DX (Group) plc
Annual Report and Accounts 2017

DELIVERED EXACTLY™

Who We Are

DX is a leading independent parcel, freight, mail and logistics services company operating throughout the UK and Ireland.

DX provides next-day or scheduled delivery services to business and residential addresses nationwide.

For more information see
www.dxdelivery.com

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Key Points

Revenue	EBITDA[1]	Adjusted[2] PBT	Reported LBT
£291.9m	**£7.2m**	**£nil**	**£(82.3)m**
(2016: £287.9m)	(2016: £18.0m)	(2016: £11.5m)	(2016: £(82.7)m)

Debt (net of cash)	Adjusted[2] EPS	Reported LPS
£19.1m	**0.1p**	**(40.3)p**
(2016: £9.8m)	(2016: 4.9p)	(2016: (42.1)p)

See summary table in the Financial Review section for reconciliations of alternative performance measures used throughout this Report and Accounts, as detailed in note 3 to the Accounts.

Financial

- Revenue of £291.9m (2016: £287.9m).
- EBITDA[1] of £7.2m (2016: £18.0m).
- Adjusted[2] profit before tax and exceptional items of £nil (2016: £11.5m).
- Exceptional (non-recurring) items of £80.7m (2016: £92.1 million) – includes goodwill impairment of £72.4m (2016: £88.4m) and other one-off items relating principally to property dilapidation provisions, restructuring and professional costs, and senior management departures.
- Reported loss before tax of £82.3m (2016: £82.7m).
- Adjusted[2] EPS of 0.1p (2016: 4.9p)/Reported loss per share of 40.3p (2016: LPS of 42.1p).
- Debt (net of cash) at 30 June 2017 of £19.1m (2016: £9.8m).
- New financing agreement – see below.

Operational

- Focus on addressing operational and financial underperformance with a wide-ranging review of the Group's operations.
- Attrition at DX Exchange declined year-on-year and was within expected levels.
- Overall new business was 20% higher year-on-year.
  - major new contracts signed with Avon and IKEA[3].
- Successfully retained contract with the Home Office.
- Industry-wide shortage of CPC-qualified drivers remains a pressure.
  - mitigating initiatives continue.

Post Period

- New leadership team appointed – Ron Series as Chairman and Lloyd Dunn as CEO.
  - Russell Black and Paul Goodson join as Non-executive Directors.
  - all Board changes take effect from 19 October 2017.
- New financing provides for a fundraising of £24m (gross) via secured Loan Notes, with conversion rights, subject to shareholder approval.
  - supported by investors, including Gatemore Capital, Hargreave Hale and the new leadership team.
  - net proceeds will be used to address a working capital shortfall, capital expenditure and restructuring costs.
- Firm foundations are in place for the Group's turnaround.

1 Earnings before interest, depreciation, amortisation and exceptional items.
2 Adjusted profit before tax and adjusted EPS exclude amortisation of 'other intangibles' and exceptional items.
3 Additional IKEA revenue was won in the year and a major new contract was signed in September 2017.

At a Glance

DX is a leading independent parcel, freight, mail and logistics services company operating throughout the UK and Ireland. DX provides next-day or scheduled delivery services to business and residential addresses nationwide.

Parcels and Freight

DX 1-Man

Our 'closed network' operation handles a wide variety of consignments, including pallets, parcels and items up to 6 metres and ensures that the integrity of each delivery is maintained. We specialise in the delivery of irregular-shaped and heavy weight freight items, carrying consignments such as lamp posts and canoes, which are often unsuitable for the majority of parcel carriers.

For the UK, DX offers next-day deliveries including pre-9.30am, pre-12pm and end-of-day delivery options. The DX 1-Man service also offers an international service for both outbound and inbound deliveries.

Approximately two-thirds of the items we deliver are to business locations, with the remainder delivered to residential addresses.

DX Courier

This is our fully tracked next-day delivery service, transporting packets, parcels and pouches mostly for the business-to-business ("B2B") market.

Our couriers are primarily collecting and delivering to branch networks, high streets, industrial areas and government premises. We offer pre-9am, pre-10.30, pre-12pm and end-of-day delivery options as well as specialist services for companies in the pharmaceutical, healthcare, optical and retail sectors, and organisations in the public sector.

DX 2-Man

DX 2-Man specialises in delivering larger and heavier consumer products such as sofas, beds, bathrooms, kitchens and garden furniture. Our service includes delivery to a customer's 'room of choice', whether that is upstairs in their home or to their garage or garden.

Customers can choose at the point of order which day is most convenient to receive their delivery and we offer a further text booking service for added flexibility. We keep customers updated with the progress of their delivery through a text or email and, on the day of delivery, customers receive a call from one of our 2-Man crew ahead of final delivery.

Mail and Packets

DX Exchange

DX Exchange is a bespoke B2B mail and parcel delivery network offering pre-9am delivery and post-5pm collection. It is made up of approximately 4,000 exchanges across the UK and Ireland, which contain approximately 23,000 customer boxes. Users do not need to size, weigh or frank items. They simply add the recipient's DX address and deliver the consignment to their local exchange. With added tracked services, including tracked specimen for the health sector, DX Exchange provides a secure, daily network, which is mainly used by the legal, financial and public sectors. It is also used as a site-to-site internal mail network.

DX Secure

Our secure courier delivery service operates with the highest levels of security in place. There are a number of delivery options, including pre-1pm, end-of-day and three-day delivery and customers are informed about the progress of their deliveries through text and email. To ensure a fully audited delivery trail, we use photographic and GPS evidence of delivery, with signature capture. Our online system tracks items and enables the rescheduling of deliveries. DX Secure is ideal for high volume despatches of sensitive or valuable items or for customers looking for extra oversight of their deliveries.

DX Mail

DX Mail takes advantage of mail deregulation (Downstream access) and collects postcode-addressed mail from customers. It moves collected mail swiftly through our network, handing it over for 'final mile' delivery to the UK's national mail operator.

Our service can offer significant cost savings to customers' postal budgets and provides an extended time window along with reduced mail preparation time and online ordering.

Logistics

DX Logistics

DX Logistics provides a complete range of supply chain solutions serving customers across all sectors of the UK. We are able to develop solutions that are as individual as our customers' businesses. Working with dedicated liveried fleets and uniformed drivers or on shared platforms, DX Logistics offers international movements and third party logistics capability and can manage the entire end-to-end supply chain. In short, it provides the expertise, agility and flexibility to deliver solutions that fit our customers' needs and strengthens their strategic plans.

After the year end, the Group was reorganised into two divisions, DX Express and DX Freight. Under the new structure, the DX Express division consists of DX Exchange, DX Secure, DX Courier and DX Mail activities while the Group's DX Logistics, DX 1-Man and DX 2-Man products now form the DX Freight division.

Chairman's Statement

An especially challenging period but firm foundations are now in place for recovery, supported by a new leadership team.

Introduction
The year under review to 30 June 2017 and the first few months of the new financial year have been an especially challenging period for the Group, as we have previously highlighted.

Since the beginning of the calendar year, the Group has been addressing operational and financial underperformance, and also initiated a wide-ranging review of the Group's operations. As well as focusing on internal measures to strengthen the business, which included the appointment of a number of senior executives, the review also had an external element. As we announced at the end of March with our interim results, we entered into discussions with John Menzies plc ("John Menzies") about a potential combination of DX with its Distribution division, reaching outline terms for a possible agreement.

While these discussions were a primary focus, we continued to move forward with operational initiatives and, after the financial year end, in mid-July, we took the strategic decision to reorganise the business to create two separate divisions, DX Express and DX Freight, and, effectively no longer pursue the 'OneDX' strategy. Simplifying the Group's structure like this allows us to both drive service improvements and control costs more efficiently. At the same time, Chief Executive, Petar Cvetkovic, and Finance Director, Daljit Basi, stepped down from the Board, and we appointed an interim Chief Financial Officer.

Negotiations with the Board of John Menzies ended in mid-August, when the DX Board concluded that it would be unable to agree suitable terms, and that it was in the best interest of shareholders to proceed with business transformation on a stand-alone basis. At that point, we also reported that the Group was in advanced discussions with Ron Series, regarding his possible appointment as Chairman, and with three other potential new directors.

On 9 October, we were delighted to announce the appointment of Lloyd Dunn as Chief Executive Officer, and I am very pleased to confirm today that Lloyd is joining the Board, together with Ron Series, who assumes the role as Chairman and Russell Black and Paul Goodson who both join as Non-executive Directors. As planned, Non-executive Director, Paul Murray, and I are retiring from the Group, with Ian Gray remaining as a Non-executive Director. All these Board changes take immediate effect. This is an outstanding new leadership team for DX and they will be supported by our very capable senior management team.

I am also delighted to announce today that, subject to shareholder approval, we have finalised the £24.0 million (gross) fundraising, also reported on 9 October. The fundraising will be effected via the issuance of secured Loan Notes, with conversion rights, primarily to existing institutional investors and the Group's new Directors. It places the Group in a very good position to proceed with its stand-alone strategy. Full details on the fundraising are provided in the Financial Review and the Notes to the Accounts.

While navigating the last few months has not been easy for the Group, I am leaving DX with a team that I am confident will build strong foundations for DX's future growth and successful turnaround.

Financial Results
Revenue for the year to 30 June 2017 was £291.9 million (2016: £287.9 million), with the 1.4% revenue increase largely reflecting strong growth in logistics and a 12-month contribution, of £4.7 million, from The Legal Post (Scotland) Limited ("Legal Post") and First Post Limited ("First Post") (2016: £0.5 million), acquired in May 2016, offset by a decline in other revenues, principally DX Exchange.

As we previously reported, the Group's profitability for the year was severely impacted by a number of factors. These included pricing pressures and margin

"The new Board will be undertaking a thorough review of all the Group's operations and expects to provide an update on first half trading in early 2018 and to comment more fully on turnaround plans and expectations with the Group's interim results."

Chairman's Statement
continued

deterioration from an adverse change in revenue mix, with higher margin operations underperforming. The effect of this was magnified by the relatively fixed cost nature of certain networks. The Group also experienced operational difficulties relating to a major site integration programme. As a result, earnings before interest, tax, depreciation, amortisation and exceptional items ("EBITDA") reduced to £7.2 million (2016: £18.0 million) and the underlying results from operating activities decreased to £1.1 million (2016: £11.9 million) after depreciation and amortisation of software and development costs, which totalled £6.1 million (2016: £6.1 million). Underlying results from operating activities represents an alternative performance measure as referred to in note 3 to the Accounts, see summary table in the Financial Review section for reconciliation to reported loss for the year.

The Group has incurred £80.7 million of exceptional items (2016: £92.1 million), with the majority of this being an impairment charge of £72.4 million, following a review of goodwill, in accordance with the requirements of IAS 36, 'Impairment of assets' (2016: £88.4 million).

Adjusted earnings per share, which excludes amortisation of intangibles and exceptional items, was 0.1p (2016: 4.9p). Reported loss per share was 40.3p (2016: loss per share of 42.1p).

There was a cash outflow from operating activities in the year of £2.0 million (2016: inflow of £10.7 million), and capital expenditure amounted to £4.4 million (2016: £6.5 million). Debt (net of cash) at 30 June 2017 was £19.1 million (2016: £9.8 million), reflecting the reduction in EBITDA as well as certain exceptional items.

Dividends

As announced on 7 February 2017, the Board took the decision to suspend the payment of dividends for the foreseeable future in light of the Group's financial performance and increased level of debt. This policy will be kept under review.

Review of Operations

The trading environment remained tough over the year, with a number of our operations experiencing greater competitive pressures. The shortage of CPC-qualified drivers for heavy goods vehicles, highlighted previously, continues to be an industry-wide problem. The mitigating steps we have taken, including the adoption of new, smaller, 3.5 tonne custom-built vehicles, have helped to ease this pressure, although we are continuing to look at additional measures to tackle the problem.

One of the priorities over the year was DX Exchange, which generates higher margin revenues. While this unique activity is in a structural decline, nonetheless, it remains an important resource for customers, and we renewed our focus on customer service levels.

We have also reinforced DX Secure's market-leading credentials as a highly secure delivery service, gaining the Cyber Essentials Plus certification as well as retaining ISO27001 Information Security certification. As previously reported, we were very pleased to renew our contract with the Home Office for secure delivery services and remain focused on growing this area of our business.

Our logistics operation continued to grow strongly and is well-placed for growth as a mid-sized operator in the sector. Our ability to add additional services, together with our network of distribution centres, enables us to differentiate our offering to customers and gives us extra leverage.

The level of new business secured over the year was 20% up on last year, which was encouraging. However, there were service performance issues which held back some of our operations. Going forward, with the strengthened team and renewed operational and strategic focus, we expect to ensure consistency in service performance as well as to continue to drive new business.

Parcels & Freight

Parcels & Freight comprises three core services: DX 1-Man, specialising in irregular dimension and weight ("IDW") items; DX Courier, providing next-day parcel services mostly for the B2B market; and DX 2-Man, offering a B2C home delivery solution for heavier and bulkier items.

Revenues from parcels and freight activities were steady year-on-year at £160.3 million (2016: £159.3 million) and accounted for 55% of overall income. While there was an overall good level of new business secured over the year, both from new and existing customers, the operations experienced service issues and some aggressive tactical market pricing, which resulted in the loss of some business. Our DX 1-Man and DX Courier services, in particular, were affected by this, and revenues across each activity decreased slightly. However, DX 2-Man revenues grew strongly, driven by additional business from existing customers and strong new business flow through from the prior year, although this market remains competitive.

We are continuing to focus on operational improvements and on initiatives to improve the customer experience.

Mail & Packets

Mail & Packets encompasses our DX Exchange service, a B2B mail service providing customers with extended collection and delivery times, as well as DX Secure, which provides market-leading levels of security and DX Mail, a low cost mail service offering Downstream access for smaller volume users.

Mail & Packets generated revenue of £113.4 million (2016: £113.8 million) and accounted for 39% of the Group's total income. This result included a first full year's contribution from Legal Post and First Post, although revenue of £4.7 million was slightly behind expectations. The shortfall was largely in First Post activities, which provides a Downstream access mail service in Scotland. DX Exchange, which generates the largest and most profitable revenue contribution across this segment, continued to suffer from volume erosion. As previously reported, we expect volumes to continue to decline, driven by the impact of digitalisation. Nonetheless, the service remains valued by customers across its core sectors of legal, financial, government and healthcare.

The integration of the assets of Legal Post and First Post with the Group's existing operations in Scotland was halted by an Initial Enforcement Order served by the Competition & Markets Authority ("CMA") in early July 2016, after the CMA instigated a review into the acquisition.

However, the businesses have since been fully integrated following a lifting of this order in September 2016.

Towards the end of November 2016, we were delighted to report that DX had successfully retained its contract with the Home Office covering secure delivery services for Her Majesty's Passport Office ("HMPO"), UK Visas and Immigration, National Crime Agency and General Register Office. The contract is for an initial two years and may be extended by up to two years. The contract helped to underpin DX Secure's revenues for the year, which showed a small increase compared to the prior year.

Logistics

DX Logistics offers a full outsourcing service to companies seeking to outsource their vehicle fleet operations and can draw on its wider operations to add further services.

Revenue from logistics services increased by 23% to £18.2 million (2016: £14.8 million) and accounted for 6% of the Group's total revenues. The strong revenue growth reflected a number of major contract wins, including with Avon UK, signed in February 2017, as well as continuing expansion of our successful relationship with IKEA Limited ("IKEA"). At the end of September 2017, we announced that we had agreed a major new contract with IKEA, which takes the total value of our work with this retailer to approximately £19 million on an annualised basis.

We expect Logistics to continue to grow strongly as we capitalise on DX's position between the larger third party operators and the smaller players in the sector.

	Express £m	Freight £m	plc £m	Group £m
Revenue	170.5	121.4	–	291.9
Costs	(143.0)	(139.7)	(2.0)	(284.7)
EBITDA	**27.5**	**(18.3)**	**(2.0)**	**7.2**

Business Reorganisation

After the year end, in July 2017, we took the decision to reorganise the business and created two divisions, DX Express and DX Freight.

The move to create two distinct divisions brings a number of advantages and also preserves future strategic options. Importantly, it immediately enables us to manage costs more flexibly and to drive new operational and sales initiatives more easily. We expect this to directly benefit service levels and customer experience.

Under the new structure, the DX Express division consists of DX Exchange, DX Secure, DX Courier and DX Mail services while the Group's DX Logistics, DX 1-Man and DX 2-Man services now form the DX Freight division. Whilst the Annual Report and Accounts for the year ended 30 June 2017 have not been prepared on a divisionalised basis, the table above shows a pro forma EBITDA contribution (unaudited) by division based on management estimates.

