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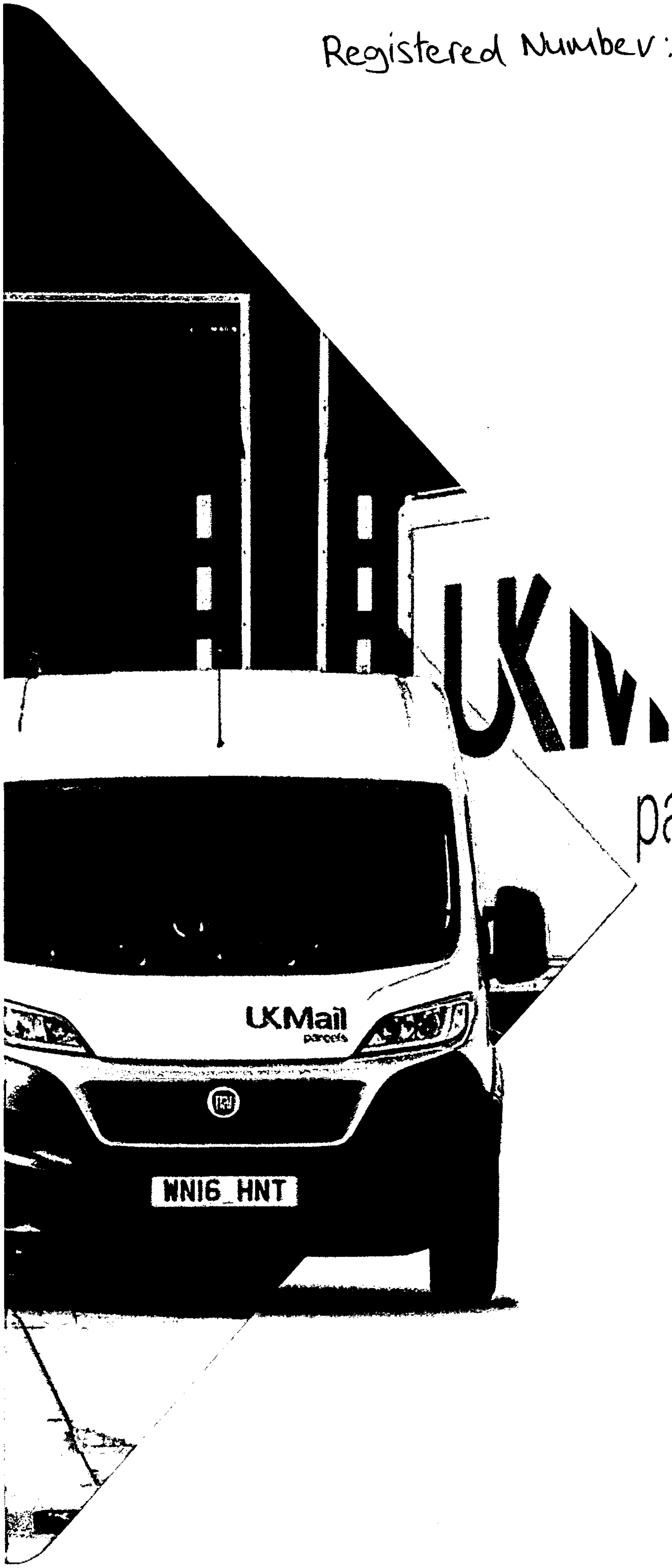

Report & Accounts

2016

UKMail
we deliver

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A review of our strategy and how we are delivering against this

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An introduction to our Board and their priorities and how we manage our business

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Financial Statements

Our financial statements provide a complete picture of our 2016 performance

Highlights of the year

Group Performance

Group Revenue - 0.8% £481.0m

Profit before taxation** - 49.2% £10.7m

Parcels	Mail
Revenue	**Revenue**
+ 1.4% / £247.9m*	**- 3.1**% / £233.1m
Operating Profit**	**Operating Profit****
- 33.0% / £15.9m*	**- 18.3**% / £10.1m

Our services

UKMail we deliver

Express UK parcels delivery
International parcel delivery
Retail logistics
Same day delivery

Sorted mail
Unsorted mail
Packets

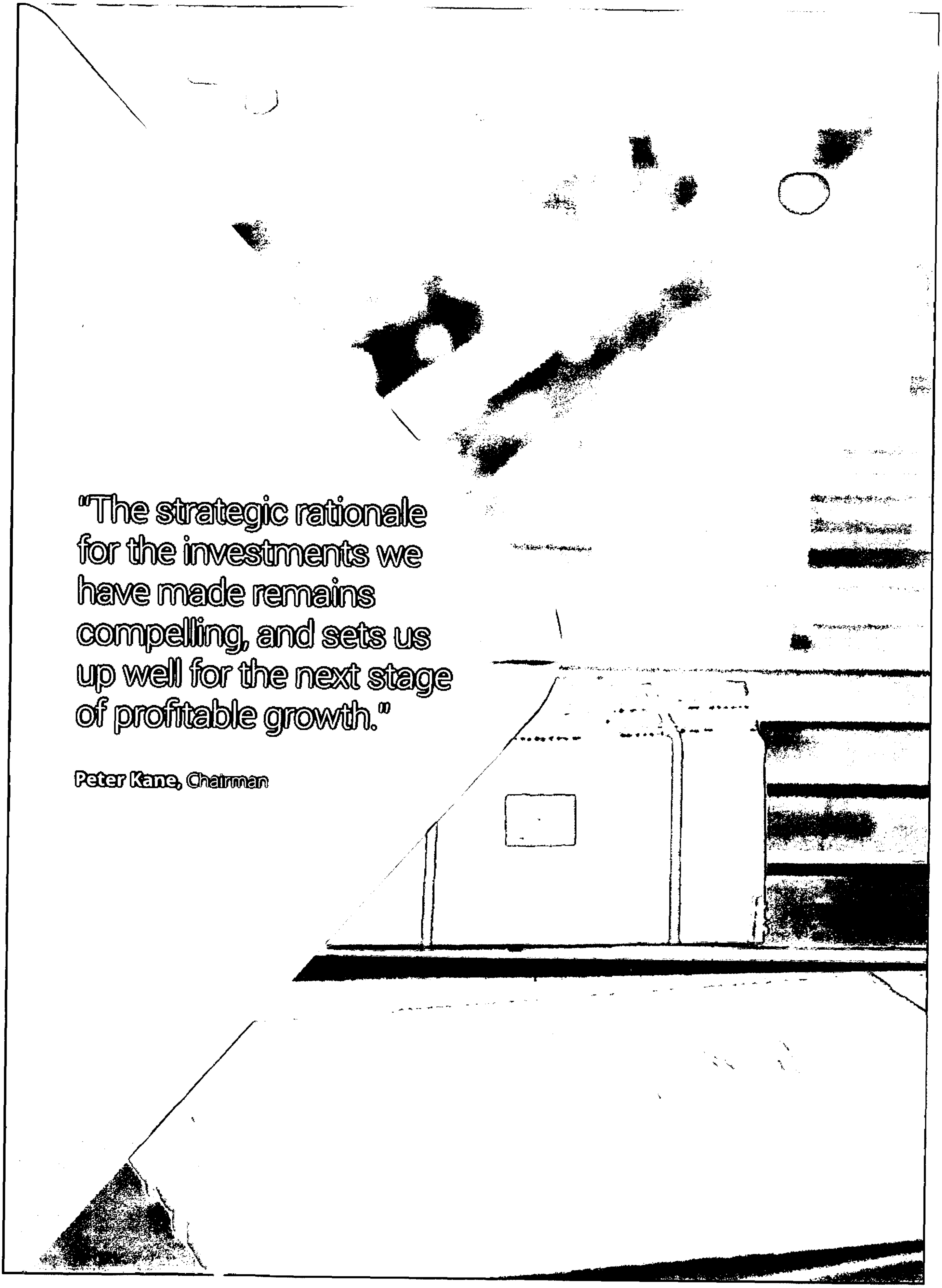
ipost parcels

Online booking
UK parcel collection & delivery
International delivery

imail

Letters
Postcards
Print solutions

* Parcels has been restated to reflect the integration of the Group's Courier operation.
** Before exceptional items.



"The strategic rationale for the investments we have made remains compelling, and sets us up well for the next stage of profitable growth."

Peter Kane, Chairman

Chairman's Statement

The year has been a challenging one for UK Mail as we completed the move to our new automated hub in Ryton.

After management action, the new hub is now operating well and achieving good throughput, whilst service levels in both Parcels and Mail have been consistently high in recent months. The strategic rationale for the investments we have made remains compelling, and sets us up well for the next stage of profitable growth.

Financial highlights for the year include;

- Group revenues of £481m
- Group PBT (pre-exceptional) of £10.7m
- Dividends for the year of 16.4p per share

The format of our Annual Report

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

The Strategic report includes a review of our business model, outlines our strategy and provides detail of the development and performance of our business during the year ended 31 March 2016, followed by a financial analysis of our trading during the year and our position at the end of that year, consideration of our risk management strategy and our Corporate responsibility report.

The Governance section details how we comply with the 2014 UK Corporate Governance Code, describing the work of the Board and its key committees. It also includes the Director's report, the Remuneration report, and the Auditors report.

Our Financial statements, together with the supporting notes, provide a comprehensive view of the Group's financial performance and position.

Strategy

Our strategy is to grow our revenue and profitability by establishing market leading positions in our key markets of parcels and mail, with a clear focus on high service levels and network efficiency together with product and service innovation.

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

We have also grown our capacity to allow us to take advantage of the opportunities available to us.

Much progress has been made in this regard as we build the necessary platforms for the future following our move to a new automated hub in Ryton.

Dividend

Given the impact of the operational issues on the financial results the Board has proposed a final dividend of 10.9p (2015: 14.5p), resulting in a total dividend for the year of 16.4p (2015: 21.8p).

The total dividend is covered 1.32 times by basic earnings.

Board changes

Guy Buswell and Carl Moore stepped down from the Board in the year.

I would like to welcome Chris Mangham and Peter Fuller to the Board. I believe their experience will be a major benefit as we plan and execute the next stage of our development.

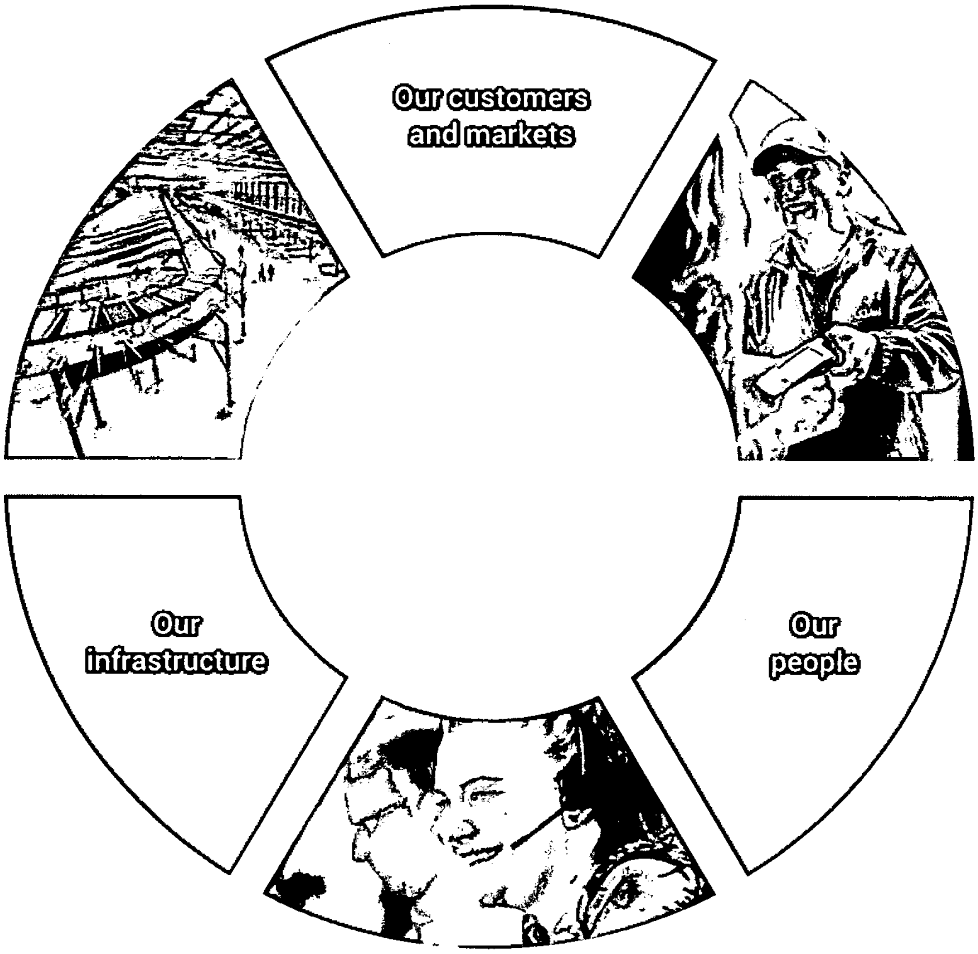
The process of identifying a Chief Executive is on-going, and the Board is determined to take the necessary time to ensure that the best possible successor is found.

People

Our people have seen many changes over the last year, largely due to the relocation of our central hub and head office. The challenges arising from the move have placed many demands on our people as they have taken the steps to address the issues and put our business back on track. I would like to personally, and on behalf of the Board, thank all of these individuals involved in this process for the commitment they have shown to UK Mail during such a demanding period.

Peter Kane,
Chairman

How we do it



Our customers and markets

Our customers range from the largest banks, supermarkets, telecommunication businesses, and government departments, through to mid-range and small independent companies and sole traders.

Key to our business model is the development of new products and services thus expanding the markets available to us and increasing our share of those markets we are already in, whilst delivering the same high level, efficient service to our customers.

Our people

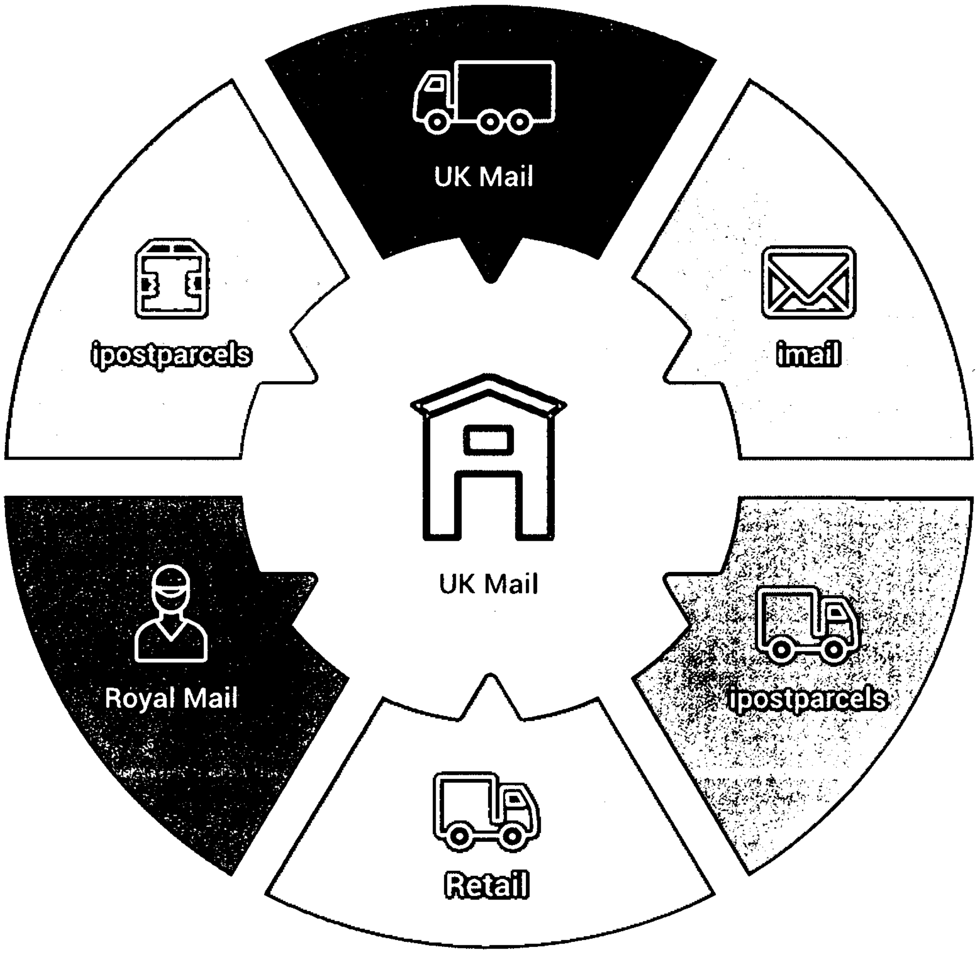
Our people have the support, training and confidence to respond and enhance the customer experience.

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

Our infrastructure

With over 30 years experience in parcel, mail and logistics services and with our extensive network of 54 sites, 2,700 staff, 2,500 vehicles including the sub-contractor fleet, nationwide mail sortation machines and automation equipment, this enables us to provide industry leading service on a cost efficient basis.

We continue to invest significantly in our infrastructure to provide the basis for future growth.



On a daily basis we collect some 230,000 parcels and 12 million items of mail. These are sorted overnight into their destinations at our sort centres, largely at our central hub. We deliver parcels directly to businesses and residential locations across the UK. Mail items are delivered the next day to one of 38 Royal Mail centres for final delivery. We use advanced technology to track all these items through our network to their destinations, providing customers with sophisticated reporting of delivery performance.

"The transition to our new hub will deliver long term opportunities and will place us amongst the most efficient and competitive operators in our market."

Business review

"UK Mail remains in the midst of a period of a major transition having completed the move to our new automated facility in July 2015."

UK Mail remains in the midst of a period of major transition, having completed the move of its Birmingham hub to a new, automated facility in Ryton in July 2015, and the year under review has been a challenging one for the Group.

The transition, as the single most significant strategic development in the Group's history, will deliver long term opportunities and will place us amongst the most efficient and competitive operators in our market. However, it was always expected to be challenging in the short-term and, as previously reported, it became apparent last summer that those near-term challenges and their impact on the current year's performance would be greater than had originally been anticipated.

A detailed plan to address the issues is well underway, and it remains our expectation that we will fully resolve them over the course of the current financial year. Service levels in both our Parcels and Mail businesses have consistently achieved high levels over recent months, and the new automated hub is now operating very well and achieving good throughput levels having recently processed its 30 millionth parcel.

The impact of the issues that arose during the transition means that the financial performance of the Group for the year has been very disappointing, albeit in line with previous guidance.

Reported Group revenues for the year decreased by 0.8% compared to the previous year. Group profit before tax and exceptional items decreased by 49.2% to £10.7m (2015: £21.0m).

In our Parcels business (52% of group revenues) revenues grew by 1.4%. This revenue growth was supported by average daily volume growth of 4.5%, reflecting some important new customer wins and weighted towards B2C customers, related to the growth in online shopping. The impact of the sales mix effect combined with the increased operating costs we have incurred as a result of the relocation of our operations, has meant that the parcels operating margin reduced to 6.4% (2015: 9.7%), and the operating profit before exceptional items decreased to £15.9m (2015: £23.6m). As announced at our interim results in November, our Courier operation is now integrated into our Parcels business.

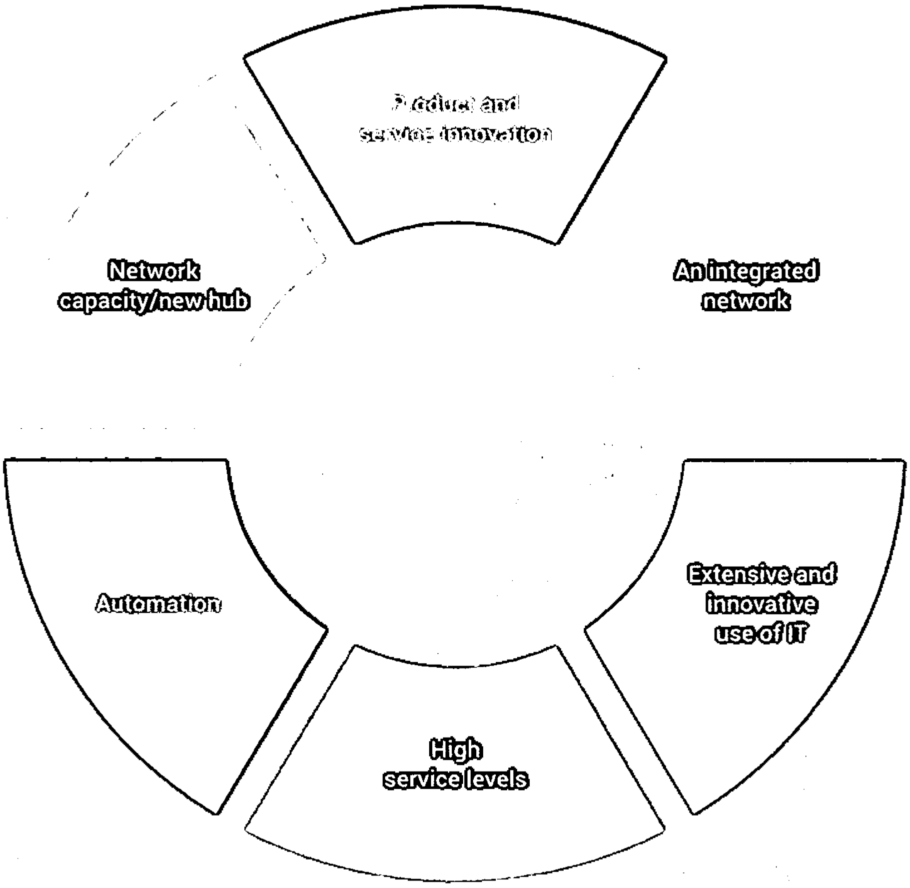
In our Mail business (48% of group revenues) revenues reduced by 3.1%. Our daily mail volumes increased by 5.2% in the year, compared to a market that saw an overall volume decline of some 3.0%. This volume growth was driven by strong customer retention and new customer wins. The mail market is highly competitive and this, combined with some impact in our Mail business of the wider operational issues relating to the move to Ryton, has meant that the operating profit decreased by 18.3% to £10.1m (2015: £12.5m) with the operating margin reducing to 4.4% (2015: 5.2%). Our Mail business remains well positioned in its market with a healthy pipeline of new business opportunities. We continue to see good progress from imail and related new product innovations.

The Group remains in a sound financial position. Net cash at the year end was £2.2m (2015: net debt of £5.2m). The final compensation payment from HS2 of £10.3m was received in November 2015, and the period of substantial investment in the hub and automation is now complete.

Given the impact of the operational issues on the financial results, in the year just ended and in the current year, the Board resolved in November 2015 that it would be prudent to rebase the dividend. The Board has therefore declared a Final Dividend of 10.9p per share (2015: 14.5p). This gives a total dividend for the year of 16.4p (2015: 21.8p).

This dividend is covered 0.94 times by underlying basic earnings per share (1.32 times by basic earnings per share). We would expect to return to prior levels of dividend cover in due course as our earnings grow.

The process of identifying a successor to Guy Buswell, who stepped down as Chief Executive in November, is ongoing. Peter Kane continues to serve as Executive Chairman until an appointment is made.



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

Strategy

Strategy

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

High Service Levels

High service levels are a vital element for success in our industry. Customers and recipients expect their consignments to be delivered to the agreed timescale without loss or damage. Service levels in this respect, in both our Parcels and Mail businesses have achieved consistently high levels over recent months.

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

A key part of our customer offering is our one-hour delivery window, which helps make UK Mail one of the industry leaders in the Parcels delivery market. This service provides customers with advance notification of the timing of a delivery, with the facilities to amend the delivery location and day. We have recently enhanced this service to provide additional features for customers, including 'in flight' delivery option changes and GPS delivery location 'stamping'. We continue to progress alternative and innovative delivery options.

Network Efficiency

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

The key factors in achieving this objective are:

An Integrated Network for our Parcels and Mail Businesses

This integration allows us to spread the fixed costs of our operation and to drive operational benefits. The integrated nature of our network, which is unique in the UK, also allows us to offer services our competitors cannot match. We have continued to progress with the integration of our Courier operation into our Parcels network, providing further efficiencies and enhanced delivery options for customers.

Extensive and innovative use of I.T.

In our industry I.T. is a key differentiator. We handle some 230,000 parcels each night together with some 12m mail items. The ability to track the progress of these items through our network and to provide customers with information on this progress is vital, as is the provision of sophisticated solutions centred on the end-consumer experience.

In the year we have continued to invest in our I.T. infrastructure, increasing capacity and resilience. We successfully completed a major upgrade to our core Track and Trace and Integration Hub systems in February. We have introduced new data services and information to our recipients and are also enhancing our ability to support and drive innovation in our business through a multi-year I.T. change programme, centred on a service orientated architecture framework.

Automation

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

Following the move to the new Ryton hub with its new automated sortation equipment, we intend to continue to increase the level of automated sortation. We have taken action to amend the profile of the consignments we handle to make the best use of the automated parcel sorter. There will however remain a significant element of the consignments that we handle that will not be compatible with automated sortation, normally due to their size. The ability to handle such consignments is a key differentiator for us compared to those competitors who are 100% automated. To allow us to efficiently handle these 'non-machineable' consignments we have added a second central hub which will be utilised principally for this purpose.

Product and Service Innovation

The third key factor in our strategy is product and service innovation. We are focussed on continuing to expand the size of the markets available to us and on increasing our share of these markets. To do so we have introduced new and innovative products and services in both our Parcels and our Mail businesses. This strategy continues to gain valuable traction in helping us to win new customers.

The key areas we are progressing are:

ipostparcels – a leading parcels collection and delivery service targeting the internet end- customer/small businesses.

Retail Logistics – a parcel delivery service targeting the needs of retail businesses.

imail – a market leading hybrid (web-to-print) postal service.

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

Packets – a packet collection and delivery service providing cost effective solutions in conjunction with Royal Mail's final mile delivery service.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UKMail
parcels

Strategy continued.

We have a clear strategy which will allow us to grow revenue and profitability in markets, whilst they are competitive, continue to offer good growth opportunities.

In addition, in Mail we launched our innovative and market leading, turn-key solution for the Royal Mail Mailmark service, whereby we manage and process individual item data on behalf of our customers with the Royal Mail. Integrating the item data with our track and trace data, we provide a clearer chain of custody for the mail, more accurate data input into Royal Mail reporting systems, and as a result minimise current and future Royal Mail surcharges.

Making Profitable Use of Increased Capacity

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

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

Hub/Network Capacity

Increasing the capacity of our overall network is vital as our core markets continue to show strong growth. We will achieve this through fully utilising the new central hub and through localised expansion where needed. The new automated hub is operating well and achieving good throughput levels, and our objective now is to further increase the volumes that it processes, through improved network planning and hub operating methods, and through further enhancements to the automated sorter throughput. We are also about to introduce a new computerised model to optimise the efficiency of our linehaul operations and, therefore, our overall network.

We have also added a second central hub which is focussed on the 'non-machineable' freight that is not efficient for our automated hub to process. This facility increases our overall capacity and allows us to handle freight that, whilst bulky and not suitable for automated sortation, can provide a profitable income stream.

Innovation in Delivery Methods

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

Creating Support Capacity

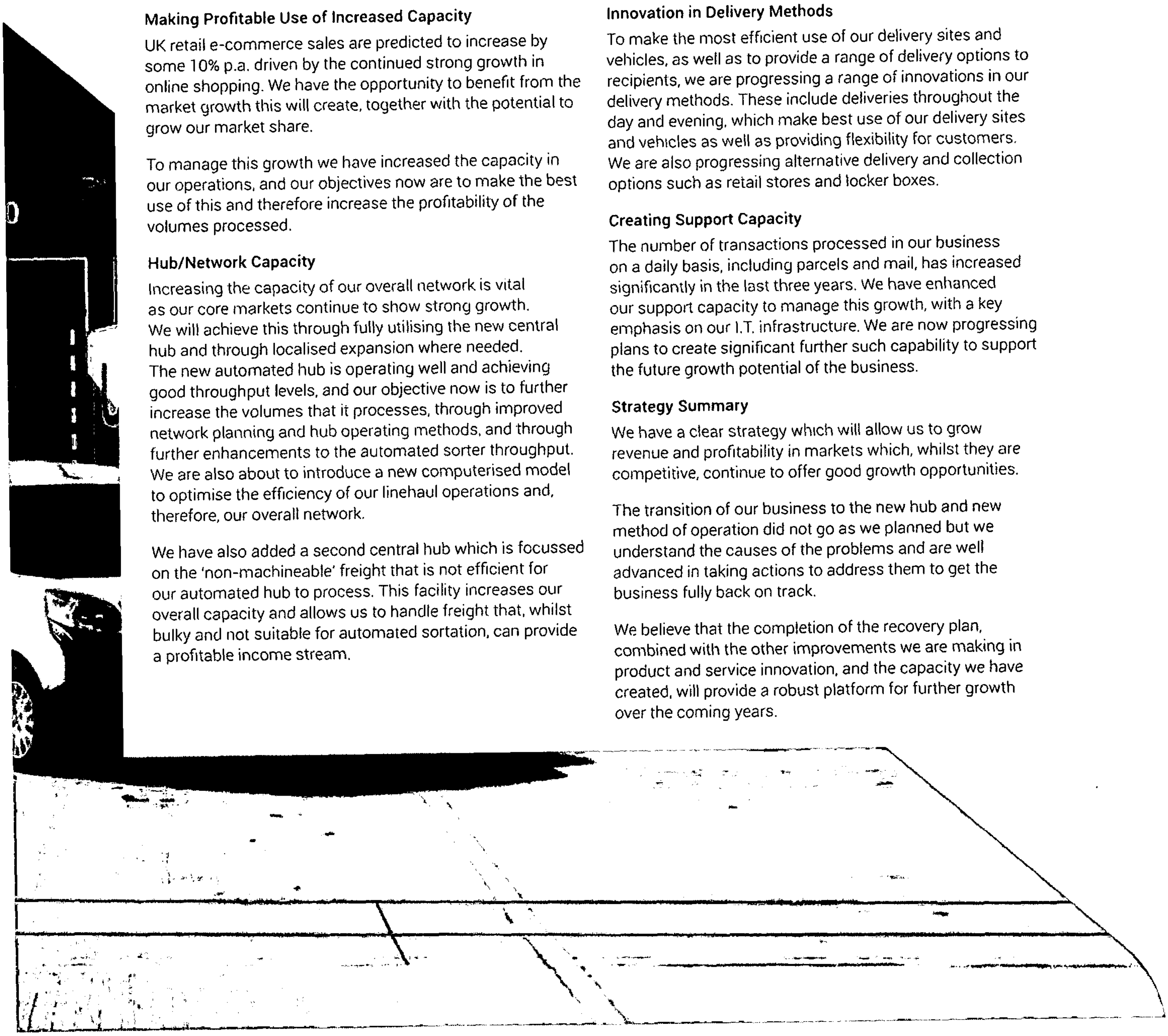
The number of transactions processed in our business on a daily basis, including parcels and mail, has increased significantly in the last three years. We have enhanced our support capacity to manage this growth, with a key emphasis on our I.T. infrastructure. We are now progressing plans to create significant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

Strategy Summary

We have a clear strategy which will allow us to grow revenue and profitability in markets which, whilst they are competitive, continue to offer good growth opportunities.

The transition of our business to the new hub and new method of operation did not go as we planned but we understand the causes of the problems and are well advanced in taking actions to address them to get the business fully back on track.

