

DX Network Services Limited

Annual report and financial statements
for the period ended 1 July 2023

Company number 05026914

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DX Network Services Limited

Contents

	Page
Directors and advisers	1
Strategic report	2
Directors' report	12
Independent auditor's report to the members of DX Network Services Limited	14
Profit and loss account and other comprehensive income	17
Balance sheet	18
Statement of changes in equity	19
Notes to the financial statements	20

DX Network Services Limited

Directors and advisers

Directors

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Paul Ibbetson
Martin Illidge
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Auditor

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DX Network Services Limited

Strategic report

DX at a glance

Established in 1975, DX is a market leader in the delivery of mail, parcels, pallets and freight via our UK-wide collection and delivery networks.

DX's purpose is to deliver our customers' promises. Our customers rely on DX to be an integral part of their own service experience. So DX's approach is straightforward and no nonsense. We seek to provide an excellent service at great value to our customers. Our goal is to deliver exactly to our customers' requirements, whether via a next-day, scheduled or tracked, secure service, and provide assurance through proof of delivery.

Our Divisions

DX Freight

Specialists in the collection and overnight delivery of larger and heavier items, including those with irregular dimensions and weight ("IDW"), to business and residential addresses nationwide, via our DX Freight central hub and nationwide depot network.

- **1-Man**
DX 1-Man has the capability to move all types of freight, from document satchels and parcels to IDW items, including lengths up to six metres. Deliveries are primarily business-to-business and next-day. European and International delivery is also accommodated, via our international carrier partners.
- **2-Man & Logistics**
2-Man services are mainly focused on delivery of high-value, larger and heavier products to residential addresses. A two-hour delivery window is offered together with delivery to the consumer's room of choice. Logistics provides a complete range of supply chain solutions for most market sectors. Warehouse and transport solutions include dedicated own-fleet management across all vehicle types, mechanical handling delivery, storage and customer order preparation.

DX Express

Specialists in the collection and express delivery of time-sensitive, mission-critical and higher-value items for business-to-business ("B2B") and business-to-consumer ("B2C") customers, via our DX Express hub and UK and Ireland depot network.

- **Parcels**
Parcels provides a B2B and B2C tracked next-day service for pouches and parcels. Our B2B solution includes a mandatory signature service as standard. Our B2C service offers either mandatory signature, neighbour signature or leave safe options and further provides a 2-hour ETA window with the option for the recipient to make changes to their delivery via SMS or email.
- **DX Exchange & Mail**
Document Exchange is a trusted members' network providing a secure and reliable next-day service for the delivery of mail and documents to and from other members.

DX Network Services Limited

Strategic report

Key performance indicators

	Period ended 1 July 2023	Period ended 2 July 2022
	£m	£m
Revenue (£m)	456.1	414.5
Profit from operating activities (£m)	26.0	18.8
Operating profit margin (%)	5.7	4.5

Review of the business

Revenue for the 52 weeks ended 1 July 2023 increased by 10% to £456.1 million (2022: £414.5 million), and profit from operating activities by 38% to £26.0 million (2022: £18.8 million). Profit for the year increased to £21.6 million (2022: £14.5 million). Cash at the year-end was up by 39% to £36.7 million (2022: £26.4 million). The Company continues to retain a strong level of liquidity and has significant headroom within its invoice discounting facility.

DX Freight, which specialises in the delivery of irregular dimension and weight ("IDW") items, delivered another year of strong growth, with revenue up by 10% to £282.8 million (2022: £256.9 million) and operating profit up by 22% to £37.8 million (2022: £31.1 million), benefiting from further improvements in productivity and operational efficiency. Operating margins increased to 13.4% (2022: 12.1%). These very encouraging results were primarily driven by our 1-Man service, where revenue grew by 13%. Our continuing focus on high levels of customer service led to a significant levels of new customer wins and supported customer retentions.

DX Express, which specialises in the next-day delivery of time-sensitive, mission-critical and higher-value items, benefitted from the growth in Parcels, which more than offset expected revenue attrition at Document Exchange. DX Express revenue increased 10% to £173.3 million (2022: £157.6 million), driven by 16% growth in Parcels revenue. Operating profit increased by 28% to £12.7 million (2022: £9.9 million).

Central costs (not allocated to DX Freight or DX Express) were £24.5 million (2022: £22.2 million, including exceptional items of £1.6 million)

Details of the areas of focus for 2024 are included in DX (Group) plc's Annual Report and Accounts.

Corporate Governance

The Inquiry and Investigation into the corporate governance matter was completed and the conclusions were reported on 20 September 2022. The matter was reported on in detail in last year's Group annual report. At that time the Board committed to a number of key initiatives to ensure that all appropriate improvements to its processes were made, not least so that any future internal investigations are completed in full and to appropriate timescales.

Those key initiatives have been completed. A comprehensive set of revised compliance policies and procedures are now in place that reflect current best practice and mandatory training materials have been issued and implemented across the Group to all employees. The Group's approach to fraud risk assessment and awareness has been strengthened and the annual refresh of this assessment is due to be completed in the coming quarter.

The final action outstanding was the appointment of a third independent Non-executive director. The recruitment process has completed and we announced the appointment of Alison O'Connor on 2 October 2023.

DX Network Services Limited

Strategic report

Employee matters

Staff engagement at all levels is a priority for us. We aim to ensure communication and engagement through local, regional and Company-wide initiatives, with the Operating Boards of our two divisions (DX Freight and DX Express) involved. Senior management participate in regular calls, meetings, and conferences to ensure cohesive engagement throughout the Company, and to raise awareness of the financial and economic factors affecting the Company's performance. Regular news bulletins are also distributed throughout the Company, and our in-house magazine, which is produced bi-annually, carries a mixture of business and employee news.

We have in place Equality and Diversity training. The aim of this is to ensure that recruitment, career development and promotion are based entirely on the ability and performance of an individual.

We have also updated and circulated our Bullying and Harassment policy to ensure that everyone is clear on what is appropriate behaviour and the actions that will be taken should any inappropriate behaviour be identified. Coupled with this was the rollout of mandatory anti-fraud and compliance training to ensure all employees understand their role and responsibilities for ethical business practices.

Training and development is an integral part of our vision for the future, and most higher level position within the Company are internal promotions, as we seek to promote a culture where hard work and skill is valued, nurtured and recognised. During the last 12 months we have achieved 248 internal promotions.

All regulatory and compliance training is delivered through our Learning Management System, which enables us to monitor the rate of uptake of the modules and provide support when required. This system also acts as a central location for all policy and procedure documents, enabling all our employees to have access to any information they may require when they need it.

We have identified succession lines across the Company and all the individuals are working together to achieve a recognised Chartered Management Institute ("CMI") qualification in Leadership and Management. In this way, we aim to ensure that we have correctly trained employees to step into more senior roles as and when they are become available.

We have a free employee assistance programme in place called "weCare" that offers counselling, medical assistance, and advice services, including some financial advice, which, with the current cost of living crisis, is especially relevant. The service also provides 24/7 access to doctors for all our employees and their immediate families at no charge. Within this package there is also an online app called "myStrength" which provides all employees with guidance on how to achieve good mental health. We provide a variety of pension schemes, which support our employees to plan financially for their future. We have launched an employee benefits platform in partnership with Aon, the financial services firm. This offers all our employees the opportunity to receive substantial discounts on high street shopping.

