DX (Group) plc
Annual Report and Accounts 2016

DELIVERED
EXACTLY™

WHO WE ARE

DX is a leading independent parcel, mail and logistics services 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.

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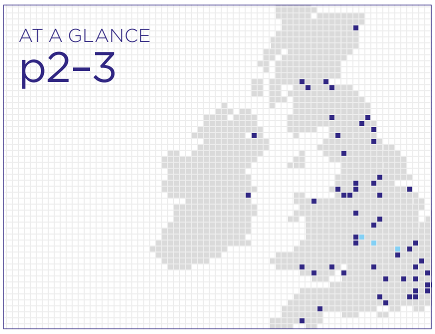

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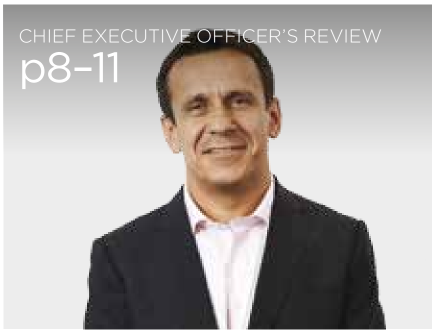

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All models used in this report are DX colleagues. We thank them for their time.

KEY POINTS

DX made progress in the execution of its 'OneDX' programme whilst maintaining strong service delivery.

£287.9m
(2015: £297.5m)

REVENUE

£18.0m
(2015: £33.7m)

EBITDA

£11.5m
(2015: £26.7m)

ADJUSTED[1] PBT

£9.8m
(2015: £1.8m)

NET DEBT

4.9p
(2015: 10.9p)

ADJUSTED[1] EPS

1.5p
(2015: 4.0p)

FINAL DIVIDEND PER SHARE

FINANCIAL

- Full year results in line with revised management expectations and reflect the impacts outlined in H1
- Revenue of £287.9m (2015: £297.5m)
- EBITDA of £18.0m (2015: £33.7m)
- Adjusted[1] profit before tax and exceptional items of £11.5m (2015: £26.7m)
- Exceptional (non-recurring) items of £92.1m – includes goodwill impairment of £88.4m (2015: nil) as announced with the interim results, a non-cash charge which reflected challenging industry conditions and profit decline
- Reported loss before tax of £82.7m (2015: profit of £24.8m)
- Adjusted[1] EPS of 4.9p (2015: 10.9p) / Reported loss per share of 42.1p (2015: EPS of 9.9p)
- Net debt at 30 June 2016 of £9.8m (2015: £1.8m)
- Proposed final dividend of 1.5p per share (2015: 4.0p), subject to shareholder approval and in line with the Board's commitment to a full year dividend of 2.5p per share

1 Adjusted profit before tax and adjusted EPS exclude amortisation of intangibles and exceptional items.

OPERATIONAL

- Strong focus on addressing the trading issues of H1 including:
  - DX Exchange; H2 renewals in line with management expectations
  - Driver resourcing issues; now stabilised but ongoing higher costs reflect continuing shortages of CPC-qualified drivers
- Continued progress with 'OneDX' programme – including network development and IT infrastructure investment
- Ongoing improvements to customer service including launch of 'DX Parcel Exchange' service, a market-leading 'pick up and drop off' solution
- Planning appeal submitted and public consultations commenced in respect of a revised proposal for potential new central hub in the West Midlands
- Post period, further targeted investment in IT and sales
- Outcome of HMPO contract tender expected by the end of November
- Daljit Basi appointed to the Board as Finance Director
- Integration of Legal Post and First Post resumed after revocation of CMA's Initial Enforcement Order

For more information see
Chief Financial Officer's Review p14–16

For more information see
www.dxdelivery.com

AT A GLANCE

DX is a leading independent parcel, mail and logistics services company operating throughout the UK and Ireland. DX provides proven next-day or scheduled delivery services for mail, parcels and 2-Man deliveries to business and residential addresses nationwide.

65+

OVER 65 LOCATIONS ACROSS THE UK AND IRELAND

2,800+

OVER 2,800 DAILY ROUTES

5,000+

OVER 5,000 COLLEAGUES AND SUBCONTRACTORS

PARCELS AND FREIGHT

DX 1-MAN

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

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

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

DX COURIER

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

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

DX 2-MAN

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

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

MAIL AND PACKETS

DX EXCHANGE

DX Exchange is a bespoke B2B mail and parcel delivery network offering pre-9am delivery and post-5pm collection. It is made up of over 4,500 exchanges (including Legal Post) across the UK and Ireland, which contain over 25,000 customer boxes. Users do not need to size, weigh or frank items. They simply add the recipient's 3-line DX address and deliver the consignment to their local exchange. With added tracked services, including tracked specimen for the health sector, DX Exchange provides a secure, daily network, which is mainly used by the legal, financial and public sectors. It is also used as a site-to-site internal mail network.

DX SECURE

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

DX MAIL

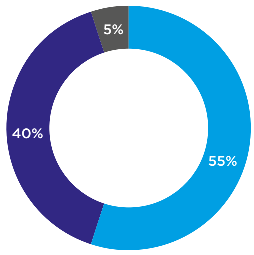
DX Mail takes advantage of mail deregulation (Downstream access) and collects postcode-addressed mail from customers. It moves collected mail swiftly through our network, handing it over for 'final mile' delivery to the UK's national mail operator.

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

LOGISTICS

DX LOGISTICS

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

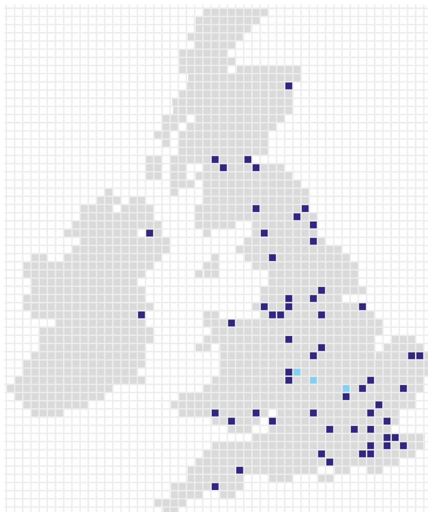


REVENUE BREAKDOWN %

Parcels and freight	55%
Mail and packets	40%
Logistics	5%

DX KEY LOCATIONS

LOCATIONS IN THE UK AND IRELAND



LOCATIONS KEY

- Service centres
- Hubs

CHAIRMAN'S STATEMENT

We are focused on returning the business to more acceptable levels of profitability.

BOB HOLT
CHAIRMAN

RESULTS OVERVIEW

After a challenging first half, when profitability was significantly impacted – principally by higher than expected volume erosion at DX Exchange and cost pressures – the Group has delivered an improved performance in the second half of the financial year. This reflected management actions to address the trading issues of the first half. DX's full year results are in line with revised management expectations.

Revenues totalled £287.9 million for the year (2015: £297.5 million). Earnings before interest, tax, depreciation and amortisation ("EBITDA") were £18.0 million (2015: £33.7 million) and adjusted profit before tax and exceptional items was £11.5 million (2015: £26.7 million). The Group generated adjusted earnings per share of 4.9p (2015: 10.9p). These results are stated before exceptional items of £92.1 million, which mainly comprised a non-cash impairment charge of £88.4 million after conducting a review of goodwill following the decline in profit. The balance of exceptional items was £3.3 million of written-off costs relating to the proposed new central hub in the West Midlands, and a £0.4 million charge relating to share-based payments, a non-cash item. DX closed the year with net debt of £9.8 million (2015: £1.8 million). On a statutory basis, the loss before tax was £82.7 million (2015: profit of £24.8 million) and the loss per share was 42.1p (2015: earnings per share of 9.9p).

A detailed review of the Group's financial results is provided in the Chief Financial Officer's Review.

DIVIDEND

The Board is pleased to confirm a proposed final dividend of 1.5p per share (2015: 4p per share), in line with the commitment given at the half year. Together with the interim dividend of 1.0p per share, paid on 3 June 2016, this takes the total dividend for the year to 2.5p per share (2015: 6.0p per share).

The final dividend, which is subject to shareholder approval, will be paid on 13 December 2016 to shareholders on the register on 11 November 2016.

TRADING OVERVIEW

As we previously reported, the Group's profitability has been substantially impacted by three major factors. The most significant of these was an increase, above that expected, in volume erosion at the DX Exchange operation, our bespoke secure document handling service. As we have highlighted previously, this business is subject to e-substitution and has a largely fixed cost base. Nonetheless, it remains an important, cost-effective service to both public and private sector companies, especially for the legal, financial and healthcare sectors. In May, we acquired the trade and assets of a Scottish counterpart, The Legal Post (Scotland) Limited and First Post Limited, and, following the revocation of an order by the Competition and Markets Authority in early September, we are now combining these assets within our own operations in Scotland, which will enhance customer service and generate savings.

The major cost base pressure in the first half arose from a shortage of drivers certified with a Certificate of Professional Competence ("CPC"). As well as having a direct cost impact, it also materially affected operational efficiencies and so further increased the Group's overall costs of delivery. We have addressed and stabilised these issues although driver costs have risen nonetheless. This reflects the sector-wide shortage of CPC-qualified drivers – an issue our industry trade bodies continue to highlight.

We made solid progress with our 'OneDX' programme over the year. This major programme is driving an organisational transformation and bringing together all our operations onto a common operating platform, with the latest technology supporting systems and processes. A key component includes the phased implementation of a new routing and scheduling system across our operations. At the same time, we are also optimising and developing our site network, with the goal of delivering both strong customer service benefits and operational efficiencies.

As we have previously reported, we intend to develop a major new UK distribution hub and, last year, agreed the purchase of a 44-acre site in the West Midlands, subject to obtaining planning consent. Unfortunately, as previously announced, at a hearing in mid-May 2016 the local authority declined our planning application. We are now proceeding with an appeal of this decision and have commenced public consultation in regard to a revised planning application. We are also considering suitable alternative sites.

BOARD AND COLLEAGUES

After nearly ten years in his role, Ian Pain, Chief Financial Officer, has decided to step down and will be leaving the Company at the end of October.
On behalf of the Board, I would like to thank Ian for his tremendous contribution to DX over this time and wish him well in his new ventures. I am delighted to welcome Daljit Basi, Finance Director, who has now joined the Board.

In an exceptionally challenging year, the DX team has responded with determination and energy, and I would like to thank everyone for the hard work and commitment they have shown.

OUTLOOK

We remain focused on the ongoing delivery on our 'OneDX' programme, sales execution and cost control. While the outcome of the HMPO tender process and our planning appeal have yet to conclude, we expect to be in a position to provide a further update on their progress by the end of November.

DX is primarily a UK operation with 97% of its revenues and 98% of its costs arising in the UK and denominated in sterling. The exception is a wholly-owned subsidiary trading solely in the Republic of Ireland. The UK's decision to leave the European Union is not anticipated to impact on DX's trading performance other than to the extent that the UK economy as a whole is affected.

BOB HOLT
CHAIRMAN

THE 'FIVE Cs' OF OUR BUSINESS MODEL

DX provides parcel, mail and logistics services underpinned by a strong focus on customer service. The Company's breadth of offering is unrivalled and it specialises in deliveries which are time sensitive, valuable or heavier or more awkward to handle (irregular dimension and weight items). Our customers are predominantly B2B and we create value through a strong focus on the 'FIVE Cs':

CUSTOMERS

We aim to provide:
- high quality customer service across all our markets
- solutions that provide our customers with a competitive advantage
- new options that offer our customers convenience and flexibility

COLLEAGUES

We believe in:
- incentivising our colleagues to deliver superior customer service and rewarding them for a job well done
- attracting new talent and promoting existing talent through training and professional development
- creating a culture which encourages pride in our work and which aims to deliver an excellent customer experience

COMPLIANCE

We adhere to:
- safety first
- high levels of performance for our safety, health and environment engineering audits, swiftly resolving outstanding reported audit and operational licence issues
- operational scanning and proof of delivery processes, hardware and systems

CASH

We target:
- effective cash management
- EBITDA growth
- investment in areas critical to customer service, including training and development, IT, equipment and facilities

COST AND PRODUCTIVITY

We focus on:
- controlling our costs to remain competitive
- improving productivity across the Company, focusing on IT, operations, property and finance
- providing our customers with best value for the services they have selected

THE MARKET

UK parcel volumes forecast to grow 4%[1] per annum.

PARCELS AND FREIGHT MARKET

The UK parcels market has experienced relatively strong growth in recent years and volumes are forecast to grow by 4%[1] per annum in the medium term. This growth continues to be driven largely by the increase in online shopping. Approximately 14% of all UK retail sales are transacted online[1], with online deliveries expected to grow by 10% to 12%[2] year-on-year until 2020. As online shopping becomes increasingly popular, the industry has undergone a transformation as it continues to evolve to meet demand. Consumers and businesses are now ordering larger items and demanding greater flexibility with delivery as well as increased transparency in tracking deliveries. As a result, specified day services (including next-day delivery) continue to gain market share, partly at the expense of economy services. Another trend reflecting consumer requirement for greater flexibility is the growth of parcel access points, which handle deliveries and returns, and can also be used instead of post offices to post parcels. 'Click and collect' shopping is also growing although this is more likely to substitute in-store shopping than parcel deliveries.

While the UK has one of the most developed parcels delivery markets in Europe – consisting of B2B (business-to-business), B2C (business-to-consumer) and C2X (consumer-to-business-or-consumer) – it is also one of the most competitive. The high number of operators in the parcels delivery market underscores the need to offer a high quality, differentiated service.

To date, within parcels, DX has been most active in the higher margin B2B segment, which accounts for 62% of DX's total revenues. However, the Group is also well placed to grow its market share of B2C transactions.