We believe that the completion of the recovery plan, combined with the other improvements we are making in product and service innovation, and the capacity we have created, will provide a robust platform for further growth over the coming years.




RAGILE
FRAGILE

Divisional review

Key to our parcels market position is the provision of value added services that customers increasingly demand.

Parcels

Revenues in Parcels, which comprises the Group's business-to-business (B2B), business-to-consumer (B2C) international parcel delivery service and courier operations, were up 1.4% to £247.9m (2015: £244.6m).

Parcels average daily volumes increased by 4.5% compared to last year. We continue to see an on-going volume mix change towards the lower margin B2C segment.

The Parcels operating margin for the period reduced to 6.4% (2015: 9.7%), resulting in operating profit before exceptional items for the period reducing to £15.9m (2015: £23.6m).

Both the rate of volume growth and the operating margin have been impacted by the operational issues related to our move to the new hub. The profit reduction is partly due to the temporary increase in operating costs associated with this and also due to a magnified mix effect as a result of the increased customer churn we experienced in the first half of the year.

A detailed plan has been underway to address these issues including a number of near-term initiatives that have already eased the pressures on the hub. A key decision we have taken is to introduce a second central hub which will specialise in handling the 'non-machineable' freight. This is a highly efficient cross-dock facility designed specifically for such use and, whilst it increases our overall central hub costs, it allows the automated hub to focus on 'machineable' freight whilst enabling us to retain significant volumes of 'non-machineable' freight which we see as a good profit stream.

The efficiency of the main hub will also improve as new customers come on board thereby increasing volume throughput, with some of that new volume arriving at the new hub throughout the day rather than just in the peak hours.

More widely, our plan involves re-engineering our line haul template to fully align it with the efficiency of the new hub. We are shortly to introduce a new computerised model to optimise the planning of our linehaul routing, with the new routing being rolled out during the second quarter. This is expected to deliver improvements in trunk vehicle utilisation levels and therefore a reduction in overall linehaul costs.

Peter Fuller joined as Operations Director in April 2016. With substantial experience in parcels distribution and specifically in managing automated facilities, most recently at Parcelforce where he was Operations Director, Peter will be instrumental in the execution of our plans, and encouraging progress has already been made. The sortation equipment is operating effectively, service levels are now back to where they should be, and the machine has recently processed its 30 millionth item. We have a number of significant potential customers keen to use the services available through our new hub.

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

Key to our parcels market position is the provision of value added services that customers increasingly demand. Our enhanced next day delivery service, which offers advance-notice one-hour delivery and collection windows, is consistently achieving strong service levels of over 95%. We have now enhanced this service to include further customer features, including the ability to redirect a delivery after the delivery driver has left the depot as well as GPS 'stamping', which is a key function to allow us to confirm that a delivery has been made based on the GPS coordinates of the delivery confirmation. We are also progressing our plans to offer parcel drop-off and collection points, including a trial with a national multi-site retailer.

Divisional review continued.

Our Mail business achieved another good increase in volumes with our Mail volumes increasing by 5.2% compared to last year.

Mail

Mail revenues reduced by 3.1% to £233.1m (2015: £240.5m).

Our daily Mail volumes increased by 5.2% on the previous year, compared to a decline in transactional volumes of some 3% per annum in the overall UK mail market, showing that we have achieved further market share gains.

The operational issues we faced across our business in the year had some impact on our Mail business, principally in the form of additional operating costs. These were incurred to maintain service levels to customers which we are pleased to report continue to be at a very high level. In addition, the pricing environment within the mail market remains highly competitive.

As a result, Mail operating profits decreased by 18.3% to £10.1m (2015: £12.5m). The operating margin decreased to 4.4% (2015: 5.2%).

We have been successful in growing our volumes and our market share despite the underlying structural decline in the physical mail market overall. In the past year there have been a number of substantial mail accounts out for tender, and we have achieved a strong record of retaining existing customers, and of winning competitor accounts, albeit with some pricing pressures.

Our continued product innovation has helped us to offset this mail market decline and the associated pricing pressures, and will continue to do so. imail, our web-to-print postal service, continues to show good revenue and profit growth. We continue to invest to increase our capacity and provide additional services. 'imailprint' has now been successfully launched, providing a specialist printing service which, rather than being purely mail-related as with our current service, can produce printed documents for general usage. We see this as a medium-term low risk growth opportunity using our existing infrastructure.

In addition, we have launched an innovative turn-key solution for the Royal Mail Mailmark service, where we manage and process individual item data on behalf of our customers with the Royal Mail. By providing a clearer chain of custody for the mail and more accurate data input into Royal Mail reporting systems, we can minimise current and future Royal Mail surcharges for our customers.

A key growth element of the Access Mail market is the rising popularity of packets; a market we estimate to be worth some £1.2bn. Whilst we have made some progress in this area in recent years, our share of the market remains very low. We now have a clear plan in place to grow our market share, with specialist packets sortation equipment in place which allows us to offer a service that fully meets our customers' requirements. We have increased the size of our sales team to capitalise on this and are gaining good traction with customers. We expect to see a positive impact in the current financial year, and continue to believe that this area will be key to growing our Mail revenues and profitability in the future.

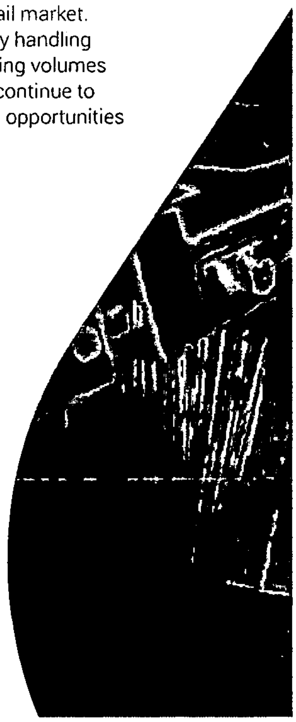
In June 2015 Ofcom announced it was undertaking a Fundamental Regulatory Review of Royal Mail. Its stated aims were to ensure regulation remains appropriate and sufficient to secure the efficient and financially sustainable provision of the universal postal service, assess Royal Mail's efficiency, consider its position within the parcels sector, and assess Royal Mail's potential ability to set wholesale prices in a way that might harm competition.

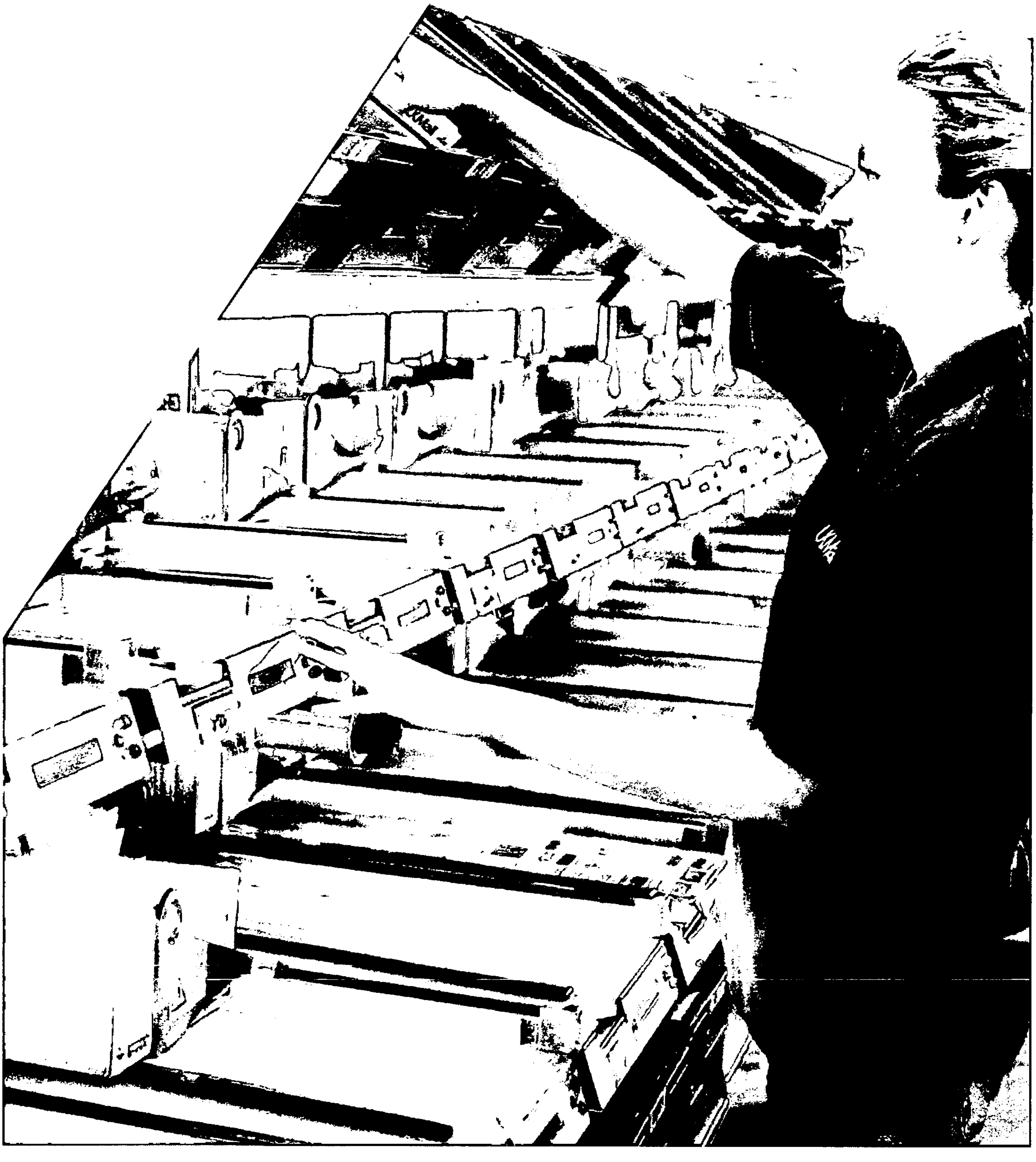
We have responded to the Ofcom discussion paper on this subject.

We understand that Ofcom are soon to publish a more detailed Consultation Document setting out their views and proposals. We will actively participate in the consultation process that follows the issue of this paper.

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

Peter Kane,
Chairman
23 May 2016





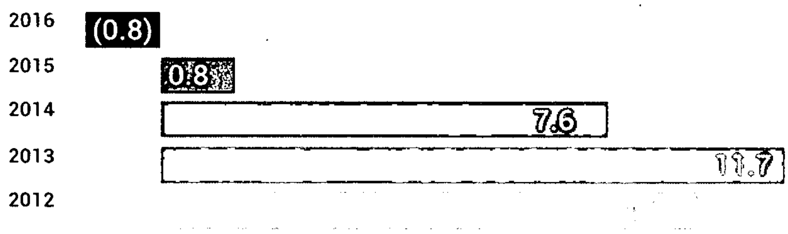
Key performance indicators

The Group uses a number of financial and non-financial key performance indicators (KPI's) to assess our performance against our strategic priorities of growth, efficiency and shareholder returns underpinned by safe and responsible working practices. These KPI's are reviewed periodically to ensure they remain appropriate and meaningful.

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

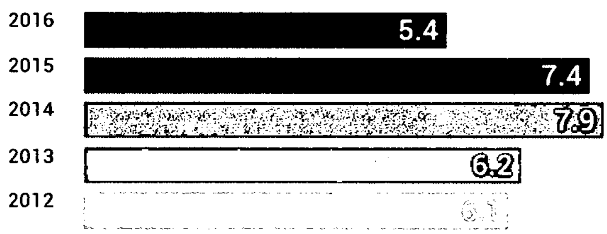
Revenue growth %

Revenues declined 0.8% year-on-year, albeit the Group handled increased average daily volumes in both Parcels and Mail.



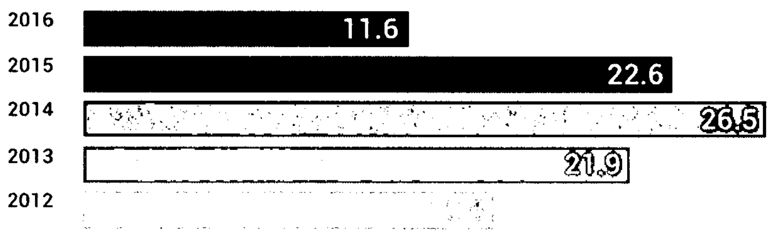
Operating profit margin % *

The operating profit margin decreased to 5.4% impacted by the operational issues (and subsequent temporary increase in costs) related to our move to a new hub.



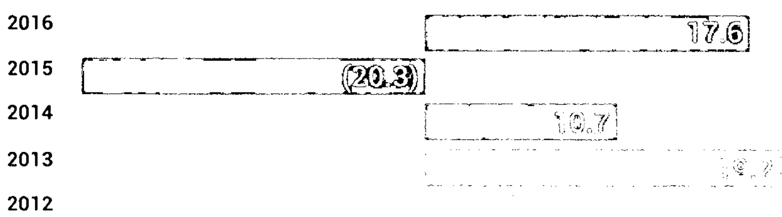
ROACE % *

Return on average capital employed decreased from 22.6% to 11.6% in the year following a 49.2% decrease in the Group's underlying profit before taxation.



Free cashflow £m

Free cash flow increased by £37.9m to an inflow of £17.6m following completion of the capital investment in Ryton and automation.

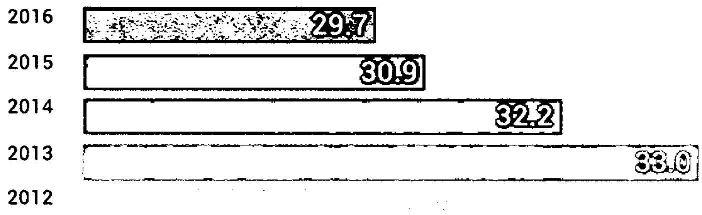


* excluding exceptional items

Debtor days

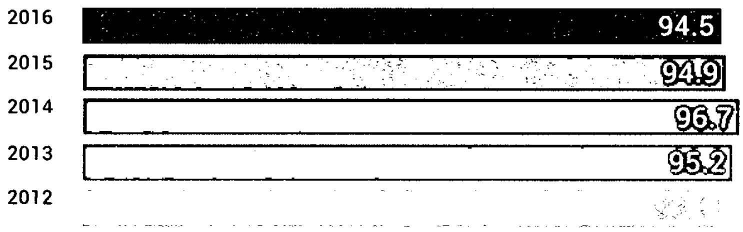
Debtor days are the KPI the Board uses to measure and monitor the efficiency of cash collection from customers.

Debtor days have decreased 1.2 days to 29.7 days.



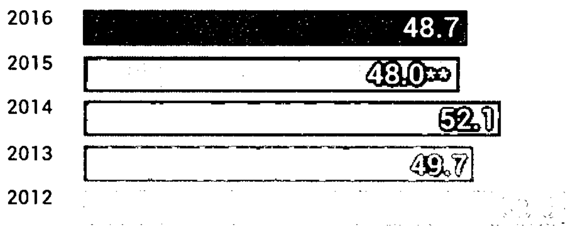
Health & safety compliance %

Health and Safety compliance reduced by 0.4% to 94.5% following the increased consignment volumes handled, the move towards loose loading and managerial changes at a number of sites.



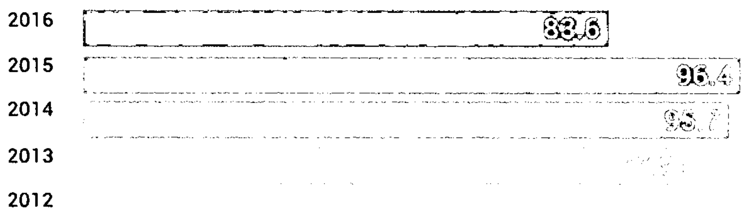
CO_2 Emissions (Tonnes)

CO_2 emissions is the KPI the Board uses to monitor its effect on the environment.



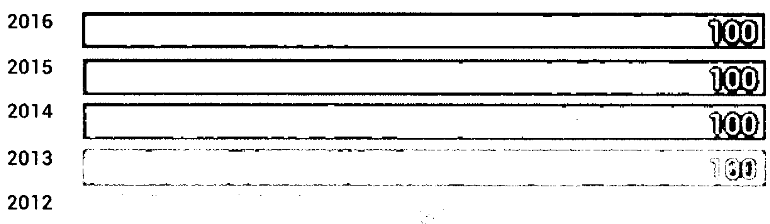
Waste recycling (land diversion) %

This KPI monitors the amount of waste recycled, thereby avoiding landfill. The reduction reflects both increased waste resulting from our move towards loose loading together with the disposal of significant waste volumes following the closure of our national hub and another site.



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.



** restated

Financial review

Steven Glew,
Group Finance Director

Financial Position

The Group's financial position remains sound. Despite the significant investment in our new hub and in automation, we had net cash at the end of the year of £2.2m (2015: net debt of £5.2m).

Net cash inflow from operations totalled £31.3m (2015: £28.6m), including £31.0m (2015: £28.2m) from continuing operations of which £16.6m (2015: £2.3m) relates to compensation and site sale proceeds received from HS2.

The total consolidated net cash inflow for the year was £2.2m (2015: £22.8m cash outflow) which included £2.3m cash generated from working capital (2015: £nil), and a net £11.2m (after allowing for the deferred compensation received from HS2) expended on capital additions (2015: £43.9m).

The Group paid £11.0m (2015: £11.8m) of dividends during the period.

To provide funding for the investment in the new hub and automation the Group agreed a £25m five year revolving credit facility with Lloyds Bank plc in May 2014. This facility, which supports the cash requirements of the investment programme, was undrawn at 31 March 2016 (2015: £10m drawn).

The Group has in place further funding facilities as detailed in note 27 to further support our investment programme and provide adequate working capital facilities, comprising of asset lease funding and overdraft facilities.

Revenue

	2016	2015	Change
Segment	**£m**	£m	%
Parcels [1]	**247.9**	244.6	1.4%
Mail	**233.1**	240.5	(3.1)%
Total revenue	**481.0**	485.1	(0.8)%

1 - The results for the comparative period have been restated to reflect the integration of the Courier operations into Parcels (further details can be found in Note 2).

Revenues of £481.0m were down 0.8% compared to the previous year, despite handling increased volumes in both our Parcels and Mail operations.

Revenues in Parcels, which comprises the Group's business-to-business (B2B), business-to-consumer (B2C), international parcel delivery service and parcels specialist service operations, were up 1.4% to £247.9m (2015: £244.6m). The average daily volumes of Parcels handled increased by 4.5% compared to last year, with an on-going volume mix change towards the lower margin B2C segment.

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

Against this, Mail revenues reduced by 3.1% to £233.1m (2015: £240.5m).

However, our daily Mail volumes increased by 5.2% compared to the previous year, while the overall UK mail market has seen a decline in transactional volumes of some 3% per annum, demonstrating further market share gains.

Operating profit before exceptional items

	2016		2015		Year-on-year	
	Operating Profit	Operating Profit Margin	Operating Profit	Operating Profit Margin	Reported Operating Profit change	Operating Profit Margin change
Segment	£m	%	£m	%	%	%
Parcels [1]	15.9	6.4%	23.6	9.7%	(33.0)%	- 3.3%
Mail	10.1	4.4%	12.5	5.2%	(18.3)%	- 0.8%
Total segmental operating profit	**26.0**	**5.4%**	**36.1**	**7.4%**	**(27.9)%**	**- 2.0%**
Central costs	(14.8)	-	(15.1)	-	1.6%	-
Operating profit before exceptional items - continuing operations	**11.2**	**2.3%**	**21.0**	**4.3%**	**(46.9)%**	**- 2.0%**

1 - The results for the comparative period have been restated to reflect the integration of the Courier operations into Parcels (further details can be found in Note 2).

Reported operating profit (before exceptional items) from continuing operations decreased 46.9%, largely driven by a fall in the Parcels operating margin to 6.4% (2015: 9.7%) and a fall in the Mail operating margin to 4.4% (5.2%).

The Parcels operating margin was impacted by the operational issues related to our move to the new hub. This impacted profits as the Group temporarily incurred increased operating costs to address these issues. The margin was further impacted by a magnified mix effect as a result of the increased customer churn we experienced in the first half of the year.

As a consequence Parcels operating profits decreased by 33.0% to £15.9m (2015: £23.6m).

Mail operating profits decreased by 18.3% to £10.1m (2015: £12.5m). The operating margin decreased to 4.4% (2015: 5.2%).

The operational issues we faced across our business in the year did have some impact on our Mail business, principally in the form of additional operating costs. These were incurred to maintain service levels to customers which continue to be at a high level. In addition, the pricing environment within the mail market remains highly competitive.

Central costs were £0.3m lower than last year, despite increased investment in I.T., as savings were made in a number of other areas.

Exceptional items

	2016	2015
	£m	£m
Profit on sale of national hub	**1.1**	-
HS2 compensation	**16.5**	2.0
Exceptional income - continuing operations	**17.6**	2.0
Cost of automation implementation	**(0.6)**	(0.4)
National hub relocation costs	**(7.1)**	(2.5)
Impairment of intangible assets	**(3.8)**	-
Impairment of tangible assets	**(1.0)**	-
Management reorganisation costs	**(1.4)**	-
Exceptional costs - continuing operations	**(13.9)**	(2.9)
Exceptional costs - discontinued operations	**-**	(10.4)
Net exceptional income/(costs)	**3.7**	(11.3)

Net exceptional costs

The profit on sale of the national hub represents the profit on sale following the compulsory acquisition of the National hub and offices at Birmingham by the DfT and HS2 Ltd, as a result of the proposed HS2 railway.

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

The cost of automation implementation represents the costs incurred during the final weeks of the year ended 31 March 2015, as the Group moved towards the implementation and roll-out of new automation equipment. These costs largely represent asset write-offs of equipment no longer required.

National hub relocation costs represent disturbance costs associated with the relocation of our National hub and offices to Ryton.

The impairment of intangible assets charge represents the impairment cost recognised following a comprehensive strategic review of the Group's I.T. systems during the year which identified a number of software assets that did not fit within the medium and long term strategic goals of the Group, and which therefore offered no future economic value.

The impairment of tangible assets charge represents the cost of sortation equipment and related facilities that are no longer required given the revised automation strategy of the business.

The management reorganisation costs principally relate to the reorganisation of the Board which occurred during the year. These costs include the contractually agreed payments to departing directors, following mitigation, and the appointment costs of new Board directors.

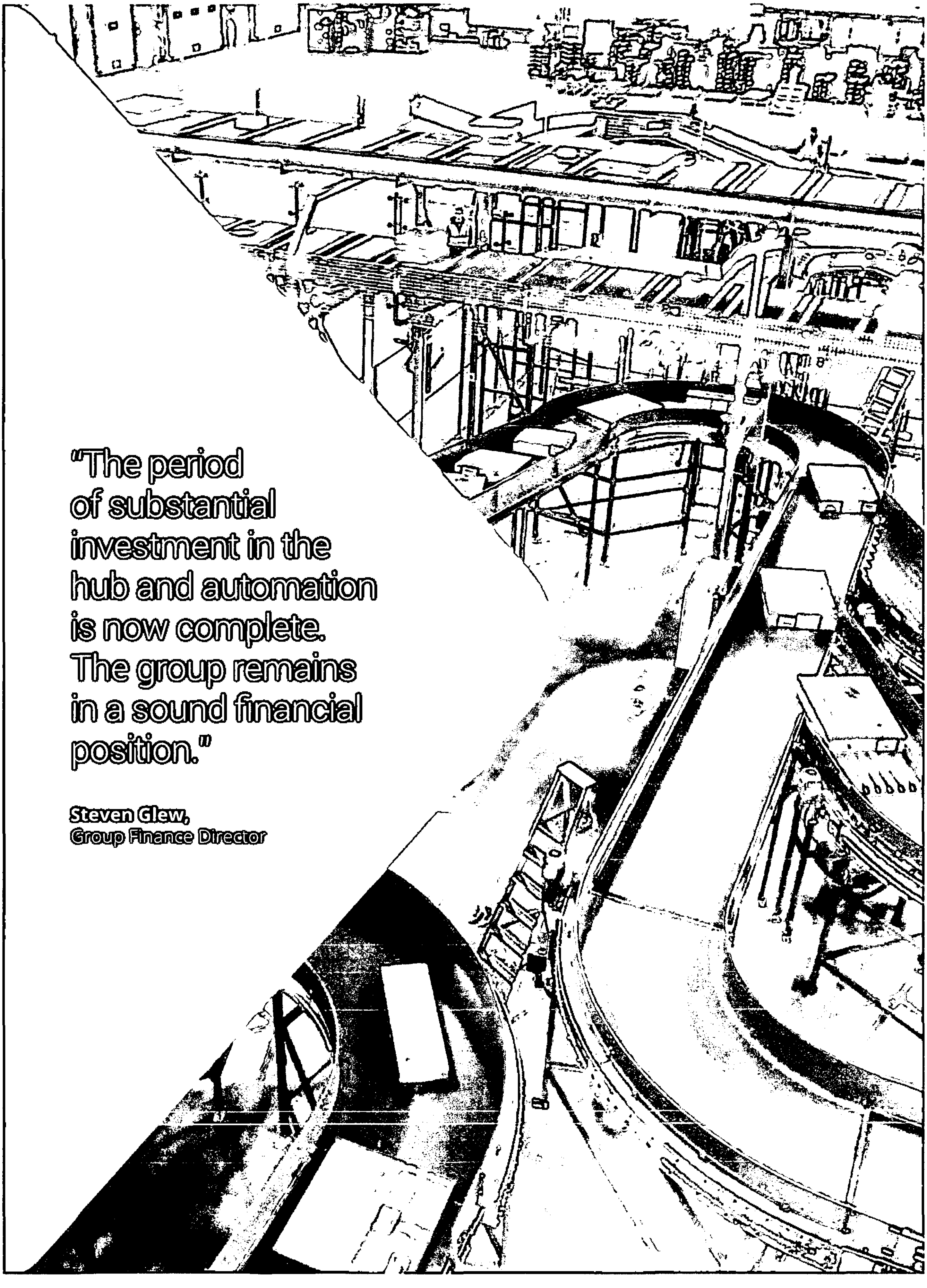
Capital additions

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

These can be summarised as follows:

Year to 31st March	2016	2015
	£m	£m
Underlying capital additions	**10.2**	12.0
Investment in new hub	**1.5**	26.8
Investment in automation	**1.5**	13.5
Total gross capital additions [1]	**13.2**	52.3
Compensation from DfT and HS2	**(5.4)**	(4.2)
Net capital additions	**7.8**	48.1

1 - Total gross capital additions are stated net of a £13.7m sale and leaseback of the Ryton automation equipment.



"The period of substantial investment in the hub and automation is now complete. The group remains in a sound financial position."

Steven Glew,
Group Finance Director

The underlying capital additions include £6.4m on I.T. as we continue to develop our system infrastructure, and £3.6m on our network.

The investment in the new hub and head office in the year comprises the cost of their construction. The new hub and head office were completed in February 2015, with the final payments made in April 2016 of £0.5m (following the year end). The cumulative total spent on the land and buildings is £35.8m, which is in line with our original budget of £35.0m. Our cash contribution to the building of the new hub and head office, after the contribution from the DfT and HS2, is £12.4m which covers the enhancement of the site and building beyond the scale of the previous facility.

The automation equipment was brought into operation in May 2015. The investment in automation reflects the payments for the development, installation and commissioning of the hub and network automation equipment. Cumulatively, the total capital spent on the introduction of automation was £18.3m, compared to the original budget of £20.0m.

Balance sheet	2016	2015	Change
	£m	£m	£m
Non-current assets - goodwill	**1.6**	1.6	-
Non-current assets – other	**84.3**	99.4	(15.1)
Current assets – excluding cash	**64.5**	76.4	(11.9)
Cash *	**6.8**	4.6	2.2
Current liabilities – excluding tax/borrowings	**(81.3)**	(102.6)	21.3
Borrowings *	**(4.6)**	(9.8)	5.2
Tax	**(0.5)**	(0.2)	(0.3)
Non-current liabilities – excluding borrowings	**(3.6)**	(3.3)	(0.3)
Net assets	**67.2**	66.1	1.1
Net cash/(borrowings) *	**2.2**	(5.2)	7.4

Net assets increased by £1.1m to £67.2m (2015: £66.1m).

Other non-current assets decreased by £15.1m, which principally reflects the disposal of the Birmingham National Hub and offices, following our move to the new site in Ryton, and £4.8m of asset impairments as shown in exceptional items.

A £9.8m decrease in trade receivables and a £3.4m decrease in accrued revenues largely accounts for the £11.9m decrease in current assets (ex cash). This is primarily due to reduced sales volumes in the month of March year-on-year, which in turn was partly attributable to there being one less trading day in March 2016 as compared to March 2015. However, a further 1.2 debtor days improvement to 29.7 days (2015: 30.9 days) also contributed.

Current liabilities (excluding tax and borrowings) decreased £21.3m year-on-year, of which £8.8m relates to a decrease in the amount owing to trade creditors and £1.3m a decrease in accruals, both reflective of the reduced trading activity within March year-on-year.

Additionally, following contractual completion of the Birmingham national hub and offices site sale, together with finalisation of the compensation agreement agreed with the DfT and HS2 Ltd, a net £9.2m deferred compensation was released to the income statement, further details of which can be found in note 3. The remaining £0.4m deferred compensation is anticipated to be fully utilised within the next 12 months.

Cash flow and net cash

	2016	2015	Change
	£m	£m	£m
Cash generated from continuing operations	**31.0**	28.2	2.8
Finance costs paid	**(0.4)**	-	(0.4)
Tax paid	**(1.8)**	(5.0)	3.2
Net capital expenditure in continuing operations	**(11.2)**	(43.5)	32.3
Free cash flow	**17.6**	(20.3)	37.9
Dividends paid	**(11.0)**	(11.8)	0.8
(Repayment)/drawdown of revolving credit facility	**(9.9)**	10.0	(19.9)
Proceeds from new finance lease borrowings	**13.7**	-	13.7
Repayments of finance lease borrowings	**(8.9)**	(0.4)	(8.5)
Other movements	**0.4**	(0.3)	0.7
Increase/(decrease) in cash from continuing operations	**1.9**	(22.8)	24.7
Increase/(decrease) in cash from discontinued operations	**0.3**	-	0.3
Increase/(decrease) in cash from total operations	**2.2**	(22.8)	25.0

The group generated £2.8m more cash from continuing operations compared to the previous year, which was largely the result of the improvement in cash generated from working capital. (£2.3m generated in the 2015/16 financial year, as compared to £nil in the previous year).

The fall in profits accounted for the £3.2m reduction in tax paid.

The £32.3m reduction in capital expenditure largely reflects a reduced investment programme following the February 2015 completion of the new National hub and head offices at Ryton, the May 2015 'go-live' of the sortation automation equipment, and the final £5.4m capital contribution received from HS2 Ltd.

As a consequence and following completion of this major milestone in the Company's history, the Group generated £17.6m free cash flow which represents a £37.9m year-on-year improvement from the £20.3m free cash outflow reported in 2014/15.

Additionally a net £5.0m was received during the year following a £13.7m sale and leaseback of the newly installed automation equipment at Ryton.

After the payment of dividends of £11.0m (2015: £11.8m) and full repayment of the amounts drawn under the revolving credit facility, net cash at the year end was £2.2m (2015: £5.2m net debt). This comprised of £6.8m (2015: £4.6m) of cash at bank and in hand and £4.6m (2015: £9.8m) of total debt. Further information can be found in note 29.

