for the year		-	-	**9 9**	**9 9**
Total comprehensive income for the year		-	-	**9 9**	**9 9**
Dividends paid to shareholders	8	-	-	**(9 9)**	**(9 9)**
Employees' share option scheme					
- decrease in investment in subsidiaries	15	-	-	**(0 1)**	**(0 1)**
- exercise of share options		-	-	**0 1**	**0 1**
Total transactions with shareholders recorded directly in equity		-	-	**(9 9)**	**(9 9)**
Balance as at 31 March 2013		**5 5**	**15 3**	**16 7**	**37 5**

The notes on pages 64 to 90 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 2013

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 464 Berkshire Avenue Slough SL1 4PL

Basis of preparation

These financial statements have been prepared in accordance with the Companies Act 2006 As applicable to Companies using IFRS and those IFRS standards as adopted by the European Union and IFRIC interpretations which are effective as at 31 March 2013

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 have had a material impact on the Consolidated or Company Financial Statements of the Group for the year ended 31 March 2013

New standards and interpretations not yet adopted

New standards, amendments and interpretations issued effective for the financial year beginning 1 April 2013 and not yet adopted by the Group include IAS 1 amendment 19 and IFRS 9 10 12 and 13 None of these are expected to have a material effect on the Consolidated and Company Financial Statements of the Group

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 38

The preparation of financial statements in conformity with generally accepted accounting principles, 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 34

Consolidation

The Group financial statements incorporate the financial statements of UK Mail Group plc (the Company') and entities controlled by the Company (its subsidiaries) made up to 31 March each year Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities

The financial statements of subsidiaries are consolidated from the date that control commences to the date control ceases On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date Changes to those assets and liabilities, and the resulting gains and losses that arise after the Group has gained control of the subsidiary are credited or charged to the post acquisition statement of comprehensive income

Intra-group transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout the Group for the purposes of the consolidation

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 Act 2006 not to include the Company's own profit and loss account The profit of the Company for the year was £9 9m (2012 £10 0m)

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 measured at cost less impairment losses and is tested for impairment at least annually 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 they 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

Separately identifiable customer lists acquired by the Group are amortised over their useful economic lives, with provision made for any impairment

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

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

Notes to the Financial Statements

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

Assets that are subject to depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount The recoverable amount is the higher of an asset's fair value less costs to sell and value in use

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 are recognised as an expense in 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, on behalf of its customers Revenue is recognised in the accounting period in which consignments are delivered for customers

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

All revenues are stated net of value added tax

Cost of sales

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

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 operates a defined contribution pension scheme 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

Notes to the Financial Statements

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 If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate the risks specific to the liability Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost

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 effect 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 measured at amortised cost using the effective interest method

Interest-bearing loans and borrowings All interest-bearing loans and borrowings are initially recognised at fair value plus directly attributable transaction costs After initial recognition interest-bearing loans and borrowings are subsequently measured at 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

Notes to the Financial Statements

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 four reportable operating segments

The Group's operating segments consist of Mail, Parcels, Courier, and Pallets Services 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

Business segments

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

	Business Segment					
	Mail	**Parcels**	**Courier**	**Pallets**	**Central**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Segmental revenue	**241 6**	**189 3**	**18 8**	**28 0**	**-**	**477 7**
Inter-segment revenue	-	-	(2 3)	-	-	(2 3)
Group revenue	**241 6**	**189 3**	**16 5**	**28 0**	**-**	**475 4**
Operating profit/(loss)	**10 7**	**16 3**	**2 6**	**0 8**	**(12 7)**	**17 7**
Finance income						**0 2**
Finance costs						**(0 1)**
Profit before taxation						**17 8**
Taxation						**(4 3)**
Profit attributable to equity shareholders						**13 5**
Other segment items						
Capital expenditure (including acquisitions)						
- Property, plant and equipment (note 13)	**0 8**	**3 7**	**-**	**0 1**	**2 0**	**6 6**
- Intangible assets (note 11)	**0 1**	**-**	**-**	**0 3**	**2 1**	**2 5**
Depreciation of property, plant and equipment (note 13)						
- Owned assets	**0 5**	**3 4**	**0 1**	**-**	**1 7**	**5 7**
- Under finance leases	**0 6**	**-**	**-**	**-**	**-**	**0 6**
Amortisation of intangible assets (note 11)						
- Owned assets	**0 1**	**-**	**-**	**-**	**1 2**	**1 3**
- Under finance leases	**-**	**-**	**-**	**-**	**0 1**	**0 1**
Impairment of trade receivables	**-**	**0 4**	**-**	**0 1**	**-**	**0 5**
Deferred tax assets	**-**	**-**	**-**	**0 1**	**0 2**	**0 3**
Other assets	**52 6**	**58 6**	**0 1**	**8 9**	**46 3**	**166 5**
Eliminations	**(17 1)**	**-**	**-**	**(4 5)**	**-**	**(21 6)**
Total assets	**35 5**	**58 6**	**0 1**	**4 5**	**46 5**	**145 2**

Notes to the Financial Statements

The business segment results for the year ended 31 March 2012 are as follows

	Business Segment					
	Mail	Parcels	Courier	Pallets	Central	Total
	£m	£m	£m	£m	£m	£m
Segmental revenue	208 1	172 1	22 2	28 3	-	430 7
Inter-segment revenue	-	-	(1 7)	-	-	(1 7)
Group revenue	208 1	172 1	20 5	28 3	-	429 0
Operating profit/(loss) before exceptional items	10 0	11 6	2 7	2 1	(11 3)	15 1
Exceptional items – administrative expenses	(0 7)	(1 2)	(0 3)	-	-	(2 2)
Operating profit/(loss)	9 3	10 4	2 4	2 1	(11 3)	12 9
Finance income						0 1
Finance costs						(0 1)
Profit before taxation						12 9
Taxation						(3 5)
Profit for the year						9 4
Other segment items						
Capital expenditure (including acquisitions)						
- Property, plant and equipment (note 13)	0 3	3 0	0 1	-	1 3	4 7
- Intangible assets (note 11)	0 1	-	-	-	1 7	1 8
Depreciation of property plant and equipment (note 13)						
- Owned assets	0 7	4 2	0 1	0 1	1 6	6 7
- Under finance leases	0 5	-	-	-	-	0 5
Amortisation of intangible assets (note 11)						
- Owned assets	0 1	-	0 1	-	1 0	1 2
Impairment of trade receivables	0 1	0 2	-	-	-	0 3
Deferred tax assets	-	-	-	0 1	0 3	0 4
Other assets	62 7	89 6	0 1	8 6	36 2	197 2
Eliminations	(28 2)	(31 0)	-	(4 2)	-	(63 4)
Total assets	34 5	58 6	0 1	4 5	36 5	134 2