It is recognised that the turnaround of the DX Freight division is the key challenge facing the business. The experience that the new Board brings will be instrumental in achieving this turnaround.

As previously announced on 1 March 2017, we are not proceeding with plans for a major new hub in Essington in the West Midlands after our planning appeal and presentation of revised plans were declined.

The Board and Leadership Team

On 9 October, we were very pleased to announce that Lloyd Dunn had been appointed as Chief Executive Officer although in a non-Board capacity for an interim period before joining the Board.

In addition, on that date we confirmed that I will be handing over the role of Chairman to Ron Series, and that Russell Black and Paul Goodson will join the Board as Non-executive Directors. As previously mentioned, these Board changes are immediately effective. Biographies for the new Board Directors are shown on page 14.

Summary and Outlook

The year's results and trading at the beginning of the new financial year have been affected by both external and internal challenges. However, the Group's prospects have been significantly transformed by the appointment of the new leadership team, headed by Ron Series as Chairman and Lloyd Dunn as CEO, and by the major new fundraising we have agreed. I am confident that the new team will ably drive the turnaround of the business.

The new Board will be undertaking a thorough review of all the Group's operations and expects to provide an update on first half trading in early 2018 and to comment more fully on turnaround plans and expectations with the Group's interim results.

Bob Holt
Chairman

Financial Review

New financing, agreed post period, provides firm foundations for business turnaround.

Summary

Revenue of £291.9 million is 1.4% ahead of prior year's result, largely due to strong growth in Logistics as well as a full year's revenue contribution from Legal Post and First Post, acquired in May 2016. These increases were partly offset by the anticipated decline in DX Exchange revenue along with pricing pressures impacting other services, in particular the 1-Man service. A major new logistics contract was secured with Avon worth in excess of £10 million per annum, with the contract coming fully on stream at the end of March 2017. Its benefits will therefore be more fully felt in the new financial year.

Underlying results from operating activities was £1.1 million (2016: £11.9 million profit). This is stated before exceptional items of £80.7 million, including a non-cash item of £74.4 million, mostly relating to the impairment of goodwill.

During the year, the Group paid dividends of £3.0 million (2016: £10.0 million). Debt (net of cash) at 30 June 2017 was £19.1 million (2016: £9.8 million). Operating cash flow was £2.0 million outflow (2016: £10.7 million inflow) and capital expenditure was £4.4 million (2016: £6.5 million).

	2017 £m Trading	2017 £m Exceptional	2017 £m Total	2016 £m Total
Revenue	**291.9**	–	**291.9**	287.9
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	**7.2**	–	**7.2**	18.0
Depreciation	**(2.9)**	–	**(2.9)**	(3.0)
Amortisation of software and development costs	**(3.2)**	–	**(3.2)**	(3.1)
Underlying results from operating activities	**1.1**	–	**1.1**	11.9
Amortisation of other intangible assets	**(1.6)**	–	**(1.6)**	(2.1)
Exceptional items	–	**(80.7)**	**(80.7)**	(92.1)
Reported results from operating activities	**(0.5)**	**(80.7)**	**(81.2)**	(82.3)
Net finance costs	**(0.9)**	–	**(0.9)**	(0.5)
Share of results from associate	**(0.2)**	–	**(0.2)**	0.1
Loss before tax	**(1.6)**	**(80.7)**	**(82.3)**	(82.7)
Tax	**0.2**	**1.0**	**1.2**	(1.7)
Loss for the year	**(1.4)**	**(79.7)**	**(81.1)**	(84.4)
Foreign currency translation differences	–	–	–	(0.1)
Total comprehensive expense for the year	**(1.4)**	**(79.7)**	**(81.1)**	(84.5)
EPS – adjusted (pence)[1]	**0.1**			4.9
– basic (pence)	**(0.6)**	**(39.7)**	**(40.3)**	(42.1)

1 Adjusted EPS excludes amortisation of other intangible assets.

Revenue by Segment

A breakdown of Group revenue is shown below and a review of each segment's performance is provided in the Chairman's Statement:

	2017 £m	2016 £m
Parcels and freight	**160.3**	159.3
Mail and packets	**113.4**	113.8
Logistics	**18.2**	14.8
Revenue	**291.9**	287.9

EBITDA

Earnings before interest, tax, depreciation, amortisation and exceptional items ("EBITDA") for the year to 30 June 2017 was £7.2 million (2016: £18.0 million).

As previously noted, a number of the operations experienced significant competitive pressures.

A significant cost pressure for DX is from driver resourcing issues. This continues to drive a two-fold impact on DX's cost base, with more expensive agency drivers being used, as well as smaller, less efficient transit vans in place of goods vehicles. In addition, further costs of £0.6 million were incurred relating to the co-location of five sites into one at Swanley, which had a knock-on impact on service levels.

The decline in DX Exchange revenues materially impacted profitability, since the service is supported by a largely fixed cost base. While we continue to expect volume erosion, reflecting the continuing trend towards digitalisation, we are seeking ways to minimise it and to improve service.

Profit was also adversely affected by pricing pressures, aggressive tactical market pricing from competitors, and some operations experiencing service issues.

Exceptional Items

Exceptional items for the year totalled £80.7 million (2016: £92.1 million) and are summarised below.

The largest exceptional charge comprised a non-cash item of £72.4 million which followed a review of goodwill, in accordance with the requirements of IAS 36 'Impairment of assets'. The 'value-in-use' method used in the review supported a carrying value of £30.0 million and therefore an impairment of £72.4 million was recognised. See note 9 to the financial statements for further details.

Impairment charges also include a £2.0 million impairment charge to the Group's non-controlling interest in associate Gnewt Cargo Limited ("Gnewt"). This followed a period of challenging trading for Gnewt and subsequent to the year end on 31 August 2017 the Group disposed of its interest in Gnewt for £1.

Restructuring, professional costs and other, includes transaction fees relating to the proposed reverse takeover of the Distribution division of John Menzies plc and refinancing costs.

Property dilapidation provisions have been made for dilapidation costs in respect of leasehold properties that we have vacated or where there is a possible exit within two years.

Costs incurred as a result of senior management departures amounted to £1.0 million.

As previously reported, in July 2016 the Competition & Markets Authority ("CMA") commenced a review of the acquisitions of Legal Post and First Post, serving an Initial Enforcement Order at the same time, which halted our integration process. This order was revoked in September allowing us to recommence the integration process. The Group incurred £0.6 million of costs in the period as a result of this process.

One-off additional auto enrolment costs are in relation to the underpayment of contributions in the financial years 30 June 2014 to 30 June 2016.

Prior to the end of the financial year, the Group was notified of a VAT refund arising from a long-standing dispute with HMRC in respect of VAT paid on professional fees. Amounts of £1.0 million were received subsequent to the year end.

	2017 £m	2016 £m
Impairment charges	74.4	88.4
Property dilapidations provision	2.8	–
Restructuring, professional costs and other	2.6	–
Senior management departures	1.0	–
CMA investigation	0.6	–
Additional auto enrolment costs	0.3	–
VAT refund	(1.0)	–
Planning and acquisition costs on proposed hub	–	3.3
Share-based payments accelerated charge	–	0.4
Exceptional items (net)	**80.7**	92.1

Cash Flow

	2017 £m	2016 £m
Net cash profit (note 26)	0.7	14.6
Net change in working capital	(0.7)	0.1
Interest paid	(0.6)	(0.4)
Tax paid	(1.4)	(3.6)
Net cash from operating activities	**(2.0)**	10.7

Cash outflow from operating activities (after tax) of £2.0 million resulted from lower EBITDA and exceptional items. However, DX maintained its excellent performance on debtor days which at 28 days remains very strong. There was a £0.7 million worsening in working capital where an increase in payables was offset by an increase in receivables and a reduction in deferred income as the DX Exchange subscriptions declined.

Net Assets

Net assets decreased by £84.1 million largely as a result of the recognition of the impairment charge against goodwill reflected in non-current assets.

	2017 £m	2016 £m
Non-current assets	52.1	133.9
Current assets excluding cash	48.6	39.1
Net cash	2.0	4.3
Invoice discounting facility	(15.3)	–
Revolving credit facility	–	(6.5)
Current liabilities excluding debt	(59.7)	(60.1)
Non-current liabilities excluding debt	(6.3)	(3.2)
Term loan	(5.8)	(7.6)
Deferred loan issue costs	0.4	0.2
Net assets	**16.0**	100.1

Debt (Net of Cash)

Debt (net of cash) at 30 June 2017 stood at £19.1 million (2016: £9.8 million) as a result of lower EBITDA and exceptional items.

During the year, refinancing terms to 30 September 2018 were agreed, including replacing the revolving credit facility with an invoice discounting facility. The Group expects to extend the term of the invoice discounting facility in the new financial year.

As previously reported, subsequent to the year end, on 29 September 2017 the Group completed a sale and leaseback of five freehold properties for an aggregate cash consideration of £4.5 million. At the same time, the Group entered into an unsecured loan agreement with GCM Partners II, a fund controlled by DX's major shareholder Gatemore Capital Management LLP ("Gatemore"), for a loan to the Group of £2.0 million. The proceeds from the sales and loan were used to repay the £5.8 million bank term loan in full.

Financial Review
continued

In addition, as announced on 9 October 2017 the Group reached an agreement on legally binding heads of terms for a £24.0 million (gross) fundraising through the issue of secured Loan Notes, with conditional conversion rights, principally to existing institutional investors and the Group's new Directors.

The Loan Notes are being issued in two tranches: Tranche 1 of £16.3 million will be issued to Gatemore and the new Directors today. The issue of Tranche 2 of £7.7 million is conditional upon, agreeing an inter creditor agreement with the bank which the Directors are confident of receiving, and, on DX shareholder approval of the conditional conversion rights which will be sought as soon as reasonably practicable and, in any case, by no later than 31 December 2017.

The Loan Notes will have a term of 36 months. Subject to shareholder approval, the conditional conversion rights attaching to the Loan Notes will be crystallised and the convertible Loan Notes would be capable of conversion into ordinary shares of DX, at 10 pence per new DX share.

The aggregate issue of Loan Notes includes the refinancing of the £2.0 million unsecured term loan from Gatemore as noted above. The net funds raised will be used to meet the Group's near term material funding requirements, addressing a working capital shortfall, as well as capital expenditure and restructuring costs. The Loan Notes are not to be used for acquisitions or any other material capital item. Further details of the Loan Notes are included in notes 2 and 22 to the financial statements.

	2017 £m	2016 £m
Term loan	5.8	7.6
Cash and cash equivalents	(2.0)	(4.3)
Invoice discounting facility	15.3	–
Revolving credit facility	–	6.5
Debt (net of cash)	**19.1**	9.8

Capital Expenditure

We have continued to invest in the business although, in light of reduced profits, capital expenditure was lower than in the prior year.

	2017 £m	2016 £m
IT hardware and development costs	1.3	3.2
Property costs	1.4	1.6
Operations	0.7	1.2
Service development	1.0	0.5
Total capex	**4.4**	6.5

Taxation

The effective tax rate for the year (on the results before exceptional items) was less than the prevailing 19.75% (pro rata) UK corporation tax rate. This reflects the impact of capital allowances from the long-term capital investment programme and is because some of the profit derived in the year is from DX's operations in Ireland and therefore bears a lower rate of corporation tax.

Earnings Per Share

Adjusted earnings per share, which excludes amortisation of intangibles and exceptional items, was 0.1p (2016: 4.9p).

	2017 £m	2016 £m
Results from operating activities before exceptional items	(0.5)	9.8
Add back/(deduct):		
– Amortisation of intangibles	1.6	2.1
– Finance costs	(0.9)	(0.5)
– Share of results from associates	(0.2)	0.1
Adjusted profit before tax	–	11.5
Tax	0.2	(1.7)
Adjusted profit after tax	0.2	9.8
Adjusted earnings per share (pence)	0.1	4.9
Basic earnings per share (pence)	(0.6)	3.8

Dividends

In light of current trading and, in line with our statement in our trading update on 7 February 2017, the Board will not be recommending the payment of dividends for the foreseeable future. However, this policy will be kept under review as appropriate.

Key Performance Indicators

DX uses key performance indicators ("KPIs") to assess the development and underlying business performance of the Group. These KPIs are reviewed periodically to ensure they remain appropriate and meaningful measures of the Group's performance.

See summary table in the Financial Review section for reconciliations of alternative performance measures used throughout this Report and Accounts, as detailed in note 3 to the Accounts.

Revenue

£291.9m

(2016: £287.9m)

EBITDA

£7.2m

(2016: £18.0m)

Cash (Outflow)/Generation (from operating activities)

£(2.0)m

(2016: £10.7m)

Debt (net of cash)

£19.1m

(2016: £9.8m)

Reported LPS

(40.3)p

(2016: (42.1)p)

Adjusted EPS

0.1p

(2016: 4.9p)

Corporate Responsibility

Our commitment to Corporate Social Responsibility ("CSR") has yielded continued improvements through tighter controls and management.

Environment

The DX environmental strategy focuses on reducing our carbon footprint by accurately assessing our impact on the environment and then concentrating on improving our practices to minimise that impact.

The logistics industry has an unavoidable impact on the environment, which we aim to minimise by utilising leading technological advancements and innovation in our fleet. Much of our focus and efforts to reduce our impact on the environment centre on vehicle efficiency and route optimisation. We have commissioned the design of our own, bespoke 3.5 tonne vehicles in order to reduce fuel emissions while maximising payload. Following successful trials, DX placed an order for 55 of these vehicles in 2017. In addition to the environmental benefits, these will help relieve the impact of the CPC-qualified driver shortages.

DX's Environmental Management System operates under ISO 14001:2016 certification. We are now seeing consistent reductions in our carbon footprint (Scope 1 and 2), as shown in the table below. In the 2017 financial year, our carbon footprint has reduced to 29,146 tonnes in CO_2 emissions, which represents a 10% reduction compared to the previous year. The reduction is almost exclusively related to improved efficiencies within our commercial vehicle fleet, both in respect of design standards and route optimisation programmes.

Health and Safety

DX has improved its accident reporting processes and is now able to capture and report accidents more effectively. This is primarily a result of a simplification of accident reporting, improved engagement with managers (through safety training and risk review visits), and a more focused approach at the Central Hub. The absolute number of accidents reported has increased as a result of these improved processes. However, we have also seen a significant drop in more serious accidents and liability claims. This reflects our efforts towards more effective implementation of risk controls. As a consequence, the risk profile of the business has improved considerably.

Overall, the number of accidents reported in FY17 increased by 17% year-on-year. However, the number of more serious accidents reported under the RIDDOR Regulations (Reporting of Injuries, Diseases and Dangerous Occurrences) has fallen by 36% in the same period.

Going into the next financial year, we anticipate a continuation of this general trend, with a higher number of minor accidents contributing to a rise in overall accident reports, while the number of serious accidents and claims declines. Our primary area of focus is on the Central Hub, where we have recruited a new SHE Officer, implemented a new Risk Review and Risk Assessment Process for every Service Centre, introduced a new Employee and Agency Safety Handbook, and delivered Managers' Safety Awareness Training to embed the new DX Safety Standard. We believe that the combined effect of these processes is now clearly translating into reduced risk across the network.

"DX has improved its accident reporting processes and is now able to capture and report accidents more effectively."

CO_2 emissions

-10%

29,146 tonnes

	2014	2015	% Change	2016	% Change	**2017**	**% Change**
CO_2 emissions (tonnes)	38,259	35,692	-7%	32,346	-9%	**29,146**	**-10%**

Over the year under review, every Service Centre was visited to conduct and document new operational risk assessments. An intrinsic component of this process was the completion of Risk Reviews (a SHE Audit) to benchmark performance and help facilitate a transition to the new DX Safety Standard, which was set out in the form of our new 'DX Managers' Guide to Safety Standards' at the start of the financial year. We took the decision to use this opportunity to provide a 'hands-on' approach to auditing, to assist with the migration to new and more simplified working practices. As a consequence, whilst scores and benchmarks were obtained to enable risk profiling, these were not formally published. The data has instead been used to ensure a more targeted approach to reducing risk in the future.

Road Safety

DX is committed to the highest standards of road safety and holds a Transport Management Board which consists of the Executive Team and Operating Centre licence holders. The Board meets on a regular basis to discuss and review road safety. We work with The Royal Society for the Prevention of Accidents to deliver training and qualifications to our driver trainers. We are continuing to roll out new initiatives and technology and are completing the installation of state-of the-art cameras in our 7.5 tonne and new 5 tonne vehicles in the freight operation. These cameras have already shown they help to reduce incidents and improve safety.

