



**DX (Group) plc**  
Annual Report 2014



**DELIVERED EXACTLY™**

**DX** is a leading independent parcel and mail distribution and logistics company operating throughout the UK and Ireland. DX offers quality service, high security and an unrivalled range of services, providing proven next day and 2-Man deliveries to business and residential addresses nationwide.

## We are DX

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## Key Points

### Financial

- Maiden full year results in line with market expectations
- Admission to AIM and Placing in February 2014 – recapitalisation has substantially strengthened DX's balance sheet
- Revenues from ongoing activities up 4% to £304.2 million (2013: £292.5 million)  
Total revenues up 2% to £312.0 million (2013: £305.7 million)
- EBITDA of £34.4 million (2013: £34.4 million)  
Pro-forma EBITDA, after all lease costs, up 2.4% to £33.7 million (2013: £32.9 million)
- Exceptional items and non-recurring costs totalled £59.0m and mainly related to financial restructuring completed prior to AIM Admission
- Significant continuing capital expenditure of £8.7 million (2013: £7.1 million)
- Strong cash flows and net debt substantially reduced to £12.2 million (2013: £284.6 million)
- Proposed final dividend of 2p per share in respect of the four month period post AIM Admission

### Operational

- Improving Customer choice and service levels
- Encouraging progress over the year with DX Freight turnaround programme and other operational initiatives
- Network consolidation and development continues – three new co-located sites opened, with a fourth post period
- Technology upgrade programme well under way – helps underpin 'OneDX' approach
- Finished year 'on plan' – new financial year started 'on plan'

#### Revenue from ongoing activities £m



**^4.0%**

#### Pro-forma EBITDA after all lease costs £m



**^2.4%**

## DX at a glance

Our delivery services are built to add maximum value to our Customers' operations and their supply chain and to deliver competitive advantage to their market propositions. We bring our expertise and know-how to create cost-effective and high-performing delivery solutions to all our Customers.

### Parcels and Freight

#### Services

##### DX Courier Tracked

- Courier service specialising in next day B2B deliveries of packets, parcels and pouches
- Primarily to branch networks, high streets, industrial areas and government premises
- Pre-9am, pre-12pm and end-of-day delivery options
- Specialist deliveries in pharmaceutical, optical, retail and gambling sectors

##### DX 1-Man

- Next-day delivery of items of IDW<sup>1</sup>, unsuitable for standard parcel carriers
- Range of freight from parcels to pallets with access to international destinations
- Pre-9.30am, pre-12pm and end-of-day delivery options
- Specialist handling equipment on board
- Approximately two thirds of deliveries are for the B2B market, but the expansion in online shopping trends has significantly increased the B2C market

##### DX 2-Man

- Residential delivery of large items, weighing up to 150kg
- Web booking tool which allows the delivery date and room of choice to be booked at point of order
- Email, text and call centre pre-advice and booking systems
- Additional options include Premium Service and wet fits for white goods

#### Key Customers include

Bunzl, Cooper Vision, Häfele, John Lewis, Johnson and Johnson, Mothercare, Timpson and White Stuff

<sup>1</sup> IDW = items of Irregular Dimensions and Weight which are unsuitable for conveyor systems and which may require handling equipment.

### Mail and Packets

#### Services

##### DX Exchange

- Private Members' B2B mail and parcel delivery network
- Over 4,200 exchanges across the UK and Ireland and over 18,000 Customer boxes
- Primarily in legal, financial and public sectors, also used as a site-to-site internal mail network
- Additional Tracked Mail services and tracked specimen deliveries for the health sector
- eDX allows users to send and share encrypted digital documents and emails

##### DX Mail

- Low-cost, second-class mail alternative
- Downstream access for small and large volume users
- Online ordering system
- Primarily in finance and insurance sectors

##### DX Secure

- Secure B2C courier delivery with 100% audit trail
- Pre-1pm, next-day and three-day delivery options
- Photographic and GPS evidence of delivery, with signature capture
- Easy-to-use online system to track items and book redeliveries

#### Key Customers include

Barclaycard, Clifford Chance, Her Majesty's Passport Office, HSBC, Land Registry, Ministry of Justice, SeeTickets, Slaughter and May, Swatch and Wiggle

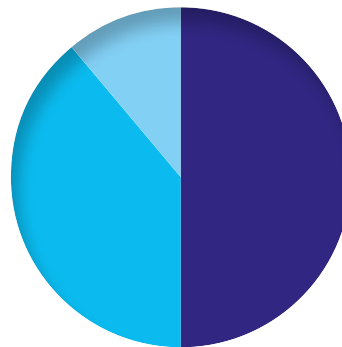
98.5%

On time collection / delivery rate

2,500

Collection and delivery fleet of over 2,500 vehicles

Revenue breakdown %



- Parcels and freight - 50%
- Mail and packets - 39%
- Logistics - 11%



## Logistics

### Services

#### DX Logistics

- Provides the full range of delivery solutions from basic warehouse to pick & pack and delivery
- Bespoke and flexible delivery operations
- Customer liveried vehicles and uniformed personnel

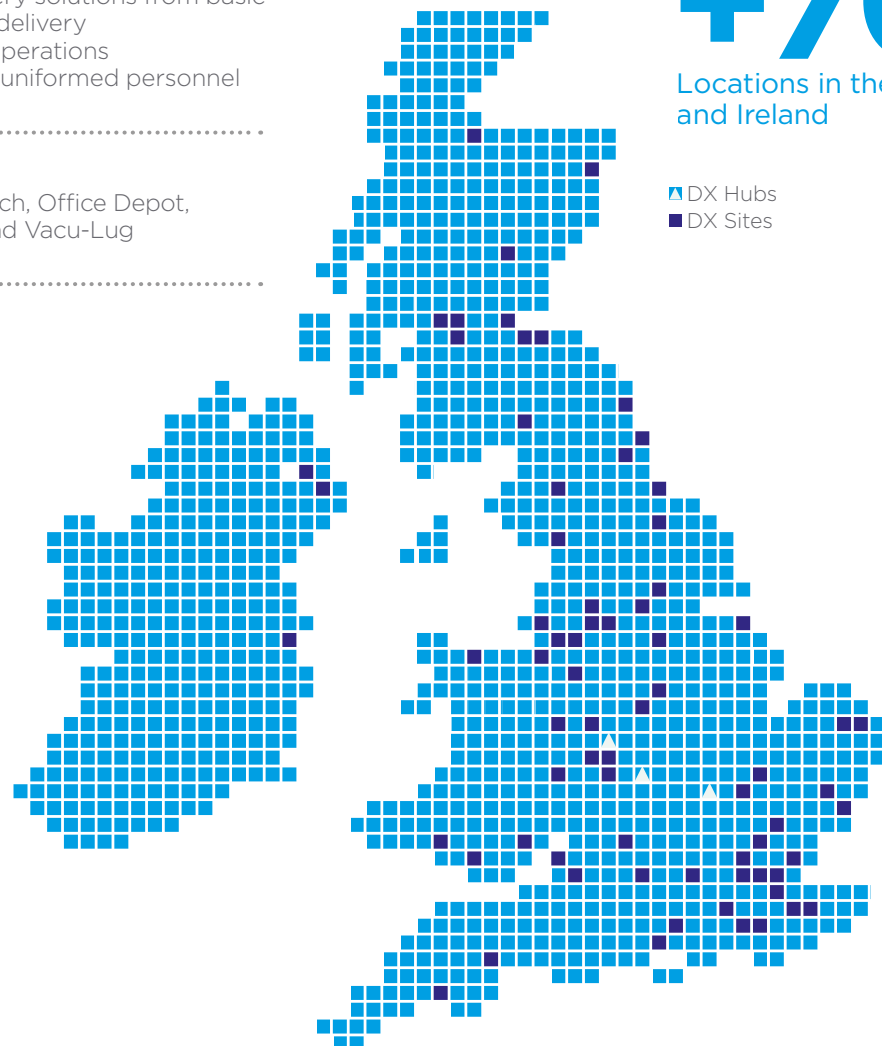
### Key Customers include

B&Q, GVS, Homebase, Jungheinrich, Office Depot, Pama, Rapid Racking, SWS UK and Vacu-Lug

## Network

+70

Locations in the UK and Ireland



## Chairman's statement

**“This has been a year of transformation for DX with the IPO successfully achieved in February and continuing development of the business in line with management plans. With a much-strengthened balance sheet, DX is financially well placed to pursue its growth strategy.”**



**Bob Holt**  
Chairman

### Highlights

- Over 70 locations in the UK and Ireland
- Over 2,500 vehicles in DX's fleet
- 98.5% on time collection/delivery rate
- Over 5,500 employees and contractors
- £304.2 million revenue from ongoing activities
- £34.4 million EBITDA

### Introduction

I am very pleased to report that DX's maiden full year results since its Admission to AIM are in line with market forecasts. This has been a year of transformation for DX with the successful flotation on AIM on 27 February 2014 and the associated placing substantially strengthening the company's financial position. The period covered includes eight months under private equity ownership and four months as an AIM-quoted company with a recapitalised balance sheet. DX is now very well placed financially to pursue its growth strategy, underpinned by a strong balance sheet and good cash flows.

There have been a number of key elements behind the trading improvement in the year, including further steady organic growth, continuing efficiency improvements, the beginning of the consolidation of DX's distribution network and the continued turnaround at DX Freight, the underperforming delivery business which we acquired in 2012 (formerly known as Nightfreight). The acquisition of DX Freight added significant scale to our operations and substantially increased our exposure to the fast-growing parcels and freight market. There is still much to be done in turning around this business, which suffered from years of under-investment and numerous management changes before we acquired it. However we have firmly established a programme of investment and transformation which we will be implementing over the next three years. The process of bringing DX Freight together with our wider operations to create a 'OneDX' proposition, underpinned by common technology and systems, will establish a stronger platform for long term growth.

### Financial results

For the year to 30 June 2014, total revenues increased by 2.1% to

£312.0 million with revenues from ongoing activities increasing by 4% to £304.2 million.

Earnings before interest, tax, depreciation and amortisation (EBITDA) were £34.4 million (2013: £34.4 million) in line with market forecasts. However, during the year, we completed a change in the way that we finance the vehicle fleet at DX Freight and, taking account of this, on a pro-forma basis, EBITDA increased by £0.8 million after all finance and operating lease costs, a rise of 2.4% year-on-year.

Pre-tax profit before exceptional items for the year was £7.1 million (2013: £0.3 million). DX listed at the end of February therefore for eight months of the year to 30 June 2014 we traded with a now replaced debt structure, including high coupon shareholder debt, all of which has now been eliminated. Pre-tax profit before this shareholder-related interest increased by 31% to £21.9 million (2013: £16.7 million).

The reported loss before tax of £55.7 million (2013: loss of £1.9 million) was after exceptional costs of £13.6 million (2013: £2.2 million), mainly relating to impairment charges (see note 9), and non-recurring costs of £49.2 million (see note 10), which largely related to the pre-Admission repayment of a debt instrument.

Basic earnings per share for the year before exceptional items were 5.1p (2013: loss of 12.2p). The reported losses per share were 70.2p (2013: loss of 22.9p).

#### Cash flows and banking

DX generates strong cash flows, with a significant weighting to the second half of the financial year. Adjusting for £57.3 million of exceptional costs, cash generated from operating activities was £23.8 million (2013: £28.9 million).

DX's debt structure has been simplified on Admission to AIM with the repayment in full of all loan instruments. New banking facilities of £23.0 million have been agreed, including a £13.0 million revolving capital facility. At 30 June 2014, net debt was £12.2 million, equivalent to 35% of EBITDA. DX's net debt is expected to reduce over the next financial year.

#### Dividend

The Board is pleased to propose a final dividend of 2p per share. As the company was only listed for four of the 12 months ended 30 June 2014, this represents a pro-forma, post Admission equivalent full year dividend of 6p per share. Subject to shareholder approval, the dividend will become payable on 12 December 2014 to shareholders on the register on 14 November 2014 and will have an ex-dividend date of 13 November 2014.

DX's Annual General Meeting will be held on 4 November 2014 at 10.00am at DX House, Ridgeway, Iver, Bucks, SLO 9JQ.

#### Board changes

In July, we announced that Non-executive Chairman, David Hoare, was stepping down from both the Board and the company after overseeing four and a half years of transformational change at DX. On behalf of all his colleagues I would like to record our thanks to David for the enormous contribution he has made to DX and for the support he has provided to the Board.

I am delighted to have assumed the role of Chairman and look forward to reporting on the company's further progress in future years.

In July, we also welcomed Paul Murray to the Board as a Non-executive Director. Paul has over 25 years' senior level experience of

the transport and logistics industry. We intend to make a further Non-executive Director appointment in due course.

#### Our people

DX's success is founded on its people and the teams across DX's operations have worked hard and shown great commitment to the improvements we are making to the business as we move towards our 'OneDX' goal. I would like to thank everyone at DX for their efforts over the year.

#### Outlook

Looking ahead, while we face a number of challenges, including the structural decline of the mail market, the vast majority of DX's revenues is in the growth areas of parcels, freight and outsized deliveries. The company has opportunities to grow profitability, supported by a strong balance sheet.

We continue to focus on the ongoing turnaround of DX Freight, which will have a positive impact on group margins as the turnaround comes through over the next three years. We are also concentrating on increasing our penetration of market segments requiring our more specialist services, including our time-sensitive, mission critical/high value delivery services and our 2-Man delivery services.

I am pleased to report that the new financial year has started well. As previously stated, historically, there is a strong weighting in trading profit to the second half of the financial year. The company remains well-positioned to continue to deliver on its growth strategy and I look forward to providing a further update on DX's progress at our Annual General Meeting.

**Bob Holt**  
Chairman

## Chief Executive's review

**“Our focus is always on the Customer and how we can improve our Customers' experience with us. We are continuing to turn around DX Freight while planning to deliver our longer term vision which is geared towards enhancing our performance for Customers and shareholders alike.”**



**Petar Cvetkovic**  
Chief Executive Officer

A clear growth strategy based on:

- Steady, controlled organic growth over the near term
- Enhancing the Customer experience through technology and infrastructure investments
- Continuing the turnaround of DX Freight while establishing our platform for future growth

Ongoing progress in creating 'OneDX':

- Single 'DX' brand across all our services and a shared culture across our business
- Unified technology platform continues to be developed
- Delivering a wide range of integrated services for our Customers

Shared values and goals, based on the 'Five Cs':

- Customers - constantly improving our Customers' experience
- Cost and Productivity - meeting Customers' price expectations
- Core markets - deliveries which are important, urgent, critical
- Cash - continuing capital investment to improve the Customer experience
- Colleagues - investing in colleagues' engagement and creating an environment for success

We take enormous pride in providing:

- Great service - market-leading minimum service level of 98.5%
- Highly secure deliveries - looking after our Customers' goods as if they were our own
- Customer choice - a wide range of services for consumers or businesses



# Delivering growth

## STRATEGY

The Customer experience is at the heart of our culture. Our goal is to achieve steady, controlled growth in our core activities over the next two to three years while planning the 'bringing together' of DX Freight and DX Express in order to create a better Customer experience across all our activities.

Integrating our wide and complementary services under a single brand and streamlining their delivery through an efficiently run network will put us in a strong position to provide Customers with the outstanding service delivery that we are constantly striving for. Our objective is to create a 'OneDX' offering which provides Customers with market-leading choice and outstanding service levels delivered at commercially attractive prices.

A key objective for the Board over the next three years is to complete the turnaround of DX Freight. Purchased in 2012, DX Freight was a substantial acquisition, adding more than £120 million to DX's existing revenues, which at that time were approximately £170 million. Whilst its acquisition has helped to position DX as an operator with scale and an unrivalled range of services, there is still considerable work to be done to achieve DX Freight's full turnaround. We believe that this business has the potential to deliver a significantly enhanced performance as part of our 'OneDX' platform.

The ongoing design and development of our future 'OneDX' network is a key element in creating an efficient delivery platform. Further efficiency savings are being targeted through investment in both technology and infrastructure. This will also help to improve our Customer service levels as real-time and 'on-road' data is improved. As we combine delivery routes and different services into fewer sites, underpinned by a common technology platform, we will create a more streamlined and effective network that will be better able to serve our Customers. The continuing integration of DX Freight within the wider DX operations will contribute significantly to this streamlining and efficiency programme over the next few years.