Notes to the Financial Statements

3 Exceptional items

	2013 £m	2012 £m
Restructuring costs	-	2 2
Exceptional taxation credit – relief on restructuring costs	-	(0 6)
Exceptional items	-	1 6

Operations restructure

During the year ended 31 March 2012, the board approved a change programme, designed to improve the efficiency of the network infrastructure, and to reduce the fixed cost of the business This resulted in a number of restructuring changes in operational, sales and head office management with further changes surrounding the regionalisation of customer care centres, the closure of four depots and the restructuring of Courier operations

These changes resulted in an exceptional cost of £2 2m which comprised of £1 2m redundancies, £0 8m property closures, and £0 2m other costs

Exceptional taxation credit

The exceptional taxation credit of £0 6m in the year ended 31 March 2012 related to relief in respect of exceptional restructuring costs included above

4 Finance income – net

	2013 £m	2012 £m
Interest receivable on		
Bank balances	0 2	0 1
Finance income	0 2	0 1
Interest payable on		
Finance leases	(0 1)	(0 1)
Finance costs	(0 1)	(0 1)
Finance income - net	0 1	-

5 Operating profit

	2013 £m	2012 £m
The following items have been charged/(credited) in arriving at operating profit		
Royal mail access costs	201 8	169 8
Subcontractor costs	85 3	78 1
Employee benefits expense (note 6)	66 0	62 3
Cost of inventories recognised (included in cost of sales) (note 16)	12 2	11 9
Depreciation of property plant and equipment (note 13)	6 3	7 2
Amortisation of intangibles (included in administrative expenses) (note 11)	1 4	1 2
Loss/(profit) on disposal of property, plant and equipment	0 2	0 2
Other operating lease rentals payable		
- Plant and machinery	6 8	6 8
- Property	5 6	5 7
Repairs and maintenance expenditure on property plant and equipment	4 4	4 4
Other operating lease rentals receivable		
- Plant and machinery	(0 4)	(0 3)
- Property	(0 3)	(0 3)
- Computer equipment	(0 1)	(0 1)
Trade receivables impairment (included in administrative expenses)	0 5	0 3

Notes to the Financial Statements

Services provided by the Company's auditor

During the year the Group obtained the following services from the Company's auditor and its associates

	2013 £000	2012 £000
Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements	**26**	26
Fees payable to the Company's auditor and its associates for other services		
- The audit of the Company's subsidiaries pursuant to legislation	**90**	89
- Other services pursuant to legislation	**11**	11
Total audit and audit-related services	**127**	126
Tax compliance services	**23**	35
Tax advisory services	**7**	5
All other services	**14**	-
Total non-audit services	**44**	40
Total audit and non-audit services	**171**	166

6 Employees and directors

Employee benefit expense for the Group during the year

	2013 £m	2012 £m
Wages and salaries	**59 6**	55 6
Social security costs	**5 0**	5 1
Other pension costs*	**1 5**	1 5
Share based payments (note 24)	**(0 1)**	0 1
	66 0	62 3

*other pension costs all relate to defined contribution schemes

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

	2013 Number	2012 Number
By business group		
Mail services	**200**	145
Parcel services	**2,063**	2 079
Courier services	**92**	108
Pallet services	**127**	124
Central	**167**	155
	2,649	2,611

Key management compensation

	2013 £000	2012 £000
Salaries and short-term employee benefits	**1,794**	1,670
Post-employment benefits	**113**	131
Termination benefits	**73**	144
Share-based payments	**(34)**	25
	1,946	1 970

The key management figures given above include the main and operating board directors

Notes to the Financial Statements

Directors' remuneration

	2013	2012
	£000	£000
Aggregate emoluments	**1,002**	758
Pension costs	**78**	78
	1,080	836

Pension contributions were made in respect of two (2012 two) directors These contributions were 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

7 Taxation

	2013	2012
	£m	£m
Analysis of charge in period		
Current tax - current year	**4 7**	4 1
Current tax - adjustment in respect of prior years	**-**	0 1
Total current tax	**4 7**	4 2
Deferred tax (note 21) - current year	**(0 3)**	(0 7)
Deferred tax (note 21) - prior years	**(0 1)**	-
Total deferred tax	**(0 4)**	(0 7)
Taxation	**4 3**	3 5

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are explained below

	2013	2012
	£m	£m
Profit on ordinary activities before tax	**17 8**	12 9
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 24% (2012 26%)	**4 3**	3 4
Effects of		
Expenses not deductible for tax purposes	**0 2**	0 2
Effect of change in tax rate	**(0 1)**	(0 2)
Adjustment in respect of prior years	**(0 1)**	0 1
Total tax charge	**4 3**	3 5

£nil (2012 £nil) of deferred tax has been debited directly to equity in respect of share options

The reduction in the main rate of corporation tax from 26% to 24% with effect from 1 April 2012 was substantively enacted via a resolution passed by Parliament on 26 March 2012 The Finance Act 2012 was substantively enacted on 3 July 2012 and included legislation to reduce the main rate of corporation tax from 24% to 23% with effect from 1 April 2013 Closing deferred tax balances have therefore been valued at 23%

Further changes to the UK Corporation tax rates were announced in the 2012 Autumn Statement and the March 2013 Budget These include further reductions to the main rate to reduce the rate to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015 These changes had not been substantively enacted at the balance sheet date and therefore are not included in these financial statements

8 Dividends

	2013	2012
Group and Company	**£m**	£m
Final 2012 paid 11 80p (2011 11 80p) per 10p share	**6 4**	6 4
Interim paid 6 40p (2012 6 40p) per 10p share	**3 5**	3 5
	9 9	9 9

In addition, the directors are proposing a final dividend in respect of the financial year ending 31 March 2013 of 12 4p per share which will absorb an estimated £6 8 million of shareholders' funds It will be paid on 26 July 2013 to shareholders who are on the register of members on 28 June 2013