Over the past few years, DX has been working on increasing its service offering in both the B2B and B2C markets. DX has focused on building its market share in express deliveries, secure services for valuable items and 1-Man and 2-Man deliveries for heavier and bulkier items (irregular dimension and weight ("IDW" items)). The IDW segment of the parcels market provides DX with the opportunity to maximise the number of items per drop and the movement of larger items and yield greater revenues. This segment consists of fewer of the traditional parcel carriers as they do not possess the capability to operate in this market which is experiencing sustained growth. DX has also developed partnerships to create a market-leading 'pick up and drop off' solution.

Customers expect high levels of information about the delivery of their online orders. This starts with the retailer providing good delivery information during the browsing stage of the purchase transaction. Once the goods are in transit customers increasingly expect to be updated, the most important times for this are; on the day before delivery is due; on the morning of the delivery. DX's launch last year of DX2Me is aimed at providing customers with greater transparency over deliveries and remains a focus for further development.

MAIL AND PACKETS MARKET

For the past decade, the mail market has been declining as mail communication migrates to electronic communication. This well-documented structural decline has steadied in recent years and the attrition rate for single piece mail has been at approximately 4.4%[3] per annum since 2012/2013 for the market as a whole, with higher levels of substitution in the business sector than the consumer sector. Prices for single piece mail have been rising with greater increases for metered mail than for stamped mail.

DX's core DX Exchange product is present in the B2B single piece market and exposed to the e-substitution trend. However, it remains a highly differentiated and bespoke service that continues to provide a valuable customer service through its bespoke extended pick-up and delivery times.

DX is also active in the B2X (business-to-business-or-consumer) bulk mail market, providing downstream access services ("DSA"). DX collects second-class mail from customers which it subsequently sorts and transports to its contracted access supplier for 'final mile' delivery. The rate of decline in the bulk mail market has been lower than for single piece mail and has been an area of growth for DX over the last few years.

LOGISTICS MARKET

To increase competitiveness in the growing e-commerce market, many companies and retailers are now seeking to improve their propositions by enhancing their distribution networks. As a result, the logistics market has seen an emerging trend whereby retailers are integrating logistics providers into the supply chain.

The integration of logistics into the retail supply chain is a promising opportunity for medium-sized providers. DX is in a very strong position in this market because we are able to offer a compelling combination of flexibility and robust solutions together with access to our core distribution network to provide additional complementary services.

Sources:
1 Ofcom, The Communication Market Review 2015.
2 IMRG MetaPack UK Delivery Index Report August 2016.
3 Ofcom, Review of the Regulation of Royal Mail 2016.

CHIEF EXECUTIVE OFFICER'S REVIEW

There is still work to be done but the Board is confident in its ability to negotiate the near-term challenges and deliver its strategy for the medium term.

PETAR CVETKOVIC
CHIEF EXECUTIVE OFFICER

£159.3m REVENUE 55%

PARCELS AND FREIGHT

£113.8m REVENUE 40%

MAIL AND PACKETS

£14.8m REVENUE 5%

LOGISTICS

INTRODUCTION

It has been an especially difficult year, with the specific trading pressures we reported in the second quarter of the year impacting profitability substantially. Our focus has been on responding to these pressures as well as continuing to drive forward our 'OneDX' programme.

While we closed the seasonally important second half in better shape, there is still work to be done. Nonetheless, the Board remains confident in its ability to negotiate the challenges and opportunities and deliver its strategy for the medium term.

REVIEW OF ACTIVITIES

Our largest activity, Parcels and freight, delivered a better revenue performance than the prior year, helped by strong growth in our Courier service. However revenues at our Mail and packets operation contracted, with higher than expected levels of volume attrition at DX Exchange significantly impacting Group profitability. While Logistics saw revenue decrease after exiting low margin contracts, it won a major contract with IKEA which we expect to grow further.

Profitability in the first half of the year was, as we reported, additionally hit by a shortage of suitably qualified drivers. This shortage is an industry-wide issue and stems from new legislation requiring drivers operating goods vehicles of over 3.5 tonnes to obtain a Certificate of Professional Competence ("CPC") qualification. The shortage caused both an increase in driver costs, with agency drivers being used, and an additional rise in delivery costs as, in the absence of CPC-qualified drivers, smaller transit vans were used in place of goods vehicles to maintain customer service. While the temporary additional costs have been removed, ongoing driver costs are much higher, reflecting the shortages across the industry.

We highlighted the slow conversion of the new business pipeline in the parcels operation in the second quarter of the year, which impacted Group profitability. Since then we have invested further in our sales capability, restructuring the teams. The sales pipeline at the close of the financial year is above the level of the prior year and we are also focused on cross-selling opportunities across our services.

PARCELS AND FREIGHT

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

Revenue from Parcels and freight increased by 3.4% year-on-year to £159.3 million and accounted for 55.3% of total revenue (2015: 51.8%). Growth was led by DX Courier, which increased sales by 12.6% and has developed a strong presence in a number of sectors including pharmaceuticals, optical, public sector and retail. Overall revenue growth was somewhat dampened by the reduction in fuel surcharges with lower oil prices, and by the run-off from the exit of commercially unattractive contracts at DX 1-Man and DX 2-Man last year. However, DX 2-Man secured some significant wins in the second half which will benefit the new financial year and there are attractive opportunities for DX 1-Man.

We launched DX2Me, a tracking application that enables consumers to track their deliveries in real time and to pre-book delivery slots in our DX 2-Man service, and we will continue to focus on initiatives to improve the customer experience.

MAIL AND PACKETS

This operation comprises three core services: DX Exchange, a B2B mail service providing its customers with extended collection and delivery times; DX Secure, which provides market-leading levels of security; and DX Mail, a low cost mail service offering Downstream access for smaller volume users.

Revenues from Mail and packets decreased by 2.2% to £113.8 million and accounted for 39.5% of total revenue (2015: 39.1%). As previously highlighted, DX Exchange – whose customers are mainly from the legal, governmental, financial and healthcare sectors (both public and private) – experienced a higher than anticipated level of revenue attrition in the first half, leading to a management revision of forecasts for the year. Renewals in the second half, which includes April, an important renewal month in the governmental sector, were in line with management expectations. Revenue for the year from DX Exchange showed a decline of 10.1% compared to 5.4% in 2015. This decline significantly impacted profitability since the service has a mainly fixed cost base; deliveries and collections are made to all 4,500 document exchanges around the UK and Ireland every morning and every evening, largely irrespective of the volume of mail or the number of customers. Volume erosion is expected to continue, with digitisation and electronic communications driving this trend, but DX Exchange remains a valuable service to its customers and we will seek to support renewal levels with high levels of customer service.

In order to prolong the economic life of the DX Exchange service in Scotland as a competitor to Royal Mail, in May 2016 we acquired the trade and assets of The Legal Post (Scotland) Limited ("Legal Post") and First Post Limited ("First Post") for a total cash consideration of £3.25 million. Legal Post provides a document exchange and postal service in Scotland, and First Post operates a Downstream access mail service in Scotland. The acquired operations on a standalone basis generate £0.6 million

CASE STUDY

TRUSTED PARTNER TO IKEA

IKEA wanted to find a new partner to support its next stage of development and invited DX to tender, attracted by our broad range of capabilities and service focus.

After a successful tender, DX was awarded a contract to manage IKEA's home deliveries for its online store in two regions across the UK. In choosing DX, IKEA highlighted our:

- strong focus on the customer experience
- shared values and culture
- transparent cost approach
- open communications
- flexibility
- diverse service capability

IKEA was so impressed with our solution, partnership approach and performance that they invited us to support the home delivery service for the new store in Reading – IKEA's first new store opening in the UK for seven years. We were awarded the contract and were delighted to support the store's opening in July 2016.

IKEA

CASE STUDY

LAUNCH OF 'DX PARCEL EXCHANGE'

Alternative collection points are a growing trend in the retail industry. IMRG, the UK's industry association for online retail, reports further increases in consumer use of 'click and collect' services, which are now used for 23%[1] of online purchases.

Similarly, there has been a significant increase in the take up of third-party secure collection points as a delivery option. Third-party collection points are now used by 14%[1] of online shoppers.

DX launched 'DX Parcel Exchange' in September 2015 and it now offers consumers over 1,000 collection points across the UK. DX has developed this capability in partnership with InPost, utilising InPost's 'intelligent lockers' system and manned locations in key sites across the country. The popularity of these types of services is growing due to their simplicity and 24-hour accessibility.

For online retailers and traditional retailers seeking to add further capability to their retail offering, DX's 'Parcel Exchange' network can provide a UK-wide collection footprint for 'Click and Collect' services.

Source:
1 IMRG UK Consumer Home Delivery Review 2016.

9%

REDUCTION IN CO_2 EMISSIONS COMPARED TO THE PREVIOUS YEAR

£130k

OVER £130K RAISED IN THREE YEARS FOR SCOTTY'S LITTLE SOLDIERS

CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

of EBITDA on £5.2 million of revenue. They made a one month contribution of £0.5 million in revenue to the Group's full year results. We believe that there is an attractive opportunity to combine our respective services to deliver both customer and operational benefits. We estimate that if fully integrated, cost savings from the removal of duplicate routes and exchanges can deliver an additional £0.6 million of annualised EBITDA. In July 2016, the Competition & Markets Authority ("CMA") commenced a review of the acquisition, serving an Initial Enforcement Order at the same time, which halted our integration process. However, as reported on 16 September, this order has been revoked and we are now continuing with the combination to deliver the expected customer service enhancements and cost savings.

DX Secure increased revenues by 9.0% year-on-year, aided by good growth in both existing and new accounts. As previously reported, our contract with Her Majesty's Passport Office, which was extended to July 2016, is now under tender and we anticipate an outcome in October 2016.

'DX Parcel Exchange', which we launched in the first half, has been well received by customers. Offering a market-leading 'pick up and drop off' solution, using the networks of other third party providers, it comprises over 1,000 delivery and collection points at supermarkets, petrol stations, retail parks and other manned locations.

LOGISTICS

DX Logistics provides a full outsourcing service to customers who wish to outsource their vehicle fleet operations, with DX able to provide additional services. Revenue from Logistics services reduced by £12.2 million to £14.8 million and accounted for 5.1% of total revenue (2015: 9.1%). The reduction reflected the cessation of low margin contracts early in the year. However, we also secured a major contract with IKEA in the year to support its operations in London and the Midlands. We also supported the opening of IKEA's new site in Reading this summer.

'ONEDX' PROGRAMME

Our 'OneDX' programme has three goals; improved customer service, the creation of an optimised network, and the unification of our services onto a single operating platform, all supported by strong IT capability.

The major part of our capital expenditure over the year was focused on our IT infrastructure. We continued to invest in our new routing and scheduling system, which brings greater service and operational benefits through 'dynamic routing'. As previously highlighted, the roll-out is in phases and is expected to continue over the next 18 months. We also made good progress with our next generation 'OneDX' telephony and contact management system, with installation approaching completion. The solution provides us with the ability to view a customer across voice, email, webchat and social media, and will help to drive service standards as well as future innovation in customer engagement.

We also continued to invest in our site network and during the year opened three new service centres in Norwich, Bristol and Motherwell. The opening of these new larger sites has enabled us to close six smaller sites. Since 30 June 2016 we have opened a service centre in Swanley which will enable us to close a further five sites. Our plans to develop a major new central hub at a 44-acre site in the West Midlands were stalled in May when our planning application for its development was turned down. As we have reported, our purchase of this site was conditional on planning consent and we have now submitted and commenced public consultations in regard to a revised planning application. We are also considering other sites.

COLLEAGUES

I would like to thank all my colleagues at DX for their hard work over the year and to welcome new members of the DX team. I would also like to add my personal thanks to Ian Pain, our long-standing Group Chief Financial Officer, who will be leaving the Company at the end of October, and to congratulate our Finance Director, Daljit Basi, on his promotion to the Board.

OUTLOOK

We continue to take positive steps to address the Group's performance and to support this we are making further targeted investment in IT and sales. While there are still uncertainties ahead as we await the outcome of the HMPO tender process and our planning appeal, we have confidence that our business transformation plans will deliver long term benefits.

PETAR CVETKOVIC
CHIEF EXECUTIVE OFFICER
5 OCTOBER 2016

STRATEGY

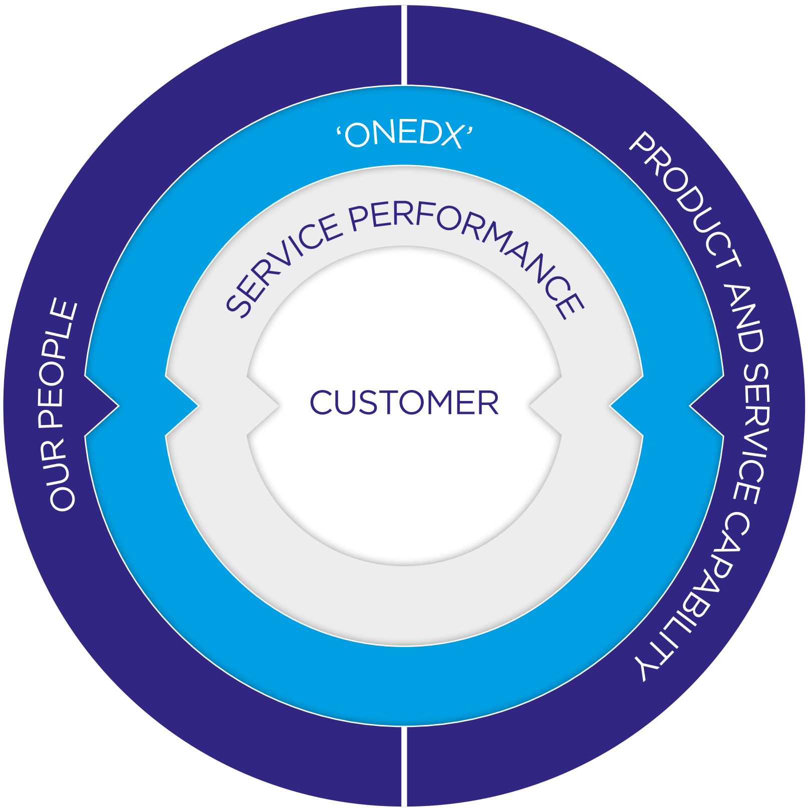
DX's primary focus is to provide a market-leading service for its customers and build competitive advantage by offering the broadest range of products and capability in the parcels, mail and logistics sector at commercially attractive prices. We aim to have our strategy delivered by the best people.