Environmental matters

The Company remains committed to reducing our environmental impact with significant steps taken through the reporting year to deliver progress in this area. We recognise that the logistics sector contributes a significant volume of emissions to the atmosphere associated with vehicle movements. DX is committed to achieving Net Zero by 2050 and reducing our overall environmental footprint. During the reporting year we published our inaugural Carbon Reduction Plan. In this section we highlight some of our activities through the year that support our journey to Net Zero.

The Company uses the framework of the international environmental management standard ISO14001 (certified at two locations) to underpin our approach to setting objectives and targets for improvement against our significant environmental aspects. In FY23 we reconstituted our Environmental Committee and created a separate 'TCFD group', each forum providing the opportunity to engage key senior stakeholders on environmental issues. Specifically, the focus in FY23 has been on our journey to Net Zero, improving our reporting capabilities and developing the road map to Net Zero. We aim to publish this road map alongside our FY23

DX Network Services Limited

Strategic report

Carbon Reduction Plan by the end of 2023.

The Company tracks environmental performance monthly where data permits and collates annually any remaining data sources. This information is used to calculate Scope 1, 2 & 3 Carbon Footprint in CO₂e (carbon dioxide equivalent) utilising BEIS 2023 conversion factors or supplier specific data. The data collected is for the year ended 1 July 2023, DX's financial year, with a financial control boundary utilised when considering carbon. In FY23 the boundary included 98 service centres, hubs and administrative sites, with additions to the estate through the year increasing the physical property footprint by 10.5%.

	2023	2022	% Change
Scope 1, Scope 2 and Scope 3 (Well to tank) CO ₂ emissions (tonnes)	44,014	44,001	0%

Progress towards Net Zero by 2050

The transportation and delivery of parcels contributes to the greatest element at 89% of DX's traditional Scope 1 & 2 carbon footprint (including Scope 3 Well to tank WTT). Our work during FY23 to expand Scope 3 reporting to align with the UK Governments PPN 06/21 Carbon Reduction Plan requirements has enabled a greater resolution and understanding of the carbon footprint. This has identified the use of master subcontractors (category 4-Upstream transport and distribution) as a significant emission source. Addressing vehicle emissions from fuel combustion whether directly operated by the business or through our partners remains the biggest challenge and opportunity to decarbonising the business.

Overall while our traditional Streamlined Energy and Carbon Reporting ("SECR") carbon footprint has increased this year, this can be attributed to the following influences: worsening emission factors for carbon sources, increases in diesel consumption within our fleet, and estate electricity increases as the footprint expanded. There are positives to be taken including the ongoing migration to electric forklift trucks, the reduced reliance on heating oil, the expansion of the Electric Vehicle ("EV") fleet and commencement of a 100% renewable electricity supply.

Through our Environmental Committee we are developing a road map to Net Zero, exploring the possibilities across our estate to reduce emission but also tackling fleet emission through electrification and low carbon fuel alternatives. We aim to publish this during the remainder of 2023 alongside our forthcoming PPN 06/21 Carbon Reduction Plan.

Fleet

DX operates two distinctive business models with our DX Freight division utilising primarily PAYE drivers within the DX operated & leased delivery fleet, while our DX Express division utilises master subcontractors (Scope 3 category 4-Upstream transport and distribution) for final mile deliveries and trunking. Both divisions cater for different markets which see a significant variance in the type and weight of items being delivered from tractor tyres and lampposts to parcels, letters, and high value items. The fuel related emissions predominantly relate to our Freight division and the vehicles directly utilised by the business.

This year fleet diesel consumption (products) increased by 4.5%. A key factor in this increase was the change in trunking routes, during the year we enhanced trunking capacity for running into additional regional hubs. While this has increased trunking mileage by approximately 16.5%, operationally this provides capacity for the business to meet our customers' needs effectively and ensures depots can operate safely with the volume of deliveries. During the year we also consolidated our 2-man operations. The opening of two super sites allowed a reduction in locations moving from 40 to 18. While this provided focus for 2-man operations this has increased the geographic coverage of each region and the associated collection and delivery mileage. This fuel increase and operational change was coupled with a 12% increase in fleet vehicles in FY23 compared to the prior year. We continue to address fleet emissions, with the expansion of the depot network allowing for region and route optimisation which helps to reduce stem mileage and the associated carbon footprint.

During the year DX announced a further investment of £3 million to support the transition of our IKEA final mile delivery vehicles to EV. The business has committed to supporting IKEA in achieving their 100% zero-emission goal for home delivery, with an aim of DX reaching a fully EV final-mile delivery fleet by 2025 for this contract.

DX Network Services Limited

Strategic report

We continue to invest in maintaining one of the youngest fleets in the industry with 201 vehicles delivered into the business in the last year. The average fleet age is 2.4 years, and in maintaining a young fleet we not only protect operational aspects of the business but ensure vehicles are operating efficiently helping to control pollution levels.

In 2021 we removed traditional internal combustion only engines ("ICE") and hybrid models from the company car list. Instead, we have focused on Plugin Hybrid ("PHEV") and Battery Electric Vehicles ("BEV"). At the time of reporting these lower emission vehicles represent 49% of the car fleet, with an additional 61 vehicles currently on order for delivery within 2023 to replace existing ICE/Hybrid vehicles as leases renew.

Within our DX Express business, we are actively engaging suppliers to reduce collection and delivery carbon emissions. During the reporting year we announced a strategic partnership with Silva Brothers Limited to introduce EV's within our London region. Since implementation 39,863 miles have been completed eliminating 11.8 tCO₂e over 9 months. We are actively engaging suppliers to review opportunities to expand the utilisation of EV and other low carbon solutions within our Express network.

We acknowledge that there are currently barriers including the availability of charging infrastructure and the entry price point for EV delivery solutions. To further support our master subcontractors and challenge the barriers to newer cleaner or zero emission vehicles we announced our "Van in a box" scheme. This is aimed at introducing our partners to a preferred supplier that can support them delivering a DX compliant vehicle while overcoming the entry point barriers that currently restrict master subcontractors from modernising their fleet.

Property

The business' property portfolio expanded by 10 sites and 20,066m² during the reporting year. This growth improves our customer experience, service offering and allows for the reduction in delivery stem miles as we optimise regional coverage.

Overall property energy consumption (kWh) reported including electricity, gas and heating oil during FY23 decreased by 2.5% compared to FY22 to 13,343,131 kWh while the estate associated footprint decreased 23% to 2,572 tCO₂e. The decrease in energy was largely as a result of a 33% reduction in the reported gas consumption across the estate. We anticipate an element of this is linked to prior utility bill estimation which we addressed in FY23 through a major meter read activity across the estate, which has reduced the reliance on estimated invoices. The purchase of heating oil reduced by 50% largely influenced by the removal of oil heating at our Warrington Freight depot with electricity utilised instead.