Principal Risks and Uncertainties

The Board recognises that the risks faced by the Group change and it regularly assesses risks in order to manage and mitigate any impact. The Board has identified the following risks as the primary risks to the Group's successful performance:

Risk	Impact	Mitigation
Letter and parcel volumes in the UK **Market Risk**	The market for letters is in structural decline and if the decline of letter volumes in the UK is at a faster rate than forecast or the growth in parcel volumes are lower than DX forecasts (or DX fails to maintain or increase its share of the parcel markets in which it operates), there may be a material adverse effect on DX's operations and future financial condition. Low levels of economic growth may also affect the business of DX, including customers adopting cheaper service options for the transmission of letters and parcels.	DX seeks to win business in new sectors and develop new services, recognising the general move to digital and electronic alternatives.
The parcel market in which DX operates is highly competitive **Price Risk**	The parcels market is highly competitive and DX may be adversely affected by aggressive pricing strategies. DX faces risks associated with the expansion of 'click and collect' in the UK parcel market and the increasing use of 'pick up/drop off' points in high street shops and other locations, which may lead to a reduction in parcel volume delivered by DX.	DX seeks to provide high levels of customer service at prices that offer customers best value. It also seeks to maintain strong relationships with major customers and develop new services, such as DX Parcel Exchange, in response to customer needs. The Group offers a broad range of services within the parcels market and is seeking to increase its penetration within these sub-sectors.
IT systems are critical to DX's business operations **Operational Risk**	Any material failure in DX's IT applications, systems, certain key suppliers and infrastructure may lead to operational and systems disruptions, with an adverse effect on DX's operations, financial condition and future prospects. While its software is being updated, DX's operational effectiveness could be impaired if its existing bespoke software failed.	DX has a business continuity plan in the event of IT systems failure and further investment is being made to enhance capability. Further protections are in place to defend DX's systems against attacks. These protections are to a level acceptable to government departments. Prior to new systems going live, DX conducts significant testing in non-live environments.
Confidential and sensitive items **Operational Risk**	DX collects, sorts and delivers a range of confidential and sensitive letters and parcels for a variety of customers, including government departments, local authorities and examination boards. If confidential consignments were to be misplaced, the reputation and brand of DX may be adversely affected. If a high-profile incident of this nature arose the existing or potential customers may be unwilling to use DX for the delivery of confidential or sensitive items.	All staff are fully vetted. All parcels processed through our secure network are tracked from end to end.

Risk	Impact	Mitigation
Driver Certificate of Professional Competence ("CPC") **Operational Risk**	The DX network requires the use of 7.5 tonne vehicles which must be driven by CPC-qualified drivers. A shortage of such drivers would impact the ability of DX to operate its network and this could have a material adverse effect on DX's results of operations, financial condition and prospects.	DX is re-profiling its fleet of vehicles to reduce the reliance upon 7.5 tonne vehicles.
Certain DX consultants and agency workers could be deemed to be employees of DX **Liquidity Risk**	DX uses a large number of consultants, individual sub-contractors and agency workers. In the event of any legal claim as to worker status, DX could be liable for increased costs (such as National Insurance contributions) and liabilities (such as employee rights), which could have an adverse effect on its financial condition.	DX puts appropriate contractual and operational arrangements in place. DX continues to monitor cases to ensure that it maintains compliance with legislation.

By order of the Board

Bob Holt
Chairman
19 October 2017

Board of Directors

BOB HOLT [1,2,3]
NON-EXECUTIVE CHAIRMAN
Bob joined DX as a Non-executive Director, before becoming Chairman in 2014. He is also chairman of Mears Group PLC, the support services group focused on social housing and domiciliary care services, having overseen the company's admission to AIM and subsequent listing on the Main Market of the London Stock Exchange. He is executive chairman of Lakehouse plc, the asset and energy support services group. He is also non-executive chairman of Totally Plc and is a director of a number of other businesses. On 19 October 2017 Bob retired as Chairman.

PAUL MURRAY [1,2,3]
NON-EXECUTIVE DIRECTOR
Paul joined DX as a Non-executive Director in 2014 and has over 25 years' senior level experience in the transport and logistics industry. Latterly he was chairman of NetExpress Europe, the pan-European road express specialist which links leading companies in express, freight and logistics and, before that, was chief executive of Target Express Parcels Limited, the national express parcels and freight provider, for eight years and managing director of the UK and Ireland operations of Federal Express for over ten years. He also chaired a healthcare business and was a director of a fast-growing marketing logistics business. On 19 October 2017 Paul retired as a Non-executive Director.

IAN GRAY [3]
NON-EXECUTIVE DIRECTOR
Ian joined DX as a Non-executive Director as of 1 July 2017. Over the past 20 years, Ian has been advising companies on business transformation and strategy development. Ian has provided high-level counsel to UK companies across a range of industry sectors, including distribution, retail and food production. He is currently chairman of Avicenna plc, the UK's largest independent pharmacy support group, and of Atlantic Holdings Limited, a world-leading media production company.

RON SERIES
CHAIRMAN
On 19 October 2017 Ron joined DX as Chairman. Ron is currently the Senior Independent Director at Clipper Logistics plc, where he has been a non-executive director since its IPO in May 2014. He sits on the audit committee, remuneration committee and nominations committee. He has previously held executive and non-executive positions with a number of companies with international operations in transport, logistics, shipping, real estate and information technology. Included among them are Tuffnells Parcels Express Limited where he was chairman during its turnaround in 2002-2005.

LLOYD DUNN
CHIEF EXECUTIVE OFFICER
On 19 October 2017 Lloyd joined DX as Chief Executive Officer and joined the Board on 19 October 2017. Lloyd has been in transport for 38 years. In 1985, he joined Russell Black as a founding member of Nightfreight. In 2002, he joined Tuffnells and became Managing Director in 2003 and CEO in 2005. He led the company during its turnaround leading to a sale for £135 million in 2015.

RUSSELL BLACK
NON-EXECUTIVE DIRECTOR
On 19 October 2017 Russell joined DX as a Non-executive Director. Russell has over 40 years of experience in the transport industry. He was founder and CEO of Nightfreight from 1984 to 2002, during which time it was listed on the London Stock Exchange at an initial capital value of £48 million.

PAUL GOODSON
NON-EXECUTIVE DIRECTOR
On 19 October 2017 Paul joined DX as a Non-executive Director. Paul was Executive Chairman of Great Bear Distribution, a leading independent third party logistics business, which he successfully sold to Culina to create a £400 million group. Paul spent 13 years with Barclay Private Equity, during which time he was involved in the purchase and sale of Nightfreight.

James Hayward was appointed as Interim Chief Financial Officer as of 14 July 2017. This role is currently not a Board appointment but James attends monthly Board meetings.

OTHER BOARD CHANGES:

PETAR CVETKOVIC [3]
CHIEF EXECUTIVE OFFICER
Petar stood down from the Board and left the business on 14 July 2017.

IAN PAIN
CHIEF FINANCIAL OFFICER
As reported on 14 July 2016, Ian decided to step down from his role and the Board to pursue new opportunities. Ian remained with the Group until the end of October 2016 to ensure an orderly handover to Daljit Basi, Finance Director, who was promoted to the Board on 21 September 2016.

DALJIT BASI
FINANCE DIRECTOR
Daljit Basi was appointed as Finance Director on 21 September 2016 in place of Ian Pain. Daljit joined DX in 2012 as Financial Controller and previously held senior financial roles at divisional level at Rentokil Initial Plc, TUI UK and John Menzies plc. Daljit qualified at Baker Tilly in London. Daljit stood down from the Board on 14 July 2017.

1 Audit Committee
2 Nomination Committee
3 Remuneration Committee

Chairman's Introduction to Corporate Governance

The Board strives to uphold and achieve high standards of corporate governance, integrity and business ethics.

Dear Shareholder,

Principles of Corporate Governance
As Chairman, I lead DX's Board of Directors and a key responsibility of mine is to ensure that we strive to uphold and achieve high standards of corporate governance while at the same time building and maintaining a sustainable business that creates long-term shareholder value. It is also my responsibility to ensure that the Board continually reviews its strategic goals and the progress made towards achieving those goals.

There is a clear distinction between the responsibilities of the Board of Directors and those of the DX Executive Team. Petar Cvetkovic, Chief Executive Officer, led the DX Executive Team for the financial year. With effect from 14 July 2017 the DX Executive Team was headed up by Stuart Godman (Managing Director, Freight division) and Nick Cullen (Managing Director, Express division). On 9 October 2017 Lloyd Dunn was appointed Chief Executive Officer. The Board acts on behalf of shareholders in constructively reviewing and challenging the Company's performance and the implementation of strategy, with an emphasis on accountability to shareholders. I therefore encourage openness and constructive discussion in all Board meetings.

Both the Board and the Executive Team value integrity, transparency and fairness and seek to uphold these values within DX and in our dealings with our customers and suppliers. Reflecting this, DX has a supplier code of conduct which sets out the minimum standards that DX suppliers and business partners should meet. We have also introduced a new externally managed whistleblowing hotline to ensure an open and ethical culture for the benefit of our colleagues, customers and other business partners.

We also seek to comply with the Quoted Companies Alliance corporate governance code ("the QCA Code"). While DX is not required to comply with the UK Corporate Governance Code, since it is not listed on the Main Market, the Board recognises the importance of the principles set out in the UK Corporate Governance Code. It therefore seeks to apply them as far as the Board considers it appropriate for a company of DX's size and nature. The Board believes that this approach helps to provide DX with a firm foundation for successful growth.

I remain confident that the composition of DX's Board reflects an appropriate blend of experience and backgrounds, and that the Board is able to provide an independent and objective view of the Company's performance against its strategic objectives and future goals.

Bob Holt
Chairman

Governance Report

The Board is responsible for ensuring the highest standards of corporate governance at DX and for promoting the long-term success of DX.

The Board

The roles of the Chairman and Chief Executive Officer are separate with each having clearly defined duties and responsibilities.

The Chairman provides leadership to the Board. He is responsible for chairing the Board meetings and for setting the agenda for the Board meetings (in consultation with the Chief Executive Officer) and ensuring that the Board has sufficient time to discuss issues on the agenda, especially those relating to strategy. The Chairman is also responsible for ensuring that the Directors receive all of the necessary information and reports.

The Chief Executive Officer is responsible for leadership of the DX management and its employees on a day-to-day basis. In conjunction with the Executive Team, the Chief Executive Officer is responsible for the execution of strategy approved by the Board and the implementation of Board decisions. He is also responsible for ensuring the market and regulators are kept appraised in a timely manner of any material events and developments, and that the appropriate standards of corporate governance are effectively communicated and adhered to throughout the business.

During the financial year, the Board comprised the Non-executive Chairman, Bob Holt, two Executive Directors, Petar Cvetkovic (Chief Executive Officer) and Ian Pain (Chief Financial Officer)/Daljit Basi (Finance Director) and one Non-executive Director, Paul Murray. The Non-executive Directors constructively challenge and help to develop DX's strategic priorities. As of the date of this Annual Report, the Board comprised the Non-executive Chairman, Bob Holt, and two Non-executive Directors, Paul Murray and Ian Gray. On 9 October 2017 Lloyd Dunn was appointed as Chief Executive Officer. James Hayward was appointed as Interim Chief Financial Officer as of 14 July 2017. This role is currently not a Board appointment but James attends monthly Board meetings.

Details of each Director's background and experience can be found on page 14. The Board's mix of skills and business experience ensures an informed review and debate of performance and strategy.

Independence

The actions and decisions of all the Non-executive Directors who served during the year and up to the date of this report are considered by the Board to be independent in both character and judgement.

Role of the Board

The Board meets regularly to review DX's strategy and to ensure that this is aligned with creating sustainable shareholder value. Directors are supplied with a comprehensive Board pack before all Board meetings which includes the agenda, previous minutes, detailed financial information and all other supporting papers necessary to make a fully informed discussion. The Board ensures that the necessary resources are in place to achieve DX's strategic priorities. The key responsibilities of the Board (as set out in the schedule of matters reserved for the Board) are:

- overall leadership and management of DX;
- setting DX's values and standards, long-term objectives, commercial strategy and strategic direction;
- review and approval of DX's annual operating and capital expenditure budgets;
- oversight of DX's operations and compliance;
- ensuring sound management and maintenance of an appropriate system of internal control and risk management;
- approval of any extension of DX's activities into new business or geographic areas;
- approval of major investments or capital projects;
- decisions to cease to operate or dispose of any material part of DX's business;
- changes to the Group's financial, capital or corporate structure;
- approval of the financial statements, Annual Report and Accounts, material contracts and contracts not in the ordinary course of business;
- approval of dividend objective and dividend payments;
- communications with shareholders and the market;
- Board membership and composition of Board Committees;
- corporate governance and remuneration policy (including employee benefits); and
- any decision likely to have a material impact on DX from any perspective, including, but not limited to, financial, operational, strategic or reputational.

A full copy of the schedule of matters reserved for the Board is available on www.dxdelivery.com.

Day-to-day operational and financial management is delegated to DX's Executive Team. The Executive Team also meets monthly and provides the Board with detailed monthly reports.

Operation of the Board

The Board meets monthly and there were 12 scheduled Board meetings during the financial year. Any specific actions arising during meetings agreed by the Board are followed up and reviewed at subsequent Board meetings to ensure their completion. The Board also keeps in close contact between formal meetings and will conduct ad hoc meetings as required. If a Director is unable to attend a Board meeting, the Chairman will canvass his views in advance and ensure that the Director is promptly advised of the outcome of the matters under discussion.

Attendance	Scheduled Board meetings	Audit Committee	Remuneration Committee	Nomination Committee
Bob Holt	10/12	1/1	2/2	1/1
Paul Murray	12/12	1/1	2/2	1/1
Petar Cvetkovic	12/12	n/a	2/2	n/a
Ian Pain	4/4[1]	n/a	n/a	n/a
Daljit Basi	9/9[1]	n/a	n/a	n/a

1 Ian Pain left the Group at end of October 2016 and Daljit Basi was appointed to the Board on 21 September 2016.

Each Director receives induction training on appointment including visits to principal sites and meetings with operational management, and all Directors have access to independent legal advice on request.

All Directors act in what they consider to be the best interests of the Company, consistent with their statutory duties.

In recognition of its importance, the first standing item of business at every scheduled Board meeting is the consideration of the health and safety report. Other regular reports include those from the Chief Executive Officer and Chief Financial Officer covering business performance, markets and competition, investor and analyst updates as well as progress against strategic objectives and capital expenditure projects. Board meetings are frequently held at different Group locations in order to review local operations.

Board Committees

The Board has delegated certain responsibilities to the Nomination Committee, the Audit Committee and the Remuneration Committee. Each Committee operates according to its own terms of reference (available on www.dxdelivery.com).

The Audit Committee has primary responsibility for monitoring the quality of internal controls, ensuring that the financial performance of DX is properly measured, ensuring the integrity of the financial statements, and reporting and reviewing reports from DX's auditor relating to DX accounting and internal controls, in all cases having due regard to the interests of shareholders. The Remuneration Committee determines remuneration for the Executive Directors and the Executive Team. The Nomination Committee recommends the appointment of Directors and is responsible for succession planning. Further information on each Committee is set out in the relevant report on the following pages.

Investor Relations

DX places a great deal of importance on communication with all shareholders. There is regular dialogue with individual institutional shareholders throughout the year and formal presentations after the interim and preliminary results.

DX has arranged a number of site visits for shareholders and other City commentators with the aim of providing them with increased exposure to DX operations and management.

The 2017 Annual General Meeting ("AGM") will be held on 8 December 2017 at 10am. The notice of the meeting is enclosed. It is also available to download from www.dxdelivery.com.

The Board encourages dialogue between the Directors and investors and the Directors are available at each AGM to hear the views of shareholders and to answer any questions about the business generally and about the resolutions proposed.

The principal methods of communication with private investors remain the Annual Report and Accounts, the interim statements and DX's website (www.dxdelivery.com). The website, which includes a DX Investor Centre, is viewed as an efficient and cost-effective way to communicate widely with all shareholders and DX's financial reports, publications and press releases can be viewed here together with corporate governance information, key dates in the financial year, and news about DX, its services and issues affecting the industry.

The Board also receives a regular summary of shareholder feedback from Zeus Capital (DX's Nominated Adviser and Broker during the financial year) and Numis Securities, joint Broker.