OUR STRATEGY COMPRISES THREE CORE AREAS:

'ONEDX'
Our core focus has been to optimise our three separate networks and systems onto a single platform that will deliver our services under one brand and with a unified management structure. This programme of combining operations, fleet, properties and systems will increase volume capacity and offer new capability to handle freight, parcels and mail whilst enabling DX to build a more enhanced product portfolio utilising the latest technology.

PRODUCT AND SERVICE CAPABILITY
We aim to offer products and services that deliver competitive advantage to our customers, leveraging our 'OneDX' network and our extensive range of products and services.

OUR PEOPLE
We aim to create a market-leading culture by listening to our customers and supporting our colleagues with training programmes so that we deliver our brand promise, 'DELIVERED EXACTLY', with the best people.



CASE STUDY

‘ONEDX’ NETWORK PROGRESS

As part of our ‘OneDX’ vision, DX has made significant progress in optimising and developing our network.

We have now opened a number of new sites that can deliver the full product mix from a single location. During the year, we invested in three new larger service centres, which replaced six smaller sites. This takes the number of new larger locations opened under our programme to 11, with 24 sites closing.

These new sites are now delivering improved service and efficiency gains through streamlining the management of all freight, parcels and mail under one management team.

CHIEF FINANCIAL OFFICER'S REVIEW

DX has had a challenging year, with a number of factors impacting profitability.

IAN PAIN
CHIEF FINANCIAL OFFICER

SUMMARY

DX results have been significantly impacted by a number of factors, as previously reported. Two key factors were a higher than anticipated level of volume erosion at DX Exchange and increased operating costs, which primarily arose from driver resourcing issues. Slower new business conversion across other services also impacted results.

Revenue at £287.9 million is 3.2% behind the prior year's result largely due to a higher than anticipated decline in DX Exchange revenue and the cessation of low margin contracts in Logistics. This decline was partially offset by double digit volume growth in our Courier and Secure services. Despite higher volumes at our 1-Man service, revenues remained flat, reflecting a fall in average prices mainly related to the reduction in revenue from fuel surcharges. We secured a major new Logistics contract with IKEA that came fully on stream in October 2015. This new contract has grown strongly during 2016 and will benefit revenues in the new financial year.

Underlying operating profit was £11.9 million (2015: £27.2 million). This is stated before exceptional items amounting to £92.1 million, which included two non-cash items totalling £88.8 million. These related to the impairment of goodwill (£88.4 million) and the cancellation of share incentive schemes (£0.4 million).

During the year the Company paid dividends of £10.0 million (2015: £8.0 million) and £3.1 million including costs (of the £3.4 million total) for the acquisition of the trade and assets of The Legal Post (Scotland) Limited ("Legal Post") and First Post Limited ("First Post"). Net debt at 30 June 2016 was £9.8 million (2015: £1.8 million). Operating cash flow was £10.7 million (2015: £27.7 million) and funded £6.5 million of capital expenditure (2015: £9.9 million).

	2016 £m Trading	2016 £m Exceptional	2016 £m Total	2015 £m Total
Revenue	287.9	–	287.9	297.5
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	18.0	–	18.0	33.7
Depreciation	(3.0)	–	(3.0)	(3.4)
Amortisation of software and development costs	(3.1)	–	(3.1)	(3.1)
Underlying results from operating activities	11.9	–	11.9	27.2
Amortisation of other intangible assets	(2.1)	–	(2.1)	(1.9)
Exceptional items	–	(92.1)	(92.1)	–
Reported results from operating activities	9.8	(92.1)	(82.3)	25.3
Net finance costs	(0.5)	–	(0.5)	(0.5)
Share of profits from associate	0.1	–	0.1	–
Profit/(loss) before tax	9.4	(92.1)	(82.7)	24.8
Tax	(1.7)	–	(1.7)	(4.9)
Profit/(loss) for the year	7.7	(92.1)	(84.4)	19.9
Foreign currency translation differences	(0.1)	–	(0.1)	–
Total comprehensive income/(expense) for the year	7.6	(92.1)	(84.5)	19.9
EPS – adjusted (pence)	4.9			10.9
– basic (pence)	3.8	(45.9)	(42.1)	9.9

REVENUE BY SEGMENT

A segmental breakdown of Group revenue is shown below and a review of each segment's performance is provided in the Chief Executive Officer's Review:

	2016 £m	2015 £m
Parcels and freight	**159.3**	154.1
Mail and packets	**113.8**	116.4
Logistics	**14.8**	27.0
Revenue	**287.9**	297.5

EBITDA

Earnings before interest, tax, depreciation and amortisation ("EBITDA") for the year to 30 June 2016 is £18.0 million (2015: £33.7 million).

The significant decline in profitability reflected the three major factors previously discussed, and which are outlined below.

The decline in DX Exchange revenues directly impacted on profitability since the service is supported by a largely fixed cost base. While we continue to expect volume erosion, reflecting the continuing trend towards digitisation and e-substitution, we are seeking to minimise erosion by maintaining high levels of customer service.

DX's increased cost base pressures mainly arose from driver resourcing issues. As outlined in the Chief Executive Officer's Review, this drove a two-fold impact on DX's cost base, with more expensive agency drivers being used as well as smaller less efficient transit vans in place of goods vehicles.

A third impact on profitability was the new business pipeline in the parcels operation, which converted potential new business more slowly than anticipated. A reorganisation of and reinvestment in the sales force is continuing in order to accelerate the identification and conversion of new business opportunities.

EXCEPTIONAL ITEMS

Exceptional items for the year amounted to £92.1 million (2015: nil) and comprised three charges which are summarised below.

The largest exceptional charge comprised a non-cash item of £88.4 million which followed a review of goodwill in the first half of the year, in accordance with the requirements of IAS 36 'Impairment of assets'. The value-in-use method used in the review supported a carrying value of £102.4 million and therefore an impairment of £88.4 million was recognised. See note 9 to the financial statements for further details.

Costs of £3.3 million relating to the proposed acquisition and development of a new hub in the West Midlands were also expensed. This followed the local authority's decision in May to decline our planning application. While our appeal against this decision may be successful and some of the planning and design costs are likely to be applicable to alternative sites, given the lack of clarity at the balance sheet date, DX considered it prudent to expense all planning and acquisition costs relating to this proposed new hub.

The third exceptional item comprised a non-cash share-based payments accelerated charge of £0.4 million (2015: nil). This followed the cancellation of the Company Share Option Plan ("CSOP") and Save As You Earn ("SAYE") schemes.

	2016 £m	2015 £m
Impairment charges	**88.4**	–
Planning and acquisition costs on proposed hub	**3.3**	–
Share-based payments accelerated charge	**0.4**	–
Exceptional items	**92.1**	–

ACQUISITION OF LEGAL POST AND FIRST POST

In May 2016, DX acquired the trade and assets of Legal Post and First Post from First Scottish Group Limited ("First Scottish") for a total consideration of £3.25 million in cash. An initial £3.0 million of the total consideration and £0.1 million of costs were paid in the year. The balance of the purchase consideration has been paid after the financial year end. The consideration and costs were funded by a combination of existing cash and loan facilities. DX's full year results benefited from a revenue contribution totalling £0.5 million (one month's trading) from Legal Post and First Post.

Our DX Exchange service and Legal Post face identical challenges, namely the continuing trend for e-substitution and the fact that due to the fixed cost nature of the services, costs cannot easily be reduced directly in line with a decrease in mail volumes. The premise for the acquisition was therefore to combine our respective services into one fixed cost network, thereby providing for substantial cost savings and extending the economically sustainable life of this service for our combined customer base in Scotland.

Both DX Exchange and Legal Post offer a next-day B2B mail service and both compete directly with Royal Mail's 1st Class post service offering.

As previously announced, in July, the Competition & Markets Authority ("CMA") informed us that it was reviewing this acquisition and therefore served an Initial Enforcement Order prohibiting further integration of our DX Exchange and DX Mail services operations with those of Legal Post and First Post. However, as we reported on 16 September, the CMA has now revoked the Initial Enforcement Order and we have resumed the integration.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

CASH FLOW

	2016 £m	2015 £m
Net cash profit (note 26)	**14.6**	34.0
Net change in working capital	**0.1**	(2.7)
Interest paid	**(0.4)**	(0.4)
Tax paid	**(3.6)**	(3.2)
Cash generated from operating activities	**10.7**	27.7

Cash generated from operating activities (after tax) was £10.7 million and represented 59% of EBITDA (2015: 82%). DX maintained its excellent performance on debtor days which at 23 days remains industry leading. There was a £0.1 million improvement in working capital where an increase in other creditors offset a reduction in deferred income as the DX Exchange declined.

NET ASSETS

Net assets decreased by £94.1 million largely as a result of the recognition of the impairment charge against goodwill reflected in non-current assets.

	2016 £m	2015 £m
Non-current assets	**133.9**	221.1
Trade and other receivables	**39.1**	38.8
Net cash	**4.3**	7.0
Revolving credit facility	**(6.5)**	–
Current liabilities excluding debt	**(60.1)**	(60.7)
Non-current liabilities excluding debt	**(3.2)**	(3.5)
Term loan	**(7.6)**	(8.8)
Deferred loan issue costs	**0.2**	0.3
Net assets	**100.1**	194.2

NET DEBT

Net debt at 30 June 2016 stood at £9.8 million (2015: £1.8 million), which is equivalent to 54% of EBITDA (2015: 5%).

	2016 £m	2015 £m
Term loan	**7.6**	8.8
Cash and cash equivalents	**(4.3)**	(7.0)
Revolving credit facility	**6.5**	–
Net debt	**9.8**	1.8

CAPITAL EXPENDITURE

We have continued to invest in the Group's operational IT infrastructure under the 'OneDX' programme although, in light of lower profits, capital expenditure was lower than the prior year.

As part of our continued commitment to improve customer service and increase efficiency, we are implementing a new route planning system which will drive greater efficiencies in our collection and delivery routes. We are also investing in a next generation telephone and contact management system across the business.

The 'OneDX' programme includes network optimisation and development. During the year, we invested in three new larger service centres, which has enabled us to close six smaller sites.

	2016 £m	2015 £m
IT hardware and development costs	**3.2**	5.4
Property costs	**1.6**	1.2
Operations	**1.2**	1.1
Service development	**0.5**	1.1
	6.5	8.8
Acquired from City Link administrators:		
– Intangible assets acquired	**–**	1.0
– Tangible assets acquired	**–**	0.1
Total capex	**6.5**	9.9

MOVEMENT ON RESERVES

A capital reduction, approved by shareholders on 24 March 2016, was confirmed by the High Court and became effective on 20 April 2016. The purpose of the capital reduction was to increase distributable reserves following the goodwill impairment. The share premium account was cancelled in full transferring £181.4 million into distributable reserves.

TAXATION

The underlying effective tax rate for the year was 18.1% (2015: 19.8%). The difference between this rate and the prevailing 20.0% UK corporation tax rate reflects the impact of capital allowances from the long term capital investment programme and because some of the profit derived in the year is from DX's operations in Eire which has a lower rate of corporation tax.

EARNINGS PER SHARE

Adjusted earnings per share, which excludes amortisation of intangibles and exceptional items, was 4.9p (2015: 10.9p).

	2016 £m	2015 £m
Results from operating activities before exceptional items	**9.8**	25.3
Add back/(deduct):		
– Amortisation of intangibles	**2.1**	1.9
– Finance costs	**(0.5)**	(0.5)
– Share of profits from associates	**0.1**	–
Adjusted profit before tax	**11.5**	26.7
Tax charge	**(1.7)**	(4.9)
Adjusted profit after tax	**9.8**	21.8
Adjusted earnings per share (pence)	**4.9**	10.9
Basic earnings per share (pence)	**3.8**	9.9

DIVIDENDS

The Board has proposed a final dividend of 1.5p which, subject to shareholder approval, takes the total dividend for the year to 2.5p (2015: 6.0p). The final dividend is payable on 13 December 2016, to shareholders registered on 11 November 2016, and will have an ex-dividend date of 10 November 2016.

By order of the Board

IAN PAIN
CHIEF FINANCIAL OFFICER
5 OCTOBER 2016

KEY PERFORMANCE INDICATORS

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

£287.9m
(2015: £297.5m)

REVENUE

£18.0m
(2015: £33.7m)

EBITDA

£10.7m
(2015: £27.7m)

CASH GENERATION
(FROM OPERATING ACTIVITIES)

£9.8m
(2015: £1.8m)

NET DEBT

3.8p
(2015: 9.9p)

REPORTED EPS (TRADING)

4.9p
(2015: 10.9p)

ADJUSTED EPS

CORPORATE RESPONSIBILITY

Our commitment to Corporate Social Responsibility ("CSR") runs through everything we do and is central to our brand and our reputation in the marketplace.