Notes to the Financial Statements

9 Earnings per share

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

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

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below

	Earnings £m	**2013 Weighted average number of shares**	**Per share amount pence**	Earnings £m	2012 Weighted average number of shares	Per share amount pence
Basic EPS						
Earnings attributable to ordinary shareholders	**13 5**	**54,632,719**	**24 7**	9 4	54 586 755	17 3
Effect of dilutive shares						
Options	-	**75,042**	**(0 1)**	-	9,448	-
Long Term Incentive Plan	-	-	-	-	834	-
Diluted EPS	**13 5**	**54,707,761**	**24 6**	9 4	54,597 037	17 3
Basic EPS						
Earnings attributable to ordinary shareholders	**13 5**	**54,632,719**	**24 7**	9 4	54,586,755	17 3
Exceptional items (note 3)	-	-	-	1 6	-	2 8
Adjusted EPS *	**13 5**	**54,632,719**	**24 7**	11 0	54,586,755	20 1
Effect of dilutive shares						
Options	-	**75,042**	**(0 1)**	-	9 448	-
Long Term Incentive Plan	-	-	-	-	834	-
Diluted Adjusted EPS *	**13 5**	**54,707,761**	**24 6**	11 0	54,597,037	20 1

* adjusted and diluted adjusted earnings per share have been calculated excluding the exceptional items and the associated tax impact

10 Goodwill

Group	**2013 £m**	2012 £m
Cost and net book value		
At 1 April and 31 March	**9 5**	9 5

As required under IAS 36 'Impairment of Assets', goodwill has been allocated to the lowest level of cash-generating unit as follows

Goodwill by cash-generating unit	**2013 £m**	2012 £m
Courier Services	**1 6**	1 6
Pallet Services	**7 9**	7 9
Net book value at 31 March	**9 5**	9 5

The goodwill carried in the Courier Services segment represents goodwill acquired on the acquisition of 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 Ltd As a consequence management regard the Courier Services segment as the relevant cash-generating unit ('CGU')

The goodwill carried in the Pallet Services segment represents goodwill acquired on the acquisition of UK Pallets Ltd in July 2003

Goodwill is tested for impairment annually at the time the Group prepares its annual budgets Budgets are prepared on management's previous experience and incorporate their view of current economic conditions and trading expectations Each impairment review takes account of the recoverable amount of the cash-generating units which is determined on a value in use basis The 2013/14 budgets were extrapolated using growth rates in the range of 1 5% to 5 4% p a (2012 0 0% to 5 4%) for the first five years and 1 75% (2012 1 75%) thereafter being the anticipated long term GDP growth rate of the UK economy 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 rates are in the 8 3% to 8 9% range (2012 6 9% to 9 3%)

Notes to the Financial Statements

Sensitivity to changes in 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 each 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

The value in use calculation for the Pallet Services CGU shows that if the forecasted market growth rates were only 75% achieved or the discounted cash flows should fall by 30%, the recoverable amount would be greater than its carrying value

Pre-tax discount rate

Management has considered the impact of an increase in the pre-tax discount rate applied to this calculation The value in use calculation shows that if the pre-tax discount rate was increased to 11%, the recoverable amount of each CGU would still be greater than its carrying value, indicating no impairment

Market structure

Management believe that there will be no structural changes in either the palletised goods or courier markets which will affect these forecasts

The Company has no goodwill (2012 £nil)

11 Intangible assets

Group	**Customer lists £m**	**Acquired software licences £m**	**Internal software developments £m**	**Total £m**
Cost				
At 1 April 2012	**0 1**	**3 5**	**4 9**	**8 5**
Additions	-	**1 1**	**1 4**	**2 5**
Disposals	**(0 1)**	**(0 1)**	**(0 3)**	**(0 5)**
At 31 March 2013	-	**4 5**	**6 0**	**10 5**
Accumulated amortisation				
At 1 April 2012	**0 1**	**2 0**	**2 6**	**4 7**
Charge for the year	-	**0 5**	**0 9**	**1 4**
Disposals	**(0 1)**	**(0 1)**	**(0 3)**	**(0 5)**
At 31 March 2013	-	**2 4**	**3 2**	**5 6**
Net book value at 31 March 2013	-	**2 1**	**2 8**	**4 9**

Group	Customer lists £m	Acquired software licences £m	Internal software developments £m	Total £m
Cost				
At 1 April 2011	0 1	3 4	3 8	7 3
Additions	-	0 7	1 1	1 8
Disposals	-	(0 6)	-	(0 6)
At 31 March 2012	0 1	3 5	4 9	8 5
Accumulated amortisation				
At 1 April 2011	0 1	2 7	1 3	4 1
Charge for the year	-	0 3	0 9	1 2
Reclassification	-	(0 4)	0 4	-
Disposals	-	(0 6)	-	(0 6)
At 31 March 2012	0 1	2 0	2 6	4 7
Net book value at 31 March 2012	-	1 5	2 3	3 8

Amortisation of customer lists is charged through cost of sales Software related amortisation charges have been charged through administrative expenses

The Company has no intangible assets (2012 £nil)

Notes to the Financial Statements

12 Investment properties

Group	2013 £m	2012 £m
Cost		
At 1 April	2 6	1 7
Reclassification (see note 13)	-	0 9
At 31 March	2 6	2 6
Accumulated depreciation		
At 1 April	0 8	0 8
Charge for the year	-	-
At 31 March	0 8	0 8
Net book value at 31 March	1 8	1 8

One (2012 one) investment property is held by the Group located in the West Midlands, and is being sublet under an operating lease The lease is due to expire on 23 June 2014 The rental income recognised in the year was £0 3m (2012 £0 3m) Direct operating expenses incurred were £nil (2012 £nil)

The property was valued in March 2013 by the Group Property Manager by reference to recent comparable property transactions in the same area, at £2 4m to £2 5m

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

The Company does not own any investment properties (2012 nil)