We are focusing on the growing segments of the market – parcels, freight and irregular dimension and weight ('IDW') deliveries. While our Document Exchange business, which is mainly used by the legal and financial services industries, is facing some of the challenges that are impacting on the mail market, this remains an important market for us. This business has demonstrated some resilience through its long-established, end-to-end, superior service and through a secure network that offers earlier deliveries, later collections and cost saving opportunities against competitors' mail services.

## Innovations

### Digital encryption

Our Document Exchange service was born out of the legal sector's need for a reliable, secure and affordable private mail network. We are now adding value to our Exchange Customers with the launch of eDX, enabling them to safely receive and deliver digitally-encrypted emails and files.

### Customer service

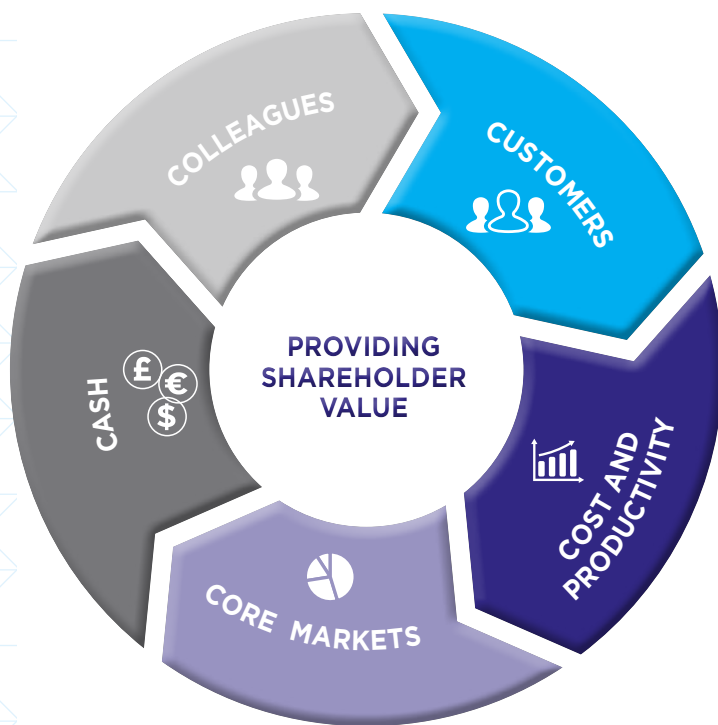
Our people are trained to respond to Customers' needs, ensuring Customer loyalty and supporting growth. Over the past year we have invested in the development of the 'Delivered Exactly' training programme, which aims to ensure the perfect delivery experience for our Customers.

### Vehicle security

To enhance our vehicle security, we have been trialling vehicles fitted with tracking devices and remotely activated immobilisers.

## Chief Executive's review continued

# Market overview and opportunities



### OUR BUSINESS MODEL

DX provides parcel, mail and logistics services through a number of different channels. Our focus is away from the mass market sectors of the delivery chain and on the growth segments of the market. Our approach to the business is founded on 'the Five Cs'; Customers, Cost and Productivity, Core, Cash and colleagues.

### Customers

- Delivering a superior service to our Customers throughout the UK and Ireland;
- Understanding our Customers' needs and providing solutions that offer them competitive advantage; and
- Delivering new services that our Customers require.

### Cost and Productivity

- Focusing on tight cost controls;
- Driving programmes to improve productivity throughout DX, with a particular focus on IT, operations, property and finance; and
- Meeting Customers' price expectations.

.....  
"We have chosen to avoid mass market sectors of the delivery chain to focus on growth segments."

### Core Markets

We are focusing the business on core market segments and services:

- B2B and B2C parcels and mail services, especially for important, urgent, critical deliveries;
- B2B and B2C network solutions, utilising the DX infrastructure to deliver cost effective solutions; and
- Larger items in the 2-Man, 1-Man, Irregular Dimension and Weight and Logistics markets.

### Cash

Continuing focus on:

- Strong cash management;
- EBITDA growth; and
- Investing in training, facilities, IT and equipment to improve Customers' service experience.

### Colleagues

- Rewarding and incentivising our colleagues for delivering a great service to Customers;
- Recruiting, retaining and developing talented people; and
- Creating a culture which promotes pride in what we do.

### THE MARKET

In 2012, approximately 15.5 billion items were delivered in the UK with an estimated market value of £10.5 billion. Of these items, approximately 13.8 billion were letters, with a market value of c.£6.0 billion, and 1.7 billion were parcels, with a market value of c.£4.5 billion.

## Parcels

The parcel market broadly divides into three segments:

- B2B – accounting for c.40% of the parcel delivery market. It generally tracks GDP growth and offers higher margins;
- B2C – accounting for c.55% of the parcel delivery market. It has grown quickly driven by online retailing; and
- C2X (Consumer to Business or Consumer) – accounting for 5% of the parcel delivery market and growing rapidly.

The parcel market is forecast to see steady absolute volume growth, with growth predominantly driven by the B2C market as internet retailing continues to gain market share.

## Letters

The letters market can be divided into four areas: transactional items (such as invoices, bank statements and utility bills); direct mail (advertising, promotional material and catalogues); publishing (newsletters and magazines) and social mail (personal correspondence). Of these, the most significant sector is transactional letters, which makes up approximately 56% of the market.

Electronic substitution in letters has seen volumes decline substantially. The market is estimated to have fallen at a CAGR of 3.1% between 2005 and 2008, and then at a CAGR of 6.3% between 2008 and 2013. It is forecast to decline at a CAGR of 4.9% between 2013 and 2018. However, this expected rate of decline may be offset by a continuation of the improving economic backdrop in the UK.

## Market dynamics

The internet and electronic substitution will continue to have a material impact on mail and parcels, with mail in absolute decline and parcels benefiting from increasing use of internet retailing. While these are the major structural trends, the market is very complex, with some areas of growth in the letter market and electronic substitution adversely affecting some areas of the parcel market such as music, books and video games.

The internet shopping basket is becoming increasingly diverse as consumers' adoption of the internet for shopping grows. This is especially evident in the parcels market where there is an increasing demand for the delivery of higher value items such as clothing, footwear, domestic appliances and furniture. Consumers' use of the internet has also placed a

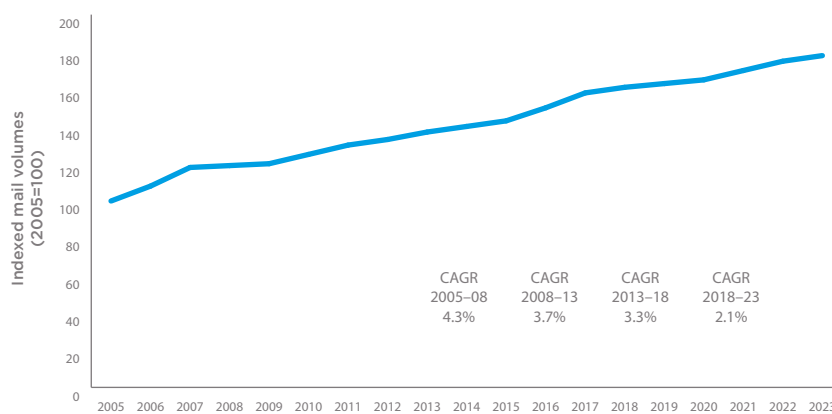
greater emphasis on both the security and speed of deliveries, including increased demand for specified delivery time slots. All these trends play in our favour.

Overall, the Directors anticipate that the long-term reduction in DX's mail volumes, which is most evident in our legal and public sector markets, will be offset by increased parcel volumes. The recovering economy and the trends highlighted above are presenting us with opportunities in many sectors of the parcel and mail markets, from the public sector through to the online retail market.

At the same time, the market remains competitive. While not immune to this competitive environment, our Customer-led approach means that we constantly strive for new and improved service levels, and our wide service offering is helping us to create solutions that meet the needs of our Customers.

In the B2C market, the continued trend towards 'click and collect' and collection from alternative locations is creating pressures for retailers, whilst the B2B market is relatively static with the decline of the High Street remaining a challenge. Nevertheless, we are supporting our Customers by providing 'deliver-to-store' solutions as part of their supply chain, enabling smaller companies to offer 'click and collect' options. Another growth market for our e/retail Customers are orders placed from outside the UK. These create opportunities for the cross-border movement of goods, which we have the capability to service.

## UK parcel volumes 2005–2023



Source: PWC outlook for UK Mail Volumes

# Chief Executive's review continued

## OPERATIONAL REVIEW OF THE BUSINESS

### Introduction

Revenues from ongoing activities increased by 4% to £304.2 million (2013: £292.5 million), a very satisfactory performance against a challenging market background. We saw encouraging levels of new business wins, helped by our expanded range of services. The full benefits of these new contracts will be felt in the new financial year.

We continued to make further progress with the turnaround at DX Freight and across the company we have invested significantly in our IT infrastructure, which will improve our service levels and delivery capability in the coming years. The consolidation and development of our site network is another major and ongoing initiative.

In June 2014, we were delighted to win 'Secure Delivery Service Provider of the Year' in the annual Business Excellence Awards. The award is especially pleasing because it is voted for by our Customers. We also won 'Net Express Export Volume Award 2014' in July. This award was secured by our international service, which is delivered through the Net Express System, our international partner. In September 2013, DX Freight won the 'National Courier Award for Technology 2013' for excellence in delivery time technology.

### Parcels and Freight

Revenues from our parcels and freight activities were broadly similar to last year at £163.6 million (2013: £162.6 million) and accounted for 52% of DX's total revenue. The results reflect strong growth in parcels, especially tracked parcels. However, there was an adverse impact to revenue from our decision to withdraw from lower margin freight business and untracked

courier services. While the decision has a short-term negative impact on revenues, it is in line with our strategy to focus on market segments where we can make more of a difference to our Customers.

We were pleased to win a significant number of new contracts in the second half of the financial year, the benefits of which will be felt more fully in the new financial year.

We continued with our programme to update DX Freight's fleet. Currently, we operate 730 vehicles and 554 trailers and are in the process of applying the DX livery across these fleets. So far, 180 vehicles and 166 trailers carry the livery. We have started to add 50 DX-liveried double-deck trailers, which will improve consignment integrity, while increasing capacity and the speed of loading and unloading. DX Freight is primarily a B2B operation but where we are using the operation for B2C deliveries we now have a home delivery surcharge.

### Mail and Packets

Revenues from mail and packets delivery activities decreased by 3% to £116.1 million (2013: £119.2 million) as anticipated. Our core Document Exchange service which principally supports the legal sector but is also used by the financial and healthcare sectors, continues to see sales attrition, reflecting electronic substitution.

However, we continue to innovate and launched a secure email offering, eDX, and a secure paper shredding service exclusively for our Document Exchange Customers. While we expect attrition to continue, this service remains important to us and is a highly differentiated offering.

At the end of the year, we withdrew completely from the publications distribution market and from non-Document Exchange, untracked mail. Revenue from this business of £3.6 million was low margin and not in keeping with our brand values. The capacity freed up in our network as a result will be better utilised by our growing parcels business.

We continue to broaden the sectors we target in mail and packets, although maintaining our focus on urgent, valuable or important items where we can deliver Customers added value. Newer market segments where we are making progress include ticket agencies and retailers. We are also developing a pre-delivery text alert system and alternative collection points to enhance our service offering.

### Logistics

Revenues from logistics rose by 35% to £32.3 million (2013: £23.9 million). This strong growth principally reflected the growth of our services with existing Customers in the retail sector.

In December 2013 we sold our non-core Business Direct unit, an in-night distributor of engineering parts via a network of intelligent lockers and in-boot distribution. Adjusting for the sale of this activity, underlying revenue growth on continuing operations was 85%.

Although logistics is our smallest activity, it is a core part of our offering. We provide transport solutions to those owner operators who wish to outsource their vehicle fleet operations and often our DX 1-Man and 2-Man services are also selected as additional options to the core logistics contract. Our aim is to remain focused on developing further relationships with Customers requiring an outsourced fleet size of up to 20 vehicles.

### Network consolidation and development

Currently DX operates from over 70 service centres across the UK, with DX Freight largely operating across separate centres. We are moving towards a fully unified 'OneDX' network infrastructure with economies of scale, efficiencies of flow and improved site utilisation, critical to our ambitions to provide Customers with an enhanced service experience. This work will continue over the next few years.

During the year, we closed 12 sites and opened three new large co-located sites, with a fourth opened in September. We brought DX Express (our mail and packets operations) and DX Freight (our parcels and freight operations) together onto the same sites in Exeter, Plymouth, Northampton and Heathrow, our new Southern hub.

As part of our co-location programme, we completed an evaluation of our trunking and delivery networks and have aligned delivery routes. This has created later trunking times, benefiting both DX and our Customers.

### OUR PEOPLE

We are delighted that many of our colleagues are now DX shareholders with a tangible stake in the company's future. Our plan to harmonise pay and conditions will simplify how we run the business and provide a level playing field for all of our colleagues to prosper and advance their careers.

We continue to invest in our teams, with over 8,000 man days of training undertaken across DX. Our training programmes are vital to ensuring high service levels for Customers and creating the culture that reflects our 'Delivered Exactly' commitment. It is important to us that our Customer promise is owned and delivered by all.

Our new apprenticeship scheme is bringing new talent into DX across the UK. We have added experienced and successful senior managers from both inside and outside our industry. The new talent we are bringing on board, combined with our existing team, will help to drive DX forward.

The last year has been exciting and challenging, and I would like to thank everyone for their outstanding efforts in helping to meet the company's objectives and deliver a solid performance for DX's first set of results as an AIM-quoted company.

### OUTLOOK

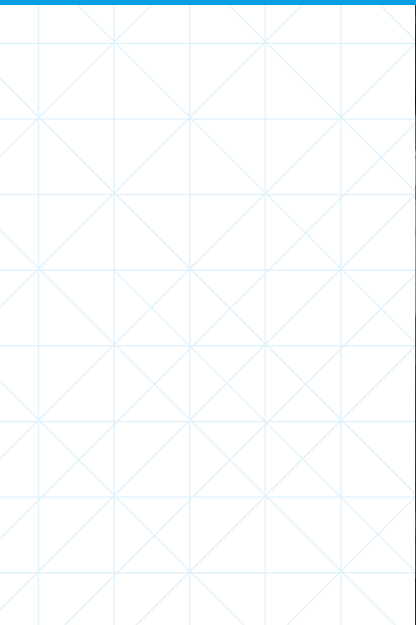
DX's Admission to AIM and its associated recapitalisation has created a firm financial foundation from which to build the business and greatly strengthens our ability to execute our longer-term growth strategy.

With some three quarters of DX's revenues coming from the growing markets for parcels and freight, there is good resilience in the business model. There are also clear opportunities to build on our position in specific sectors such as secure mail and parcel deliveries for mission-critical, high-value items and time-sensitive deliveries.

Our 'OneDX' vision is driving significant operational improvements across the company that will underpin future organic profit growth. There is still a good deal to be accomplished, with the turnaround of DX Freight, a three year programme, and the design and development of our 'bringing together' project. We have made encouraging progress over the year and we are increasingly becoming 'Stronger Together'.

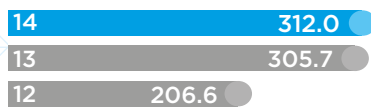
Trading in the first few months of the new financial year is in line with management expectations and we look forward to another year of steady, controlled progress as we continue to manage the turnaround of DX Freight and the creation of our 'OneDX' proposition.

**Petar Cvetkovic**  
Chief Executive Officer  
2 October 2014

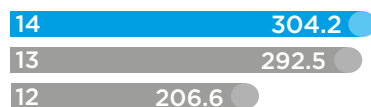


## Key Performance Indicators

### Reported revenue £m



### Revenue from ongoing activities £m



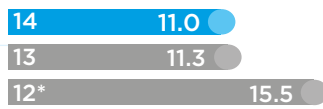
### Reported EBITDA £m



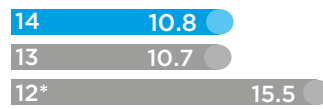
### Pro-forma EBITDA after all lease costs %



### Reported EBITDA margin %



### Pro-forma EBITDA margin %



\* DX Freight was acquired in March 2012 and only three months of DX Freight's trading results were included in the Key Performance indicators for the year ended 30 June 2012. DX Freight was under performing and its turnaround is a core element of DX's growth strategy. However, the inclusion of DX Freight's results in 2013 and 2014 significantly reduced the overall EBITDA margin.