Our CSR policy is founded on four cornerstones:

- treating colleagues with respect and integrity
- being responsible and giving back to the community through the support of charities
- reducing our environmental impact
- prioritising health and safety issues

1

2

3

1 The Document Exchange at Chancery Lane, London
2 Safe handling of IDW freight
3 Zero-emissions electric vehicle

ENVIRONMENT

We recognise that the nature of our business has an unavoidable impact on the environment. However our aim is to minimise our overall impact in a responsible manner.

Our impact on the environment primarily arises from our vehicle fleet, which creates a carbon footprint, particularly in the form of diesel emissions. Our commercial fleet accounts for approximately 75% of our Scope 1 and 2 carbon footprint. For this reason much of our focus and efforts to reduce our impact on the environment is orientated towards vehicle efficiency and route optimisation.

The DX environmental strategy focuses on reducing our carbon footprint by accurately reporting our impact on the environment and then concentrating on improvement activity to minimise that impact. As a result of this effort, the DX Environmental Management System was awarded a certification of ISO 14001:2015 in June 2016.

We are now seeing consistent reductions in our carbon footprint (Scope 1 and 2) as shown in the table below. In the 2016 financial year, our carbon footprint has reduced to 32,346 tonnes CO_2 emissions, which represents a 9% reduction compared to the previous year. The reduction is almost exclusively related to improved efficiencies with our commercial vehicle fleet in respect to both design standards and route optimisation programmes.

We continue to focus on reducing fuel emissions and, following recent trials, we are investing in the roll-out of new 3.5 tonne and 5 tonne delivery vehicles which have much greater fuel efficiency than our traditional fleet. Our new 3.5 tonne and 5 tonne vehicles respectively produce 15kg and 23kg fewer CO_2 emissions than their predecessors (per 100 miles travelled). The vehicles are also smaller, quieter and easier to manoeuvre. Our investment in the delivery fleet complements our stake in Gnewt Cargo Limited, the zero emissions logistics operator with the world's largest electric vehicle fleet.

Our private business-to-business network, DX Exchange, continues to provide a viable low carbon alternative to collection mail services by facilitating and encouraging local footfall to approximately 4,500 exchanges conveniently located throughout the UK and Ireland, so connecting 25,000 customers.

DX continues to complete route reviews and apply route optimisation strategies to reduce travel mileage. We also deploy vehicle telematics to provide real time performance monitoring.

Our driver assessors, introduced in 2015, actively engage our drivers in efficient driving techniques and this has already resulted in improved driving behaviour.

We have also introduced a new tyre management programme to help to ensure optimal vehicle efficiency and, where we can, we will choose to use remoulded tyres.

	2013	2014	% change	2015	% change	**2016**	**% change**
CO_2 emissions (tonnes)	44,869	38,259	–15%	35,692	–7%	**32,346**	**–9%**

HEALTH AND SAFETY

We firmly believe that successful health and safety is about recognising our own people as internal customers and providing practical support and advice. Our focus is to minimise legal complexities to empower and engage our colleagues to focus on reducing operational risks.

To achieve this, we refreshed all our safety processes in 2015/2016. This included the introduction of: a new simple accident-reporting process; a new Manager Guide to Safety Standards; and a new Colleague Safety Handbook. We also refreshed our online management system and created and introduced a new training programme for colleagues, which is delivered each month. This training programme aims to embed our safety standards and is used to engage all managers, safety representatives and team leaders.

A new 'Risk Review' process was also launched during the year. This is an audit programme designed to review risk assessments and benchmark performance across our network. Our safety strategy is underpinned by a systematic approach to continual improvement, using the framework of the OHSAS 18001 Safety Management System.

We continue to see consistent reductions in the overall numbers of accidents reported. Over the course of the financial year, we saw a 21% reduction in the total number of accidents, which compared to our target of a 10% decrease.

H&S improvement targets	Target	Actual
Reduction in number of incidents	-10%	-21%

Our ongoing aim is to see further reductions of accidents and to improve safety standards for our colleagues through the deployment of our new processes and training. Our investment in our 'OneDX' programme will also help to support our health and safety strategies.

DX'S NEW CHARITY

action medical research for children

CASE STUDY

ACTION MEDICAL RESEARCH

Action Medical Research raises vital funds to support medical research, aiming to beat the diseases that devastate the lives of so many of our children.

TOBY TENNANT

Head of Relationship Fundraising at Action Medical Research

"We are very proud to be among the three charities DX is supporting over the next 12 months. There are hundreds of thousands of children in the UK whose lives are devastated by disease and disability. It's too many. Far too many. We need support to fund vital research to develop new treatments and cures for sick babies and children which is why the support of DX staff is so important."

CORPORATE RESPONSIBILITY CONTINUED

DX'S NEW CHARITY

CASE STUDY

BATTLE BATTEN

The parents of Freddie and Louie launched the Battle Batten campaign to raise funds for research into the cruel CLN5 Batten disease, which has devastated the lives of their twin boys and for which there is currently no cure.

SARAH DAWKINS
Co-Founder at Battle Batten

"We are overwhelmed not only to be nominated, but to be chosen as one of DX's charities this year. This support has given us a much needed boost in confidence as we have only been fundraising as a family for just over two years. So far, we have privately funded two research projects into Batten disease CLN5 to try to help our twin sons Freddie and Louie, but this vital research needs to continue. Batten disease is always fatal, there is no treatment or cure. Without research we have no hope to find therapies that could help children affected by this awful disease."

ROAD SAFETY

DX is committed to the highest standards of road safety and has created a Transport Management Board which consists of the Executive Team and Operating Centre licence holders. The Board meets on a regular basis to discuss and review road safety. We also work with The Royal Society for the Prevention of Accidents to deliver training and qualifications to our driver trainers. We have initiated the installation of state-of-the-art cameras in our 7.5 tonne and new 5 tonne vehicles in the freight operation. The roll out will continue throughout the fleet as vehicles are replaced. We believe these cameras will help to reduce incidents and improve safety.

CUSTOMER SERVICE

Customer service is a key focus area for DX. Our 'OneDX' programme brings additional benefits as we roll out new software to improve customer services and operational delivery. Our new telephony and contact management system will greatly improve the customer experience and allow DX to better handle contacts across the whole DX estate. Additional training has also been provided across our service centres to enhance customer experience.

COMMUNITY

We recognise that as an organisation we have 'touch points' with many communities across the UK and Ireland and, as a responsible business with a large workforce, we aim to contribute as a member of the wider community.

Over the year we have continued to work closely with local communities to promote awareness of the job opportunities we offer, particularly during site changes. Working with Job Centre Plus, we have also been able to help colleagues find new employment where DX has closed sites and been unable to transfer the personnel or where a potential transfer has not been suitable.

We are proud to maintain our Armed Forces Covenant with the Ministry of Defence through our involvement with the Hire a Hero charity. Hire a Hero supports former armed service personnel as they transition into civilian life and the promotion of employment opportunities at DX to former services personnel remains an important part of the Group's recruitment policies.

CHARITY GIVING

Over the last three years DX has supported 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. Through staff fundraising activities and DX contributions, we have raised in excess of £130,000 during our partnership. We are now hoping to achieve similar success for other charities and, meanwhile, we will maintain our ties with Scotty's Little Soldiers by continuing to send the charity's mail and goody bags to the children they support free of charge.

In searching for a new charity, DX asked colleagues for nominations and, after an extensive and emotional process, three charities were chosen: Action Medical Research, Battle Batten and CLIC Sargent. We are delighted to be supporting these charities and look forward to our fundraising efforts. We are also pleased to be continuing DX Ireland's support of St. Ultans Community Care Project in Dublin, which looks after severely disadvantaged children. In the year to 30 June 2016 we raised €10,200 for the charity's high quality programmes in the Cherry Orchard area of Dublin.

Over the financial year, we were also pleased to support the charitable efforts of our customers and suppliers through donations or gifts in aid of their chosen charities.

DX'S NEW CHARITY

CLIC Sargent Cancer support for the young

CASE STUDY

CLIC SARGENT

The largest of the three chosen charities, CLIC Sargent, provides vital support to young cancer patients and their families, taking their knowledge and experience to service providers and policy makers, to help change things for the better.

NICHOLA DORAN

Regional Fundraising Manager at CLIC Sargent

"We are delighted DX has chosen to support our work. Its support will make a real difference to the lives of young people with cancer. Thanks to DX's backing, CLIC Sargent's dedicated team of nurses, social workers and other vital services will be able to support even more children, young people and their families through the hardest of times."

PRINCIPAL RISKS AND UNCERTAINTIES

The Board recognises that the risks faced by the Group change and it regularly assesses risks in order to manage and mitigate any impact.

The Board has identified the following risks as the primary risks to the Group's successful performance:

RISK	IMPACT	MITIGATION
LETTER AND PARCEL VOLUMES IN THE UK	The market for letters is in structural decline and if the decline of letter volumes in the UK is at a faster rate than forecast or the growth in parcel volumes are lower than DX forecasts (or DX fails to maintain or increase its share of the parcel markets in which it operates), there may be a material adverse effect on DX's operations and future financial condition. Low levels of economic growth may also affect the business of DX, including customers adopting cheaper service options for the transmission of letters and parcels.	DX seeks to win business in new sectors and develop new services, recognising the general move to digital and electronic alternatives. The Group is also benefiting from the benefits of its 'OneDX' programme.
THE PARCEL MARKET IN WHICH DX OPERATES IS HIGHLY COMPETITIVE	The parcels market is highly competitive and DX may be adversely affected by aggressive pricing strategies. DX faces risks associated with the expansion of 'click and collect' in the UK parcel market and the increasing use of 'pick up/drop off' points in high street shops and other locations, which may lead to a reduction in parcel volume delivered by DX.	DX seeks to provide high levels of customer service at prices that offer customers best value. It also seeks to maintain strong relationships with major customers and develop new services, such as DX Parcel Exchange, in response to customer needs. The Group offers a broad range of services within the parcels market and is seeking to increase its penetration within these sub-sectors.
HER MAJESTY'S PASSPORT OFFICE ("HMPO") CONTRACT RENEWAL	HMPO is a major customer, with DX's Mail and packet operations exclusively providing the national delivery of all UK passports. Last year, the contract term was extended by a year to July 2016 and it is now in a competitive tender process. Failure to retain this contract would result in a significant loss of revenue.	DX's record of performance in executing this contract is strong. Management believes that DX has submitted a compelling tender offer at a competitive price, which offers a market-leading level of security. If the tender is unsuccessful, additional business would be required to fill the volume gap.

RISK	IMPACT	MITIGATION
IT SYSTEMS ARE CRITICAL TO DX'S BUSINESS OPERATIONS	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.	DX has a business continuity plan in the event of IT systems failure and further investment is being made to enhance capability. Further protections are in place to defend DX's systems against attacks. These protections are to a level acceptable to government departments. Prior to new systems going live, DX conducts significant testing in non-live environments.
CERTAIN DX CONSULTANTS AND AGENCY WORKERS COULD BE DEEMED TO BE EMPLOYEES OF DX	DX uses a large number of consultants, individual sub-contractors and agency workers. In the event of any legal claim as to worker status, DX could be liable for increased costs (such as National Insurance contributions) and liabilities (such as employee rights), which could have an adverse effect on its financial condition.	DX puts appropriate contractual and operational arrangements in place. DX continues to monitor cases to ensure that it maintains compliance with legislation.

By order of the Board

PETAR CVETKOVIC
CHIEF EXECUTIVE OFFICER
5 OCTOBER 2016

BOARD OF DIRECTORS

BOB HOLT[1,2,3]
NON-EXECUTIVE CHAIRMAN

Bob joined DX as a Non-executive Director, before becoming Chairman in 2014. He is also chairman of Mears Group PLC, the support services group focused on social housing and domiciliary care services, having overseen the company's admission to AIM and subsequent listing on the Main Market of the London Stock Exchange. He is also non-executive chairman of Totally Plc and is a director of a number of other businesses. On 21 July 2016, Bob was appointed as executive chairman of Lakehouse plc, the asset and energy support services group.

PETAR CVETKOVIC[3]
CHIEF EXECUTIVE OFFICER

Petar has 33 years' experience in the transport and logistics industry, the last six of which have been with DX as Chief Executive Officer. Prior to joining DX, Petar was chief executive officer of Target Express, managing director of City Link and UK managing director of Norbert Dentressangle.

IAN PAIN
CHIEF FINANCIAL OFFICER

Ian has 17 years' experience as a chief financial officer, the last nine of which have been with DX. He was previously chief financial officer of an international manufacturer of specialist labels for the agrochemical and pharmaceutical industries. After qualifying as a chartered accountant with Price Waterhouse, Ian worked in corporate finance at Charterhouse Bank before joining the private equity arm of The Prudential as an investment director. As reported on 14 July 2016, Ian has decided to step down from his role and the Board to pursue new opportunities but will remain with the Group until the end of October 2016 in order to ensure an orderly handover to Daljit Basi, Finance Director, who was promoted to the Board on 21 September 2016.

PAUL MURRAY[1,2,3]
NON-EXECUTIVE DIRECTOR

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

1 Audit Committee
2 Nomination Committee
3 Remuneration Committee

CHAIRMAN'S INTRODUCTION TO CORPORATE GOVERNANCE

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

BOB HOLT
CHAIRMAN

DX GROUP REPORTING STRUCTURE

- DX (GROUP) PLC BOARD OF DIRECTORS
  - AUDIT COMMITTEE
  - EXECUTIVE TEAM
    - SENIOR MANAGEMENT
  - REMUNERATION COMMITTEE
  - NOMINATION COMMITTEE

DEAR SHAREHOLDER,

PRINCIPLES OF CORPORATE GOVERNANCE

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

There is a clear distinction between the responsibilities of the Board of Directors and those of the DX Executive Team. Petar Cvetkovic, Chief Executive Officer, leads the DX Executive Team and the Board is under my leadership. The Board acts on behalf of shareholders in constructively reviewing and challenging the Company's performance and the implementation of strategy, with an emphasis on accountability to shareholders. I therefore encourage openness and constructive discussion in all Board meetings.