Audit Committee Report

The members of the Audit Committee during the financial year were the two independent Non-executive Directors, Bob Holt and Paul Murray. The Board is confident that the collective experience of the Audit Committee members enabled them, as a group, to act as an effective Committee. Attendance at meetings of the Audit Committee by non-members is by invitation and at the discretion of the Audit Committee. The Chief Executive Officer, the Chief Financial Officer and the KPMG LLP audit engagement partner (DX's external auditor) will normally be invited to attend meetings of the Audit Committee. The Chairman of the Audit Committee meets regularly with the Chief Financial Officer and the external auditor.

The main duties of the Audit Committee are set out in its terms of reference and include the following:

- to monitor the integrity of the financial statements of the Group, including its annual and half-year reports and any other formal announcement relating to DX's financial performance;
- reviewing and reporting to the Board on any significant financial reporting issues and judgements which the financial statements contain having regard to matters communicated to it by the auditor;
- to review and challenge where necessary:
  - the consistency of, and any changes to, significant accounting policies both on a year-on-year basis and across the Group;
  - whether DX has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - the clarity and completeness of disclosure in the financial reports; and
  - all material information presented with the financial statements;
- to keep under review the adequacy and effectiveness of DX's internal financial controls and internal control and risk management systems;
- to review and approve the content of the Annual Report and Accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess DX's performance, business model and strategy;
- to review the adequacy of DX's compliance, whistleblowing, controls for the prevention of bribery and procedures for detecting fraud;
- to regularly assess the need for an internal audit function;
- to consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, reappointment and removal of DX's external auditor;
- to oversee the relationship with the external auditor, including recommendations on their remuneration, approval of their terms of engagement, annual assessment of their independence and objectivity taking into account relevant UK professional and regulatory requirements, and the relationship with the auditor as a whole, including the provision of any non-audit services;
- to meet regularly with the external auditor and at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit; and
- to review and approve the audit plan and review the findings of the audit.

For the financial year to 30 June 2017, the Audit Committee reviewed and endorsed the 2016 Annual Report and Accounts ahead of their approval by the Board and reviewed and commented on the Company's risk register and mitigation procedures.

External Auditor

To ensure the auditor's independence and objectivity, the Audit Committee annually reviews DX's relationship with the auditor. Following the review in 2017, DX concluded that it has an objective and professional relationship with KPMG LLP and that there are sufficient controls and processes in place to ensure the required level of independence. In addition, the auditor is required to review and confirm its independence to the Audit Committee on a regular basis.

Having reviewed the auditor's independence and performance, the Audit Committee is recommending that KPMG LLP be reappointed as DX's auditor at the next AGM.

Audit Process

KPMG LLP prepare an audit plan which sets out the scope of and approach to the audit, significant risks and other areas to be targeted. This plan is reviewed and agreed in advance by the Audit Committee. Following their review, the auditor presents their findings to the Audit Committee for discussion.

Non-Audit Services

KPMG LLP may also be employed where, as a result of its position as auditor, it either must, or is best placed to, perform the work in question. A policy is in place in relation to the provision of non-audit services by the auditor to ensure that there is adequate protection of its independence and objectivity.

Nomination Committee Report

The members of the Nomination Committee during the year were the two independent Non-executive Directors, Paul Murray (Chair except when the matters under consideration related to his financial position) and Bob Holt. The Committee meets according to DX's requirements.

The responsibilities of the Committee are set out in its terms of reference and include:

- reviewing the structure and composition of the Board (including the skills, knowledge, experience and diversity);
- recommendations to the Board with regard to any changes and new appointments taking into account the challenges and opportunities facing DX, and the skills and expertise needed on the Board in the future;
- requiring that any proposed Director discloses any other business interests that may result in a conflict of interest and reports any future business interests that could result in a conflict of interest;
- succession planning for both Executive and Non-executive Directors and in particular for the key roles of Chairman, Chief Executive Officer and the Executive Team;
- the reappointment of any Non-executive Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of knowledge, skills and experience required;
- the re-election of Directors by shareholders under the annual re-election provisions of the QCA Code or the retirement by rotation provisions in DX's Articles of Association ("Articles");
- ensuring that on appointment to the Board, Non-executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, Board Committee service and involvement outside Board meetings; and
- membership of the Audit and Remuneration Board Committees.

Directors' Remuneration Report

(Including the Remuneration Committee Report)

Dear Shareholder,

Chairman's Annual Statement

DX adopts a simple and clear approach to remuneration. Our policy is to attract and retain the best possible people who have the capability and drive to meet the Company's strategic and financial objectives. Accordingly, we offer our Executive Directors a basic salary that is fair and reasonable in comparison with companies of a similar size in similar industries and reflects each individual's experience and contribution to the Company.

As referred to earlier in this report, this year has been a challenging year for the business and for the logistics sector as a whole. Despite hard work and dedication, the Company's overall performance in the financial year has failed to reach the necessary triggers and, as a result, no annual cash bonus is being paid to the Executive Directors. The VCP is also not performing as planned and remains under review.

Report from the Remuneration Committee

The Board has delegated certain responsibilities for Executive Director remuneration to the Remuneration Committee.

The Remuneration Committee during the financial year was chaired by Paul Murray. Bob Holt and Petar Cvetkovic were its other members. Any other attendees are at the invitation of the Committee Chairman only and will usually include the Chief People Officer/HR Director. The Remuneration Committee meets according to DX's requirements. There were two meetings held in the financial year. The Remuneration Committee determines the remuneration packages for the Chairman, the Executive Directors and the Executive Team and any major remuneration plans for the Group. This includes implementation of the Group's share incentive plans. The Committee's role is to ensure that the principles of the Company's remuneration policy are aligned with the business strategy and promote long-term shareholder value.

Full terms of reference for the Committee are available on www.dxdelivery.com.

The Committee also receives advice and assistance from the Chief People Officer/HR Director, the people/HR team and its external legal and tax advisers.

The main items of business considered by the Remuneration Committee during the financial year included reviews of:

- remuneration strategy and policy; and
- salary for Executive Directors.

There were no changes to the Chief Executive's remuneration in the financial year. Daljit Basi's remuneration was reviewed and increased in December 2016 following his appointment as Finance Director in September 2016.

Executive Directors' Service Contracts and Termination Policy

Executive Directors hold a service agreement with an indefinite term and a fixed maximum termination period of 12 months. Any payments in respect of termination reflect base salary only and do not include annual bonus. The Company's policy on the setting of notice periods under the Executive Directors' service agreements is considered to be in line with external market trends and is reviewed by role to protect the Company's knowledge and operations.

The base annual salaries for the Executive Directors for the year to 30 June 2018 will be as follows:

	2018 £000	2017 £000	% change
Lloyd Dunn (Chief Executive Officer)[1]	300	–	n/a

1 Annual salary to be pro rata from appointment on 9 October 2017.

Non-executive Directors

Non-executive Directors have letters of appointment each with a term of three years (subject to re-election at the AGM) and a fixed maximum termination period of three months.

The base annual fees for the Non-executive Directors for the year to 30 June 2018 will be as follows:

	2018 £000	2017 £000	% change
Ian Gray	42	–	n/a

The incoming Board has not yet approved a remuneration policy for the year ended 30 June 2018 for Ron Series, Russell Black and Paul Goodson.

Pay for all other employees is based upon external market rates, job role, internal comparators and business impact. Both DX's financial and operational performance, and each person's personal performance are also taken into account when setting salaries.

Directors' Shareholdings

The Directors who held office at 30 June 2017 had the following interests, including family interests, in the shares of the Company (excluding any entitlements that may become due under the VCP):

	Ordinary Shares 30 June 2017
Petar Cvetkovic	5,529,593
Daljit Basi	118,405
Bob Holt	100,000
Paul Murray	nil

Total Single Figure of Remuneration for Directors

The table below sets out a single figure for the total remuneration received by each Director for the year ended 30 June 2017 and the prior year.

	Executive Directors						Non-executive Directors			
	Petar Cvetkovic		Ian Pain		Daljit Basi[1]		Bob Holt		Paul Murray	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Base salary/fee	352	375	320	320	115	–	90	90	40	40
Benefits	–	–	–	–	7	–	–	–	–	–
Annual bonus scheme	–	–	–	–	–	–	n/a	n/a	n/a	n/a
Long-term incentive plan[1]	–	–	–	–	–	–	n/a	n/a	n/a	n/a
Pension benefits	–	–	–	–	11	–	n/a	n/a	n/a	n/a
Total	352	375	320	320	133	–	90	90	40	40

1 Amounts for period when Executive Director.
2 Long-term performance related remuneration is achieved through participation in the VCP (see below).

The table below sets out the maximum bonus potential (100% of base salary) for each Director for the year ended 30 June 2017 and the prior year.

	Executive Directors						Non-executive Directors			
	Petar Cvetkovic		Ian Pain		Daljit Basi		Bob Holt		Paul Murray	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Maximum bonus potential[1]	500	500	–	320	175	–	n/a	n/a	n/a	n/a

1 The Company's overall performance in the financial year failed to reach the necessary triggers and, as a result, no annual cash bonus is being paid.

Executive Directors' External Appointments

At the time of signing this report, there are no Executive Directors on the Board.

Relative Importance of Spend on Pay

The following table shows the Company's actual spend on pay (for all employees) relative to dividends and retained profit.

	2017 £m	2016 £m	Change £m
Staff costs	£79.7	£74.7	£5.0
Dividends	£3.0	£10.0	£(7.0)
(Loss)/profit before tax[1]	£(1.6)	£9.4	£(11.0)

1 Excludes exceptional items.

Directors’ Remuneration Report
continued

Share Plans

To further incentivise and support the retention of senior management (including the Executive Directors and the Executive Team) and therefore ultimately to enhance shareholder value, DX adopted share plans on Admission. The Company does not foresee any awards being granted under these plans. The intention of the new Board is to approve a number of new incentive schemes in the new financial year.

The Group’s existing schemes include a Value Creation Plan (“VCP”) for the benefit of senior executives, including the Executive Directors. Under the VCP, A Ordinary Shares in DX (VCP) Limited (a subsidiary of the Company) were issued to the Executive Directors and the six other members of the Executive Team. The A Ordinary Shares were issued at nil cost and PAYE and National Insurance contributions have been accounted for on the value of these shares at acquisition. Retaining ownership of the A Ordinary Shares is conditional on continuing employment. Specific rules will apply if the employee ceases employment during the vesting period. As at the date of this Annual Report, Petar Cvetkovic, Ian Pain and five of the other members of the Executive Team who were issued shares in DX (VCP) Limited have now transferred these shares back to the Company and no longer hold any shares in DX (VCP) Limited. The A Ordinary Shares have no dividend rights and very limited voting rights.

The Executive Directors also acquired B Ordinary Shares in DX (VCP) Limited. The B Ordinary Shares were acquired at market value. The B Ordinary Shares have limited economic rights but entitle each of the B shareholders to 5% of the voting rights in DX (VCP) Limited.

The Executive Directors’ (who served during the year) shareholdings in DX (VCP) Limited at 30 June 2017 are as follows:

Director	A Ordinary Shares of £0.01 each	B Ordinary Shares of £0.01 each
Petar Cvetkovic[1]	34	500
Ian Pain[1]	30	500

1 Subsequent to the year end, Petar Cvetkovic’s and Ian Pain’s A Ordinary and B Ordinary Shares were transferred to DX.

A Ordinary Shares in DX (VCP) Limited carry no voting rights; B Ordinary Shares entitled the holders to 10% of the voting rights in that company.

The Company has also established an employee benefit trust which holds some shares in the VCP. This is a discretionary trust and its aim is to reward long service in non-management level staff who remain with the Company for the qualifying period.

Paul Murray
Chairman of the Remuneration Committee

Directors' Report

The names and biographical details of the Directors currently serving on the Board are set out on page 14.

The Company's approach to the appointment and replacement of Directors is governed by its Articles (together with the relevant legislation) and takes into consideration any recommendations of the QCA Code.

The Company's Articles require that all Directors should be subject to election by shareholders at the first AGM following their appointment and that one-third of the Directors (or the number nearest to but not less than one-third) retire by rotation at each AGM, with each Director also being subject to re-election at intervals of not more than three years. The Board has the power to appoint additional Directors or to fill a casual vacancy amongst the Directors. Any Director so appointed by the Board holds office only until the next AGM and may then offer himself/herself for election by the shareholders. Given the recent Board changes all the current Directors of the Company will offer themselves for re-election at the 2017 AGM.

The powers of the Directors are determined by the Articles, the Companies Act 2006 and other relevant legislation. At the 2016 AGM, the Directors were authorised to issue and allot shares and to disapply the statutory pre-emption rights. This authority remains in place until the conclusion of the 2017 AGM. It will be proposed at the 2017 AGM that the Directors will be granted a new authority to allot shares, to disapply the statutory pre-emption rights and the authority to buy back shares. The Company may by ordinary resolution declare dividends not exceeding the amount recommended by the Board.

Results and Dividends

The results for the year ended 30 June 2017 are shown on page 31. The Group's loss for the year after tax was £81.1 million. As announced on 7 February 2017, no dividend will be payable for the foreseeable future. This will remain under review.

Principal Activities, Risks and Review of the Business

The Group's continuing activities are the provision of parcels, freight, mail and logistics services in the UK and Ireland. The principal activity of the Company is that of a holding company.

The Strategic Report set out on pages 1 to 13 provides a fair review of the Group's business for the year ended 30 June 2017. It also explains the objectives and strategy of the Group, its competition and the markets in which it operates, the principal risks and uncertainties it faces, the Group's financial position, key performance indicators and likely future developments of the business.

Risk Management and Internal Control

DX has in place a system of internal financial controls commensurate with its current size and activities.

The Board has overall responsibility for DX's system of internal control to safeguard the Company's assets and shareholders' investments. The risk management process and systems of internal controls are designed to identify the main risks that the Group is exposed to, and ensure that appropriate policies and procedures are in place to minimise these risks to the Group, including the establishment of appropriate business continuity planning arrangements. The Company maintains a risk management register which is managed by a Risk Management Committee and discussed every six months with the Executive Team and the Chairman of the Audit Committee.

The Board has reviewed the effectiveness of the system of internal control for the year ended 30 June 2017 and up to the date of the signing of the Annual Report and Accounts. The Board will continue to develop and implement internal control procedures appropriate to DX's activities and scale.

The Board recognises that an essential part of its responsibility is the effective safeguarding of assets, the proper recognition of liabilities and the accurate reporting of results. The Group has a comprehensive system for regular reporting to the Board. This includes monthly management accounts and an annual planning and budgeting system. The financial reporting system compares against budget and prior year, and the Board reviews its financial year forecasts on a monthly basis.

The Board has established a formal policy of authorisation setting out matters which require its approval and certain authorities which are delegated to the Executive Directors.

Going Concern

The Directors are satisfied that the Group has the appropriate capital structure to enable it to invest in facilities, equipment and staff as required, and to continue in operational existence for the foreseeable future. Thus they continue to adopt a going concern basis in preparing the financial statements.

Further details regarding the adoption of the going concern basis can be found in the basis of preparation of accounts in note 2 to the financial statements.

Directors' Report
continued

Corporate Governance
The Board is fully committed to high standards of corporate governance. Details relating to the Company's compliance with the QCA Code for the financial year and a description of the Company's management and reporting structure are given in the Corporate Governance and Directors' Remuneration Reports on pages 15 to 22.

Anti-Bribery and Corruption
DX takes a zero-tolerance approach to bribery and corruption and has a formal anti-corruption and bribery policy in place. Training is provided to set the clear expectation that staff must act professionally and with integrity in all business dealings and colleagues are required to complete the gift register.

Whistleblowing
DX has whistleblowing procedures under which colleagues are encouraged to inform the Executive Team or any Director of any concerns they may have that the practices of DX or individuals are wrongful or contravene any applicable laws or regulations. DX has also introduced a new externally managed whistleblowing hotline to ensure an open and ethical culture for the benefit of our colleagues, customers and other business partners.

Modern Slavery
DX has issued a modern slavery transparency statement for the current financial year which can be found on www.dxdelivery.com. DX has also introduced a supplier code of conduct requiring all suppliers and business partners to adhere to the Modern Slavery Act 2015 and to conduct business in accordance with the standards of conduct acceptable to DX.

Corporate Responsibility
Information on corporate responsibility matters are set out on pages 10 to 11. These include disclosures on DX's environmental policies (including details of the Group's greenhouse gas emissions as required to be disclosed under the Companies Act 2006) and health and safety policies. Further details can also be found on the DX website www.dxdelivery.com.