**“In building our brand around Delivered Exactly, we are making a promise to our Customers that DX will fulfil their requirements exactly; on specification, on time and with care. We are building our culture and our brand around putting the Customer at the heart of everything we do.”**

## Chief Financial Officer's review

**“Our focus continues to be on steady profit growth and good cash generation so as to both maintain our strong balance sheet and fund DX’s continuing capital investment for future growth.”**



**Ian Pain**  
Chief Financial Officer

The shares of DX (Group) plc were Admitted to the AIM market of the London Stock Exchange on 27 February 2014. These first annual financial statements as a publicly quoted company for the year to 30 June 2014 therefore include eight months of trading with the private equity backed pre-Admission capital structure and four months of trading with the deleveraged and simplified post-Admission structure.

For the year to 30 June 2014 the group has delivered an EBITDA of £34.4 million on revenues of £312.0 million, an EBITDA margin of 11%. DX has reported a loss before tax as a result of the early redemption of a shareholder instrument prior to the formal redemption date in 2018, which had previously carried a zero cash coupon and charged compounding interest, payable only on the redemption of the instrument. Underlying trading has remained profitable throughout and although the reported EBITDA of £34.4 million appears in line with the prior year, adjusting for a policy change at DX Freight relating to the way in which it finances its vehicle fleet, EBITDA after all lease costs increased by £0.8 million to £33.7 million.

The £185.0 million of equity funds raised as part of the Admission to AIM have been used to redeem all pre-existing third party and shareholder related debt facilities. New banking facilities of £23.0 million have been raised, comprising a £10.0 million term loan and a £13.0 million Revolving Capital Facility (RCF). At Admission the term loan was drawn down in full and £8.0 million of the RCF was drawn down. As at 30 June 2014 there were no drawings on the RCF and DX accordingly has a strong balance sheet with a ratio of debt to EBITDA of 35%. Cash generated from operating activities remains strong at £23.8 million.



Further to the fund raising and Admission to AIM, DX has a much simplified capital structure. As part of the preparation process for the AIM Admission various non-trading exceptional costs were incurred to eliminate previous debt instruments. These pre-Admission one-off exceptional items are reported in the results for the year to 30 June 2014, but separately identified. A pre-exceptional EPS figure has been calculated to eliminate the distortion of the one-off pre-Admission costs.

### Revenue

Reported revenue for the year to 30 June 2014 grew by 2.1% whilst underlying revenue growth, adjusting for two businesses that were ceased during the year, was 4.0%.

	2014 £m	2013 £m	Change %
<b>Revenue</b>			
Parcels and Freight	163.6	162.6	0.6%
Mail and Packets	116.1	119.2	-2.6%
Logistics	32.3	23.9	35.1%
<b>Reported revenue</b>	<b>312.0</b>	<b>305.7</b>	<b>2.1%</b>
<b>Revenue – operations ceased during year</b>			
Mail and packets – publications/untracked mail	(3.6)	(4.5)	
Logistics – Business Direct <sup>1</sup>	(4.2)	(8.7)	
<b>Total revenue from ongoing activities</b>	<b>304.2</b>	<b>292.5</b>	<b>4.0%</b>

<sup>1</sup> The operations of Business Direct were sold with effect from 21 December 2013. Revenues from only six months of trading are therefore included in the year to 30 June 2014.

During the year the cessation of two activities identified as non-core was completed. Business Direct, part of the Logistics operation, was sold in December 2013 yielding a profit on disposal of £1.1 million. In Mail and Packets, the distribution of publications and non-Documents Exchange untracked mail was ceased with effect from 30 June 2014. Both of these activities generated lower margins than in other core areas and the withdrawal provides additional capacity for DX to utilise on higher margin business.

### Parcels and Freight

Parcels and Freight reported revenue growth of 1%, reflecting strong growth in the market for tracked parcels offset by a rationalisation of Freight business with a withdrawal from a number of loss-making or low margin contracts inherited with the acquisition of the Freight operations in 2012. A significant number of new Customer contracts were entered into in the second half of 2014 and the benefits of this new business will flow through into the new financial year.

### Mail and Packets

Revenue from Mail and Packets declined by 3%, in line with expectations. DX's core Document Exchange offering continues to provide great value service to our many members in the Legal, Property, Financial and Healthcare communities but it is anticipated that volumes will continue to follow the market decline for mail as a result of e-substitution. Actions continue to be taken to provide additional value added benefits to our Document Exchange members and within the last 12 months we have launched a secure email offering, eDX, and a secure paper shredding service, although these new revenue streams will not fully offset the revenue impact of the ongoing fall in mail volumes.

Our focus in Mail and Packets is on urgent, valuable and important items. From an initial focus on distributing UK passports, bank cards and visas, DX has successfully expanded its range to other sectors that value next day delivery, market leading proof of delivery and management information and higher levels of security from a fully vetted workforce and courier network. New sectors include ticket agencies and retailers for whom security and urgency is a major requirement. In addition, development of a pre-delivery alert system and alternative collection points will further differentiate DX's service offering and provide for growth opportunities moving forward.

With effect from 30 June 2014 we have withdrawn from the market for the distribution of publications and non-Documents Exchange untracked mail as this business was low margin and did not fit with our target service profile. Revenue from this business in 2014 was circa £3.6 million and withdrawal will create spare capacity in the existing network that can be filled with the rapidly growing parcels business that is fully tracked and offers potential for higher margins.

### Logistics

On 21 December 2013 DX sold its Business Direct operation, a specialist In-Night distributor of engineering parts via a network of intelligent lockers and in-boot distribution. Further details of the disposal are set out in note 9 to the financial accounts.

Logistics reported revenue grew strongly in 2014 by 35% to £32.3 million. Adjusting for the sale of Business Direct half way through the year, underlying revenue growth on continuing operations was 85%. The retained logistics operations are focused on the provision of innovative supply chain solutions

## Chief Financial Officer's review continued

with a focus on the retail, automotive components, education, office supplies and mechanical handling equipment sectors. Many contracts are operated on an open book cost plus basis with relatively low but secure margins. DX can either act as a complete logistics outsource solution or offer a hybrid solution allowing the Customer to use own fleet operations in high density population areas and the wider DX distribution capabilities in other less densely populated areas. The strong revenue growth in 2014 was primarily generated by the expansion of services with one existing retail Customer.

### EBITDA

Reported earnings before interest, tax, depreciation and amortisation (EBITDA) for the year to 30 June 2014 of £34.4 million is unchanged on 2013. However, as part of an ongoing strategy, DX has changed the way in which it finances its vehicle fleet at DX Freight from finance leases to fully maintained operating leases. This transition was completed by the year end. The impact of this change has been to move finance lease costs from the interest cost category, below EBITDA, to operating lease costs reported as part of operating costs above the EBITDA line (all vehicles were fully depreciated so that there was no corresponding distortion in the depreciation charge). Thus whilst reported EBITDA is unchanged on the previous year, the pro-forma EBITDA on a like-for-like basis, reflecting the switch in lease format, increased by £0.8 million (2.4%).

	2014 £m	2013 £m	Change %
<b>Revenue</b>	<b>312.0</b>	<b>305.7</b>	<b>2.1%</b>
Operating costs excluding operating lease rentals	(262.5)	(257.9)	1.8%
Operating profit before operating lease rentals	49.5	47.8	3.6%
Operating lease rentals	(15.1)	(13.4)	12.7%
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>	<b>34.4</b>	<b>34.4</b>	<b>0.0%</b>
Finance lease charges and repayments	(0.7)	(1.5)	-53.3%
<b>Pro-forma EBITDA after all lease costs</b>	<b>33.7</b>	<b>32.9</b>	<b>2.4%</b>
Pro-forma operating profit after all lease costs	10.8%	10.7%	

### Exceptional items

Net exceptional items charged to the P&L during the year relate to costs incurred in the continuing turnaround of DX Freight, charges in relation to the corporate reorganisation in preparation for the Admission to AIM and the profit on sale of a trading operation.

	2014 £m	2013 £m
Exceptional items		
Restructuring costs	4.7	2.1
Impairment charges	10.0	-
Gain on disposal of DX Business Direct	(1.1)	-
DX Freight acquisitions	-	0.1
<b>Total</b>	<b>13.6</b>	<b>2.2</b>

The £4.7 million of restructuring costs relate to the implementation of the profit improvement plan for DX Freight, the primary components of which comprise provisions for ongoing rentals for vacated sites, redundancies and payroll costs for allocated staff and consultants. Such costs are not anticipated to recur.

The impairment charge relates to a loan written-off as part of the pre-Admission corporate reorganisation to disaggregate the company from its former ownership structure.

The £1.1 million gain on the disposal of Business Direct reflects the book profit on the disposal of these trading activities.

#### Cash flow

	2014 £m	2013 £m
Net cash profit	25.7	21.6
Net change in working capital	(1.9)	7.3
<b>Cash generated from operating activities</b>	<b>23.8</b>	<b>28.9</b>

DX remains highly cash generative with cash generated from operating activities, after tax, at 69% of EBITDA. The company has achieved considerable success in the last two years in reducing the average number of debtor days. In the year to 30 June 2013 debtor days declined by 38 days to 30, generating £6.7 million of cash and fell by 2.5 days in 2014 generating a further £1.9 million. This compares very well to industry averages, albeit that the cash upside opportunity is getting smaller. There was some shortening of creditor payment days in 2014 resulting in a net £1.9 million absorption of working capital.

#### Reduced debt and strengthened balance sheet

The Admission to AIM enabled the group to substantially strengthen the balance sheet and simplify its debt profile.

	2014 £m	2013 £m
Net Assets		
Non-current assets	217.6	226.8
Trade receivables	49.2	49.9
Net cash balance	(2.2)	30.2
Current liabilities excluding debt	(65.7)	(66.3)
Non-current liabilities excluding debt	(7.3)	(10.8)
Term loan	(10.0)	0.0
Pre Admission debt	0.0	(314.8)
Deferred loan issue costs	0.4	1.0
<b>Net assets/(liabilities)</b>	<b>182.0</b>	<b>(84.0)</b>

The placing of new ordinary shares on Admission raised £185.0 million. Together with the redemption of the mezzanine instrument owned by the former shareholders and the elimination of loans to and from previous related companies as part of the corporate restructuring prior to Admission, consolidated net assets have risen by £266.0 million as at 30 June 2014.

## Chief Financial Officer's review continued

The group's debt structure has also been simplified. All former senior debt, second lien mortgage and invoice discounting facilities were repaid in full. A new senior term loan of £10.0 million has been drawn down and DX has access to a £13.0 million Revolving Capital Facility of which none was drawn down at the year end. Both facilities charge interest at LIBOR plus 2%. At 30 June 2014 net debt was £12.2 million, equivalent to 35% of EBITDA.

Net debt	2014 £m	2013 £m
Term loan	(10.0)	0.0
Pre-Admission debt	0.0	(314.8)
Cash and cash equivalents	1.1	30.2
Payments in clearing	(3.3)	0.0
<b>Net debt</b>	<b>(12.2)</b>	<b>(284.6)</b>

Given the large reduction in net debt and the lower interest rates on the current bank facilities, interest charges under the new capital structure will be materially lower than in previous years.

### Capital Expenditure

The Board of DX is committed to maintaining high levels of capital expenditure to improve IT systems, facilities and Customer Service. Total Capital expenditure in 2014 was £8.7 million, of which £5.5 million was spent on IT hardware and development costs.

	£m
IT hardware and development costs	5.5
Property costs	2.0
Operations	0.8
Service development	0.4
<b>Total capex</b>	<b>8.7</b>

Capital expenditure is expected to continue at a similar level in 2015, with IT again expected to be the main component.

### Taxation

The effective tax rate on the trading profit before tax is 44.0%, materially greater than the standard tax rate of 22.5%. The difference primarily arises because the interest on the mezzanine instrument owned by the former shareholders was effectively not deductible for tax purposes, thereby increasing the profit attributable to tax. Further to the repayment of this instrument the effective tax rate is expected to approximate closer to the expected tax rate, which will be 20.75% for the year ending 30 June 2015 (subject to any further changes that might be announced in the 2015 budget).

### Earnings per share

The reported basic earnings per share for the year to 30 June 2014 of a loss of 70.2p is calculated with a weighted average number of shares on the full year's comprehensive income, including eight months of trading with the historical financial structure and notional shareholder debt, and after exceptional items. Basic earnings per share on trading activities after interest and tax were 5.1p. Given the seasonality of the earnings profile and the revised capital structure, pro-forma basic earnings per share for the four month period since Admission are 4.1p.

The pro-forma earnings per share for the full year was 10.4p, assuming the new capital structure was in place the whole year and applying it to the pre-exceptional operating profit with the anticipated increase in corporation tax.

### Dividends

DX's share capital was Admitted to AIM on 27 February 2014 and was therefore publicly quoted for four of the 12 months for the year ended 30 June 2014. The Board has proposed a Final Dividend of 2p, representing a pro-forma, post Admission equivalent full year dividend of 6p per share. The Final Dividend is payable on 12 December 2014 to shareholders registered on 14 November, and will have an ex-dividend date of 13 November 2014.

By order of the Board

**Ian Pain**  
Chief Financial Officer  
2 October 2014

## Corporate responsibility

DX is committed to corporate social responsibility. We seek to minimise our environmental impact, provide positive influence and support in the areas where our business operates and behave with integrity towards our Colleagues, Customers and shareholders. Whether it is reducing our environmental impact, helping less-developed overseas communities or encouraging equal opportunities, our commitment to social responsibility runs through everything we do.

We employ a culturally diverse workforce which typically reflects the local population wherever we operate. Throughout our offices, depots and warehouses we aim to achieve high levels of colleague satisfaction and are always looking to improve our Customer care and to help those most in need.

### Environment

As a delivery and logistics company we are aware of the impact we have on the environment and we are always looking for ways to reduce our fuel consumption and minimise the resultant emissions. To this end DX is trialling delivery vehicles which can carry a heavier payload with greater fuel efficiency than existing vehicles. Additionally these vehicles are smaller and easier to manoeuvre through residential areas causing less disruption. DX has also been utilising non-motorised cargo cycles in the centre of London which have 100% zero emissions. Further reductions have been made by co-locating service centres and replacing a number of sites, improving not only energy efficiency but also health and safety.

DX's total carbon emissions were 36,356 tonnes. This is overwhelmingly made up of emissions from fuel burn. The calculation of these emissions is based on industry measurements (Carbon Trust and Defra). Emissions from transportation activities are internally verified. Note that the CO<sub>2</sub> reported figure for fuel emissions is CO<sub>2</sub> which is emitted from all fuel dependent assets, including all vehicle types and Mechanical Handling Machinery. CO<sub>2</sub> equivalents from franchise or service partner operations are not included in the reporting of CO<sub>2</sub> emissions.

	2011/12	2012/13	% Change	2013/14	% Change
CO <sub>2</sub> Emissions (Tonnes)	44,585	44,869	-1%	36,356	-19%

Our focus on carbon emissions has delivered a reduction in the level of CO<sub>2</sub> emitted. To date we are only able to provide partial performance information as parts of the organisation had not tracked emissions or waste prior to AIM listing.

DX is continually looking for ways to improve waste management either through reduction and efficiencies or recycling, thereby sending less to landfill. To improve our performance in this area we have recently launched a new Secure Shredding service to our Exchange Customers to dispose of sensitive waste paper. The resultant shredded paper is sent for recycling and pulped.

Whilst this report only includes a partial picture of our total waste management for the reasons explained above, the production of waste has reduced by 48.8% with 21.5% reduction in tonnes going to landfill. We have also achieved a reduction in recycled weight CO<sub>2</sub> (tonnes) which has reduced by 46%.

We will be providing a full set of figures for the next Annual Report.

## Corporate responsibility continued



### Health and safety

DX has a proactive, risk-based approach to health and safety in that our work colleagues at every level are involved in general and task based risk assessments. To ensure training and risk assessments are a constant feature, we issue an annual risk assessment calendar and safety training matrix. DX has recently invested in a web based Safety Management System. This technology enables us to measure and monitor our safety performance and maintain our training records as well as providing safe working guidance documents.

All general managers attend the IOSH Managing Safety course within three months of employment thereby ensuring health and safety responsibilities become part of their everyday working practice.

Improvement targets	Target	Actual
Number of incidents	-10%	-28.9%

We have reduced the number of incidents by 28.9% against a target reduction of 10%.

There were no enforcement notices issued and no work place fatalities in 2013/14.

### Community

DX recognises it has a large workforce and therefore must play a part in the community. This year has seen a number of site changes and we have worked very closely with the local community to encourage job opportunities. Working with Job Centre Plus we have also been able to help colleagues find new employment where we have closed sites.