Overall, there was a 18% increase in electricity consumption (1,517 mWh), largely as a result of the growth in the business footprint with the opening of ten additional sites. BEIS carbon conversion factors intensified for electricity this year further compounding the growth in our estate. We also expanded our EV infrastructure both within the company car fleet, IKEA final mileage delivery fleet and express master subcontractors. This growth in low carbon delivery solutions is transitioning delivering miles away from carbon intensive diesel to low carbon electricity.

We expect electricity consumption to continue to increase as the number of EVs increase, we are however committed to reducing this and being more efficient with the energy we purchase. In addition, in April 2023 we sourced a renewable electricity supply backed by Renewable Energy Guarantees of Origin ("REGOs"). The implementation for part of the reporting year has significantly improved our estate footprint through the utilisation of a zero-carbon market-based emission factor.

Building on this the Company has committed to utilising energy more efficiently and during the year worked on the following activities. In addition to Energy Savings Opportunity Scheme ("ESOS") assessments, we completed internal energy surveys across our estate to identify and prioritise lighting efficiency opportunities and at some locations installed point source heating controls to improve efficiency. We invested £0.5m to update lighting during depot refurbishments and completed 16 LED upgrade projects across the estate which improved the efficiency of over 1,400 fittings through the installation of LEDs and sensor controls.

DX Network Services Limited

Strategic report

Scope 3 progress

DX Carbon Footprint FY23	tCO₂e
Scope 1	34,011
Scope 2 – Market Based	1,574
Scope 3	88,839
Total	123,974

Through the reporting year our wider carbon footprint has increased as we expanded monitoring to include additional Scope 3 data sources. Specifically, the inclusion of Scope 3 category 1-purchased goods and services and the pro-rata of category 7-Employee commuting to the entire workforce has increased the Scope 3 footprint by 20,000 tCO₂e compared to last year. It should be noted that purchased goods and services is calculated using a spend based methodology utilising the UK governments “indirect emissions from supply chain” conversion factors. Through early supplier engagement we have identified this approach significantly overestimates carbon relating to real-estate management expenses, rent and fees. To overcome this, we have created a conversion factor based on information obtained from our supply chain to date as an interim solution. We aim to engage, at a minimum, the top 25 suppliers during FY24 and have already begun the process of engaging technology partners to support our carbon reporting journey, with specific focus on improving the Scope 3 purchased goods and services spend based values and data integrity.

The business signed a new renewable electricity contract backed by REGOs which commenced in April 2023. This supply allows for a market-based emission factor of zero to be applied to three months consumption. This reduces Scope 2 emissions by 441 tCO₂e, with further emission reductions expected through the remainder of this contract into FY24.

We still have Scope 3 categories 8-15 to investigate to determine their relevance. We do not anticipate these having a significant carbon footprint. Further carbon information will be published at the end of 2023 as we develop our reporting capabilities, capture the remaining data, and improve reporting methodologies.

DX Network Services Limited

Strategic report

S172 Statement

The Directors are required by law (s172 of the Companies Act 2006) to act in a way which promotes the success of the Company for the benefit of its shareholders as a whole. In doing so the Board must also have regard to other factors (the "s172 Matters")

This is the Company's fourth s172 Statement. Here we summarise our activities, explain how the Company has considered the s172 Matters and engaged in constructive dialogue with employees, suppliers, customers and others; and has had regard to employee interests, the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that consideration, including on the principal decisions taken by the Company during the financial year. We also signpost where more detail can be found on the s172 matters in this Annual Report and Accounts.

During the year, the Board reviews corporate governance issues as part of its regular meetings. The Company announced the conclusion of the corporate governance investigation and inquiry on 20 September 2022 and an update on the improvement actions is given in the Strategic Report on page 3.

The likely consequences of any decision in the long term

The Directors understand the business and the evolving environment in which we operate, including global environmental, health and economic influences that impact the UK. Based on the Company's Mission (below) the strategy set by the Board is intended to strengthen our position as a leading freight and courier business, while keeping safety and social responsibility fundamental to our business approach. While the nature of parcel and freight delivery is a short-term activity, for key decisions with long-term consequences, including the locations of new depots, IT investments and key senior appointments, appropriate diligence and debate are undertaken before arriving at such decisions. A recent example of a strategic decision with long term consequences is the announcement in June 2023 of the Company's £12m investment in the freehold acquisition and development of a new regional hub near Nottingham, which is expected to be operational from the summer of 2024.

Collect it, sort it, trunk it, deliver it, prove it, bill it.

Our mission is to make every conceivable effort to get our customers' deliveries to their final destination in accordance with the promised service level and with the greatest of care. So what we are really saying is "If you want to be sure it'll get there on time, every time, we are DX – Delivered Exactly"

The interests of the company's employees

Our employees are interested in issues such as opportunities for development and progression, working arrangements, sharing ideas, diversity and inclusion, and compensation and benefits, and we have developed various communication channels to help meet their needs. During the year we have continued to expand our equality and diversity training with high levels of uptake and overall compliance. Promotion and career development are based entirely on the ability and performance of the individual.

Our leadership team is approachable and has regular visits at depots, and other sites. Our engagement with our employees is discussed in more detail in the Employees matters section of the Strategic Report on page 4. We always seek to promote from within and training and development is important part of our DNA.

The need to foster and manage the company's business relationships with its suppliers, customers and other stakeholders

We aim to build long-term partnerships and a collaborative approach with our customers and business partners. Local customer service colleagues who understand our customers' needs and can develop a relationship over time are instrumental in delivering our high quality service. Our engagement with our suppliers, customers and other stakeholders is discussed in more detail under Customer Proposition (below). We encourage regular and open dialogue with all stakeholders

Our Customer Proposition

We are experts in the next-day delivery of goods that are time-sensitive, mission-critical, valuable, or classed as IDW.

We handle most sizes of freight, from small documents to bulky white goods, and deliver to business and residential addresses across the UK and Ireland. Our customers cover a wide range of industry sectors, including legal, financial and governmental, optical, medical and pharmaceutical, as well as automotive, manufacturing, construction and retail.

Each customer typically has different requirements, and we have the ability (given the range of our delivery capabilities) to be flexible and adaptable in order to ensure that items are 'Delivered Exactly'. Every customer can depend on our long-standing commitment to reliability, quality and value. We understand that in meeting our commitments, we are enabling our customers to meet theirs.

In Delivering Exactly, we aim to provide:

Great Service

We strive to deliver every item first time, every time with the greatest of care. Our focus on high levels of first-time delivery ensures that our customers receive market-leading service for their mail, packets, parcels and pallets. We aim to go out of our way to provide customers with dedicated and responsive support, giving them total peace of mind.

Industry-leading Security

We look after customers' parcels as if they were our own, giving our customers confidence that their parcels will arrive safely and securely. We have an industry-leading vetting process, giving our customers additional security reassurance.

Customer Choice

We offer a wide range of services delivering to both consumers and businesses, built to meet the needs of our customers. Whatever our customers' consignment shape or size, whether it is a small letter, a large item requiring a 2-Man delivery, or a pallet of motor parts, we have the solutions to meet customers' demands.