13 Property, plant and equipment

Group	Freehold land and buildings £m	Short leasehold improvements £m	Motor vehicles plant and equipment £m	Computer equipment £m	Total £m
Cost					
At 1 April 2012	21 8	3 6	33 7	11 4	70 5
Additions	-	0 3	4 3	2 0	6 6
Disposals	-	(0 4)	(2 3)	(1 2)	(3 9)
At 31 March 2013	21 8	3 5	35 7	12 2	73 2
Accumulated depreciation					
At 1 April 2012	4 8	1 9	22 3	8 1	37 1
Charge for the year	0 5	0 4	3 8	1 6	6 3
Disposals	-	(0 4)	(2 1)	(1 2)	(3 7)
At 31 March 2013	5 3	1 9	24 0	8 5	39 7
Net book value at 31 March 2013	16 5	1 6	11 7	3 7	33 5

Notes to the Financial Statements

Group	Freehold land and buildings £m	Short leasehold improvements £m	Motor vehicles plant and equipment £m	Computer equipment £m	Total £m
Cost					
At 1 April 2011	22 6	3 4	33 1	11 5	70 6
Additions	0 1	0 2	3 0	1 4	4 7
Disposals	-	-	(2 4)	(1 5)	(3 9)
Reclassification (see note 12)	(0 9)	-	-	-	(0 9)
At 31 March 2012	21 8	3 6	33 7	11 4	70 5
Accumulated depreciation					
At 1 April 2011	4 3	1 5	19 9	7 9	33 6
Charge for the year	0 5	0 4	4 6	1 7	7 2
Disposals	-	-	(2 2)	(1 5)	(3 7)
At 31 March 2012	4 8	1 9	22 3	8 1	37 1
Net book value at 31 March 2012	17 0	1 7	11 4	3 3	33 4

The Company owned no property plant and equipment at 31 March 2013 (2012 £nil)

14 Assets held under finance leases

	Property, plant and equipment (Motor vehicles property plant and equipment)		Intangible (Acquired software licences)	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Cost	**4 4**	4 4	**0 9**	0 9
Additions	-	-	**1 0**	-
Accumulated depreciation	**(3 7)**	(3 2)	**(1 0)**	(0 9)
Disposals	**(0 1)**	-	-	-
Net book value	**0 6**	1 2	**0 9**	-

The majority of the leases are for an initial contractual period of 6-7 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

Non-current investments	2013 £m	2012 £m
Cost of investments in subsidiaries		
At 1 April	**18 8**	18 6
(Decrease)/increase in investments in subsidiaries - share-based payments	**(0 1)**	0 2
At 31 March	**18 7**	18 8

A list of the principal subsidiary undertakings is given in note 33

Notes to the Financial Statements

16 Inventories

	2013 £m	2012 £m
Fuel stock	**0 3**	0 2

The Group consumed £12 2m (2012 £11 9m) of inventories during the year

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

The Company has no inventory (2012 £nil)

17 Trade and other receivables

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Trade receivables	**52 2**	48 4	-	-
less provision for impairment	**(0 1)**	(0 2)	-	-
Trade receivables net of provisions for impairment	**52 1**	48 2	-	-
Amounts due from subsidiary undertakings	-	-	-	3 1
Other debtors	**3 1**	2 2	-	-
Prepayments and accrued income	**11 5**	13 1	**0 1**	-
	66 7	63 5	**0 1**	3 1

Further information on the credit risks relating to trade and other receivables is given in note 26

Company

Amounts due from subsidiary undertakings bear interest at a rate linked to the London Inter Bank Offer Rate ('LIBOR'), unsecured and are repayable on demand

None (2012 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 impairments

18 Cash and cash equivalents

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Cash at bank and in hand	**28 2**	21 6	**26 3**	17 5

The effective interest rate receivable on the cash and bank balances was approximately 1 3% (2012 0 9%), accruing on a daily basis

Cash and cash equivalents include the following for the purpose of the cash flow statement

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Cash and cash equivalents	**28 2**	21 6	**26 3**	17 5

Notes to the Financial Statements

19 Trade and other payables - current

	Group		Company	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Trade payables	**39 7**	37 2	-	-
Other payables	**4 4**	0 9	-	-
Amounts owed to franchises	**1 9**	1 8	-	-
Amounts owed to subsidiary undertakings	-	-	**7 6**	-
Other taxes and social security payable	**13 1**	12 8	-	-
Accruals	**15 1**	11 3	-	-
Deferred income	**0 1**	0 1	-	-
	74 3	64 1	**7 6**	-

Amounts owed to subsidiary undertakings bear interest at a rate linked to LIBOR unsecured and are repayable on demand

20 Borrowings

	Group		Company	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Current				
Amounts due within one year or on demand				
Sterling term loan (unsecured)	-	1 0	-	1 0
Finance lease obligations (see note 26)	**0 8**	0 8	-	-
	0 8	1 8	-	1 0
Non-current				
Amounts due after one year				
Sterling term loan (unsecured)	-	1 0	-	1 0
Finance lease obligations (see note 26)	**0 4**	0 4	-	-
	0 4	1 4	-	1 0

The term loan which was due to expire on 31 July 2013, was settled during the course of the year

Interest on the term loan was reset every month As at 31 March 2013 the effective rate of interest on the term loan was approximately 1 2% (2012 1 3%) The loan was subject to various covenants

The minimum lease payments under finance leases fall due as follows

	Group		Company	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Amounts payable under finance leases				
Within 1 year	**0 8**	0 8	-	-
Between 1 and 5 years	**0 4**	0 6	-	-
Total minimum lease payments	**1 2**	1 4	-	-
Future finance charges	-	(0 2)	-	-
Present value of finance leases	**1 2**	1 2	-	-

Notes to the Financial Statements

21 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 23% (2012 24%)

The movement on the deferred tax account is as shown below

	Group		Company	
	2013	2012	**2013**	2012
Deferred tax account	**£m**	£m	**£m**	£m
At 1 April	**(1 8)**	(2 5)	-	-
Income statement credit	**0 4**	0 7	-	-
At 31 March	**(1 4)**	(1 8)	-	-

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net

	Group		Company	
	2013	2012	**2013**	2012
Deferred tax assets	**£m**	£m	**£m**	£m
At 1 April	**0 4**	0 5	-	-
Income statement charge	**(0 1)**	(0 1)	-	-
At 31 March	**0 3**	0 4	-	-

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		Company	
	2013	2012	**2013**	2012
Deferred tax liabilities	**£m**	£m	**£m**	£m
At 1 April	**2 2**	3 0	-	-
Income statement credit	**(0 5)**	(0 8)	-	-
At 31 March	**1 7**	2 2	-	-