Finance costs

Finance costs were £0.5m (2015: nil) comprising of £0.3m (2015: £nil) revolving credit facility fees and interest, together with £0.2m (2015: £nil) finance lease interest following automation equipment part sale and leaseback.

No interest costs (2015: £0.3m) were capitalised as part of the construction cost of our new National hub and head office, following completion of the build in February 2015.

Taxation

As the gain on the sale of the Birmingham National hub and offices is non-taxable, the Groups effective tax rate has reduced to 17.6% (2015: 40.7%).

The underlying effective tax rate, excluding exceptional items was 20.9% (2015: 21.1%), which was materially in line with the headline rate of UK corporation tax of 20% (2015: 21%).

Earnings per share

Underlying basic earnings per share, which excludes both discontinued operations and exceptional items, decreased 49.2% to 15.4p (2015: 30.3p).

However, the total Group basic earnings per share increased 134.8% to 21.6p (2015: 9.2p).

Dividend

The Board has proposed a 24.8% decrease in the final dividend to 10.9p (2015: 14.5p), resulting in a total dividend for the year of 16.4p (2015: 21.8p), a decrease of 24.8%. The final dividend is payable on 26 August 2016, to shareholders registered on 29 July 2016.

The total dividend is covered 0.94 times (2015: 1.39 times) by the underlying basic earnings, and 1.32 times (2015: 0.42 times) by the total company basic earnings per share.

Treasury risk management

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

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

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

The Group is not significantly exposed to the effects of fluctuations in exchange rates since all income is in sterling and costs denominated in foreign currency, principally the euro, represent less than 1% of all expenditure.

As discussed above the Group has committed funding in place, comprising of a revolving credit facility, an overdraft facility, and asset leasing arrangements. Further detail can be found in note 25.

Steven Glew,
Group Finance Director
23 May 2016

Principal risks and uncertainties

The Board is committed to protecting and enhancing the assets and reputation of UK Mail, thereby safeguarding the interests of all stakeholders.

Like all businesses, the Group faces a number of actual and potential risks which if not properly controlled, could hinder the successful implementation of our strategy and impact the Group's overall financial performance. The Board, who maintain the overall responsibility to ensure that the Group has in place a balanced approach to risk management, believes that a robust risk management process considers the risks in the context of their impact and probability.

The Group's risk management monitoring and review process primarily comprises of;

- A Risk Register;
- A minimum four risk reviews per annum; two of which are undertaken by the Board and two by the Audit Committee;
- An annual review and consideration of the Group's risk appetite; and
- An approved Risk Management policy.

Identification and monitoring of risks

On a quarterly basis, the process requires management throughout the business to identify, evaluate and monitor risks and take the necessary 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 Risk 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.

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

These significant risks were reported in detail to the Audit Committee on a High Entity Risk Register ('HERR'), of which 27 risks (2015: 24 risks) had been identified at the date of this report. Further detail of the work undertaken by the Audit Committee in this area can be found in the Audit Committee report on page 48.

Issues arising at these meetings were further discussed at the main Board meetings as appropriate, in addition to the discussion of a further two quarterly risk reviews.

The tables that follow detail the principal risks and uncertainties faced by the Group and the steps taken to mitigate such risks and uncertainties. The Board considers these to be the most significant risks, and whilst not directly comparable, they have been ranked in terms of relative importance to the Company at this time.

They do not comprise all of the risks identified by the Company, nor those presently unknown to management, or those currently deemed less material, which may also have an adverse effect on the business.

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

Preparing the financial viability statement

In preparing the financial viability statement, it was determined that a three year period should be used, as this is aligned with the established process surrounding the production of the Group's annual budget and three year strategic plan. The Group continually improves the quality of its financial forecasting models through application of the lessons learnt from detailed variance analysis of subsequent actual outcomes, which is built on a detailed year one budget and higher-level forecasts for years two and three.

The Board reviewed the principal risks and uncertainties facing the business, and considered which of these risks might threaten the Group's longer-term viability. The review took into account both the Group's risk appetite and the mitigating actions either currently or potentially available in the event that the risk materialises.

It was determined that none of the individual risks would in isolation compromise the Group's viability, and so a number of different severe but plausible principal risk combinations were considered.

The impacts were modelled over the three year plan period to ensure that any material deterioration in the Group's forecast consignment volumes and/or pricing, did not adversely impact on the Group's longer-term viability.

As set out in the Audit Committee's report on page 48, the Directors reviewed and discussed the process undertaken by management, and also reviewed the results of stress testing performed to provide an illustration of the reduction in revenue that would be required to breach the Group's covenants or exhaust all available cash.

The key issues identified from this process were subsequently discussed and approved by the Board, who ultimately retain the responsibility for the preparation and approval of the Group's financial viability statement.

The resultant approved Directors' financial viability statement can be found in the Directors' Report on page 57.

Principal risks and uncertainties continued.

Risk	Change in risk	Potential Impact
Operational plan failure The Group has relocated to a new National hub at Ryton following contractual agreement with HS2 Ltd to acquire the National hub at Birmingham. Whilst the new hub is fully operational, it is not operating at the planned level of throughput and efficiency .	⇧	Operational costs may be higher than expected, whether directly at the hub or within the wider network. Additional hub capacity is required to handle 'non-machinable' freight.
Loss of key management The Group is highly reliant on the continued service of its key executives and management, who possess commercial, operational, IT and financial skills that are critical to the success of the Group.	⇧	Loss of knowledge and/or necessary expertise resulting in a reduced ability to achieve the Group's strategic and business objectives. Loss of competitive advantage due to the delayed delivery of projects or required developments.
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. The Group could suffer loss of confidential data and damage to its brand reputation, and face regulatory penalties.
Competitive The Group operates in highly competitive markets and faces competition from international, national, regional and local companies, as well as the Royal Mail.	⇄	Increased competitive activity could lead to an adverse effect on results, either through loss of customers or pressure on margins, putting growth, profitability and cash flow at risk.

Key:

⇧ Increase in risk ⇄ No change ⇩ Decrease in risk

Mitigation	Assurance
Operational performance is closely monitored by operational management. Plans are well progressed to reduce operational costs and increase hub capacity. A second hub for 'non-machinable' freight has been introduced.	The plans for the hub and the operation are monitored on a weekly basis by the Executive directors and on a monthly basis by the full Board.
Remuneration packages are regularly reviewed to ensure that key executives and management are remunerated in line with local prevailing market rates. Senior management regularly reviews the availability of the required skills within the Group, and will seek to engage suitable staff where necessary. Positions can be backfilled by contract staff, providing headroom to the key executive or manager. All employees are appraised at least twice per year with agreed objectives and development plans set.	Resourcing requirements are monitored by departmental and operational heads, together with HR, on an on-going basis. The Main Board monitors, reviews and challenges the resourcing of any proposed project or development, prior to approval.
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 change. A full implementation review and/or parallel running is/are undertaken by the sponsoring department and IT prior to any new system 'go live'. The Group has initiated two key medium-term IT modernisation projects to cater for significantly increased transactional volumes.	Continued investment in IT infrastructure. Core areas of the Group are subject to certification including ISO 27001 Information Security Management. Internal IT department constantly monitors threats to data protection by viruses, hacking and breach of access controls. Deloitte LLP have been appointed as the Group's 'internal IT audit' resource to provide specialist expertise.
Market activity, competitor behaviour, and trading opportunities are regularly reviewed. Dedicated customer account teams exist for larger accounts. Hierarchical approval for customer rates charged. The Group seeks to expand the available market through the introduction of new products and services. The Group has a wide customer base geographically spread across a large number of business sectors.	Competitor activity is monitored at both a strategic and tactical level to enable suitable actions to be developed in response. Feedback from customers, including complaints, together with the findings from customer satisfaction surveys are routinely monitored, discussed and action plans developed as appropriate. The Group's performance against KPI's is regularly reviewed by senior operational executives and at Main Board meetings.

Principal risks and uncertainties continued.

Risk	Change in risk	Potential Impact
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, or the main automated sortation equipment was inoperable for a period of time.		Severe disruption and reputational damage to the business, which would ultimately impact on the Group's financial performance.
Physical theft and security Physical theft or fraudulent interception of consignments could damage the Group's reputation. Employees or subcontractors could suffer physical attack.		The Group could suffer reputational damage and customer loss. High value or a high number of incidents may impact the Group's insurance cost or cover.
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.

Key:

Increase in risk   No change   Decrease in risk

Mitigation	Assurance
A detailed Business Continuity Plan is being developed for the main Ryton site, which once operational will be tested on a rotational basis. Business continuity plans exist and are regularly tested at all the other sites.	The progress of this plan is monitored and reviewed by the Risk Committee, the Audit Committee and the main Board. Disaster Recovery and Business Continuity plans are regularly reviewed and tested at frequent intervals.
The Group has a dedicated Loss prevention department, which monitors criminal behaviour on a national and local basis. The Group monitors the level of insurance cover, particularly in respect of high valued freight. Drivers receive security training.	The Head of Loss Prevention monitors security incidents on an on-going basis, reporting key issues to the Audit Committee at least twice per annum. The Group works to a 'zero-tolerance' policy and will aim to take legal action in respect of any incident. All whistle-blowing reports received are investigated in full.
The Group keeps abreast of forthcoming legislative and regulatory changes, and maintains controls and procedures to ensure full compliance. The Group maintains active engagement with Ofcom, responding to consultations, when relevant. The Group maintains both in house and external legal expertise.	The Board reviews reports from senior executives including the Group Legal Manager. The Group is subject to various audits and compliance visits from both external bodies and in house internal audit and security teams.

Our people

The UK Mail People Strategy was updated during the year but continues with the objective of engaging our people to deliver the company vision.

The People Strategy

The People Strategy developed initially in 2013 is a three year rolling plan that is reviewed annually. It was revised during the 2015/16 year to take into consideration the revised business strategy. The key principles of the People Strategy are to:

- Recruit, reward and motivate our people to strive to be the best by continuing to build a business that puts its people and customers at the centre of all its activities, and that inspires all employees to ensure that the business goals are achieved
- Continually review and improve how we engage and communicate so our people understand their role in demonstrating/working to the business 'Ways of Working' through better engagement and open communication at all times
- Create a culture of learning through development of our employees' skills, knowledge and behaviours showing that our people's development is key to individual, team and business success
- Value the safety and security of our people, and our internal and external customers, ensuring that nothing we do breaches our current policies, practices and procedures nor causes any harm
- Develop a culture that demonstrates the 'Ways we Work', engages with our employees, and fosters employee wellbeing and respect for diversity
- Set role model standards and become a leading employer within our sector, resulting in UK Mail being seen as 'a great place to work.

Flexible working

The Group has developed a number of flexible working arrangements, predominantly offered to those people who work in the National Head Office, following its relocation from Birmingham to Ryton. These arrangements not only provide flexibility around the hours of work (within the individuals contractual requirements) but also allow them to work at alternative UK Mail sites, or at home, dependent on the individuals' job role within the business.

Diversity

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

Responsibility for the monitoring and compliance with the Diversity and Equal Opportunities Policy as well as all other policies lies with the UK Mail Group Head of HR.

Legislation

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

Our gender split is as follows:

- 1 (14%) female directors including Non-executives of the company
- 6 (86%) male directors including Non-executives of the company
- 7 (24%) number of female employees who are senior managers of the company
- 22 (76%) number of male employees who are senior managers of the company
- 624 (23%) number of female employees of the company
- 2,043 (77%) number of male employees of the company

Communication and Engagement

UK Mail completed its first Employee Survey in 2013, and implemented a number of changes following the resultant feedback. In March 2016 a further Employee Survey was launched which was open for a two week period , with a full programme of communication in place to encourage all employees to proffer their views and influence change in the business. The success of this could be seen in the resultant 59% response rate.

The Group will conclude on the analysis of the results of the survey in June 2016, developing action plans for the business as a whole, through bespoke plans by business unit area at both site and departmental level which all survey respondents will have had an influence in. This process demonstrates how we want our employees to play a pivotal role in the way we shape our business.

In December 2015, we undertook an Investors in People 18 month 'pulse check' review, which was successfully passed; with the next full Investors in People assessment scheduled to commence in February 2017.

The Employee Consultative Group ('ECG') continues to play a key role in the communication between the business, the senior management and the employees. The ECG is headed up by the ECG Chairperson; a permanent full-time role within the business. The Area Lead Representatives continue to assist the ECG Chairperson in all areas of communications, as well as supporting their local ECG Representatives, and have played a key role in feeding into the new ECG Learning and Development modules, as well as promoting the Employee Survey.

Throughout the Ryton relocation change management programme, the ECG were integral in the smooth people transition.

Recognition and Reward

The UK Mail Group Personal Pension Plan, which is compliant with the Pension Auto Enrolment legislation, continues to operate with a minimal number of opt outs.

The oversight of Pensions falls under the remit of the Pension Governance Committee, who are responsible for the regular monitoring of the pension plan including the investment choices available, and the pension provider.

Following receipt of notice from our Pension Advisor, Barclays Wealth Management (due to their exit from the market place), a project was undertaken to identify and appoint a new provider. After completion of a formal tender process, JLT, one of the world's leading providers of employee benefits related advice, was awarded preferred supplier status.

The Pension Governance Committee's chairman left the business in October 2015, as did the ECG Chairperson in December 2015 who also sat on the Committee. The process of appointing both a new Pension Governance Committee Chairman and an ECG Chairperson is underway.

The Committee meets three times per year, with one meeting specifically dedicated to a pension scheme investment review. A further investment review will take place once the new Pension Advisor is appointed. Three pension newsletters were issued to pension scheme members during the year to ensure they were kept fully up-to-date.

Learning and Development

In May 2015 a new Learning and Development Manager was appointed, working within the overall HR team.

A review of the entire programme of all learning and development offered by the Group was undertaken during the year, with development programmes in the areas of Institute of Learning and Management ('ILM') accredited management development programmes, accredited employee development programmes, HR policy and procedures, Customer Services, and commercial Driver Class One licence acquisition all now in place. Our long standing operational compliance training programmes in the areas of induction, first aid, manual handling and Fork Lift Truck Driver training (which is now delivered in house) continue.

As a result of the Ryton Relocation change management programme, the UK Mail Apprenticeship programme was temporarily suspended with a view to recommencing in 2016/17, as well as raising our 'Work Experience' profile with the DWP. The UK Mail Work Experience programme has continued across all sites within the UK, and we remain committed to creating better links with local schools and colleges, to offer one week work experience placements particularly in the local area around Ryton, where our National Hub and head offices are based.

Our Driver Training programme continues to move from strength to strength and now delivers post accident and incident assessments, in house accredited Fork Lift Driver Training, Class One Driver Licence acquisition training as well as periodic driver assessments. In 2015/16 UK Mail undertook a pilot programme of 'in cab' cameras which assess driver behaviours whilst driving, and reports back on incidents that then result in driver coaching and further training. The pilot ceased in March 2016. The success of the scheme is under review and a decision on a potential roll-out across the entire fleet will be made soon.

A project is currently in place to review whether the required Driver Certificate of Professional Competence training that needs to be completed by 2019 will be delivered in-house or externally.

The Company Car driver assessment programme continues.

The Graduate Training programme within the IT department was temporarily put on hold whilst we settled in all those based at Ryton following their relocation from Birmingham.

In the year 2015/16, excluding the Ryton Relocation training induction days , 313 training days were delivered, with a further 64 face to face training days attributable to the Ryton Relocation induction process, therefore totalling 377 training days.

Ryton Relocation

The Ryton relocation project concluded in October 2015 following the successful implementation of a well structured and detailed people plan for the business.

Within the head office function approximately 60% of our colleagues relocated to the new facility. Within the National hub approximately 20% of our colleagues relocated resulting in the recruitment of over 350 new employees.

Those employees who decided not to relocate were supported via a partnership with the DWP, and in some instances bursaries were also offered for retraining.

Corporate responsibility

UK Mail remains committed to integrating sound Corporate Responsibility ('CR') practices.

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

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

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

The Board continues to take account of the significance of social, environmental and ethical ('SEE') matters to the business of the company but has not identified any such risks that would have a material impact on our business.

The Environment

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

Our 2015/16 CR Targets and Achievements

We are at the end of a three year programme that has covered a period of unprecedented change within our business. Our challenge during this period has been to maintain focus on the key areas of CO_2 emissions, health and safety performance, consumption of utilities, waste minimisation and our people.

We continue to use 2012/13 as the key baseline from which we monitor our improvement. With the imminent replacement of OHSAS18001 by the internationally recognised standard ISO45001 together with the significant challenges presented by the changes to our operations following the National Hub and Head Office relocation, we decided not to pursue certification to OHSAS18001 in this year.

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

	Actual 2012/13 (Base Year)	Target 2015/16	Actual 2015/16	Actual 2014/15	Change against 2014/15	Variance against target	Target 2016/17
1 (a) CO_2 emissions (tonnes)	49.74k	47.25k	48.71k	47.99k*	+1.50%	+3.09%	48.47k
1 (b) CO_2 emissions by item	0.375kg	not set	0.289kg	0.280kg*	+3.21%	n/a	0.288kg
2. Land Diversion (%)	87.88%	95.00%	83.62%	96.40%	-12.78%	-11.38%	83.20%
3. Waste to landfill (tonnes)	340.15t	323.14t	395.41t	124.06t	+218.72%	+22.36%	393.43t
4. Total waste (tonnes)	2,806.49t	2,666.17t	2,417.88t	3,449.26t	-29.90%	-9.31%	2,405.79t
5. Water consumption (m^3)	35,840^{m3}	34,048^{m3}	35,802^{m3}	37,860^{m3}	-5.44%	+5.15%	35,623^{m3}
6. HSE audit compliance (%)	95.25%	95.00%	94.46%	94.88%	-0.42%	-0.54%	95.00%
7. Workplace fatalities	0	0	0	0	0.00%	0.00%	0
8. Maintain ISO 14001 corporate site compliance (% of the 41 corporate sites)	100.00%	100.00%	100.00%	100.00%	0.00%	0.00%	100.00%
9. Staff Turnover (%)	20.17%	20.00%	27.51%	27.70%	-0.19%	+7.51%	20.00%

* Figures for 2014/15 has been restated following the receipt of more accurate information.

Environment

1. **UK Mail's Carbon Emissions**

- 2015/16 Achievement - 3.09% adverse to target
- 2015/16 Target - 47.25k tonnes

UK Mail's total carbon emissions were 48,714 tonnes. This is overwhelmingly made up of emissions from fuel burn. The calculation of these emissions is based on data from the Department of Environmental Food and Rural Affairs (Defra) Carbon Factors Repository 2015.

Table of UK Mail's Greenhouse Gas Emissions ('GHG')

	Emission total (tonnes)
CO_2 emitted from transportation activities [1,2]	43,136
CO_2 equivalent from facilities [2]	5,529
Other emissions	49
Total emissions (CO_2)	48,714

[1] Emissions from transportation activities are internally verified.

[2] Note that the CO_2 reported figure for fuel emissions is actual CO_2 which is emitted from all fuel dependent assets, including Heavy Good Vehicles, C+D Vans, Company Cars and Mechanical Handling Machinery. CO_2 equivalents from franchise or service partner operations are not included in the reporting of CO_2 emissions. Emissions calculated using the Defra GHG Conversion Repository figures for 2015 for conversion of fuel, grid electricity and gas.

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

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

At 0.289kg emissions per item handled, UK Mail has increased this figure over the last year representing an 3.21% or 9 gms per item deterioration.

Due to the challenging business conditions and the continued adaption to a loose load network UK Mail has set an emission reduction target of 0.005% using the 2015/16 as a baseline figure for the next three years which we aim to achieve by improving operational efficiencies at our new automated national hub and rationalising transport routes.

Fuel

UK Mail's two key objectives remain:

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

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

Telematics devices are fitted to allow our heavy commercial vehicles to provide information on a number of key factors such as harsh braking, driving outside the 'green zone', idling time and speed, all of which can have a negative effect on miles per gallon ('MPG').

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

We continue to use software in our parcel delivery scanners which ensure our drivers take the optimum route between parcel collections and deliveries to significantly reduce the miles driven.

Our trial of in cab cameras within heavy commercial fleet has yielded some positive results in enabling us to monitor driving behaviour and challenge under performance.

The move to automation during 2015/16 has resulted in a shift to loose loading across a number of our sites, albeit a number of locations continue to load and dispatch freight in the traditional manner using containers. Nevertheless the switch has resulted in a small reduction in vehicles and journeys.

We will continue to explore vehicle and journey optimisation opportunities in order to further reduce vehicle numbers and journeys.

The relocation to our automated hub in Ryton has, however, significantly reduced the number of items of mobile work equipment we operate, with approximately 100 items removed in total and returned to suppliers.

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

During the 2014/15 year we replaced a total of 88 tractor units with new Euro 6 tractor units, which use the additive adblue to enhance engine output and the fuel economy of the vehicle. All of these vehicles comply with the latest diesel engine emission standards. Due to the size of this previous replacement programme no further tractor units were replaced during the 2015/16 period.

Corporate responsibility continued.

During the year we did, however, replace 37 semi-trailers and 7 double deck trailers for new trailers with improved aerodynamic features. We will continue to review and re-engineer our vehicle and trailer specifications and designs to maximise MPG through the use of aerodynamics and other innovations.

Our Driver Assessor/Trainer is tasked with maximising MPG from our commercial vehicle and company car drivers through identifying and changing poor driving behaviours.

Tyre husbandry remains a key method of ensuring our tyres run to maximum performance. Lower rolling resistance tyres are being fitted as standard, to increase fuel efficiency, and we continue to work closely with our approved supplier to ensure that all commercial vehicle tyres are checked on a regular basis and maintained effectively.

Our CO_2 emissions across our company cars have reduced to an average of 120g/km to 110g/km. Drivers are encouraged to make fewer business journeys by replacing them with conference calls or video conferencing, which is available on desktop and laptop computers as well as dedicated meeting rooms.

Energy

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

During previous years we have replaced lighting at a number of locations including our Birmingham, Manchester, Thames Valley, Leicester and Docklands sites with more energy efficient lighting including movement and light sensors which reduced our lighting energy consumption by around 14%.

Our new National Hub and Head Offices at Ryton have energy efficient lighting installed which incorporate automatic light level and movement detection and should have a positive impact on our energy consumption in relation to lighting at these key locations.

We had initially planned, following our relocation to Ryton, to refurbish and reuse the lighting from Birmingham at other locations across our estate, however, this was not possible. As a result no further lighting replacement initiatives were implemented this year.

We have continued to investigate ways of reducing energy consumption at various sites where we could reduce our demand on the National Grid. During the year we identified three such locations and reduced the kVa demand by 449kVa from 580kVa to 131kVa. We will continue to investigate opportunities at other locations.

During the year the Energy Savings Opportunity Scheme Regulations 2014 came into effect requiring qualifying organisations to undertake mandatory energy assessments of energy use in their buildings, industrial processes and transport to identify cost-effective energy saving measures. Organisations were required to notify the Environment Agency of their compliance with their ESOS obligations by 5 December 2015. Of the 14,000 organisations estimated to qualify for ESOS we are one of only 3,966 to notify the Environment Agency of our compliance.

Waste Management

2. **Landfill Diversion (waste which does not go to landfill but goes instead to a materials recycling facility, energy recovery facility or transfer stations – for sortation prior to recycling)**

- 2015/16 Achievement – Decreased to 83.62%
- 2015/16 Target – 95%

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

- 2015/16 Achievement – 23.36% adverse to target
- 2015/16 Target – 323.14t

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

- 2015/16 Achievement – 9.31% adverse to target
- 2015/16 Target – 2,666.17t

During the 2015/16 year we experienced a significant change to both our operations and our waste management procedures. The closure of UK Mail's Birmingham and Nottingham sites generated a significant amount of waste materials, much of which had been accumulated over years of occupation of these sites. The switch to loose loading also generated an unexpectedly large volume of waste such as pallets and stretch wrap for recycling.

UK Mail continues to backhaul cardboard and stretch-wrap waste to regional sites for baling, in order to make recycling more efficient. We now only have two waste streams; landfill and mixed recyclables.

During this period we appointed a new waste management contractor, following a tender process to assist us to manage waste more effectively and to identify innovative methods for reducing waste and diverting waste from landfill. We have seen a deterioration in the total tonnage of waste that is being diverted from landfill, which is disappointing as our sites continue to improve the segregation of recyclables at local level.

We continue to work with our new waste contractor to identify suitable alternative recycling or treatment facilities for our waste at locations where they do not yet have access to such facilities of their own.

5. **Water Consumption**

- 2015/16 Achievement – 5.15% adverse to target
- 2015/16 Target – 34,048^{m3}

Water consumption across the business has increased despite a significant reduction in vehicle washing activities during the summer months and improved water management at our new National Hub and Offices in Ryton. This location includes rain water harvesting systems for toilet flushing, timed taps in the washrooms and a water recycling vehicle wash.

It is suspected that the recorded increase is as a result of reliance on billing data and estimates of usage rather than actual meter readings, which UK Mail will seek to address in the coming year.

Health and Safety

6. Health, Safety and Environmental (HSE) Audit Compliance

- 2015/16 Achievement – 94.46%
- 2015/16 – Target 95%

The Group fully embraces and endorses the legal and moral obligation to protect the health, safety and welfare of employees and others who may be affected by our operations.

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

A full Health, Safety and Environmental (HSE) audit is conducted at each operating location at least annually, with locations receiving a score and an improvement plan on completion. Locations are challenged to achieve a "Pass Mark" of 95% and those failing to do so are subject to a full re-audit within six months to ensure that improvement plan actions have been implemented. 2015/16 proved to be another challenging year for the network dealing with increased volumes, new working practices as a result of the shift towards loose loading and the associated issues those volumes created.

A number of managerial changes also impacted on the implementation of controls and systems. As a result we experienced a decrease in the average scores achieved in the year from 94.88% to 94.46%. The Health, Safety and Environmental team will analyse the results of all audits to identify trends and work with the operations team to implement robust solutions to redress any issues identified.

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

7. Workplace Fatalities

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

8. ISO 14001 Corporate Sites

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

ISO 14001 is the key certification standard for Environmental Management Systems. It sets rigorous demands for the continuous improvement of our environmental management system provision and is externally audited and verified by an UKAS accredited certification body on a regular basis. We are pleased to report that we continue to hold ISO14001 certification across all of our corporate sites.

ISO 14001 Franchise Sites

- 2015/16 Achievement – Work not started
- 2015/16 Target – 100% compliance at Franchise sites

Due to the rigorous demands placed on the entire UK Mail network, by the transition to loose loading, the move to our new National Hub at Ryton and a number of associate site moves it has not been possible to progress the objective to introduce ISO14001 compliant environmental management systems at all franchise locations. UK Mail continues to impose strict environmental compliance requirements upon franchise sites which are audited by our internal Health and Safety team.

Employment

9. Staff Turnover

- 2015/16 Achievement – 7.51% adverse to target
- 2015/16 Target – 20% turnover

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

Employee involvement

We continue to raise awareness amongst our employees by ensuring they understand how their actions impact the environment. We encourage switching off lights, powering off desktop computers, laptops, photocopiers, and ensuring that office materials and work practices increase recycling.

Working with our suppliers

We work closely with our suppliers to improve their environmental standards and we request details about their environmental practices and accreditation as part of 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 suppliers to develop new products and in the re-engineering of existing products to use more environmentally friendly materials and less finite materials such as paper and polymer. We are introducing degradable plastic to our Bagits at a lower micron thickness which will use about 10% less polymer. We have introduced a new fleet of photocopiers which are set to print double-sided as standard,

Corporate responsibility continued.

which along with the introduction of the driver scanning system which will mitigate the need for driver run sheets will see the amount of copier paper reduce by some 10%. We also work with more UK based suppliers who produce our high volume products in the UK instead of other parts of the world, and this significantly reduces the transportation involved.

Community

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

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

Our commitment to working both with the Department of Work and Pensions, and a range of employment partners continues, so that we support the long term unemployed from welfare to sustained employment. Our Work Experience Programme continues throughout all our sites,. We remain committed to our Apprenticeship programme, albeit in 2015/16 this was suspended whilst we relocated our National hub and head offices to Ryton. However, we intend to restart this programme in 2016/17.

We continued to develop our relationships with local schools and colleges during the year through the promotion of work experience weeks at UK Mail.

Charity Giving

Since the company was established in 1971, we have worked with a range of charities which has included the NSPCC and Cancer Research UK. During the company's previous partnership with the NSPCC, UK Mail raised over £105,000 which has provided much needed support to children throughout the UK.

UK Mail's corporate charity partner for 2015 - 2017 is Age UK, who provide support to the fastest growing group in society - the over 60's. Money raised through our employees fundraising will help the charity to meet their vision of a world where 'everyone can love later life'.

This year, the first of our two year partnership with Age UK, UK Mail has donated £25,000 to the charity through corporate giving and has been involved in many fundraising projects. This includes Age UK's 'Call in Time' volunteering initiative, whereby corporate volunteers call a lonely older person once a week from the comfort of their desk, which helps to address the fact that currently more than one million older people go a month or longer without speaking to anyone they know.

UK Mail has also supported Age UK and Innocent with the 'Big Knit' campaign, which involved distributing over 485,000 knitted hats to retailers across the UK.

Employees additionally support the partnership through localised activities, such as sky dives, cycle rides, marathons and cake sales. To help maximise donations, UK Mail has an employee sponsorship policy whereby the funds individuals raise for Age UK or their chosen charity, are matched by a Company donation of the same amount. In 2015/16 UK Mail donated £21,930 to chosen charities of our employees.

In addition, UK Mail raised £4,382 for other charities through our employee payroll lottery. This initiative provides a range of charities with a monthly donation, whilst giving employees the opportunity to win a cash prize each month.

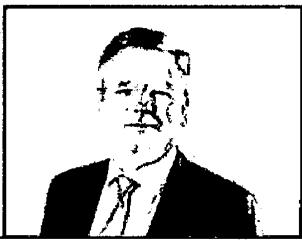
On behalf of the Board

Steven Glew,
Group Finance Director
23 May 2016

Board of Directors

Peter Kane
Chairman

Peter founded the Company. After a period as Chief Executive was appointed Chairman in July 2001. In November 2015, Peter became Executive Chairman.



Michael Findlay
Senior Independent Non-Executive Director

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

Bill Spencer
Independent Non-Executive Director

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

Jessica Burley
Independent Non-Executive Director

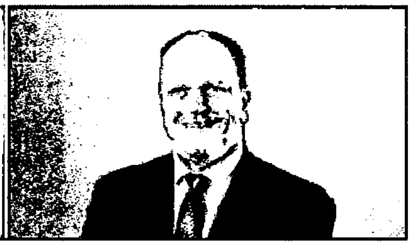
Jessica joined the Board as a non-executive director in September 2012. She is CEO of m/SIX, a full-service media agency which specialises in digital, direct and social media marketing, and is a Non-Executive Director of Quarto plc. Jessica has over 20 years' experience in the advertising and media industry and has previously been a non-executive director of Jacques Vert plc and TalkTalk plc.

Steven Glew
Group Finance Director

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

Chris Mangham
Chief Information Officer

Chris was appointed as Chief Information Officer in January 2015, and joined the Board in January 2016. He was previously IT Director at Mvideo PAO, MFI Retail and Booker Cash and Carry.



Peter Fuller
Group Operations Director

Peter Fuller joined UK Mail in April 2016 and was appointed to the Board in May 2016. Peter joined from Parcelforce Worldwide where he worked for 20 years in a variety of operational and commercial roles, most recently as Operations Director from 2011.

Chairman's letter

Dear Shareholder,

I am pleased to present the Board's annual report on corporate governance.