'The Extra Mile'

We pride ourselves in going 'the extra mile' with our localised customer service rather than centralised call centres. This differentiator enables us to develop strong trusted relationships with customers.

We are continuously looking for ways to improve our customer proposition and, over the year, have been pleased to see our Trustpilot rating move to 'Great'. It is a rating we aim to keep or beat.

DX Network Services Limited

Strategic report

The impact of the company's operations on the community and the environment

Our commitment to address matters of concern in the communities in which we operate and the wider environmental concerns is discussed in more detail in the Environmental matters section of the Strategic Report on page 4.

The desirability of the company maintaining a reputation for high standards of business conduct

Our reputation remains vital to our continued success. An update on the actions taken by the Board to ensure high standards of corporate governance are discussed on page 3.

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 as part of the process of continuing the restoration of the Company to long-term growth and profitability. Directors are supplied with a comprehensive Board pack before all Board meetings, which includes the agenda, previous minutes, detailed financial information, an Action List maintained by the Company Secretary and all other supporting papers necessary to have a fully informed discussion. The Board ensures that the necessary decisions are being implemented and the necessary investment is being made to achieve DX's strategic priorities.

A full copy of the schedule of matters reserved for the Board is available on dxdelivery.com, under Investors/About DX under the Publications tab.

Day-to-day operational and financial management is delegated to DX's Operating Boards. The Operating Board meets on a divisional basis in order to ensure a greater involvement of senior management in both divisions, whilst ensuring that each division is kept up to date on the activities of, and issues facing, the other division by the sharing of minutes and formal and informal discussions between the Managing Directors of both divisions. Each Operating Board meets bi-monthly and both divisions and key functions provide the Board with detailed monthly reports.

Internal controls and risk management

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' interests. The risk management process and systems of internal controls are designed to identify the main risks that the Group faces in delivering its strategy and growth plan, and to 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 reviewed and discussed every six months with the Operating Boards and the Group's Audit & Risk Committee.

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, functional reports and an annual planning and budgeting system. The financial reporting system compares results against budget and against the prior year, and the Board reviews its forecasts for the financial year on a regular 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 Directors and members of the Operating Board.

Strategic report

The need to act fairly as between members of the company

Critical to delivery of growth of the business is ensuring we have the right culture in the business. At the heart of the plan is local responsibility and accountability for the performance of each depot and service centre, and a commitment to deliver the changes to the business to return it to longer-term, sustainable profitability. The Board and senior management help to support and reinforce this culture through their own personal behaviour and commitment, by being highly visible in the business, by making timely and informed decisions and by adopting an attitude of continuous improvement. We are also committed to the highest standards of corporate and individual conduct.

Our approach to remuneration aligns the interest of the Directors with that of the shareholders. Our approach is to attract and retain the best possible people who have the capacity and drive to meet the Company's strategic and financial objectives. To attract and retain the Executive Directors, we offer them a basic salary that is fair, reasonable and affordable for the Company. They are incentivised to deliver growth of the business by way of a discretionary annual bonus scheme, which rewards the Directors based on achieving year-on-year financial targets as well as certain qualitative measures, and through longer-term incentives under the Performance Share Plan, introduced in December 2017 in order to create and protect long-term shareholder value.

The Group's Annual Report and Accounts can be found on [dxdelivery.com](https://www.dxdelivery.com), under Investors/Reports & Results under the Annual Reports tab. This contains further information relevant to the Company on the Group's business model, strategic framework and approach to Environmental, Social and Governance ("ESG") responsibilities.

Principal risks and uncertainties

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

The Board has identified the principal risks to the Company's successful performance as those described in DX (Group) plc's Annual Report and Accounts on pages 45 to 47.

By order of the board



David Mulligan
Director

23 October 2023

DX Network Services Limited

Directors' report

The directors present their report and the audited financial statements for the period ended 1 July 2023.

Principal activity

The company's principal activity is the provision of delivery solutions, including parcel freight, secure, courier and logistics services.

Results and dividends

Profit from operating activities was £26.0 million (2022: £18.8 million).

The profit for the financial year after taxation was £21.6 million (2022: £14.5 million).

The company paid a dividend of £15.0 million (2022: Nil).

Going concern

The Directors have prepared cash flow forecasts for a period from the date of approval of these Financial Statements up to 28 June 2025 under two different scenarios.

The base case assumes that the Company achieves its budgeted levels of new business and overall performance in the year to 29 June 2024 and then maintains its positive momentum in the following year. For the period from the year end to the date of this report, the Company has performed in line with budget that gives the Board confidence that the Company will continue to meet its forecasts.

The Directors also carried out a reverse stress test that calculates the losses that would be required to exhaust its cash reserves. The results of this test were that the Company's profit from operating activities would have to be at least £32.0 million per year worse than the base case to require any use of the invoice discounting facility. The Directors regard such an outcome as highly implausible given the Company's recent results and prospects. There would also be a range of mitigating actions the Directors would take to reduce the impact of such a large fall in the Company's performance.

The base case and the reverse stress test indicate that the Company will have sufficient funds to meet its liabilities as they fall due for that period. This is made up of the Company's net cash which stood at £36.7 million at the 2023 year-end (2022: £26.4 million), and access to a £20 million invoice discounting facility. While the invoice discounting facility is cancellable by either party on a three-month notice period, the Directors are confident that it will remain available throughout the forecast period. It is noted that neither the base case nor the reverse stress test relies on the invoice discounting facility being available. See note 14 for further information on the Company's borrowing facilities.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Share capital

Details of the company's share capital are shown in note 18 to the financial statements.

Directors

The directors at the end of the financial year were as follows:

David Mulligan
Paul Ibbetson
Martin Illidge
Michael Sherry

Lloyd Dunn resigned as a Director on 6 September 2022.

There have been no other changes subsequent to the year end.

DX Network Services Limited

Directors' report

Directors' and officers' insurance and indemnities

The Company maintains appropriate directors' and officers' liability insurance for the benefit of the directors.

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- (1) so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

PKF Littlejohn LLP, were appointed as auditors on 14 June 2022 and pursuant to s487 of the Companies Act 2006, the auditor will be deemed to be reappointed and therefore PKF Littlejohn LLP will continue in office.

Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

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

Approved by the board of directors on 23 October 2023 and signed on its behalf by:



David Mulligan
Director

Registered in England and Wales No. 05026914

DX Network Services Limited

Independent auditor's report to the members of DX Network Services Limited

Opinion

We have audited the financial statements of DX Network Services Limited (the 'company') for the year ended 1 July 2023 which comprise the profit and loss account and other comprehensive income, the balance sheet, and the statement of changes in equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 1 July 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

DX Network Services Limited

Independent auditor's report to the members of DX Network Services Limited

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the company and the sector in which it operates to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management and industry research.