Deferred tax liabilities which largely relate to accelerated capital allowances, are calculated on the difference between the accounting net book value of the asset and their carrying amount for tax purposes

Deferred tax assets and liabilities are expected to be recovered as follows

	Group		Company	
	2013	2012	**2013**	2012
Deferred tax assets	**£m**	£m	**£m**	£m
Within 12 months	**0 1**	0 2	-	-
After 12 months	**0 2**	0 2	-	-
At 31 March	**0 3**	0 4	-	-
Deferred tax liabilities				
Within 12 months	**0 4**	0 1	-	-
After 12 months	**1 3**	2 1	-	-
At 31 March	**1 7**	2 2	-	-

No deferred income tax was charged or credited to equity during the year in either the Group or the Company (2012 £nil)

22 Provisions

	2013	2012
	£m	£m
At 1 April	**2 1**	0 6
Provided in the year	**0 4**	2 4
Utilised in the year	**(1 2)**	(0 9)
At 31 March	**1 3**	2 1

Notes to the Financial Statements

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

	2013	2012
	£m	£m
Current	**0 3**	1 3
Non-current	**1 0**	0 8
	1 3	2 1

£0 5m (2012 £1 4m) of the provision relates to exceptional restructuring costs to be incurred within one year and up to five years (See note 3)

£0 8m (2012 £0 7m) of the provision relates to property lease dilapidations under leases expiring within one year and up to 15 years. The properties have been inspected by the Group Property Manager, and estimates made for the anticipated dilapidation expenditure to be incurred prior to sub-letting, or reversion of the lease

23 Called up share capital

Group and Company	2013	2012
	£m	£m
Authorised		
70 000 000 (2012 70,000,000) ordinary shares of 10p each	**7 0**	7 0

Issued, allotted and fully paid

	2013		2012	
Ordinary shares of 10p each	**Shares**	**£m**	Shares	£m
At 1 April	**54,731,471**	**5 5**	54,693 973	5 5
Allotted under share option schemes	**1,510**		37,498	-
At 31 March	**54,732,981**	**5 5**	54,731,471	5 5

Potential issues of ordinary shares

Certain employees and franchisees hold options to subscribe for shares in the Company at prices ranging from Nil to 418p under share option schemes approved by shareholders between 2001 and 2009 as follows,

Scheme	**Year of grant**	**Exercise price**	**Exercise period**	**2013 Numbers**	2012 Numbers
Sharesave scheme	2010 - 2012	186 8p - 275p	01 10 13 to 01 03 18	**350,679**	215 907
New executive 2001 share option scheme	2001 - 2002	364p - 418p	Expired 31 05 12	-	27,357
Franchise option scheme 2002	2002	380p	Expired 12 07 12	-	19,735
LTIP	2010 - 2012	Nil	26 05 13 to 29 11 22	**583,513**	1 021 741
				934,192	1,284 740

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

At 31 March 2012 the ESOT held a total of 126,471 shares During the year, 70,978 shares were issued to employees, in respect of matured awards under the 2009 SAYE plan, at an average price of 290p per share

Following the above transactions, the trust held a total of 55 493 shares with a market value of £0 2m at 31 March 2013 (2012 126 471 shares with a market value of £0 3m)

24 Share-based payments

In order to align the interests of employees and franchisees with those of shareholders, share options are awarded to both employees and franchisees under discretionary share incentive plans, and employees under all-employee share plans, as follows

Sharesave plan

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 £250 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

Notes to the Financial Statements

New Executive 2001 Share Option Scheme

There have been no grants under this scheme since 2003 Long-term incentive awards are made under the Company's Long-Term Incentive Plan (see below)

As at 31 March 2013, there were no outstanding options under this scheme and the scheme has expired

Franchise Share Option Scheme

There have been no grants under this scheme since 2005 As at 31 March 2013 there were no outstanding options under this scheme and the scheme has expired

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 3 - 10 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 2013, the required targets under live LTIP grants were as follows

	EPS Target range (1)		TSR Target range (1)		
Year of grant	Threshold (25%) vesting	Max (100%) vesting	Threshold (25%) vesting	Max (100%) vesting	Outcome
2009	5 0% p a	9 0% p a	Median	Top quartile	Failed EPS/TSR conditions
2010	8 5% p a	13 0% p a	Median	Top quartile	Failed EPS condition 25 3% vested under the TSR condition
2012	11 6% p a	18 1% p a	Median	Top quartile	Live award

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

Awards made under the 2009 grant lapsed, as both the EPS and the TSR conditions were below the required minimum threshold target levels

The awards made under the 2010 grant will vest in May 2013 at a 12 65% vesting level having met the threshold TSR condition The required EPS condition was below the required minimum threshold target level

Share Matching Plan ('SMP')

Selected executives may be invited to invest a portion of their cash bonus in the acquisition of Company shares worth up to 25% of their pre-tax salary

Where such an investment is 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 42

As at 31 March 2013, there were no outstanding options under this plan

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

For cash-settled share-based transactions fair values of share options awarded in the financial year are measured at each balance sheet date at the fair value of the liability, with all changes immediately recognised in the Statement of comprehensive income Non-market conditions such as the Company meeting earnings 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 is determined by reference to the contractual terms

Notes to the Financial Statements

The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the option-pricing model used The significant assumptions used to estimate the fair value of the options granted in the financial year were as follows

	LTIP	SAYE	SAYE
Grant date	29/11/12	19/07/12	19/07/12
Share price at grant date	£2 975	£2 225	£2 225
Exercise price	-	£1 8688	£1 8688
Number of employees	6	142	21
Number of shares granted	271,884	292,308	49 756
Vesting period (years)	3	3	5
Expected volatility	28 19%	29 74%	35 92%
Option life (years)	3	3	5
Expected life (years)	3	3	5
Risk-free interest rate	0 35%	0 59%	0 25%
Expected dividends expressed as dividend yield	0 0%	8 18%	8 18%
Fair value per option	£2 51	£0 29	£0 34
Expected forfeiture (%)	20 3%	N/a	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 grants but is assumed as zero for the LTIP grant given the dividend equivalence' term

Reconciliation of option movements

A reconciliation of option movements over the year to 31 March 2013 is shown below