In September 2014, the Financial Reporting Council ('FRC') published the latest version of its UK Corporate Governance Code 2014 (the 'Code') which included a number of changes around directors remuneration, risk management and internal control. In the Corporate Governance Report that follows, you will read how the Group has applied the principles of the Code, and gain an understanding of the framework of governance within UK Mail.

The report includes individual reports from the Chairmen of the Audit Committee, the Nomination Committee and the Remuneration Committee which together describe how we conduct our business in line with the Code's provisions and other accepted principles of good corporate governance.

One of the new requirements of the Code is for Boards to publish an annual Viability Statement, which you can find within the Directors' Report on page 57. I particularly welcomed the discussions the Board had in revisiting the Group's risk appetite, which was largely prompted through the implementation of the Code within UK Mail, and to provide assurance to the conclusions reached within the Viability Statement. You will find details of this work in this regard, in the reports that follow.

However, as I stated last year, good corporate governance is not simply about the adherence to detailed codes of practice but rather about the creation of the appropriate framework such that people are clear about their roles, responsibilities and accountabilities. At its core, it defines what is and what isn't acceptable.

The Board carries a key responsibility in this regard, for it is they that provide the effective leadership of the company, and they that promote the most uncompromising ethical standards, principles and practices, for those around them to follow. I am pleased that my Board equally share this view, and that collectively our commitment to these core principles remains unchanged.

During 2015/16 following the departure of our previous Chief Executive and Group Operations Directors, the Board was refreshed with the internal appointment of Chris Mangham as Chief Information Officer and Peter Fuller (ex Parcelforce) as the Group Operations Director.

On behalf of the rest of the Board, I would like to take this opportunity to welcome both Chris and Peter to the Board.

The search for a new CEO is underway and we will advise shareholders immediately an appointment is made. In the meantime I have taken on the role of Executive Chairman and am sure that with the support of our strong management team, the business will continue to make progress.

I am confident that these changes, combined with the existing skills and experience of our longer serving directors, will strengthen the Board as we look to the future of the Company, and the challenges that lie ahead.

Finally, I would once again encourage you to attend our AGM, which will be held at the offices of Investec, 2 Gresham Street, London, EC2V 7QP at 12:00 noon on Thursday 14 July 2016.

Peter Kane
Chairman of the Board
23 May 2016

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 2014 (the 'Code'), and whether there has been compliance with its provisions throughout the financial year. A copy of the Code may be found on the Financial Reporting Council's website (www.frc.org.uk).

The Company is a smaller company for the purposes of the Code and in consequence certain provisions of the Code either do not apply to the Company or may be judged to be less relevant to the Company.

The directors consider that the Company has complied with the provisions of the Code applicable to it throughout the financial year ended 31 March 2016, save for the independence of the Chairman (See 'Board Independence' on page 45).

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 42 to 47.

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 48 to 52.

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 54 to 55.

Remuneration Committee

The Remuneration Committee is responsible for determining all elements of remuneration for the executive directors and senior executives of the Group and for approving all incentive plans. Further details on the activities of the Remuneration Committee are provided on pages 63 to 85.

Company Secretary

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

Risk Management Committee

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

Corporate governance report continued.

Internal audit

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

External audit

The external audit function provides independent audit and review.

Executive directors

The Group's executive directors have day-to-day responsibility to execute the strategy approved by the Board and comprise of the Chief Executive (whose role is currently being covered by the Chairman pending the recruitment of a new CEO) , the Group Finance Director, the Group Operations Director and the Chief Information Officer.

Senior executive management

The Group's senior executive management provide the first line of support to the executive directors, and include the most senior operational and functional heads.

Administrative Committee

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

The Board

The Board is collectively responsible for the long-term success of the Company and is ultimately accountable to shareholders and other stakeholders for the Group's strategy, risk management and performance. Additionally, the Board sets the Group's values and standards and ensures that it acts ethically and that its obligations to its shareholders are understood and met.

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

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

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

The Board routinely monitors the various financial, operational and commercial risks facing the Company through reports from management, and takes full consideration of legislative, health and safety, environmental, employment and governance issues. In forming decisions the Board considers the impact on wider stakeholders including employees, suppliers and the environment.

Internal control

The Board of directors has overall responsibility for ensuring that the Group maintains a system of internal control to provide it with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations, whilst the role of management is to implement the Board's policies on risk and control and provide assurance on compliance with those policies.

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

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

- The Board agrees the corporate strategy and business objectives to be followed over both the medium term (a three year plan), and in the short-term (annual budgets/forecasts), which divisional management incorporate into their own financial and operational plans;
- Periodic reporting, and subsequent review and discussions with relevant management of business development, KPI achievement, health and safety, operational and financial performance;
- Centralisation of certain key functions such as HR, Legal and Treasury enabling the Group to benefit from centres of expertise in the most efficient and cost effective manner;
- Proposed capital investment and I.T. project implementations require detailed justification, review and appraisal, prior to any approvals being granted, and post-implementation reviews are undertaken;
- Clearly defined hierarchy of responsibilities, including authorisation levels, and documentation of operational and administrative procedures;

- A Group-wide risk management framework, which accords with the Turnbull guidance, and is supported by reports by the Head of Internal Audit and Group Risk that the significant risks faced by the Group are being identified, evaluated and appropriately managed having due regard to the balance of risk, cost and opportunity; and
- A whistle-blowing policy which sets out a framework for dealing with any allegations of fraud, financial misreporting and any other whistle-blowing notification.

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

Within that context, the Audit Committee, on behalf of the Board, has conducted reviews of the effectiveness of the system of internal controls and processes described above, as recommended by the UK Corporate Governance Code, 2014, and is satisfied that it accords both with the Code and Turnbull guidance.

Financial reporting

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

The main control aspects are as follows:

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

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

Board composition

The Board currently comprises the Chairman, the Group Finance Director (who is also the Company Secretary), the Group Operations Director, the Chief Information Officer and three independent Non-executive directors.

Clarity of the responsibilities of, and constructive working relationships amongst our Directors, are at the heart of our Board achieving its maximum potential. Most important in these are the clarity between, and the segregation of, the individual responsibilities of the roles of Chief Executive Officer and Chairman. As recommended by the UK Code, we have a clear written division of responsibilities between these roles. However, following the departure of Guy Buswell as Chief Executive Officer during the year, I have assumed interim responsibility for this role whilst we search for a replacement.

Mindful of this dual role, Michael Findlay, our Senior Independent Director, has agreed to provide additional oversight of Board processes pending my handing back of my current executive responsibilities once a new Chief Executive is appointed.

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

The Chief Executive's role is to take prime responsibility for all executive management matters affecting the Company on a day-to-day basis and to ensure the implementation of Board strategy and policy.

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

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

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

As can be seen from the director's profiles on page 39, 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.

Corporate governance report continued.

Board meetings

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

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

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

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

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

Board 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.

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 [1]	12	12
Jessica Burley	1 Sept 2012	Independent Non-executive Director	12	12
Michael Findlay	1 Sept 2009	Senior Independent Non-executive Director	12	12
Peter Fuller	17 May 2016	Group Operations Director	-	-
Steven Glew	5 June 2006	Group Finance Director	12	12
Chris Mangham	27 January 2016	Chief Information Officer	3	3
Bill Spencer	1 Nov 2011	Independent Non-executive Director	12	12

Past Directors	Date of termination			
Guy Buswell [2]	25 Nov 2015	ex Chief Executive	8	8
Carl Moore [3]	7 Oct 2015	ex Group Operations Director	5	6

1 - As at the date of this report Peter Kane holds the role of Executive Chairman (See Board Composition para on page 43)

2 - Guy Buswell was appointed to the Board on 5 December 2005

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

Time Commitment

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

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

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

Board changes during the year

On 7 October 2015 Carl Moore stood down from the Board, having served as the Group Operations Director since 2014.

On 25 November 2015 Guy Buswell stood down from the Board, having served as Chief Executive since his appointment in December 2005.

On the same day, and following a request from the Board, Peter Kane, the Group's Non-executive Chairman accepted the role of Executive Chairman whilst the search for a new Chief Executive began.

Subsequently, Chris Mangham was appointed to the Board on 27 January 2016 as Chief Information Officer, having joined the Company in January 2015, and on 17 May 2016, Peter Fuller was appointed to the Board as the Group Operations Director, having joined the Group in April 2016.

Following these changes the Board, excluding the Executive Chairman, comprises of an equal number of Executive and independent Non-executive directors.

Details of the current Board members and the composition of its committees can be found on pages 44 and 47.

Board evaluation

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

In addition, the Chairman regularly convenes meetings of the Non-executive directors to assess the performance of the Board in the absence of the Executive directors. Furthermore, both the independence and the performance of the Chairman were discussed separately by the Non-executives without the Chairman present.

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

Controlling shareholders

The Company is controlled by a number of parties who together have an aggregate shareholding in excess of 50% of the issued share capital of the Company. These parties, together known as the 'Controlling Shareholder's', entered into a written and legally binding relationship agreement with the Company on 7 July 2015; the prime purpose of which is to ensure that the Group can continue to operate its business independently of its controlling shareholders.

Under the Relationship Agreement with the Controlling Shareholders, the Controlling Shareholders have undertaken that they will not:

- take any action that would preclude or inhibit any member of the Group from operating independently of the Controlling Shareholders;
- take any action that would prevent UK Mail from complying with its obligations under the Listing Rules;
- propose any shareholder resolution which is intended to circumvent , or appears to circumvent the Listing Rules;
- conduct any transaction or arrangement with the Group other than on an arms' length basis and on normal commercial terms;
- exercise any voting or other rights and powers to procure or propose, or vote in favour of, any resolution for an amendment to the Articles which would breach the provisions of the Relationship Agreement or the Listing Rules or the Disclosure and Transparency Rules (DTR), including without limitation the Corporate Governance Code, or would prevent the Group from carrying on business independently of the Controlling Shareholders;
- act in any way which it knows will render UK Mail Group plc. unsuitable for continued listing on the London Stock Exchange; and
- vote on any resolution to approve a 'related party transaction' where any Controlling Shareholder is the related party.

The Relationship Agreement will remain in full force and effect whilst the Company's ordinary shares can be publicly traded and the Controlling Shareholders, together with any persons acting in concert with them, control (whether directly or indirectly) in aggregate 30% or more of the votes to be cast at General Meetings of the Company.

So far as the Company is aware, the independence provisions outlined above have been complied with by the Controlling Shareholders, and the Company has complied with the terms of the Relationship Agreement.

Board Independence

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

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

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

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

Corporate governance report continued.

Directors' conflicts of interests

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

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

- changes to the commitments of all Directors are reported to the Board;
- the Directors are required to complete a conflicts questionnaire on appointment and annually thereafter;
- any conflicts identified are presented to the Board for consideration and, as appropriate, authorised in accordance with the Companies Act 2006 and the articles of association; and
- Directors are responsible for immediately notifying the Company Secretary if they become aware of any actual or potential conflict situation or a change in circumstances relating to an existing authorisation

The Board follows an established procedure when deciding whether to authorise an actual or potential conflict of interest. Only independent directors (i.e. those who have no interest in the matter under consideration) will be able to take the relevant decision. Furthermore, the directors may, if appropriate, impose limits or conditions when granting authorisation.

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

Relations with shareholders

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

In addition, the Chairman periodically attends meetings with shareholders, and Non-executive directors are invited to attend results presentations.

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

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.

Where an AGM Resolution is in respect of the election or re-election of a Non-executive director, the Company will determine whether such approval has been given by discounting from the result of the vote on each resolution the votes of those shareholders who are identified as 'controlling shareholders' of the Company. Separate approval will be given by the independent shareholders if it is given by independent shareholders representing a simple majority of the total voting rights of independent shareholders who vote.

The proxy votes for and against each resolution, as well as votes withheld are both counted and announced inclusive and exclusive of the controlling shareholders votes.

Board Committees

The Board receives advice and support from three committees, being the Audit, Remuneration and Nomination Committees. Membership of these committees as at 23 May 2016 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 review of the Group's annual financial statements and interim financial information
- 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, bonuses and other benefits
- Monitors the level and structure of remuneration for the first layer of management below Board level
- Approves initial grants, any modifications and subsequent vesting of all share-based incentives
- Responsible for appointing remuneration consultants

Audit Committee Report

Bill Spencer
Chairman of the Audit Committee

"During the year, the Committee has continued its review and monitoring work, supporting the Board in ensuring good governance."

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 to:

- Monitor the integrity of the financial statements of the company including its Annual Reports, Interim Reports, and preliminary results announcements, having reviewed the most significant financial reporting issues and judgements that they may contain;
- Advise the Board on whether the Committee believes that the Annual Report when taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- Assess the effectiveness and integrity of the Group's risk management and internal control framework, including the role and effectiveness of the internal audit function;
- Review the Group's Going Concern assumption and Viability Statement;
- Ensure that the Group maintains suitable arrangements for employeees, contractors, customers or other external parties to raise matter of concern in complete confidence ('whistleblowing');
- Review the Group's regulatory compliance framework and the systems and controls for the prevention of fraud and bribery; and
- Approve and appoint the external auditors, including review of their terms of engagement, fees, independence, performance and effectiveness.

Governance

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

Audit Committee membership, meetings and attendance

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

Other attendees

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

Activities

The committee met four times during the year, and reports of these meetings were provided to the subsequent Board meetings. The main areas of focus considered by the Committee during the year were as follows:

Financial reporting

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

The significant judgements considered by the Committee were:

Exceptional items: The Committee reviewed the composition, accounting treatment and related disclosures of the items classified in the Statement of comprehensive Income as 'exceptional items', and agreed that the accounting presentation was correct and compliant with the Group's policy. In forming their view, the Committee considered management prepared papers and received reports from the external auditor all of which described the supporting rationale, key judgements and assumptions made.

Exceptional items - HS2 costs and compensation:
The Committee considered the costs highlighted as incurred in connection with HS2 and agreed with the accounting treatment and disclosure of these in the financial statements along with the related compensation from HS2 Ltd.

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

Asset impairment: The Committee further received a paper from management on the status of the Goodwill asset held on the Balance Sheet in respect of the Parcels Specialist Services CGU (see note 10), and considered the appropriateness of the assumptions therein, through challenging managements assumptions of the expected future performance of the business and the discount rate used.

After consideration of the report prepared by the external auditors, the Committee was satisfied that the disclosures in the Annual Report were appropriate. The Committee concluded that the assumptions regarding future performance were reasonable and that the results of sensitivity modelling resulted in headroom above the carrying value. Therefore no impairment had occurred.

Additionally, the Committee reviewed the carrying value of all the Group's remaining reported assets within the Consolidated Balance Sheet and considered that no further impairment provisions were necessary.

Going concern: Prior to the publication of both the half-year and the full-year results, the Committee considered going concern papers prepared by management, and taking into account the internal auditors' review of these papers and their assumptions, concluded that management's recommendation to prepare the financial statements on a going concern basis was appropriate. The papers included the forecast short-term and medium-term spending requirements, the forecast Department of Transport (DfT) and HS2 Ltd compensation receipts, and the Group's available committed banking facilities over these periods.

Viability

The Committee provided assistance to the Board in relation to the Viability Statement (see page 57 of the Directors' Report). The Committee received and considered a paper prepared by management, and challenged the work undertaken and the key assumptions therein. The paper included an assessment of the resilience of the business in the event that it faced a severe but plausible combination of risks as identified from the Group's Risk Registers.

Fair, balanced and understandable

At the request of the Board, the Committee considered whether the Annual Report was 'fair, balanced and understandable', and whether it provided the necessary information for shareholders to assess the Company's performance, business model and strategy. In forming this conclusion, the Committee considered the overall review and confirmation process around the production of the Annual Report including reports received from executive and senior management, internal audit and external auditors.

In reviewing these processes, key considerations included ensuring that there was consistency between the financial statements together with supporting notes, and the narrative largely provided in the front half of the Annual Report, and that there was a complete, appropriate and fair balance of reporting both the Group's failures as well as successes.

Accounting policies and standards

The Committee received papers from management on the potential effects and requirements on the Group of implementing IFRS 15 'Revenue from Contracts with Customers' (effective on or after 1 January 2017), and a number of proposed minor edits to the Group's Principal Accounting Policies (as detailed in note 1), which the Committee accepted.

Risk management and internal control

As noted in the Principal risks and uncertainties section on page 27, the Board, who has prime responsibility for reviewing the effectiveness of the risk management framework within the Group, has agreed a policy of a minimum four risk reviews each year; two of which they undertake directly with two reviews delegated to the Audit Committee.

These reviews encompass the key operational, compliance and financial risks the Company faces. The Committee therefore reviewed the following;

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

As part of this work, the Committee reviewed and discussed the key risks judged by the Board to have the largest potential impact on the Group, further details of which can be found on pages 27 to 31.

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

Whistle blowing and fraud: The Committee received reports of suspected fraud, bribery or other malpractices from both the whistle blowing hotline and the work of internal audit. The Committee reviewed not only the nature and cause of those incidents, but the subsequent actions taken by management to resolve and prevent recurrence. The Committee further agreed, that following analysis of the wide source from which the Group received hotline incidents, that the Group was doing all it could to encourage suppliers, sub-contractors or employees to raise any malpractice or dishonest concerns in complete confidentiality.

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

Loss prevention and Business Continuity: The Committee received a number of loss prevention, business continuity and information security management reports from the Head of Loss Prevention during the year. The Group retained its ISO 27001 certification for information security management.

In conjunction with the Board, the Committee further agreed with the approach taken in developing the Ryton Business Continuity plan.

The effectiveness of internal controls and the risk management framework

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

The Committee noted that the framework of IT internal control continued to improve across the Company in 2015/16. However, the Committee is mindful that there remains much still to be done and consequently the Committee will continue to monitor the progress of performance against the medium-term IT plan on a regular basis, over the coming years.

Internal audit

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

Internal audit plan: The Internal Audit Plan, which is initially determined by the Head of Internal Audit and Group Risk through a structured process of risk assessment, was reviewed by the Committee twice during the year, with a number of priorities changed as a result. This included a discussion over the value and relative merits of sourcing the internal IT audit function from the Group's externally sourced IT audit resource, Deloitte LLP, or whether to administer in-house, with the latter option chosen in the short-term.

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

The Committee reviewed the scope of the work undertaken and discussed the results of Internal Audit's activities including the quality and timeliness of managements responses. In particular, the Committee had noted a deteriorating trend in the number of outstanding actions dependent on an I.T. solution, and made a number of recommendations and proposals to management to address.

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

External audit

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

Audit scope: The scope, fee, and performance of the external auditors were considered by the Audit Committee. The Committee considered the external auditors risk assessment (of significant and elevated risks) in relation to the Group's financial statements, which for this year were; the accounting treatment and disclosure of exceptional items, the accounting treatment and disclosure of HS2 costs and compensation, the risk of fraud in revenue recognition, management override of controls, and provisions against revenue. Additionally, the Committee also considered the materiality threshold, both as regards the level at which individual accounting errors would be brought to the Committee's attention, and as regards the level that the accounts would need to be adjusted such that the financial statements then give a true and fair view. Throughout the year, the Committee monitored these risks and the associated work undertaken by the external auditors.

Audit effectiveness: The Committee considered the robustness and coverage of the 2015/16 external audit and the degree to which PriceWaterhouseCoopers LLP was able to assess key accounting and audit judgements and the internal control recommendations identified from their work. In forming their opinion the Committee considered the content of their reports, the degree to which the agreed audit plan had been fulfilled, the significant control weaknesses identified, (together with their recommended solutions to these), the interaction between management and the auditors (including the dedication of sufficient management time to the audit process), the experience and expertise of the auditors, their overall audit judgments and findings, and communication with, and support, to the Committee.

The Audit Committee concluded that both the audit and the audit process were effective.

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

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

Auditor independence: The Committee has in recent years followed the developments in relation to the reform of the external audit market with interest. Following the implementation of the EU Audit Directive in June 2016, the Committee considered the Group's policy on the tenure of the external auditor, and agreed that the Group should ensure that the external audit is put out to tender at least once every ten years, recommending that the Board amend the Committee's Terms of Reference accordingly. There are no contractual obligations restricting the Company's choice of external auditor.

The external audit was last put out to tender in 2011, after PricewaterhouseCoopers LLP had been in tenure since the year ended 31 March 2003, following which the Audit Committee recommended the reappointment of PricewaterhouseCoopers LLP to the board, which was subsequently ratified by shareholders at the 2012 Annual General Meeting. A new lead audit partner, Jaskamal Sarai, was appointed at this time.

The external auditors are required to rotate the audit partners responsible for the Group and subsidiary audits at least every five years, and employees of the external auditor who have worked on the audit in the past two years are not appointed to senior financial positions within the Group. In line with this policy, and following the completion of five years in the position of lead audit partner, Jaskamal Sarai will step down at the 2016 Annual General Meeting.

Consequently, the Audit Committee approved the proposed appointment of a new lead partner, for the Group's audit with effect from the 2016/17 interim reporting cycle, having considered both his independence and his current sector experience.

The Committee further reviewed and considered a paper prepared by management on the Group's policy in relation to Non-audit fees, in light of the EU Directive. The Committee, having challenged the practical application of a number of proposals in the paper, agreed to a subsequent revision which can be viewed on the Company's website www.ukmail.com.

The policy specifically details a number of services which are not permitted to be provided by the external auditor, including those activities normally undertaken by management, where the auditor would be rewarded through a success fee, or where the auditor could be required to audit their own work.

The policy permits the external auditors to provide a number of specified non-audit services to the Company without reference to the Committee where the work is consistent with the role of the external statutory audit, or is a logical extension of the audit, or is of an assurance or compliance nature where the auditors must or 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.

However, where the engagement of services for a single activity is over £50,000 or would take the cumulative total of non-audit fees paid to the external auditors over 50% of that years' audit fee, the engagement must be approved by the Audit Committee, and in any event must not exceed 70% of that year's audit fee.

During the year, the Committee appointed the Group's auditors to undertake due diligence services in connection with a potential business transaction.

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

Given the type of non-audit fees provided and at less than 7% of the external audit fee of £160,000, the Committee considers that they are not of a nature or at a level that compromises the objectivity or independence of the auditors. The auditors further confirmed their independence to the Committee in a formal statement.

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

Upon the recommendation of the Audit Committee, a resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the company will be proposed to shareholders at the 2016 AGM to be held on 14 July 2016.

Bill Spencer
Chairman of the Audit Committee
23 May 2016

Remuneration Committee

Michael Findlay
Chairman of the Remuneration Committee

Role and responsibilities

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

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

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

Remuneration Committee membership, meetings and attendance

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

Further details of the Committees' membership, activities during the year and responsibilities together with details of director's remuneration can be found within the Remuneration Report on page 63.

Michael Findlay
Chairman of the Remuneration Committee
23 May 2016

Nomination Committee

Peter Kane
Chairman

Role and responsibilities

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

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

The main responsibilities of the Nomination Committee are summarised below:

Composition of the Board and its committees

The Nomination Committee is responsible for a number of matters relating to the composition of the Board and it's 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.

Diversity

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

Performance evaluation

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

Re-election of directors

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

Nomination Committee membership, meetings and attendance

Director	Date of appointment	Position	Actual number of meetings attended	Possible number of meetings attended
Peter Kane – Chairman	10 July 2001	Chairman	3	3
Jessica Burley	1 Sept 2012	Independent Non-executive Director	3	3
Michael Findlay	1 Sept 2009	Senior Independent Non-executive Director	3	3
Bill Spencer	31 May 2012	Independent Non-executive Director	3	3

Nomination Committee Activity during the year

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

- A review of the size, structure and composition of the Board;
- The annual review and approval of the Committee's Terms of Reference;
- An initial review of the results of the annual Board evaluation exercise, prior to a subsequent full Board discussion (see page 45);
- Consideration and recommendations to the Board in respect of Carl Moore stepping down as Group Operations Director with effect from 7 October 2015;
- The recruitment of Peter Fuller initially to the Group's Operating Board on 5 April 2016 following the appointment of Odgers Berndtson, an external executive search consultant, whose advice was considered objective and independent;
- Consideration and recommendations to the Board in respect of Guy Buswell stepping down as Chief Executive with effect from 25 November 2015;
- The approval of the recommendation that Peter Kane act as Executive Chairman with effect from 25 November 2015, whilst the search for a permanent replacement commenced;
- Following these changes, the subsequent recommendation to appoint Peter Fuller to the main Board with effect from 17 May 2016;
- The consideration and approval to appoint Chris Mangham as the Group's Chief Information Officer to the main Board with effect from 27 January 2016;
- A review of the time commitments required of the Non-executives; and
- The re-appointment of those directors standing for re-election at the AGM

Diversity

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

Following the appointment of one female director in 2012, and the changes to the Board referred to above, the Board now has 14% female representation. Whilst the Board remains supportive of the aims of the Davies Report on Women on Boards, it does not believe that the setting of a specific target for a small Board is necessarily appropriate, as there is a real risk of overlooking other well-qualified candidates.

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

AGM election and re-election of directors

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

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

Peter Kane
Chairman
23 May 2016

Directors' report

The directors present their Annual Report and the audited consolidated accounts of UK Mail Group plc for the year ended 31 March 2016.

Strategic report

The Companies Act 2006 requires us to present a fair review of the business during the year to 31 March 2016 and of the position of the Group at the end of the financial year along with a description of the principal risks and uncertainties faced (known as a 'strategic report'). The purpose of the strategic report is to enable shareholders to assess how the Directors have performed their duty under Section 172 of the Companies Act 2006 (duty to promote the success of the Company). The information that fulfils the requirements of the strategic report can be found on pages 9 to 38.

Corporate governance report

The Disclosure and Transparency Rules require certain information to be included in a corporate governance statement in the Directors' report. Information that fulfils the requirements of the corporate governance statement can be found in the Corporate Governance report on pages 41 to 55 and is incorporated into this Directors' report by reference.

Results and dividends

The profit for the financial year of £11.9 million is reported in the Consolidated Statement of Comprehensive Income on page 92. The directors recommend a final dividend of 10.9p per share (2015: 14.5p), payable on 26 August 2016 to shareholders on the register on 29 July 2016. This gives a total dividend for the year of 16.4p per share (2015: 21.8p).

Political donations

The Group did not make any political donation or incur any political expenditure during the year (2015: £nil).

Research and development

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

Greenhouse gas emissions

Details of the Group's greenhouse gas emissions (as required to be disclosed under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013) are set out on page 34 of the strategic report.

Directors and their interests

The directors of the Company who were in office during the year and up to the date of signing this Annual Report are listed in the Corporate Governance Report on page 44.

A list of directors, their interests in the ordinary share capital of the Company, their interests in its long-term incentive and share matching plans, together with details of their options over the ordinary share capital of the Company are given in the Remuneration Report on pages 63 to 85.

Brief particulars of the directors in office as at the date of this Report are shown in the Board of Directors section of this Annual Report on page 39.

Directors' indemnities

The Company maintains insurance against certain liabilities which could arise from a negligent act or a breach of duty by its directors and officers (including former directors and officers who have held office during the year ended 31 March 2016) in the discharge of their duties. This is a qualifying third-party indemnity provision as defined in section 234 of the Companies Act 2006.

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

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 32.

Environmental responsibility and health and safety

A statement on the steps taken to operate the business in pursuit of good environmental and health standards is set out in the Corporate Responsibility report on page 34.

Financial instruments

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on page 9. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described in the Strategic Report. The Strategic Report and note 25 to the financial statements include a description of the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk.

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

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years. A period of three years has been chosen for the purpose of this viability statement, in line with the Group's three year plan.

The Directors' assessment has been made with reference to the Group's current position and prospects, the Group's three year plan, the Board's risk appetite and the Group's principal risks and uncertainties, as detailed in pages 27 to 31 of the Strategic report.

The Group's three year plan and associated principal risks, which the Directors review at least annually, are a foundation of the Group's strategic plan and scenario testing. The plan makes certain assumptions about the volume and pricing of parcel and mail consignments, the ability to refinance debt as it falls due and the acceptable performance of the core business revenue streams and market segments.

The plan is stress tested using sensitivity analysis which reflects plausible but severe combinations of the principal risks of the business, primarily through reducing revenues and cash-flows, allowing for the mitigating actions the Group could take.

Notwithstanding that the Group has net current liabilities of £10.7m at 31 March 2016 the directors have assessed the principal risks and other matters in connection with the Viability Statement above, and have concluded that it is appropriate to adopt the going concern basis of accounting in the preparation of the financial statements.

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 £1,525,938. During the year ended 31 March 2016, 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 5,474,061 shares (representing approximately 10% of its issued share capital at 19 May 2015) remained in force at 31 March 2016.

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

Details of the movement in the authorised and issued share capital of the Company during the financial year to 31 March 2016 and of the outstanding options over shares in the Company at 31 March 2016 can be found in note 23 to the financial statements on page 128.

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.

Directors' report continued.

Voting rights

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

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

In accordance with section 327 of the 2006 Act, in order to be valid, any form of proxy sent by the Company to shareholders or any proxy registered electronically in relation to any general meeting must be delivered to the Company's registrars not later than 48 hours before the time fixed for holding the meeting (or any adjourned meeting). In calculating the 48 hour period no account shall be taken of any part of a day that is not a working day. Full details of the deadlines for exercising voting rights in respect of the 2016 AGM are set out in the Notice of AGM.

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

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

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

Liquidation

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

Transfer of shares

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

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

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

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

All share transfers must be registered as soon as practicable.

Change of control – significant agreements

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

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

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

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

Amendment of the Company's Articles of Association

Any amendments to the Company's Articles of Association may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution.

Appointment and replacement of directors

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

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

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

Substantial shareholders

As at 18 May 2016, in accordance with the Disclosure and Transparency Rules the Company had been notified of the following substantial shareholdings, other than those of the Directors, in the issued share capital of the Company:

	No. of shares	As a percentage of the issued share capital
Mr John Kane	15,549,127	28.19%
Mr Michael Kane	5,300,000	9.61%
M & G Investment Management	5,147,139	9.33%
Hargreave Hale	4,363,180	7.91%
FIL Limited	3,268,223	5.93%
Unicorn Asset Management	3,233,400	5.86%
Mr Matthew and Mrs Joanna Bailey	3,033,333	5.50%

Mr John Kane and Mrs Joanna Bailey are the adult children of Peter Kane. Mssrs John Kane, Michael Kane, Matthew and Joanna Bailey are all parties to the Controlling Shareholders Relationship Agreement as described on page 45 of this report.

As at 23 May 2016, the Company has not been notified of any changes to the above, pursuant to the requirements of Rule 5 of the DTR. Any such information provided to the company pursuant to the DTR is published on a Regulatory Information Service and on the Company's website.

Post balance sheet events

There were no post balance sheet events.

Other disclosures under listing rule 9.8.4

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

Annual General Meeting

The Annual General Meeting ('AGM') will be held at the offices of Investec, 2 Gresham Street, London EC2V 7QP on Thursday 14 July 2016 at 12:00 noon. A letter from the Chairman and the Notice of Meeting ('Notice') is made available to all ordinary shareholders at least 21 working days before the meeting and may be found at www.ukmail.com.

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

At last year's AGM, shareholders approved the Directors' Remuneration Policy as part of the Directors' Remuneration Report. The Directors' Remuneration policy is not therefore required to be approved at this year's AGM. However, under the Companies Act 2006, the remuneration policy must be put to shareholders at least every three years or earlier if during that time changes to the policy are proposed.

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

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

Directors' report continued.

Annual General Meeting - independent director resolution

Resolution 7 relates to the re-election of Michael Findlay, an independent director.