DX Network Services Limited

Independent auditor's report to the members of DX Network Services Limited

- We determined the principal laws and regulations relevant to the company in this regard to be those arising from:
 - Companies Act 2006
 - Bribery Act 2010
 - UK GAAP (FRS 101)
 - Tax legislation
- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the company with those laws and regulations. These procedures included, but were not limited to:
 - Holding discussions with management and considering any known or suspected instances of non-compliance with laws and regulations or fraud. We assessed the susceptibility of the financial statements to material misstatement, including fraud and considered the fraud risk area to be management override of controls.
 - Testing the appropriateness of journal entries made through the year by applying specific criteria to detect possible irregularities and fraud.
- We reviewed minutes from board meetings of those charged with governance to identify any instances of non-compliance with laws and regulations.
- As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included but were not limited to: the testing of journals; reviewing accounting estimates for evidence of bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

PKF Littlejohn LLP

Joseph Archer (Senior Statutory Auditor)

For and on behalf of PKF Littlejohn LLP

Statutory Auditor

23 October 2023

15 Westferry Circus

Canary Wharf

London E14 4HD

DX Network Services Limited**Profit and loss account and other comprehensive income
for the period ended 1 July 2023**

	Notes	Period ended 1 July 2023 £m	Period ended 2 July 2022 £m
Revenue		456.1	414.5
Operating costs:			
Before exceptional items		(430.1)	(394.1)
Exceptional items	4	-	(1.6)
Operating costs	2	(430.1)	(395.7)
Operating profit		26.0	18.8
Interest receivable and similar income	5	4.9	3.1
Interest payable and similar expenses	5	(5.3)	(4.7)
Profit before tax		25.6	17.2
Tax	6	(4.0)	(2.7)
Profit for the year		21.6	14.5
Other comprehensive income		-	-
Total comprehensive income for the year		21.6	14.5


All results are derived from continuing operations.

The notes on pages 20 to 36 form part of these financial statements.

DX Network Services Limited**Balance sheet
as at 1 July 2023**

	Notes	1 July 2023 £m	2 July 2022 £m
Non-current assets:			
Intangible assets	7	3.4	3.6
Property, plant and equipment	8	20.5	14.4
Investments	9	4.3	4.3
Loans to group undertakings	10	-	8.6
Right-of-use assets	11	109.4	92.1
Deferred tax assets	13	3.7	5.5
Total non-current assets		141.3	128.5
Current assets:			
Debtors	12	50.9	45.3
Cash and cash equivalents		36.7	26.4
Total current assets		87.6	71.7
Current liabilities:			
Creditors: amounts falling due within one year	14	(58.1)	(55.2)
Lease liability	16	(23.2)	(20.5)
Provisions	17	(2.3)	(2.9)
Total current liabilities		(83.6)	(78.6)
Net current assets		4.0	(6.9)
Total assets less current liabilities		145.3	121.6
Non-current liabilities:			
Creditors: amounts falling due after more than one year	15	(3.7)	(2.2)
Lease liability	16	(92.9)	(77.7)
Provisions	17	(7.1)	(7.0)
Total non-current liabilities		(103.7)	(86.9)
Net assets		41.6	34.7
Capital and reserves:			
Share capital	18	1.0	1.0
Profit and loss account		40.6	33.7
Shareholder's funds		41.6	34.7

The financial statements of DX Network Services Limited, registered number 05026914, were approved and authorised for issue by the board of directors on 23 October 2023 and signed on its behalf by:



David Mulligan
Director

The notes on pages 20 to 36 form part of these financial statements.

DX Network Services Limited

**Statement of changes in equity
for the period ended 1 July 2023**

	Share capital £m	Profit and loss account £m	Total £m
At 2 July 2021	1.0	19.2	20.2
Profit for the year	-	14.5	14.5
At 2 July 2022	1.0	33.7	34.7
Profit for the year	-	21.6	21.6
Dividend paid	-	(15.0)	(15.0)
Share based payment	-	0.3	0.3
At 1 July 2023	1.0	40.6	41.6

The notes on pages 20 to 36 form part of these financial statements.

DX Network Services Limited

**Notes to the financial statements
for the period ended 1 July 2023**

1 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.

Basis of accounting

DX Network Services Limited (the "Company") is a private company incorporated and domiciled in England and Wales.

The Company reports on a '4-5-4 weekly' basis which reflects its cost base and operations. These financial statements were prepared for the period 3 July 2022 to 1 July 2023. Future years will be for either 52 weeks or occasionally 53 weeks in order to keep the year-end date as close as possible to 30 June. The Company has opted to apply Section 390 (3) of the Companies Act 2006. This permits the Company to end its financial year on 1 July 2023 (2022: 2 July 2022) as it is not more than 7 days after or before the end of the year of 30 June.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements in accordance with international accounting standards ("IASs") in conformity with the requirements of the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The Company's ultimate parent undertaking, DX (Group) plc, includes the Company in its consolidated financial statements. The consolidated financial statements of DX (Group) plc are prepared in accordance with UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006 and are available to the public and may be obtained from Ditton Park, Riding Court Road, Datchet, Slough, SL3 9GL.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with the ultimate parent Company and wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel;
- The maturity analysis of lease liabilities, as required by paragraph 58 of IFRS 16 Leases, has not been disclosed separately as details of indebtedness required by Companies Act has been presented separately for lease liabilities in note 16.

**Notes to the financial statements
for the period ended 1 July 2023**

As the consolidated financial statements of the ultimate parent undertaking include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments:
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets: and
- Certain disclosures required by IFRS 13 Fair Value Measurement, and the disclosures required by IFRS 7 Financial Instrument Disclosures

Measurement convention

The financial statements are prepared on the historical cost basis.

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

Going concern

The Financial Statements have been prepared on a going concern basis, which the Directors consider to be appropriate as they are confident the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements.

The Directors have prepared cash flow forecasts for a period from the date of approval of these Financial Statements up to 28 June 2025 under two different scenarios.

The base case assumes that the Company achieves its budgeted levels of new business and overall performance in the year to 29 June 2024 and then maintains its positive momentum in the following year. For the period from the year end to the date of this report, the Company has performed in line or better than its forecasts that gives the Board confidence that the Company will continue to meet its forecasts.

The Directors also carried out a reverse stress test that calculates the losses that would be required to exhaust its cash reserves. The results of this test were that the Company's profit from operating activities would have to be at least £32.0 million per year worse than the base case to require any use of the invoice discounting facility. The Directors regard such an outcome as highly implausible given the Company's recent results and prospects. There would also be a range of mitigating actions the Directors would take to reduce the impact of such a large fall in the Company's performance.

The base case and the reverse stress test indicate that the Company will have sufficient funds to meet its liabilities as they fall due for that period. This is made up of the company's net cash which stood at £36.7 million at the 2023 year-end (2022: £26.4 million), and access to a £20 million invoice discounting facility. While the invoice discounting facility is cancellable by either party on a three-month notice period, the Directors are confident that it will remain available throughout the forecast period. It is noted that neither the base case nor the reverse stress test relies on the invoice discounting facility being available. See note 14 for further information on the Company's borrowing facilities.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

DX Network Services Limited

Notes to the financial statements for the period ended 1 July 2023

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 and machinery	10 – 33%

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

Investments

Shares in other group companies are valued at cost less any provision for impairment.

Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company'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 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.

(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 the following annual rates in order to write off each asset on a systematic basis.