	2013 Number	**2013 Weighted average exercise price**	2012 Number	2012 Weighted average exercise price
Outstanding as at 1 April	**1,284,740**	**£0 56**	1 824,066	£0 75
Granted	**613,948**	**£1 04**	-	-
Lapsed	**(893,518)**	**£0 56**	(499,066)	£1 11
Exercised	**(70,978)**	**£2 27**	(40,260)	£2 40
Outstanding as at 31 March	**934,192**	**£0 74**	1 284,740	£0 56
Exercisable at 31 March	-	-	47 092	£4 02

Options are exercisable as follows

	2013				2012			
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**	**583,513**	**1 2**	**8 1**	£0 00	1,021,741	0 7	7 7
£1 00 - £1 99	**£1 87**	**309,900**	**2 9**	**3 1**	-	-	-	-
£2 00 - £2 99	**£2 75**	**40,779**	**1 4**	**1 6**	£2 43	215 907	1 3	1 6
£3 00 - £3 99	-	-	-	-	£3 80	19,735	0 1	0 3
£4 00 - £4 99	-	-	-	-	£4 18	27 357	0 1	0 2

The weighted average share price during the year for options exercised was £2 27 (2012 £2 58) The total credit for the year relating to employee equity settled share-based payments was £0 1m credit (2012 £0 1m charge) After deferred tax the net credit was £0 1m (2012 £0 1m charge)

Notes to the Financial Statements

25 Reconciliation of profit to net cash flow generated from operations

	Group		Company	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Profit for the year	**13 5**	9 4	**9 9**	10 0
Taxation	**4 3**	3 5	**-**	-
Finance income receivable	**(0 2)**	(0 1)	**(0 6)**	(0 7)
Finance costs payable	**0 1**	0 1	**0 4**	0 4
Depreciation and amortisation	**7 7**	8 4	**-**	-
Loss/(profit) on disposal of property, plant and equipment	**0 2**	0 2	**-**	-
Share-based payments	**(0 1)**	0 1	**-**	-
(Increase)/decrease in trade and other receivables	**(3 2)**	(6 8)	**3 1**	33 3
(Increase)/decrease in inventories	**(0 1)**	-	**-**	-
Increase/(decrease) in trade and other payables	**9 6**	5 5	**7 6**	(32 8)
(Decrease)/increase in provisions	**(0 7)**	1 5	**-**	-
Net cash flow generated from operations	**31 1**	21 8	**20 4**	10 2

26 Financial instruments and financial risks

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

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

The contractual maturity profile of the Group's financial assets and 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 **At 31 March 2013**	**Book value £m**	**Fair value £m**	**Total contractual cash flows £m**	**Within one year £m**	**Between one and two years £m**	**Between two and five years £m**	**Over five years £m**
Financial assets							
Trade receivables	**52 1**	**52 1**	**52 1**	**52 1**	**-**	**-**	**-**
Other receivables	**3 1**	**3 1**	**3 1**	**3 1**	**-**	**-**	**-**
Accrued income	**6 1**	**6 1**	**6 1**	**6 1**	**-**	**-**	**-**
Cash at bank and in hand	**28 2**	**28 2**	**28 2**	**28 2**	**-**	**-**	**-**
	89 5	**89 5**	**89 5**	**89 5**	**-**	**-**	**-**
Financial liabilities							
Finance leases	**(1 2)**	**(1 2)**	**(1 2)**	**(0 8)**	**(0 4)**	**-**	**-**
Trade payables	**(39 7)**	**(39 7)**	**(39 7)**	**(39 7)**	**-**	**-**	**-**
Other payables	**(4 4)**	**(4 4)**	**(4 4)**	**(4 4)**	**-**	**-**	**-**
Amounts owed to franchises	**(1 9)**	**(1 9)**	**(1 9)**	**(1 9)**	**-**	**-**	**-**
Other taxes and social security payable	**(13 1)**	**(13 1)**	**(13 1)**	**(13 1)**	**-**	**-**	**-**
Accruals	**(15 1)**	**(15 1)**	**(15 1)**	**(15 1)**	**-**	**-**	**-**
	(75 4)	**(75 4)**	**(75 4)**	**(75 0)**	**(0 4)**	**-**	**-**

Notes to the Financial Statements

At 31 March 2012	Book value £m	Fair value £m	Total contractual cash flows £m	Within one year £m	Between one and two years £m	Between two and five years £m	Over five years £m
Financial assets							
Trade receivables	48 2	48 2	48 2	48 2	-	-	-
Other receivables	2 2	2 2	2 2	2 2	-	-	-
Accrued income	7 2	7 2	7 2	7 2	-	-	-
Cash at bank and in hand	21 6	21 6	21 6	21 6	-	-	-
	79 2	79 2	79 2	79 2	-	-	-
Financial liabilities							
Term loan	(2 0)	(2 0)	(2 0)	(1 0)	(1 0)	-	-
Finance leases	(1 2)	(1 2)	(1 2)	(0 8)	(0 4)	-	-
Trade payables	(37 2)	(37 2)	(37 2)	(37 2)	-	-	-
Other payables	(0 9)	(0 9)	(0 9)	(0 9)	-	-	-
Amounts owed to franchises	(1 8)	(1 8)	(1 8)	(1 8)	-	-	-
Other taxes and social security payable	(12 8)	(12 8)	(12 8)	(12 8)	-	-	-
Accruals	(11 3)	(11 3)	(11 3)	(11 3)	-	-	-
	(67 2)	(67 2)	(67 2)	(65 8)	(1 4)	-	-

Company

At 31 March 2013	Book value £m	Fair value £m	Total contractual cash flows £m	Within one year £m	Between one and two years £m	Between two and five years £m	Over five years £m
Financial assets							
Cash at bank and in hand	**26 3**	**26 3**	**26 3**	**26 3**	-	-	-
	26 3	**26 3**	**26 3**	**26 3**	-	-	-
Financial liabilities							
Amounts owed to subsidiary undertakings	**(7 6)**	**(7 6)**	**(7 6)**	**(7 6)**	-	-	-
	(7 6)	**(7 6)**	**(7 6)**	**(7 6)**	-	-	-