In May 2014, the Financial Conduct Authority ("FCA") brought into force new rules which provide protections for the independent shareholders of a premium listed company in which there is a 'controlling shareholder' (defined by the FCA as "any person who exercises or controls, on their own or together with any person with whom they are acting in concert, 30% or more of the votes able to be cast on all or substantially all matters at general meetings of the company"). Under these rules, the election or re-election by the shareholders of an independent Director must be approved by an ordinary resolution of the shareholders and separately approved by the independent shareholders. If the ordinary resolution to approve the election or re-election of an existing independent Director is passed, but separate approval by the independent shareholders is not given, the Listing Rules permit an existing independent Director to remain in office pending a further ordinary resolution of all the shareholders to approve the election or re-election of that Director. Such a resolution may only be voted on within the period of between 90 days and 120 days following the date of the original vote.

The Company intends to seek the separate approval of its independent shareholders for resolution 7 proposing the re-election of Michael Findlay, an independent Director. Such approval will be sought following the vote on resolution 7 by the Company's shareholders. The Company will determine whether such approval has been given by discounting from the result of the vote on resolution 7 the votes of those shareholders who are identified as 'controlling shareholders' of the Company as at 12 July 2016.

Separate approval will be given by the independent shareholders if it is given by independent shareholders representing a simple majority of the total voting rights of independent shareholders who vote. The Company will, on announcing the result of the AGM, announce, in respect of resolution 7, the result of both the vote of all the shareholders of the Company and the vote of the independent shareholders.

If separate independent shareholder approval is not given for resolution 7, the Company intends that the relevant appointment will continue for 120 days from the date of the original vote, unless a further ordinary resolution for re-election is passed, in which case Michael Findlay will be re-elected. If a further resolution to approve the re-election of Michael Findlay is defeated, his appointment will cease on that resolution being defeated.

Annual General Meeting - special business

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

Resolution 10

Resolution 10 renews a similar authority given at last year's Annual General Meeting and, if passed, will authorise the directors to allot shares in the Company (and to grant such rights) up to an aggregate nominal amount of £1,484,756. If given, this authority will expire at the conclusion of the Company's next Annual General Meeting or on 13 October 2017 (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 Investment Association ('IA') Share Capital Management Guidelines issued in July 2014.

Resolution 11

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

Resolution 11, which will be proposed as a special resolution, renews a similar power given at last year's Annual General Meeting and, if passed, will enable the directors to allot equity securities for cash up to a maximum aggregate nominal amount of £551,524 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 £551,524 (which represents approximately 10% of the issued ordinary share capital of the Company as at 18 May 2016).

The Company has issued 410,636 ordinary shares in the last year and 418,273 ordinary shares in the last three years on a non-pre-emptive basis, representing 0.745% and 0.758%, respectively, of the issued ordinary share capital of the Company. This is in line with guidance issued by the Investment Association and the Pre-Emption Group's statement of Principles, as updated in March 2015, which provides that a company should not, without prior consultation with its shareholders, issue shares representing:

- more than 5.0% of its issued ordinary share capital on an unrestricted basis in any one year, or
- more than 7.5% of its issued ordinary share capital in any rolling three year period, other than on a pre-emptive basis.

If given, this power will expire at the conclusion of the Company's next Annual General Meeting or on 13 October 2017 (whichever is the earlier). It is the directors' intention to renew this power each year.

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

Resolution 12

Resolution 12, which will be proposed as a special resolution, renews a similar authority given at last year's Annual General Meeting. If passed, it will allow the Company to purchase up to 5,515,243 ordinary shares in the market (which represents approximately 10% of the issued ordinary share capital of the Company as at 18 May 2016). 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 13 October 2017 (whichever is the earlier). It is the directors' intention to renew this authority each year.

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

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

While held in treasury, the shares are not entitled to receive any dividend or dividend equivalent (apart from any issue of bonus shares) and have no voting rights. This power will only be exercised if and when, in the light of market conditions prevailing at that time, the directors believe that such purchases would increase earnings per share and would be for the benefits of shareholders generally. The directors will have regard to institutional shareholder guidelines which may be in force at the time of any such purchase, holding or re-sale of shares held in treasury. As at 18 May 2016, the Company holds no ordinary shares in treasury.

As at 18 May 2016 (being the last practicable date before the publication of this document), there were options outstanding over 762,633 ordinary shares in the Company (which represents 1.38% 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 1.54% of the issued ordinary share capital of the Company.

Resolution 13

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

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

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

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

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU'). 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 EU have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the International Accounting Standards ('IAS') Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Each of the directors, whose names and functions are listed on page 44 confirm that, to the best of their knowledge:

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

The directors also confirm that:

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

The Directors' responsibilities statement was approved by a duly authorised Committee of the Board of Directors on 23 May 2016 and signed on its behalf by Steven Glew, Company Secretary.

By order of the Board

Steven Glew
Company Secretary

Cautionary Statement

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

Chairman of the Remuneration Committee's Annual Statement

Dear Shareholder,

I am delighted to have the opportunity to provide you with the Directors' Remuneration Report for the year ended 31 March 2016.

This report is split into three sections namely:

- This Annual Statement, which summarises and explains the key activities and decisions made during the year;
- The Remuneration Policy as approved by shareholders at our 2015 AGM with 99.77% support and which is subject to a binding shareholder vote at least every three years; and
- The Annual Report on Remuneration (which explains payments made in the year under review and how the policy will be operated for 2016).

The Annual Statement and Annual Report on Remuneration will be subject to an advisory vote at the 2016 AGM.

Performance and Reward for 2015/16

As set out in the Financial Review, 2015/16 was a disappointing year financially as the Group faced a number of challenges following the relocation of our National hub and head offices to Ryton, largely surrounding inefficiencies both in the newly installed automation equipment and within our national transport network.

Whilst the resultant management actions have started to improve the Company's fortunes, the impact of the trading challenges can be seen in the 49.2% fall in the Group's reported underlying profit before tax to £10.7m (2015: £21.0m).

Clearly, this financial performance determined that there would be no pay-out under the Group's annual bonus scheme.

Additionally, the LTIP awards granted in June 2013, which are due to vest in June 2016 failed both their EPS condition and their TSR condition, as the Group's total shareholder return ('TSR') over the three year vesting period was below the median rank required for vesting.

Similarly, the disappointing EPS outcome meant that the threshold target under the Group's Share Matching Plan ('SMP' and now ceased) was missed.

Consequently no awards will vest under the 2013 LTIP or the 2013 SMP and these awards will lapse.

This time last year we reported our intentions to grant an LTIP to executive and operational directors in the 2015/16 financial year.

In June 2015 a grant was made to Chris Mangham, who at the time was an Operating Board director, following his recruitment to the Group in January 2015.

At the time our financial performance was on track, but subsequently in August, we issued a profit warning to the stockmarket. As you will read elsewhere, the issues highlighted in that announcement continued for the majority of the rest of the year.

In light of this, and to mitigate the pressure on costs, the Committee considered that no further grants should be made to Executive directors during the year ended 31 March 2016.

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

I believe the above actions are illustrative of this.

Changes to the Board in 2015/16

We announced in October 2015 that Carl Moore had stepped down from the Board as Group Operations Director to pursue other interests, leaving the Company on 7 October 2015.

We subsequently announced in November 2015 that Guy Buswell had by mutual agreement stood down from the Board as Chief Executive on 25 November 2015, with Peter Kane, Non-executive Chairman accepting the role of Executive Chairman whilst the search for a new CEO got underway.

The Committee determined the termination packages of both Carl Moore and Guy Buswell in line with our agreed remuneration policy and at minimum cost. In summary, the Committee determined that neither Carl or Guy was eligible for a bonus in respect of 2015/16, and that save for the 2012 LTIP award, (which we reported last year had vested at 76.6% based on the financial results to 31 March 2015), all other awards lapsed on termination. We further mitigated costs by mutually agreeing with Guy a reduced nine month notice period, rather than the contracted 12 month period.

The Committee further agreed that Peter Kane's package should remain unchanged, despite his additional temporary executive responsibilities, given our intent to recruit a new CEO.

On 27 January 2016, we announced that Chris Mangham had been appointed to the Board, as Chief Information Officer on a salary of £200,000 deferred until 1 April 2016.

On the same day we also confirmed that Peter Fuller, who was serving his notice at Parcelforce ahead of joining UK Mail as an Operating Board director, would now be joining the UK Mail Board with effect from 17 May 2016, on a similar salary.

Remuneration report

This part of the Remuneration Report is unaudited

The Committee considers that these salaries are both below the market rate and may in the future consider increases above those awarded to the wider workforce subject to strong company and individual performance, in line with the Group's remuneration policy approved by shareholders at the 2015 AGM.

Wider workforce

Historically the Company's policy has been to apply salary increases from April each year. However, in light of the financial position in recent years, the Committee has with regret been unable to award a general pay increase to the wider workforce.

With the forecast improvements in the Group's fortunes, the Committee was therefore determined that the extraordinary efforts and dedication the wider workforce shows on a day-to-day basis should not go unrecognised and has approved a general pay award of 1.5% effective 1 April 2016.

Strategy

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

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

Summary

As set out elsewhere in this Annual Report, 2016 has been a challenging year for the business.

However, the Committee considers that its application of the Group's agreed policy, continues to reward executives appropriately for improvements in Company performance, rather than rewarding inappropriate risk taking, a goal shareholders support.

In this regard, I am pleased to note that at the 2015 AGM the Remuneration Report was approved by 99.96% of the votes cast and the Remuneration Policy by 99.77%.

I hope you recognise the Committee's efforts in protecting your interests through a disciplined application of the Group's Remuneration Policy and consequently recommend shareholders approve the resolutions to be put forward at this year's AGM, where I look forward to having the opportunity to meet you.

Michael Findlay
Chairman of the Remuneration Committee

23 May 2016

Remuneration policy report

The Remuneration Committee

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

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

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

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

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

Compliance Statement

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

The auditors have reported on certain parts of the Directors' Remuneration Report and stated whether, in their opinion, those parts of the have been properly prepared in accordance with the Companies Act 2006. Those sections of the Directors' Remuneration Report which have been subject to audit are clearly indicated. At our 2016 Annual General Meeting there will be a single advisory vote on the Annual Report on Remuneration and the Annual Statement by the Chairman of the Remuneration Committee.

Remuneration policy

This part of the remuneration report, the Director's Remuneration Policy, was approved by shareholders at the 2015 AGM held on 8 July 2015. Although not required by the regulations, the substantive terms of the policy are reproduced here for ease of reference. Any details, however, that were specific to 2015/16 (for example, the Composition of Remuneration Package charts) have been updated, where applicable, to reflect the current position. As no changes are being proposed, there will be no vote on the remuneration policy at the 2016 AGM. However, as the policy is subject to a binding shareholder vote by ordinary resolution at least every three years, the remuneration policy will be put to members again no later than the 2018 AGM. The Remuneration Policy is not audited.

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

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

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

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

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

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

Remuneration report continued.

This part of the Remuneration Report is unaudited

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

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

Remuneration report continued.

This part of the Remuneration Report is unaudited

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

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

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

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

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

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

Remuneration report continued.

This part of the Remuneration Report is unaudited

For the avoidance of doubt, in approving the policy report at the 2015 AGM, authority was given to the Company to honour any commitments previously entered into with current employees or former directors that had been disclosed previously to shareholders. This included any outstanding share matching awards made under the Share Matching Plan which has now been discontinued.

Incentive plan discretions

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

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

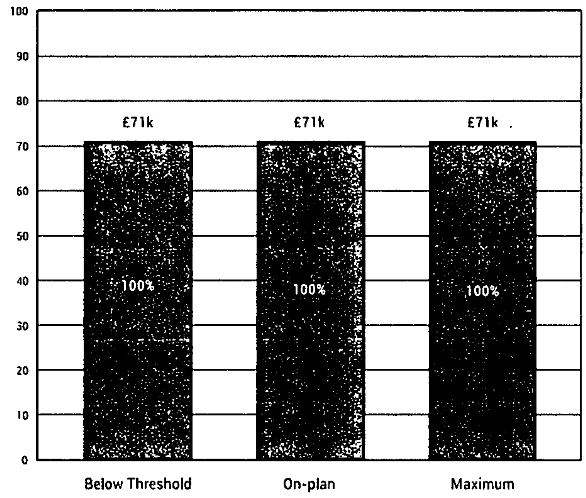
- Who participates in the plans;
- The timing of grant of award and/or payment;
- The size of an award and/or a payment;
- The choice of (and adjustment of) performance measures and targets for each incentive plan in accordance with the policy set out above and the rules of each plan (including the treatment of delisted companies for the purpose of the TSR Comparator Group);
- Discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- Determination of a good leaver (in addition to any specified categories) for incentive plan purposes based on the rules of each plan and the appropriate treatment under the plan rules;
- Adjustments required in certain circumstances (e.g. rights issues, corporate restructuring, on a change of control and special dividends).

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

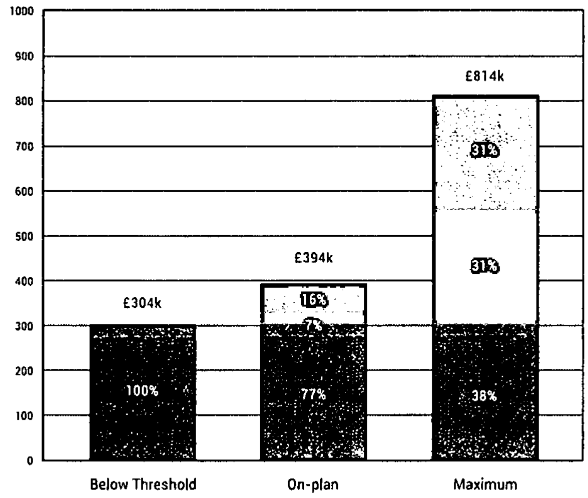
Composition of Remuneration Package for 2016/17

The charts below illustrate how the targeted composition of each Executive director's remuneration varies at different performance levels in the second year to which the remuneration policy applies, both as a percentage of total remuneration and as a total value:

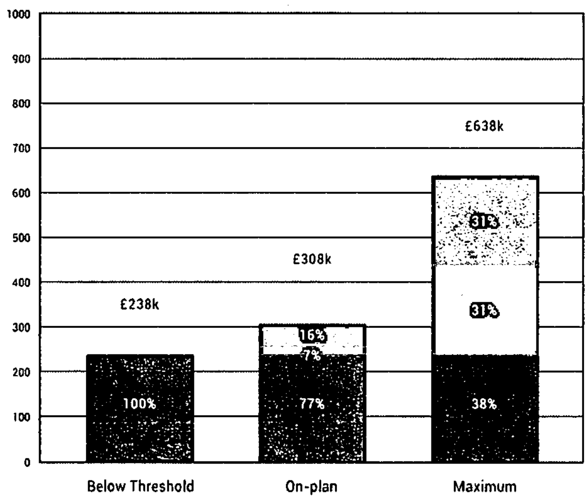
Executive Chairman



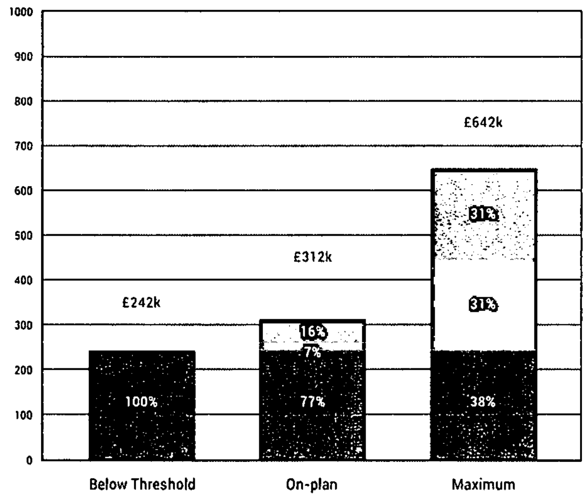
Group Finance Director

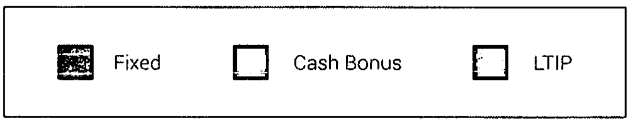


Operations Director



Chief Information Officer





Remuneration report continued.

This part of the Remuneration Report is unaudited

Notes to Charts:

1. Below Threshold: comprises fixed pay only i.e. base salary as applies at the start of 2016/17, value of 2015/16 benefits (save estimated value of 2016/17 benefits for the Group Operations Director and the Chief Information Officer), and pension contribution based on salaries as at the start of 2016/17
2. On-plan: bonus has been assumed to pay-out at 10% of the maximum, and 25% of the LTIP vests
3. Maximum: full pay-out of the annual cash bonus and LTIP
4. No share price growth has been modelled

External Appointments

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

Directors' Service Contracts and Termination Policy

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

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

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

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

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

Details of notice periods for the Executive directors who served during the year ended 31 March 2016 or were in office as at 23 May 2016 are noted in the table below:

Name of Director	Date of contract	Notice period
Guy Buswell [1]	31.03.06	12 months
Steven Glew	05.06.06	12 months
Peter Fuller [2]	28.01.16	12 months
Chris Mangham	26.01.16	12 months
Carl Moore [3]	08.04.14	12 months

1 - Guy Buswell stood down from the Board as Chief Executive on 25 November 2015

2 - Peter Fuller was appointed to the Board as Group Operations Director on 17 May 2016

3 - Carl Moore stood down from the Board as Group Operations Director on 7 October 2015

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

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

Non-Executive Directors

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

Non-Executive Director	Contract date	Unexpired term as at 31 March 2016
Jessica Burley	31.08.15	29 months
Peter Kane	01.10.01	Indefinite
Michael Findlay	31.08.15	29 months
Bill Spencer	30.09.14	19 months

How employees' pay is taken into Account

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

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

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

How Executive Directors' Remuneration Policy relates to the wider Group

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

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

How Shareholders' views are taken Into account

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

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

Remuneration report continued.

This part of the Remuneration Report is unaudited

Annual Report on Remuneration

The Annual Report on Remuneration together with the Annual Statement will be subject to an advisory vote at the 2016 AGM. The report sets out how the remuneration policy (as described in the Remuneration Policy Report) was applied during the year ended 31 March 2016 and how it will be applied for the year ending 31 March 2017.

Base salaries for executive directors

The annual rate of base salaries for 2016/17 for the Executive directors will be as follows:

	2016/17 £000	2015/16 £000	% Change
Steven Glew	255	255	-
Peter Fuller [1]	200	-	-
Chris Mangham [2]	200	-	-

1 - Peter Fuller was appointed to the Board on 17 May 2016. His base salary on appointment was £200,000. The salary of the former Group Operations Director, Carl Moore was £225,000

2 - Chris Mangham was appointed to the Board on 27 January 2016. His base salary on appointment was £200,000, deferred until 1 April 2016.

An annual salary review was carried out by the Remuneration Committee in February 2016, which determined that there should be no general increase to the salaries of the Executive and Operating Board directors. However, upon his internal appointment to the Board in January 2016 and in recognition of his performance to date, the Committee determined that the salary of Chris Mangham should be aligned with that of Peter Fuller, who had been recruited from Parcelforce.

The Committee considers that these salaries are below the market rate and may in the future consider increases above those awarded to the wider workforce subject to strong company and individual performance, in line with the Group's remuneration policy approved by shareholders at the 2015 AGM. The Committee further determined that the wider workforce should be awarded a general increase of 1.5%, in recognition of their contribution over the last two years during a pay freeze period.

Benefits and pension

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

Pension contributions will be paid as follows;

	Pension contribution (or salary supplement equivalent) % of base salary
Steven Glew	15.0%
Peter Fuller	15.0%
Chris Mangham	15.0%

Annual bonus for 2016/17

As in previous years, in order for the bonus to be triggered the Group is required to hit a 'profit floor' target. Above the floor the 2016/17 bonus will be determined on an escalating scale of the Group's actual performance against the following two target measures;

Profit before tax – maximum opportunity 80% of base salary

Operating margin – maximum opportunity 20% of base salary

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

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

Consistent with the change in policy approved by shareholders at the 2015 AGM, any bonus received in respect of performance in 2016/17 will be; 75% payable in cash following the end of the financial year, and 25% deferred in shares for three years.

Long term incentive awards to be granted in 2016/17

The Committee intends to grant an award to executive and operational directors in 2016/17 at 100% of base salary, with the following vesting conditions:

Performance measure	Award proportion	Threshold performance	Maximum performance
EPS	50%	25% will vest where EPS growth equals 25% p.a. (i.e. 27.0p per share in respect of the year ending 31.03.19)	100% will vest where growth equals or exceeds 35% p.a.(i.e. 31.6p per share in respect of the year ending 31.03.19)
Relative Total Shareholder Return	50%	25% will vest for median performance against the FTSE all-share index (ex-Investment Trusts)	100% will vest for upper quartile or better performance against the FTSE all-share index (ex-Investment Trusts)

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

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

Fees for the non-executive directors

The fee levels for 2016/17 for the non-executive directors remain unchanged and will be as follows:

	2016/17 £000	2015/16 £000	% Change
Chairman [1]	70	70	-
Non-executive director – base fee	30	30	-
Supplementary fees:			
Chair of committee	5	5	-
Senior independent director	5	5	-

1 - Peter Kane's fee is inclusive of his Nomination Committee chair role. No change to his fees were applied following his appointment as Executive Chairman on 25 November 2015.

Membership of the Remuneration Committee

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

Advisors to the Committee

During the year the Committee sought advice, from external remuneration consultants, New Bridge Street ('NBS'), largely as to best market practice and policy, exit payment reporting, the setting of suitably challenging targets for the Long Term Incentive Plan, and remuneration report drafting.

NBS also provided sundry administrative services such as the calculation of the Company's actual TSR performance in respect of the 2013 LTIP grant which is due to vest in June 2016, 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.

Remuneration report continued.

This part of the Remuneration Report is audited

During the year to 31 March 2016 the Company incurred costs of £17k (2015: £14k) in respect of fees for advice by NBS provided to the Remuneration Committee.

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

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

Performance Graph

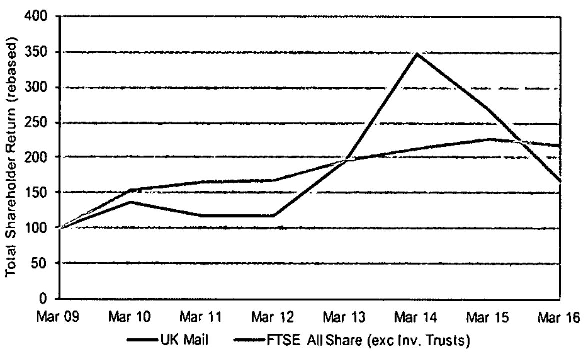
The graphs shown below compare the total shareholder return for an investment in the shares of UK Mail with the return for the same investment in the FTSE All-Share index (excluding Investment Trusts) over a seven year and a three year period commencing on 31 March 2009 and 31 March 2013. In the opinion of the Committee, the FTSE All-Share index, (excluding Investment Trusts), is currently the most appropriate index against which the TSR of UK Mail should be measured and is also the comparator group used in the Long Term Incentive Plan.

Review of the year

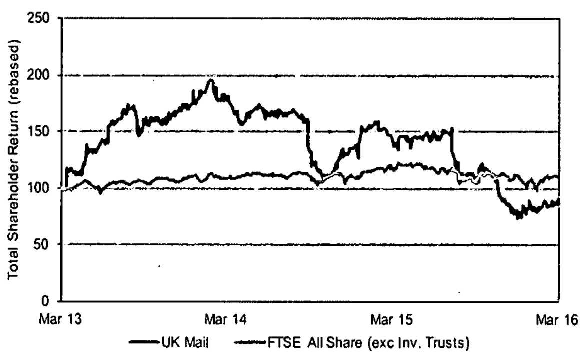
During the year ended 31 March 2016, the following agenda items were discussed:

- Review of salary levels for executive directors, operational directors and the overall workforce;
- Review and approval of the 2012 LTIP vesting levels, including determination of the appropriate EPS measure;
- The review and approval of a 2015/16 Long Term Incentive Plan grant to an operational director;
- Review and approval of the annual bonus schemes and targets for the financial year 2015/16, including the introduction of the approved bonus deferral scheme;
- Review, determination and approval of the termination packages in respect of Guy Buswell and Carl Moore;
- Review and approval of the compensation package and payments in respect of the Group Operations Director, Peter Fuller; and
- Review and consideration of any potential changes to the Group's approved Remuneration policy

Total Share Return:
7 Year Chart



3 Year Chart



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

Chief Executive - seven year earnings history

The following table details the total remuneration of the CEO for the seven year period ending 31 March 2016;

	CEO Single figure of total remuneration (£000)	Annual variable element award rates against maximum opportunity	Long term incentive vesting rates against maximum opportunity
2010 [1]	730	50.31%	52.70%
2011	386	0.00%	0.00%
2012	386	0.00%	0.00%
2013	578	45.09%	12.65%
2014 [2]	652	77.00%	-
2015	665	0.00%	76.60%
2016 [3]	642	0.00%	-

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

2 - No LTIP or SMP grant in 2011.

3 - The CEO single figure of total remuneration is inclusive of £344,000 payment for loss of office.

Single figure of total remuneration for 2016

The table below provides a single figure of total remuneration for 2016 for directors:

	Fixed pay				Variable pay				
	Qualifying services						Non-qualifying services		
	Salary and fees	Benefits [1]	Pension Contributions	Sub total	Bonus	LTIP	Payment for loss of office	Sub total	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Chairman									
Peter Kane [2]	70	1	-	71	-	-	-	-	71
Executive directors									
Guy Buswell [3]	246	9	43	298	-	-	344	344	642
Steven Glew	255	11	38	304	-	-	-	-	304
Chris Mangham [4]	31	2	3	36	-	-	-	-	36
Carl Moore [5]	117	5	18	140	-	-	135	135	275
Sub-total	649	27	102	778	-	-	479	479	1,257
Non-executive directors									
Jessica Burley	30	-	-	30	-	-	-	-	30
Michael Findlay	40	-	-	40	-	-	-	-	40
Bill Spencer	35	-	-	35	-	-	-	-	35
Sub-total	105	-	-	105	-	-	-	-	105
Total	**824**	**28**	**102**	**954**	-	-	**479**	**479**	**1,433**

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

2 - Peter Kane served as Non-executive Chairman until 25 November 2015. No changes to his fees were applied following his appointment as Executive Chairman from that date, nor does he participate in pension, bonus or LTIPs. Peter Kane received private medical care benefit.

3 - Guy Buswell stood down from the Board on 25 November 2015 and left the Company on 26 November 2015.

4 - Chris Mangham was appointed to the Board on 27 January 2016.

5 - Carl Moore stood down from the Board and left the Company on 7 October 2015.

Remuneration report continued.

This part of the Remuneration Report is audited

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

	Fixed pay				Variable pay			
	Qualifying services							
	Salary and fees	Benefits [1]	Pension Contributions	Sub total	Bonus	LTIP [2]	Sub total	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Chairman								
Peter Kane	70	1	-	71	-	-	-	71
Executive directors								
Guy Buswell	375	13	66	454	-	211	211	665
Steven Glew	255	11	38	304		150	150	454
Carl Moore	224	9	34	267	-	58	58	325
Sub-total	854	33	138	1,025	-	419	419	1,444
Non-executive directors								
Jessica Burley	30	-	-	30	-	-	-	30
Michael Findlay	40	-	-	40	-	-	-	40
Bill Spencer	35	1	-	36	-	-	-	36
Sub-total	105	1	-	106	-	-	-	106
Total	**1,029**	**35**	**138**	**1,202**	**-**	**419**	**419**	**1,621**

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

2 - This relates to the 29 November 2012 awards which vested in November 2015 based on performance measures to 31 March 2015. For the purposes of the table in last year's report, the award was valued using the average share price for the three months ended 31 March 2015 of 525.31p. The value has been updated in this table using the share price at the date of exercise of 259.50p.

Annual Bonus for 2015/16

The bonus in operation for 2015/16 was subject to sliding scale profit before tax and operating margin targets:

Performance Measure	Threshold	Maximum	Actual	% of bonus payable
Underlying profit before tax £m	£22.0m	£26.0m	£10.7m	Nil% (max 80%)
Operating margin %	4.5%	4.9%	2.2%	Nil% (max 20%)

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

Long-term incentives vesting in respect of performance period ended 31 March 2016

The LTIP award granted on 4 June 2013, which is due to vest on 4 June 2016, failed to meet the minimum threshold vesting targets over the three-year performance period to 31 March 2016 as follows:

Proportion of award	Performance condition	Threshold (25% vesting) target	Maximum (100% vesting) target	Actual %	% vesting
50%	Average growth per annum in underlying EPS over the three year performance period	7.23% p.a.	15.47% p.a.	-11.5% p.a.	0.0%
50%	Relative performance against all other companies in the FTSE All Share Index (excluding Investment Trusts)	Median	Upper quartile	Below median	0.0%
Total vesting					0.0%

Share incentives granted during 2015/16

LTIP awards were granted during 2015/16 on the following basis:

Executive	Grant date	Number of shares comprising award	Face/Maximum Value of Awards at Grant Date (% salary)	% of Award Vesting at Threshold	Performance Period
Chris Mangham	02.06.15	29,904	£150,268 (86%)	25%	01.04.15 – 31.03.18

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 2018	**Threshold performance** – 25% will vest where EPS growth equals 8% p.a. **Maximum performance** – 100% will vest where EPS growth equals or exceeds 15% p.a.
TSR	50%	The TSR is calculated assuming the reinvestment of dividends. No shares will be released under the TSR condition if UK Mail's TSR over the three year performance period to 31 March 2018, when compared to that of the constituents of the FTSE All-Share index (ex Investment Trusts), ranks the Company below the median	**Threshold performance** – 25% will vest for median performance against the peer group **Maximum performance** – 100% will vest for upper quartile or above performance against the peer group

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

The above grant to Chris Mangham followed his recruitment to the Group in January 2015. In light of the subsequent deterioration in the Group's trading performance, and to mitigate the pressure on costs, the Committee considered that no further grants should be made to Executive directors during the year ended 31 March 2016.

Remuneration report continued.