Our Colleagues
DX aims to create a culture where colleagues of all backgrounds and experience feel appreciated and valued. This is underpinned by the culturally diverse workforce employed by the Group, which reflects the local populations in the areas where DX operates. In all cases the Group fulfils its legal obligations under the Equality Act 2010. Additionally, DX audits gender pay equality biannually.

DX strives to surpass its legal obligations through the implementation of its policies and programmes for recruitment, career development and promotion which are based solely on the ability and performance of the individual and the needs of the Group's business.

Our continued focus remains driver safety and competence through the Certificate of Professional Competence but also through Driver Assessors who are qualified through ROSPA (The Royal Society for the Prevention of Accidents). Investment in management training in regard to transport regulations and fleet management ensures operator licence compliance and a pipeline of talent for these critical areas.

Apprenticeship programmes are available to our colleagues that focus on enhancing their skills within their current roles; these range from customer service to warehouse apprenticeships. Our induction programme ensures our colleagues understand our full product range and our vision.

All colleagues are offered a competitive benefits package, including a provision for death in service. There are a number of voluntary benefits to support colleagues' welfare and the opportunity to participate in one of the Group's stakeholder pension schemes.

The Group encourages an active interest in Company activities at all levels and seeks to receive and consider the views of colleagues over a wide range of subjects. This aim is achieved through a fully representative colleague partnership programme, which ensures two-way communications and colleague involvement through biannual meetings. The colleague partners have access to the Executive Team to report and discuss any issues arising. Regular news bulletins are distributed throughout the Group and a quarterly newspaper is produced with a mixture of business and colleague news. Senior management also attend regular calls and conferences to ensure cohesive engagement throughout the Company and to raise awareness of the financial and economic factors affecting the Company's performance.

Labour Turnover
Labour turnover is reported at Group level, showing voluntary leavers during the last financial year. Voluntary leavers over the 12 months since June 2016 have fallen to 24.0% compared to that of the previous year (26.5%).

Disabled Employees
Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Notifiable Interests
The Company has been notified of direct and indirect interests in voting rights equal to or exceeding 3% of the Ordinary Share capital of the Company as set out in the table below:

	29 September 2017	
Fund Manager	Percentage holding	Number of shares
Gatemore Capital Management LLP	23.84%	47,799,591
J O Hambro Capital Management	9.09%	18,219,838
Ruffer LLP	7.79%	15,613,276
Hargreaves Lansdown AM	5.25%	10,530,709
Chelverton Asset Management	4.38%	8,775,000
Hargreave Hale Limited	3.67%	7,352,702
Interactive Brokers	3.23%	6,471,893
Barclays Wealth & Investment Management (UK)	3.16%	6,337,292

Per shareholder register as at 29 September 2017.

Share Capital
Details of the Company's share capital are set out in note 19 to the financial statements. The Company's issued share capital consists of 200,525,500 Ordinary Shares with a nominal value of £0.01 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. The Company has no treasury shares.

Directors' Interests
The number of Ordinary Shares of the Company in which the Directors are beneficially interested is set out in the Directors' Remuneration Report on page 21.

No Executive Directors had any dealings in the shares of the Company during the financial year.

No Directors had any dealings in the shares of the Company between 30 June 2017 and the date of this report.

Director Indemnities and Insurance
In accordance with the Companies Act 2006 and the Company's Articles, the Company has purchased Directors' and Officers' liability insurance, which remains in place at the date of this report. The Company reviews its insurance policies on an annual basis in order to satisfy itself that its level of cover remains adequate.

Amendment to Company's Articles
The Company may alter its Articles by special resolution passed at a general meeting.

Donations
Charitable donations in the year ended 30 June 2017 amounted to £1,000 (2016: £4,000).

No payments were made to any political parties (2016: £nil).

Disclosure of Information to Auditor
Each of the persons who were Directors of the Company at the date of approval of this Directors' Report that they confirm, that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Statement of Directors' Responsibilities

in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

The Company has chosen to include certain matters in its Strategic Report that would otherwise be disclosed in this Directors' Report. An indication of likely future developments may be found in the Strategic Report.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

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 parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

Each of the current Directors, whose names and functions are listed on page 14 of the Annual Report 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 loss/profit of the Group;
- the Strategic Report and Directors' Report include 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;
- there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board

Bob Holt
Chairman
19 October 2017

Independent Auditor's Report

to the members of DX (Group) plc

1 Our opinion is unmodified

We have audited the financial statements of DX (Group) plc ("the Company") for the year ended 30 June 2017 which comprise the Consolidated statement of comprehensive income, Consolidated statement of financial position, Company statement of financial position, Consolidated statement of changes in equity, Company statement of changes in equity, Consolidated statement of cash flows, Company statement of cash flows and the related notes, including the accounting policies in note 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 June 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview

Materiality: Group financial statements as a whole		**£1m (2016: £645,000)** 2017: 0.34% of revenue (2016: 5% of adjusted profit before tax)
Coverage		100% (2016: 100%) of revenue
Risks of material misstatement vs 2016		
Recurring risk	Goodwill valuation	
	Cost of Investment	
New risk	Going Concern	

2 Material uncertainty related to going concern

	The risk	Our response
Going concern disclosure We draw attention to note 2 to the financial statements concerning the Group's and the parent Company's ability to continue as a going concern, in particular the need for shareholder approval of the convertibility of the Tranche 2 loan notes as a condition-precedent for their issue. These conditions, along with the other matters explained in note 2, indicate the existence of a material uncertainty which may cast significant doubt on the Group's and the parent Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the parent Company were unable to continue as a going concern. Our opinion is not modified in respect of this matter.	**Presentation appropriateness** Clear and full disclosure of the facts and the Directors' rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure. Significant judgement is required in assessing the disclosures.	**Our procedures included:** • **Assessing transparency:** Assessing the completeness and accuracy of the matters covered in the going concern disclosure by assessing its consistency with the cash flow forecasts prepared by the Group and the terms of the loan notes issued. We assessed whether the disclosure was balanced, understandable and sufficiently prominent, and referred to there being a material uncertainty.

3 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Going concern is a significant key audit matter and is described in section 2 above. In arriving at our audit opinion above, the other key audit matters, in decreasing order of audit significance, were as follows:

	The risk	Our response
Recoverability of Group goodwill and parent's investment in subsidiaries Group £30m (2016: £102m); parent £30m (2016: £104m). Refer to page 40 (accounting policy) and page 49 (financial disclosures).	**Forecast-based valuation** The carrying amount of goodwill in the Group and the parent Company's investments in subsidiaries are significant and at risk of irrecoverability due to challenging trading conditions. The estimated recoverable amounts are subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.	**Our procedures included:** • **Historical comparisons:** Evaluating the track record of assumptions used versus actual results in order to assess the historical accuracy of the Group's forecasting process. • **Benchmarking assumptions:** With the support of our valuation specialists we compared key inputs, such as the growth rate, long-term growth rate and discount rate to external data such as market and competitor information. • **Sensitivity analysis:** Performing a sensitivity analysis by changing various key inputs and assessing the impact on the valuation. • **Assessing transparency:** Assessing whether the Group's and parent Company's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill and investment in subsidiaries.

4 Our application of materiality and an overview of the scope of our audit

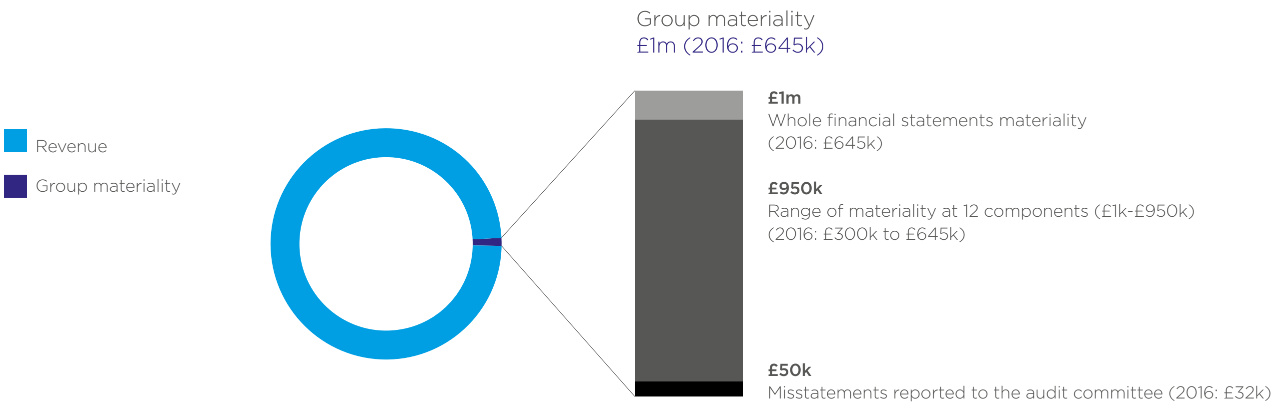
Materiality for the Group financial statements as a whole was set at £1,000,000, determined with reference to a benchmark of revenue of which it represents 0.34% (2016: £645,000 determined with reference to a benchmark of Profit before tax and exceptional items of which it represented 5%). We consider total revenue to be the most appropriate benchmark as profit could no longer be used without making significant adjustments and revenue is expected to provide a more stable measure year on year going forward. Materiality for the parent Company financial statements as a whole was set at £950,000, determined with reference to total assets of which it represents 3% (2016: £645,000, determined with reference to net assets of which it represents 1%). We have updated our benchmark to total assets as net assets could no longer be used without making significant adjustments.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £50,000 (2016: £32,250), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 15 (2016: 15) reporting components, we subjected 12 (2016: 12) to full scope audits for Group purposes.

The components within the scope of our work accounted for 100% of Group revenue, Group loss before tax and Group total assets. The 3 components not subject to full scope audits contained only balances that eliminated on consolidation. Significant balances in the parent Company were audited separately to the materiality level noted above.

The work on those 12 reporting components (2016: 12) and the audit of the parent Company was performed by the Group team.



5 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Independent Auditor’s Report continued

to the members of DX (Group) plc

6 We have nothing to report on the other matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors’ remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors’ responsibilities

As explained more fully in their statement set out on page 26, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities

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

A fuller description of our responsibilities is provided on the FRC’s website at www.frc.org.uk/auditorsresponsibilities.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members, as a body, for our audit work, for this report, or for the opinions we have formed.

James Ledward
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Arlington Business Park
Theale
Reading
RG7 4SD
19 October 2017

Company registered number 08696699

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2017

		2017			2016
	Notes	Trading £m	Exceptional items £m	Total £m	Total £m
Revenue	5	291.9	–	291.9	287.9
Operating costs	6	(292.4)	(80.7)	(373.1)	(370.2)
Results from operating activities		(0.5)	(80.7)	(81.2)	(82.3)
Analysis of results from operating activities					
Earnings before interest, tax, depreciation and amortisation ("EBITDA")		7.2	–	7.2	18.0
Depreciation		(2.9)	–	(2.9)	(3.0)
Amortisation of software and development costs		(3.2)	–	(3.2)	(3.1)
Amortisation of other intangibles		(1.6)	–	(1.6)	(2.1)
Impairment	9	–	(74.4)	(74.4)	(88.4)
Other exceptional items (income)	9	–	1.0	1.0	–
Other exceptional items (expenses)	9	–	(7.3)	(7.3)	(3.7)
Results from operating activities		(0.5)	(80.7)	(81.2)	(82.3)
Net finance costs	10	(0.9)	–	(0.9)	(0.5)
Share of results from associates		(0.2)	–	(0.2)	0.1
Loss before tax		(1.6)	(80.7)	(82.3)	(82.7)
Tax expense	11	0.2	1.0	1.2	(1.7)
Loss for the year		(1.4)	(79.7)	(81.1)	(84.4)
Other comprehensive expense not subsequently reclassified					
Foreign currency translation differences		–	–	–	(0.1)
Total comprehensive expense for the year		(1.4)	(79.7)	(81.1)	(84.5)
Earnings/(loss) per share (pence):					
Basic (and diluted)	21	(0.6)	(39.7)	(40.3)	(42.1)
Adjusted		0.1			4.9

Adjusted earnings per share is calculated after:

- excluding amortisation of other intangibles; and
- excluding exceptional items.

The notes on pages 38 to 58 form part of these financial statements.

Consolidated Statement of Financial Position

as at 30 June 2017

	Notes	2017 £m	2016 £m
Non-current assets			
Property, plant and equipment	13	**12.0**	17.3
Intangible assets and goodwill	14	**38.7**	113.3
Investments in associates	16	**–**	2.0
Deferred tax assets	24	**1.4**	1.3
Total non-current assets		**52.1**	133.9
Current assets			
Assets held for sale	13	**3.5**	–
Trade and other receivables	17	**43.3**	39.1
Current tax receivable		**1.8**	–
Cash and cash equivalents	18	**2.0**	4.3
Total current assets		**50.6**	43.4
Total assets		**102.7**	177.3
Equity			
Share capital	19	**2.0**	2.0
Share premium	20	**–**	–
Translation reserve	20	**–**	–
Retained earnings	20	**14.0**	98.1
Total equity		**16.0**	100.1
Non-current liabilities			
Loans and borrowings	22	**4.8**	6.2
Provisions	23	**6.3**	3.2
Total non-current liabilities		**11.1**	9.4
Current liabilities			
Current tax payable		**–**	0.7
Loans and borrowings	22	**15.9**	7.7
Trade and other payables	25	**40.1**	36.6
Deferred income		**19.6**	22.8
Total current liabilities		**75.6**	67.8
Total liabilities		**86.7**	77.2
Total equity and liabilities		**102.7**	177.3

The financial statements were approved by the Board of Directors on 19 October 2017 and signed on its behalf by:

Bob Holt
Chairman

Paul Murray
Director

The notes on pages 38 to 58 form part of these financial statements.

Company registered number 08696699

Company Statement of Financial Position

as at 30 June 2017

	Notes	2017 £m	2016 £m
Non-current assets			
Investments	15	30.0	104.0
Total non-current assets		30.0	104.0
Current assets			
Other receivables	17	0.3	6.7
Total current assets		0.3	6.7
Total assets		30.3	110.7
Equity			
Share capital	19	2.0	2.0
Share premium	20	–	–
Retained earnings	20	2.4	81.2
Total equity		4.4	83.2
Non-current liabilities			
Loans and borrowings	22	5.2	6.2
Trade and other payables	25	19.0	12.5
Total non-current liabilities		24.2	18.7
Current liabilities			
Current tax payable		1.1	1.0
Loans and borrowings	22	0.6	7.7
Trade and other payables	25	–	0.1
Total current liabilities		1.7	8.8
Total liabilities		25.9	27.5
Total equity and liabilities		30.3	110.7

The financial statements were approved by the Board of Directors on 19 October 2017 and signed on its behalf by:

Bob Holt
Chairman

Paul Murray
Director

The notes on pages 38 to 58 form part of these financial statements.

Company registered number 08696699

Consolidated Statement of Changes in Equity

for the year ended 30 June 2017

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Retained earnings £m	Total £m
At 1 July 2015		2.0	181.4	0.1	10.7	194.2
Total comprehensive expense for the year						
Loss for the year		–	–	–	(84.4)	(84.4)
Other comprehensive expense		–	–	(0.1)	–	(0.1)
Share premium cancellation		–	(181.4)	–	181.4	–
Total comprehensive expense for the year		–	(181.4)	(0.1)	97.0	(84.5)
Transactions with owners of the Company, recognised directly in equity						
Dividends		–	–	–	(10.0)	(10.0)
Share-based payment transactions		–	–	–	0.4	0.4
Total transactions with owners of the Company		–	–	–	(9.6)	(9.6)
At 30 June 2016		**2.0**	**–**	**–**	**98.1**	**100.1**
Total comprehensive expense for the year						
Loss for the year		–	–	–	(81.1)	(81.1)
Other comprehensive expense		–	–	–	–	–
Total comprehensive expense for the year		–	–	–	(81.1)	(81.1)
Transactions with owners of the Company, recognised directly in equity						
Dividends	20	–	–	–	(3.0)	(3.0)
Total transactions with owners of the Company		–	–	–	(3.0)	(3.0)
At 30 June 2017		**2.0**	**–**	**–**	**14.0**	**16.0**

In the prior year £181.4 million was transferred from share premium to retained earnings following approval to cancel the share premium account by both the shareholders and the High Court of Justice.

The notes on pages 38 to 58 form part of these financial statements.