Goodwill	Nil
Software and development costs	20 – 33%
Acquired intangibles	20 – 50%

Impairment of non-financial assets

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

**Notes to the financial statements
for the period ended 1 July 2023**

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

(a) Trade and other debtors

Trade receivables are recognised initially at fair value, which is deemed to be the transaction price, and subsequently at amortised cost, less provision for impairment. To calculate the provision the Company applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and aging.

(b) Cash and cash equivalents

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

(c) Loans and 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.

(d) Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Impairment of financial assets (including trade and other debtors)

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, where provision calculations are based on historic credit losses.

The expected loss rates are based on the Company's historical credit losses experienced. The historical loss rates are then adjusted to reflect current and forward-looking information, any known legal and specific economic factors, including the credit worthiness and ability of the customer to settle the receivable.

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 operating costs. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating costs in the income statement.

Provisions

A provision is recognised if, as a result of a past event, the Company 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.

DX Network Services Limited

Notes to the financial statements for the period ended 1 July 2023

Revenue

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

DX Exchange subscription income, which is invoiced in advance based on an expected level of usage, is deferred and recognised as revenue over the period of time in which the related performance obligation is satisfied. Deferred subscription income is included in the statement of financial position as deferred income within current liabilities. Additional charges are raised when usage is significantly higher than expected.

Revenue in respect of all other services (1-Man, 2-Man/Logistics, Secure/Courier and DX Mail) is recognised at a point in time, on delivery of the service to which it relates, thus satisfying the respective performance obligation.

Taxation

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

(a) Current taxation

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

(b) Deferred taxation

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

Deferred tax assets are recognised only to the extent that it is probable that the temporary differences and brought-forward taxable losses 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 Company is a member of a group defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in independently administered funds. The amount charged to the profit and loss account 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 either creditors or debtors in the balance sheet.

**Notes to the financial statements
for the period ended 1 July 2023**

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 shareholder's funds, 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.

Leases

The Company recognises right-of-use assets (representing its right to use the underlying assets) and lease liabilities representing its obligation to make lease payments.

Right-of-use Assets

The Company leases many assets, including properties, vehicles and equipment. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases.

The Company elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets (less than £5,000). The Company continues to recognise the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, comprising the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, lease incentives received and initial direct costs. Subsequently, the right-of-use asset is valued at cost less any accumulated depreciation (straight-line) and impairment losses and adjusted for remeasurement of the lease liability.

Right-of-use assets are presented within non-current assets on the face of the Balance Sheet.

Lease Liability

The lease liability is initially measured at the present value of the future lease payments as at the commencement date, discounted using the Company's incremental borrowing rate when the interest rate implicit in the lease is not readily determinable. These include future fixed lease rental payments, variable lease payments that depend on an index or a rate (these are initially measured at the index or rate as at the commencement date) and payments of penalties for terminating the lease earlier, if the conditions reflect the Company exercising an option to terminate the lease.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a lease extension, a change in future lease payments or the Company changes its assessment of whether it will exercise an extension or termination option.

The Company presents lease liabilities in current and non-current liabilities in the statement of financial position.

The Company has applied judgement to determine the lease term for some lease contracts that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

DX Network Services Limited**Notes to the financial statements
for the period ended 1 July 2023****Foreign currencies**

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into sterling at the rates ruling at the year end. All translation differences are dealt with in the profit and loss account.

Exceptional items

From time to time, the Company treats certain items which are considered to be one-off and not representative of the underlying trading of the Company 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 Company'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 Company 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 financial information are considered to relate to:

Critical accounting estimate: Provisions

The Company makes provisions to meet the cost of future property and vehicle dilapidations at the end of a lease. The Company provides for property provisions on a site-by-site basis due to the unique nature and location of each site. Provision is made for the best estimate of the expected dilapidations. Dilapidations are provided for specific individual properties and vehicle leases where the outflow of resources is probable, and the amount of the obligation can be reliably estimated.

The amount provided for property dilapidations at 1 July 2023 was £6.5 million (2022: £6.4 million) and represents management's best estimate for amounts that could be payable for leased properties at the end of the lease term. A 10% increase in the estimated cost per square foot of a property's dilapidation costs would lead to a £0.6 million increase in the provision as at 1 July 2023.

The amount provided for vehicle dilapidations at 1 July 2023 was £2.3 million (2022: £1.9 million) and represents management's best estimate for amounts that could be payable for leased vehicles at the end of the lease term. The amount has increased in the year after experiencing an increase in vehicle dilapidation costs in the period. A 10% increase in the estimation of a repair cost per vehicle would lead to a £0.2 million increase in the provision as at 1 July 2023.

Critical accounting estimate: Goodwill

The Company's goodwill has a carrying value of £2.4 million (2022: £2.4 million) which is allocated to one of the two cash-generating units, DX Express. As discussed in note 7 the Company carries out annual impairment testing of the cash generating unit. Key estimates used in the calculation are the revenue growth rate over the next three years (9.0%) (2022: 9.0%), operating profit growth (3.0%) (2022: 9.0%), the growth rate after the next four years (1.7%) (2022: 1.7%) and the discount rate (9.0%) (2022: 11.1%). The testing did not identify any impairment. The most sensitive assumption was the growth rate for DX Express where an annual increase or decrease of more than 2.0% in operating profit over the next three years would result in an impairment (2022: annual increase of less than 5.0%). The directors expect the operating profit in DX Express to exceed this.

DX Network Services Limited

**Notes to the financial statements
for the period ended 1 July 2023***Critical accounting estimate: Deferred tax*

The Company has recognised a deferred tax asset for deductible temporary differences and unused tax losses (tax credits) carried forward, to the extent that it is probable that future taxable profits will be available to utilise those deductions. Management have forecast improving results in future years within the business plan and is confident of future taxable profits. Management consider that it is appropriate to recognise the deferred tax asset on losses carried forward. In the current year this has resulted in a deferred tax asset at 2 July 2023 of £3.7 million (2022: £5.5 million) with a charge to the income statement of £1.8 million (2022: £2.0 million). A reduction in the future profitability of the Company without it making losses over the next five years would lead to a delay in the recovery of the deferred tax asset but not diminish its value given enacted rates of taxation.

Financial risk factors

The Company's activities expose it to a variety of financial risks and are dealt with on a Group-wide basis. These financial risks include market risk (principally interest rate risk), credit risk and liquidity risk. The policy for each of the above risks is described in more detail below.

(a) Market risk

The Company finances its operations through a mixture of equity capital and invoice discount facilities ("IDF"). The Company's interest rate risk arises from its IDF under which lending is issued at variable rates, which therefore expose the Company to cash flow interest rate risk. As the Company only has short-term borrowings, it is able to minimise its exposure to cash flow interest risk by managing levels of debt on a daily basis.

The Company 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 Company'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 manage 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 Company 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 the IDF.