Our new Customer Service model has placed new skills into our operational sites around the UK to provide a high quality Customer Service experience within the service centres themselves. This ensures that, through close proximity to the items being handled, we are able to gain a speedier response to questions and enquiries. This is further bolstered by a new apprenticeship scheme, launched this year, where we are bringing people into the organisation to deliver great service through an improved Customer experience.

### Charity giving

DX's chosen charities are Scotty's Little Soldiers and Vision Aid Overseas. We are now in our second year of sponsorship of Scotty's Little Soldiers, a charity dedicated to supporting the children of men and women killed in action while serving with the British Armed Forces. DX gives its support alongside many other fundraisers; funds for the charity are raised through events, donations, merchandising and corporate sponsorships. Children will receive letters, cards, gifts, tickets for events and even fees for local sports or activities. Scotty's already has one

holiday home, so that families can take short breaks and enjoy building new, happy memories. The aim is to buy more and DX will be playing a key role in delivering some or all of the money in the coming year. DX colleagues at all levels undertook a range of fund-raising activities from 1 January 2013 to 31 December 2013, generating £29,855 in donations. Living up to our commitment, DX matched the funds raised. Petar Cvetkovic presented Nikki Scott, founder of Scotty's Little Soldiers, with a cheque for £59,709. DX's contribution in the period covered by the report was £35,437.

For over 15 years we have worked with Vision Aid Overseas ('VAO'), a charity helping adults and children in developing countries gain access to eye care and spectacles. DX has delivered over 25 million pairs of glasses to VAO, now at a rate of more than 3 million per year. We estimate that the value of this service is £50,000 a year. The recycle value for VAO is roughly £200,000 a year (amounting to over £2 million since the start of our relationship with them); this is the equivalent of a fifth of VAO's total revenue. DX also delivers fundraising and promotional material throughout the United Kingdom free of charge.

Finally we also support our Customers and suppliers through donations or gifts to support their chosen charities.

**“The support that DX has provided for this charity over the past 15 years has been absolutely tremendous. I can't emphasize enough how important the partnership is to us.”**

**Jeremy Jalie, Development Director of Vision Aid Overseas**



## Principal risks and uncertainties

### Risk – Letter and parcel volumes in the UK

The market for letters is expected to decline at a reducing rate over the next ten years, offset by an increase in volume in parcels, driven by the dramatic change in consumers' shopping habits.

**Impact** – If the decline of letter volumes in the UK is at a faster rate than forecast or the parcel volume growth rates 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 affect the business of DX, including Customers adopting cheaper service options for the transmission of letters and parcels.

### Mitigation

By seeking to win business in new sectors, developing new services recognising the general move to digital and electronic alternatives and maximising the benefits of the acquisition of DX Freight.

### Risk – The parcel market in which DX operates is highly competitive

**Impact** – The parcel 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 increasing use of 'pick up drop off' points in high street shops and other locations, leading to a reduction in parcel volume delivered by DX.

### Mitigation

By providing high levels of Customer Service at prices that provide Customers with best value, maintaining strong relationships with major Customers and developing new services in response to Customer needs. Increasing the breadth of markets serviced and the penetration within these markets.

### Risk – Operating in a highly regulated environment

**Impact** – Failure to comply could result in financial loss through penalties or damages and reputational damage.

### Mitigation

DX through our Regulatory Affairs department maintains strong relationships with the regulator and forums. This enables DX to keep abreast of all regulatory and legislative changes and maintains controls and processes to ensure full compliance.

### Risk – DX may not be successful in meeting its productivity targets

**Impact** – Performance does not meet the desired targets and DX is exposed by not being able to capitalise on the cost savings. This would impact DX's ability to deliver the financial performance and there may be a materially adverse effect on the business' ability to meet the longer-term strategy.

### Mitigation

DX has implemented and delivered a number of efficiency programmes since 2010 to improve profitability and cash flows. The ongoing strategy is to provide an integrated offering under 'OneDX' with one brand, one network, one Customer proposition and one integrated software platform. The 'OneDX' board was created to manage and monitor progress and to continually evaluate progress and to reprioritise and replan projects and investments accordingly with approval from the Board.



### Risk – DX's IT systems are critical to its business operations

**Impact** – Any material failure in DX's IT applications, systems 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.

### Mitigation

DX has a Business Continuity Plan in the event of IT systems failure and further investment is being made to improve capability. The majority of systems are backed up off-site in disaster recovery facilities. Further protections are in place to defend against attacks to ensure that the systems cannot be breached. These protections are to a level acceptable to government departments. Significant testing in non-live environments is conducted prior to new systems going live.

### Risk – Certain DX consultants and agency workers could be deemed to be employees of DX

**Impact** – 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 is proposing to harmonise employment terms across DX particularly regarding DX Freight employees. There is a risk of employee claims if the harmonisation is not implemented effectively and/or such contractors are determined to be employees, with an adverse effect on DX's operations, financial condition and prospects.

### Mitigation

DX continues to monitor cases to ensure we keep ahead of the legislation and potential claims. Pay and benefits are regularly checked to ensure compliance and are altered where necessary.

By order of the Board

**Petar Cvetkovic**  
Chief Executive Officer  
2 October 2014

## Board



**Bob Holt** <sup>1,2,3</sup>  
**Non-executive Chairman**

Bob is Chairman of Mears Group PLC, the listed support services group focused on social housing and domiciliary care services, in which capacity he oversaw the company's float on AIM and subsequent listing on the Main Market of the London Stock Exchange. He is also Non-executive Chairman of energy procurement and management provider Inspired Energy Plc and is a Director of a number of other businesses.



**Petar Cvetkovic** <sup>3\*</sup>  
**Chief Executive Officer**

Petar has 31 years' experience in the transport and logistics industry, the last four of which have been with DX. Prior to joining DX as CEO Petar held numerous senior roles in the industry including CEO of Target Express, Managing Director of City Link and UK MD of Norbert Dentressangle. Petar is also Non-executive Director of the fast growing online retailer boohoo.com.



**Raquel McGrath** <sup>\*\*</sup>  
**Company Secretary**

Raquel joined DX as Head of Legal and Company Secretary in 2011. Raquel was admitted as a solicitor in 1996. Having trained with Slaughter and May, she joined their Corporate and Commercial team before moving to Australia where Raquel joined Allens in Melbourne and became a Senior Associate in the Energy, Resources and Infrastructure Department.



**Ian Pain** <sup>\*</sup>  
**Chief Financial Officer**

Ian has been working as a CFO in industry for 15 years having qualified as a Chartered Accountant with Price Waterhouse. Ian has spent the last seven years at DX having joined from a specialist manufacturer of labels for the pharmaceutical and agrochemical industries. Prior to becoming a CFO, Ian was a Corporate Finance Manager at Charterhouse Bank and an Investment Director with Prudential Private Equity.



**Paul Murray** <sup>1,2,3</sup>  
**Non-executive Director**

Paul has over 25 years' senior level experience of the transport and logistics industry. Latterly he acted as an adviser to the board of City Link and was Chairman of NetExpress Europe, the pan-European road express specialist which links leading companies in express, freight and logistics. Previous roles have included Chief Executive of Target Express Parcels Ltd, the national express parcels and freight provider and Managing Director of the UK and Ireland operations of Federal Express for over five years.

### Key

- 1 Audit Committee
- 2 Nomination Committee
- 3 Remuneration Committee

\* These Directors are on the Board and the Executive team.

\*\* Raquel McGrath is not a Board member.

## Executive team



**Barrie Childe**  
Chief Operations Officer

Barrie has 30 years of industry experience including senior operations roles within BOC Distribution, Business Post plc and Federal Express. Prior to joining DX he was Managing Director of Viscount Associates Ltd. Barrie has overall responsibility for all operations within DX and for Customer Services.



**Paul Doble**  
Chief Sales and Marketing Officer

Paul is an engineering graduate with an MBA from Henley Management College. Paul has overall responsibility for sales and marketing within DX overseeing the relationship management of 25,000 DX Customers and the development and marketing of DX's services.



**Keith Eden**  
Chief Compliance Officer

Keith has 20 years' experience mainly in financial services transaction processing, outsourcing and mail distribution. He is ACMA qualified and has worked for a number of European subsidiaries of large American corporations. Keith is the Director responsible for Programme and Compliance encompassing fraud detection/prevention, security, internal audit and the overseeing of major change programmes.



**Stuart Godman**  
Chief Strategy Officer

Stuart started his career in 1988 with TNT Express before moving to Target Express. As Sales and Marketing Director he was part of the team that sold the business to Rentokil Initial Plc, in 2006. He stayed on in the combined City Link/Target Express business becoming Managing Director. He joined the DX team in July 2011.



**Kathy Sharkey**  
Chief People Officer

Kathy started her career in retail management and moved into HR seventeen years ago making a transition through the retail, FMCG and medical engineering sectors. Prior to joining DX, Kathy had headed an EMEA HR team for a global handheld technology provider for five years. Kathy is responsible for Colleague Strategy, Colleague Relations, Colleague Support, Vetting, Learning and Development, Colleague Reward and Benefits, including Payroll and Recruitment.



**Mike Sturrock**  
Chief Information Officer

Mike's career has spanned the mobile telephony, new media, television, airline and IT services sectors where he has held a wide range of positions from consulting and Project Management roles to technical architecture and leadership positions. The most recent being heading the broadcast technology division of BSkyB and Head of Technology for easyJet. Mike is responsible for the strategy, delivery and maintenance of all the technology and processes that support the operations of DX.

## Directors' report

Biographical details of the Directors currently serving on the Board are set out on page 24. All of the Directors served on the Board from the Admission of DX (Group) plc to AIM until the date of this report other than Paul Murray who was appointed on 17 July 2014.

During the period from Admission until 17 July 2014 David Hoare served as Non-executive Chairman.

The company's approach to the appointment and replacement of Directors is governed by its Articles (together with relevant legislation) and takes into consideration any recommendations of the Quoted Companies Alliance corporate governance code (QCA Code).

The company's Articles of association, require that all Directors should be subject to election by shareholders at the first annual general meeting 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 annual general meeting, with each Director also being subject to re-election at intervals of not more than three years. As this is the first annual general meeting of the company and in line with best practice, it is proposed that all the Directors of the company should offer themselves for re-election. It is proposed that at subsequent annual general meetings, the retirement by rotation provisions of the company's articles of association will apply. The Board recommends to shareholders the re-election of the Directors, all of whom continue to demonstrate commitment to their respective roles and whose individual performance continues to be effective.

### Results and dividends

The results for the year ended 30 June 2014 are shown on page 41. The group's trading profit for the year was £4.0 million and included eight months of trading with a private equity backed pre-Admission capital structure and four months of trading with the deleveraged and simplified post-Admission structure. The Directors recommend a final dividend of 2p per share be paid on 12 December 2014 to ordinary shareholders on the register of members at the close of business on 14 November 2014. The ex-dividend date will be 13 November 2014.

### Principal activities, risks and review of the business

The group's continuing activities are the provision of post, packets, parcels and freight delivery services in the UK and the Republic of Ireland. The principal activity of the company is that of a holding company.

The Strategic Report set out on pages 2 to 25 provides a fair review of the group's business for the year ended 30 June 2014. 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 Board.

The Board has reviewed the effectiveness of the system of internal control for the year ended 30 June 2014 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 with budgets approved by the Board. 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.

### 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 30 to 37.

### 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.

### Whistleblowing

DX has whistleblowing procedures under which staff 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.

### Corporate responsibility

Information on Corporate Responsibility matters are set out on pages 19 to 21. 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), health and safety, employee rights and gender diversity policies. Further details can also be found on the DX website [www.thedx.co.uk](http://www.thedx.co.uk).

### 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 we operate. In all cases the group fulfils its legal obligations under the Equality Act 2010.

Not only do we ensure that our legal obligations are fulfilled but we strive to surpass these obligations through the implementation of our 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.

The group continues to invest in its colleagues with ongoing programmes which focus on personal performance and learning and development. The group's commitment to colleague development can be demonstrated by 8,083 attendances to Learning and Development events.

Our sales teams have also participated in a Customer focused sales training and coaching programme aimed at increasing their capability which has resulted in an increase in capability scores of 14% for sales colleagues and 8.1% for sales managers.

Our Customer Experience Teams are now based in our Service Centres to ensure that we are meeting the needs of our Customers on a local basis. These colleagues are supported by a specific programme of work-based learning which is a 12 month programme that leads to a national qualification in Customer Service.

In addition, we have launched a pilot apprenticeship scheme within Customer Experience which has resulted in the recruitment of a small number of apprentices who benefit from a work based learning programme which will also lead to the achievement of a national qualification in Customer Service and the opportunity to gain invaluable work experience.

One of our key focuses over the last 12 months has been the legislative requirement for all colleagues who drive vehicles of 7.5 tonnes or over to hold a Driver Certificate of Professional Competence. Over 3,500 training days have been delivered which has resulted in the achievement of over 96% of our drivers gaining this qualification ahead of the Government deadline of September 2014.

All of these programmes have been key to maintaining our focus on our Customer and ensuring that we keep our Customer promise – 'Delivered Exactly'.

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

Since Admission to AIM, most management colleagues have had the opportunity to participate in a Company Share Option Plan and all eligible colleagues in a SAYE, share save scheme both of which provide an opportunity for our colleagues to personally participate in the success of our business. Further details are set out in the Directors' Remuneration Report on pages 34 to 37.

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. Monthly news bulletins are distributed throughout the group and a quarterly newspaper is produced with a mixture of business and colleague news.

### Labour turnover 35.7%

Labour turnover reported includes DX Freight and therefore is not comparable to prior year's figures. A significant proportion of those colleagues we have not retained were involuntary leavers as part of location changes and consolidations made to meet current and future Customer needs.

## Directors' report continued

### 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:

Shareholder	Shares held	%
Fidelity Worldwide Investment	19,158,280	9.55
Henderson Global Investors	18,015,388	8.98
Schroder Investment Mgt	17,660,340	8.81
J O Hambro Capital Management	13,365,873	6.67
AXA Framlington	10,462,183	5.22
Standard Life Investments	10,163,660	5.07
BlackRock Investment Mgt (UK)	9,657,326	4.82
Ruffer LLP	8,799,900	4.39
Miton Group plc	8,130,677	4.05
Liontrust Asset Management	7,498,407	3.74
Unicorn Asset Management	7,420,284	3.70

Per shareholder register as at 30 September.

### Share capital

Details of the company's share capital are set out in note 19 to the consolidated 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 at 27 February 2014 (date of Admission) or date of appointment if later and 30 June 2014 is set out in the Directors' Remuneration Report on page 35.

No Director had any dealings in the shares of the company between 30 June 2014 and 1 October 2014.

Each of the Executive Directors has undertaken with the company's Nominated Advisor and Broker, Zeus Capital, not to dispose of any of the ordinary shares in which he was interested at Admission within 12 months of Admission ('the Lock-Up Period') other than through Zeus Capital subject to certain customary covenants. In addition, each of the Executive Directors has undertaken with Zeus Capital not to dispose of any of the ordinary shares during the period from the Lock-Up Period until the date falling 12 months from the date of expiry of the Lock-Up Period unless:

- the relevant Executive Director had given Zeus Capital at least five business days' notice of the proposed disposal;
- Zeus Capital has given its prior written consent to the proposed disposal; and
- the proposed disposal is brokered through Zeus Capital on a best execution basis.

### Director indemnities and insurance

In accordance with the Companies Act 2006 and the company's Articles of Association, 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 2014 amounted to £35,437 (2013: £6,700), of which £15,500 (2013: £nil) was donated to Scotty's Little Soldiers under an agreement whereby the group matches funds raised by the group's colleagues.

No payments were made to political parties (2013: £nil).

### Directors' Responsibilities Statement

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

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 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 and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 Directors, whose names and functions are listed on page 24 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 auditors are aware of that information.

By order of the Board

**Ian Pain**  
Chief Financial Officer  
2 October 2014

## Chairman's introduction to corporate governance



**Dear Shareholder,**

### **Principles of corporate governance**

At DX, we hold the principles of corporate governance in the highest regard. In particular we value honesty, transparency and fairness within DX and in our relationships with our Customers and suppliers.

As a company traded on AIM, DX is not required to comply with the UK Corporate Governance Code. However, the Board recognises the importance of the principles set out in the Corporate Governance Code and DX applies the principles as far as the Board considers appropriate for a company of its size and nature in accordance with the Quoted Companies Alliance corporate governance code (the QCA Code). We believe this provides a firm foundation for the successful growth of DX.