Both the Board and the Executive Team value integrity, transparency and fairness and seek to uphold these values within DX and in our dealings with our customers and suppliers. Reflecting this, we recently introduced a new supplier code of conduct which sets out the minimum standards that DX suppliers and business partners should meet.

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

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

BOB HOLT
CHAIRMAN

GOVERNANCE REPORT

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

THE BOARD

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

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

The Chief Executive Officer is responsible for leadership of the DX management and its employees on a day-to-day basis. In conjunction with the Executive Team, 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 appraised in a timely manner of any material events and developments, and that the appropriate standards of corporate governance are effectively communicated and adhered to throughout the business.

The Board comprises the Non-executive Chairman, Bob Holt, two Executive Directors, Petar Cvetkovic (Chief Executive Officer) and Ian Pain (Chief Financial Officer) and one Non-executive Director, Paul Murray. The Non-executive Directors constructively challenge and help to develop DX's strategic priorities.

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

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

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

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

OPERATION OF THE BOARD

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

Attendance	Scheduled Board meetings	Audit Committee	Remuneration Committee	Nomination Committee
Bob Holt	9/12	2/2	2/2	No meetings
Paul Murray	11/12	2/2	2/2	No meetings
Petar Cvetkovic	12/12	n/a	2/2	n/a
Ian Pain	12/12	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 independent legal advice on request.

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

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

BOARD COMMITTEES

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

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

INVESTOR RELATIONS

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

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

The 2016 Annual General Meeting ("AGM") will be held on 6 December at 8.30am. The notice of the meeting is enclosed. It is also available to download from www.dxdelivery.com.

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

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

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

AUDIT COMMITTEE REPORT

The members of the Audit Committee are the two independent Non-executive Directors, Bob Holt and Paul Murray. 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 auditor.

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

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

During the year to 30 June 2016, the Audit Committee reviewed and endorsed the 2015 Annual Report and Accounts, the half-year financial statements and results announcements, considered the proposed level of dividends to be paid, ahead of their approval by the Board, and reviewed and commented on the Company's risk register and mitigation procedures.

EXTERNAL AUDITOR

To ensure the auditor's independence and objectivity, the Audit Committee annually reviews DX's relationship with the auditor. Following the review in 2016, DX concluded that it has an objective and professional relationship with KPMG LLP and that there are sufficient controls and processes in place to ensure the required level of independence. In addition, the auditor is required to review and confirm its independence to the Audit Committee on a regular basis.

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

AUDIT PROCESS

KPMG LLP prepare an audit plan which sets out the scope of and approach to the audit, significant risks and other areas to be targeted. This plan is reviewed and agreed in advance by the Audit Committee. Following their review, the auditor presents their findings to the Audit Committee for discussion. No major areas of concern were highlighted by the auditor 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.

NOMINATION COMMITTEE REPORT

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

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

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

DIRECTORS' REMUNERATION REPORT

(INCLUDING THE REMUNERATION COMMITTEE REPORT)

PAUL MURRAY
CHAIRMAN OF THE REMUNERATION COMMITTEE

CHAIRMAN'S ANNUAL STATEMENT

DEAR SHAREHOLDER,

DX adopts a simple and clear approach to remuneration. Our policy is to attract and retain the best possible people who have the capability and drive to meet the Company's strategic and financial objectives. Accordingly, we offer our Executive Directors a basic salary that is fair and reasonable in comparison with companies of a similar size in similar industries and reflects each individual's experience and contribution to the Company. We incentivise the Executive Directors to drive strategy year-on-year by rewarding the achievement of the annual targets set by the Committee through an annual cash bonus scheme. The performance targets are linked to EBITDA growth and other KPIs including customer service levels. We believe that this effectively incentivises the Executive Team to create and protect shareholder value. Long-term performance related remuneration is achieved through participation in the Value Creation Plan ("VCP") (detailed below) which is closely aligned with the interests of shareholders.

As referred to earlier in this report, this year has been a challenging year for the business and for the logistics sector as a whole. Accordingly, the Committee has decided that there will be no increase in executive pay. In addition, despite hard work and dedication, the Company's overall performance in the financial year has failed to reach the necessary triggers and, as a result, no annual cash bonus is being paid to the Executive Directors.

REPORT FROM THE REMUNERATION COMMITTEE

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

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

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

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

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

- remuneration strategy and policy;
- salary for Executive Directors and the Executive Team; and
- annual bonus payments.

There were no changes to the Directors' remuneration in the financial year and no change to DX's remuneration policy is anticipated in the coming financial year.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS AND TERMINATION POLICY

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

The base annual salaries for the Executive Directors for the year to 30 June 2017 will be as follows:

	2017 £000	2016 £000	% change
Petar Cvetkovic (Chief Executive Officer)[1]	500	375[1]	nil[1]
Ian Pain (Chief Financial Officer)	320[2]	320	nil

1 Further to the trading update announced on 13 November 2015, Petar Cvetkovic volunteered a 50% pay reduction in respect of the second half of the financial year.
2 Annual salary until stepping down from his role at the end of October 2016.

The Company does not provide a pension for the Executive Directors.

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 at the discretion of the Remuneration Committee and subject to such conditions, including EBITDA and/or KPI targets (such as service levels) as the Committee may determine. Bonuses are currently based on personal performance and achievement of the Group's strategic objectives and financial targets, and are made in line with the scheme rules which apply equally to all colleagues regardless of level. No bonuses will be paid to the Executive Directors in respect of this financial year. Only the Remuneration Committee can authorise executive termination payments.

NON-EXECUTIVE DIRECTORS

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

The annual salaries/fees for the Non-executive Directors for the year to 30 June 2017 will be as follows:

	2017 £000	2016 £000	% change
Bob Holt	90	90	nil
Paul Murray	40	40	nil

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.

PERFORMANCE EVALUATION

DX has not undertaken a formal evaluation of the Board or its Committees in this financial year. The existing approach is unlikely to change but the Remuneration Committee is keen to ensure that the reward strategy remains closely aligned with the DX business strategy as it evolves. The performance of the Executive Directors is reviewed annually in accordance with DX's personal performance plan system.

DIRECTORS' SHAREHOLDINGS

Petar Cvetkovic, Chief Executive Officer, and Lucy Woodall, wife of Ian Pain, Chief Financial Officer, purchased additional £0.01 Ordinary Shares in the capital of the Company on 9 March 2016. The Directors who held office at 30 June 2016 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 2016
Petar Cvetkovic	**5,529,593**
Ian Pain	**2,427,001**
Bob Holt	**100,000**
Paul Murray	**nil**

The market price of Ordinary Shares on 30 June 2016 was £0.16 and the range during the period from 1 July 2015 to 30 June 2016 was from £0.14 to £0.94.

DIRECTORS' REMUNERATION REPORT CONTINUED

(INCLUDING THE REMUNERATION COMMITTEE REPORT)

TOTAL SINGLE FIGURE OF REMUNERATION FOR DIRECTORS (AUDITED)

The table below sets out a single figure for the total remuneration received by each Director for the year ended 30 June 2016 and the prior year.

	Executive Directors				Non-executive Directors			
	Petar Cvetkovic		Ian Pain		Bob Holt		Paul Murray	
	2016 £000	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015 £000
Base salary/fee	**375**	500	**320**	320	**90**	88	**40**	37
Benefits	**–**	–	**–**	–	**–**	–	**–**	–
Annual bonus scheme	**–**	–	**–**	–	**n/a**	n/a	**n/a**	n/a
Long-term incentive plan[1]	**–**	–	**–**	–	**n/a**	n/a	**n/a**	n/a
Pension benefits	**–**	–	**–**	–	**n/a**	n/a	**n/a**	n/a
Total	**375**	500	**320**	320	**90**	88	**40**	37

1 Long-term performance related remuneration is achieved through participation in the VCP (see below).

The table below sets out the maximum bonus potential (100% of base salary) for each Director for the year ended 30 June 2016 and the prior year.

	Executive Directors				Non-executive Directors			
	Petar Cvetkovic		Ian Pain		Bob Holt		Paul Murray	
	2016 £000	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015 £000
Maximum bonus potential[1]	**500**	500	**320**	320	**n/a**	n/a	**n/a**	n/a

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

DIRECTORS' INTERESTS IN ALL SHARE PLANS (EXCLUDING VCP)

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

EXECUTIVE DIRECTORS' EXTERNAL APPOINTMENTS

As at the date of this report, neither of the Executive Directors serves as a paid Director on any external board.

RELATIVE IMPORTANCE OF SPEND ON PAY

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

	2016 £m	2015 £m	Change
Staff costs	**£74.7**	£77.5	–3.6%
Dividends	**£10.0**	£8.0	25%
Profit before tax	**£9.4[1]**	£24.8	–62%

1 Excludes exceptional items.

SHARE PLANS

To further incentivise and support the retention of senior management (including the Executive Directors and the Executive Team) and therefore ultimately to enhance shareholder value, DX adopted three share plans on Admission. The share plans adopted by DX are made up of three incentive arrangements:

(1) the DX (Group) plc VCP, which will reward the Executive Team (including the Executive Directors) 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 Company has also established an employee benefit trust which holds some shares in the VCP. This is a discretionary trust and its aim is to reward long service in non-management level staff who remain with the Company for the qualifying period.

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 Ordinary Shares to the Company following publication of the Company's financial results for the year ending 30 June 2017. The A ordinary shareholders also had 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 which was not achieved. 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 Ordinary 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 2016 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 28 to the financial statements.

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 28 to the financial statements. The plan entitled holders of vested options to purchase shares at the market price of the shares at the date of the grant. Subsequently, on 16 June 2016 all option holders were given the opportunity to opt out of the scheme on the basis that the options were very unlikely to come to fruition based on the share price at the time. The overwhelming majority of option holders supported this decision by deciding to opt out of the scheme.

SAYE SCHEME

The Company approved its SAYE scheme on 26 February 2014, further details of which are provided in note 28 to the financial statements. Subsequently, on 17 June 2016 all option holders were given the opportunity to opt out of the scheme on the basis that the options were very unlikely to come to fruition based on the share price at the time. The overwhelming majority of option holders supported this decision by deciding to opt out of the scheme.

PETAR CVETKOVIC
CHIEF EXECUTIVE OFFICER
5 OCTOBER 2016

DIRECTORS' REPORT

The names and 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 start of the financial year until the date of this report.

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

The Company's Articles require that all Directors should be subject to election by shareholders at the first AGM following their appointment and that one-third of the Directors (or the number nearest to but not less than one-third) retire by rotation at each AGM, with each Director also being subject to re-election at intervals of not more than three years. At the first AGM of the Company in November 2014 all the current Directors of the Company offered themselves for election or re-election. The retirement by rotation provisions of the Articles will apply going forward. Accordingly, Ian Pain offered himself for re-election at the 2015 AGM and Petar Cvetkovic offers himself for re-election at the 2016 AGM and the Board recommends to shareholders the re-election of Petar Cvetkovic who continues to demonstrate commitment to his role as Chief Executive Officer and whose individual performance continues to be effective.

The Board has the power to appoint additional Directors or to fill a casual vacancy amongst the Directors. Any Director so appointed by the Board holds office only until the next AGM and may then offer himself/herself for election by the shareholders.

The powers of the Directors are determined by the Articles, the Companies Act 2006 and other relevant legislation. At the 2015 AGM, the Directors were authorised to issue and allot shares and to disapply the statutory pre-emption rights. This authority remains in place until the conclusion of the 2016 AGM. It will be proposed at the 2016 AGM that the Directors will be granted a new authority to allot shares, to disapply the statutory pre-emption rights and the authority to buy back shares. The Company may by ordinary resolution declare dividends not exceeding the amount recommended by the Board.

RESULTS AND DIVIDENDS

The results for the year ended 30 June 2016 are shown on page 39. The Group's loss for the year after tax was £84.4 million. The Directors recommend a final dividend of 1.5p per share be paid on 13 December 2016 to ordinary shareholders on the register of members at the close of business on 11 November 2016. The ex-dividend date will be 10 November 2016.

PRINCIPAL ACTIVITIES, RISKS AND REVIEW OF THE BUSINESS

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

The Strategic Report set out on pages 1 to 23 provides a fair review of the Group's business for the year ended 30 June 2016. It also explains the objectives and strategy of the Group, its competition and the markets in which it operates, the principal risks and uncertainties it faces, the Group's financial position, key performance indicators and likely future developments of the business.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The Board has reviewed the effectiveness of the system of internal control for the year ended 30 June 2016 and up to the date of the signing of the Annual Report and Accounts. The Board will continue to develop and implement internal control procedures appropriate to DX's activities and scale.

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

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

GOING CONCERN

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

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

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 25 to 33.

ANTI-BRIBERY AND CORRUPTION

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

WHISTLEBLOWING

DX has whistleblowing procedures under which colleagues are encouraged to inform the Executive Team or any Director of any concerns they may have that the practices of DX or individuals are wrongful or contravene any applicable laws or regulations.

MODERN SLAVERY

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

CORPORATE RESPONSIBILITY

Information on corporate responsibility matters are set out on pages 18 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) and health and safety policies. Further details can also be found on the DX website www.dxdelivery.com.