Company Statement of Changes in Equity

for the year ended 30 June 2017

	Notes	Share capital £m	Share premium £m	Retained earnings £m	Total £m
At 1 July 2015		2.0	181.4	12.6	196.0
Total comprehensive expense for the year					
Loss for the year		–	–	(102.8)	(102.8)
Share premium cancellation		–	(181.4)	181.4	–
Total comprehensive expense for the year		–	(181.4)	78.6	(102.8)
Transactions with owners of the Company, recognised directly in equity					
Dividends	20	–	–	(10.0)	(10.0)
Total transactions with owners of the Company		–	–	(10.0)	(10.0)
At 30 June 2016		**2.0**	**–**	**81.2**	**83.2**
Total comprehensive expense for the year					
Loss for the year		–	–	(75.8)	(75.8)
Total comprehensive expense for the year		–	–	(75.8)	(75.8)
Transactions with owners of the Company, recognised directly in equity					
Dividends	20	–	–	(3.0)	(3.0)
Total transactions with owners of the Company		–	–	(3.0)	(3.0)
At 30 June 2017		**2.0**	**–**	**2.4**	**4.4**

The notes on pages 38 to 58 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 30 June 2017

	Notes	2017 £m	2016 £m
Cash generated from operations	26	–	14.7
Interest paid		(0.6)	(0.4)
Tax paid		(1.4)	(3.6)
Net cash (used in)/generated from operating activities		(2.0)	10.7
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		0.9	0.8
Acquisition of property, plant and equipment		(1.8)	(2.3)
Software and development expenditure		(2.6)	(4.2)
Acquisitions of Legal Post and First Post		(0.3)	(3.1)
Net cash used in investing activities		(3.8)	(8.8)
Net (decrease)/increase in cash before financing activities		(5.8)	1.9
Cash flows from financing activities			
Movement on revolving credit facility		(6.5)	6.5
Movement on invoice discounting facility		15.3	–
Repayment of bank borrowings		(1.8)	(1.2)
Equity dividends paid		(3.0)	(10.0)
Loan issue costs paid		(0.5)	–
Net cash generated from/(used in) financing activities		3.5	(4.7)
Net decrease in cash and cash equivalents		(2.3)	(2.8)
Cash and cash equivalents at beginning of year		4.3	7.0
Effect of exchange rate fluctuations on cash held		–	0.1
Cash and cash equivalents at end of year	18	2.0	4.3

The notes on pages 38 to 58 form part of these financial statements.

Company Statement of Cash Flows

for the year ended 30 June 2017

	Notes	2017 £m	2016 £m
Cash generated from operations	26	**11.6**	4.9
Interest paid		**(0.2)**	(0.2)
Tax paid		**–**	–
Net cash generated from operating activities		**11.4**	4.7
Cash flows from investing activities			
Investing activities		**–**	–
Net cash used in investing activities		**–**	–
Net increase in cash before financing activities		**11.4**	4.7
Cash flows from financing activities			
Movement on revolving credit facility		**(6.5)**	6.5
Repayment of bank borrowings		**(1.8)**	(1.2)
Equity dividends paid		**(3.0)**	(10.0)
Loan issue costs paid		**(0.1)**	–
Net cash used in financing activities		**(11.4)**	(4.7)
Net (decrease)/increase in cash and cash equivalents		**–**	–
Cash and cash equivalents at beginning of year		**–**	–
Cash and cash equivalents at end of year	18	**–**	–

The notes on pages 38 to 58 form part of these financial statements.

Notes to the Financial Statements

for the year ended 30 June 2017

1 Reporting entity

The principal activity of DX (Group) plc ("the Company") and its subsidiaries (together, "the Group" or "DX") is the provision of parcels, freight, mail and logistics delivery services. The Company is incorporated and domiciled in the United Kingdom. The address of its registered office is: Ditton Park, Riding Court Road, Datchet, Slough, SL3 9GL. The registered number of the Company is 08696699.

The Company was incorporated and registered in England and Wales on 19 September 2013 under the Companies Act 2006 as a private company limited by shares with the name Tralee Properties Limited. The Company changed its name to DX Newco Limited on 29 January 2014 and to DX (Group) Limited on 12 February 2014. The Company was reregistered as a public limited company under the name DX (Group) plc on 19 February 2014.

On 20 February 2014 the Company (through a new wholly owned subsidiary, DX (VCP) Limited) acquired all of the issued share capital of DX Holdings Limited and DX Secure Mail Limited from DX Finance Limited (a wholly owned subsidiary undertaking of the former parent undertaking). As a result of these acquisitions DX (Group) plc is the parent undertaking of the subsidiaries acquired from DX Group Limited.

On 27 February 2014 the Company's shares were Admitted to the AIM market of the London Stock Exchange through a placing of 185,000,000 Ordinary Shares of £0.01 each at £1.00 per Ordinary Share and a vendor placing of 15,525,500 Ordinary Shares of £0.01 each at £1.00 per share.

2 Basis of preparation

Statement of compliance

The consolidated and Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ('Adopted IFRSs'). The parent Company financial information is shown separate to the consolidated financial information.

The consolidated financial statements were authorised for issue by the Board of Directors on 19 October 2017.

Judgements and estimates

The preparation of financial information in conformity with IFRSs requires management to make 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 amounts ultimately may differ from those estimates.

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 Chairman's Statement on pages 3 to 5, the Financial Review on pages 6 to 8, and the Directors' Report on pages 23 to 25. These statements describe the financial position of the Group; its cash flows, liquidity position and borrowing facilities; the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk. As at 30 June 2017 the Group had net current liabilities of £25.0 million (2016: £24.4 million) and had a loss before tax of £82.3 million (2016: £82.7 million) for the year then ended. Of the net current liabilities, £19.6 million (2016: £22.8 million) of deferred income included in current liabilities represents an obligation to deliver a service but not a cash liability.

Following a review of the Group's capital structure the Board has taken significant steps to strengthen the Group's financial position. As noted in note 22, the Company has entered into a binding agreement, subject to the required resolution explained below, on 9 October 2017 for a £24.0 million fundraising (the "Fundraising") to be in the form of secured Loan Notes with conditional conversion rights, to be subscribed for in two tranches. Tranche 1 of £16.3 million becomes receivable from the date of this report whilst the receipt of Tranche 2 of £7.7 million is conditional upon agreement to the fundraising from existing finance providers, which the Directors are confident of receiving once this report has been issued, and on shareholder approval (the "Resolution") of the conversion rights to be comprised in the Loan Notes, which will be sought as soon as reasonably practicable, and, in any case, by no later than 31 December 2017.

The Directors have prepared cash flow forecasts for a period to 30 June 2019 that indicate the fundraising is required in the next six months. The Directors have concluded that the Group's new capital structure, after receiving approval from the shareholders on the convertibility of the Loan Notes, provides sufficient headroom to cushion against downside operational risks and one-off costs whilst the Group carries out its turnaround.

If the Resolution to allow convertibility of the Loan Notes to equity is not passed by the Company's shareholders, the receipt of Tranche 2 will not proceed. In the event that the Resolution is not passed and therefore the new capital structure does not come into effect, the Group would have some options available to it that might potentially avoid the Group being unable to meet its obligations as they fall due. However, no assurance can be given that any such options would be successful, particularly given the limited time that would be available to the Group. Such options might include:

- seeking to agree with the Group's existing lenders or other parties an alternative refinancing of the Existing Facilities; and
- seeking to dispose of some or all of the Group's assets or a merger or acquisition transaction involving the Company (although there is no certainty that such sales or transactions could be realised in the available timeframe on acceptable terms, or at all).

As these actions require the participation, agreement or approval of external parties, the Directors are not confident that any such alternative courses of action could be achieved in the limited time available, or that they ultimately would be successful. Accordingly, the Directors believe that the successful completion of the issue of the Loan Notes represents the realistic practical option available to the Company. The need for shareholder approval of the conversion therefore represents a material uncertainty that may cast significant doubt about the Group's and Company's ability to continue as a going concern such that the they may be unable to realise their assets and discharge their liabilities in the normal course of business.

Nevertheless, based on the Group's expectation that the shareholders' approval of the notes' convertibility will be received, in addition to the Group's current trading and forecasts, the Directors believe that the Group will be able to meet its obligations as they fall due, and accordingly have formed a judgement that it is appropriate to prepare the financial statements on a going concern basis. Therefore, these financial statements do not include any adjustments that would result if the going concern basis of preparation was inappropriate.

3 Significant accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year unless otherwise stated.

The financial statements have been prepared under the historical cost convention.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

The Group use alternative performance measures ("APMs") to measure performance. These APMs are applied consistently from one period to the next and the Directors believe that this information is important for the shareholders as it allows them to understand the difference between the reported results and the trading performance excluding certain non-cash charges and items which are not expected to recur. The Group presents EBITDA, adjusted PBT, adjusted EPS, underlying results from operating activities, which are calculated as the statutory measures stated before amortisation of other intangible assets and exceptional items, including related tax where applicable. Reconciliations between these APMs and statutory reported measures are shown in the strategic review.

The consolidated financial information is presented in sterling and, unless otherwise stated, has been rounded to the nearest £0.1 million (£m).

Basis of consolidation

The financial information comprises a consolidation of the financial information of DX (Group) plc and all its subsidiaries. The financial year ends of all entities in the Group are coterminous.

Subsidiaries are all entities over which the Group has control over the entity, which is when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee generally accompanying a shareholding of more than half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated except to the extent they provide evidence of impairment of the asset transferred.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("the CODM"). The CODM, who is responsible for allocating resources and assessing performance of operating segments, has been identified as the Board of Directors.

3 Significant accounting policies continued

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial information is presented in sterling, which is the functional and presentation currency of the Company and all of the subsidiaries based in the United Kingdom. The functional currency of the Group's Irish operation is the euro.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve.

Revenue

Revenue represents the value of sales, apportioned over the period to which it relates after excluding trade discounts, value added tax and similar sales related taxes.

DX Exchange subscription income invoiced in advance is deferred and recognised as revenue on a straight-line basis over the period in which the related service is provided. Deferred subscription income is included in the statement of financial position as deferred income within current liabilities.

Revenue in respect of all other services (DX 1-Man, DX Courier, DX 2-Man, DX Secure, DX Mail and DX Logistics) is recognised on delivery of the service to which it relates, based on agreed rates.

Property, plant and equipment

Property, plant and equipment are stated at historic purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided at the following annual rates in order to write off each asset on a systematic basis:

Land	Nil
Freehold buildings	2-2.5%
Short leasehold properties	4-20%
Plant, machinery and other equipment	10-33%

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each statement of financial position date.

Assets held for sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement although gains are not recognised in excess of any cumulative impairment loss. Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated.

Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing, which in the case of the Group represents one cash-generating unit.

(b) Other intangible assets
Other intangible assets are stated at historic purchase cost less accumulated amortisation. Cost includes the original purchase price of the asset and the costs attributable to implementing the expenditure for its intended use. Third party and internal development costs are capitalised when the relevant criteria are met.

Amortisation is provided at annual rates of not less than 20% in order to write off each asset on a systematic basis.

(c) Impairment of non-financial assets
Assets that have an indefinite life, such as goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised in the income statement when the asset's carrying value exceeds its recoverable amount. Its recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Investments in associates
Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for under the equity method and are recognised initially at cost. Goodwill on acquisitions is tested annually for impairment and carried at cost less accumulated impairment.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Trade and other receivables
Trade receivables are recognised initially at fair value and subsequently at amortised cost, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or significant delinquency in payments are considered indicators that the trade receivable may be impaired.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement within other external charges. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other external charges in the income statement.

Other receivables are non-interest bearing and are recognised initially at fair value and subsequently at amortised cost.

Cash and cash equivalents
Cash and cash equivalents include cash in hand and deposits held at call with banks.

Trade and other payables
Trade payables are obligations to pay for goods and services which have been acquired in the commercial operations of the Group. Accounts payable are classified as current liabilities if payment is due within one year or less. If not they are presented as non-current liabilities.

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

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the measurement date.

Leases
Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases. For property leases, the land and building elements are treated separately to determine the appropriate lease classification.

Notes to the Financial Statements continued

for the year ended 30 June 2017

3 Significant accounting policies continued

Operating leases

Assets leased under operating leases are not recorded in the statement of financial position. Rental payments are charged directly to the statement of comprehensive income on a straight-line basis.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in other comprehensive income or in equity. In this case the tax is also recognised directly in other comprehensive income or in equity.

(a) Current taxation

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted by the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred taxation

Deferred tax is recognised using the statement of financial position liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amount in the financial statements. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set off current assets against current liabilities and it is the intention to settle these on a net basis.

Pension costs

The Group operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amount charged to the income statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as amounts either payable or receivable in the statement of financial position.

Share-based payment transactions

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Exceptional items

The Group treats certain items which are considered to be one-off and not representative of the underlying trading of the Group as exceptional in nature.

The Directors apply judgement in assessing the particular items, which by virtue of their scale and nature should be classified as exceptional items. The Directors consider that separate disclosure of these items is relevant to an understanding of the Group's financial performance.

Critical accounting estimates and assumptions

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.

The Group makes certain estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial information are considered to relate to:

(a) Carrying value of goodwill
The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy with detailed disclosure in note 14. In assessing impairment, the majority of goodwill has been allocated to the cash-generating unit which is the Group as a whole, as it arose on the reverse acquisition referred to in note 1 and therefore relates to the Group as a whole. The remaining goodwill of £2.4 million relates to the Legal Post and First Post acquisitions, which is allocated to a separate cash-generating unit. The recoverable amount of the goodwill is measured as the higher of its fair value less costs to sell and value in use. Value in use calculations require the estimation of future cash flows to be derived from the cash-generating units and to select an appropriate discount rate in order to calculate their present value. The estimation of the timing and value of underlying projected cash flows and the selection of appropriate discount rates involves management judgement. Subsequent changes to these estimates or judgements may impact the carrying value of the goodwill.

(b) Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. The amount of the provision requires estimation of the extent and timing of probable outflows of resources and to select an appropriate discount rate in order to calculate their present value. The estimation of the timing and value of underlying projected outflows of resources and the selection of appropriate discount rates involves management judgement. These judgements are informed with reference to contractual obligations, historical data and specifically identified factors.

Financial risk factors
The Group's activities expose it to a variety of financial risks: market risk (principally interest rate risk), credit risk and liquidity risk. The Group uses derivative financial instruments to hedge certain risk exposures where it considers it appropriate.

The policy for each of the above risks is described in more detail below.

(a) Market risk
The Group finances its operations through a mixture of Ordinary Shares and bank borrowings. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group has previously managed its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. However, no such swap arrangements are currently considered necessary in the current low interest climate and given the low level of ongoing debt.

The Group is exposed to a negligible element of foreign exchange risk, with only a limited number of supplies from abroad and the majority of sales made in the UK.

(b) Credit risk
The Group's principal current assets are cash deposits, cash and accounts receivable. The credit risk associated with cash is limited. The principal credit risk arises from non-recovery of trade receivables. In order to maintain credit risk, limits are set for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt ageing and collection history.

(c) Liquidity risk
The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash safely and profitably. Short-term flexibility is achieved by the use of an invoice discounting facility. The maturity of borrowings is set out in note 22.

Capital risk management
The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through optimising the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 22, cash and cash equivalents, and equity attributable to equity holders of the parent comprising issued capital, reserves and retained earnings as disclosed in notes 19 and 20 and the statement of changes in equity. In order to maintain or adjust the capital structure, the Group may issue new shares, raise new borrowings or sell assets to reduce debt. The Group's capital is not restricted.

4 New standards and interpretations not yet adopted

The following new standards and amendments are in issue but not yet effective and have not been adopted early by the Group:

- IFRS 9 'Financial instruments' – new standard for financial instruments accounting;
- IFRS 15 'Revenue from contracts with customers' – new standard for revenue recognition; and
- IFRS 16 'Leases' – new standard for lease accounting.

The Group is currently assessing the impact of adopting IFRS 16, which will result in the recognition of assets and liabilities relating to leases which are currently being accounted for as operating leases, to have a material impact on the consolidated results and financial position of the Group.

The implementation of the other new standards is not expected to have a material impact:

- under IFRS 15 revenue is recognised when the customer obtains control of goods and services transferred by the Group and the related performance obligations have been satisfied. The Group does not expect IFRS 15 to have a significant impact on the total revenue recognised for customer contracts; and
- IFRS 9 will result in changes to the measurement and disclosure of financial instruments, and introduces a new expected loss impairment model. The Group does not currently expect adoption of the standard to have a significant impact on its consolidated results or financial position, but it will result in increased disclosures.