The executive management of DX is led by Petar Cvetkovic, Chief Executive Officer and, under my leadership, the Board reviews performance and implementation of strategy with an emphasis on accountability to shareholders.

The composition of the Board reflects an appropriate blend of different experience and backgrounds with the requisite knowledge of DX and the logistics market to provide an independent and objective view.

**Bob Holt**  
Chairman



## Governance reports

### Introduction

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 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's meetings (in consultation with the Chief Executive) 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, he 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 apprised in a timely manner of any material events and developments.

The Board comprises the Non-executive Chairman (currently Bob Holt, this position was served by David Hoare from Admission until 17 July 2014), two Executive Directors and one Non-executive Director. The Non-executive Director constructively challenges and helps to develop DX's strategy.

Details of each Director's background and experience can be found on page 24. The Board's mix of skills and business experience ensures an informed review and debate of performance and strategy.

The Board plans to appoint an additional Non-executive Director within the next financial year to further support the Board.

### 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 set DX's strategy. 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 have a fully informed discussion. The Board ensures that the necessary resources are in place to achieve DX's strategic priorities. The Board is committed to the regular review of DX's framework of internal controls to ensure the highest standard of corporate governance is achieved having regard to available resources. The key responsibilities of the Board (as set out in the Schedule of Matters Reserved for the Board adopted on listing) 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 policy 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.

Day-to-day operational and financial management is delegated to DX's Executive Team (on which both Executive Directors sit). The Executive Team also meets monthly and provides the Board with detailed monthly reports. Details on the background of each member of the Executive Team can be found on page 25.

## Governance reports continued

### Operation of the Board

The Board meets monthly and between Admission to AIM and 30 June 2014 five scheduled Board meetings were held. 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 (post-Admission until 30 June 2014)	Scheduled Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
David Hoare	4/5	1/1	1/1	1/1
Bob Holt	4/5	1/1	1/1	1/1
Petar Cvetkovic	5/5	n/a	1/1	n/a
Ian Pain	5/5	n/a	n/a	n/a

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

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 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 Audit Committee, the Remuneration Committee and the Nomination Committee. Each Committee operates according to its own terms of reference (available on [www.thedx.co.uk](http://www.thedx.co.uk)).

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 auditors 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 our operations and management. The 2014 AGM will be held on 4 November at 10.00am. The notice of the meeting is enclosed. It is also available to download from [www.thedx.co.uk](http://www.thedx.co.uk).

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.

The Directors are also able to meet shareholders or to respond to questions throughout the year upon request. The principal methods of communication with private investors remain the Annual Report and Accounts, the interim statements and DX's website ([www.thedx.co.uk](http://www.thedx.co.uk)). The website 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 Advisor and Broker).

## Audit Committee report

The members of the Audit Committee are the two Independent Non-Executive Directors. During the financial year to 30 June 2014, David Hoare was the Chair of the Audit Committee and Bob Holt was the other member. The Board is confident that the collective experience of the Audit Committee members enables 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 auditors.

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;
- to report and review to the Board on significant financial reporting issues and judgements which they 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.

During the year to 30 June 2014, the Audit Committee reviewed and endorsed the half-year financial statements and results announcements.

### 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 2014, 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 auditors at the next Annual General Meeting.

### 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 auditors present their findings to the Audit Committee for discussion. No major areas of concern were highlighted by the auditors during the year.

### 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.

## Directors' remuneration report

(including the Remuneration Committee report)

This is DX's first Directors' remuneration report since the company was Admitted to AIM in February 2014. The Board has delegated certain responsibilities for executive remuneration to the Remuneration Committee. Details of the Remuneration Committee, its remit and activities are set out below.

### Report from the Remuneration Committee

The Remuneration Committee is chaired by Bob Holt and has Paul Murray and Petar Cvetkovic as its other members. Any other attendees are at the invitation of the Committee Chairman only and will usually include the Chief People Officer and the Company Secretary. The Remuneration Committee meets according to DX's requirements (at least twice a year). There was one meeting held between Admission and 30 June 2014. 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 acts in accordance with the Committee's Terms of Reference (available on [www.thedx.co.uk](http://www.thedx.co.uk)), and accordingly, no Director may participate in discussions relating to their own terms and conditions of service or remuneration.

The main duties of the Remuneration Committee include the following:

- setting the remuneration policy for the Directors;
- in determining such policy, to take into account relevant legal and regulatory requirements, and the provisions and recommendations of the QCA Code, the QCA's Remuneration Committee Guide and associated guidance;
- recommending and monitoring the level and structure of remuneration for the Executive Team;
- when setting the remuneration policy for Executive Directors, to review and have regard to pay and employment conditions across the group;
- to review the ongoing appropriateness, relevance, and revisions of the remuneration policy;
- to appoint and determine the terms of reference for any remuneration consultants who advise the Committee;
- to approve the design of and determine the targets for any schemes of performance-related remuneration and approve the total remuneration paid under such schemes;
- to review the design of all share incentive plans for approval by the Board and shareholders;
- to determine the policy and scope of pension arrangements for Executive Directors and other designated senior executives;
- to oversee any major changes in employee benefits structure throughout the group;

- to agree the policy for authorising claims for expenses from the Executive Directors and Chairman; and
- to review and approve any material termination payment.

The main items of business considered by the Remuneration Committee during the period from Admission to AIM to 30 June 2014 included:

- remuneration strategy and policy;
- salary reviews for Executive Directors and the Executive Team; and
- the proposal to establish an Employee Benefit Trust in FY15.

There were no changes to the Directors' remuneration in the period from Admission to 30 June 2014. No change to DX's remuneration policy is anticipated in the coming financial year.

### Remuneration policy

The Committee recognises the importance of ensuring that employees of DX are effectively and appropriately incentivised and that their interests align with those of DX and its shareholders. Similarly, the Committee believes that the ongoing success of DX depends to a high degree on attracting, retaining and incentivising the performance of the Executive Directors and the Executive Team. This supports the strategic aims of the business and aligns with shareholder interests.

DX's policy on Directors' remuneration is to provide salaries which are fair and reasonable in comparison with companies of a similar size in the logistics industry and other similar industries and which will, as a result attract, retain and motivate the right people. The Committee takes into account each executive's individual performance and overall contribution to the business during the year.

Each of the Executive Directors has an ongoing service agreement with DX Network Services Limited.

Petar Cvetkovic (Chief Executive Officer) receives an annual salary of £500,000.

Ian Pain (Chief Financial Officer) receives an annual salary of £320,000.

These salaries are fully inclusive of benefits.

Each of the Executive Directors is eligible to participate in a discretionary annual bonus scheme, with the potential to receive bonus payments up to a maximum of 100% of salary. Any bonus payments are decided by the Board and subject to such conditions and EBITDA and/or KPI targets as the Board may determine. Bonuses are currently based on service, personal performance and achievement of the group's strategic objectives and financial targets.

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 three share plans on Admission.

The share plans adopted by DX are made up of three incentive arrangements:

- (1) the DX (Group) plc Value Creation Plan ('VCP'), which will reward the Executive Team in the event that shareholder value is created;
- (2) the SAYE Plan, which is an HMRC approved scheme under which options over ordinary shares were offered to all employees of DX who had been employed for the relevant qualifying period; and
- (3) the CSOP, which is also an HMRC approved scheme, under which selected management were granted market value options over ordinary shares. The CSOP also has an unapproved schedule under which options were granted in excess of the HMRC approved scheme limit.

The policy on payment for loss of office is set out in the Service Agreements for the Executive Directors with a fixed maximum termination period of 12 months. Non-Executive Directors have Appointment letters each with a term of three years (subject to re-election at the AGM) and a fixed maximum termination period of three months.

Any payments made to the Executive Directors through the DX bonus scheme are at the discretion of the Board and are made in line with the scheme rules which apply equally to all colleagues regardless of level and must be approved by the Remuneration Committee. Only the Remuneration Committee can authorise Executive termination payments.

The company's policy on the setting of notice periods under the Directors' Service Agreements is considered to be in line with external market trends and will be reviewed by role to protect the company's knowledge and operations. Notice payments are based upon the reference salary contained within Service Agreements.

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; DX does not reward poor performance.

Remuneration benchmarking was undertaken for a variety of operational and sales positions during the last financial period.

#### Performance evaluation

DX has not undertaken a formal evaluation of the Board or its Committees in the period from listing until 30 June 2014 but the Board will consider conducting a formal evaluation during the next financial year. The performance of the Executive Directors is reviewed annually in accordance with DX's Personal Performance Plan system. Under the Personal Performance Plans all employees have documented reviews of performance against objectives and development opportunities based on a 1-5 scale, with 5 being 'far exceeds expectations'. Ratings of 2 or below are regarded as under performance and therefore trigger exclusion from the discretionary bonus scheme.

#### Directors' shareholdings

The Directors who held office at 30 June 2014 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 2014
Petar Cvetkovic	2,594,593
Ian Pain	932,001
David Hoare	878,729
Bob Holt	100,000

The market price of ordinary shares on 30 June 2014 was £1.25 and the range during the period from Admission to 30 June 2014 was from £1.22 to £1.44.

## Directors' remuneration report continued

(including the Remuneration Committee report)

### Directors' remuneration tables

The total remuneration of the Directors for the four months to 30 June 2014 is set out in the remuneration table below:

#### Executive Directors

Director	Fixed remuneration		Variable remuneration	
	Base salary £	Other taxable benefits £	Bonus £	Total remuneration £
Petar Cvetkovic <sup>1</sup>	166,667	-	166,667	333,334
Ian Pain <sup>1</sup>	106,667	-	106,667	213,334
	<b>273,334</b>	<b>-</b>	<b>273,334</b>	<b>546,668</b>

<sup>1</sup> Appointed 29 January 2014.

#### Non-executive Directors

Director	Base fee £	Additional fee £	Total £	Basis for additional fee
David Hoare <sup>1,2</sup>	32,815	n/a	32,815	n/a
Bob Holt <sup>1</sup>	17,842	n/a	17,842	n/a
	<b>50,657</b>		<b>50,657</b>	

<sup>1</sup> David Hoare and Bob Holt were appointed on 27 February 2014 for a three-year term (subject to re-election at the AGM).

<sup>2</sup> David Hoare was Chairman of the former DX parent company prior to Admission. He resigned from this post and received £187,500 in compensation for loss of office (paid in the four months to 30 June 2014). On 17 July 2014, he resigned as a Non-executive Director of DX (Group) plc.

#### Directors' bonuses

Director	Four months to 30 June 2014		Year to 30 June 2014	
	Base salary £	Max bonus potential £	Base salary £	Max bonus potential £
Petar Cvetkovic	166,667	166,667	500,000	333,334
Ian Pain	106,667	106,667	286,581	196,648
	<b>273,334</b>	<b>273,334</b>	<b>786,581</b>	<b>529,982</b>

#### Other paid Directorships held by the Executive Directors

Petar Cvetkovic also serves as a Non-executive Director of boohoo.com plc and receives a fee of £40,000 per annum which he retains.

#### Value creation plan (VCP)

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.

The A ordinary shareholders are only entitled to realise any value from their A ordinary shares if pre-determined value hurdles are exceeded and after the expiry of minimum holding periods described below (referred to as 'Vesting Period'). The value hurdles are detailed in the DX (VCP) Limited share rights and are linked to the market capitalisation of the Group. The A ordinary shareholders will, to the extent that the hurdle has been exceeded, be able to realise value by disposing of their A Shares to the company following publication of the company's financial results for the year ending 30 June 2017. The A ordinary shareholders also have the opportunity to dispose of 50% of their shares at an earlier date (on the publication of the results for the year ended 30 June 2016) but the ability to dispose at this earlier date is subject to the company share price having hit a pre-determined target. The company has the choice as to whether to settle the disposal in cash or by the issue of shares in the company. The company's current intention is to issue shares in the company.

Retaining ownership of the A Shares is conditional on continuing employment. Specific rules will apply if the employee ceases employment during the Vesting Period.

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' shareholdings in DX (VCP) Limited at 30 June 2014 are as follows:

Director	A ordinary shares of £0.01 each	B ordinary shares of £0.01 each
Petar Cvetkovic	34	500
Ian Pain	30	500

A ordinary shares in DX (VCP) Limited carry no voting rights; B ordinary shares entitle the holders to 10% of the voting rights in that company.

Further details of the scheme are provided above and in note 27 to the accounts.

#### Directors' interests in all share plans (excluding VCP)

No Directors held options under the company's CSOP and SAYE schemes.

#### Long-term incentive plans and share option awards

##### Company share option plan ('CSOP')

On 26 February 2014 the company approved a share option plan that entitles key management personnel and senior employees to purchase shares in the company, further details of which are provided in note 27 to the accounts. As at 30 June 2014, the plan entitled holders of vested options to purchase shares at the market price of the shares at the date of the grant. Options were initially granted to 166 employees over 4,590,000 shares. At 30 June 2014, 22 options (140,000 shares) had lapsed.

##### SAYE scheme

The company approved its SAYE scheme on 26 February 2014, further details of which are provided in note 27 to the accounts. Out of a total of 591 eligible employees, 565 participated in the SAYE scheme as at 30 June 2014. The company aims to open two windows a year for employees to enter the scheme.

This report was approved by the Board and signed on its behalf by:

**Petar Cvetkovic**  
Chief Executive Officer  
2 October 2014

## Nomination Committee report

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

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) of the Board;
- 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 and Chief Executive 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 Code or the retirement by rotation provisions in DX's articles of association;
- 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.



## Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

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 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 and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Independent auditor's report

to the Members of DX (Group) plc

We have audited the financial statements of DX (Group) plc for the year ended 30 June 2014 set out on pages 41 to 74. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

### Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 39, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2014 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with 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.

### Opinion on other matter prescribed by the Companies Act 2006

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

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

### Derek McAllan (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor Chartered Accountants

Arlington Business Park  
Theale  
Reading  
RG7 4SD

2 October 2014

## Consolidated statement of comprehensive income

for the year ended 30 June 2014

	Notes	2014			2013
		Trading £m	Exceptional items £m	Total £m	£m
<b>Revenue</b>	5	<b>312.0</b>	-	<b>312.0</b>	305.7
Operating costs	6	(284.9)	(13.6)	(298.5)	(280.3)
<b>Results from operating activities</b>		<b>27.1</b>	<b>(13.6)</b>	<b>13.5</b>	25.4
<b>Analysis of results from operating activities</b>					
Earnings before interest, tax, depreciation and amortisation (EBITDA)		34.4	-	34.4	34.4
Depreciation		(3.1)	-	(3.1)	(3.2)
Amortisation		(4.2)	-	(4.2)	(3.6)
Exceptional items	9	-	(13.6)	(13.6)	(2.2)
<b>Results from operating activities</b>		<b>27.1</b>	<b>(13.6)</b>	<b>13.5</b>	25.4
Finance income	10	0.7	0.8	1.5	1.4
Finance expense	10	(20.7)	(50.0)	(70.7)	(28.7)
<b>Net finance costs</b>		<b>(20.0)</b>	<b>(49.2)</b>	<b>(69.2)</b>	(27.3)
Third party	10	(5.2)	-	(5.2)	(8.7)
Former shareholder related	10	(14.8)	(49.2)	(64.0)	(18.6)
<b>Net finance costs</b>		<b>(20.0)</b>	<b>(49.2)</b>	<b>(69.2)</b>	(27.3)
<b>Profit/(loss) before tax</b>		<b>7.1</b>	<b>(62.8)</b>	<b>(55.7)</b>	(1.9)
Tax income/(expense)	11	(3.1)	3.8	0.7	(1.7)
<b>Profit/(loss) for the period</b>		<b>4.0</b>	<b>(59.0)</b>	<b>(55.0)</b>	(3.6)
<b>Other comprehensive income:</b>					
Foreign currency translation differences		-	-	-	0.1
<b>Other comprehensive income, net of tax</b>		<b>-</b>	<b>-</b>	<b>-</b>	0.1
<b>Total comprehensive income/(expense) for the period</b>		<b>4.0</b>	<b>(59.0)</b>	<b>(55.0)</b>	(3.5)
<b>Statutory earnings per share (pence):</b>					
Basic	21	5.1	(75.3)	(70.2)	(22.9)

The notes on pages 47 to 74 form part of these financial statements.