This part of the Remuneration Report is audited

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 2015	Granted in the year	Exercised in the year	Lapsed in the year	Number at 31 March 2016
Guy Buswell [1]								
29.11.12	LTIP	298p	31.03.15	94,325	-	(72,252)	(22,073)	-
04.06.13	LTIP	510p	31.03.16	58,260	-	-	(58,260)	-
28.11.14	LTIP	442p	31.03.17	54,486	-	-	(54,486)	-
				207,071	**-**	**(72,252)**	**(134,819)**	**-**
Steven Glew								
29.11.12	LTIP	298p	31.03.15	66,939	-	(51,275)	(15,664)	-
04.06.13	LTIP	510p	31.03.16	41,345	-	-	-	**41,345**
28.11.14	LTIP	442p	31.03.17	37,050	-	-	-	**37,050**
				145,334	**-**	**(51,275)**	**(15,664)**	**78,395**
Chris Mangham [2]								
02.06.15	LTIP	298p	31.03.18	-	29,904	-	-	**29,904**
				-	**29,904**	**-**	**-**	**29,904**
Carl Moore [3]								
29.11.12	LTIP	298p	31.03.15	27,655	-	(20,006)	(7,649)	-
04.06.13	LTIP	510p	31.03.16	20,619	-	-	(20,619)	-
10.06.14	LTIP	625p	31.03.17	32,691	-	-	(32,691)	-
				80,965	**-**	**(20,006)**	**(60,959)**	**-**

1 - Guy Buswell stood down from the Board on 25 November 2015 and left the Company on 26 November 2015
2 - Chris Mangham was appointed to the Board on 27 January 2016
3 - Carl Moore stood down from the Board and left the Company on 7 October 2015

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

The LTIP awards are primarily subject to two distinct performance conditions, 50% relates to EPS performance and 50% relates to the Company's TSR relative to the constituents of the FTSE All-Share index as detailed on page 76. The table below details the vesting history of awards granted under the LTIP 2009 since it has been in operation;

Date of award	Vesting	EPS target range (i)	TSR target range (i)	Actual EPS achievement	Actual TSR achievement	% Awards vesting
26.05.10	28.05.13	8.5% - 13.0% p.a.	Median to Upper Quartile	Failed	25.3% (of the 50.0% condition)	12.65%
No award made in 2011	-	-	-	-	-	-
29.11.12	12.01.16	11.6% - 18.1% p.a.	Median to Upper Quartile	53.1% (of the 50.0% condition)	100% (of the 50.0% condition)	76.6%
04.06.13	Live plan	7.23% - 15.47% p.a.	Median to Upper Quartile	Failed	Failed	0.0%
28.11.14	Live plan	8.0% - 14.0% p.a.	Median to Upper Quartile	Live plan	Live plan	Live plan
02.06.15	Live plan	8.0% - 15.0% p.a.	Median to Upper Quartile	Live plan	Live plan	Live plan

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

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

Date of Award	Plan	Award Price	Performance Period Ending	Number at 1 April 2015	Granted in the year	Exercised in the year	Lapsed in the year	Number at 31 March 2016
Guy Buswell [1]								
11.06.13	SMP	495p	31.03.16	8,823	-	-	(8,823)	-
10.06.14	SMP	625p	31.03.17	12,195	-	-	(12,195)	-
				21,018	-	-	(21,018)	-
Steven Glew								
11.06.13	SMP	495p	31.03.16	3,018	-	-	-	**3,018**
10.06.14	SMP	625p	31.03.17	4,000	-	-	-	**4,000**
				7,018	-	-	-	**7,018**
Carl Moore [2]								
11.06.13	SMP	495p	31.03.16	1,177	-	-	(1,177)	-
10.06.14	SMP	625p	31.03.17	4,000	-	-	(4,000)	-
				5,177	-	-	(5,177)	-

1 - Guy Buswell stood down from the Board on 25 November 2015 and left the Company on 26 November 2015

2 - Carl Moore stood down from the Board and left the Company on 7 October 2015

Remuneration report continued.

This part of the Remuneration Report is audited

No awards have been granted under the SMP since the expiry of the plan in July 2014. The above awards will vest three years from the grant date subject 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 equals R.P.I. + 4% p.a. over a three year period Maximum performance – 100% will vest where EPS growth equals or exceeds R.P.I. + 6% p.a. over a three year period

For performance between threshold and maximum, vesting will be determined on a straight line basis. The R.P.I. measure is used because the Remuneration Committee believes it ensures that executives are only rewarded when there has been real growth.

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

Date of Award	Exercisable from	Award Price	Performance Period Ending	Number at 1 April 2015	Granted in the year	Exercised in the year	Lapsed in the year	Number at 31 March 2016
Guy Buswell [1]								
25.07.13	01.09.16	418.67p	N/a	2,149	-	-	(2,149)	-
				2,149	-	-	(2,149)	-
Steven Glew								
25.07.13	01.09.16	418.67p	N/a	2,149	-	-	-	**2,149**
30.07.14	01.09.17	471.14p	N/a	1,910	-	-	-	**1,910**
				4,059	-	-	-	**4,059**
Carl Moore [2]								
19.07.12	01.09.15	186.88p	N/a	4,815	-	(4,815)	-	-
				4,815	-	(4,815)	-	-

1 - Guy Buswell stood down from the Board on 25 November 2015 and left the Company on 26 November 2015

2 - Carl Moore stood down from the Board and left the Company on 7 October 2015

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 290p and the range of prices during the year was between 245.5p and 537.5p.

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 2016 were as follows:

	Legally And Beneficially Owned		% of salary Held Under Shareholding Guideline	Guideline met?	Share Matching Plan Awards		Long Term Incentive Plan Awards		Sharesave Scheme Awards		Total
	31.03.16 *	31.03.15	(% of salary)		Unvested	Vested	Unvested	Vested	Unvested	Vested	31.03.16 *
Executive Directors											
Steven Glew	155,812	125,263	177%	Yes	7,018	-	78,395	-	4,059	-	**245,284**
Chris Mangham [1]	-	-	0%	No	-	-	29,904	-	-	-	**29,904**
Non-executive Directors											
Jessica Burley	1,500	1,500	-	N/a	-	-	-	-	-	-	**1,500**
Michael Findlay	1,500	1,500	-	N/a	-	-	-	-	-	-	**1,500**
Peter Kane [2]	3,339,633	3,339,633	-	N/a	-	-	-	-	-	-	**3,339,633**
Bill Spencer	4,800	4,800	-	N/a	-	-	-	-	-	-	**4,800**
Former Directors											
Guy Buswell [3]	338,105	286,117	N/a	N/a	-	-	-	-	-	-	**338,105**
Carl Moore [4]	21,911	5,177	N/a	N/a	-	-	-	-	-	-	**21,911**

* - or as at the date of cessation if earlier.

1 – Chris Mangham was appointed to the Board on 27 January 2016.

2 – Peter Kane was appointed Executive Chairman on 25 November 2015. He does not participate in the Group's LTIP, SMP or SAYE plans.

3 – Guy Buswell stood down from the Board on 25 November 2015. The number of shares legally and beneficially owned on cessation includes those retained following partial vesting of the 2012 LTIP, after funding tax and associated disposal transaction costs.

4 – Carl Moore stepped down from the Board on 7 October 2015. The number of shares legally and beneficially owned on cessation includes those retained following partial vesting of the 2012 LTIP, after funding tax and associated disposal transaction costs.

All directors' interests are beneficially held. New directors are expected to retain share awards which vest until they have met the shareholding guideline. There has been no change in the interests set out above between 31 March 2016 and 23 May 2016.

Payments to past Directors and payments for loss of office

On 7 October 2015 Carl Moore stood down from the Board as Group Operations Director, and left the Company. Subsequently, Guy Buswell stood down from the Board as Chief Executive on 25 November 2015, and left the Company on 26 November 2015.

The payments made in connection with the subsequent cessation of employment of each individual, which were in line both with the Group's approved Remuneration Policy and their contractual provisions were as follows:

Carl Moore

Payment in lieu of notice.

Carl Moore's Service Agreement has a 12 month notice period which commenced 7 October 2015 (the 'Termination Date'). Carl Moore was paid his normal salary and benefits up to his departure date of 7 October 2015, as reduced by 2.5 days holiday taken in excess of his accrued holiday entitlement at the Termination Date.

Remuneration report continued.

This part of the Remuneration Report is unaudited

The Company made an initial payment of six months of salary, pension and benefits for the initial balance of his unexpired notice period up to 7 May 2016, and will continue to make monthly payments of salary, benefits and pension for the balance of his unexpired notice period to 7 October 2016 subject to mitigation if he secures alternative income in the period to 7 October 2016.

The initial payment was for £137,420 and the six, monthly payments thereafter will be £22,820. Therefore the maximum payment will be for £274,340. These payments will be subject to income tax and national insurance.

2015/16 Annual Bonus Payment

Carl Moore did not receive an annual bonus payment for 2015/16 under the Group's bonus plan.

Share Awards

As discussed last year, the LTIP award granted on 29 November 2012, which was based on the three-year performance period to 31 March 2015 vested at 76.6%. There was no other vesting in respect of the 2013 awards and the 2014 awards, and these all lapsed. Furthermore, as detailed above no LTIP award was granted in 2015.

No awards vested under the 2013 and 2014 SMP and therefore these awards lapsed.

Guy Buswell

Guy Buswell was paid his normal salary and benefits up to his departure date of 26 November 2015.

Whilst Guy Buswell's Service Agreement has a 12 month notice period, the Company and Guy Buswell agreed that this be reduced to nine months' notice, which commenced on 26 November 2015 (the 'Termination Date').

On 4 December 2015 the Company made a payment of nine months of salary (and the value of benefits and pension) for the balance of his unexpired notice period up to 26 August 2016. Guy Buswell received a payment for £342,180 (including £281,250 in lieu of salary) and was additionally paid for one day of holiday accrued but not taken by the Termination Date. This therefore represents the maximum payment to which he is entitled. The payment was subjected to income tax and national insurance.

2015/16 Annual Bonus Payment

Guy Buswell did not receive an annual bonus payment for 2015/16 under the Group's bonus plan.

Share Awards

As discussed last year, the LTIP award granted on 29 November 2012, which was based on the three-year performance period to 31 March 2105 vested at 76.6%. There was no other vesting in respect of the 2013 awards and the 2014 awards, and these all lapsed. Furthermore, as detailed above no LTIP award was granted in 2015.

No awards vested under the 2013 and 2014 SMP and therefore these awards lapsed.

As a result of Guy Buswell's employment terminating, Guy Buswell had no further entitlement to awards granted under the Company's SAYE scheme, and therefore his entitlement under the 2013 SAYE grant (over 2,149 shares) lapsed at the Termination Date.

Relative importance of the spend on pay

The following table sets out the percentage change in profit, dividends and overall spend on pay in 2016 compared to 2015:

	2016 £m	2015 £m	% change
Underlying profit after taxation – continuing operations	8.5	16.6	-49.1%
Dividends	11.0	11.8	-6.8%
Employee remuneration costs - continuing operations	65.4	65.0	+0.5%

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

The table below shows the movement in salary, benefits and annual bonus for the CEO between the 2015 and 2016 financial years, as compared to the average for all employees:

	Salary % change	Taxable benefits % change	Bonus % change
CEO [1]	-27.9%	-29.7%	0.0%
All employees (average per FTE)	+2.1%	+5.0%	+100.0%

1 – The CEO salary, benefits and bonus figures comprise of the remuneration in respect of Guy Buswell (ex CEO) until he stood down from the Board on 25 November 2015, together with the salary, benefits and bonus of Peter Kane who was appointed Executive Chairman thereafter.

The reduction in the salary and taxable benefits of the CEO reflects the fact that Peter Kane, Non-Executive Chairman assumed the role of Executive Chairman, with no resultant change in his package, following the departure of Guy Buswell on 25 November 2015.

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 3.4% and 7.5% 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 2016, the Trust held a total of 1,325 shares (2015: 6,801 shares).

AGM Voting

At the Company's AGM held on 8 July 2015, votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

	For		Against		Total votes cast (i) (ii)		
Resolution	No. of votes	% of votes cast	No. of votes	% of votes cast	No. of votes	% of issued share capital	Votes withheld
To approve the Annual Statement by the Chairman of the Remuneration Committee and the Annual Report on Remuneration	31,454,228	99.96%	11,847	0.04%	31,466,075	57.47%	5,858
To approve the Directors Remuneration policy	31,391,975	99.77%	71,599	0.23%	31,463,574	59.67%	8,358

i - the total voting rights in the Company at the date of the meeting was 54,747,916 ordinary shares of 10 pence each, each carrying one vote on a poll.

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

Michael Findlay
Chairman of the Remuneration Committee
On behalf of the Board
23 May 2016

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

Report on the financial statements

Our opinion

In our opinion:

- UK Mail Group Plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2016 and of the group's profit and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Report & Accounts (the "Annual Report"), comprise:

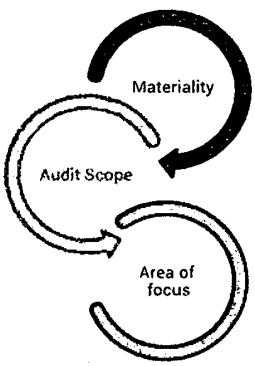
- the consolidated and company balance sheets as at 31 March 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Our audit approach

Overview



Materiality

- Overall group materiality: £0.53 million which represents 5% of profit before tax and exceptional items (2015: £0.99 million).

Audit scope

- We performed an audit of the complete financial information of UK Mail Group plc and UK Mail Ltd due to their financial significance to the overall group financial statements.

Areas of focus

- Accounting treatment and disclosure of costs incurred and compensation receivable in respect of the compulsory purchase of the Group's central hub and Birmingham head office.
- Accounting treatment and disclosure of exceptional items.

The scope of our audit and our areas of focus

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

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

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

Area of focus	How our audit addressed the area of focus
Accounting treatment and disclosure of costs incurred and compensation receivable in respect of the compulsory purchase of the Group's central hub and Birmingham head office. Refer to page 49 (Audit Committee Report), and note 3 (Exceptional items) The Group's central hub and Birmingham head office were subject to a compulsory purchase order to make way for the HS2 link between London and Birmingham. An agreement for the sale of the Birmingham site and related compensation was signed in December 2013 with interim payments of compensation being received by the Group in the years ending 31 March 2014 and 2015. During the year ended 31 March 2016 a further £22.2m of compensation payments were received in respect of the sale of the Birmingham site and the related disturbance costs. Whilst certain elements of the compensation were quantified in the agreement and timing of their receipt was indicated, reimbursements of any "disturbance" costs are subject to the provisions of the Compensation Code, and could be subject to forensic investigation by HS2's advisers and ultimately required the approval of the Department of Transport. We focused on this area as there is judgement around: • Classifying the costs incurred as a result of HS2 as exceptional items in the consolidated statement of comprehensive income: • The classification of HS2 related costs and the compensation received in the consolidated cash flow statement.	We considered the contract for the sale of the site, the relevant elements of the Compensation Code and related correspondence from the Group's advisers who have been assisting with the claim to update our understanding of the contractual agreement between the parties in respect of compensation relating to the compulsory purchase In addition to the above we considered written correspondence that the Group received from HS2 which acknowledges the nature of expenses that are reclaimable as "disturbance costs" and compared these to the costs incurred and found no material inconsistencies. We traced the compensation payments received from HS2 for the sale of the site and the related disturbance costs to bank statements and supporting documentation from the Department of Transport confirming that amounts paid during the year represented full and final settlement of the Group's compensation claim As part of our work we obtained a breakdown of the disturbance costs incurred during the period and traced a sample of these to supporting documentation. Based on the audit evidence obtained we were satisfied with the classification of these amounts as exceptional items in the consolidated statement of comprehensive income after considering the underlying nature of the expenditure and found they were in line with the group's accounting policy for exceptional items. We also assessed the appropriateness of the disclosures made in the financial statements for the costs incurred in respect of the compulsory purchase and related compensation received, including the treatment adopted in the consolidated cash flow statement, and deemed these were appropriate to understand the impact of this matter.

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

Area of focus	How our audit addressed the area of focus
Accounting treatment and disclosure of exceptional items. Refer to page 49 (Audit Committee Report), and note 3 (Exceptional items) The financial statements include certain items of income and expense which are disclosed as 'exceptional'. The most significant of these exceptional items are: • Profit on the compulsory purchase of the Group's central hub and Birmingham head office of £1.1 million; • Compensation received from HS2 of £16.5 million; • HS2 related costs including disturbance of £7.1 million; • Impairment of tangible and intangible assets of £4.8 million; and • Costs of management reorganisation of £1.4 million. We focused on this area because exceptional items are not defined by IFRSs and hence require the exercise of judgement by management regarding their size and nature in determining such items to be presented separately from the underlying results of the business.	We considered the presentation of the exceptional items in the financial statements by assessing whether the classification was in line with the Group's accounting policy on exceptional items as set out in note 1 of the financial statements and whether, in our view it was reasonable for these items to be separately disclosed as exceptional. We also agreed the items of exceptional income and expense to supporting documentation. We found that the Group's accounting policy for exceptional items had been followed noting no exceptions.

How we tailored the audit scope

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

During the year the group consisted of one operating subsidiary, UK Mail Ltd, and the holding company, UK Mail Group plc.

We performed an audit of the complete financial information of UK Mail Group plc and UK Mail Ltd due to their financial significance to the overall group financial statements.

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

All work was undertaken by the group engagement team.

Materiality

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

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£0.53 million (2015: £0.99 million).
How we determined it	5% of profit before tax and exceptional items.
Rationale for benchmark applied	We believe that profit before tax and exceptional items is the key measure used by the shareholders as a body in assessing the Group's performance. We have excluded exceptional items as this provides us with a consistent year on year basis for determining materiality by eliminating the non-recurring disproportionate impact of these items.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £75,000 (2015: £100,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 57, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the group and company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's and company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

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

ISAs (UK & Ireland) reporting **Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:**	
Information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group and company acquired in the course of performing our audit; or • otherwise misleading.	We have no exceptions to report.
the statement given by the directors on page 62, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company acquired in the course of performing our audit.	We have no exceptions to report.
the section of the Annual Report on page 48, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

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

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

ISAs (UK & Ireland) reporting **Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:**	
the directors' confirmation on page 62 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
the directors' explanation on page 57 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the group and the directors' statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report - Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

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

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 61, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

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

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

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

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

Jaskamal Sarai (Senior Statutory Auditor)

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

23 May 2016

Consolidated Statement of Comprehensive Income for the year ended 31 March 2016

		2016	2015
Continuing operations	Note	**£m**	£m
Revenue	2	**481.0**	485.1
Cost of sales		**(431.6)**	(428.3)
Gross profit		**49.4**	56.8
Administrative expenses		**(38.2)**	(35.8)
Operating profit before exceptional items		**11.2**	21.0
Profit on sale of national hub	3	**1.1**	-
HS2 compensation	3	**16.5**	2.0
Cost of automation implementation	3	**(0.6)**	(0.4)
National hub relocation costs	3	**(7.1)**	(2.5)
Impairment of intangible assets	3	**(3.8)**	-
Impairment of tangible assets	3	**(1.0)**	-
Management reorganisation	3	**(1.4)**	-
Operating profit	5	**14.9**	20.1
Finance costs	4	**(0.5)**	-
Profit before taxation		**14.4**	20.1
Taxation - on profit before exceptional items		**(2.2)**	(4.4)
Taxation - on exceptional items		**(0.3)**	0.2
Total taxation	7	**(2.5)**	(4.2)
Profit for the year from continuing operations		**11.9**	15.9
(Loss)/profit for the year from discontinued operations		**-**	(10.8)
Profit for the financial year		**11.9**	5.1

Total comprehensive income attributable to:			
- Continuing operations		**11.9**	15.9
- Discontinued operations		**-**	(10.8)
Total comprehensive income attributable to equity holders of the company		**11.9**	5.1

Earnings/(loss) per share from continuing and discontinued operations			
Basic earnings per share			
From continuing operations		**21.6p**	29.0p
From discontinued operations		**-**	(19.8p)
Total basic earnings per share	9	**21.6p**	9.2p

Diluted earnings per share			
From continuing operations		**21.6p**	28.9p
From discontinued operations		**-**	(19.7)
Total diluted earnings per share	9	**21.6p**	9.2p

The notes on pages 100 to 144 are an integral part of these financial statements.

Consolidated Balance Sheet as at 31 March 2016

	Note	2016 £m	2015 £m
ASSETS			
Non-current assets			
Goodwill	10	**1.6**	1.6
Intangible assets	11	**8.9**	11.6
Investment properties	12	**1.7**	1.7
Property, plant and equipment	13	**73.4**	85.4
Deferred tax assets	21	**0.3**	0.7
		85.9	101.0
Current assets			
Inventories	16	**0.2**	0.2
Trade and other receivables	17	**64.3**	76.2
Cash and cash equivalents	18	**6.8**	4.6
		71.3	81.0
LIABILITIES			
Current liabilities			
Borrowings	20	**(0.2)**	(9.8)
Trade and other payables	19	**(80.1)**	(101.1)
Current tax liabilities		**(0.5)**	(0.2)
Provisions	22	**(1.2)**	(1.5)
		(82.0)	(112.6)
Net current (liabilities)		**(10.7)**	(31.6)
Non-current liabilities			
Borrowings	20	**(4.4)**	-
Deferred tax liabilities	21	**(2.8)**	(2.6)
Provisions	22	**(0.8)**	(0.7)
		(8.0)	(3.3)
Net assets		**67.2**	66.1
Shareholders' equity			
Ordinary shares	23	**5.5**	5.5
Share premium		**15.7**	15.3
Retained earnings		**46.0**	45.3
Total shareholders' equity		**67.2**	66.1

The financial statements on pages 92 to 99 were approved by the Board of Directors on 23 May 2016 and were signed on its behalf by:

Peter Kane

Peter Kane
Executive Chairman

Steven Glew
Group Finance Director

Registered Number: 02800218.
The notes on pages 100 to 144 are an integral part of these financial statements.

Company Balance Sheet as at 31 March 2016

	Note	2016 £m	2015 £m
ASSETS			
Non-current assets			
Investment in subsidiaries	15	**11.0**	11.1
		11.0	11.1
Current assets			
Trade and other receivables	17	**14.1**	29.9
Current tax asset		**0.2**	0.1
Cash and cash equivalents	18	**3.4**	-
		17.7	30.0
LIABILITIES			
Current liabilities			
Borrowings	20	**-**	(1.3)
		-	(1.3)
Net current assets		**17.7**	28.7
Net assets		**28.7**	39.8
Shareholders' equity			
Ordinary shares	23	**5.5**	5.5
Share premium		**15.7**	15.3
Retained earnings		**7.5**	19.0
Total shareholders' equity		**28.7**	39.8

The financial statements on pages 92 to 99 were approved by the Board of Directors on 23 May 2016 and were signed on its behalf by:

Peter Kane
Executive Chairman

Steven Glew
Group Finance Director

Registered Number: 02800218

The notes on pages 100 to 144 are an integral part of these financial statements.

Consolidated Cash Flow Statement for the year ended 31 March 2016

		Consolidated	
		2016	2015
Continuing operations	Note	**£m**	£m
Profit for the year		**11.9**	15.9
Adjustments for:			
Exceptional items	3	**5.1**	0.9
Depreciation and amortisation		**9.0**	7.9
Share-based payment expense		**(0.1)**	0.6
Loss on sale of property, plant and equipment		**0.1**	0.1
Finance costs		**0.5**	-
Taxation	7	**2.5**	4.2
Operating profit before changes in working capital - continuing operations		**29.0**	29.6
Decrease/(increase) in trade and other receivables		**10.4**	(10.1)
(Decrease)/increase in trade and other payables		**(8.1)**	8.5
(Decrease)/increase in provisions		**(0.3)**	0.2
Total cash flow from changes in working capital - continuing operations		**2.0**	(1.4)
Cash generated from continuing operations		**31.0**	28.2
Discontinued operations			
(Loss)/profit for the year		**-**	(10.8)
Adjustments for:			
Exceptional items	3	**-**	10.4
Depreciation and amortisation		**-**	0.1
Taxation	7	**-**	(0.7)
Operating profit before changes in working capital - discontinued operations		**-**	(1.0)
Decrease/(increase) in trade and other receivables		**1.4**	6.6
(Decrease)/increase in trade and other payables		**(0.4)**	(5.8)
(Decrease)/increase in provisions		**(0.7)**	0.6
Total cash flow from changes in working capital - discontinued operations		**0.3**	1.4
Cash generated from continuing operations		**31.0**	28.2
Cash generated from discontinued operations		**0.3**	0.4
Total cash generated from operations		**31.3**	28.6
Finance costs paid		**(0.4)**	-
Income tax paid		**(1.8)**	(5.0)
Net cash flow from continuing operating activities		**28.8**	23.2
Net cash flow from discontinued operating activities		**0.3**	0.4
Total cash flow from operating activities		**29.1**	23.6

The notes on pages 100 to 144 are an integral part of these financial statements.

Consolidated Cash Flow Statement for the year ended 31 March 2016

		Consolidated	
		2016	2015
	Note		
Investing activities			
Purchase of property, plant and equipment	13	**(11.9)**	(39.1)
Purchase of intangible assets	11	**(4.7)**	(6.4)
Deferred compensation	19	**5.4**	2.0
Net cash used in investing activities - continuing operations		**(11.2)**	(43.5)
Net cash used in investing activities - discontinued operations		**-**	(0.4)
Total cash used in investing activities		**(11.2)**	(43.9)
Financing activities			
Proceeds from new finance lease borrowings	29	**13.7**	-
Repayment of finance leases	29	**(8.9)**	(0.4)
Dividends paid to shareholders	8	**(11.0)**	(11.8)
Proceeds from issue of ordinary share capital		**0.4**	-
Net (repayment)/draw down of revolving credit facility	20	**(9.9)**	10.0
Facility arrangement costs paid		**-**	(0.3)
Net cash used in financing activities - continuing operations		**(15.7)**	(2.5)
Net cash used in financing activities - discontinued operations		**-**	-
Total cash used in financing activities		**(15.7)**	(2.5)
Net increase/(decrease) in cash and cash equivalents	29	**2.2**	(22.8)
Cash and cash equivalents at the beginning of the year	29	**4.6**	27.4
Cash and cash equivalents at the end of the year	29	**6.8**	4.6

The notes on pages 100 to 144 are an integral part of these financial statements.

Company Cash Flow Statement for the year ended 31 March 2016

		Company	
		2016	2015
	Note	**£m**	£m
Loss for the year		**(0.5)**	12.5
Adjustments for:			
Exceptional item - impairment of investment	15	**-**	9.1
Taxation		**(0.1)**	(0.1)
Operating loss before changes in working capital		**(0.6)**	21.5
Decrease/(increase) in trade and other receivables		**15.8**	(10.7)
Increase/(decrease) in trade and other payables		**0.1**	(22.5)
Total cash flow from changes in working capital		**15.9**	(33.2)
Cash generated from/(used in) operations		**15.3**	(11.7)
Net cash flow from operating activities		**15.3**	(11.7)
Net cash used in investing activities		**-**	-
Financing activities			
Dividends paid to shareholders	8	**(11.0)**	(11.8)
Proceeds from issue of ordinary share capital		**0.4**	-
Net cash used in financing activities		**(10.6)**	(11.8)
Net increase/(decrease) in cash and cash equivalents	29	**4.7**	(23.5)
Cash and cash equivalents at the beginning of the year	29	**(1.3)**	22.2
Cash and cash equivalents at the end of the year	29	**3.4**	(1.3)

The notes on pages 100 to 144 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity for the year ended 31 March 2016

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

	Note	Ordinary Shares	Share premium	Retained earnings	Total equity
		£m	**£m**	**£m**	**£m**
Balance as at 1 April 2015		**5.5**	**15.3**	**45.3**	**66.1**
Profit for the financial year		-	-	**11.9**	**11.9**
Total comprehensive income for the year		-	-	**11.9**	**11.9**
Dividends paid to shareholders	8	-	-	**(11.0)**	**(11.0)**
Employees' share option scheme:	24				
- net proceeds from issue of ordinary share capital		-	**0.4**	-	**0.4**
- share-based payments		-	-	**(0.1)**	**(0.1)**
- tax charged directly to equity		-	-	**(0.1)**	**(0.1)**
Total transactions with shareholders recorded directly in equity		-	**0.4**	**(11.2)**	**(10.8)**
Balance as at 31 March 2016		**5.5**	**15.7**	**46.0**	**67.2**

The notes on pages 100 to 144 are an integral part of these financial statements.

Company Statement of Changes in Equity for the year ended 31 March 2016

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

	Note	Ordinary Shares **£m**	Share premium **£m**	Retained earnings **£m**	Total equity **£m**
Balance as at 1 April 2015		**5.5**	**15.3**	**19.0**	**39.8**
Loss for the financial year		-	-	**(0.5)**	**(0.5)**
Total comprehensive income for the year		-	-	**(0.5)**	**(0.5)**
Dividends paid to shareholders	8	-	-	**(11.0)**	**(11.0)**
Employees' share option scheme:	24				
- net proceeds from issue of ordinary share capital		-	**0.4**	-	**0.4**
Total transactions with shareholders recorded directly in equity		-	**0.4**	**(11.0)**	**(10.6)**
Balance as at 31 March 2016		**5.5**	**15.7**	**7.5**	**28.7**

The notes on pages 100 to 144 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 2016

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

General information

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

Basis of preparation

These financial statements have been prepared in accordance with the Companies Act 2006 and those International Financial Reporting Standards (IFRSs) as adopted by the European Union and interpretations issued by the IFRS Interpretations Committee (IFRIS IC) which are effective as at 31 March 2016.

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 57.

The financial statements are presented in Sterling and all values are rounded to the nearest million pounds (£m) unless indicated otherwise.

New standards and interpretations adopted by the Group

The following new or revised standards, amendments and interpretations issued by the International Accounting Standards Board have been implemented for the year ended 31 March 2016:

Annual Improvements to IFRS 2010-2012 Cycle

Annual Improvements to IFRS 2011-2013 Cycle

IAS 19 (amended) 'Defined Benefit Plans: Employee Contributions'

IFRIC 21 'Levies'

The adoption of these standards and interpretations has not led to any changes in accounting policies, or had a material impact on the Consolidated or Company Financial Statements of the Group for the year ended 31 March 2016.

New standards and interpretations not yet adopted

The following new or revised standards, amendments and interpretations issued by the International Accounting Standards Board, and that are potentially relevant to the Group, have not been applied in preparing these accounts as their effective dates fall in periods beginning on or after 1 April 2016 (and in some cases have not yet been adopted by the EU):

Annual Improvements to IFRS 2012-2014 Cycle - effective for accounting periods beginning on or after 1 January 2016

Amendments to IAS 1 - effective for accounting periods beginning on or after 1 January 2016

Amendments to IAS 27 'Equity Method in Separate Financial Statements' - applicable for accounting periods on or after 1 January 2016

IAS 16 and IAS 38 (amended) 'Clarification of Acceptable Methods of Depreciation and Amortisation' - effective for accounting periods beginning on or after 1 January 2016

IFRS 9 'Financial Instruments: Classification and measurement' - effective for accounting periods beginning on or after 1 January 2018

IFRS 15 'Revenue from contracts with Customers' - effective for accounting periods beginning on or after 1 January 2018

IFRS 16 'Leases' - effective for accounting periods beginning on or after 1 January 2019

The adoption of certain of these standards, amendments and interpretations will require addition to, or amendment of, disclosures in the accounts. The Directors are considering the impact of the adoption of IFRS 16 on the Group. However, the Directors consider that the adoption of the other standards, amendments or interpretations listed above will not result in a material effect on the Consolidated and Company Financial Statements of the Group.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The critical accounting judgements and the key sources of estimation uncertainty are detailed in note 32.

Consolidation

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

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

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

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

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

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

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

Advantage has been taken of Section 408 of the Companies Act 2006 not to include the Company's own statement of comprehensive income. The loss of the Company for the year was £0.5m (2015: profit £12.5m).

Goodwill

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

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

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

Intangible assets (other than goodwill)

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

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

Investment properties

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

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

Notes to the Financial Statements continued.

Property, plant and equipment

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

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

Depreciation

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

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

Land is not depreciated.

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

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

Impairment

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

An impairment loss is recognised in the statement of comprehensive income whenever the carrying amount of an asset or its Cash-Generating Unit ('CGU') exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to that asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. Impairment losses recognised in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to those units, and then to reduce the carrying amount of other assets in the CGU on a pro-rata basis.

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

Investments in subsidiaries

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

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

Inventories

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

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

Finance and operating leases

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

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

Revenue

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

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

Revenue is recognised in the accounting period in which consignments are delivered to the end customer at the fair value of the consideration received or receivable to the extent that it is probable that economic benefits will flow to the Group and can be reliably measured.

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

All revenues are stated net of value added tax.

