

21 September 2016

AIM: DX.

This announcement contains inside information.



DX (Group) plc
(“DX” or “the Company” or “the Group”)

Preliminary results for the year ended 30 June 2016

DX, a leading independent mail, parcels and logistics network operator announces preliminary results for the year to 30 June 2016.

KEY POINTS

Financial

- FY 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* 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* 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 Board’s commitment to full year dividend of 2.5p per share

Operations

- 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 – see separate announcement
- Integration of Legal Post and First Post resumed after lifting of CMA’s Initial Enforcement Order

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

Petar Cvetkovic, Chief Executive Officer, commented:

“It has been a challenging year, with the specific trading pressures we reported in the second quarter of the year having a substantial impact on profitability. Our focus has been on responding to these pressures while also driving forward our ‘OneDX’ programme and further improvements to our already high levels of customer service.

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.”

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About DX

<http://www.dxdelivery.com>

Established in 1975 and based in Iver, Buckinghamshire, DX is a leading independent logistics and parcel distribution company. It operates throughout the UK and Ireland, delivering c. 170 million items a year. The Company offers an unrivalled range of services, providing next day delivery services for mail, parcels and 2-Man deliveries to business and residential addresses. In particular, DX specialises in next day or scheduled delivery of time-sensitive, mission critical and high value items. Its customers are mainly commercial organisations but also include public sector companies and national and local governmental organisations.

CHAIRMAN'S STATEMENT

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 management expectations.

Revenues totalled £287.9 million for the year (2015: £297.5 million). Earnings before interest, tax, depreciation and amortisation ("EBITDA") was £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 lifting 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, had 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 report that Daljit Basi, Finance Director, will step up and join the Board further to Ian's departure.

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

CHIEF EXECUTIVE OFFICER'S REVIEW

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 approximately 55.3% of total revenue (2015: 51.8%). Growth was led by DX Courier, which increased sales by 12% 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 stand-alone basis generate £0.6 million 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 revenue 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 currently anticipate an outcome by the end of November 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 revenues (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 Finance 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

CHIEF FINANCIAL OFFICER'S REVIEW

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 which came fully on stream in October 2015. This new contract has grown strongly during 2016, which 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).

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 6 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 payment charge of £0.4 million (2015: nil). This followed the cancellation of the CSOP and 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	-
Total	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 Ltd ("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.

CASH FLOW

Cash generated from operating activities (after tax) was £10.7 million which 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.

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%).

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.

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 corporate 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	2015
	£m	£m
Results from operating activities before exceptional items	9.8	25.3
Add back: amortisation of intangibles	2.1	1.9
Interest charge	(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

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.

Ian Pain
Chief Financial Officer

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2016

	Notes	2016			2015
		Trading £m	Exceptional items £m	Total £m	£m
Revenue		287.9	-	287.9	297.5
Operating costs	5	(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	6	-	(92.1)	(92.1)	-
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 associates		0.1	-	0.1	-
Profit/(loss) before tax		9.4	(92.1)	(82.7)	24.8
Tax expense	7	(1.7)	-	(1.7)	(4.9)
Profit/(loss) for the period		7.7	(92.1)	(84.4)	19.9
Foreign currency translation differences		(0.1)	-	(0.1)	-
Total comprehensive income/(expense) for the period		7.6	(92.1)	(84.5)	19.9
Earnings per share (pence):					
Basic	8	3.8	(45.9)	(42.1)	9.9
Adjusted earnings per share				4.9	10.9

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

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2016

	Notes	2016 £m	2015 £m
Non-current assets			
Property, plant and equipment		17.3	18.6
Intangible assets and goodwill		113.3	199.3
Investments in associates		2.0	1.9
Deferred tax assets		1.3	1.3
Total non-current assets		<u>133.9</u>	<u>221.1</u>
Current assets			
Trade and other receivables		39.1	38.8
Cash and cash equivalents		4.3	7.0
Total current assets		<u>43.4</u>	<u>45.8</u>
Total assets		<u>177.3</u>	<u>266.9</u>
Equity			
Share capital		2.0	2.0
Share premium		-	181.4
Reverse acquisition reserve		-	-
Translation reserve		-	0.1
Retained earnings		98.1	10.7
Total equity		<u>100.1</u>	<u>194.2</u>
Non-current liabilities			
Loans and borrowings – third party	9	6.2	7.3
Provisions		3.2	3.5
Total non-current liabilities		<u>9.4</u>	<u>10.8</u>
Current liabilities			
Current tax liabilities		0.7	2.6
Loans and borrowings – third party	9	7.7	1.2
Trade and other payables		36.6	34.2
Deferred income		22.8	23.9
Total current liabilities		<u>67.8</u>	<u>61.9</u>
Total liabilities		<u>77.2</u>	<u>72.7</u>
Total equity and liabilities		<u>177.3</u>	<u>266.9</u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2016