# Consolidated statement of financial position

as at 30 June 2014

	Notes	2014 £m	2013 £m
<b>Non-current assets</b>			
Property, plant and equipment	13	18.7	18.7
Intangible assets and goodwill	14	197.7	198.3
Loans to former group companies	15	-	9.8
Deferred tax assets	24	1.2	-
<b>Total non-current assets</b>		<b>217.6</b>	226.8
<b>Current assets</b>			
Trade and other receivables	17	49.2	49.9
Cash and cash equivalents	18	1.1	30.2
<b>Total current assets</b>		<b>50.3</b>	80.1
<b>Total assets</b>		<b>267.9</b>	306.9
<b>Equity</b>			
Share capital	19	2.0	0.2
Share premium	20	181.4	-
Reverse acquisition reserve	20	280.0	142.2
Other reserves	20	0.1	0.1
Retained earnings	20	(281.5)	(226.5)
<b>Total equity</b>		<b>182.0</b>	(84.0)
<b>Non-current liabilities</b>			
Loans and borrowings:			
Third party	22	8.4	152.0
Mezzanine instrument	22	-	20.1
Loans from former group companies	22	-	131.3
		<b>8.4</b>	303.4
Other creditors		-	0.3
Provisions	23	7.3	8.9
Deferred tax liabilities	24	-	1.6
<b>Total non-current liabilities</b>		<b>15.7</b>	314.2
<b>Current liabilities</b>			
Current tax liabilities		0.8	-
Loans and borrowings - third party	22	4.5	10.4
Trade and other payables	25	36.9	37.1
Deferred income		28.0	29.2
<b>Total current liabilities</b>		<b>70.2</b>	76.7
<b>Total liabilities</b>		<b>85.9</b>	390.9
<b>Total equity and liabilities</b>		<b>267.9</b>	306.9

The financial statements were approved by the Board on 2 October 2014 and signed on its behalf by:

**Petar Cvetkovic**  
Chief Executive Officer

**Ian Pain**  
Chief Financial Officer

The notes on pages 47 to 74 form part of these financial statements.

## Company statement of financial position

as at 30 June 2014

	Notes	2014 £m
<b>Non-current assets</b>		
Investments	15	198.6
		<b>198.6</b>
<b>Current assets</b>		
Other receivables	17	0.4
Total current assets		<b>0.4</b>
<b>Total assets</b>		<b>199.0</b>
<b>Equity</b>		
Share capital	19	2.0
Share premium	20	181.4
Retained earnings	20	5.3
<b>Total equity</b>		<b>188.7</b>
<b>Non-current liabilities</b>		
Loans and borrowings - third party	22	8.4
Total non-current liabilities		<b>8.4</b>
<b>Current liabilities</b>		
Current tax liabilities		<b>0.3</b>
Loans and borrowings - third party	22	1.2
Trade and other payables	25	0.4
Total current liabilities		<b>1.9</b>
<b>Total liabilities</b>		<b>10.3</b>
<b>Total equity and liabilities</b>		<b>199.0</b>

The financial statements were approved by the Board on 2 October 2014 and signed on its behalf by:

**Petar Cvetkovic**  
Chief Executive Officer

**Ian Pain**  
Chief Financial Officer

The notes on pages 47 to 74 form part of these financial statements.

## Consolidated statement of changes in equity

for the year ended 30 June 2014

	Notes	Share capital £m	Share premium £m	Reverse acquisition reserve £m	Translation reserve £m	Retained earnings £m	Total £m
At 1 July 2012		0.2	-	142.2	-	(222.9)	(80.5)
<b>Total comprehensive (expense)/ income for the year</b>							
Loss for the year		-	-	-	-	(3.6)	(3.6)
Total other comprehensive income		-	-	-	0.1	-	0.1
Total comprehensive expense for the year		-	-	-	0.1	(3.6)	(3.5)
At 30 June 2013		0.2	-	142.2	0.1	(226.5)	(84.0)
<b>Total comprehensive expense for the year</b>							
Loss for the year		-	-	-	-	(55.0)	(55.0)
Total comprehensive expense for the year		-	-	-	-	(55.0)	(55.0)
<b>Transactions with owners of the company, recognised directly in equity</b>							
Issue of shares	19	1.8	183.2	-	-	-	185.0
Capital reconstruction	20	-	-	137.8	-	-	137.8
Share issue expenses	20	-	(1.8)	-	-	-	(1.8)
Total transactions with owners of the company		1.8	181.4	137.8	-	-	321.0
<b>At 30 June 2014</b>		<b>2.0</b>	<b>181.4</b>	<b>280.0</b>	<b>0.1</b>	<b>(281.5)</b>	<b>182.0</b>

The notes on pages 47 to 74 form part of these financial statements.

## Company statement of changes in equity

for the year ended 30 June 2014

	Notes	Share capital £m	Share premium £m	Retained earnings £m	Total
On incorporation		-	-	-	-
<b>Total comprehensive income for the year</b>					
Profit for the year		-	-	5.3	5.3
Total comprehensive income for the year		-	-	5.3	5.3
<b>Transactions with owners of the company, recognised directly in equity</b>					
Issue of shares	19	2.0	183.2	-	185.2
Share issue expenses	20	-	(1.8)	-	(1.8)
Total transactions with owners of the company		2.0	181.4	-	183.4
<b>At 30 June 2014</b>		<b>2.0</b>	<b>181.4</b>	<b>5.3</b>	<b>188.7</b>

The notes on pages 47 to 74 form part of these financial statements.

# Consolidated statement of cash flows

for the year ended 30 June 2014

	Notes	2014 £m	2013 £m
<b>Cash flows from operating activities</b>			
Loss for the period		(55.0)	(3.5)
Exceptional items:			
- Non-cash finance costs		49.2	-
- Gain on sale of DX Business Direct		(1.1)	-
- Impairment charges		10.0	-
- Gain on debt buy back		(0.8)	-
<b>Cash flow before exceptional items</b>		<b>2.3</b>	(3.5)
Adjustments for non-cash items:			
- Depreciation		3.1	3.2
- Amortisation of intangible assets		4.2	3.6
- Non-cash finance costs		16.9	20.8
- Gain on sale of property, plant and equipment		(0.1)	(0.4)
- Tax expense		(0.7)	(2.1)
<b>Net cash profit</b>		<b>25.7</b>	21.6
Changes in:			
- Trade and other receivables		3.0	6.5
- Trade and other payables		(1.9)	2.5
- Deferred income		(1.1)	1.3
- Provisions		(1.9)	(3.0)
<b>Net change in working capital</b>		<b>(1.9)</b>	7.3
<b>Cash generated from operating activities</b>		<b>23.8</b>	28.9
<b>Cash flows from investing activities</b>			
Proceeds from sale of DX Business Direct		2.5	-
Proceeds from sale of property, plant and equipment		0.3	0.8
Part refund of DX Freight Limited purchase price		-	0.4
Acquisition of property, plant and equipment		(5.0)	(3.4)
Acquisition of Customer relationships		(0.3)	-
Development expenditure		(3.7)	(3.9)
<b>Net cash used in investing activities</b>		<b>(6.2)</b>	(6.1)
<b>Net increase in cash before financing activities</b>		<b>17.6</b>	22.8
<b>Cash flows from financing activities</b>			
Issue of shares		185.0	-
New bank loans		10.0	-
Repayment of bank borrowings		(155.9)	(7.8)
Repayment of mezzanine instrument		(79.0)	-
Repayment of mortgage facility		(3.1)	(0.3)
Payment of finance lease liabilities		(0.7)	(1.4)
Movement on invoice discounting facilities		(4.1)	(2.9)
Share issue expenses		(1.8)	-
Loan issue costs		(0.4)	-
<b>Net cash used in financing activities</b>		<b>(50.0)</b>	(12.4)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(32.4)</b>	10.4
Cash and cash equivalents at beginning of period		30.2	19.8
<b>Cash and cash equivalents at end of period</b>	18	<b>(2.2)</b>	30.2

The notes on pages 47 to 74 form part of these financial statements.



# Notes to the financial statements

for the year ended 30 June 2014

## 1 Reporting entity

The principal activity of DX (Group) plc ('the company') and its subsidiaries (together, the group or DX) is the provision of mail, packets, parcels and freight delivery services. The company is incorporated and domiciled in the United Kingdom. The address of its registered office is: DX House, Ridgeway, Iver, Buckinghamshire SL0 9JQ. The registered number of the company is 08696699.

## 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 consolidated financial statements were authorised for issue by the Board on 2 October 2014.

### 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 Chief Executive Officer's review on pages 6 and 11, the Chief Financial Officer's review on pages 14 to 18, and the Directors' Report on pages 26 to 29. 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.

The current economic conditions create uncertainty, particularly over the level of demand for the group's services. The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that it has no requirement for any additional short-term borrowing facilities and that there is headroom against the group's banking covenants.

After careful consideration the Directors have a reasonable expectation that the company and the group will have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

### Capital structure

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 13 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, at the time, 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, DX Group Limited). As a result of these acquisitions DX (Group) plc is now 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.

# Notes to the financial statements continued

for the year ended 30 June 2014

## 2 Basis of preparation continued

The acquisitions of DX Holdings Limited and DX Secure Mail Limited and their subsidiaries have been accounted for using the principles of reverse acquisition accounting. Therefore the financial statements as at and for the year ended 30 June 2014 are prepared as a continuation of the financial statements of these two companies and their subsidiaries. The comparative numbers presented in the consolidated financial statements are an aggregation of those reported in the financial statements as at and for the year ended 30 June 2013 for DX Holdings Limited and DX Secure Mail Limited and their subsidiaries.

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

## 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.

### 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 the power to govern the financial and operating policies generally accompanying a shareholding of more than one 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 (CODM). The CODM, who is responsible for allocating resources and assessing performance of operating segments, has been identified as the Board.

### 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.

### 3 Significant accounting policies continued

#### 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.

Exchange subscription income invoiced in advance is deferred and recognised as revenue 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.

All other turnover is recognised as the service to which it relates is rendered.

#### 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 and buildings:	
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.

#### 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 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.

## Notes to the financial statements continued

for the year ended 30 June 2014

### 3 Significant accounting policies continued

#### 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 uncollectible, 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.

#### Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Gains or losses on derivatives are recognised in the statement of comprehensive income in the year in which they occur.

#### Leases

Leases are classified as finance leases when the terms of the lease transfers 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.

#### 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

### 3 Significant accounting policies continued

#### 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. 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.

# Notes to the financial statements continued

for the year ended 30 June 2014

## 3 Significant accounting policies continued

### 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 lowest level of goodwill for which there are separately identifiable cash flows (cash-generating units) that can reasonably be assessed is for the group as a whole. 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) Impairment of trade receivables:

The assessments undertaken in recognising provisions and contingencies have been made in accordance with IAS 39. 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 is impaired.

#### (c) 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.

### 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. Under the interest rate swaps, the group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

### 3 Significant accounting policies continued

The group's swap arrangements expired on 31 July 2013 and were not renewed 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 a revolving credit 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, purchase debt at less than face value or sell assets to reduce debt. The group's capital is not restricted.

### 4 New standards and interpretations not yet adopted

The following standards are in issue but not yet effective and have not been adopted by the group:

- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities – provides clarification on the application of offsetting rules.
- IFRS 10 Consolidated Financial Statements – builds on existing principles by highlighting the concept of control as the determining factor on whether an entity should form part of the consolidated financial statements.
- IFRS 12 Disclosure of Interests in Other Entities – includes disclosure requirements for all forms of interest in other entities.
- Amendments to IFRS 10, 12 and IAS 27 Investment Entities – includes provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
- Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets – aligns the disclosure requirements of IAS 36 following the issuance of IFRS 13. It is intended that disclosures around recoverable amount will be required when that amount is based on fair value less costs of disposal, and discount rates when present value techniques have been used in assessing recoverable amount.
- IFRIC 21 Levies – clarifies when to recognise a liability to pay a government levy that is accounted for in accordance with IFRS 37.
- IFRS 9 Financial Instruments (2009 and 2010) – not yet endorsed by the European Union. It will eventually replace IAS 39 but currently only details the requirements for recognition and measurement of financial assets.

The group has not completed its assessment of the impact of these pronouncements but the implementation of these new standards is not expected to have a material impact on the consolidated results, financial position or cash flows of the group.

## Notes to the financial statements continued

for the year ended 30 June 2014

### 5 Segment information

	2014 £m	2013 £m
<b>Revenue:</b>		
Parcels and freight	163.6	162.6
Mail and packets	116.1	119.2
Logistics	32.3	23.9
	<b>312.0</b>	<b>305.7</b>
Profit before interest, tax, depreciation and amortisation (EBITDA)	34.4	34.4
Depreciation and amortisation	(7.3)	(6.8)
Exceptional items	(13.6)	(2.2)
<b>Results from operating activities</b>	<b>13.5</b>	<b>25.4</b>
Finance charges (net) – third party	(5.2)	(8.7)
Finance charges (net) – former shareholder related	(64.0)	(18.6)
<b>Loss before tax</b>	<b>(55.7)</b>	<b>(1.9)</b>

The Board is considered to be 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

	2014 £m	2013 £m
Other external charges	180.9	168.0
Employee benefit expense (see note 8)	84.5	91.3
Depreciation and other amounts written-off property, plant and equipment:		
Owned assets	3.1	2.6
Leased assets	-	0.6
Amortisation of intangible assets	4.2	3.6
Profit on sale of property, plant and equipment	(0.1)	(0.4)
Hire of plant – other rentals	1.2	1.2
Other operating lease rentals (including land and buildings)	15.8	13.4
Other operating income	(1.1)	-
Impairment charges	10.0	-
<b>Total operating costs</b>	<b>298.5</b>	<b>280.3</b>
Trading activities	284.9	278.1
Exceptional items (see note 9)	13.6	2.2
<b>Total operating costs</b>	<b>298.5</b>	<b>280.3</b>



## 6 Operating costs continued

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

	2014 £000	2013 £000
Fees payable to the company's auditor for the audit of the company's annual accounts	33	13
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	82	87
Total audit fees	115	100
Other services pursuant to legislation:		
- Tax services	44	84
- Admission to Alternative Investment Market	670	-
- Disposal of DX Business Direct	20	-
Total non-audit fees	734	84
<b>Total fees</b>	<b>849</b>	<b>184</b>

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

	2014 £000	2013 £000
Emoluments	1,431	1,211
Compensation for loss of office	188	-
	<b>1,619</b>	<b>1,211</b>

### Amounts accrued under money purchase pension schemes

No Director accrued benefits under money purchase schemes in the current or previous periods.

### Highest paid Director

	2014 £000	2013 £000
Emoluments	867	785

Details of transactions with Directors are disclosed in note 30.

## Notes to the financial statements continued

for the year ended 30 June 2014

### 8 Employee benefit expense

	2014 £m	2013 £m
Wages and salaries	76.9	83.2
Social security costs	6.6	7.4
Other pension costs	1.0	0.7
	84.5	91.3

Average number of persons employed (including Executive Directors):

	2014 Number	2013 Number
Sales and marketing	131	153
Operations networks	2,860	3,326
Management and administration	367	390
	3,358	3,869

### 9 Exceptional items

	2014 £m	2013 £m
Restructuring costs	4.7	2.1
Impairment charges	10.0	-
Gain on disposal of DX Business Direct	(1.1)	-
DX Freight Limited acquisition costs	-	0.1
	13.6	2.2

#### Restructuring costs

The group acquired DX Freight Limited (formerly known as Nightfreight) in March 2012 and commenced a programme of improving the operating efficiency of that company and integrating its activities into those of the group. Costs of £4.7 million (2013: £2.1 million) were incurred during the year on this programme.

#### Impairment charges

Following the capital reorganisation explained in note 16 prior to the company's Admission to the AIM market of the London Stock Exchange an amount of £10.0 million (2013: £9.8 million) was owed to the group by its former ultimate parent undertaking. As that company has no assets following the reorganisation this amount has been fully impaired in the year ended 30 June 2014 (2013: £nil).

#### Gain on disposal of DX Business Direct

On 21 December 2013 the group completed the disposal of the trade and assets of the DX Business Direct trading activity. The consideration for the disposal was £5.5 million, of which £3.0 million was received on completion and £0.6 million in July 2014. A further £0.6 million and £1.25 million is receivable in September and December 2014 respectively.

The net profit on the disposal was £1.1 million (2013: £nil).