OUR COLLEAGUES

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

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

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

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

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

At admission, all eligible colleagues had the opportunity to participate in a SAYE, sharesave scheme. In addition, qualifying management colleagues may have the opportunity to participate in a CSOP. Whilst these existing schemes have subsequently been cancelled, it is the intention to establish new schemes in the new financial year such to once again provide an opportunity for our colleagues to personally participate in the success of DX. Further details are set out in the Directors' Remuneration Report on pages 30 to 33.

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

LABOUR TURNOVER 26.5%

Labour turnover is reported at Group level, showing voluntary leavers during the last financial year. Voluntary leavers over the 12 months since June 2015 have remained similar to that of the previous year (26.1%).

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.

DIRECTORS' REPORT CONTINUED

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:

	28 September 2016	
Fund Manager	Percentage holding	Number of shares
Fidelity Worldwide	10.0%	20,052,550
J O Hambro Capital Management	9.1%	18,219,838
Ruffer LLP	7.8%	15,613,276
AXA Framlington	5.1%	10,275,000
Hargreave Hale	4.9%	9,771,691
Miton Asset Management Limited	4.4%	8,898,831
Chelverton Asset Management	4.4%	8,775,000
Gatemore Capital Management	4.4%	8,772,109
Premier Asset Managers	3.8%	7,550,000
Hargreaves Lansdown AM	3.3%	6,608,427
Hedley & Co	3.2%	6,494,458

Per shareholder register as at 28 September 2016.

SHARE CAPITAL

Details of the Company's share capital are set out in note 19 to the financial statements. The Company's issued share capital consists of 200,525,500 Ordinary Shares with a nominal value of £0.01 each. All shares rank equally and are fully paid. No person holds shares carrying special rights with regard to the control of the Company. Each share carries the right to one vote at general meetings of the Company and no right to fixed income. The Company has no treasury shares.

DIRECTORS' INTERESTS

The number of Ordinary Shares of the Company in which the Directors are beneficially interested is set out in the Directors' Remuneration Report on page 31.

Petar Cvetkovic, Chief Executive Officer, purchased 2,935,000 additional £0.01 Ordinary Shares in the capital of the Company on 9 March 2016 at a purchase price of £0.17 each, taking his total resultant beneficial holding of Ordinary Shares to 5,529,593 and Lucy Woodall, wife of Ian Pain, Chief Financial Officer, purchased 1,500,000 additional £0.01 Ordinary Shares in the capital of the Company on 9 March 2016 at a purchase price of £0.17 each, taking Ian Pain's total resultant beneficial holding of Ordinary Shares to 2,427,001.

No Directors had any dealings in the shares of the Company between 30 June 2016 and the date of this report.

DIRECTOR INDEMNITIES AND INSURANCE

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

AMENDMENT TO COMPANY'S ARTICLES

The Company may alter its Articles by special resolution passed at a general meeting.

DONATIONS

Charitable donations in the year ended 30 June 2016 amounted to £4,385 (2015: £13,007).

No payments were made to any political parties (2015: £nil).

DISCLOSURE OF INFORMATION TO AUDITOR

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

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

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

Company law requires the Directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with 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 auditor is aware of that information.

By order of the Board

IAN PAIN
CHIEF FINANCIAL OFFICER
5 OCTOBER 2016

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 2016 set out on pages 39 to 63. 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 37 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.

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 2016 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the 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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

DEREK MCALLAN
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Arlington Business Park
Theale
Reading
RG7 4SD
5 October 2016

Company registered number 08696699

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 Trading £m	2016 Exceptional items £m	2016 Total £m	2015 £m
Revenue	5	**287.9**	**–**	**287.9**	297.5
Operating costs	6	**(278.1)**	**(92.1)**	**(370.2)**	(272.2)
Results from operating activities		**9.8**	**(92.1)**	**(82.3)**	25.3
Analysis of results from operating activities					
Earnings before interest, tax, depreciation and amortisation ("EBITDA")		**18.0**	**–**	**18.0**	33.7
Depreciation		**(3.0)**	**–**	**(3.0)**	(3.4)
Amortisation of software and development costs		**(3.1)**	**–**	**(3.1)**	(3.1)
Amortisation of other intangibles		**(2.1)**	**–**	**(2.1)**	(1.9)
Exceptional items	9	**–**	**(92.1)**	**(92.1)**	–
Results from operating activities		**9.8**	**(92.1)**	**(82.3)**	25.3
Net finance costs	10	**(0.5)**	**–**	**(0.5)**	(0.5)
Share of profits from associates		**0.1**	**–**	**0.1**	–
Profit/(loss) before tax		**9.4**	**(92.1)**	**(82.7)**	24.8
Tax expense	11	**(1.7)**	**–**	**(1.7)**	(4.9)
Profit/(loss) for the year		**7.7**	**(92.1)**	**(84.4)**	19.9
Foreign currency translation differences		**(0.1)**	**–**	**(0.1)**	–
Total comprehensive income/(expense) for the year		**7.6**	**(92.1)**	**(84.5)**	19.9
Earnings per share (pence):					
Basic	21	**3.8**	**(45.9)**	**(42.1)**	9.9
Adjusted				**4.9**	10.9

Adjusted earnings per share is calculated after:
- excluding amortisation of other intangibles; and
- excluding exceptional items.

The notes on pages 45 to 63 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Notes	2016 £m	2015 £m
Non-current assets			
Property, plant and equipment	13	**17.3**	18.6
Intangible assets and goodwill	14	**113.3**	199.3
Investments in associates	16	**2.0**	1.9
Deferred tax assets	24	**1.3**	1.3
Total non-current assets		**133.9**	221.1
Current assets			
Trade and other receivables	17	**39.1**	38.8
Cash and cash equivalents	18	**4.3**	7.0
Total current assets		**43.4**	45.8
Total assets		**177.3**	266.9
Equity			
Share capital	19	**2.0**	2.0
Share premium	20	**–**	181.4
Reverse acquisition reserve	20	**–**	–
Translation reserve	20	**–**	0.1
Retained earnings	20	**98.1**	10.7
Total equity		**100.1**	194.2
Non-current liabilities			
Loans and borrowings	22	**6.2**	7.3
Provisions	23	**3.2**	3.5
Total non-current liabilities		**9.4**	10.8
Current liabilities			
Current tax liabilities		**0.7**	2.6
Loans and borrowings	22	**7.7**	1.2
Trade and other payables	25	**36.6**	34.2
Deferred income		**22.8**	23.9
Total current liabilities		**67.8**	61.9
Total liabilities		**77.2**	72.7
Total equity and liabilities		**177.3**	266.9

The financial statements were approved by the Board of Directors on 5 October 2016 and signed on its behalf by:

PETAR CVETKOVIC
CHIEF EXECUTIVE OFFICER

IAN PAIN
CHIEF FINANCIAL OFFICER

The notes on pages 45 to 63 form part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Notes	2016 £m	2015 £m
Non-current assets			
Investments	15	**104.0**	206.8
Total non-current assets		**104.0**	206.8
Current assets			
Other receivables	17	**6.7**	0.2
Total current assets		**6.7**	0.2
Total assets		**110.7**	207.0
Equity			
Share capital	19	**2.0**	2.0
Share premium	20	**–**	181.4
Retained earnings	20	**81.2**	12.6
Total equity		**83.2**	196.0
Non-current liabilities			
Loans and borrowings	22	**6.2**	7.3
Trade and other payables	25	**12.5**	1.0
Total non-current liabilities		**18.7**	8.3
Current liabilities			
Current tax liabilities		**1.0**	1.3
Loans and borrowings	22	**7.7**	1.2
Trade and other payables	25	**0.1**	0.2
Total current liabilities		**8.8**	2.7
Total liabilities		**27.5**	11.0
Total equity and liabilities		**110.7**	207.0

The financial statements were approved by the Board of Directors on 5 October 2016 and signed on its behalf by:

PETAR CVETKOVIC
CHIEF EXECUTIVE OFFICER

IAN PAIN
CHIEF FINANCIAL OFFICER

The notes on pages 45 to 63 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	Share capital £m	Share premium £m	Reverse acquisition reserve £m	Translation reserve £m	Retained earnings £m	Total £m
At 1 July 2014		2.0	181.4	280.0	0.1	(281.5)	182.0
Total comprehensive income for the year							
Profit for the year		–	–	–	–	19.9	19.9
Reverse acquisition reserve transfer	20	–	–	(280.0)	–	280.0	–
Total comprehensive income for the year		–	–	(280.0)	–	299.9	19.9
Transactions with owners of the Company, recognised directly in equity							
Dividends	20	–	–	–	–	(8.0)	(8.0)
Share-based payment transactions	8	–	–	–	–	0.3	0.3
Total transactions with owners of the Company		–	–	–	–	(7.7)	(7.7)
At 30 June 2015		**2.0**	**181.4**	**–**	**0.1**	**10.7**	**194.2**
Total comprehensive expense for the year							
Loss for the year		–	–	–	–	(84.4)	(84.4)
Other comprehensive expense		–	–	–	(0.1)	–	(0.1)
Share premium cancellation	20	–	(181.4)	–	–	181.4	–
Total comprehensive expense for the year		–	(181.4)	–	(0.1)	97.0	(84.5)
Transactions with owners of the Company, recognised directly in equity							
Dividends	20	–	–	–	–	(10.0)	(10.0)
Share-based payment transactions	8	–	–	–	–	0.4	0.4
Total transactions with owners of the Company		–	–	–	–	(9.6)	(9.6)
At 30 June 2016		**2.0**	**–**	**–**	**–**	**98.1**	**100.1**

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

The notes on pages 45 to 63 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	Share capital £m	Share premium £m	Retained earnings £m	Total £m
At 1 July 2014		2.0	181.4	5.3	188.7
Total comprehensive income for the year					
Profit for the year		–	–	15.3	15.3
Total comprehensive income for the year		–	–	15.3	15.3
Transactions with owners of the Company, recognised directly in equity					
Dividends	20	–	–	(8.0)	(8.0)
Total transactions with owners of the Company		–	–	(8.0)	(8.0)
At 30 June 2015		**2.0**	**181.4**	**12.6**	**196.0**
Total comprehensive expense for the year					
Loss for the year		–	–	(102.8)	(102.8)
Share premium cancellation	20	–	(181.4)	181.4	–
Total comprehensive expense for the year		–	(181.4)	78.6	(102.8)
Transactions with owners of the Company, recognised directly in equity					
Dividends	20	–	–	(10.0)	(10.0)
Total transactions with owners of the Company		–	–	(10.0)	(10.0)
At 30 June 2016		**2.0**	**–**	**81.2**	**83.2**

The notes on pages 45 to 63 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 £m	2015 £m
Cash generated from operations	26	14.7	31.3
Interest paid		(0.4)	(0.4)
Tax paid		(3.6)	(3.2)
Net cash generated from operating activities		10.7	27.7
Cash flows from investing activities			
Proceeds from sale of DX Business Direct		–	2.5
Proceeds from sale of property, plant and equipment		0.8	0.1
Acquisition of associate		–	(1.9)
Acquisition of trademarks and domain names		–	(1.0)
Acquisition of property, plant and equipment		(2.3)	(3.3)
Software and development expenditure		(4.2)	(5.6)
Acquisitions of Legal Post and First Post		(3.1)	–
Net cash used in investing activities		(8.8)	(9.2)
Net increase in cash before financing activities		1.9	18.5
Cash flows from financing activities			
Movement on revolving credit facility		6.5	–
Repayment of bank borrowings		(1.2)	(1.2)
Equity dividends paid		(10.0)	(8.0)
Net cash used in financing activities		(4.7)	(9.2)
Net (decrease)/increase in cash and cash equivalents		(2.8)	9.3
Cash and cash equivalents at beginning of year		7.0	(2.2)
Effect of exchange rate fluctuations on cash held		0.1	(0.1)
Cash and cash equivalents at end of year	18	4.3	7.0

The notes on pages 45 to 63 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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 of Directors on 5 October 2016.

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 8 to 11, the Chief Financial Officer's Review on pages 14 to 16, and the Directors' Report on pages 34 to 36. 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 12 February 2014. The Company was reregistered as a public limited company under the name DX (Group) plc on 19 February 2014.

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

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

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 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

SEGMENT REPORTING

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

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.

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	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 and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

(b) Other intangible assets

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

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

3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(c) Impairment of non-financial assets

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

INVESTMENTS IN ASSOCIATES

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

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

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

TRADE AND OTHER RECEIVABLES

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement within other external charges. When a trade receivable is 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.

LEASES

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(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. However no such swap arrangements are currently considered necessary in the current low interest climate and given the low level of ongoing debt.

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

(b) Credit risk

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

(c) Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash safely and profitably. Short-term flexibility is achieved by the use of 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 or sell assets to reduce debt. The Group's capital is not restricted.