Cost of sales

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

Administrative costs

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

Operating segments

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

Discontinued operations

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

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

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

Taxation

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

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

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

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

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

Pension costs

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

Foreign currencies

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

Share-based payments

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

The charge is based on the fair value of the equity instrument granted and the number of equity instruments that are expected to vest. The fair value is measured at grant date and takes account of vesting conditions that relate to the market price of the Company's shares. At each balance sheet date, the Company revises its estimates of the number of options expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the statement of comprehensive income such that the cumulative expense reflects the revised estimate with a corresponding adjustment to equity reserves.

In order to determine the value of the instrument a pricing model relevant to the type of instrument is used.

Provisions

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

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

Contingent assets

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

Contingent liabilities

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

Exceptional items

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

Dividends

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

Final dividends are recognised as a distribution from retained earnings in the period in which they are approved at the general meeting.

Share capital

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

Financial instruments

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

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

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

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

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

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

2. Segmental information

Management has determined the operating segments based on reports that are reviewed by the Board for making strategic decisions. These reports reflect the Group's defined management structure, whereby distinct managers are accountable to the Board for the results and activities of their identified segments and the different markets in which they operate. The Board, which is the Group's chief operating decision maker, considers that the Group has two reportable operating segments following the integration of the Courier operations into Parcels and the cessation of trading of UK Pallets Ltd in March 2015.

The Group's operating segments consist of Parcels and Mail (which are shown as continuing operations). In recent years the Courier business has undergone a period of transition away from a traditional same-day courier operation towards an operation which provides specialist service support to our Parcels business. Consequently results for the comparative period have been restated to reflect the integration of the Courier operations into Parcels.

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 profits and losses are also eliminated.

No individual customer accounted for more than 7% of revenue in the periods included in these consolidated financial statements.

Notes to the Financial Statements continued.

Business segments

The business segment results for the year ended 31 March 2016 are as follows:

		Continuing operations			
		Parcels	Mail	Central	Total
	Note	£m	£m	£m	£m
Segmental revenue		247.9	233.1	-	481.0
Operating profit/(loss) before exceptional items		15.9	10.1	(14.8)	11.2
Exceptional items – administrative expenses		11.6	(1.6)	(6.3)	3.7
Operating profit		27.5	8.5	(21.1)	14.9
Net finance costs					(0.5)
Profit before taxation					14.4
Taxation					(2.5)
Profit attributable to equity shareholders					11.9
Other segment items					
Capital expenditure (including acquisitions)					
- Property, plant and equipment	13	17.4	1.8	2.0	21.2
HS2 compensation	13	(0.9)	-	(2.3)	(3.2)
- Intangible assets	11	-	1.8	3.9	5.7
HS2 compensation	11	-	-	(2.2)	(2.2)
Depreciation of property, plant and equipment					
- Owned assets	13	4.1	0.8	1.1	6.0
- Under finance leases	13	0.6	-	-	0.6
Amortisation of intangible assets					
- Owned assets	11	-	0.2	2.0	2.2
- Under finance leases	11	-	-	0.2	0.2
Impairment of trade receivables		0.3	-	-	0.3
Intangible Assets [1]		0.2	2.6	7.7	10.5
Property, plant and equipment [2]		67.3	3.1	5.3	75.7
Deferred tax assets		-	-	0.3	0.3
Inventories		0.2	-	-	0.2
Trade and other receivables		32.5	44.7	15.2	92.4
Intercompany eliminations		-	(14.0)	(14.1)	(28.1)
		100.2	36.4	14.4	151.0
Cash and cash equivalents		0.6	2.8	3.4	6.8
Total assets		100.8	39.2	17.8	157.8

1 Including goodwill 2 Including investment properties

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

	Note	Continuing operations (restated) Parcels £m	Mail £m	Central £m	Total £m
Segmental revenue		244.6	240.5	-	485.1
Operating profit/(loss) before exceptional items		23.6	12.5	(15.1)	21.0
Exceptional items - administrative expenses		(0.9)	-	-	(0.9)
Operating profit		22.7	12.5	(15.1)	20.1
Net finance costs					-
Profit before taxation					20.1
Taxation					(4.2)
Profit attributable to equity shareholders					15.9
Other segment items					
Capital expenditure (including acquisitions)					
-Property, plant and equipment	13	40.4	0.9	4.0	45.3
HS2 compensation	11	(4.2)	-	-	(4.2)
- Intangible assets	11	0.2	1.4	5.0	6.6
Depreciation of property, plant and equipment					
- Owned assets	13	3.3	0.9	1.2	5.4
- Under finance leases	13	0.2	-	-	0.2
Amortisation of intangible assets					
- Owned assets	11	-	0.1	2.0	2.1
- Under finance leases	11	-	-	0.2	0.2
Impairment of trade receivables		-	0.2	-	0.2
Intangible Assets [1]		0.2	1.6	11.4	13.2
Property, plant and equipment [2]		76.5	2.4	8.2	87.1
Deferred tax assets		-	-	0.6	0.6
Inventories		0.2	-	-	0.2
Trade and other receivables		36.0	52.1	30.7	118.8
Intercompany eliminations		-	(14.2)	(29.9)	(44.1)
		112.9	41.9	21.0	175.8
Cash and cash equivalents		2.0	4.3	(1.3)	5.0
Total assets		114.9	46.2	19.7	180.8

1 Including goodwill 2 Including investment properties.

Notes to the Financial Statements continued.

3. Exceptional items and discontinued operations

Exceptional items	2016	2015
	£m	£m
Profit on sale of national hub	1.1	-
HS2 Compensation	16.5	2.0
Exceptional income - continuing operations	**17.6**	2.0
Cost of automation implementation	(0.6)	(0.4)
National hub relocation costs	(7.1)	(2.5)
Impairment of intangible assets	(3.8)	-
Impairment of tangible assets	(1.0)	-
Management reorganisation	(1.4)	-
Exceptional costs - continuing operations	**(13.9)**	(2.9)
Exceptional costs - discontinued operations	-	(10.4)
Net exceptional income/(costs)	**3.7**	(11.3)

Net exceptional income - continuing operations

The profit on sale of the national hub represents the gain on sale following the compulsory acquisition of our National hub and offices at Birmingham by the DfT and HS2 Ltd, as a result of the proposed High Speed Two ('HS2') railway.

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

Net exceptional costs - continuing operations

The cost of automation implementation represents the cost incurred as we implement and roll out the new automaton equipment. These costs largely represent asset write offs and contract termination costs.

National hub relocation costs represent disturbance costs associated with the relocation of our National hub and offices to Ryton following an agreement reached with the Department of Transport ('DfT') to acquire the National hub and offices in Birmingham. These costs largely comprise £4.0m of disturbance payments including recruitment and redundancy costs and legal & professional fees. £2.5m of property costs associated with running two sites for an approximate period of six months, hub expansions costs of £0.3m and £0.3m loss of profit due to the delay in hub capacity expansion. No further amounts are expected to be taken as exceptional costs in the 2016/17 financial year.

The impairment of intangible assets represents the impairment cost recognised following a comprehensive strategic review of the Group's I.T. systems during the year which identified a number of software assets that did not fit within the medium and long term strategic goals of the Group, and which therefore offered no future economic value.

The impairment of tangible assets represents the cost of sortation equipment and related facilities that are no longer required given the revised automation strategy of the business.

The management reorganisation costs principally relate to the reorganisation of the Board which occurred during the year. These costs include the contractually agreed payments to departing directors, following mitigation, and the appointment costs of new Board directors.

Exceptional costs - discontinued operations

The exceptional costs of £10.4m in respect of discontinued operations in the year ended 31 March 2015 represent an impairment of intangible assets cost of £9.0m (comprising of £7.9m in respect of goodwill relating to the UK Pallets business and £1.1m relating to the write off of software developments costs), together with other closure costs of £1.4m following a decision to close the business of UK Pallets Ltd.

Other closure costs principally comprised of £0.7m of redundancy costs and £0.7m for contract termination and additional dilapidation costs.

The results of discontinued operations are as follows:	Note	2016 £m	2015 £m
Revenue		-	22.8
Cost of sales		-	(22.0)
Gross profit		-	0.8
Administrative expenses		-	(1.9)
Operating (loss)/profit before exceptional items		-	(1.1)
Exceptional items		-	(10.4)
Operating (loss)/profit		-	(11.5)
Taxation on profit/(loss) before exceptional items		-	0.2
Taxation on exceptional items		-	0.5
Total taxation	7	-	0.7
(Loss)/profit for the financial year [2]		-	(10.8)

2 Presented within the loss for the year from discontinued operations

These represent the results of UK Pallets Ltd.

Notes to the Financial Statements continued.

4. Finance costs

	2016	2015
	£m	£m
Interest payable on:		
Revolving credit facility	**(0.3)**	-
Finance leases	**(0.1)**	-
Other interest	**(0.1)**	-
Finance costs - continuing operations	**(0.5)**	-

Revolving credit facility interest and arrangement fees totalling £nil (2015: £0.3m), which qualify for capital allowances, have been capitalised as part of property, plant and equipment as they relate to the construction phase of the group's new National hub and head offices at Ryton.

5. Operating profit

	2016	2016	2016	2015	2015	2015
	£m	£m	£m	£m	£m	£m
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
The following items have been charged/ (credited) in arriving at operating profit:						
Royal Mail access costs	189.1	-	189.1	195.5	-	195.5
Subcontractor costs	103.5	-	103.5	97.0	15.8	112.8
Employee benefits expense (note 6)	65.4	-	65.4	65.0	3.5	68.5
Cost of fuel included in cost of sales (note 16)	8.8	-	8.8	10.1	0.8	10.9
Depreciation of owned property, plant and equipment (note 13)	6.6	-	6.6	5.6	-	5.6
Amortisation of intangibles (included in administrative expenses) (note 11)	2.4	-	2.4	2.3	0.1	2.4
Loss on disposal of property, plant and equipment	0.1	-	0.1	0.1	-	0.1
Impairment of goodwill and other intangibles (note 3)	3.8	-	3.8	-	9.0	9.0
Loss on foreign currency translation	0.1	-	0.1	-	-	-
Operating lease rentals payable	14.5	-	14.5	12.6	1.4	14.0
Repairs and maintenance expenditure on property, plant and equipment	5.4	-	5.4	4.8	0.5	5.3
Operating lease rentals receivable	(1.0)	-	(1.0)	(1.0)	(0.1)	(1.1)
Research and development costs	1.6	-	1.6	2.2	-	2.2
Impairment of trade receivables (included in administrative expenses)	0.3	-	0.3	0.2	0.2	0.4

Services provided by the Company's auditor

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

	2016	2015
	£000's	£000's
Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements	43	45
- The audit of the Company's subsidiaries pursuant to legislation	102	95
- Other services pursuant to legislation	15	12
Total audit and audit-related services	160	152
All other services	11	28
Total non-audit services	11	28
Total audit and non-audit services	171	180

Other services in 2016 principally relate to due diligence services (2015: IT assurance services).

6. Employees and directors

Employee benefit expense for the Group during the year

	Continuing operations 2016	Discontinued operations 2016	Total 2016	Continuing operations 2015	Discontinued operations 2015	Total 2015
	£m	**£m**	**£m**	£m	£m	£m
Wages and salaries	**58.1**	-	**58.1**	57.1	3.2	60.3
Social security costs	**5.4**	-	**5.4**	5.2	0.3	5.5
Pension costs [1]	**2.0**	-	**2.0**	2.1	-	2.1
Share-based payments (note 24)	**(0.1)**	-	**(0.1)**	0.6	-	0.6
	65.4	-	**65.4**	65.0	3.5	68.5

1 - pension costs all relate to defined contribution schemes.

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

	2016	2015
	Number	Number
Mail services	**212**	215
Parcel services	**2,294**	2,266
Central services	**206**	203
Continuing operations	**2,712**	2,684
Discontinued operations - Pallet services	-	101
	2,712	2,785

Key management compensation

	2016	2015
	£000	£000
Salaries and short-term employee benefits	**1,648**	1,436
Other pension costs	**131**	138
Share-based payments - (credit)/expense	**(139)**	344
	1,640	1,918

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

Directors' remuneration

	2016	2015
	£000	£000
Aggregate emoluments [1]	**1,331**	1,483
Other pension costs	**102**	138
	1,433	1,621

1 - aggregate emoluments in respect of the year ended 31 March 2015 have been restated to reflect the actual share price at the date of exercise of the LTIP award granted on 29 November 2012 which vested on 30 November 2015.

Pension contributions were made in respect of four (2015: three) directors, including contributions paid as a supplement to the directors salaries, as detailed in the Remuneration Report.

Further details of directors' emoluments are set out on page 77 of the Remuneration Report and all such emoluments relate to continuing operations.

7. Taxation

Analysis of charge in the period	Note	2016 £m	2015 £m
Continuing operations			
Current tax - current year		2.6	3.4
Current tax - adjustment in respect of prior years		(0.4)	(0.1)
Total current tax		2.2	3.3
Deferred tax			
Deferred tax - current year	21	-	0.8
Deferred tax - adjustment in respect of prior years	21	0.5	0.1
Deferred tax - adjustment in respect of tax rate change	21	(0.2)	-
Total deferred tax	21	0.3	0.9
Total tax on continuing operations		2.5	4.2
Discontinued operations			
Current tax - current year		-	(0.7)
Total current tax		-	(0.7)
Total tax		2.5	3.5

Taxation on continuing operations	2016 £m	2015 £m
Profit before taxation on continuing operations	14.4	20.1
Profit on continuing operations multiplied by the standard rate of corporation tax in the UK of 20% (2015: 21%)	2.9	4.2
Effects of:		
Expenses not deductible for tax purposes	0.5	0.1
Non-taxable gain on disposal	(0.5)	-
Effect of change in tax rate	(0.4)	(0.1)
Total tax charge	2.5	4.2

Additionally, £0.1m (2015: £0.1m charged) of deferred tax has been charged directly to equity in respect of share options.

The Finance Act 2015, which was substantively enacted on 18 November 2015, included legislation which reduced the main UK corporation tax rate from 20% to 19%, effective from 1 April 2017 and to 18% effective from 1 April 2020. The deferred tax balances have been measured in accordance with these rates.

A further reduction in the main UK Corporation tax rate down to 17% effective from 1 April 2020 was announced in the March 2016 Budget. Deferred tax balances have not been impacted by this latest rate change as it had not been substantively enacted by the balance sheet date.

8. Dividends

The directors have proposed the payment of a final dividend of 10.9p per share (2015: 14.5p per share), payable on 26 August 2016 to shareholders who are on the register of members on 29 July 2016. This dividend, which is subject to approval by shareholders at the Annual General Meeting on 14 July 2016, has not been included as a liability in these financial statements. The dividend payment will amount to some £6.0m.

	2016		2015	
Amounts recognised as distributions to equity shareholders during the year:	**Dividends per share pence**	**£m**	Dividends per share pence	£m
Final dividend paid in respect of the prior year	**14.5p**	**7.9**	14.2p	7.8
Interim dividend paid in respect of the current year	**5.5p**	**3.1**	7.3p	4.0
	20.0p	**11.0**	21.5p	11.8

9. Earnings per share

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

	2016	2015
	£m	£m
Profit after taxation – continuing operations	**11.9**	15.9
(Loss)/profit after taxation – discontinued operations	**-**	(10.8)
Profit after taxation	**11.9**	5.1

	2016	2015
	Number	Number
Basic weighted average number of shares	**54,888,887**	54,729,788
Effect of dilutive shares		
SAYE options	**12,848**	182,336
Diluted weighted average number of shares	**54,901,735**	54,912,124

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.

	2016	2015
	Pence	Pence
Basic earnings per share – continuing operations	**21.6p**	29.0p
Basic (loss)/earnings per share – discontinued operations	**-**	(19.8)p
Basic earnings per share	**21.6p**	9.2p

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.

	2016	2015
	Pence	Pence
Diluted earnings per share – continuing operations	**21.6p**	28.9p
Diluted (loss)/earnings per share – discontinued operations	**-**	(19.7)p
Diluted earnings per share	**21.6p**	9.2p

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

Underlying earnings per share

	Note	2016	2015
		£m	£m
Profit before taxation – continuing operations		**14.4**	20.1
Adjustments:			
Exceptional administrative items - continuing operations	3	**(3.7)**	0.9
Underlying profit before taxation – continuing operations		**10.7**	21.0
Taxation – continuing operations		**(2.2)**	(4.4)
Underlying profit after taxation – continuing operations		**8.5**	16.6
Underlying earnings per share			
Basic		**15.4p**	30.3p
Diluted		**15.4p**	30.1p

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

Notes to the Financial Statements continued.

10. Goodwill

Group	Note	2016 £m	2015 £m
Cost			
At 1 April and 31 March		**9.5**	9.5
Aggregate impairment			
At 1 April	3	**7.9**	-
Impairment charge		**-**	7.9
At 31 March		**7.9**	7.9
Net book value at 31 March		**1.6**	1.6

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

Cash-generating unit	Segment	2016 £m	2015 £m
Parcels Specialist Services (ex Courier)	Parcel Services	**1.6**	1.6
UK Pallets	Discontinued operations	**-**	-
Net book value at 31 March		**1.6**	1.6

The goodwill carried in the Parcel Services segment represents goodwill acquired on the acquisition of Business Post Group Limited (formerly BXT Limited) in February 2003.

As detailed in note 2, over a period of time, this business went through a period of transition away from a traditional same-day courier operation towards an operation which provides specialist service support to our Parcels business. In recognition of this, the CGU was renamed Parcels Specialist Services, which now forms part of the Parcel Services segment.

Impairment

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

As reported in the 2015 Annual Report and Accounts, a decision was made to close the business of UK Pallets Ltd, with trade ceasing in March 2015. The company has since entered a members voluntary liquidation as detailed in note 31. Consequently, the full £7.9m goodwill then carried within the Pallet Services segment was written off in the financial year ended 31 March 2015 as an exceptional item within the net loss on discontinued operations (see note 3).

Annual impairment testing

Goodwill is tested for impairment at least annually. The recoverable amount of the CGU is based on a value in use calculation using cash flow forecasts based on the 2016/17 Budget (as approved by the Board), extrapolated over the following four years in line with the Group's three year plan (as approved by the Board) and management estimates of the individual CGU's growth rate. Thereafter, the growth rate has assumed to be in line with the anticipated long term GDP rate of the UK economy. Pre-tax discount rates, derived from the Group's pre-tax weighted average cost of capital are then applied to the projections.

The key assumptions used in testing for impairment for the remaining goodwill in the Courier Services segment are as follows:

- the 2016/17 Budget (year 1)
- the rates of growth in years 2 to 5
- the long-term GDP growth rate of the UK economy
- the pre-tax discount rate used

Budget 2016/17

The 2016/17 Parcels Specialist Services Budget was initially prepared by the management team of the Parcels Specialist Services CGU based on their detailed knowledge and experience of their own CGU. This Budget has subsequently been approved by the Board, following detailed discussions with management and rigorous testing of the underlying assumptions. Non-cash items have been added back to profit before interest and taxation in order to determine the cash flow for the CGU.

Rates of growth in years 2 to 5

The rates of revenue growth in years 2 to 5 are based on the Group's approved three year plan (for years 2 and 3), and managements best estimates (for years 4 and 5) based on past performance, expectations for future business development, and known business initiatives. The growth rates are in the range of 3.8% to 4.3% p.a. (2015: 4.3% to 8.6% p.a.)

Long term GDP rate of the UK economy

The anticipated minimum long term GDP growth rate of the UK economy has been estimated at 2.1% p.a. (2015: 2.0% p.a.).

Pre-tax discount rate

The discount rate applied to a CGU represents a pre-tax rate that reflects the Group's weighted average cost of capital, adjusted for the risks specific to the CGU. The pre-tax discount rate used is 11.51% (2015: 9.65%).

Sensitivity to changes in assumptions

The results of impairment testing is impacted by management's estimates and judgements, in particular in relation to the forecasting of future cash flows and the discount rate applied to those cash flows. Sensitivity analysis has therefore been performed for these key assumptions.

Growth of market and market share

Management has considered the impact of a variance in the growth of the market and market share for the Parcels Specialist Services CGU, and believe that there is no reasonable potential change in any of the key assumptions used that would cause the carrying value of the Courier Services CGU to exceed its recoverable amount.

Pre-tax discount rate

Management has considered the impact of an increase in the pre-tax discount rate applied to this calculation, and believe that there is no reasonable potential change in the pre-tax discount rate that would cause the carrying value of the Courier Services CGU to exceed its recoverable amount.

Market structure

Management believe that there will be no structural change in the Parcels market which will adversely affect these forecasts in the foreseeable future.

Notes to the Financial Statements continued.

11. Intangible assets

	Acquired software licences	Software development costs	Total
	£m	£m	£m
Group			
Cost			
At 1 April 2015	4.7	15.0	19.7
Additions	0.7	5.0	5.7
HS2 compensation	-	(2.2)	(2.2)
Disposals*	(0.2)	(5.3)	(5.5)
At 31 March 2016	5.2	12.5	17.7
Aggregate amortisation and impairment			
At 1 April 2015	2.9	5.2	8.1
Charge for the year	0.4	2.0	2.4
Disposals*	-	(1.7)	(1.7)
At 31 March 2016	3.3	5.5	8.8
Net book value at 31 March 2016	1.9	7.0	8.9

* Includes impairment of £3.8m

	Acquired software licences	Software development costs	Total
	£m	£m	£m
Group			
Cost			
At 1 April 2014	4.4	9.7	14.1
Additions	0.6	6.4	7.0
Disposals	(0.3)	(1.1)	(1.4)
At 31 March 2015	4.7	15.0	19.7
Aggregate amortisation and impairment			
At 1 April 2014	2.4	3.7	6.1
Charge for the year	0.5	1.9	2.4
Disposals	-	(0.4)	(0.4)
At 31 March 2015	2.9	5.2	8.1
Net book value at 31 March 2015	1.8	9.8	11.6

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

	Acquired software licences	Software development costs	Total
	£m	£m	£m
Assets under construction			
Net book value at 31 March 2016	-	-	-
Net book value at 31 March 2015	-	1.5	1.5

Software related amortisation charges have been charged through administrative expenses.

12. Investment properties

	2016	2015
Group	**£m**	£m
Cost		
At 1 April	**2.6**	2.6
At 31 March	**2.6**	2.6
Accumulated depreciation		
At 1 April	**0.9**	0.8
Charge for the year	-	0.1
At 31 March	**0.9**	0.9
Net book value at 31 March	**1.7**	1.7

One (2015: one) investment property is held by the Group, located in the West Midlands, which is being sublet under an operating lease. The rental income recognised in the year was £0.3m (2015: £0.3m). Direct operating expenses incurred were £nil (2015: £nil). The lease is due to expire on 6 May 2016, following which the Group intends to utilise the property for it's own operational purposes.

The property was last externally valued by qualified professional valuers working for the company of NRS North Rae Sanders, Commercial Real Estate Services and Chartered Surveyors, acting in the capacity of External Valuers in April 2015 at £3m. The valuers are Chartered Surveyors, being members of the Royal Institution of Chartered Surveyors ('RICS'), Industrial Agents Society, Office Agents Society and Investment Property Forum. In January 2016, NRS Rae Sanders was acquired by Avison Young UK, a global real estate firm. In the 2016 financial year, the proportion of total fees payable by the Group to the total fee income of Avison Young was less than 1%. The valuation was primarily derived using comparable recent market transactions on arm's length terms. The valuation was carried out in accordance with the RICS Appraisal and Valuation Standards.

Notes to the Financial Statements continued.

13. Property, plant and equipment

Group	Freehold land and buildings £m	Short leasehold buildings £m	Motor vehicles, plant and equipment £m	Computer equipment £m	Total £m
Cost					
At 1 April 2015	**53.7**	**3.7**	**53.9**	**15.6**	**126.9**
Additions	**-**	**0.1**	**19.0**	**2.1**	**21.2**
HS2 compensation	**(0.9)**	**-**	**-**	**(2.3)**	**(3.2)**
Disposals*	**(9.4)**	**(0.3)**	**(17.9)**	**(2.5)**	**(30.1)**
At 31 March 2016	**43.4**	**3.5**	**55.0**	**12.9**	**114.8**
Accumulated depreciation and impairment					
At 1 April 2015	**6.3**	**2.2**	**24.2**	**8.8**	**41.5**
Charge for the year	**0.8**	**0.3**	**4.2**	**1.3**	**6.6**
Disposals*	**(2.6)**	**(0.2)**	**(2.6)**	**(1.3)**	**(6.7)**
At 31 March 2016	**4.5**	**2.3**	**25.8**	**8.8**	**41.4**
Net book value at 31 March 2016	**38.9**	**1.2**	**29.2**	**4.1**	**73.4**

* Includes impairment of £1.0m

Group	Freehold land and buildings £m	Short leasehold buildings £m	Motor vehicles, plant and equipment £m	Computer equipment £m	Total £m
Cost					
At 1 April 2014	35.1	3.4	38.7	11.8	89.0
Additions	22.8	0.3	18.0	4.2	45.3
HS2 Compensation	(4.2)	-	-	-	(4.2)
Disposals	-	-	(2.8)	(0.4)	(3.2)
At 31 March 2015	53.7	3.7	53.9	15.6	126.9
Accumulated depreciation and impairment					
At 1 April 2014	5.8	1.9	23.3	7.9	38.9
Charge for the year	0.5	0.3	3.5	1.3	5.6
Disposals	-	-	(2.6)	(0.4)	(3.0)
At 31 March 2015	6.3	2.2	24.2	8.8	41.5
Net book value at 31 March 2015	47.4	1.5	29.7	6.8	85.4

As at 31 March 2015 three of the group properties included above, with a net book value of £6.3m had been given as security against advance payments for compensation received from HS2 Ltd. These charges were subsequently released during the year ended 31 March 2016, following the final contractual settlement of the DfT and HS2 Ltd compensation claim.

Interest and revolving credit facility arrangement fees totalling £nil (2015: £0.3m), which qualify for capital allowances, have been capitalised as part of property, plant and equipment as they relate to the construction phase of the group's new national hub and head offices at Ryton.

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

	Freehold land and buildings	Short leasehold buildings	Motor vehicles, plant and equipment	Computer equipment	Total
Group	**£m**	**£m**	**£m**	**£m**	**£m**
Assets under construction					
Net book value at 31 March 2016	-	-	-	-	-
Net book value at 31 March 2015	19.2	-	17.2	2.2	38.6

Notes to the Financial Statements continued.

14. Assets held under finance leases

Included in notes 11 and 13 are the following assets held under finance leases:

	Property, plant and equipment (Motor vehicles, property, plant and equipment)		Intangible (Acquired software licences)	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Cost	**3.4**	3.5	**1.7**	1.7
Additions	**13.7**	-	**-**	-
Accumulated depreciation	**(4.0)**	(3.4)	**(1.3)**	(1.2)
Disposals	**-**	(0.1)	**-**	-
Net book value	**13.1**	-	**0.4**	0.5

The majority of the leases are for an initial contractual period of six to ten 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

	2016	**2015**
Non-current investments	**£m**	£m
Cost of investments in subsidiaries		
At 1 April	**20.2**	19.6
(Decrease)/increase in investments in subsidiaries - share-based payments	**(0.1)**	0.6
At 31 March	**20.1**	20.2
Impairment		
At 1 April	**9.1**	-
Impairment of investments in subsidiaries	**-**	9.1
At 31 March	**9.1**	9.1
Net book value	**11.0**	11.1

The impairment of investments in subsidiaries relates to UK Pallets Ltd, further details of which can be found in note 3.

16. Inventories

	2016	**2015**
	£m	£m
Fuel stock	**0.2**	0.2

17. Trade and other receivables

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Trade receivables	**46.7**	56.5	-	-
Less: provision for impairment	**(0.1)**	(0.1)	-	-
Trade receivables - net of provision for impairment	**46.6**	56.4	-	-
Amounts due from subsidiary undertakings	-	-	**14.1**	29.9
Other debtors	**6.1**	5.5	-	-
Prepayments and accrued income	**11.6**	14.3	-	-
	64.3	76.2	**14.1**	29.9

Further information on the credit risks relating to trade and other receivables is given in note 25.

Company

Amounts due from subsidiary undertakings bear interest at 1.0% over the Bank of England base rate, are unsecured and are repayable on demand.

None (2015: none) of the Company's trade and other receivables were past due at the year end and the Company does not consider it necessary to provide for any impairment.

18. Cash and cash equivalents

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

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Cash at bank and in hand	**6.8**	4.6	**3.4**	-
Bank overdraft	-	-	-	(1.3)
Cash and cash equivalents	**6.8**	4.6	**3.4**	(1.3)

Credit interest rates on bank balances range between 0.00% to 0.60% (2015: 0.00% to 0.70%), and debit interest rates on borrowings range between 0.4% to 2.5% (2015: 1.82% to 2.5%). As far as practical cash balances are held centrally and are used first to repay borrowings under the Group's revolving credit facility before being placed on deposit.

Notes to the Financial Statements continued.

19. Trade and other payables – current

	Group		Company	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Trade payables	**49.8**	58.7	-	-
Other payables	**8.4**	9.1	-	-
Amounts owed to franchises	**1.3**	1.6	-	-
Other taxes and social security payable	**12.0**	12.6	-	-
Accruals	**8.1**	9.4	-	-
Deferred compensation	**0.4**	9.6	-	-
Deferred income	**0.1**	0.1	-	-
	80.1	101.1	-	-

Total deferred compensation of £0.4m (2015: £9.6m) relates to disturbance costs to be incurred.

Total compensation received in 2016 was £22.0m, of which £15.4m was credited to the income statement, £5.4m was credited against capital expenditure for assets purchased that could not have been transferred to the new Ryton site including the data centre and associated assets, plus compulsory moving costs (stamp duty, planning and legal fees) and £0.8m being the final payment for the old Birmingham site.

During the year ended 31 March 2016 deferred compensation of £8.6m has been credited to the income statement in relation to the disposal of the Birmingham site (which is reported within the exceptional item 'Profit on sale of national hub') and £1.0m has been credited within the 'HS2 compensation' exceptional item.

Total compensation received in 2015 was £4.3m of which £2.0m is shown in the cash flow statement within investing activities relating to the reimbursement of capital expenditure and £2.3m within operating activities relating to business disruption costs.

During the year ended 31 March 2015, £4.2m was credited against the build cost of the Ryton National hub (shown as an asset under construction in note 13) within the balance sheet and £2.0m was included as an exceptional item within 'HS2 compensation'.

Further details of those items classified as exceptional can be found in note 3.

20. Borrowings

Current

	Note	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Amounts due within one year or on demand:					
Revolving credit facility [1]		(0.2)	9.8	-	-
Finance lease obligations	25	0.4	-	-	-
Bank overdraft		-	-	-	1.3
		0.2	9.8	-	1.3

1 The revolving credit facility is shown net of £0.2m unamortised arrangement fees (2015: £0.2m). The revolving credit facility was undrawn as at the 31 March 2016 (2015: £10.0m drawn).

Non-current

		Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Amounts due after more than one year:					
Finance lease obligations	25	4.4	-	-	-
		4.4	-	-	-

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

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Amounts payable under finance leases				
Within one year	0.6	-	-	-
Between one and five years	3.1	-	-	-
Over five years	2.1	-	-	-
Total minimum lease payments	5.8	-	-	-
Future finance charges	(1.0)	-	-	-
Present value of finance leases	4.8	-	-	-

Notes to the Financial Statements continued.

21. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using the tax rates 18-19% (2015: 20%).