DX Network Services Limited**Notes to the financial statements
for the period ended 1 July 2023**

2	Operating costs		
		2023 £m	2022 £m
	Other external charges	266.7	249.0
	Staff costs – see note 3	134.0	120.1
	Share based payments	0.3	-
	Depreciation of right of use assets	23.2	20.8
	Depreciation of property, plant and equipment	4.3	3.6
	Amortisation	0.5	0.6
	Loss on disposal of intangible assets	-	0.2
	Short-term and low value leases	1.1	1.4
	Total operating costs	430.1	395.7
	Excluding exceptional items	430.1	394.1
	Exceptional items	-	1.6
	Total operating costs	430.1	395.7

The table below sets out the total remuneration received by the Directors of the company for the current and prior year:

	2023 £m	2022 £m
Remuneration	1.7	1.6
Contributions paid to defined contribution schemes	-	0.1
Total remuneration	1.7	1.7

The above includes £1.0 million (2022: £0.8 million) paid by the ultimate parent company for those Directors who were also Directors of the ultimate parent company. The highest paid director received total remuneration of £0.5 million (2022: £0.5 million).

	2023 £000	2022 £000
Auditor's remuneration for the audit of the Company's annual accounts	95	80
Total audit fees	95	80
Other services:		
-tax services	-	-
-other	-	-
Total non-audit fees	-	-
Total fees	95	80

Fees payable to auditors in respect of 2023 and 2022 as disclosed above were payable to PKF Littlejohn LLP.

DX Network Services Limited**Notes to the financial statements
for the period ended 1 July 2023**

3	Staff costs		
		2023 £m	2022 £m
	Wages and salaries	120.8	108.3
	Social security costs	10.5	9.4
	Other pension costs	2.7	2.4
		134.0	120.1

The average number of persons employed for the period to 1 July 2023 was 4,330 (2022: 3,978).

4	Exceptional items		
		2023 £m	2022 £m
	Exceptional items	-	1.6

In the 2022 financial year, the Company incurred £1.6 million of legal and advisory costs on the investigation of and inquiry into the matter. The costs of this one-off event are not expected to occur in future periods and were charged as exceptional items to not distort the Company's underlying costs.

5	Interest		
		2023 £m	2022 £m
	Interest receivable and similar income:		
	Dividend received from subsidiary undertaking	4.3	2.9
	Bank Interest	0.5	-
	Group interest receivable	0.1	0.2
	Total interest receivable and similar income	4.9	3.1
	Interest payable and similar expenses:		
	Group interest payable	(0.3)	(0.1)
	Interest on lease liabilities	(5.0)	(4.6)
	Other	-	-
	Total interest payable and similar expenses	(5.3)	(4.7)

In the period ended 1 July 2023 the Company's subsidiary undertaking, DX Network Services Ireland Limited, paid a dividend of €5.0 million. (2022: €3.5 million).

DX Network Services Limited**Notes to the financial statements
for the period ended 1 July 2023**

6	Tax		
(a)	Analysis of (charge)/credit		
		2023	2022
		£m	£m
	Current tax:		
	United Kingdom corporation tax:		
	Current year	(2.2)	(0.5)
	Adjustments in respect of prior periods	-	(0.2)
	Total current tax	(2.2)	(0.7)
	Deferred tax:		
	Current year	(2.6)	(2.6)
	Adjustments in respect of prior periods	0.8	0.6
	Total deferred tax	(1.8)	(2.0)
	Tax (charge)/credit	(4.0)	(2.7)

(b) Factors affecting the tax (charge)/credit

The tax assessed for the year differs from the amount that would arise using the weighted average rate of corporation tax in the UK for each year. The weighted average rate for the year was 20.5% (2022: 19%) as the main rate changed from 19% to 25% during the year. The differences are explained below:

	2023	2022
	£m	£m
Profit before tax	25.6	17.2
Tax @20.5% / 19%	(5.3)	(3.3)
Dividend received not taxable	0.9	0.6
UK taxable losses utilised	(0.3)	(0.4)
Adjustments in respect of prior years	0.8	0.3
Non-deductible expenditure	(0.1)	0.1
Total (charge)/credit	(4.0)	(2.7)

(c) Factors that may affect future tax charges

Changes to UK Corporation tax rates were enacted as part of The Finance (No.2) Act 2021 which received Royal Assent on 10 June 2021. The main rate increased from 19% to 25% on 1 April 2023. Deferred tax assets and liabilities have been calculated in accordance with the enacted rates

DX Network Services Limited

Notes to the financial statements for the period ended 1 July 2023

7 Intangible assets

	Goodwill £m	Software and development costs £m	Acquired intangibles Customer relationships £m	Total £m
Cost:				
At 2 July 2022	102.5	3.0	1.0	106.5
Additions	-	0.3	-	0.3
Disposals	-	-	(1.0)	(1.0)
At 1 July 2023	102.5	3.3	-	105.8
Amortisation				
At 2 July 2022	100.1	1.8	1.0	102.9
Charge for the year	-	0.5	-	0.5
Disposals	-	-	(1.0)	(1.0)
At 1 July 2023	100.1	2.3	-	102.4
Net book value:				
At 1 July 2023	2.4	1.0	-	3.4
At 2 July 2022	2.4	1.2	-	3.6

Goodwill has an indefinite useful life and is subject to annual impairment testing. The goodwill all relates to DX Express (as referred to in note 1). The carrying value of goodwill has been reviewed for impairment with reference to its value in use based on future cash flow projections.

	2023	2022
Period on which management approved forecasts are based	Three years	Three years
DX Express revenue growth rate	9%	9%
DX Express operating profit growth rate	3%	9%
Growth rate applied beyond approved forecast period	1.7%	1.7%
Discount rate	9.0%	11.1%

The cash flow projections are based on the budget approved by the Board for the forthcoming financial year and subsequent two years. Cash flows beyond these 36 months are extrapolated with reference to historical trends, expected developments, and using forecasts for the estimated growth rates, not exceeding the long-term growth rate stated above.

Forecasts assume that there is a continued decline in the DX Exchange market, but this is mitigated by growth in Parcel volumes for DX Express. The overall annual revenue growth for DX Express in the near-term is forecast to be 9% with annual operating profit increasing at 9%. In the longer term the Directors consider that the appropriate growth rate to use is that issued by the Office of Budget Responsibility for the UK economy as a whole. There is substantial headroom in the value in use, the key estimate is the short-term growth rate for DX Express over the next four years; an annual decline of more than 2% in operating profit (2022: increase of less than 5%) would result in an impairment. Given the current trajectory of the business, the Directors expect the operating profit in DX Express to continue to grow.

DX Network Services Limited

Notes to the financial statements for the period ended 1 July 2023

8 Property, plant and equipment

	Freehold land and buildings £m	Short leasehold land and buildings £m	Plant and machinery £m	Total £m
Cost:				
At 2 July 2022	3.4	14.7	12.7	30.8
Additions	-	6.0	4.4	10.4
Disposals	-	-	-	-
At 1 July 2023	3.4	20.7	17.1	41.2
Depreciation:				
At 2 July 2022	1.1	6.8	8.5	16.4
Charge for the year	-	2.0	2.3	4.3
Disposals	-	-	-	-
At 1 July 2023	1.1	8.8	10.8	20.7
Net book value:				
At 1 July 2023	2.3	11.9	6.3	20.5
At 2 July 2022	2.3	7.9	4.2	14.4

9 Investments

	Shares in subsidiary companies £m
Cost:	
At 2 July 2022	4.3
Repayments	-
At 1 July 2023	4.3

The carrying value of £4.3 million (2022: £4.3 million) of investments has been reviewed with reference to its value in use, applying the same assumptions used for the value in use of the Company's goodwill shown in note 7. Following the review, no impairment charge was required (2022: £nil).