	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
Profit for the year	-	-	-	-	19.9	19.9
Reverse acquisition reserve transfer	-	-	(280.0)	-	280.0	-
Dividends	-	-	-	-	(8.0)	(8.0)
Share-based payment transactions	-	-	-	-	0.3	0.3
At 30 June 2015	2.0	181.4	-	0.1	10.7	194.2
Loss for the year	-	-	-	-	(84.4)	(84.4)
Other comprehensive expense	-	-	-	(0.1)	-	(0.1)
Share premium cancellation	-	(181.4)	-	-	181.4	-
Dividends	-	-	-	-	(10.0)	(10.0)
Share-based payment transactions	-	-	-	-	0.4	0.4
At 30 June 2016	2.0	-	-	-	98.1	100.1

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2016

	Notes	2016 £m	2015 £m
Cash generated from operations	10	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)
Acquisitions of Legal Post and First Post		(3.1)	-
Software and development expenditure		(4.2)	(5.6)
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 period		7.0	(2.2)
Effect of exchange rate fluctuations on cash held		0.1	(0.1)
Cash and cash equivalents at end of period		4.3	7.0

NOTES TO THE FINANCIAL INFORMATION

1 Basis of preparation

This unaudited preliminary consolidated financial information has been prepared in accordance with the International Financial Reporting Standards (IFRS) and the IFRS Interpretation Committee (IFRIC) interpretations as endorsed by the European Union (EU). The accounting policies applied in these condensed financial statements are the same as those set out in the annual report and accounts for the year ended 30 June 2015.

This preliminary consolidated financial information does not constitute statutory consolidated financial statements for the year ended 30 June 2016 as defined in section 434 of the Companies Act 2006. The 2016 financial statements for DX (Group) plc have yet to be filed with the Registrar of Companies, they will be filed with the Registrar in due course.

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.

2 Principal accounting policies

The accounting policies applied in these condensed financial statements are the same as those set out in the annual report and accounts for the year ended 30 June 2015.

Critical accounting estimates and assumptions

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 assessing impairment, the lowest level of goodwill for which there are separately identifiable cash flows (cash generating units) that can reasonably be assessed is for the Group as a whole. The recoverable amount of the goodwill is measured as the higher of its fair value less costs to sell and value in use. Value in use calculations require the estimation of future cash flows to be derived from the cash generating units and to select an appropriate discount rate in order to calculate their present value. The estimation of the timing and value of underlying projected cash flows and the selection of appropriate discount rates involves management judgement. Subsequent changes to these estimates or judgements may impact the carrying value of the goodwill.

(b) *Impairment of trade receivables:* The assessments undertaken in recognising provisions and contingencies have been made in accordance with IAS 39. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or significant delinquency in payments are considered indicators that the trade receivable is impaired.

(c) *Provisions:* Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. The amount of the provision requires estimation of the extent and timing of probable outflows of resources and to select an appropriate discount rate in order to calculate their present value. The estimation of the timing and value of underlying projected outflows of resources and the selection of appropriate discount rates involves management judgement.

3 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.

4 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
Earnings before interest, tax, depreciation and amortisation ("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.

5 Operating costs		
	2016	2015
	£m	£m
Other external charges	181.7	170.9
Employee benefit expense	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 6)	92.1	-
Total operating costs	370.2	272.2

6 Exceptional items		
	2016	2015
	£m	£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 £88.4m 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.

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 £3.3m 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 would be applicable to some of the 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.

7 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	<u>0.2</u>	<u>0.2</u>
Total United Kingdom corporation tax	(1.3)	(4.7)
Overseas taxation	<u>(0.4)</u>	<u>(0.3)</u>
Total current tax	<u>(1.7)</u>	<u>(5.0)</u>
Deferred tax		
Current year	(0.1)	0.3
Adjustments in respect of prior periods	<u>0.1</u>	<u>(0.2)</u>
Total deferred tax	<u>-</u>	<u>0.1</u>
Tax expense	<u>(1.7)</u>	<u>(4.9)</u>
Trading	(1.7)	(4.9)
Exceptional items	<u>-</u>	<u>-</u>
Tax expense	<u>(1.7)</u>	<u>(4.9)</u>

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	<u>(82.7)</u>	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	<u>0.3</u>	<u>0.1</u>
Tax expense	<u>(1.7)</u>	<u>(4.9)</u>

(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 26 October 2015. This will reduce the Group's future current tax charge accordingly.

8 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).

9 Loans and borrowings

Third party

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

10 Cash generated from operating activities

	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

11 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	2015
	£m	£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

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

	Individual provisions	Collective provisions
	£m	£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.