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

	Group	
	2016	2015
Deferred tax assets	**£m**	£m
At 1 April	**0.7**	0.7
(Charge)/credit to equity	**(0.1)**	(0.2)
(Charge) to income statement - discontinued activities	**(0.1)**	-
(Charge)/credit to income statement	**(0.2)**	0.2
At 31 March	**0.3**	0.7

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

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

	Group	
	2016	2015
Deferred tax liabilities	**£m**	£m
At 1 April	**2.6**	1.5
Income statement charge	**0.2**	1.1
At 31 March	**2.8**	2.6

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

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

	Group	
	2016	2015
Deferred tax assets	**£m**	£m
Within 12 months	**0.2**	0.1
After 12 months	**0.1**	0.5
At 31 March	**0.3**	0.6
Deferred tax liabilities		
Within 12 months	**-**	-
After 12 months	**2.8**	2.6
At 31 March	**2.8**	2.6

£0.1m deferred tax was charged to equity during the year (2015: £0.2m charged). There was no recognised or unrecognised deferred tax for the company (2015: £nil)

22. Provisions

	Automation	Closure costs	Lease dilapidations	Restructuring	Management reorganisation	Total
	£m	£m	£m	£m	£m	£m
At 1 April 2015	0.2	0.3	1.5	0.2	-	2.2
Provided in the year	-	-	0.3	-	0.6	0.9
Utilised in the year	(0.2)	(0.3)	(0.5)	(0.1)	-	(1.1)
At 31 March 2016	-	-	1.3	0.1	0.6	2.0

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

	2016	2015
	£m	£m
Current	**1.2**	1.5
Non-current	**0.8**	0.7
	2.0	2.2

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

The closure costs are for UK Pallets and largely relate to redundancy payments and contractual cancellation charges, following cessation of the business in March 2015.

Lease dilapidations represent the anticipated expenditure resulting from the Group's contractual obligations to make good properties prior to reversion of the building to the landlord in respect of leases expiring within one year and up to 14 years.

The timing of outflows is variable, and is dependent not only on property lease expiry dates, and opportunities to surrender leases, but repair programmes and the results of negotiation.

Restructuring relates to provisions arising following a change programme initiated in the financial year ended 31 March 2012 and relates to onerous property lease costs, which are expected to be utilised within one year.

Management reorganisation provisions largely relate to the Board changes during the year, including the exit costs in respect of the previous Group Operations Director and the appointment costs for both the new CEO and Group Operations Director.

Notes to the Financial Statements continued.

23. Ordinary shares

Group and company

	2016	2015
Authorised	**£m**	£m
70,000,000 (2015: 70,000,000) ordinary shares of 10p each	**7.0**	7.0

Issued, allotted and fully paid

	2016		2015	
Ordinary shares of 10p each	**Shares**	**£m**	Shares	£m
At 1 April	**54,740,618**	**5.5**	54,734,482	5.5
Issued to the ESOT	**180,021**	**-**	-	-
Allotted under share option schemes	**230,615**	**-**	6,136	-
At 31 March	**55,151,254**	**5.5**	54,740,618	5.5

Potential issues of ordinary shares

Certain directors, key managers and employees hold options to subscribe for shares in the Company at prices ranging from £nil to 471.14p under share option schemes approved by shareholders between 2004 and 2009, as follows;

	Year of grant	Exercise price	Exercise period	2016 numbers	2015 numbers
Scheme					
Sharesave scheme	2012 - 2015	186.88p - 471.14p	01.09.16 to 01.03.19	**278,587**	444,404
LTIP	2013 - 2015	Nil	04.06.16 to 02.06.25	**422,146**	825,417
SMP	2013 - 2014	Nil	11.06.16 to 10.12.17	**8,199**	34,394
				708,932	1,304,215

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.

During the year ended 31 March 2016 the ESOT purchased 180,021 ordinary shares of 10p each from the Company for an aggregate £18,002 and allotted 185,497 ordinary shares of 10p each with an aggregate nominal value of £18,550 to satisfy exercises under the Group's LTIP and SAYE plans at an average price of 325.28p per share.

The ESOT did not allot any ordinary shares of 10p each in the year ended 31 March 2015.

The trust held a total of 1,325 shares with a market value of £3,843 at 31 March 2016 (2015: 6,801 shares with a market value of £32,781).

24. Share-based payments

The Group recognised a credit of £0.1m (2015: £0.6m charge) in respect of equity settled share-based payments during the year. There have been no cancellations or modifications to any of the plans during the year. The main details of all the schemes which existed during the year are as follows:

Sharesave Plan ('SAYE')

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

Long Term Incentive Plan ('LTIP')

The Remuneration Committee first introduced an LTIP in 2004, as a more effective means of incentivising the Company's senior management than the executive share option scheme. Under the LTIP the Remuneration Committee can grant options over shares in the Company to employees of the Company, with a contractual life of an option being between three and ten years.

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

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

During the year ended 31 March 2016, the required targets under live LTIP options were as follows;

	EPS Target range (1)		TSR Target range (1)		
Year of grant	**Threshold (25%) vesting**	**Max (100%) vesting**	**Threshold (25%) vesting**	**Max (100%) vesting**	**Outcome**
2012	11.6% p.a.	18.1% p.a.	Median	Top quartile	26.6% vested under the EPS condition 50.0% vested under the TSR condition
2013	7.2% p.a.	15.5% p.a.	Median	Top quartile	Failed both the EPS and TSR condition
2014	8.0% p.a.	14.0% p.a.	Median	Top quartile	Live award
2015	8.0% p.a.	15.0% p.a.	Median	Top quartile	Live award

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

No awards will vest under the 2013 grant following failure to meet both the minimum required EPS and TSR targets.

Notes to the Financial Statements continued.

Share Matching Plan ('SMP')

In previous years, selected executives had been invited to invest a portion of their cash bonus in the acquisition of Company shares worth up to 25% of their pre-tax salary. However, the Remuneration Committee no longer considers this as an appropriate means of incentivising senior management; with the last grant made on 10 June 2014.

Where such an investment was made, the executives will receive a grant of a matching award over shares in the Company with an equivalent value, which may be exercised between 36 and 42 months following the date of grant, subject to the achievement of certain EPS performance criteria. Further detail is provided in the Remuneration Report on page 68.

Calculation of fair values

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

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

	LTIP	SAYE
Grant date	02/06/2015	20/07/2015
Share price at grant date	£5.025	£5.20
Exercise price	-	£4.1414
Number of employees	1	202
Number of shares granted	29,904	203,915
Vesting period (years)	3	3
Expected volatility	29.1%	28.2%
Option life (years)	3	3
Expected life (years)	3	3
Risk-free interest rate	0.80%	0.97%
Expected dividends expressed as dividend yield	0.00%	4.19%
Fair value per option	£3.75	£1.09
Expected forfeiture (%)	0.0%	N/a

The risk-free rate was determined by reference to the rate obtainable on UK government securities ('UK Gilts') with maturities commensurate with the expected term remaining for each award. The expected volatility is estimated by considering the Company's historic average share price volatility over similar periods to the expected life of the option under consideration. In addition, the expected dividend yield was based at the prevailing rate for the SAYE grant 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 2016 is shown below:

	2016	2016	2015	2015
	Number	Weighted average exercise price	Number	Weighted average exercise Price
Outstanding as at 1 April	**1,304,215**	**£1.02**	1,142,761	£0.95
Granted	**233,819**	**£3.61**	280,727	£1.99
Lapsed	**(433,771)**	**£1.32**	(113,137)	£2.70
Exercised	**(395,331)**	**£1.13**	(6,136)	£2.01
Outstanding as at 31 March	**708,932**	**£1.62**	1,304,215	£1.02
Exercisable at 31 March	-	-	-	-

The weighted average share price on the date of exercise was 325.28p (2015: 573.40p).

The weighted average remaining expected and contractual life of options is as follows:

	2016				2015			
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**	**430,345**	**0.6**	**7.4**	£0.00	859,811	1.4	8.0
£1.00 - £1.99	**£1.87**	**15,568**	**1.7**	**1.9**	£1.87	246,713	0.9	1.2
£2.00 - £2.99	-	-	-	-	£2.75	7,973	0.8	1.0
£3.00 - £3.99	-	-	-	-	-	-	-	-
£4.00 - £4.99	**£4.27**	**263,019**	**2.0**	**2.3**	£4.44	189,718	2.2	2.4

25. Financial instruments

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

The use of simple financial derivatives is considered in order to hedge specific financial risks where cost effective to do so. The Group does not enter into, or trade, financial instruments, including derivative financial instruments, for speculative purposes. At the year end the Group has not entered into any financial derivatives contracts: (2015: £nil).

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

Notes to the Financial Statements continued.

	2016 Group			2015 Group		
	Financial instruments	Other	Total	Financial instruments	Other	Total
Goodwill	-	1.6	1.6	-	1.6	1.6
Intangible assets	-	8.9	8.9	-	11.6	11.6
Investment properties	-	1.7	1.7	-	1.7	1.7
Property plant and equipment	-	73.4	73.4	-	85.4	85.4
Deferred tax assets	-	0.3	0.3	-	0.7	0.7
Non-current assets	-	85.9	85.9	-	101.0	101.0
Trade receivables (net of impairment)	46.6	-	46.6	56.4	-	56.4
Other debtors	6.1	-	6.1	5.5	-	5.5
Prepayments and accrued income	-	11.6	11.6	-	14.3	14.3
Trade and other receivables	52.7	11.6	64.3	61.9	14.3	76.2
Inventories	-	0.2	0.2	-	0.2	0.2
Cash and cash equivalents	6.8	-	6.8	4.6	-	4.6
Current assets	59.5	11.8	71.3	66.5	14.5	81.0
Total assets	59.5	97.7	157.2	66.5	115.5	182.0
Trade payables	(49.8)	-	(49.8)	(58.7)	-	(58.7)
Other payables	(8.4)	-	(8.4)	(9.1)	-	(9.1)
Amounts owed to franchises	(1.3)	-	(1.3)	(1.6)	-	(1.6)
Other taxes and social security payable	-	(12.0)	(12.0)	-	(12.6)	(12.6)
Accruals	(8.1)	-	(8.1)	(9.4)	-	(9.4)
Deferred compensation	-	(0.4)	(0.4)	-	(9.6)	(9.6)
Deferred income	-	(0.1)	(0.1)	-	(0.1)	(0.1)
Trade and other payables	(67.6)	(12.5)	(80.1)	(78.8)	(22.3)	(101.1)
Borrowings	(0.2)	-	(0.2)	(9.8)	-	(9.8)
Current tax liabilities	-	(0.5)	(0.5)	-	(0.2)	(0.2)
Provisions	(1.2)	-	(1.2)	(1.5)	-	(1.5)
Current liabilities	(69.0)	(13.0)	(82.0)	(90.1)	(22.5)	(112.6)
Borrowings	(4.4)	-	(4.4)	-	-	-
Deferred tax liabilities	-	(2.8)	(2.8)	-	(2.6)	(2.6)
Provisions	(0.8)	-	(0.8)	(0.7)	-	(0.7)
Non-current liabilities	(5.2)	(2.8)	(8.0)	(0.7)	(2.6)	(3.3)
Total liabilities	(74.2)	(15.8)	(90.0)	(90.8)	(25.1)	(115.9)
Net assets/(liabilities)	(14.7)	81.9	67.2	(24.3)	90.4	66.1

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

The use of simple financial derivatives is considered in order to hedge specific financial risks where cost effective to do so. The Company does not enter into, or trade, financial instruments, including derivative financial instruments, for speculative purposes. At the year end the Group has not entered into any financial derivatives contracts: (2015: £nil).

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

	2016 Company			2015 Company		
	Financial instruments	Other	Total	Financial instruments	Other	Total
Investment in subsidiaries	-	11.0	11.0	-	11.1	11.1
Non-current assets	-	11.0	11.0	-	11.1	11.1
Amounts due from subsidiary undertakings	14.1	-	14.1	29.9	-	29.9
Current tax assets	-	0.2	0.2	-	0.1	0.1
Cash and cash equivalents	3.4	-	3.4	-	-	-
Current assets	17.5	0.2	17.7	29.9	0.1	30.0
Total assets	17.5	11.2	28.7	29.9	11.2	41.1
Borrowings	-	-	-	(1.3)	-	(1.3)
Current liabilities	-	-	-	(1.3)	-	(1.3)
Net assets	17.5	11.2	28.7	28.6	11.2	39.8

Notes to the Financial Statements continued.

Classification of financial instruments

The tables below set out the Group's IAS 39 classification for each of its financial assets and liabilities:

Group At 31 March 2016	Loans and receivables £m	Financial liabilities at amortised cost £m	Total carrying value £m
Cash at bank and in hand	6.8	-	6.8
Borrowings due within one year	-	(0.2)	(0.2)
Borrowings due after more than one year	-	(4.4)	(4.4)
Other financial assets	52.7	-	52.7
Other financial liabilities	-	(69.6)	(69.6)
	59.5	(74.2)	(14.7)

At 31 March 2015	Loans and receivables £m	Financial liabilities at amortised cost £m	Total carrying value £m
Cash at bank and in hand	4.6	-	4.6
Borrowings due within one year	-	(9.8)	(9.8)
Other financial assets	61.9	-	61.9
Other financial liabilities	-	(81.0)	(81.0)
	66.5	(90.8)	(24.3)

Company At 31 March 2016	Loans and receivables £m	Financial liabilities at amortised cost £m	Total carrying value £m
Cash at bank and in hand	3.4	-	3.4
Other financial assets	14.1	-	14.1
	17.5	-	17.5

At 31 March 2015	Loans and receivables £m	Financial liabilities at amortised cost £m	Total carrying value £m
Borrowings due within one year	-	(1.3)	(1.3)
Other financial assets	29.9	-	29.9
	29.9	(1.3)	28.6

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

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

Contractual cash flows

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

Group	Book value	Fair value	Total contractual cash flows	Within one year	Between one and two years	Between two and five years	Over five years
At 31 March 2016	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Financial liabilities:							
Finance leases	**(4.8)**	**(4.8)**	**(4.8)**	**(0.4)**	**(0.9)**	**(1.5)**	**(2.0)**
Trade payables	**(49.8)**	**(49.8)**	**(49.8)**	**(49.8)**	**-**	**-**	**-**
Other payables	**(8.4)**	**(8.4)**	**(8.4)**	**(8.4)**	**-**	**-**	**-**
Amounts owed to franchises	**(1.3)**	**(1.3)**	**(1.3)**	**(1.3)**	**-**	**-**	**-**
Accruals	**(8.1)**	**(8.1)**	**(8.1)**	**(8.1)**	**-**	**-**	**-**
Provisions	**(2.0)**	**(2.0)**	**(2.0)**	**(1.2)**	**(0.3)**	**(0.3)**	**(0.2)**
	(74.4)	**(74.4)**	**(74.4)**	**(69.2)**	**(1.2)**	**(1.8)**	**(2.2)**

	Book value	Fair value	Total contractual cash flows	Within one year	Between one and two years	Between two and five years	Over five years
At 31 March 2015	£m	£m	£m	£m	£m	£m	£m
Financial liabilities:							
Trade payables	(58.7)	(58.7)	(58.7)	(58.7)	-	-	-
Other payables	(9.1)	(9.1)	(9.1)	(9.1)	-	-	-
Amounts owed to franchises	(1.6)	(1.6)	(1.6)	(1.6)	-	-	-
Accruals	(9.4)	(9.4)	(9.4)	(9.4)	-	-	-
Provisions	(2.2)	(2.2)	(2.2)	(1.5)	(0.2)	(0.3)	(0.2)
Borrowings	(9.8)	(9.8)	(9.8)	(9.8)	-	-	-
	(90.8)	(90.8)	(90.8)	(90.1)	(0.2)	(0.3)	(0.2)

Notes to the Financial Statements continued.

Company	Book value	Fair value	Total contractual cash flows	Within one year	Between one and two years	Between two and five years	Over five years
At 31 March 2016	£m	£m	£m	£m	£m	£m	£m
Financial liabilities:							
	-	-	-	-	-	-	-

	Book value	Fair value	Total contractual cash flows	Within one year	Between one and two years	Between two and five years	Over five years
At 31 March 2015	£m	£m	£m	£m	£m	£m	£m
Financial liabilities:							
Borrowings	(1.3)	(1.3)	(1.3)	(1.3)	-	-	-
	(1.3)	(1.3)	(1.3)	(1.3)	-	-	-

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

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

All financial assets and liabilities are sterling denominated.

Credit risk

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

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

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

The Group has no significant concentrations of credit risk. Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated, with no one customer accounting for more than 7.1% of trade receivables. The Group has implemented policies that require appropriate credit checks on potential customers before sales commence and strict credit control of outstanding amounts. Trade credit insurance is employed to protect any significant exposure to bad debts.

Trade receivables that are neither past due nor impaired are expected to be fully recovered as there is no recent history of default or any indications that the debtors will not meet their payment obligations. At the year end there are no trade receivables (2015: none) whose terms have been renegotiated and would otherwise be past due or impaired.

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

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

At 31 March, the ageing analysis of the group's trade receivables before provisions is as follows:

	2016	2015
	£m	£m
Less than 30 days	46.6	56.1
Between 30 - 60 days	0.1	0.2
Between 60 - 90 days	-	0.1
	46.7	56.4

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

	2016	2015
	£m	£m
At 1 April	0.1	0.1
Amount released through administrative expenses	-	-
Utilised during the period	-	-
At 31 March	0.1	0.1

As at 31 March 2016, trade receivables of £0.1m (2015: £0.1m) were impaired. The amount of provision was £0.1m at 31 March 2016 (2015: £0.1m). The ageing of these impaired trade receivables is as follows:

	2016	2015
	£m	£m
Less than 30 days	-	-
Between 30 - 60 days	0.1	-
Between 60 - 90 days	-	0.1
	0.1	0.1

As at 31 March 2016, trade receivables of £4.8m (2015: £7.3m) 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 are unprovided. The ageing of these trade receivables is as follows:

	2016	2015
	£m	£m
Less than 30 days	4.7	7.0
Between 30 - 60 days	0.1	0.2
Between 60 - 90 days	-	0.1
	4.8	7.3

At 31 March 2016, there were £nil (2015: £nil) trade receivables impaired but not past due for payment.

None (2015: none) of the other classes of financial assets within trade and other receivables contained impaired assets.

Notes to the Financial Statements continued.

Credit quality of cash at bank and short-term deposits

The credit quality of cash at bank and short-term deposits is as follows:

	2016	2015
	£m	£m
Current rating (Moody's)		
A1	6.8	-
A2	-	4.6
Total	6.8	4.6

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 7% of revenue.

Price risk

Royal Mail access costs represent a significant cost to the Group. Price risk is limited as Ofcom is mandated to maintain sufficient headroom between retail and access prices, such that competition is encouraged within the mail industry. Whilst fuel costs only constitute approximately 1.9% of total costs there is an element of price risk. Price risk is minimised as significant increases in the fuel price can be passed onto the majority of customers via a fuel surcharge mechanism common throughout the express delivery industry.

Interest rate risk

The interest rate profile of the Group's interest-earning financial assets and interest-bearing liabilities at 31 March 2016 was:

	2016			2015		
	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	6.8	-	6.8	4.6	-	4.6
	6.8	-	6.8	4.6	-	4.6
Financial liabilities						
Finance leases	(4.8)	-	(4.8)	-	-	-
Revolving credit facility	0.2	-	0.2	(9.8)	-	(9.8)
	4.6	-	4.6	(9.8)	-	(9.8)

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 payable on the revolving credit facility is 1.5% over LIBOR.

The Group has used a sensitivity analysis technique that measures the estimated change to profit before tax and equity of a 1% (100 basis points) difference in interest rates from the rates applicable at the balance sheet date, with all other variables remaining constant, this being considered a reasonable possible change to interest rates, that could have affected the Group.

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

	2016		2015	
	Profit before tax	**Equity**	Profit before tax	Equity
	£m	**£m**	£m	£m
Increase of 100 bp in the average rate receivable/(payable)	**(0.3)**	**(0.3)**	(0.1)	(0.1)
Decrease of 100 bp in the average rate receivable/(payable)	**0.3**	**0.3**	0.1	0.1

Liquidity risk

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 9 to 19. The financial position of the Group, its cash flows, liquidity position and treasury risk management approach are described in the Financial Review on pages 20 to 26, and its borrowing facilities detailed in note 27.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Board reviews both the long and short-term financing requirements of the Group to ensure that there are sufficient available funds both for the day-to-day operations of the Group and for planned capital investments. The Group has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current economic outlook.

As at 31 March 2016, the Group had not drawn on the revolving credit facility of £25m (2015: £10.0m drawn) in place until 31 May 2019. The Group also has an overdraft facility which was also undrawn of £10.0m, in place until 30 June 2016.

Capital risk

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to the parent company. The Group's policy has been to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. The Board's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure. This includes maintaining the level of dividends at a level commensurate with underlying operating profitability of the Group and obtaining sufficient short and medium-term debt facilities that are appropriate for the needs of the business.

The Board seeks to maintain a balance between the level of debt (which for these purposes includes finance leases) and the advantages and security afforded by a sound capital position.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return or issue share capital to shareholders, draw on borrowing facilities, or sell assets to reduce debt.

An analysis of the Group's net cash/(debt) position is given in note 29.

Notes to the Financial Statements continued.

26. Operating lease commitments - minimum lease payments

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

	Group 2016		Group 2015	
	Land and buildings	**Vehicles, plant and equipment**	Land and buildings	Vehicles, plant and equipment
	£m	**£m**	£m	£m
Commitments under non-cancellable operating leases expiring:				
Within one year	**6.1**	**5.7**	6.3	5.4
Between one and two years	**4.9**	**4.4**	4.6	5.0
Between two and five years	**8.3**	**3.1**	7.7	5.2
After five years	**4.0**	**-**	6.4	-
At 31 March	**23.3**	**13.2**	25.0	15.6

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

The Group sublets one of its properties (see note 12) under a non-cancellable operating lease agreement, due to expire 6 May 2016. The total future sub-lease payments receivable relating to the above operating lease amounted to £nil (2015: £0.1m), all due within one year.

27. Contingent liabilities

Contingent liabilities

The Company has joint and several liability to Lloyds Bank plc, with other subsidiary undertakings in a cross-guarantee agreement on an undrawn Group borrowing facility amounting to £10m (2015: £10m), and drawings made under a £25m (2015: £25m) five year revolving credit facility to May 2019.

The Group has a bank guarantee agreement with Lloyds Bank plc, under which the bank provides a facility which allows the Group to request that the bank issue guarantees to third party suppliers for general business purposes. The maximum total facility value is £11m (2015: £11m). At 31 March 2016, upon the request of the Group, the bank has issued a guarantee with a value of £8m (2015: £8m) to a third party supplier of a subsidiary company.

The Group has a documentary credit facility with Lloyds Bank plc. of £1.7m (2015: £1.7m), in respect of letters of credit opened with the bank.

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

28. Capital and other financial commitments

	2016	2015
	£m	£m
Property, plant and equipment	**0.5**	0.1
Total	**0.5**	0.1

29. Analysis of net cash/(debt)

Group

	At 31 March 2014	Cash flow	Non-cash movement	At 31 March 2015	**Cash flow**	**Non-cash movement**	**At 31 March 2016**
	£m	£m	£m	£m	**£m**	**£m**	**£m**
Cash at bank and in hand	27.4	(22.8)	-	4.6	**2.2**	-	**6.8**
	27.4	(22.8)	-	4.6	**2.2**	-	**6.8**
Revolving credit facility	-	(10.0)	-	(10.0)	**10.0**	-	-
RCF arrangement fee	-	0.3	(0.1)	0.2	-	-	**0.2**
Finance leases	(0.4)	0.4	-	-	**(4.8)**	-	**(4.8)**
	(0.4)	(9.4)	(0.1)	(9.8)	**5.2**	-	**(4.6)**
Net cash/(debt)	27.0	(32.2)	(0.1)	(5.2)	**7.4**	-	**2.2**

Company

	At 31March 2014	Non-cash movement	Cash flow	At 31 March 2015	**Cash flow**	**Non-cash movement**	**At 31 March 2016**
	£m	£m	£m	£m	**£m**	**£m**	**£m**
Cash at bank and in hand	22.2	-	(23.5)	(1.3)	**4.7**	-	**3.4**
Net cash/(debt)	22.2	-	(23.5)	(1.3)	**4.7**	-	**3.4**

Notes to the Financial Statements continued.

30. Related party transactions

The Group has identified the directors of the Company, parties related to the directors, its key management, its ESOT (see note 23) and its subsidiaries (note 31) as related parties for the purpose of IAS 24 'Related party disclosures'.

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

	2016	2015
	£000	£000
Dividends paid by UK Mail Group plc and received in a beneficial capacity by:		
- the directors of UK Mail Group plc	**737**	806
- parties related to the directors of UK Mail Group plc	**5,060**	4,363
- PDMR'S of UK Mail Group plc (other than above)	**3**	3
Dividends received by the ultimate parent company from subsidiaries	**-**	22,001
Amounts owed from/(to) subsidiaries	**14,139**	29,883
Interest free loan to ESOT (see note 23)	**3,554**	3,536

As at 31 March 2016, 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 (the 'controlling shareholders'), controlled directly and indirectly 51.93% of the issued share capital of the company. In light of their aggregate shareholding in the Company, the controlling shareholders entered into a Relationship Agreement on 7 July 2015 in order to regulate their relationship with the Company, and to ensure compliance with the independence provisions set out in Listing Rule 6.1.4D.

Key management compensation is disclosed in note 6.

The outstanding balances at the year end are unsecured and have no fixed date for repayment.

31. Subsidiary undertakings

Details of the Group's principal subsidiary undertaking is given below:

Subsidiary	Nature of Business	Country of incorporation and principal country of operation	Description of shares held	Percentage of nominal value of issued shares held by the Group	Registered address
UK Mail Limited	Collection and delivery of parcels and mail	England	Ordinary £1 shares	100%	120 Buckingham Avenue, Slough, SL1 4LZ

The Company directly holds 100% of the voting rights of the above subsidiary.

The financial results of the subsidiary listed above are included within the consolidated financial statements.

The Company also directly holds investments in other subsidiaries which are not trading, and which do not require a statutory audit as follows:

Subsidiary	Status as at 31 March 2016	Country of incorporation	Description of shares held	Percentage of nominal value of issued shares held by the Group	Registered address
UK Pallets Ltd (ceased trading in March 2015)	Entered voluntary liquidation 24 December 2015	England	Ordinary £1 shares	100%	120 Buckingham Avenue, Slough, SL1 4LZ
UK Mail Express Parcels and Mail Limited	Dormant	England	Ordinary £1 shares	100%	120 Buckingham Avenue, Slough, SL1 4LZ
Business Post Limited	Dormant	England	Ordinary £1 shares	100%	120 Buckingham Avenue, Slough, SL1 4LZ
Business Post Group Limited	Dormant	England	Ordinary £1 shares	100%	120 Buckingham Avenue, Slough, SL1 4LZ
Business Mail Ltd	Dormant	England	Ordinary £1 shares	100%	120 Buckingham Avenue, Slough, SL1 4LZ
UK Today Couriers Limited	Dormant	England	Ordinary £1 shares	100%	120 Buckingham Avenue, Slough, SL1 4LZ
Web-Despatch.com Ltd	Dormant	England	Ordinary £1 shares	100%	120 Buckingham Avenue, Slough, SL1 4LZ
Business Post Europe Ltd	Dormant	England	Ordinary £1 shares	100%	120 Buckingham Avenue, Slough, SL1 4LZ

As noted above, UK Pallets Ltd entered into a members voluntary liquidation on 24 December 2015. As such, the assets and liabilities are under the control of the joint liquidators, Messrs M Malone and J Kelly of Begbies Traynor (Central) LLP. Save for UK Pallets Ltd, there are no significant restrictions on the ability of subsidiary undertakings to transfer funds to the parent, other than those imposed by the Companies Act 2006.

32. Critical accounting judgements and key sources of estimation uncertainty

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

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

Exceptional items

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

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

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

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

(iii) disposal of investments; and

(iv) organisational or restructuring programmes.

HS2 accounting

The directors have in previous years considered the contractual terms in determining the accounting treatment of the HS2 national hub acquisition and compensation contract. The key area of judgement for the year ended 31 March 2016 was the accounting disclosure thereof, specifically in relation to compensation payments, where management assumptions were necessary.

b) Key sources of estimation uncertainty

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

Goodwill impairment

Goodwill impairment is tested for at least annually, by calculating the estimated recoverable amount from the relevant cash-generating unit ('CGU') on a value-in-use basis. In performing the test management needs to assess and consider;

(i) the likely sales and cost growth assumptions used by the CGU;

(ii) the sector specific short- and long-term growth rates, as well as that in the UK economy as a whole;

(iii) the pre-tax discount rate applicable to the Company.

The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment are disclosed in note 10.

Recoverability of trade receivables

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

Share-based payments

The Group has a number of live grants under the LTIP and SMP plans as detailed in the Remuneration Report. These grants include performance based vesting conditions, which impact the amount of share-based payment benefit paid. The Group has made assumptions on the likelihood of meeting the performance conditions in respect of each grant in determining the amount of share-based payment expense for the year ended 31 March 2016.

Taxation

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

Provisions

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

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

Five Year Summary of Results.

	2016	2015	2014	2013	2012
	£m	£m	£m	£m	£m
Revenue	**481.0**	485.1	481.4	447.3	400.8
Cost of sales	**(431.6)**	(428.3)	(419.8)	(395.5)	(356.4)
Gross profit	**49.4**	56.8	61.6	51.8	44.4
Administrative expenses	**(38.2)**	(35.8)	(39.8)	(34.9)	(31.3)
Operating profit before exceptional items	**11.2**	21.0	21.8	16.9	13.1
Exceptional items	**3.7**	(0.9)	-	-	(2.2)
Operating profit	**14.9**	20.1	21.8	16.9	10.9
Net finance costs	**(0.5)**	-	0.1	0.1	(0.1)
Profit before taxation	**14.4**	20.1	21.9	17.0	10.8
Taxation	**(2.5)**	(4.2)	(5.1)	(4.1)	(2.9)
Profit for the financial year from continuing operations	**11.9**	15.9	16.8	12.9	7.9
Earnings per share from continuing operations - basic	**21.6p**	29.0p	30.7p	23.5p	14.4p
Dividends per share - interim paid and final proposed	**16.4p**	21.8p	21.3p	18.8p	18.2p
Balance sheet					
Goodwill	**1.6**	1.6	9.5	9.5	9.5
Non-current assets (excluding goodwill)	**84.3**	99.4	60.6	40.5	39.4
Current assets	**71.3**	81.0	100.0	95.2	85.3
Current liabilities	**(82.0)**	(112.6)	(86.4)	(77.7)	(68.9)
Non-current liabilities	**(8.0)**	(3.3)	(11.4)	(3.1)	(4.4)
Shareholders equity	**67.2**	66.1	72.3	64.4	60.9
Net cash/(debt)	**2.2**	(5.2)	27.0	27.0	18.4

The calculation of earnings per share for the five years ended 31 March 2016 is based on the following weighted numbers of shares in issue:

31 March 2016	**54,888,887**
31 March 2015	54,729,788
31 March 2014	54,705,627
31 March 2013	54,632,719
31 March 2012	54,586,755

Shareholder Information

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Tel: 0371 384 2799 or 0371 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.

International callers: +44 (0) 121 415 7047
www.shareview.co.uk

Financial calendar

14 July 2016	Annual General Meeting (commences 12:00 noon)
28 July 2016	Ex-dividend date – final dividend
29 July 2016	Record date to be eligible for the final dividend
26 August 2016	Payment of the final dividend for the year ended 31 March 2016
November 2016*	Results for the half year to 30 September 2016
January 2017*	Payment of interim dividend for the year ending 31 March 2017

*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.

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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.

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