At 1 July 2023 DX Network Services Limited directly owned 100% of each class of issued shares of the following company:

Company Name	Principal activity
DX Network Services Ireland Limited	Mail services

DX Network Services Ireland Limited is registered and operates in the Republic of Ireland. Its registered office is Unit 6B, Northern Cross Business Park, Finglas, Dublin 11.

10 Loans to group undertakings

	2023 £m	2022 £m
Loans to group companies	-	8.6

Loans to group companies from the prior financial year bore interest at 1.95% above the Bank of England base rate.

DX Network Services Limited**Notes to the financial statements
for the period ended 1 July 2023****11 Right-Of-Use Assets**

	Property £m	Non- property £m	Total £m
At 3 July 2021	62.3	32.4	94.7
Additions	13.7	4.5	18.2
Disposals	-	-	-
Depreciation	(10.3)	(10.5)	(20.8)
Net book value as at 2 July 2022	65.7	26.4	92.1
Additions	22.2	18.7	40.9
Disposals	-	(0.4)	(0.4)
Depreciation	(11.6)	(11.6)	(23.2)
Net book value as at 1 July 2023	76.3	33.1	109.4

12 Debtors

	2023 £m	2022 £m
Trade debtors	29.2	27.8
Amounts due from group companies	5.0	1.6
Other debtors	2.9	3.2
Prepayments and accrued income	13.8	12.7
	50.9	45.3

Amounts due from group companies are unsecured, interest free and repayable on demand.

13 Deferred tax

	£m
At 2 July 2022	5.5
Charged to profit and loss	(1.8)
At 1 July 2023	3.7

Deferred tax is recognised as follows:

	2023 £m	2022 £m
Depreciation in excess of capital allowances	0.1	1.0
Other timing differences	0.4	0.4
Trading losses	3.2	4.1
	3.7	5.5

The unrecognised deferred tax assets at 1 July 2023 total £0.2 million (2022: £0.1 million), consisting of unavailable tax losses.

DX Network Services Limited**Notes to the financial statements
for the period ended 1 July 2023**

14	Creditors: amounts falling due within one year		
		2023 £m	2022 £m
	Trade creditors	19.3	15.7
	Amounts owed to group companies	3.4	6.3
	Other creditors	12.9	10.0
	Accruals	12.9	14.2
	Deferred income	8.2	8.7
	Corporation tax	1.4	0.3
		58.1	55.2

Amounts owed to group companies are unsecured, interest free and repayable on demand.

The Company's has a £20.0 million invoice discounting facility with Barclays Bank Plc. The facility is a rolling facility with three months' notice by either party. The available balance is based on 90% of the outstanding trade receivables, adjusted to exclude amounts billed in advance and old debt. The amount drawn on the invoice discounting facility at 1 July 2023 was £nil (2022: £nil).

15	Creditors: amounts falling due after more than one year		
		2023 £m	2022 £m
	Loans from group companies	3.7	2.2
		3.7	2.2

Loans from group companies bear interest at 1.95% above the Bank of England base rate and are repayable no earlier than 30 June 2024.

16	Lease Liabilities		
		2023 £m	2022 £m
	Current		
	Lease liabilities	23.2	20.5
	Non-current		
	Lease liabilities	92.9	77.7
	Lease liabilities included in the statement of financial position at the year end	116.1	98.2

DX Network Services Limited**Notes to the financial statements
for the period ended 1 July 2023****17 Provisions**

	Property repair costs	Vehicle dilapidation costs	Other provisions	Total
	£m	£m	£m	£m
At 2 July 2022	6.4	1.9	1.6	9.9
(Credit)/charged to profit and loss	0.2	0.6	0.6	1.4
Utilised	(0.1)	(0.2)	(1.6)	(1.9)
At 1 July 2023	6.5	2.3	0.6	9.4

	2022 £m	2022 £m
Amounts falling due within one year	2.3	2.9
Amounts falling due after more than one year	7.1	7.0
	9.4	9.9

As disclosed in the accounting policies, in determining provisions management uses judgement with reference to historical data and specifically identified factors, to determine the amount and timing of outflows, and thus the provision required.

Provisions are expected to be utilised over the period to June 2039.

18 Share capital**Allotted, called up and fully paid:**

	No (000)	2023 £m	No (000)	2022 £m
Ordinary shares of 1p each	100,000	1.0	100,000	1.0

The Company has one class of ordinary shares which carries no right to fixed income.

19 Financial commitments**Capital**

There was capital expenditure contracted but not provided for as follows:

	2023 £m	2022 £m
Capital Commitments	3.5	3.3

20 Contingencies

No provision for contingencies has been made.

DX Network Services Limited

Notes to the financial statements for the period ended 1 July 2023

21 Pension arrangements

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

The total cost charged to the profit and loss account of £2.8 million (2022: £2.5 million) represents contributions payable to this scheme by the Company at rates specified in the rules of the scheme.

Contributions amounting to £0.7 million (2022: £0.5 million) were payable to the scheme at 1 July 2023 and are included in creditors.

22 Parent undertaking and controlling party

The Company's parent undertaking is DX Services Limited, a company incorporated in England and Wales whose registered office is at Ditton Park, Riding Court Road, Datchet, Slough, SL3 9GL.

The Company's ultimate parent undertaking and controlling party at 1 July 2023 was DX (Group) plc, a Company incorporated in England and Wales whose registered office is at Ditton Park, Riding Court Road, Datchet, Slough, SL3 9GL.

DX (Group) plc is also both the smallest and the largest group into which the Company's results are consolidated. Copies of the annual report and financial statements of DX (Group) plc may be obtained from the registered office.

23 Leases

The Company recognises right-of-use assets (representing its right to use the underlying assets) and lease liabilities representing its obligation to make lease payments. Details of the right-of-use assets are shown in note 11 and details of the lease liabilities are shown in note 16. Further details of the accounting policy for leases can be found in the Significant Accounting Policies on page 25.

Impact in the period

The impact on the profit for the period ended 1 July 2023 and 2 July 2022 is summarised below:

	1 July 2023	2 July 2022
	£m	£m
Depreciation charge on right-of-use assets	(23.2)	(20.8)
Interest cost on lease liability	(5.0)	(4.6)
Operating lease rentals on short term and low value leases	(1.1)	(1.4)
Total lease costs for the period	(29.3)	(26.8)

The amounts charged to the Income Statement due to the practical expedients taken are shown below:

	2023		2022	
	Property £m	Plant and equipment £m	Property £m	Plant and equipment £m
Expense relating to short term leases	0.5	-	0.6	-
Expense relating to low-value leases	-	0.6	-	0.8
	0.5	0.6	0.6	0.8