At 31 March 2012	Book value £m	Fair value £m	Total contractual cash flows £m	Within one year £m	Between one and two years £m	Between two and five years £m	Over five years £m
Financial assets							
Amounts due from subsidiary undertakings	3 1	3 1	3 1	3 1	-	-	-
Cash at bank and in hand	17 5	17 5	17 5	17 5	-	-	-
	20 6	20 6	20 6	20 6	-	-	-
Financial liabilities							
Term loan	(2 0)	(2 0)	(2 0)	(1 0)	(1 0)	-	-
	(2 0)	(2 0)	(2 0)	(1 0)	(1 0)	-	-

Notes to the Financial Statements

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

The fair value of the bank loan approximates to the value reported in the balance sheet since it carries a floating rate where payments are reset to market rates at intervals less than one year The value of finance leases is 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 to trade receivables are limited due to the Group s customer base being large and unrelated, with no one customer accounting for more than 6% 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 (2012 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

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

	2013	2012
	£m	£m
At 1 April	0 2	0 2
Amount released through administrative expenses	(0 1)	-
At 31 March	0 1	0 2

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

	2013	2012
	£m	£m
Less than 30 days	51 9	47 8
Between 30 - 60 days	0 1	0 4
Between 60 - 90 days	0 1	-
More than 90 days	0 1	0 2
	52 2	48 4

Notes to the Financial Statements

As at 31 March 2013, trade receivables of £0 1m (2012 £0 2m) were impaired The amount of the provision was £0 1m at 31 March 2013 (2012 £0 2m) The ageing of these impaired trade receivables is as follows

	2013	2012
	£m	£m
Less than 30 days	-	-
Between 30 - 60 days	-	0 1
Between 60 - 90 days	-	-
More than 90 days	0 1	0 1
	0 1	0 2

As of 31 March 2013, trade receivables of £7 8m (2012 £7 6m) 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 analysis of these trade receivable is as follows

	2013	2012
	£m	£m
Less than 30 days	7 4	7 2
Between 30 - 60 days	0 1	0 3
Between 60 - 90 days	0 1	-
More than 90 days	0 2	0 1
	7 8	7 6

At 31 March 2013, there were £nil (2012 £nil) trade receivables impaired but not past due for payment

None (2012 none) of the other classes of financial assets within trade and other receivables contain 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

	2013	2012
	£m	£m
Current Rating (Moody s)		
A1	-	19 6
A2	28 2	2 0
Total	28 2	21 6

Notes to the Financial Statements

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

Fuel is a significant cost to the Group, although it constitutes less than 3% of total costs 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 risk profile of the Group's interest-earning financial assets and interest-bearing financial liabilities at 31 March 2013 was

	2013			2012		
	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	**28 2**	**-**	**28 2**	21 6	-	21 6
	28 2	**-**	**28 2**	21 6	-	21 6
Financial liabilities						
Finance leases	**(1 2)**	**(1 2)**		(1 2)	(1 2)	
Term loan	**-**	**-**		(2 0)	-	(2 0)
	(1 2)	**(1 2)**		(3 2)	(1 2)	(2 0)

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

The interest rate payable on finance leases is fixed at the inception of any agreement

The interest rate on the term loan is based on a floating rate linked to LIBOR

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

	2013		2012	
	Profit before tax	**Equity**	Profit before tax	Equity
	£m	**£m**	£m	£m
Increase of 100 bp in the average rate receivable/(payable)	**0 2**	**0 2**	0 1	0 1
Decrease of 100 bp in the average rate receivable/(payable)	**(0 2)**	**(0 2)**	-	-

Notes to the Financial Statements

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 Business Review on pages 4 to 11 The financial position of the Group, its cash flows, liquidity position and treasury risk management approach are described in the Financial Review on pages 12 to 15, and its borrowing facilities detailed in note 28

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 2013 the Group had an undrawn committed overdraft facility of £5m (2012 £5m) in place until 30 June 2013, and an undrawn committed money market facility of £7m (2012 £7m) in place until 30 November 2014

Foreign exchange risk

The Group incurs foreign currency risks on sales, purchases and cash denominated in currencies other than Sterling 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 0 3% of all expenditure

There would have been no impact on profit before tax or equity in either the year ended 31 March 2013 or 31 March 2012, had Sterling strengthened or weakened 10% against the Euro

Capital risk

The Group'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 to reduce the long-term cost of capital

In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders return capital to shareholders, issue new shares or sell assets to reduce debt

27 Operating lease commitments - minimum lease payments

At 31 March, the Group had total commitments under non-cancellable operating leases as follows

	Group 2013		Group 2012	
	Land and buildings £m	**Vehicles plant and equipment £m**	Land and buildings £m	Vehicles plant and equipment £m
Within 1 year	**5 2**	**5 4**	4 9	6 1
Between 1 and 2 years	**4 0**	**2 8**	4 3	4 7
Between 2 and 5 years	**5 9**	**2 6**	8 7	2 1
After 5 years	**3 5**	**0 8**	4 4	-
At 31 March	**18 6**	**11 6**	22 3	12 9

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 which are generally negotiated for an average term of four years during which time the rentals are fixed

The total future sub-lease payments receivable relating to the above operating leases amounted to £nil (2012 £nil)

The Group sublets one of its properties (see note 12) under a non-cancellable operating lease agreement, due to expire on 23 June 2014 At 31 March, the future minimum lease payments receivable were as follows

	2013 £m	2012 £m
Within 1 year	**0 3**	0 3
Between 1 and 2 years	**0 1**	0 3
At 31 March	**0 4**	0 6

Notes to the Financial Statements

28 Contingent liabilities

The Company has guaranteed bank and other borrowings of subsidiary undertakings in a cross-guarantee agreement on an undrawn Group borrowing facility amounting to £12m (2012 £12m)

The Group has a bank guarantee agreement with Lloyds TSB 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 £10m (2012 £10m) At 31 March 2013, upon the request of the Group, the bank has issued a guarantee with a value of £8m (2012 £8m) to a third party supplier of a subsidiary company

The Group has a documentary credit facility with Lloyds TSB Bank plc of £1 7m (2012 £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