5 Segment information

	2017 £m	2016 £m
Revenue:		
Parcels and freight	160.3	159.3
Mail and packets	113.4	113.8
Logistics	18.2	14.8
Total revenue	291.9	287.9
EBITDA	7.2	18.0
Depreciation and amortisation	(7.7)	(8.2)
Exceptional items	(80.7)	(92.1)
Results from operating activities	(81.2)	(82.3)
Finance charges (net)	(0.9)	(0.5)
Share of results from associates	(0.2)	0.1
Loss before tax	(82.3)	(82.7)

The Board of Directors is considered to be the chief operating decision-maker ("the CODM"). Due to the integrated nature of the operations the CODM considers there to be only one operating unit and reviews profitability, assets and liabilities on a Group basis. The CODM also considers there to be only one material geographical segment, being the United Kingdom and the Republic of Ireland.

6 Operating costs

	2017 £m	2016 £m
Other external charges	190.8	181.7
Employee benefit expense (see note 8)	79.7	74.7
Depreciation of property, plant and equipment	2.9	3.0
Amortisation of intangible assets	4.8	5.2
Profit on sale of property, plant and equipment	(0.2)	(0.1)
Operating lease rentals	21.1	17.4
Other operating income	(0.4)	(0.1)
Impairment charges	74.4	88.4
Total operating costs	373.1	370.2
Trading activities	292.4	278.1
Exceptional items (see note 9)	80.7	92.1
Total operating costs	373.1	370.2

Amounts charged by the Group's auditor are as follows:

	2017 £000	2016 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	87	33
Fees payable to the Company's auditor and its associates for other services to the Group:		
The audit of the Company's subsidiaries pursuant to legislation	91	87
Total audit fees	178	120
Other services:		
– tax services	80	60
– other[1]	471	28
Total non-audit fees	551	88
Total fees	729	208

1 Includes due diligence fees of £416,000 for the proposed reverse takeover of the Distribution division of John Menzies plc. As announced on 14 August 2017 discussions with John Menzies plc ended subsequent to the year end.

Fees payable to KPMG LLP and their associates for non-audit services to the Company are disclosed on a consolidated basis and therefore no separate disclosure for DX (Group) plc on an individual basis is required.

7 Directors' emoluments

Total remuneration

	2017 £000	2016 £000
Emoluments	934	825

Amounts accrued under money purchase pension schemes

	2017 £000	2016 £000
Pension benefits	11	–

Highest paid Director

	2017 £000	2016 £000
Emoluments	352	375

Details of transactions with Directors are disclosed in note 31.

8 Employees

Employee benefit expense

	2017 £m	2016 £m
Wages and salaries	72.3	67.4
Social security costs	6.3	5.8
Other pension costs	1.1	1.1
Share-based payment transactions	–	0.4
	79.7	74.7

Average number of persons employed (including Executive Directors)

	2017 Number	2016 Number
Sales and marketing	98	116
Operations networks	2,662	2,623
Management and administration	284	243
	3,044	2,982

9 Exceptional items

	2017 £m	2016 £m
Impairment charges	74.4	88.4
Property dilapidations provision	2.8	–
Restructuring, professional costs and other	2.6	–
Senior management departures	1.0	–
CMA investigation	0.6	–
Additional auto enrolment costs	0.3	–
VAT refund	(1.0)	–
Planning and acquisition costs on proposed hub	–	3.3
Share-based payments accelerated charge	–	0.4
	80.7	92.1

Impairment charges
During the year management reviewed the carrying value of the Group's goodwill and concluded that an impairment charge of £72.4 million was required (2016: £88.4 million). This charge followed the continued challenging industry conditions and decline in profits since the prior year which suggested a further indicator of impairment. The recoverable amount of goodwill (in both the current and prior year) is calculated with reference to its value in use based on future cash flow projections. The key assumptions used in the calculation are disclosed in note 14.

In addition, management concluded that the Group's non-controlling interest in associate Gnewt Cargo Limited ("Gnewt") should be fully impaired following a period of challenging trading for Gnewt, representing a £2.0 million impairment charge. Subsequent to the year end on 31 August 2017 the Group disposed of its interest in Gnewt for £1.

Property dilapidations provision
Provisions have been made for dilapidation costs in respect of leasehold properties that we have vacated or where there is a possible exit within two years. This represents a change in methodology of the provision estimate from a general provision in the prior year to specific provisions in the current year.

Restructuring, professional costs and other
Professional fees of £1.1 million were incurred relating to the proposed reverse takeover of John Menzies Distribution Limited ("MDL") that was announced on 31 March 2017. As previously reported on 14 August 2017 discussions with MDL were terminated.

Costs of £1.3 million were incurred as a result of restructuring and professional costs relating to the refinancing of the Group.

£0.2 million of other costs were incurred in respect of external legal fees.

Senior management departures
Amounts of £1.0 million represent payments to former members of the Executive Team following their departure from the Group.

CMA investigation
As previously reported, in July 2016 the Competition & Markets Authority ("CMA") commenced a review of the acquisitions of Legal Post and First Post, serving an Initial Enforcement Order at the same time, which halted our integration process. This order was revoked in September allowing us to recommence the integration process. The Group incurred £0.6 million of costs in the period as a result of this process.

Additional auto enrolment costs
Additional auto enrolment costs are in relation to the underpayment of contributions in the financial years 30 June 2014 to 30 June 2016.

VAT refund
Prior to the end of the financial year the Group was notified of a VAT refund arising from a long-standing dispute with HMRC in respect of VAT paid on professional fees. Amounts of £1.0 million were received subsequent to the year end.

Planning and acquisition costs on proposed hub
This £3.3 million cost in the prior year included planning and acquisition costs relating to a proposed new hub which were expensed following the decision by the local authority not to approve and grant planning permission.

Share-based payments accelerated charge

This non-cash charge relating to share-based payment arrangements followed the cancellation of the Company Share Option Plan ("CSOP") and Share purchase plan (equity-settled) ("SAYE") in the prior year. The £0.4 million accelerated charge represented the remaining amount of the total grant-date fair value of the share-based payment awards granted to employees not previously recognised as an expense, with a corresponding amount added back in equity. The Value Creation Plan ("VCP") as referred to in the Governance Report remains in operation.

10 Net finance costs

	2017 £m	2016 £m
Finance income		
Bank interest	–	–
Total finance income	–	–
Finance costs		
Interest on bank loans and other	0.6	0.4
Amortisation of financing costs	0.3	0.1
Total finance costs	0.9	0.5
Net finance costs	0.9	0.5

11 Income tax expense

(A) Analysis of charge in year

	2017 £m	2016 £m
Current tax		
United Kingdom corporation tax		
Current year	1.5	(1.5)
Adjustments in respect of prior periods	0.1	0.2
Total United Kingdom corporation tax	1.6	(1.3)
Overseas taxation	(0.5)	(0.4)
Total current tax	1.1	(1.7)
Deferred tax		
Current year	0.5	(0.1)
Adjustments in respect of prior periods	(0.3)	0.3
Changes in tax rates	(0.1)	(0.2)
Total deferred tax	0.1	–
Tax expense	1.2	(1.7)
Trading	0.2	(1.7)
Exceptional items	1.0	–
Tax expense	1.2	(1.7)

Notes to the Financial Statements continued

for the year ended 30 June 2017

11 Income tax expense continued

(B) Factors affecting the tax expense for year

The tax expense for the year differs from the expected amount that would arise using the weighted average rate of corporation tax in the UK for each year. The differences are explained below:

	2017 £m	2016 £m
Loss before tax	**(82.3)**	(82.7)
Loss before tax at the standard rate of UK corporation tax of 19.75% (2016: 20.0%)	**16.3**	16.5
Factors affecting charge for year:		
– Impairment charges not deductible for tax purposes	**(14.7)**	(17.7)
– Other exceptional charges not deductible for tax purposes	**(0.2)**	(0.7)
– Adjustments in respect of prior years	**(0.2)**	0.1
– Effect of different tax rates	**(0.1)**	(0.2)
– Other	**0.1**	0.3
Tax expense	**1.2**	(1.7)

(C) Factors that may affect future tax charges

The UK corporation tax rate is 19% with effect from 1 April 2017. A reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future current tax charge accordingly. The deferred tax asset at 30 June 2017 has been calculated based on these rates.

12 Loss attributable to the Company

The loss for the year includes a loss of £75.8 million (2016: £102.8 million loss) attributable to the Company after an exceptional impairment charge of £80.0 million (2016: £106.8 million).

13 Property, plant and equipment / Assets held for sale

	Freehold land and buildings £m	Short leasehold land and buildings £m	Plant and equipment £m	Vehicles £m	Total £m
Cost					
At 1 July 2015	13.1	15.0	42.7	0.3	71.1
Additions	–	1.2	1.2	–	2.4
Disposals	(1.0)	–	–	–	(1.0)
At 30 June 2016	12.1	16.2	43.9	0.3	72.5
At 1 July 2016	12.1	16.2	43.9	0.3	72.5
Additions	–	1.2	0.6	–	1.8
Disposals	(1.3)	–	(7.1)	(0.3)	(8.7)
Transferred to assets held for sale	(5.3)	–	–	–	(5.3)
At 30 June 2017	**5.5**	**17.4**	**37.4**	**–**	**60.3**
Depreciation					
At 1 July 2015	4.8	11.6	35.8	0.3	52.5
Charge for the year	0.2	0.8	2.0	–	3.0
Disposals	(0.3)	–	–	–	(0.3)
At 30 June 2016	4.7	12.4	37.8	0.3	55.2
At 1 July 2016	4.7	12.4	37.8	0.3	55.2
Charge for the year	0.2	0.8	1.9	–	2.9
Disposals	(0.6)	–	(7.1)	(0.3)	(8.0)
Transferred to assets held for sale	(1.8)	–	–	–	(1.8)
At 30 June 2017	**2.5**	**13.2**	**32.6**	**–**	**48.3**
Net book value					
At 30 June 2017	**3.0**	**4.2**	**4.8**	**–**	**12.0**
At 30 June 2016	7.4	3.8	6.1	–	17.3

The cost of land not being depreciated is £2.8 million (2016: £2.8 million).

Prior to the year end, five freehold properties with a cost of £5.3 million and a carrying value of £3.5 million were put up for sale by the Group. These assets were therefore transferred to held for sale within current assets. Subsequent to the year end on 29 September 2017 the Group completed a sale and leaseback of these five freehold properties for an aggregate cash consideration of £4.5 million.

14 Intangible assets and goodwill

	Goodwill £m	Software and development costs £m	Customer relationships £m	Trademarks and domain names £m	Outstanding orders £m	Total £m
Cost						
At 1 July 2015	189.1	27.9	8.1	1.0	0.4	226.5
Additions	2.4	4.2	1.0	–	–	7.6
Disposals	–	–	–	–	–	–
At 30 June 2016	191.5	32.1	9.1	1.0	0.4	234.1
At 1 July 2016	191.5	32.1	9.1	1.0	0.4	234.1
Additions	–	2.6	–	–	–	2.6
Disposals	–	(0.7)	–	–	–	(0.7)
At 30 June 2017	**191.5**	**34.0**	**9.1**	**1.0**	**0.4**	**236.0**
Amortisation						
At 1 July 2015	0.7	20.6	5.2	0.3	0.4	27.2
Charge for the year	–	3.1	1.6	0.5	–	5.2
Impairment	88.4	–	–	–	–	88.4
Disposals	–	–	–	–	–	–
At 30 June 2016	89.1	23.7	6.8	0.8	0.4	120.8
At 1 July 2016	89.1	23.7	6.8	0.8	0.4	120.8
Charge for the year	–	3.2	1.4	0.2	–	4.8
Impairment	72.4	–	–	–	–	72.4
Disposals	–	(0.7)	–	–	–	(0.7)
At 30 June 2017	**161.5**	**26.2**	**8.2**	**1.0**	**0.4**	**197.3**
Net book value						
At 30 June 2017	**30.0**	**7.8**	**0.9**	**–**	**–**	**38.7**
At 30 June 2016	102.4	8.4	2.3	0.2	–	113.3

Goodwill has an indefinite useful life and is subject to annual impairment testing. The goodwill all relates to the Group's principal activity therefore has been allocated to the cash-generating unit which represents the Group as a whole for the purposes of impairment testing.

The £30.0 million (2016: £102.4 million) recoverable amount of the goodwill has been calculated with reference to its value in use. The key assumptions used in this calculation are shown below:

	2017	2016
Impairment charge recognised (see note 9)	**£72.4m**	£88.4m
Period on which management approved forecasts are based	**Two years**	One year
Growth rate applied beyond approved forecast period	**1.5%**	2.2%
Maximum discount rate	**15.0%**	8.8%

The cash flow projections are based on the budget approved by the Board for the forthcoming financial year including 12 months beyond. Cash flows beyond these 24 months are extrapolated with reference to historical trends, expected developments, and using estimated growth rates, not exceeding the long-term growth rate stated above.

Forecasts assume that there is a continued decline in the DX Exchange market in line with recent years, although this is more than offset by the expected rate of growth in the parcels market, therefore the Directors consider that the appropriate growth rate to use is that issued by the Institute for Fiscal Studies for the UK economy as a whole. A 1% change in the growth rate or the discount rate have a £1.2 million and £2.2 million impact respectively on the carrying value of goodwill.

15 Investments

Company	Shares in Group companies £m	Loans to Group companies £m	Total £m
Cost			
At 1 July 2015	0.1	206.7	206.8
Additions	–	4.0	4.0
Disposals	–	–	–
At 30 June 2016	0.1	210.7	210.8
At 1 July 2016	0.1	210.7	210.8
Additions	–	6.0	6.0
Disposals	–	–	–
At 30 June 2017	**0.1**	**216.7**	**216.8**
Provisions			
At 1 July 2015	–	–	–
Impairment	0.1	106.7	106.8
At 30 June 2016	0.1	106.7	106.8
At 1 July 2016	0.1	106.7	106.8
Impairment	–	80.0	80.0
At 30 June 2017	**0.1**	**186.7**	**186.8**
Net book value			
At 30 June 2017	**–**	**30.0**	**30.0**
At 30 June 2016	–	104.0	104.0

The carrying value of £30.0 million (2016: £104.0 million) of loans to Group companies has been calculated with reference to its value in use, applying the same assumptions used for the value in use of Group goodwill as shown in note 14.

At 30 June 2017 DX (Group) plc owned, directly or indirectly, 100% of each class of issued shares of the following companies, save that in the case of DX (VCP) Limited, in which 8,856 Ordinary £0.01 Shares are by the DX (Group) plc, whilst certain employees hold a minority interest in the Company. All directly and indirectly owned companies form part of the consolidated results:

	Principal activity
Directly owned:	
DX (VCP) Limited	Intermediate holding company
Indirectly owned:	
DX Network Services Limited	Mail services
DX Secure Limited	In Members' Voluntary Liquidation
DX Network Services Ireland Limited (registered and operates in the Republic of Ireland)	Mail services
DX Freight Limited	In Members' Voluntary Liquidation
DX Holdings Limited	Intermediate holding company
DX Secure Mail Limited	Intermediate holding company
DX Services Limited	Intermediate holding company
DX McBride Limited	Intermediate holding company
Ewenny Limited	Intermediate holding company
QYJ Limited	Intermediate holding company
DX (EBT Trustees) Limited	Dormant
DX Business Direct Limited	Dormant
DX Electronic Services Limited	Dormant
Special Mail Services Limited	Dormant

The above companies are registered and operate in England and Wales unless otherwise stated.

The registered office of all of the above companies is the same as that of the Company, with the exception of DX Network Services Ireland Limited which has a registered office of Unit 6B, Northern Cross Business Park, Finglas, Dublin 11.

During the year ended 30 June 2015 the trade and assets of DX Secure Limited and DX Freight Limited were transferred in entirety to DX Network Services Limited. Further to the completion of the transfers, the resulting non-trading shell company subsidiaries have no assets or third party liabilities and are being eliminated by way of a Members' Voluntary Liquidation. These two companies are exempt from preparing accounts.

16 Investments in associates

Gnewt Cargo Limited	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Non-current assets	0.2	0.3	–	–
Current assets	0.7	0.9	–	–
Non-current liabilities	–	–	–	–
Current liabilities	(0.9)	(0.8)	–	–
Net assets	–	0.4	–	–
Group's share of net assets	–	0.2	–	–
Goodwill	–	1.8	–	–
Carrying amount of investment	–	2.0	–	–

During the year the Group fully impaired its 49.8% interest in Gnewt Cargo Limited ("Gnewt") following a period of challenging trading for Gnewt. Subsequent to the year end on 31 August 2017 the Group disposed of its 49.8% interest in Gnewt for £1.