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

- Amendments to IAS 7 'Statement of cash flow' – disclosure initiative to improve presentation and disclosure in financial statements
- Amendments to IAS 12 'Income taxes' – amendments to add clarity to deferred tax treatment for debt instruments
- IFRS 15 'Revenue from contracts with customers' – new standard for revenue recognition
- IFRS 9 'Financial instruments' – new standard for financial instruments accounting
- Amendments to IFRS 2 'Share-based Payment' – clarification of the accounting for certain types of arrangements
- IFRS 16 'Leases' – new standard for lease accounting

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 2016

5 SEGMENT INFORMATION

	2016 £m	2015 £m
Revenue:		
Parcels and freight	159.3	154.1
Mail and packets	113.8	116.4
Logistics	14.8	27.0
Total revenue	287.9	297.5
EBITDA	18.0	33.7
Depreciation and amortisation	(8.2)	(8.4)
Exceptional items	(92.1)	–
Results from operating activities	(82.3)	25.3
Finance charges (net)	(0.5)	(0.5)
Share of profits from associates	0.1	–
(Loss)/profit before tax	(82.7)	24.8

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

6 OPERATING COSTS

	2016 £m	2015 £m
Other external charges	181.7	170.9
Employee benefit expense (see note 8)	74.7	77.5
Depreciation of property, plant and equipment	3.0	3.4
Amortisation of intangible assets	5.2	5.0
Profit on sale of property, plant and equipment	(0.1)	–
Operating lease rentals	17.4	15.4
Other operating income	(0.1)	–
Impairment charges	88.4	–
Total operating costs	370.2	272.2
Trading activities	278.1	272.2
Exceptional items (see note 9)	92.1	–
Total operating costs	370.2	272.2

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

	2016 £000	2015 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	33	33
Fees payable to the Company's auditor and its associates for other services to the Group:		
The audit of the Company's subsidiaries pursuant to legislation	87	85
Total audit fees	120	118
Other services:		
– tax services	60	106
– other	28	6
Total non-audit fees	88	112
Total fees	208	230

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

	2016 £000	2015 £000
Emoluments	**825**	950

AMOUNTS ACCRUED UNDER MONEY PURCHASE PENSION SCHEMES

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

HIGHEST PAID DIRECTOR

	2016 £000	2015 £000
Emoluments	**375**	500

Details of transactions with Directors are disclosed in note 31.

8 EMPLOYEES

EMPLOYEE BENEFIT EXPENSE

	2016 £m	2015 £m
Wages and salaries	**67.4**	70.1
Social security costs	**5.8**	6.0
Other pension costs	**1.1**	1.1
Share-based payment transactions	**0.4**	0.3
	74.7	77.5

AVERAGE NUMBER OF PERSONS EMPLOYED (INCLUDING EXECUTIVE DIRECTORS)

	2016 Number	2015 Number
Sales and marketing	**116**	112
Operations networks	**2,623**	2,733
Management and administration	**243**	351
	2,982	3,196

9 EXCEPTIONAL ITEMS

	2016 £m	2015 £m
Impairment charges	**88.4**	–
Planning and acquisition costs on proposed hub	**3.3**	–
Share-based payments accelerated charge	**0.4**	–
	92.1	–

IMPAIRMENT CHARGES

During the year management reviewed the carrying value of the Group's goodwill and concluded that an impairment charge of £88.4 million was required.

This charge followed the challenging industry conditions and a decline in profits which suggested an indicator of impairment. The recoverable amount of goodwill is calculated with reference to its value in use based on future cash flow projections. The key assumptions used in the calculation are disclosed in note 14.

PLANNING AND ACQUISITION COSTS ON PROPOSED HUB

Following the decision by the local authority not to approve planning for the proposed new hub in the West Midlands, planning and acquisition costs of £3.3 million relating to this project have been expensed. DX is hopeful that the appeal or revised planning application will be successful and some of the planning and design costs are likely to be applicable to alternative sites. However, given the lack of clarity as at the balance sheet date all such costs have been expensed.

SHARE-BASED PAYMENTS ACCELERATED CHARGE

This non-cash charge relating to share-based payment arrangements follows the cancellation of the Company Share Option Plan ("CSOP") and Share purchase plan (equity-settled) ("SAYE") during the year. The £0.4 million accelerated charge represents the remaining amount of the total grant-date fair value of the share-based payment awards granted to employees not previously recognised as an expense, with a corresponding amount added back in equity. Further details surrounding the cancellations are disclosed in note 28.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

10 FINANCE INCOME AND EXPENSE

	2016 £m	2015 £m
Finance income		
Bank interest	–	–
Total finance income	–	–
Finance costs		
Interest on bank loans and other	0.4	0.4
Amortisation of financing costs	0.1	0.1
Total finance costs	0.5	0.5
Net finance costs	0.5	0.5

11 INCOME TAX EXPENSE

(A) ANALYSIS OF CHARGE IN YEAR

	2016 £m	2015 £m
Current tax		
United Kingdom corporation tax		
Current year	(1.5)	(4.9)
Adjustments in respect of prior periods	0.2	0.2
Total United Kingdom corporation tax	(1.3)	(4.7)
Overseas taxation	(0.4)	(0.3)
Total current tax	(1.7)	(5.0)
Deferred tax		
Current year	(0.1)	0.3
Adjustments in respect of prior periods	0.1	(0.2)
Total deferred tax	–	0.1
Tax expense	(1.7)	(4.9)
Trading	(1.7)	(4.9)
Exceptional items	–	–
Tax expense	(1.7)	(4.9)

Adjustments in respect of prior periods' deferred tax are decreased by £0.2 million (2015: £0.1 million) in respect of reductions in tax rates.

(B) FACTORS AFFECTING THE TAX EXPENSE FOR YEAR

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

	2016 £m	2015 £m
(Loss)/profit before tax	(82.7)	24.8
Loss/(profit) before tax at the standard rate of UK corporation tax of 20.0% (2015: 20.75%)	16.5	(5.2)
Factors affecting charge for year:		
– Impairment charges not deductible for tax purposes	(17.7)	–
– Other exceptional charges not deductible for tax purposes	(0.7)	–
– Adjustments in respect of prior years	0.1	–
– Effect of different tax rates	(0.2)	0.2
– Other	0.3	0.1
Tax expense	(1.7)	(4.9)

(C) FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

The UK corporation tax rate is 20% with effect from 1 April 2015. Reductions to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015.

This will reduce the Group's future current tax charge accordingly. The deferred tax asset at 30 June 2016 has been calculated based on these rates.

12 LOSS ATTRIBUTABLE TO THE COMPANY

The loss for the year includes a loss of £102.8 million (2015: £15.3 million profit) attributable to the Company after an exceptional impairment charge of £106.8 million.

13 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £m	Short leasehold land and buildings £m	Plant and equipment £m	Vehicles £m	Total £m
Cost					
At 1 July 2014	12.7	14.4	42.1	1.0	70.2
Additions	0.4	0.6	2.3	–	3.3
Disposals	–	–	(1.7)	(0.7)	(2.4)
At 30 June 2015	**13.1**	**15.0**	**42.7**	**0.3**	**71.1**
At 1 July 2015	13.1	15.0	42.7	0.3	71.1
Additions	–	1.2	1.2	–	2.4
Disposals	(1.0)	–	–	–	(1.0)
At 30 June 2016	**12.1**	**16.2**	**43.9**	**0.3**	**72.5**
Depreciation					
At 1 July 2014	4.6	10.9	35.0	1.0	51.5
Charge for the year	0.2	0.7	2.5	–	3.4
Disposals	–	–	(1.7)	(0.7)	(2.4)
At 30 June 2015	**4.8**	**11.6**	**35.8**	**0.3**	**52.5**
At 1 July 2015	4.8	11.6	35.8	0.3	52.5
Charge for the year	0.2	0.8	2.0	–	3.0
Disposals	(0.3)	–	–	–	(0.3)
At 30 June 2016	**4.7**	**12.4**	**37.8**	**0.3**	**55.2**
Net book value					
At 30 June 2016	**7.4**	**3.8**	**6.1**	**–**	**17.3**
At 30 June 2015	8.3	3.4	6.9	–	18.6

The cost of land not being depreciated is £2.8 million (2015: £2.8 million).

14 INTANGIBLE ASSETS AND GOODWILL

	Goodwill £m	Software and development costs £m	Customer relationships £m	Trademarks and domain names £m	Outstanding orders £m	Total £m
Cost						
At 1 July 2014	189.1	22.3	8.1	–	0.4	219.9
Additions	–	5.6	–	1.0	–	6.6
Disposals	–	–	–	–	–	–
At 30 June 2015	**189.1**	**27.9**	**8.1**	**1.0**	**0.4**	**226.5**
At 1 July 2015	189.1	27.9	8.1	1.0	0.4	226.5
Additions	2.4	4.2	1.0	–	–	7.6
Disposals	–	–	–	–	–	–
At 30 June 2016	**191.5**	**32.1**	**9.1**	**1.0**	**0.4**	**234.1**
Amortisation						
At 1 July 2014	0.7	17.5	3.6	–	0.4	22.2
Charge for the year	–	3.1	1.6	0.3	–	5.0
Disposals	–	–	–	–	–	–
At 30 June 2015	**0.7**	**20.6**	**5.2**	**0.3**	**0.4**	**27.2**
At 1 July 2015	0.7	20.6	5.2	0.3	0.4	27.2
Charge for the year	–	3.1	1.6	0.5	–	5.2
Impairment	88.4	–	–	–	–	88.4
Disposals	–	–	–	–	–	–
At 30 June 2016	**89.1**	**23.7**	**6.8**	**0.8**	**0.4**	**120.8**
Net book value						
At 30 June 2016	**102.4**	**8.4**	**2.3**	**0.2**	**–**	**113.3**
At 30 June 2015	188.4	7.3	2.9	0.7	–	199.3

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

14 INTANGIBLE ASSETS AND GOODWILL CONTINUED

In May 2016 the Group acquired the trade and assets of Legal Post (Scotland) Limited ("Legal Post") and First Post Limited ("First Post") for £3.4 million (inclusive of costs), of which £0.3 million consideration was deferred until after 30 June 2016. Total acquisition cost of £3.4 million consists of £1.0 million customer relationships and £2.4 million goodwill. As previously announced, in July, the Competition & Markets Authority ("CMA") informed us that it was reviewing this acquisition and therefore served an Initial Enforcement Order prohibiting further integration of our DX Exchange and DX Mail services operations with those of Legal Post and First Post. However, as we reported on 16 September, the CMA has now revoked the Initial Enforcement Order and we have resumed the integration.

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:

	2016	2015
Impairment charge recognised	£88.4m	–
Period on which management approved forecasts are based	One year	One year
Growth rate applied beyond approved forecast period	2.2%	2.6%
Discount rate	8.8%	8.1%

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 2.0% 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

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

At 30 June 2016 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
Directly owned:	
DX (VCP) Limited	Intermediate holding company
Indirectly owned:	
DX Network Services Limited	Mail services
DX Secure Limited	In Members' Voluntary Liquidation
DX Network Services Ireland Limited (registered and operates in the Republic of Ireland)	Mail services
DX Freight Limited	In Members' Voluntary Liquidation
DX Holdings Limited	Intermediate holding company
DX Secure Mail Limited	Intermediate holding company
DX Services Limited	Intermediate holding company
DX McBride Limited	Intermediate holding company
Ewenny Limited	Intermediate holding company
QYJ Limited	Intermediate holding company
DX (EBT Trustees) Limited	Dormant
DX Business Direct Limited	Dormant
DX Electronic Services Limited	Dormant
Special Mail Services Limited	Dormant

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

15 INVESTMENTS CONTINUED

During the prior year the trade and assets of DX Secure Limited and DX Freight Limited were transferred in entirety to DX Network Services Limited. Further to the completion of the transfers, the resulting non-trading shell company subsidiaries have no assets or third party liabilities and are being eliminated by way of a Members' Voluntary Liquidation.

16 INVESTMENTS IN ASSOCIATES

	Group		Company	
Gnewt Cargo Limited	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Non-current assets	**0.3**	0.2	**–**	–
Current assets	**0.9**	0.7	**–**	–
Non-current liabilities	**–**	–	**–**	–
Current liabilities	**(0.8)**	(0.7)	**–**	–
Net assets	**0.4**	0.2	**–**	–
Group's share of net assets	**0.2**	0.1	**–**	–
Goodwill	**1.8**	1.8	**–**	–
Carrying amount of investment	**2.0**	1.9	**–**	–

On 9 December 2014 the Group acquired a 49.8% non-controlling interest in Gnewt Cargo Limited ("Gnewt"), an environmentally friendly delivery services provider in the UK.

17 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Trade receivables	**21.2**	21.2	**–**	–
Other receivables	**2.6**	2.6	**–**	–
Prepayments and accrued income	**15.3**	14.7	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**6.7**	0.2
Amounts owed by associates (see note 31)	**–**	0.3	**–**	–
	39.1	38.8	**6.7**	0.2

18 CASH AND CASH EQUIVALENTS

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Cash and cash equivalents	**4.3**	7.0	**–**	–

19 SHARE CAPITAL

ALLOTTED, CALLED UP AND FULLY PAID – 2015 AND 2016

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

There were no changes in share capital during the year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

20 SHARE PREMIUM AND RESERVES

Group	Share premium £m	Reverse acquisition reserve £m	Translation reserve £m	Retained earnings £m
At 1 July 2014	181.4	280.0	0.1	(281.5)
Profit for the year	–	–	–	19.9
Reverse acquisition reserve transfer	–	(280.0)	–	280.0
Dividends	–	–	–	(8.0)
Share-based payment transactions	–	–	–	0.3
At 30 June 2015	**181.4**	**–**	**0.1**	**10.7**
At 1 July 2015	181.4	–	0.1	10.7
Loss for the year	–	–	–	(84.4)
Exchange adjustments	–	–	(0.1)	–
Share premium cancellation	(181.4)	–	–	181.4
Dividends	–	–	–	(10.0)
Share-based payment transactions	–	–	–	0.4
At 30 June 2016	**–**	**–**	**–**	**98.1**

Company	Share premium £m	Retained earnings £m
At 1 July 2014	181.4	5.3
Profit for the year	–	15.3
Dividends	–	(8.0)
At 30 June 2015	**181.4**	**12.6**
At 1 July 2015	181.4	12.6
Loss for the year	–	(102.8)
Share premium cancellation	(181.4)	181.4
Dividends	–	(10.0)
At 30 June 2016	**–**	**81.2**

SHARE PREMIUM CANCELLATION

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

21 EARNINGS PER SHARE

BASIC EARNINGS PER SHARE

The calculation of basic earnings per share at 30 June 2016 is based on the loss after exceptional items for the year of £84.4 million (2015: £19.9 million profit) and average number of shares in issue of 200.5 million (2015: 200.5 million) calculated as follows:

	2016			2015
	Trading £m	**Exceptional items £m**	**Total £m**	Exceptional items £m
Profit/(loss) for the year	**7.7**	**(92.1)**	**(84.4)**	19.9

	2016 Number (000)	2015 Number (000)
Number of Ordinary Shares at 30 June	**200,525**	200,525

DILUTED EARNINGS PER SHARE

None of the share option schemes would result in a dilution of the basic earnings per share at 30 June 2016 (2015: no dilution). Dilution is dependent on share price movements therefore there remains the possibility for future dilution of earnings per share.