## 10 Finance income and expense

	2014 £m	2013 £m
<b>Third party interest</b>		
<b>Interest payable</b>		
Interest on bank loans	4.7	7.8
Other interest	0.3	0.6
Amortisation of financing costs	0.5	0.7
	<b>5.5</b>	<b>9.1</b>
<b>Interest receivable</b>		
Bank interest	0.3	0.4
<b>Net third party interest</b>	<b>5.2</b>	<b>8.7</b>
<b>Former shareholder related</b>		
<b>Interest payable</b>		
Mezzanine instrument - amortised cost	9.8	11.0
Interest payable to former group companies	5.4	8.6
	<b>15.2</b>	<b>19.6</b>
<b>Interest receivable</b>		
Interest receivable from former group companies	0.4	1.0
<b>Net shareholder related interest</b>	<b>14.8</b>	<b>18.6</b>
<b>Net finance costs - excluding exceptional costs</b>	<b>20.0</b>	<b>27.3</b>
Finance income	(0.7)	(1.4)
Finance costs	20.7	28.7
<b>Net finance costs - excluding exceptional costs</b>	<b>20.0</b>	<b>27.3</b>
<b>Exceptional costs</b>		
<b>Third party interest</b>		
Financing costs written-off on debt repayment	0.8	-
Gain on debt buy back (see below)	(0.8)	-
Total third party interest	-	-
<b>Former shareholder related</b>		
<b>Interest payable</b>		
Mezzanine instrument - exceptional charge	49.2	-
<b>Net finance costs - exceptional costs</b>	<b>49.2</b>	<b>-</b>
<b>Finance income</b>	<b>(0.8)</b>	<b>-</b>
<b>Finance costs</b>	<b>50.0</b>	<b>-</b>
<b>Net finance costs - exceptional costs</b>	<b>49.2</b>	<b>-</b>

During the year ended 30 June 2014 the group negotiated to purchase some of its pre-Admission bank debt at a discount to par value. £10.8 million of debt was purchased for a cash cost of £10.0 million, realising a gain of £0.8 million (2013: £nil).

The mezzanine instrument was originally recognised at a fair value of £nil at the date of transition to IFRSs, 1 July 2010. Finance charges in the three years to 30 June 2013 had increased the amortised cost of the instrument to £20.1 million at that date. The instrument was repaid on 4 March 2014 in the amount of £79.0 million. The finance charges of £49.2 million on the mezzanine instrument represent non-cash charges on these borrowings to bring them to amortised cost in accordance with IAS 39. In the year ended 30 June 2014 the amount required to increase amortised cost to the amount repaid is included/disclosed as an exceptional cost.

## Notes to the financial statements continued

for the year ended 30 June 2014

### 11 Income tax income/(expense)

#### (a) Analysis of charge in year

	2014 £m	2013 £m
<b>Current tax</b>		
United Kingdom corporation tax		
Current year	(2.2)	(1.5)
Adjustments in respect of prior periods	0.5	0.5
Total United Kingdom corporation tax	(1.7)	(1.0)
Overseas taxation	(0.3)	(0.4)
<b>Total current tax</b>	<b>(2.0)</b>	<b>(1.4)</b>
<b>Deferred tax</b>		
Current year	3.4	0.2
Adjustments in respect of prior periods	(0.7)	(0.5)
<b>Total deferred tax</b>	<b>2.7</b>	<b>(0.3)</b>
<b>Net tax income/(expense)</b>	<b>0.7</b>	<b>(1.7)</b>
Trading	(3.1)	(2.2)
Exceptional items	3.8	0.5
<b>Net tax income/(expense)</b>	<b>0.7</b>	<b>(1.7)</b>

Adjustments in respect of prior periods' deferred tax are reduced by £nil (2013: £0.1 million) in respect of reductions in tax rates.

#### (b) Factors affecting the net tax income/(expense) for year

The net tax income/(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:

	2014 £m	2013 £m
Loss before tax	(55.7)	(1.9)
Loss before tax at the standard rate of UK corporation tax of 22.50% (2013: 23.75%)	12.5	0.5
Factors affecting charge for year:		
Non-cash finance charges in accordance with IAS 39 not deductible for tax purposes	(10.4)	(2.6)
Impairment charges not deductible for tax purposes	(2.3)	-
Gain on disposal of DX Business Direct not taxable	0.3	-
Adjustments in respect of prior years	0.1	0.1
Effect of changes in tax rates	0.4	0.4
Other	0.1	(0.1)
<b>Net tax income/(expense)</b>	<b>0.7</b>	<b>(1.7)</b>

#### (c) Factors that may affect future tax charges

The December 2012 UK Autumn Statement announced that the UK corporation tax rate would reduce to 21% by 2014 and the 2013 UK Budget on 20 March 2013 announced that it will reduce to 20% by 2015. A reduction in the rate to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013.

This will reduce the group's future current tax charge accordingly. The deferred tax assets and liabilities at 30 June 2014 have been calculated based on the rate of 20% substantively enacted at the balance sheet date.

It has not yet been possible to quantify the full anticipated effect of the further rate reductions, although this will further reduce the group's future current tax charge and reduce the group's deferred tax assets and liabilities accordingly.

## 12 Profit attributable to the company

The loss for the year includes a profit of £5.3 million attributable to the company.

## 13 Property, plant and equipment

	Freehold land and buildings £m	Short leasehold land and buildings £m	Plant and equipment £m	Vehicles £m	Total £m
<b>Cost</b>					
At 1 July 2012	12.7	12.8	39.1	10.8	75.4
Additions	-	0.6	2.8	-	3.4
Disposals	-	-	(0.2)	(6.0)	(6.2)
<b>At 30 June 2013</b>	<b>12.7</b>	<b>13.4</b>	<b>41.7</b>	<b>4.8</b>	<b>72.6</b>
At 1 July 2013	12.7	13.4	41.7	4.8	72.6
Additions	-	1.1	3.9	-	5.0
Disposals	-	(0.1)	(3.5)	(3.8)	(7.4)
<b>At 30 June 2014</b>	<b>12.7</b>	<b>14.4</b>	<b>42.1</b>	<b>1.0</b>	<b>70.2</b>
<b>Depreciation</b>					
At 1 July 2012	4.2	10.0	32.5	9.7	56.4
Charge for the year	0.2	0.4	2.2	0.5	3.3
Disposals	-	-	(0.2)	(5.6)	(5.8)
<b>At 30 June 2013</b>	<b>4.4</b>	<b>10.4</b>	<b>34.5</b>	<b>4.6</b>	<b>53.9</b>
At 1 July 2013	4.4	10.4	34.5	4.6	53.9
Charge for the year	0.2	0.5	2.4	-	3.1
Disposals	-	-	(1.9)	(3.6)	(5.5)
<b>At 30 June 2014</b>	<b>4.6</b>	<b>10.9</b>	<b>35.0</b>	<b>1.0</b>	<b>51.5</b>
<b>Net book value</b>					
<b>At 30 June 2014</b>	<b>8.1</b>	<b>3.5</b>	<b>7.1</b>	<b>-</b>	<b>18.7</b>
At 30 June 2013	8.3	3.0	7.2	0.2	18.7

The cost of land not being depreciated is £2.8 million (2013: £2.8 million).

The net book value of plant and equipment and vehicles includes £nil (2013: £0.3 million) in respect of assets capitalised under finance leases.

## Notes to the financial statements continued

for the year ended 30 June 2014

### 14 Intangible assets and goodwill

	Goodwill £m	Software and development costs £m	Customer relationships £m	Outstanding orders £m	Total £m
<b>Cost</b>					
At 1 July 2012	189.5	15.9	7.8	0.4	213.6
Additions/(disposals)	(0.4)	3.9	-	-	3.5
<b>At 30 June 2013</b>	<b>189.1</b>	<b>19.8</b>	<b>7.8</b>	<b>0.4</b>	<b>217.1</b>
At 1 July 2013	189.1	19.8	7.8	0.4	217.1
Additions	-	3.7	0.3	-	4.0
Disposals	-	(1.2)	-	-	(1.2)
<b>At 30 June 2014</b>	<b>189.1</b>	<b>22.3</b>	<b>8.1</b>	<b>0.4</b>	<b>219.9</b>
<b>Amortisation</b>					
At 1 July 2012	0.7	13.6	0.4	0.4	15.1
Charge for the year	-	2.1	1.6	-	3.7
<b>At 30 June 2013</b>	<b>0.7</b>	<b>15.7</b>	<b>2.0</b>	<b>0.4</b>	<b>18.8</b>
At 1 July 2013	0.7	15.7	2.0	0.4	18.8
Charge for the year	-	2.6	1.6	-	4.2
Disposals	-	(0.8)	-	-	(0.8)
<b>At 30 June 2014</b>	<b>0.7</b>	<b>17.5</b>	<b>3.6</b>	<b>0.4</b>	<b>22.2</b>
<b>Net book value</b>					
<b>At 30 June 2014</b>	<b>188.4</b>	<b>4.8</b>	<b>4.5</b>	<b>-</b>	<b>197.7</b>
At 30 June 2013	188.4	4.1	5.8	-	198.3

On 4 March 2014 the group acquired the Customer relationships of Capital Nightfreight, an independent service provider operating the collection and delivery of freight for specified postcodes within the DX Freight network, for a cash consideration of £0.3 million.

Goodwill has an indefinite useful life and is subject to annual impairment testing. The goodwill all relates to the group's principal activity. The group is considered to represent one cash-generating unit for the purposes of impairment testing.

The 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:

	2014	2013
Period on which management approved forecasts are based	One year	One year
Growth rate applied beyond approved forecast period	2.6%	2.0%
Discount rate	7.9%	7.9%

The cash flow projections assume revenue growth and increasing profitability from continuing efficiencies from investment in the operating network.

Due to the diverse nature of the group's Customer base 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.

Sensitivity analyses indicate that the estimated growth rate would need to fall to minus 3.6% before giving rise to an impairment of goodwill.

The result of this review was that no impairment charges were required at the statement of financial position date.

## 15 Investments

Group				Loans to former group companies £m
<b>Cost</b>				
At 1 July 2013				9.8
Additions				0.2
<b>At 30 June 2014</b>				<b>10.0</b>
<b>Provisions</b>				
At 1 July 2013				-
Provided during year				10.0
<b>At 30 June 2014</b>				<b>10.0</b>
<b>Net book value</b>				
<b>At 30 June 2014</b>				<b>-</b>
At 30 June 2013				9.8
Company		Shares in group companies £m	Loans to group companies £m	Total £m
<b>Cost</b>				
On incorporation		-	-	-
Additions		0.2	198.5	198.7
Disposals		(0.1)	-	(0.1)
<b>At 30 June 2014</b>		<b>0.1</b>	<b>198.5</b>	<b>198.6</b>
<b>Provisions</b>				
<b>On incorporation and at 30 June 2014</b>		<b>-</b>	<b>-</b>	<b>-</b>
<b>Net book value:</b>				
<b>At 30 June 2014</b>		<b>0.1</b>	<b>198.5</b>	<b>198.6</b>
On incorporation		-	-	-

## Notes to the financial statements continued

for the year ended 30 June 2014

### 15 Investments continued

At 30 June 2014 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 certain employees hold a minority interest in the company:

	Principal activity
<b>Directly owned:</b>	
DX (VCP) Limited	Intermediate holding company
<b>Indirectly owned:</b>	
DX Network Services Limited	Mail services
DX Secure Limited	Mail services
DX Network Services Ireland Limited (registered and operates in the Republic of Ireland)	Mail services
DX Freight Limited	Express parcels delivery
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.

### 16 Acquisition of subsidiary undertakings

On 20 February 2014 in preparation for the separation of the DX Group from its previous parent undertaking DX Group Limited, and the listing of the group on the AIM market of the London Stock Exchange, the company acquired the whole of the issued share capital of DX Holdings Limited and DX Secure Mail Limited from their previous shareholder, DX Finance Limited, for a combined cost of £0.1 million in exchange for the issue of 10,525,200 ordinary shares of £0.01 each.

Subsequently, on the same day the company's investments in DX Holdings Limited and DX Secure Mail Limited were transferred to DX (VCP) Limited in exchange for the issue of shares in that company with a value of £0.1 million.

### 17 Trade and other receivables

	Group		Company
	2014 £m	2013 £m	2014 £m
Trade receivables	29.0	30.9	-
Amounts owed by subsidiary undertakings	-	-	0.4
Other receivables	6.6	4.8	-
Prepayments and accrued income	13.6	14.2	-
	<b>49.2</b>	<b>49.9</b>	<b>0.4</b>

Included in other receivables at 30 June 2014 is an amount of £2.5 million (2013: £nil) receivable in respect of the disposal of DX Business Direct (see note 9).

Included in trade receivables at 30 June 2013 were amounts discounted with recourse with financial institutions in the ordinary course of business at variable rates of interest. A balance of £4.1 million was included within trade receivables in respect of factored debts (2014: £nil).

Included in other receivables at 30 June 2013 were loans to Directors and senior managers falling due after more than one year amounting to £1.6 million (2014: £nil). All such loans have been repaid in full. Further details are provided in note 30.



## 18 Cash and cash equivalents

	Group		Company
	2014 £m	2013 £m	2014 £m
Cash and cash equivalents per statement of financial position	1.1	30.2	-
Cash book balance	(3.3)	-	-
Cash and cash equivalents per cash flow statement	(2.2)	30.2	-

## 19 Share capital

### Allotted, called up and fully paid

	2014		2013	
	Number of options (000)	£000	Number of options (000)	£000
<b>Group:</b>				
Ordinary shares of 1p each	200,525	2,005	15,525	155
<b>Company</b>			2014 Number (000)	£000
Ordinary shares of 1p each			200,525	2,005

The following changes in share capital occurred during the year:

- the company was incorporated on 19 September 2013 with an issued share capital of one ordinary share of £1.00 each. This share was subsequently converted into 100 shares of £0.01 each on 19 February 2014;
- on 18 February 2014 50,000 ordinary shares of £1.00 each were issued for a cash consideration of £50,000 and subsequently converted to 5,000,000 ordinary shares of £0.01 each. On the same date a further 200 ordinary shares of £0.01 each were issued as consideration for the acquisition of certain debt instruments from DX Holdings Limited. These instruments had no value;
- on 20 February 2014 10,525,200 ordinary shares of £0.01 each were issued at par as consideration for the purchase of the whole of the issued share capital of DX Holdings Limited and DX Secure Mail Limited in preparation for the separation of the DX Group from its previous parent undertaking and the listing of the group on the AIM market of the London Stock Exchange; and
- on 27 February 2014 a further 185 million ordinary shares of £0.01 each were issued to the AIM market of the London Stock Exchange at a premium of £0.99 each.

In preparing the group accounts under the reverse acquisition method of accounting the group was deemed to have 15,525,500 ordinary shares of £0.01 each in issue at 1 July 2012 and 1 July 2013.

## 20 Share premium and reserves

	Share premium £m	Reverse acquisition reserve £m	Translation reserve £m	Retained earnings £m
<b>Group</b>				
At 1 July 2012	-	142.2	-	(222.9)
Loss for the year	-	-	-	(3.6)
Exchange adjustments	-	-	0.1	-
<b>At 30 June 2013</b>	<b>-</b>	<b>142.2</b>	<b>0.1</b>	<b>(226.5)</b>
At 1 July 2013	-	142.2	0.1	(226.5)
Issue of shares	183.2	-	-	-
Share issue expenses	(1.8)	-	-	-
Capital reconstruction	-	137.8	-	-
Loss for the year	-	-	-	(55.0)
<b>At 30 June 2014</b>	<b>181.4</b>	<b>280.0</b>	<b>0.1</b>	<b>(281.5)</b>

## Notes to the financial statements continued

for the year ended 30 June 2014

### 20 Share premium and reserves continued

Company	Share premium £m	Retained earnings £m
On incorporation	-	-
Issue of shares	183.2	-
Share issue expenses	(1.8)	-
Profit for the year	-	5.3
<b>At 30 June 2014</b>	<b>181.4</b>	<b>5.3</b>

#### Reverse acquisition reserve

This reserve resulted from the acquisition of the DX Group by the company and represents the difference between the value of the shares acquired on 20 February 2014 and the nominal value of the shares issued in exchange.

During the year ended 30 June 2014 the subsidiary undertakings acquired issued further shares with a nominal value of £137.8 million in connection with the separation of the DX Group from its previous parent undertaking, DX Group Limited, resulting in an increase in the reverse acquisition reserve of this amount.

### 21 Statutory earnings per share

#### Basic earnings per share

The calculation of basic earnings per share at 30 June 2014 was based on the loss for the year after exceptional items of £55.0 million which include pre-Admission repayment of a debt instrument (2013: £3.6 million) and a weighted average number of shares in issue of 78.4 million including new shares issued on Admission (2013: 15.5 million) calculated as follows.