17 Trade and other receivables

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Trade receivables	23.5	21.2	–	–
Other receivables	2.6	2.6	–	–
Prepayments and accrued income	17.2	15.3	–	–
Amounts owed by subsidiary undertakings	–	–	0.3	6.7
Amounts owed by associates (see note 31)	–	–	–	–
	43.3	39.1	0.3	6.7

18 Cash and cash equivalents

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Cash and cash equivalents	2.0	4.3	–	–

19 Share capital

Allotted, called up and fully paid – 2016 and 2017

Group and Company	Number (000)	£000
Ordinary Shares of 1p each	200,525	2,005

The holders of Ordinary Shares are entitled to receive dividends when declared and are entitled to one vote per share at meetings of the Company.

There were no changes in share capital during the year.

20 Share premium and reserves

Group	Share premium £m	Translation reserve £m	Retained earnings £m
At 1 July 2015	181.4	0.1	10.7
Loss for the year	–	–	(84.4)
Exchange adjustments	–	(0.1)	–
Share premium cancellation	(181.4)	–	181.4
Dividends	–	–	(10.0)
Share-based payment transactions	–	–	0.4
At 30 June 2016	–	–	98.1
At 1 July 2016	–	–	98.1
Loss for the year	–	–	(81.1)
Dividends	–	–	(3.0)
At 30 June 2017	**–**	**–**	**14.0**

Company	Share premium £m	Retained earnings £m
At 1 July 2015	181.4	12.6
Loss for the year	–	(102.8)
Share premium cancellation	(181.4)	181.4
Dividends	–	(10.0)
At 30 June 2016	–	81.2
At 1 July 2016	–	81.2
Loss for the year	–	(75.8)
Dividends	–	(3.0)
At 30 June 2017	**–**	**2.4**

Share premium cancellation

At a shareholder General Meeting on 24 March 2016 the shareholders approved a special resolution to cancel the share premium account which was subsequently approved by the High Court of Justice on 20 April 2016. As a result, £181.4 million was transferred from the share premium account to retained earnings in the prior year.

21 Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 30 June 2017 is based on the loss after exceptional items for the year of £81.1 million (2016: £84.4 million loss) and average number of shares in issue of 200.5 million (2016: 200.5 million) calculated as follows:

	2017			2016
	Trading £m	Exceptional items £m	Total £m	Total £m
Loss for the year	(1.4)	(79.7)	(81.1)	(84.4)

	2017 Number (000)	2016 Number (000)
Number of Ordinary Shares at 30 June	200,525	200,525

	2017			2016
	Trading p	Exceptional items p	Total p	Total p
Loss per share	(0.6)	(39.7)	(40.3)	(42.1)

Diluted earnings per share

There is no dilution of the basic earnings per share at 30 June 2017 (2016: no dilution). Dilution is dependent on share price movements therefore there remains the possibility for future dilution of earnings per share, albeit the Directors consider this possibility as remote and any financial impact would be immaterial.

22 Loans and borrowings

(A) Third party

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Non-current liabilities				
Bank loans	5.2	6.4	5.2	6.4
Deferred loan issue costs	(0.4)	(0.2)	–	(0.2)
	4.8	6.2	5.2	6.2
Current liabilities				
Invoice discounting facility	15.3	–	–	–
Revolving credit facility	–	6.5	–	6.5
Bank loans	0.6	1.2	0.6	1.2
	15.9	7.7	0.6	7.7

Amounts due under the bank term loan facility and the revolving credit facility are secured by means of a charge over the assets of subsidiary undertakings within the Group.

(B) Terms and conditions of outstanding loans were as follows:

At 30 June 2016

	Nominal interest rate	Year of maturity	Face value £m	Carrying amount £m
Bank term loan	LIBOR + 2.00%	2017	7.6	7.6

At 30 June 2017

	Nominal interest rate	Year of maturity	Face value £m	Carrying amount £m
Bank term loan	LIBOR + 3.50%	2018	5.8	5.8

All loans are denominated in sterling.

During the year the Group completed a refinancing on its loans and borrowings. The Group entered into a £22.0 million invoice discounting facility up to 30 September 2018 with an interest rate of LIBOR plus 3.50%, replacing the existing revolving credit facility which was closed during the year. Drawings of £15.3 million were made under this facility as at 30 June 2017. The term loan was also extended by a year to 30 September 2018 with an interest rate on the revised term of LIBOR plus 3.50%.

Subsequent to the year end the Group entered into an unsecured loan agreement with GCM Partners II LP, a fund controlled by its major shareholder Gatemore Capital Management LLP ("Gatemore"), for a loan to the Group of £2.0 million. Interest on the loan is 10% per annum. These funds were used to enable the Group to repay its bank term loan in full. There were no early repayment costs incurred by the Group for the repayment of the term loan.

As referred to in note 2 to the Accounts, the Group also entered into an agreement subsequent to the year end for a £24.0 million fundraising in the form of secured Loan Notes with conditional conversion rights. As previously mentioned, the Board considers that a fundraising by way of Loan Notes with conditional conversion rights is the most appropriate route for the Group to raise the capital it needs in the timescale available.

Loan Notes to be issued in two tranches:

- Tranche 1 of £16.3 million to be issued principally to Gatemore and the new Directors. The existing £2.0 million unsecured loan from Gatemore referred above is rolled into the Tranche 1 subscription; and
- Tranche 2 of £7.7 million to be issued principally to Hargreave Hale Limited acting as investment manager for Marlborough Special Situations Fund ("Hargreave Hale"), conditional on shareholder approval of conversion rights.

Subject to receiving the requisite shareholder approvals, these convertible Loan Notes will be capable of conversion at 10 pence per new DX share, which represents a premium of c.28% to the average closing price of DX Ordinary Shares over the 20 trading days immediately prior to 9 October 2017.

22 Loans and borrowings continued

The Loan Notes will have a term of 36 months. Interest on the Loan Notes is at 8.0% per annum, accruing monthly from the date of issue and payable annually in arrears until conversion to new DX shares. On the application of the Company, and at the election of each Lender, interest due to that Lender on any interest payment date may be rolled into the principal as Payment in Kind ("PIK"). Interest on Tranche 1 will increase if (a) the requisite shareholder approvals are not obtained, and (b) security on the Loan Notes is not granted prior to 31 December 2017 (fixed charge on certain freehold properties and a floating charge over the entire undertaking of the Group), in each case by 8.0%, to 24.0% in total.

The Company will seek shareholder authority for the issue of new shares and disapplication of pre-emptive rights to permit the conversion of the full amount of the Loan Notes, plus any PIK interest thereon, which is a condition to the subscription of the Tranche 2 Loan Notes, by no later than 31 December 2017.

23 Provisions

	Property dilapidation costs £m	Insurance provision £m	Other provisions £m	Total £m
At 1 July 2015	1.9	0.9	0.7	3.5
(Credited)/charged to income statement	(0.7)	1.1	0.7	1.1
Utilised	–	(0.9)	(0.5)	(1.4)
At 30 June 2016	1.2	1.1	0.9	3.2
At 1 July 2016	1.2	1.1	0.9	3.2
(Credited)/charged to income statement	3.1	1.3	0.7	5.1
Utilised	–	(1.4)	(0.6)	(2.0)
At 30 June 2017	**4.3**	**1.0**	**1.0**	**6.3**

As disclosed in the accounting policies, management uses judgement to determine appropriate provisions to recognise, in particular, for the amounts and timing of outflows.

Provisions are made for dilapidation costs for leased properties (that have been vacated or where there is a possible exit within two years), motor insurance claims not yet settled, and other provisions including future losses arising from onerous property lease contracts. The provisions are expected to be utilised over the period to June 2030.

The property dilapidation costs provision represents management's judgement, for amounts that could be payable for leased properties that have been vacated or where there is a possible exit within two years. Management uses judgement with reference to historical data and specifically identified factors, to determine the amount and timing of outflows, and thus the provision required.

In addition, the Group self insures against certain risks and based on such risks provides for all estimated future expected liabilities relating to the current and prior financial years, based on the level of historic claims experience.

24 Deferred tax assets

	Group £m	Company £m
At 1 July 2015	1.3	–
Credited to the income statement	–	–
At 30 June 2016	1.3	–
At 1 July 2016	1.3	–
Credited to the income statement	0.1	–
At 30 June 2017	**1.4**	**–**

The deferred tax asset is made up as follows:

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Intangible assets	(0.1)	(0.7)	–	–
Accelerated capital allowances	1.3	1.9	–	–
Other timing differences	0.2	0.1	–	–
	1.4	1.3	–	–

The unrecognised deferred tax assets of the Group at 30 June 2017 total £1.1 million (2016: £1.2 million) which, in the opinion of the Directors, are not expected to be utilised in the future. There are no unrecognised deferred tax assets for the Company at 30 June 2017 (2016: £nil).

25 Trade and other payables

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Non-current liabilities				
Amounts owed to subsidiary undertakings	–	–	19.0	12.5
	–	–	19.0	12.5
Current liabilities				
Trade payables	14.1	16.5	–	–
Social security and other taxes	5.5	5.6	–	–
Other payables	2.3	1.2	–	–
Accruals	18.2	13.3	–	–
Amounts owed to subsidiary undertakings	–	–	–	0.1
	40.1	36.6	–	0.1

Non-current amounts owed to subsidiary undertakings bear interest at the interest rate payable by the Group on its bank borrowings (see note 22) and are repayable no earlier than 30 June 2020.

26 Reconciliation of loss for the year to cash generated from operations

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Cash flows from operating activities				
Loss for the period	(81.1)	(84.4)	(75.8)	(102.8)
Adjustments for:				
– Impairment charges	74.4	88.4	80.0	106.8
– Depreciation	2.9	3.0	–	–
– Amortisation of intangible assets	4.8	5.2	–	–
– Finance costs/(income)	0.9	0.5	(5.1)	(4.8)
– Tax (credit)/expense	(1.2)	1.7	1.1	1.0
– Gain on sale of property, plant and equipment	(0.2)	(0.1)	–	–
– Share of results from associates	0.2	(0.1)	–	–
– Equity-settled share-based payment transactions	–	0.4	–	–
Net cash profit	0.7	14.6	0.2	0.2
Changes in:				
– Trade and other receivables	(4.1)	(0.3)	6.2	(6.5)
– Trade and other payables	3.6	1.8	5.2	11.2
– Deferred income	(3.2)	(1.2)	–	–
– Provisions	3.0	(0.2)	–	–
Net change in working capital	(0.7)	0.1	11.4	4.7
Cash generated from operations	–	14.7	11.6	4.9

Notes to the Financial Statements continued

for the year ended 30 June 2017

27 Financial instruments

Short-term debtors and creditors have been excluded from the following disclosures.

(A) Interest rate profile

The table below shows the levels of fixed and floating third-party financial liabilities.

Bank term loan

	2017 £m	2016 £m
Fixed rate	–	–
Floating rate	5.8	7.6
Total	**5.8**	7.6

(B) Fair values

Financial instruments utilised by the Group during the years ended 30 June 2016 and 30 June 2017, together with information regarding the methods and assumptions used to calculate fair values, can be summarised as follows:

Current assets and liabilities

Financial instruments included within current assets and liabilities (excluding cash and borrowings) are generally short-term in nature and accordingly their fair values approximate to their book values.

Borrowings and cash

The carrying values of cash and short-term borrowings approximate to their fair values because of the short-term maturity of these instruments.

The financial instruments held by the Group do not, either individually or as a class, create potentially significant exposure to the market, credit, liquidity or cash flow interest rate risk.

Fair values of financial assets and liabilities

Carrying amount and fair value

The fair value of all financial assets and liabilities is considered to be equal to the carrying values of these items due to their short-term nature. Cash is held with counterparties with a Moody's credit rating of A3 and Ba1.

£0.5 million (2016: £1.0 million) of net financial assets and liabilities at the statement of financial position date were denominated in euros. All other net financial assets and liabilities were denominated in sterling. A 10% strengthening of sterling against the euro at 30 June 2017 would have reduced equity and profit by £0.1 million (2016: £0.1 million).

A 1% increase or reduction in the interest rate applicable to the Group's borrowings would have had a £0.2 million (2016: £0.1 million) impact on the profit for the year.

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, and arises principally from the Group's receivables from customers and investment securities. The maximum exposure to credit risk is the amount of the receivables balance.

The ageing of trade receivables at the statement of financial position date that were not impaired was as follows:

	2017 £m	2016 £m
Neither past due nor impaired	21.4	19.6
Past due 1-30 days	1.3	1.3
Past due 31-90 days	0.7	0.3
Past due more than 90 days	0.1	–
	23.5	21.2

The movement in the provision for bad and doubtful debts in respect of trade and other receivables was as follows:

	Individual provisions £m	Collective provisions £m
At 1 July 2015	–	0.5
Increase in provision	–	0.1
At 30 June 2016	–	0.6
At 1 July 2016	–	0.6
Increase in provision	0.3	–
Decrease in provision	–	(0.4)
At 30 June 2017	**0.3**	**0.2**

The Group considers that the amounts for which no provision has been made, are still collectable in full, based on historic payment behaviour and extensive analysis of customer credit risk, including underlying customers' credit ratings, when available.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. As referred to in note 2, subsequent to the year end the Group has entered into a binding agreement for a £24.0 million fundraising. The Directors believe that the receipt of such amounts will ensure that the Group is able to meet its obligations as they fall due.

28 Employee benefits

Pension commitments

The Group operates defined contribution pension schemes for all qualifying employees. The assets of the schemes are in managed funds and are therefore held separately from the assets of the Group.

The total cost charged to income of £1.1 million (2016: £1.1 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

Contributions amounting to £0.2 million (2016: £0.2 million) were payable to the schemes at 30 June 2017 and are included in creditors.

29 Commitments

	Group	
	2017 £m	2016 £m
Capital expenditure contracted but not provided for	**–**	–

Operating leases

At the statement of financial position date the Group had the following future minimum lease payments under non-cancellable operating leases:

	Group	
	2017 £m	2016 £m
Land and buildings:		
Within one year	**8.5**	8.2
Between two and five years	**22.6**	19.1
After five years	**17.4**	11.1
	48.5	38.4
Other operating leases:		
Within one year	**7.7**	5.0
Between two and five years	**12.6**	9.4
After five years	**0.3**	0.3
	20.6	14.7

Operating leases typically consist of leases for premises and vehicles such to operate from and service the Group's customers. Leases of land and buildings are usually subject to rent reviews at specified intervals and provide for the lessees to pay all insurance, maintenance and repair costs.

Notes to the Financial Statements continued
for the year ended 30 June 2017

30 Contingencies
The Company is party to a continuing guarantee and indemnity in respect of the bank term loan described in note 22. The amounts outstanding under these facilities at 30 June 2017 totalled £5.8 million. Subsequent to the year end the bank term loan of £5.8 million was repaid in full.

No provisions are required or have been made in respect of these contingencies since, in the opinion of the Directors, they are not expected to result in financial loss for the Company.

31 Related parties
The following transactions were carried out with connected parties:

Key management personnel
Key management comprises the Executive Directors, the Non-executive Directors and members of the Executive Team. The key management compensation is as follows:

	2017 £000	2016 £000
Salaries, fees and other short-term employee benefits	2,586	2,135
Pension contributions	84	80
Compensation for loss of office	223	73
	2,893	2,288

Included in the above table is £52,000 paid to OwensHR Limited. Hugh Owens, Chief People Officer, is a director and shareholder of OwensHR Limited. Hugh provided interim consultancy services to the Group prior to joining the Executive Team during the year.

Sales and purchases of goods and services
The Group has trading relations with the associate, Gnewt Cargo Limited (see note 16). The transactions during the year included £363,000 purchases for the year to 30 June 2017 (2016: £313,000) with an amount of £9,000 (2016: £10,000) owed by the Group at 30 June 2017. At 30 June 2017 the Group was owed £137,000 (2016: £nil) from working capital provided to Gnewt Cargo Limited. Interest charged on working capital provided during the year was £5,000 (2016: £11,000).

The Group also has trading relationships with Parcel Monkey Limited. Stuart Godman, Managing Director, is a director of Parcel Monkey Limited. Transactions in the year with this entities included £337,000 sales (2016: £317,000), £15,000 purchases (2016: £15,000) and an amount owed to the Group at 30 June 2017 of £34,000 (2016: £11,000).

All transactions were undertaken at arm's length and on normal commercial terms.

32 Subsequent events
Subsequent events have been disclosed in the relevant note to which they relate. See notes 13, 16 and 22 for details regarding subsequent events.

Notes

Notes

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