29 Capital and other financial commitments

There were no outstanding capital commitments at 31 March 2013 or 31 March 2012

30 Analysis of net cash

Group

	At 31 March 2011 £m	Cash Flow £m	Other £m	**At 31 March 2012 £m**	**Cash Flow £m**	**Other £m**	**At 31 March 2013 £m**
Cash at bank and in hand	22 4	(0 8)	-	**21 6**	**6 6**	-	**28 2**
Total cash	22 4	(0 8)	-	**21 6**	**6 6**	-	**28 2**
Debt due within one year	(1 0)	1 0	(1 0)	**(1 0)**	**1 0**	-	-
Debt due after one year	(2 0)		1 0	**(1.0)**	**1.0**		
Finance leases	(2 0)	0 8	-	**(1 2)**	**0 8**	**(0 8)**	**(1 2)**
Total debt	(5 0)	1 8	-	**(3 2)**	**2 8**	**(0 8)**	**(1 2)**
Net cash	**17 4**	**1 0**	-	**18 4**	**9 4**	**(0 8)**	**27 0**

Company

	At 31 March 2011 £m	Cash Flow £m	Other £m	**At 31 March 2012 £m**	**Cash Flow £m**	**Other £m**	**At 31 March 2013 £m**
Cash at bank and in hand	17 9	(0 4)	-	**17 5**	**8 8**	-	**26 3**
Total cash	17 9	(0 4)	-	**17 5**	**8 8**	-	**26 3**
Debt due within one year	(1 0)	1 0	(1 0)	**(1 0)**	**1 0**	-	-
Debt due after one year	(2 0)	-	1 0	**(1 0)**	**1 0**	-	-
Total debt	(3 0)	1 0	-	**(2 0)**	**2 0**	-	-
Net cash	**14 9**	**0 6**	-	**15 5**	**10 8**	-	**26 3**

Notes to the Financial Statements

31 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 33) as related parties for the purpose of IAS 24 'Related party disclosures'

Material transactions and year end balances with related parties were as follows

	2013	2012
	£000	£000
Dividends paid by UK Mail Group plc and received in a beneficial capacity by		
- the Directors of UK Mail Group plc	**1,293**	1,295
- parties related to the directors of UK Mail Group plc	**3,339**	3,339
- PDMR's of UK Mail Group plc (other than above)	**7**	7
Dividends received by the ultimate parent company from subsidiaries	**10,000**	10,000
Amounts due from subsidiary undertakings	**10,487**	3,088
Amounts owed to subsidiary undertakings	**(18,128)**	(50)
Interest free loan to ESOT (see note 23)	**3,438**	3 599

Transactions between the parent and subsidiary largely comprise finance transactions in respect of the groups cash pooling arrangement

Amounts due from and owed to subsidiary undertakings are unsecured, bear interest at a rate linked to LIBOR and are repayable on demand

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 45 7% of the issued share capital of the Company For details of substantial shareholders see the Directors Report on page 39

Key management compensation is disclosed in note 6

32 Post balance sheet events

There are no post balance sheet events

33 Principal subsidiaries

At 31 March 2013 the Company had the following principal wholly owned trading subsidiaries all operating within the UK

Subsidiary	Nature of business	Country of incorporation	Percentage of nominal value of ordinary shares held by the Group
UK Mail Ltd	Collection and delivery of parcels and mail	England	100%
UK Pallets Ltd	Collection and delivery services for palletised goods	England	100%

The Company holds 100% of the voting rights of each of the above subsidiaries

The financial results of all of the subsidiaries listed above are included within the consolidated report and accounts

34 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) disposal of non-current assets where the profit or loss represents 5% or more of the Group's profit before tax,

(ii) disposal of investments,

(iii) organisational or restructuring programmes

Notes to the Financial Statements

Leases

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

b) Key sources of estimation uncertainty

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

Useful economic lives of property, plant and equipment and intangible assets

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

Recoverability of trade receivables

Trade receivables are recorded net of provisions for bad debts and credit notes In evaluating the required provision, the Directors consider debtor specific circumstances, in addition to historical trends

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

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 (see note 3) which involved making significant estimates for employee termination costs onerous lease and other exit costs, and to realisable values of assets made redundant or obsolete Should the actual amounts differ from these estimates future results could be materially impacted

Five Year Summary of Results

	2013	2012*	2011	2010	2009**
	£m	£m	£m	£m	£m
Revenue	**475 4**	429 0	395 8	385 2	385 7
Cost of sales	**(420 7)**	(380 4)	(347 3)	(333 5)	(332 4)
Gross profit	**54 7**	48 6	48 5	51 7	53 3
Administrative expenses	**(37 0)**	(35 7)	(32 3)	(33 8)	(37 1)
Operating profit	**17 7**	12 9	16 2	17 9	16 2
Net finance income/(costs)	**0 1**	-	(0 1)	(0 1)	(0 2)
Profit on ordinary activities before taxation	**17 8**	12 9	16 1	17 8	16 0
Taxation	**(4 3)**	(3 5)	(4 5)	(5 1)	(7 1)
Profit for the financial year	**13 5**	9 4	11 6	12 7	8 9
Earnings per share - basic	**24 7p**	17 3p	21 2p	23 4p	16 5p
Dividends per share - interim paid and final proposed	**18 8p**	18 2p	18 2p	18 2p	17 2p

* Administrative expenses and taxation are stated inclusive of £2 2m cost and £0 6m exceptional credit respectively

** Administrative expenses and taxation are stated inclusive of £1 1m and £1 9m exceptional costs respectively

The calculation of earnings per share for the five years ended 31 March 2013 is based on the following weighted numbers of shares in issue

31 March 2013	**54,632,719**
31 March 2012	54 586 755
31 March 2011	54 522 247
31 March 2010	54 245 126
31 March 2009	54,049 420

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 from a BT landline Mobile and other providers' charges may vary
International callers +44 (0) 121 415 7047
www shareview co uk

Financial calendar

26 June 2013	Ex-dividend date – final dividend
28 June 2013	Record date to be eligible for the final dividend
10 July 2013	AGM/Interim Management Statement – Qtr 1
10 July 2013	Annual General Meeting (commences 12 00 noon)
26 July 2013	Payment of the final dividend for the year ended 31 March 2013
November 2013 *	Results for the half year to 30 September 2013
January 2014 *	Payment of interim dividend for the year ending 31 March 2014

*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 moneyadviceservice org uk

Auditors

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Uxbridge
UB8 1EX

Stockbrokers and Financial Advisers

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London
EC2V 7QP

Registered Office

Express House
464 Berkshire Avenue
Slough
Berkshire
SL1 4PL
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