Loss for the year (basic)

	2014			2013		
	Trading £m	Exceptional items £m	Total £m	Trading £m	Exceptional items £m	Total £m
<b>Profit/(loss) for the year</b>	<b>4.0</b>	<b>(59.0)</b>	<b>(55.0)</b>	(1.9)	(1.7)	(3.6)

Weighted average number of ordinary shares (basic)

	2014 Number of shares 000	2013 Number of shares 000
Issued ordinary shares at 1 July	15,526	15,526
Effect of shares issued in February 2014	62,849	-
<b>Weighted average number of ordinary shares at 30 June</b>	<b>78,375</b>	15,526

#### Diluted earnings per share

None of the share option schemes would result in a dilution of the basic earnings per share.

## 22 Loans and borrowings

### (a) Third party

	Group		Company
	2014 £m	2013 £m	2014 £m
<b>Non-current liabilities</b>			
Bank loans	8.8	150.2	8.8
Deferred loan issue costs	(0.4)	(1.0)	(0.4)
	8.4	149.2	8.4
Secured mortgage facility	-	2.8	-
	8.4	152.0	8.4
<b>Current liabilities</b>			
Cash book balance	3.3	-	-
Invoice discounting facility	-	4.1	-
Bank loans	1.2	5.2	1.2
Secured mortgage facility	-	0.4	-
Finance lease liabilities	-	0.7	-
	4.5	10.4	1.2

Amounts due under the bank term loan facility and the revolving credit facility are secured by means of a charge over the assets and undertaking of the group.

Amounts due under the former invoice discounting facility at 30 June 2013 were secured by a fixed and floating charge over the assets of DX Freight Limited. The former mortgage facility at 30 June 2013 was secured on the freehold properties of DX Freight Limited and by a fixed and floating charge over the assets of DX Freight Limited. Both of these facilities were repaid in full during the year and the relevant security released.

## Notes to the financial statements continued

for the year ended 30 June 2014

### 22 Loans and borrowings continued

#### (b) Mezzanine instrument

	Group		Company
	2014 £m	2013 £m	2014 £m
<b>Non-current liabilities</b>			
Mezzanine instrument	-	20.1	-
	-	20.1	-

#### (c) Loans from former group companies

	Group		Company
	2014 £m	2013 £m	2014 £m
<b>Non-current liabilities</b>			
Amounts owed to former parent companies	-	131.3	-
	-	131.3	-

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

At 30 June 2013

	Nominal interest rate	Year of maturity	Face value £m	Carrying amount £m
Bank loan	LIBOR + 3.00% with 1.50% rolled up	2014	7.2	7.2
Bank loan	LIBOR + 3.25% with 1.50% rolled up	2016	64.1	64.1
Bank loan	LIBOR + 3.75% with 1.50% rolled up	2016	64.1	64.1
Bank loan	Lower of LIBOR and 1.50%	2017	20.0	20.0
Secured mortgage facility	3.25%	2015	3.2	3.2
Finance lease liabilities		2013-2014	0.7	0.7
Mezzanine instrument	LIBOR + 8.25% rolled up	2018	90.5	20.1
Former group companies	Blended rate on bank borrowings	2017	131.3	131.3
			381.1	310.7

Under the terms of the various bank and loan agreements in place at 30 June 2013, including an intercreditor agreement, the senior debt (being the bank loans) was ranked ahead of the subordinated debt (being the mezzanine instrument) and consequently the mezzanine instrument could only be repaid in certain circumstances and only with the prior written consent of the security trustee (acting on the instructions of the bank providing the senior debt). No repayment of the mezzanine instrument could take place where the terms of the intercreditor agreement have not been met.

#### At 30 June 2014

	Nominal interest rate	Year of maturity	Face value £m	Carrying amount £m
Bank term loan	LIBOR + 2.00%	2014-2017	10.0	10.0
			10.0	10.0

All loans are denominated in sterling.

In addition to the bank term loan the group also has a £13.0 million revolving capital facility with an interest rate of LIBOR plus 2.00%. No drawings were made under this facility as at 30 June 2014.

## 23 Provisions

	Property repair costs £m	Insurance provision £m	Other provisions £m	Total £m
At 1 July 2012	3.6	1.8	6.9	12.3
Charged/(credited) to income statement	-	3.4	(0.4)	3.0
Utilised	(0.3)	(3.3)	(2.8)	(6.4)
At 30 June 2013	3.3	1.9	3.7	8.9
At 1 July 2013	3.3	1.9	3.7	8.9
Charged to income statement	-	1.6	0.9	2.5
Utilised	(0.5)	(1.6)	(2.0)	(4.1)
<b>At 30 June 2014</b>	<b>2.8</b>	<b>1.9</b>	<b>2.6</b>	<b>7.3</b>

Provisions are made for the costs of property repairs where there is a significant backlog of repairs required. Other provisions are made for the costs of empty properties which are still held under ongoing lease contracts and for the costs of integrating businesses and for future losses arising from onerous contracts. Property repair costs and other provisions are expected to be utilised over the periods to April 2030 and January 2026 respectively.

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. The provisions are likely to be utilised over the next three years.

## 24 Deferred tax assets/(liabilities)

	Group £m	Company £m
At 1 July 2012	(1.4)	-
Charged to the income statement	(0.2)	-
At 30 June 2013	(1.6)	-
At 1 July 2013	(1.6)	-
Credited to the income statement	2.8	-
<b>At 30 June 2014</b>	<b>1.2</b>	<b>-</b>

The deferred tax asset/(liability) is made up as follows:

	Group		Company
	2014 £m	2013 £m	2014 £m
Interest costs	-	(2.8)	-
Intangible assets	(1.4)	(1.9)	-
Accelerated capital allowances	2.5	3.0	-
Other timing differences	0.1	0.1	-
	<b>1.2</b>	<b>(1.6)</b>	<b>-</b>

## Notes to the financial statements continued

for the year ended 30 June 2014

### 25 Trade and other payables

	Group		Company
	2014 £m	2013 £m	2014 £m
Trade payables	10.5	14.0	-
Social security and other taxes	3.0	5.5	-
Other payables	1.6	0.9	-
Accruals	21.8	16.7	0.4
	<b>36.9</b>	37.1	<b>0.4</b>

### 26 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.

At 30 June 2013

	Fixed rate £m	Floating rate £m	Total £m
Bank loan	-	155.4	155.4
Mortgage facility	3.2	-	3.2
Finance leases	0.7	-	0.7
	3.9	155.4	159.3
Effect of interest rate swaps to convert floating rate borrowings to fixed rate	93.3	(93.3)	-
	97.2	62.1	159.3

At 30 June 2014

	Fixed rate £m	Floating rate £m	Total £m
Bank term loan	-	10.0	10.0
	-	10.0	10.0

#### (b) Fair values

Financial instruments utilised by the group during the years ended 30 June 2013 and 30 June 2014, 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.

## 26 Financial instruments continued

### 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 A2 and Ba3.

£1.8 million (2013: £1.5 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 2014 would have reduced equity and profit by £0.2 million (2013: £0.1 million).

A 1% increase or reduction in the interest rate applicable to the term loan and revolving capital facility would have had a negligible 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 and other receivables at the statement of financial position date that were not impaired was as follows:

	2014 £m	2013 £m
Neither past due nor impaired	34.4	33.3
Past due 1-30 days	1.4	2.7
Past due 31-90 days	0.2	0.7
Past due more than 90 days	0.3	0.2
	<b>36.3</b>	36.9

The movement in the allowance for impairment in respect of trade and other receivables was as follows:

	Individual impairments £m	Collective impairments £m
At 1 July 2012	0.4	1.6
Impairment losses recognised	0.9	(1.0)
Amounts written-off	(0.9)	-
At 30 June 2013	0.4	0.6
At 1 July 2013	0.4	0.6
Impairment losses recognised	-	0.1
Amounts written-off	(0.4)	0.1
<b>At 30 June 2014</b>	<b>-</b>	<b>0.8</b>

The group considers that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historic payment behaviour and extensive analysis of Customer credit risk, including underlying Customers' credit ratings, when available.

# Notes to the financial statements continued

for the year ended 30 June 2014

## 26 Financial instruments continued

### Derivative financial instruments

	2014 £m	2013 £m
Interest rate swaps	-	0.1

The notional principal amount of the outstanding interest rate swap contract at 30 June 2013 was £93.3 million. The fixed interest rate payable under the terms of the contract was 1.25%, and the floating rate was LIBOR. The interest rate swap expired on 31 July 2013 and was not replaced.

IFRS 13 (amended), Financial Instruments: Disclosures, requires the disclosure of financial instruments measured at fair value, grouped into Levels 1 to 3 below, based on the degree to which fair value is observable:

- Level 1 – fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – fair value measurements are those derived from inputs, other than quoted prices included within Level 1 above, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The group's derivative financial instruments as described above were classified as Level 2.

## 27 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 £1.0 million (2013: £0.7 million) represents contributions payable to these schemes by the group at rates specified in the rules of the schemes.

Contributions amounting to £0.7 million (2013: £0.2 million) were payable to the schemes at 30 June 2014 and are included in creditors.

### Share-based payments

At 30 June 2014 the company had the following share-based payment arrangements.

#### Company Share Option Plan ('CSOP')(including an Unapproved Schedule)

On 26 February 2014 the company adopted the CSOP which permits the grant of options, on a discretionary basis, to any director or employee of the company and other group companies. The CSOP was approved by HM Revenue and Customs ('HMRC') on 27 February 2014, enabling options over up to £30,000 worth of shares per person to be granted under the CSOP and to be exercised on an income tax and national insurance contributions free basis, provided that the options continue to comply with the rules of the CSOP ('Approved Options'). The CSOP also contains a schedule, under which unapproved options may be granted in excess of the £30,000 approved limit ('Unapproved Schedule'). Options granted under the Unapproved Schedule are referred to as ('Unapproved Options'). As at 30 June 2014, options over 4,450,000 company shares granted under the CSOP were outstanding in total (including Approved and Unapproved options), each with an exercise price of £1 per share which was equal to the market value of the shares at the date of grant. The exercise of options granted under the CSOP as at 30 June 2014 is conditional only on participants' continued service on the third anniversary of the grant date (subject to certain permitted "good leaver" exceptions).

#### SAYE Scheme ('SAYE')

On 26 February 2014 the company adopted the SAYE and this was approved by HMRC on 27 February 2014. Under the SAYE, employees can save a portion of their monthly salary over a period of three or, if the company so permits, five years. At the end of this period, the employee has the option to purchase ordinary shares in the company with the accumulated funds at a purchase price equal to 80% of the market price prevailing at the time of the commencement of the employee's participation in the SAYE. Options that are not exercised within six months of the end of the savings period lapse unconditionally. As at 30 June 2014, options over 1,568,880 shares had been granted under the SAYE, each with an exercise price of £0.80. All options granted to date are subject only to a 36 month savings period. Shares issued to satisfy options under the CSOP (including the Unapproved Schedule) and SAYE in total may not exceed 6% of the total share capital of DX (Group) plc.



## 27 Employee benefits continued

### Value creation plan (VCP)

Under the VCP, A ordinary shares in DX (VCP) Limited (a subsidiary of the company) were issued to the Executive Directors and six 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.

The A ordinary shareholders are only entitled to realise any value from their A ordinary shares if pre-determined value hurdles are exceeded and after the expiry of minimum holding periods described below (referred to as 'Vesting Period'). The value hurdles are detailed in the DX (VCP) Limited share rights and are linked to the market capitalisation of the group. The A ordinary shareholders will, to the extent that the hurdle has been exceeded, be able to realise value by disposing of their A Shares to the company following publication of the company's financial results for the year ending 30 June 2017. The A ordinary shareholders also have the opportunity to dispose of 50% of their shares at an earlier date (on the publication of the results for the year ended 30 June 2016) but the ability to dispose at this earlier date is subject to the company share price having hit a pre-determined target. The company has the choice as to whether to settle the disposal in cash or by the issue of shares in the company. The company's current intention is to issue shares in the company.

Retaining ownership of the A Shares is conditional on continuing employment. Specific rules will apply if the employee ceases employment during the Vesting Period.

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.

### Measurement of fair values

The fair values of the CSOP and share purchase plans were measured using the Black-Scholes basis of valuation. Expected volatility is based on the historic volatility of the AIM market of the London Stock Exchange measured over the contractual period of the options.

The shares in DX (VCP) Limited under the VCP have been valued using the net present value of estimated future economic returns at 26 February 2014, the date on which the employees were required to accept the offer to issue the shares to them.

### Equity-settled share-based payments plans

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows:

	CSOP	Share purchase
Fair value at grant date (26 February 2014)	£0.55	£0.53
Share price at grant date (26 February 2014)	£1.30	£1.30
Exercise price	£1.00	£0.80
Expected volatility (weighted average)	15.6%	15.6%
Expected life (weighted average)	10 years	Three years
Expected dividends	Nil	Nil
Risk-free interest rate (based on government bonds)	2.38%	1.07%

The requirement that the employee has to save in order to purchase shares under the share purchase plan is a non-vesting condition. This feature has been incorporated into the fair value at grant date by applying a discount to the valuation obtained. The discount has been determined by estimating the probability that the employee will stop saving based on historic behaviour.

At 30 June 2014 a total amount of £67,000 was invested by the participants in the share purchase plan. The plan is administered by a third party, and the funds are held outside the group.

## Notes to the financial statements continued

for the year ended 30 June 2014

### 27 Employee benefits continued

The number and weighted average exercise price of options under the CSOP and share purchase plan are as follows:

	Weighted average exercise price £.p	2014 Number of options 000
Granted during the year	0.95	6,159
Lapsed during the year	0.95	(192)
Outstanding at the end of the year	0.95	5,967
Exercisable at the end of the year	-	-

The options outstanding at the end of the year have an exercise price in the range of £0.80 to £1.00 and a weighted average contractual life of 8.2 years.

The total expense recognised for the year and the total liabilities recognised at the end of the year arising from share-based payments are as follows:

	2014 £000
Company Share Option Plan	-
Share purchase plan	-
Value creation plan	-
<b>Total employee benefit expense recognised for share-based payments</b>	<b>-</b>
Total intrinsic carrying amount of liabilities in respect of vested benefits	-

## 28 Commitments

	Group	
	2014 £m	2013 £m
Capital expenditure contracted but not provided for	-	-

### Operating leases

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

	Group	
	2014 £m	2013 £m
<b>Land and buildings:</b>		
Leases that expire:		
Within one year	0.4	6.3
Between two and five years	12.6	19.3
After five years	24.8	13.0
<b>Total</b>	<b>37.8</b>	<b>38.6</b>
<b>Other operating leases:</b>		
Leases that expire:		
Within one year	2.0	1.0
Between two and five years	6.6	11.3
After five years	3.0	-
	<b>11.6</b>	<b>12.3</b>

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessees to pay all insurance, maintenance and repair costs.

## 29 Contingencies

The company is party to a continuing guarantee and indemnity in respect of the bank term loan and revolving capital facilities described in note 22. The amounts outstanding under these facilities at 30 June 2014 totalled £10.0 million.

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.

## Notes to the financial statements continued

for the year ended 30 June 2014

### 30 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 certain members of the management boards. The key management compensation is as follows:

	2014 £000	2013 £000
Salaries, fees and other short-term employee benefits	3,025	3,126
Pension contributions	54	47
Compensation for loss of office	188	246
	<b>3,267</b>	3,419

#### Loans to related parties

Non-interest bearing loans were made to the Directors and senior managers in connection with the group's previous management incentive plan in place prior to Admission as follows:

	2014 £000	2013 £000
Amount advanced in year	-	1,033
Amount outstanding at statement of financial position date	-	1,564

The loans were contractually repayable no later than 30 June 2018 but were repaid in full on Admission.

#### Loans from related parties

The mezzanine instrument set out in note 22 was owed to Box Holdings LP, a limited partnership in which D Hoare, P Cvetkovic, I Pain and certain senior managers were partners.

#### Sales and purchases of goods and services

The group has trading relationships with Parcel Monkey Limited, a company in which P Cvetkovic, Director, and S Godman, a member of the management board, were shareholders during the year, and boohoo.com plc, a company in which P Cvetkovic is a Director and shareholder. P Cvetkovic disposed of his shares in Parcel Monkey Limited subsequent to the year end.

The following transactions took place with these companies during the period:

	2014 £000	2013 £000
Sales	2,323	1,794
Amounts owed to the group at statement of financial position date	235	190
Purchases	11	10
Amounts owed by the group at statement of financial position date	-	-

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

The group has been charged office support costs by D Hoare amounting to £12,000 (2013: £12,000). The accrual as at 30 June 2014 for this charge is £3,000 (2013: £3,000).

## Notes

## Notes





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