22 LOANS AND BORROWINGS

(A) THIRD PARTY

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Non-current liabilities				
Bank loans	**6.4**	7.6	**6.4**	7.6
Deferred loan issue costs	**(0.2)**	(0.3)	**(0.2)**	(0.3)
	6.2	7.3	**6.2**	7.3
Current liabilities				
Revolving credit facility	**6.5**	–	**6.5**	–
Bank loans	**1.2**	1.2	**1.2**	1.2
	7.7	1.2	**7.7**	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.

(B) TERMS AND CONDITIONS OF OUTSTANDING LOANS WERE AS FOLLOWS:

At 30 June 2015

	Nominal interest rate	Year of maturity	Face value £m	Carrying amount £m
Bank term loan	LIBOR + 2.00%	2017	**8.8**	**8.8**

At 30 June 2016

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

All loans are denominated in sterling.

In addition to the bank term loan the Group also has a £13.0 million revolving credit facility with an interest rate of LIBOR plus 2.00%. Drawings of £6.5 million were made under this facility as at 30 June 2016 (2015: £nil).

23 PROVISIONS

	Property repair costs £m	Insurance provision £m	Other provisions £m	Total £m
At 1 July 2014	2.8	1.9	2.6	7.3
(Credited)/charged to income statement	(0.2)	1.3	(0.3)	0.8
Utilised	(0.7)	(2.3)	(1.6)	(4.6)
At 30 June 2015	**1.9**	**0.9**	**0.7**	**3.5**
At 1 July 2015	1.9	0.9	0.7	3.5
(Credited)/charged to income statement	(0.7)	1.1	0.7	1.1
Utilised	–	(0.9)	(0.5)	(1.4)
At 30 June 2016	**1.2**	**1.1**	**0.9**	**3.2**

Provisions are made for the costs of property repairs where there is a significant backlog of repairs required. Provisions are also made for motor insurance claims not yet settled. Other provisions are made for the costs of integrating businesses and for future losses arising from onerous contracts. Property repair costs, insurance and other provisions are expected to be utilised over the period to April 2030.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

24 DEFERRED TAX ASSETS

	Group £m	Company £m
At 1 July 2014	1.2	–
Credited to the income statement	0.1	–
At 30 June 2015	**1.3**	**–**
At 1 July 2015	1.3	–
Credited to the income statement	–	–
At 30 June 2016	**1.3**	**–**

The deferred tax asset is made up as follows:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Intangible assets	**(0.7)**	(0.9)	**–**	–
Accelerated capital allowances	**1.9**	2.2	**–**	–
Other timing differences	**0.1**	–	**–**	–
	1.3	1.3	**–**	–

The unrecognised deferred tax assets of the Group at 30 June 2016 total £1.2 million (2015: £1.3 million) which, in the opinion of the Directors, are not expected to be utilised in the future. There are no unrecognised deferred tax assets for the Company at 30 June 2016 (2015: £nil).

25 TRADE AND OTHER PAYABLES

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Non-current liabilities				
Amounts owed to subsidiary undertakings	**–**	–	**12.5**	1.0
	–	–	**12.5**	1.0
Current liabilities				
Trade payables	**16.5**	14.3	**–**	–
Social security and other taxes	**5.6**	5.5	**–**	–
Other payables	**1.2**	1.7	**–**	–
Accruals	**13.3**	12.7	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**0.1**	0.2
	36.6	34.2	**0.1**	0.2

26 RECONCILIATION OF (LOSS)/PROFIT FOR THE YEAR TO CASH GENERATED FROM OPERATIONS

	2016 £m	2015 £m
Cash flows from operating activities		
(Loss)/profit for the period	**(84.4)**	19.9
Adjustments for:		
– Impairment charges	**88.4**	–
– Depreciation	**3.0**	3.4
– Amortisation of intangible assets	**5.2**	5.0
– Finance costs	**0.5**	0.5
– Tax expense	**1.7**	4.9
– Gain on sale of property, plant and equipment	**(0.1)**	–
– Share of profits from associates	**(0.1)**	–
– Equity-settled share-based payment transactions	**0.4**	0.3
Net cash profit	**14.6**	34.0
Changes in:		
– Trade and other receivables	**(0.3)**	7.9
– Trade and other payables	**1.8**	(2.7)
– Deferred income	**(1.2)**	(4.1)
– Provisions	**(0.2)**	(3.8)
Net change in working capital	**0.1**	(2.7)
Cash generated from operations	**14.7**	31.3

27 FINANCIAL INSTRUMENTS

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

(A) INTEREST RATE PROFILE

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

Bank term loan

	2016 £m	2015 £m
Fixed rate	–	–
Floating rate	7.6	8.8
Total	7.6	8.8

(B) FAIR VALUES

Financial instruments utilised by the Group during the years ended 30 June 2015 and 30 June 2016, together with information regarding the methods and assumptions used to calculate fair values, can be summarised as follows:

Current assets and liabilities

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

Borrowings and cash

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

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

Fair values of financial assets and liabilities

Carrying amount and fair value

The fair value of all financial assets and liabilities is considered to be equal to the carrying values of these items due to their short-term nature. Cash is held with counterparties with a Moody's credit rating of Aa2 and Ba1.

£1.0 million (2015: £0.7 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 2016 would have reduced equity and profit by £0.1 million (2015: £0.1 million).

A 1% increase or reduction in the interest rate applicable to the term loan and revolving credit facility would have had a £0.1 million (2015: £0.1 million) impact on the profit for the year.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities. The maximum exposure to credit risk is the amount of the receivables balance.

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

	2016 £m	2015 £m
Neither past due nor impaired	22.8	23.3
Past due 1–30 days	1.3	1.0
Past due 31–90 days	0.3	0.2
Past due more than 90 days	–	–
	24.4	24.5

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

27 FINANCIAL INSTRUMENTS CONTINUED

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

	Individual provisions £m	Collective provisions £m
At 1 July 2014	–	0.8
Amounts written back	–	(0.3)
At 30 June 2015	**–**	**0.5**
At 1 July 2015	–	0.5
Increase in provision	–	0.1
At 30 June 2016	**–**	**0.6**

The Group considers that the amounts for which no provision has been made and 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.

28 EMPLOYEE BENEFITS

PENSION COMMITMENTS

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

The total cost charged to income of £1.1 million (2015: £1.1 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

Contributions amounting to £0.2 million (2015: £0.3 million) were payable to the schemes at 30 June 2016 and are included in creditors.

SHARE-BASED PAYMENTS

At 30 June 2016 the Company had the following share-based payment arrangements:

Company Share Option Plan ("CSOP")

On 27 February 2014 the Company established an equity-settled share option programme that entitles key management and senior employees to purchase shares in the Company. The programme entitles holders of vested options to purchase shares at £1.00. Options over 4,590,000 shares, with a life of 10 years were issued under the CSOP, the sole vesting condition under the plan being three years' service from the grant date.

On 17 February 2015 and 22 September 2015 the Company issued further options under the CSOP. Options over 300,000 shares and 510,000 shares respectively, with a life of 10 years were issued and entitled the holders of vested options to purchase shares at £0.95 and £0.82 respectively, the sole vesting condition under the plan being three years' service from the grant date.

Subsequently, on 16 June 2016 all option holders were given the opportunity to opt out of the scheme on the basis that the options were very unlikely to come to fruition based on the share price at the time. As detailed in the Governance Report, the cancellation of this scheme was made with the intention of establishing a new scheme in the new financial year which reflects current share prices. The overwhelming majority of option holders supported this decision by deciding to opt out of the scheme.

Share purchase plan (equity-settled) ("SAYE")

On 27 February 2014 the Company offered all of the employees with 12 months' service in the Group the opportunity to participate in an employee share purchase plan. To participate in the plan the employees were required to save out of their gross salary over 36 months the amount required to enable them to purchase the number of shares allocated to them at a price of £0.80. Only employees that remained in service and save the required amount of their gross salary for 36 consecutive months would become entitled to purchase the shares. Employees who ceased their employment, did not save the required amount of their gross salary in any month before the 36-month period expired or elect not to exercise their option to purchase shares are refunded their saved amounts. Options over 1,568,880 shares were issued under the share purchase plan.

Subsequently, on 17 June 2016 all option holders were given the opportunity to opt out of the scheme on the basis that the options were very unlikely to come to fruition based on the share price at the time. As detailed in the Governance Report, the cancellation of this scheme was made with the intention of establishing a new scheme in the new financial year which reflects current share prices. The overwhelming majority of option holders supported this decision by deciding to opt out of the scheme.

28 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 Ordinary 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, which has not been achieved. 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 Ordinary 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 were 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 requirement that the employee had to save in order to purchase shares under the share purchase plan is a non-vesting condition. This feature was incorporated into the fair value at grant date by applying a discount to the valuation obtained. The discount was determined by estimating the probability that the employee will stop saving based on historic behaviour.

At 30 June 2016 a total amount of £523,000 (2015: £411,000) 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. These amounts have been refunded to participants subsequent to the year end following participants' decisions to opt out of the scheme.

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

	CSOP	CSOP	CSOP	SAYE
	Issued 22 September 2015	Issued 17 February 2015	Issued 27 February 2014	Issued 27 February 2014
Fair value at grant date	£0.11	£0.13	£0.14	£0.25
Share price at grant date	£0.82	£0.95	£1.00	£1.00
Exercise price	£0.82	£0.95	£1.00	£0.80
Expected volatility	15.6%	15.6%	15.6%	15.6%
Expected life	10 years	10 years	10 years	3 years
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate (based on government bonds)	1.93%	1.78%	2.38%	1.07%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

28 EMPLOYEE BENEFITS CONTINUED

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

	2016		2015	
	Weighted average exercise price £.p	Number of options 000	Weighted average exercise price £.p	Number of options 000
Granted during the year	0.82	510	0.95	300
Lapsed/opted out during the year	0.94	(6,309)	0.92	(468)
Outstanding at the end of the year	–	–	0.95	5,799
Exercisable at the end of the year	–	–	–	–

An immaterial amount of options remain outstanding on the above schemes at 30 June 2016 following the decision of the majority of holders to opt out of these schemes in the year.

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:

	2016 £000	2015 £000
Company Share Option Plan	353	125
Share purchase plan	77	104
Value Creation Plan	29	29
Total employee benefit expense recognised for share-based payments	459	258

29 COMMITMENTS

	Group	
	2016 £m	2015 £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, set out in the years in which the leases expire:

	Group	
	2016 £m	2015 £m
Land and buildings:		
Leases that expire:		
Within one year	0.7	0.5
Between two and five years	8.9	10.0
After five years	28.8	23.2
	38.4	33.7
Other operating leases:		
Leases that expire:		
Within one year	1.1	1.8
Between two and five years	11.3	5.2
After five years	2.3	2.8
	14.7	9.8

The total of future minimum lease payments under non-cancellable operating leases not later than one year is £13.2 million (2015: £11.5 million), later than one year and not later than five years is £28.5 million (2015: £22.2 million) and later than five years is £11.4 million (2015: £9.8 million).

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.

30 CONTINGENCIES

The Company is party to a continuing guarantee and indemnity in respect of the bank term loan and revolving credit facility described in note 22. The amounts outstanding under these facilities at 30 June 2016 totalled £14.1 million (2015: £8.8 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.

31 RELATED PARTIES

The following transactions were carried out with connected parties:

KEY MANAGEMENT PERSONNEL

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

	2016 £000	2015 £000
Salaries, fees and other short-term employee benefits	**2,135**	2,036
Pension contributions	**80**	55
Compensation for loss of office	**73**	–
	2,288	2,091

SALES AND PURCHASES OF GOODS AND SERVICES

The Group has trading relations with the associate, Gnewt Cargo Limited (see note 16). The transactions during the year included £313,000 purchases for the year to 30 June 2016 (2015: £239,000 for the period since becoming an associate on 9 December 2014) with an amount of £10,000 (2015: £20,000) owed by the Group at 30 June 2016. At 30 June 2016 the Group was not owed any amounts (2015: £250,000) from working capital provided to Gnewt Cargo Limited (see note 17). Interest charged on working capital provided during the year was £11,000 (2015: £6,000).

The Group also has trading relationships with boohoo.com plc and with Parcel Monkey Limited. Petar Cvetkovic was a director of boohoo.com and a shareholder in Parcel Monkey Limited. He subsequently resigned as a director of boohoo.com with effect from 14 October 2014 and disposed of his shares in Parcel Monkey Limited in the year ended 30 June 2015. Accordingly, transactions with these entities are no longer considered related party transactions. Transactions in the prior year with these entities included £1,553,000 sales, £17,000 purchases and an amount owed to the Group at 30 June 2015 of £15,000.

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

NOTES

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